GCP Industrial Products
170 Webster Road
Kitchener | Ontario | Canada | N2C 2E6
Toll: 888-893-5427
Phone: 519-893-8207
Fax: 866-527-1983
Web: www.gcpindustrial.com

INDUSTRIAL SECTOR ECONOMIC OUTLOOK

July 2021

KEY UPDATES

- Consumer prices increased 5.4% in June from a year earlier, the biggest monthly gain since August 2008. Excluding food and energy, inflation increased 4.5%, the largest move since September 1991.
- Inflation has been escalating due to several factors, including supply-chain bottlenecks, extraordinarily high demand and year-over-year comparisons to a time when the economy was struggling to reopen in the early months of the crisis.
- Most companies and suppliers continue to struggle to meet increasing levels of demand.
- The North American manufacturing industry continues to experience record-long raw-material lead times and wide-scale shortages of critical basic materials. This is leading to short-term shutdowns due to parts shortages.
- All commodities prices continue to rise.
- Input costs are rising at the fastest pace on record, leading to a record rise in output prices.
- Difficulties in transporting products are continuing to affect all segments of the manufacturing economy. With high demand from consumers, businesses are rushing to replenish inventory, causing capacity in trucking to tighten, and driving rates up.
- Worker absenteeism and difficulties in filling open positions continue to be an issue that limits manufacturing-growth potential.
- China's exports grew much faster than expected in June, as solid global demand led by easing lockdown measures and vaccination rates eclipse virus outbreaks and port delays.

MATERIAL PRICING

Prices	% Higher	% Same	% Lower	Net	Index
Jun 2021	84.8	14.5	0.7	+84.1	92.1
May 2021	77.1	21.6	1.2	+75.9	88.0
Apr 2021	80.1	19.1	0.9	+79.2	89.6
Mar 2021	71.6	27.9	0.5	+71.1	85.6

Source: Institute For Supply Management

- The Institute for Supply Management (ISM) Prices Index registered 92.1 percent, an increase of 4.1 percentage points compared to the May reading of 88 percent, indicating raw-materials prices increased for the 13th consecutive month.

- This is the index's highest level since July 1979 (93.1 percent) and the sixth straight month above 80 percent.

- Of the 18 industries the ISM Price index tracks, no industries reported paying lower prices in June.

Commodities Up in Price

- Acrylonitrile Butadiene Styrene (ABS); Aluminum (13); Aluminum Products (3); Brass (2); Caustic Soda; Coatings (3); Copper (13); Copper Products (4); Copper Wire; Corn (2); Corrugate (9); Corrugated Packaging (8); Crude Oil; Diesel Fuel (6); Electric Motors; Electrical Components (7); Electronic Assemblies; Electronic Components (7); Epoxy Resin (2); Foam Products (4); Freight (8); High-Density Polyethylene (HDPE) (6); Labor — Temporary (2); Lubricants (3); Lumber (12); Maintenance Repair Operations (MRO) Items; Ocean Freight (7); Packaging Supplies (7); Paper (2); Plastic Resins (10); Polyethylene (5); Polypropylene (12); Polyvinyl Chloride (PVC) Products; Precious Metals (3); Resin-Based Products (5); **Rubber Products (5)**; Semiconductors (5); Soybean Products (9); Steel (11); Steel — Carbon (7); Steel — Cold Rolled (10); Steel — Galvanized (2); Steel — Hot Rolled (10); Steel — Plate; Steel — Scrap (2); Steel — Sheet; Steel — Stainless (8); Steel Products (10); Wood; Wood Pallets (7); and Wood Products.

  Note: The (number) indicates the consecutive month/s the commodity has been increasing in price.

- Raw-materials producers are saying a roaring economy will continue to keep prices relatively high for the near future.

INDUSTRY DEMAND

- For companies serving the Big Six appliance categories - washers, dryers, dishwashers, refrigerators, freezers and ranges and ovens - demand is the strongest in at least 12 years, according to data from the Association of Home Appliance Manufacturers (AHAM).

- The auto industry has reduced production due to shortages of semiconductors which has resulted in the lowest levels of unsold cars and trucks on dealer lots in years, according to consulting firm AlixPartners.

- In the heavy farm and construction machinery industry, companies say customers already are placing orders for next year to try to beat the price and delivery crunch.

- Industry sales of construction machines in North America are projected to be up 25% this year. The sales are expected to grow next year as well on the back of a buoyant housing market and higher infrastructure spending.

