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 COST REPORT

October 2021

KEY COST INDEXES

1. Ocean Freight Rates - Average GCP Container Cost, U.S. Dollars

Month	Asia/West Coast	Asia/East Coast	40' Containers
Current	**$12,000/$14,000**	**$14,000/$16,000**	**$16,000/$25,000**
September	$12,000/$14,000	$14,000/$16,000	$16,000/$20,000
August	$12,000/$14,000	$14,000/$16,000	$16,000/$20,000
July	$10,000/$12,000	$12,000/$14,000	$20,000/$25,000
June	$10,000/$12,000	$12,000/$14,000	$18,000/$20,000
May	$8,000/$10,000	$10,000/$12,000	$15,000/$16,000

Notes:

- We are starting to hear average Asia-US West Coast and Asia-US East Coast prices are beginning to lower, but to date prices are still between 300%-350% higher YOY.
- For 40' containers from Taiwan-US East Coast pricing is still in the $26,000-$32,000 range.

2. North American Trucking Rates - Average Cost/Mile, U.S. Dollars

Month	Van	Flatbed	Refrigerated
Current	**2.88**	**3.07**	**3.27**
September	2.82	3.07	3.23
August	$2.82	$3.06	$3.14
July	$2.72	$3.11	$3.13
June	$2.67	$3.15	$3.09
May	$2.67	$3.10	$3.09

Notes:

- United States fuel prices continue to rise, up 3.1% to a national average of $3.59/gallon.
- Freight demand is still strong, and supply challenges continue to mount, keeping upward pressure on North American rates.

3. Material Pricing – Institute for Supply Management (IMS®) Price Index

Prices	% Higher	% Same	% Lower	Net	Index
September	**69.5**	**23.4**	**7.1**	**+62.4**	**81.2**
August	62.8	33.3	3.9	+58.9	79.4
July	73.8	23.8	2.4	+71.4	85.7
June	84.8	14.5	0.7	+84.1	92.1
May	77.1	21.6	1.2	+75.9	88.0

Notes:

- The ISM® Prices Index registered 81.2 percent, an increase of 1.8 percentage points compared to the August reading of 79.4 percent. This indicates that raw material prices increased for the 16th consecutive month, and at a faster rate compared to August.

4. U.S. Dollar - Against Other Currencies

Month	Chinese Yuan	Mexican Peso	Euro	Canadian Dollar
Current	**1 USD = 6.437**	**1 USD = 20.55**	**1 USD = 0.862**	**1 USD = 1.238**
September	1 USD = 6.457	1 USD = 19.86	1 USD = 0.848	1 USD = 1.268
August	1 USD = 6.462	1 USD = 19.82	1 USD = 0.841	1 USD = 1.246
July	1 USD = 6.466	1 USD = 19.97	1 USD = 0.842	1 USD = 1.237
June	1 USD = 6.384	1 USD = 19.90	1 USD = 0.818	1 USD = 1.203

Notes:

- Chinese Yuan - The U.S. dollar has depreciated 5.46% in value from September 2020.
- Mexican Peso - The U.S. dollar has depreciated 7.68% in value from September 2020.
- Euro - The U.S. dollar has appreciated 0.93% in value from September 2020.
- Canadian Dollar - The U.S. dollar has depreciated 7.54% in value from September 2020.

KEY UPDATES

- To say we live in challenging times is an understatement. Currently there are no less than 9 substantial events impacting the world of industrial products. We will do our best to cover them all.

- These challenges include the following: Global Power Crisis, China Power Crunch, Material Pricing (silicon), Ocean Freight, Port Congestions, Transportation/Trucking Shortage, US/China Relations (tariffs), COVID-19, and 2022 Beijing Olympics Preparations. Let's get started.

