



**National Association of
State Procurement Officials**

Commodities Inflation Trends: Forecast and Factors



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Session Description

This session will concentrate on where inflation is and what to expect as we move ahead. We will look at the factors impacting the supply chain and examine new risks on the horizon. We will learn about steps to take for cost savings as prices stabilize.

Learning Objectives

- Follow up on pricing trends for the common commodities. Learn about resources currently available to help navigate price and supply fluctuations.
- Explore what sectors are still suffering from supply shortages, and the forecast for them.
- Introduce practices to re-negotiate contracts, and what to incorporate in your new contracts to address supply chain issues.

Effective procurement that addresses price and supply challenges and uncertainty STILL starts with:

RELATIONSHIPS!

Questions For Discussion!

- What has been the bigger challenge? Prices of the items, or the supply of the items you need to purchase?
- As a buyer, what has been a big factor that relates to supply chain or prices that you've seen?
- Do you think things are getting better in terms of supply and/or price?

Inflation and Commodity Trends

- Recession or no recession?
- Supply and Demand
- Critical factors:
 - Russia and Ukraine conflict
 - China
 - Interest Rates from Central Banks

Please see the report produced by our partners, Procurement IQ, attached in the conference app.

Inflation and Commodity Trends

- Declining container and shipping costs: When commodity prices surged, containers cost as much as \$20,000; now, these prices have fallen to as low as \$4,000.
- The downturn of the global economy along with rising costs has limited demand for certain products, leading to a market over-supply.
- Rising output and an unseasonably warm winter have accelerated sharper price declines, especially in the energy sector.

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Oil

Forecast Compound Annual Growth Rate (CAGR):

- April 2022 Forecast: -8.8%
- **April 2023 Actual: -19.7%**
- 1 Year Forecast: **+19.6%**

Secondary Commodities: Diesel/gasoline, tires/auto parts, asphalt, industrial consumables (paint, plastic, motor oil)

Analysis: Last year's forecast predicted oil prices to increase in the short term as shortages and supply constraints persisted. Oil prices continued increasing until their peak in June 2022, after which prices began to drop and stabilize. As its economy struggled, China reduced crude oil imports in the third quarter, causing prices to fall.

The price of crude oil is still experiencing volatility. After a decline in prices over the last few months, crude oil prices are projected to increase over the next year from current prices as demand increases in the summer months.

Procurement IQ Report by Zach Locy and Aidan Manley

Steel

Forecast Compound Annual Growth Rate (CAGR):

- April 2022 Forecast: -1.7%
- **April 2023 Actual: -15.0%**
- 1 Year Forecast: -19.1%

Secondary Commodities: Heavy equipment, maintenance equipment, medical equipment, MRO supplies, vehicles and vehicle parts

Alternative Commodities: Aluminum, wood, stone, concrete, plastic

Analysis: The world price of steel is anticipated to fall as U.S. manufacturers are set to increase steel production and should alleviate upward pressure on prices caused by the shortage of steel over the last three-year period which caused the price of steel to rise 200% in 2021 alone.

China, the world's largest producer of steel, implemented additional lockdown measures recently, inhibiting the production of steel and adding greater uncertainty to price forecasts for this commodity.

Procurement IQ Report by Zach Locy and Aidan Manley

Lumber

Forecast Compound Annual Growth Rate (CAGR):

- April 2022 Forecast: -19.1%
- **April 2023 Actual: -30.5%**
- 1 Year Forecast: **+3.1%**

Secondary Commodities: household paper products that utilize wood pulp

Alternative Commodities: Metals/steel, concrete/asphalt, plastics

Analysis: In the previous 12 months higher interest rates and inflation have placed downward pressure on lumber prices as construction and borrowing costs increased. US Housing Starts declined 19.7% from April 2022 to February 2023.

However, it's forecasted to slightly increase over the next year due increase home sales and a plateauing of interest rates and inflation rates over the forecast period will also help support demand growth.

Procurement IQ Report by Zach Locy and Aidan Manley

Semiconductors

Forecast Compound Annual Growth Rate (CAGR):

- April 2022 Forecast: +1.6%
- **April 2023 Actual: +1.1%**
- 1 Year Forecast: -0.7%

Secondary Commodities: Cell phones, computers, copiers, cameras, communication devices, vehicles

Analysis:

Demand for semiconductors fell in the personal electronics market, as global shipments of tablets, PCs, and cell phones declined in 2022. Less demand for integrated circuits, transistors, and sensors.

The rate of price increases is anticipated to decrease over the next year. Chip manufacturers such as GlobalFoundries, the largest manufacturer based in the United States, expect to boost chip production by about 50.0% by the end of 2023.

Procurement IQ Report by Zach Locy and Aidan Manley

What does this mean for procurement???

Transactional Procurement

- Front lines of pricing and supply chain shortages
- POs and Goods Receipts
- Administrative responsibilities to keep integrity of the contract

Purchase Order (PO) Management

- Contract Compliance
- Outstanding POs
- PO Acceptance
- Order Tracking

RFPs and Contracts

Key elements to include in your RFP and resulting contracts to address price increases and decreases as well as supply shortages:

- Terms and Conditions
- Supplier Documentation and Justification
- Contract Amendments and Negotiations
- Contract Management

Price/Product Sheet Management

- Review price sheet
- Analyze impact of changes
- Benchmarking
- SKU Review

Additional Discussion Questions

- Do you currently have pricing issues with your active contracts?
- What is the most difficult thing to acquire?
- What has been the biggest administrative challenge regarding supply chain disruptions?

Resources



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