- Stephen Roy, head of sales in the Americas for Volvo, says the company is prioritizing orders from customers over those meant to replenish inventories at dealerships. Supply bottlenecks have tripled the lead times for its products. The company is facing intense cost pressure, but customers have been willing to accept higher prices. "They seem to be able to pass along price increases to their customers," he said. "So far, we don't hear any concerns from our customers."

DELIVERIES

Supplier Deliveries	% Slower	% Same	% Faster	Net	Index
Jun 2021	53.5	43.2	3.3	+50.2	75.1
May 2021	58.9	39.7	1.4	+57.5	78.8
Apr 2021	53.9	42.2	3.9	+50.0	75.0
Mar 2021	54.9	43.5	1.6	+53.3	76.6

Source: Institute For Supply Management

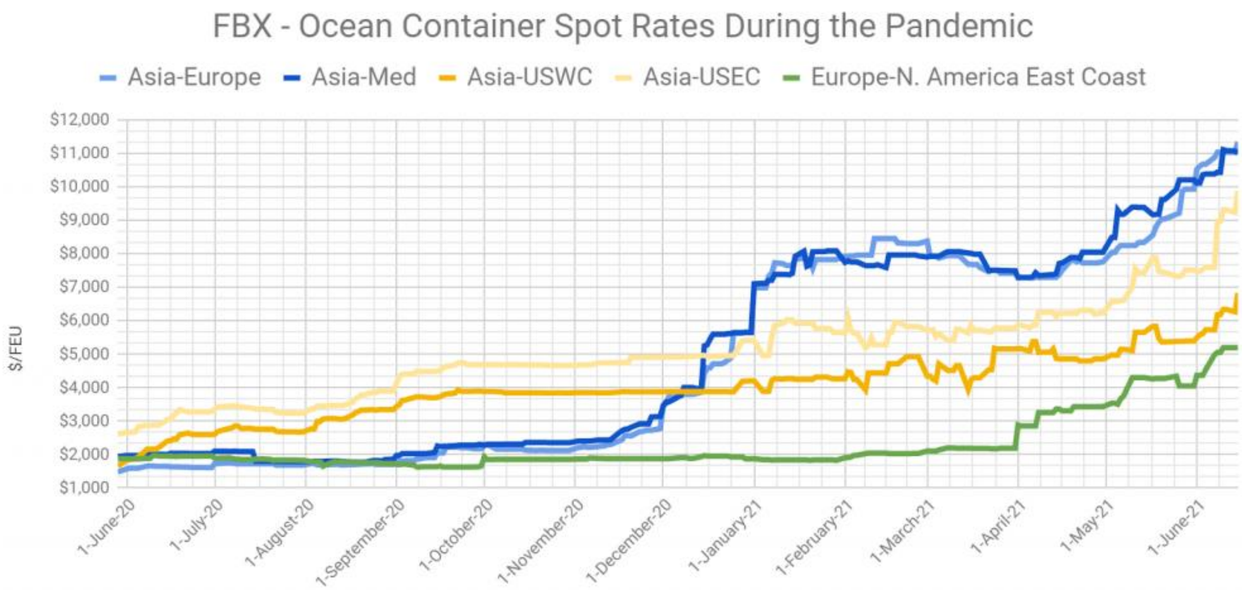
- The delivery performance of suppliers to manufacturing organizations was slower in June, as the ISM Supplier Deliveries Index registered 75.1 percent, 3.7 percentage points lower than the 78.8 percent reported in May.

- For historical perspective, since the index hit 75.6 percent in April 1979, the June reading (of 75.1) has only been exceeded three times, all in the COVID-19 era (April 2020 and March 2021 and May 2021).

- The Supplier Deliveries Index reflects the difficulties suppliers continue to experience in meeting customer demand, including (1) hiring challenges, (2) longer raw materials lead times and higher prices, as well as product shortages, and (3) limited transportation availability.

- A reading below 50 percent indicates faster deliveries, while a reading above 50 percent indicates slower deliveries.

OCEAN FREIGHT RATES



Source: Freightos

- In the current situation, many businesses are wondering when they can expect freight rates and shipping prices to go down. The answer? Not yet.

- GCP's 20' Container costs for the West Coast is now averaging $10,000-$12,000 per box (staying flat from June's costs). Traditional costs of averages are $2,000.

- GCP's 20' Container costs for the East Coast is now averaging $12,000-$14,000 per box (staying flat from June's costs). Traditional costs of averages are $3,500.

- We are seeing spikes in the $20,000-$25,000 cost range for 40' containers. Which is up from the $18,000 - $20,000 in June and $15,000 – $16,000 we were seeing in May.