1. *Global Power Crunch* – From North America to Europe and Asia, energy prices are going in one direction: up. In India, stocks of coal for power plants have fallen to unprecedentedly low levels, forcing state governments to deploy scheduled power cuts. European gas prices

are at record levels, pushing wholesale electricity prices up 200% in the first nine months of this year. And U.S. gas prices have risen by 47% since the start of August. *(More on pg. 5)*

2. *China Power Crunch* - Blackouts and electricity rationing have struck many provinces across China over the past month. Unlike previous ones, this round of power cuts has not only affected factories, but also hospitals, schools, and people's homes. Analyses attributed the outages to a mix of factors, including power-generation shortfalls and a rush to hit energy-control targets. *(More on pg. 5)*

3. *Silicon Pricing* - A metal made from the second-most abundant element on Earth has suddenly become scarce, threatening everything from car parts to computer chips and throwing another hurdle for the world economy. The shortage in silicon metal, sparked by a production cut in China, has sent prices up 300% in less than two months. *(More on pg. 6)*

4. *Ocean Freight* - At the port of Long Beach it is estimated that each vessel arriving is anchored for approximately two weeks before it is called into the terminal to be unloaded. It is important to know that two weeks is about how long it takes for a vessel to go from China to the US or from the US to China. So being anchored for two weeks means that vessel is likely going to miss its next voyage. And if that vessel gets held up in China for two weeks once it returns, another voyage will be missed. As a result, each one way trip a vessel makes they're missing at least two other voyages. This is why capacity remains limited and we have $15,000 - $25,000 container prices. *(More on pg. 7)*

5. *Port Congestions* - A major reason why costs remain high and transit times remain volatile is due to port infrastructure capacity. All major ports around the world are handling as many containers as they possibly can, given their capacity. Therefore, adding more vessels really doesn't solve the problem, what solves the problem is moving containers out of the ports. And that unfortunately is not happening fast enough. *(More on pg. 7)*

6. *Trucking Shortage* - There are many individuals with the training and skills needed to fill these truck driving job positions. But due to low pay and less than desirable working conditions, many are leaving the industry, in search of a better career. Currently, Canada reports being short around 25,000 truck drivers while the US reports a whopping shortage of around 60,000 drivers. *(More on pg. 8)*

7. *US/China Relations (tariffs)* - Katherine Tai, U.S. trade negotiator, said that the United States will launch new trade talks with China but, in the interim, tariffs will remain in place. Joe Biden had spent most of his career favoring trade liberalization which some are hoping could lead his administration to gradually ease trade restrictions to boost trade, reduce prices, and improve U.S. competitiveness. *(More on pg. 9)*

8. *COVID-19* - US average daily rate of cases, hospitalizations and deaths from Covid-19 are on the decline thanks in large part to southern states coming out of the worst of the Delta variant surge. However, now is not the time to grow complacent as we've seen how a single case of covid can shut down entire seaports, airports, factories, and business. Also, the Delta

variant continued to disrupt the US job market in September. Overall, September employment was 3.3% below the pre-pandemic level from February 2020.

9. *2022 Beijing Olympics Preparations* - The 2022 Beijing Winter Olympic games and the Paralympics will be held from February 4th - 20th 2022. There is the potential for manufacturing disruption and restrictions as the games approach. So far, our factory partners have indicated that they do not feel the Olympics will have a big impact on their production schedules. As the games fall during China's annual Lunar New Year's festival, which most factories are shutdown for anyways.

LOOKING FORWARD

- The economy is likely to grow at a slower pace in 2022 than it did in 2021. The Federal Reserve has forecasted 2022 U.S. growth to be at 3.8%, as opposed to 5.9% for 2021.

- U.S. port congestions remain historically high and continue to hamper business.

- For September factory-gate prices in China rose at the fastest pace in almost 26 years. This surge could spill over to other economies given China's role as the world's largest exporter.

- Many raw material costs have spiked significantly after China returned to work from their national holiday. We expect more price increases are coming.

- Blanket Orders placed in 2020 allowed GCP factory partners to pre-buy many raw materials which supported a fixed price over the B/O period. With rapid price increases on raw materials and energy, we are unsure how long these increases will last or if it will affect set prices in 2022. None the less blanket orders support security of supply which is the new focus for many distributing and converting businesses.

- Continue to buffer your freight budget and transit time for orders. Costs due to unforeseen delays or limited capacity will continue to arise, so be prepared.

