

AlixPartners

Raw material prices have declined sharply for auto parts makers. Over the past year, a price index of 16 key raw materials has declined about 21%, according to a study by AlixPartners, a financial advisory firm based in suburban Detroit. Prices peaked early in 2008, plunged, then peaked again in April 2011. Since then, raw materials prices generally have declined as the economies of Europe and China soften, says John Hoffecker, a managing director at AlixPartners. "It is a very global market for these commodities," Hoffecker said. "There has been a good supply of raw materials."

The report gathered pricing data for a variety of commodities and also for fuel and logistics. The report compared the price of raw materials in North America on 12 May 2012 to those on 12 May 2011:

- Aluminum cost down 27%.
- Copper cost down 19%.
- Rubber cost down 30%.
- Magnesium cost down 17%.
- Crude oil cost down 17%.

For automakers, lower raw materials prices over the past year amounts to some \$600 per vehicle, according to AlixPartners, but automakers have not fully captured those savings. That's partly because automakers use different strategies to adjust their payments to suppliers. Automakers generally index a given raw material if they can monitor price fluctuations through a public price exchange or benchmark. Steel, aluminium, and copper typically are indexed, and automakers' payments to suppliers will rise or fall in unison with those raw material prices. But it's different with polymers and elastomers; if feedstock prices go up or down, automakers confer with suppliers to negotiate price adjustments. It often takes three to six months for an automaker's purchasers to adjust prices paid for those commodities.

Raw materials account for as much as half of suppliers' manufacturing costs, so suppliers' cash flow ought to be rising in unison with production. But suppliers' cash flow has flattened out, and the AlixPartners report blames rising nonproduction expenses.