- On average Asia-US West Coast prices are 151% higher than the same time last year.

- On average Asia-US East Coast prices are 209% higher than the same time last year.

- The backlog of vessels that have been sitting outside the South China port of Yantian has finally been cleared, however, clearing the containers out could take up to a month. With Yantian up and running again, congestion is expected to hit ports on the United States West Coast

- As carriers attempt to get back on schedule, several blanked sailings have been announced. This will crunch capacity even more and is unlikely to increase schedule reliability as the pressures of equipment shortages and port congestion remain in place.

- With additional demand expected from ocean's annual peak season starting this month, high consumer demand, and still-lagging inventory levels, unfortunately this all suggests no letup anytime soon.

COVID VACCANATION

- In much of the world, governments are easing restrictions, people are becoming more mobile, and a strong economic recovery is under way. One would be forgiven for thinking that the pandemic is over. It is not. New variants continue to emerge.

- The delta variant is now the dominant source of infection in the United States. Health officials have expressed concern about the potential for new variants that could be resistant to current vaccines.

- The number of people getting vaccinated each day in the United States has fallen sharply, down about 75% from mid-April.

- The United States now has the lowest daily vaccination rate of major economies—lower than in the United Kingdom, Canada, Eurozone, Japan, and India.

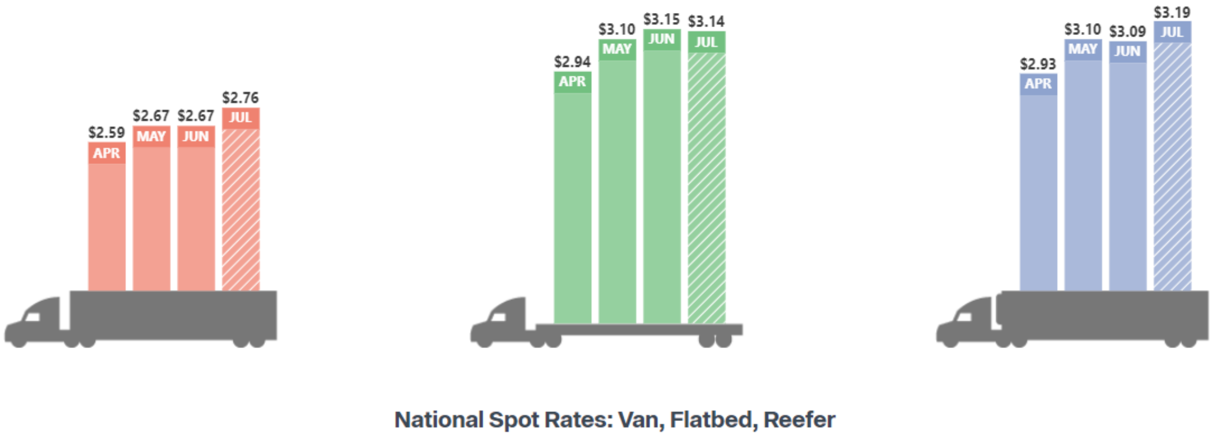
- While the number of new COVID-19 cases in the U.S. has declined, reports indicate that an overwhelming majority — 99% — of those who are contracting the coronavirus have not been fully vaccinated.

- The regions where there is either vaccine hesitancy or lack of urgency are the same as where much of American manufacturing takes place.

- What this means for business. If rigorous safety measures need to be kept in places where COVID-19 outbreaks are more prevalent, social distancing and other covid prevention measures could limit companies' ability to increase staff onsite, scale production and meet demand.

TRUCKING RATES

North American Trucking Rates - July 2021



Source: DAT Freight & Analysis

- The USA is experiencing extreme capacity issues affecting rail, trucking, and chassis.

- The record number of inbound volumes from various regions into the country are resulting in delays due to lack of rail cars, delays in delivering cargo as truckers are booked two to three weeks out and chassis are at a deficit.

- With consumer demand expected to grow at a rapid pace through 2021, transportation delays are likely to continue into 2022.

- Dry van, reefer and flatbed rates fell in recent weeks, but 2021 spot rates for all three equipment types are still on average $0.70/mile higher than they were last year and $0.76/mile higher than the 5-year post-July 4 average.

- Van Load-to-Truck rates fell 9.2% from May to June, however it is still up 57.8% June 2021 vs June 2020. Van Spot Rates fell -0.2% in June but are still up 47.1% year over year.

- Flatbed Load-to-Truck rates fell 31.2% from May to June, however it is still up 169.3% June 2021 vs June 2020. Flatbed Spot Rates increased 1.5% in June and are up 52.1% year over year.