- Keep passing through cost increases when and where you can.

- We are recommending you plan as far into the future and as accurately as you possibly can. We are finding with some customers, looking six months out is likely not far enough.

- Communication and accuracy remain vital. Pay close attention to the dynamics of your business, marketplace, and customers.

Sincerely,

The GCP Team

ADDITIONAL INFORMATION

GLOBAL POWER CRISIS

- The world is living through the first major energy crisis of the clean-power transition.

- What's happening is that the richest economies are undergoing one of the most ambitious overhauls of their power systems since the dawn of the electric age. This is happening amidst surging electricity demand combined with volatile fuel-prices.

- Experts predict the world could be in a for a rocky period during the overhauls. The consequences will likely range from periods of energy-driven inflation, exacerbating income inequalities, to the looming threat of power outages and lost economic growth/production.

- Natural gas prices in Europe and the United Kingdom have quadrupled over the past six months to record highs. Gas accounts for 40% of UK electricity generation, almost 25% in the EU, and is a key fuel for heating industrial production around Europe.

- India is tightrope walking their way through their own coal crise. As of early Oct. 80%, of India's 135 coal-powered plants had less than 8 days of supplies left (average inventory is 18 days) — more than half of those had stocks had fewer than 2 days. The situation has since improved but remains volatile due to increased demand.

- In the US gas prices have risen by 47% since the start of August, while oil prices are also up more than 60% in 2021. Upcoming cold weather demands could push the price of Brent crude past $100 a barrel (currently $84.92), which would be a seven-year high.

CHINA POWER CRUNCH

- China is now facing a shortage of electricity that is threatening their economic recovery. In the past month, 16 of 31 provinces in industrial regions have implemented electricity rationing.

- Analyses have attributed the outages to a mix of factors including a shortage of coal that fuels the vast majority power plants, weaker hydroelectric output due to drought, and the impact of government targets for emissions reduction.

- The short supply of coal has caused a surge in coal prices, which has in turn affected the cost of production. In Guangdong Province, home to many manufacturing and technology industries, electricity prices for industrial users have gone up 25% during peak hours.

- For now, it looks like the government's strategy is to use pricing to suppress demand. Meaning it is unlikely that the coal supply will rise sharply in the short term.

- The crisis could exacerbate the problem of consumer price inflation in North America and Europe. In addition, the crisis could intensify the global shortage of semiconductors, thereby having a spillover effect on the global technology and automotive industries.

- Additionally, the weakening of factory output could lessen China's own demand for inputs and commodities, thereby easing shortages and suppressing commodity prices.

- For GCP specifically, our factory partners have a mix of restriction they need to meet.
    - 60% of our facilities do not have any restrictions or mandates they need to meet.
    - 15% are allowed 4 working days and must power off for 3 days each week.
    - 15% must either work in the days and power off at night or vice versa.
    - 10% are allowed to work 5 days and must power off for 2 days each week.

MATERIAL PRICING

- The Institute for Supply (ISM®) Prices Index registered 81.2 percent, an increase of 1.8 percentage points compared to the August reading of 79.4 percent.

- Raw material prices increased for the 16th consecutive month.

- In September, 17 of 18 industries reported paying increased prices for raw materials. This includes, Apparel, Leather & Allied Products; Textile Mills; Printing & Related Support Activities; Paper Products; **Plastics & Rubber Products**; Machinery; Miscellaneous Manufacturing; Furniture & Related Products; Nonmetallic Mineral Products; Computer & Electronic Products; Fabricated Metal Products; Transportation Equipment; Food, Beverage & Tobacco Products; Primary Metals; Chemical Products; Electrical Equipment, Appliances & Components; and Wood Products. The only industry reporting a decline in prices in September is Petroleum & Coal Products.

SILICON PRICING

- A metal made from the second-most abundant element on Earth has become scarce, threatening everything from car parts to computer chips and throwing up another hurdle for the world economy.

- The shortage in silicon metal, sparked by a production cut in China, has sent prices up 300% in less than two months.

