

Exam Glove - Raw Material Price Analysis

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The making of medical gloves is a mature business which controls the cost of gloves. Many factories have achieved high levels of efficiency to control costs. The price of medical gloves is primarily tied to the cost of raw materials and today's price for medical gloves reflects the price trend of key raw materials. Unfortunately, over the past several years, we have seen the price of raw materials increase steady as demand outpaced supply.

Latex Market

All indications are that latex prices will remain high and possibly go higher in the future. 85% of the world's rubber output is used as hard rubber while latex rubber represents only about 15%. Roughly 85% of the hard rubber is used by the tire industry. Today, the price of rubber is driven by oil prices, and by worldwide demand for tires. Tires are made with a combination of natural and synthetic (oil based) rubber. Tire manufacturers can change the blend within some broad parameters but these are the key materials. As oil prices go up, the cost of synthetic rubber goes up. If the price of oil is high, manufacturers will choose to use more natural rubber to control costs, pushing up natural rubber prices until the two are again in equilibrium.

Oil, as everyone knows, is at an all time high. Meanwhile, worldwide demand for tires is increasing strongly. Particularly in China, a billion people are moving towards a middle class lifestyle, buying millions of new cars and motorbikes. Demand for rubber is strong and analysts expect demand will continue to grow sharply.

On the supply side of the equation, there are short-term variables such as rain and weather that affect output and have reduced the supply of rubber trees this year. Over the longer term, it takes 6 years before a new rubber tree can be tapped. Rubber production is very labor intensive. Plantation owners find oil palm to be far more lucrative than rubber, even at these higher prices. Not enough rubber trees have been planted over the last few years to meet the anticipated growth in demand. Prices can be expected to remain high for the foreseeable future.

Vinyl Market

Vinyl and the plasticizers used to make vinyl gloves are also oil derivatives. Over the long run, PVC prices can be expected to go higher along with oil. However, the connection is not as automatic as it is with rubber. PVC is used in thousands of applications, with pipes and building materials being some of the largest. Demand therefore moves up and down with the strength of the worldwide economy. PVC is supplied by giant multi-billion dollar petro-chemical plants and remains a competitive industry. They need to keep these plants running all the time. As you can expect from economic principles, when supply exceeds demand, prices fall. When demand exceeds supply, prices rocket upwards.

PVC prices rose quickly from 2004. Since then they have stabilized. Demand for PVC gloves continues to grow, particularly in the food industry. With higher latex prices, there is a trend of people buying more vinyl gloves as a substitute. Although vinyl glove factories are pretty quick to add capacity as demand increases, we can expect an increase in vinyl glove prices in the near future. Best guess is an increase of 3- 5% lasting from 8 to 12 months. Unless oil goes higher, the prices should then fall back to current levels.

Nitrile Market

Nitrile is a specialized petro-chemical. Nitrile is primarily used in the production of gloves as this represents over 75% of nitrile usage in the market. Nitrile material is manufactured by 5 different companies in the U.S., Japan, Taiwan, the U.K., and Germany.

Demand has sky-rocketed to its highest levels in 2007 as evidenced by the shortage of nitrile glove supplies in the market place. Nitrile prices are expected to increase with the surge of demand. The reason given is the cost of oil, but the truth probably has more to do with simple supply and demand. As capacity increases, nitrile prices should stabilize over the long run.

Conclusion

Looking at factors that affect demand and supply of key raw materials, we can make educated hypothesis on the price trend for medical gloves. The demand for rubber will continue to rise as China continues to grow economically. We expect the price of latex gloves to continue rising. For this reason, this may be a good time to look at latex-free alternatives. Vinyl gloves will always be the most cost effective and the price will be the least volatile. Nitrile gloves will increase in the short-term as the demand exceeds supply.

but will eventually stabilize as more production capabilities increase. As nitrile business grows, economies of scale and increased competition should suppress price increases in the long-term.

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