- As the industry grapples with a lack of drivers and equipment, and the current truck market in an oversold condition we feel the high rates we are experiencing are likely to continue for the remainder of the year.

FOREIGN EXCHANGE

Currency		Current July 9, 2021	Forward Estimates Q3 2021	Q4 2021	Q1 2022	Q2 2022	PPP [1]
Canadian Dollar	***(USD / CAD)***	**1.25**	**1.20**	**1.21**	**1.21**	**1.22**	**1.21**
United States Dollar	*(CAD / USD)*	*0.80*	*0.83*	*0.83*	*0.83*	*0.82*	-
Euro	*(EUR / USD)*	1.19	1.22	1.21	1.21	1.20	1.42
Japanese Yen	*(USD / JPY)*	110	109	108	109	109	103
Australian Dollar	*(AUD / USD)*	0.75	0.79	0.78	0.77	0.77	0.68
Pound Sterling	*(GBP / USD)*	1.38	1.42	1.42	1.41	1.41	1.43
Chinese Yuan	*(USD / CNY)*	6.48	6.40	6.37	6.40	6.42	4.2
Mexican Peso	*(USD / MXN)*	19.9	19.0	18.5	19.0	19.0	9.5
Broad United States Dollar [3]		**113.0**	**109.8**	**109.5**	**110.3**	**110.8**	-

Source: National Bank of Canada

- After hitting a pandemic low in early June, the broad USD index gained more than 2% in recent weeks and has since consolidated near its recent high.
- It seems the Federal Reserve is still comfortable keeping real interest rates negative to promote business investment, and employment growth.
- While analysts have upped their bullish rhetoric surrounding the US dollar, what happens next largely relies on an uninterrupted pandemic recovery and the decisions of the Fed.
- As reported in the last couple of months, China is continuing to lean on incremental steps to slow the yuan's gains to deter speculators and help its exporters.
- The yuan has gained over 10 per cent against the dollar since May 2020 as China leads most other economies in its recovery from Covid-19.

SUMMARY/PATH FORWARD

- Continue to pass through cost increases to your customers.
- Buffer your freight budget and transit time for changes. Costs due to unforeseen delays or limited capacity can arise, so be prepared.
- Pay attention to the profitability of your goods and consider if a pivot to complementary items could be worthwhile. Additionally, remember to factor in freight costs when assessing profitability.
- Order now if you can. Given the unpredictability of freight and transit times, book orders now to get goods moving as quickly as possible.

- Communicate regularly with your customers. This is more important than ever. Staying in touch means you will have a better handle on demand and any changes that may arise.

- Make sure that you have the necessary employment level to run your business. This will minimize delays and allow you to scale with demand.

- Customers who initiate blanket orders continue to benefit by removing their exposure to cost increases and delivery delays.

- GCP is continually evaluating all our supply chains to ensure costs are controlled as much as possible.

- Any surcharges added on during this time will be reduced (or removed) when lower costs are reached.

- GCP is committed to providing our customers with secure supply sources. Our production partners have capacity and have given us assurance they can ramp up production wherever needed.

- If you are interested in the opportunity to secure supply and cost savings, send us an email and we will start the conversation on how blanket orders can work for your organization.

Sincerely,

The GCP Team

SOURCES

Consumer Price Index

- https://www.bls.gov/news.release/cpi.toc.htm

Material Pricing

- https://www.ismworld.org/supply-management-news-and-reports/reports/ism-report-on-business/pmi/june/

Demand

- https://www.reuters.com/business/manufacturers-have-an-answer-higher-costs-pass-them-2021-06-23/

Deliveries

- https://www.ismworld.org/supply-management-news-and-reports/reports/ism-report-on-business/pmi/may/

Ocean Freight Rates

- https://fbx.freightos.com/
- https://www.freightos.com/freight-resources/coronavirus-updates/

COVID

- https://covid.cdc.gov/covid-data-tracker/#datatracker-home

Trucking Rates

- https://www.dat.com/industry-trends/trendlines
- https://www.dhl.com/content/dam/dhl/global/dhl-global-forwarding/documents/pdf/glo-dgf-ocean-market-update.pdf
- https://www.freightwaves.com/news/freight-costs-see-june-surge-tougher-comps-coming

Foreign Exchange

- https://www.nbc.ca/content/dam/bnc/en/rates-and-analysis/economic-analysis/forex.pdf
- https://economictimes.indiatimes.com/
- https://capital.com/us-inflation-hits-a-13-year-peak-of-5-4