- For most of this century, the price of silicon metal has ranged between about 8,000 and 17,000 Yuan ($1,200- $2,600 USD) a ton. Then producers in Yunnan province were ordered to cut production by 90% below August levels from September through December amid electricity curbs. Prices have since shot up as high as 67,300 Yuan ($10,400 USD).

- The situation has forced some companies to declare force majeure.

- In early October Norwegian chemicals manufacturer Elkem said it and several other companies making silicone-based products suspended some sales due to the shortage

OCEAN FREIGHT

- Freightos.com marketplace data shows that last month, China-U.S. ocean shipments took an average of 73 days to arrive at their final destination. That's 83% longer than in September 2019.

- The National Retail Federation projects that October U.S. container imports will be down only slightly from September and expects volumes to dip only 3% by December. Meaning that during the typical December "lull" volumes will still be 20% higher than in 2019.

- With power outages shuttering factories and existing ocean delays, it's unlikely that shipments not already moving will make it in time for the holidays.

- The worsening port congestion and delays at LA/Long Beach are keeping Asia-U.S. prices extremely high, more than 300% their level from a year ago.

- U.S. imports by volume for the fourth quarter are on pace to beat the record-setting levels of 2020.

- Due to sustained demand, experts are now forecasting freight delays and elevated rates will possibly last into 2023.

PORT CONGESTIONS

- The largest change this past month emanated out China. As of mid-Sept., there were 153 container ships at anchor off the ports of Shanghai and Ningbo. In just two-and-a-half weeks that number has declined by 47%.

- However, it's a very different story in the port LA/Long Beach. Over the same period when Shanghai/Ningbo anchorage numbers declined 47%, Southern California anchorage numbers didn't budge.

- There were 61 container ships at anchor or drifting as of Oct 11 off the port of LA/Long Beach, according to the Marine Exchange of Southern California. The count back on Sept. 24 was 62. (The record was set on mid-Sept., when 73 container ships were anchored).

- The delays at LA/Long Beach have sent many importers looking for other options. That shift in volumes is now causing congestion at West Coast alternatives like Seattle and Vancouver, and East Coast ports like New York/New Jersey and Savannah.

- President Biden has announced that the LA/Long Beach port would begin operating 24 hours a day and 7 days a week to solve the backlog problem. Yet many believe that extending port hours won't solve the problem. The delays are also tied to backlogged demand from the pandemic, a diminished workforce, and snags at each step of a shipping route, not just ports.

- Despite the backlog of ships waiting to get into the port, LA/Long Beach recorded its best September in its 114-year history, clearing a total container volume of approximately 900,000 TEUs (twenty-foot equivalent).

- At the same time, however, exports at the port were at record lows. Outbound loaded containers at the port fell to 76,000 TEUs, a 42% drop compared to last year and the lowest since 2002. The ratio of imports to exports came in at a high of 6:1, the widest monthly gap recorded at the port.

- Port congestion issues like the one at LA/Long Beach and others around the globe is the largest contributor as to why ocean freight prices remain high.

TRUCKING

- The Biden administration announced new measures to extend the hours that trucks can access the ports of LA/Long Beach in hopes of clearing the backlog.

- Many of the 18,000 truck drivers who haul containers in and out of the ports are not convinced that the ports' 24/7 working environment will solve the problem.

- For example, many truckers are having a difficult time booking appointments to return empty containers. Consequently, if they can't free up the chassis to bring the container back then they can remove a container off the dock. This is how a significant number of trucking slots go unused and compound the backlog problem.

- Another issue facing truckers is the lack available drug and alcohol testing clinics, personnel, and equipment.

- To remain compliant with federal drug and alcohol rules, drivers are required to submit to random testing. However, it is becoming increasingly difficult to schedule and complete the necessary tests.

- When a driver is notified, they will be tested, they must immediately report to a testing site. But if issues at the collection site prevent the facility from completing the test, the trucker cannot simply leave the site, even if a facility is unable to complete the required test. This is because leaving the site could constitute a refusal, which carries the same consequences as a positive test. As a result, a trucker would lose their ability to drive.

- Lastly, the industry needs drivers. But it appears companies/the industry are not willing to make the necessary changes (increase wages, improve working conditions, lessen fines) to keep the drivers they have and attract new blood to the industry**.**

- Currently, Canada reports being short around 25,000 truck drivers while the US reports a shortage of around 60,000 drivers.

- With no real change in sight, driver shortage is sure to get worse before it gets better.

U.S./CHINA RELATIONS

- In January, there was considerable anticipation as to whether the Biden Administration would quickly reverse the Trump trade era policies. Since President Biden had spent most of his career favoring trade liberalization.

- As vice president under President Obama, he had been a champion of efforts to liberalize trade in Asia and to boost relations with China.

- When he entered office, however, he indicated that there would be no immediate change in trade policy and that domestic affairs would take precedence for the first several months. His administration said that there would be a relatively long policy review on trade.

- That policy review is now over, and Katherine Tai, head U.S. trade negotiator, offered a view as to where things might go from here.

- She said that the U.S. will launch new trade talks with China but, in the interim, tariffs will remain in place. However, she indicated that importers will be better able to pursue exemptions from tariffs. Thus, while the headline tariff level will not change, it seems likely that the effective tariff (tariff after exemptions) will decline.

- In addition, Tai said that the U.S. will seek China's full compliance with the so-called phase one trade agreement that Trump signed with China in early 2020. She added that the administration will not seek a phase two agreement which would likely have meant more tension with China.

- Although Tai offered few details as to how she will approach negotiations with China, one could interpret her general remarks as signaling a future that could involve a reduction of existing tariffs on both sides.

SOURCES

Global Power Crisis

- https://www.theguardian.com/business/2021/oct/12/global-energy-crisis-how-key-countries-are-responding
- https://www2.deloitte.com/us/en/insights/economy/global-economic-outlook/weekly-update.html
- https://www.bnnbloomberg.ca/global-energy-crisis-is-the-first-of-many-in-the-clean-power-era-1.1661753
- https://www.cnbc.com/2021/10/12/coal-shortage-india-could-soon-be-on-the-brink-of-a-power-crisis.html

China Power Crunch

- https://www.reuters.com/world/china/what-is-behind-chinas-power-crunch-2021-09-29/
- https://www2.deloitte.com/us/en/insights/economy/global-economic-outlook/weekly-update.html
- https://www.bloombergquint.com/quicktakes/why-china-is-facing-a-power-crunch-and-what-it-means-quicktake

Material Pricing

- https://www.ismworld.org/supply-management-news-and-reports/reports/ism-report-on-business/pmi/september/
- https://www.seattletimes.com/business/silicons-300-surge-throws-another-price-shock-at-the-world/

Ocean Freight

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

Port Congestions

- https://www.freightos.com/freight-resources/coronavirus-updates/
- https://www.freightwaves.com/news/china-port-congestion-falls-sharply-trans-pacific-rates-retreat
- https://www.supplychainbrain.com/articles/33925-biden-confronts-supply-chain-crisis-stretching-past-his-grip?oly_enc_id=0806A5434578A4U

Trucking

- https://www.dat.com/industry-trends/trendlines
- https://www.cassinfo.com/freight-audit-payment/cass-transportation-indexes/september-2021
- https://www.smart-trucking.com/truck-driver-shortage/
- https://www.freightwaves.com/news/how-fast-can-la-clear-out-its-ships
- https://www.freightwaves.com/news/truckers-warn-federal-regulators-of-drug-testing-bottlenecks

US/China Relations

- https://www2.deloitte.com/us/en/insights/economy/global-economic-outlook/weekly-update.html

COVID-19

- https://www.cnn.com/2021/10/12/health/us-coronavirus-tuesday/index.html

Foreign Exchange

- https://ycharts.com/indicators/us_dollar_to_chinese_yuan_exchange_rate
- https://ycharts.com/indicators/us_dollar_to_mexican_peso_exchange_rate
- https://ycharts.com/indicators/us_dollar_to_euro_exchange_rate
- https://ycharts.com/indicators/us_dollar_to_canadian_dollar_exchange_rate