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INDUSTRIAL SECTOR COST REPORT

February 2022

KEY COST INDEXES

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

Month	Asia/West Coast	Asia/East Coast	40' Containers
Current	**$15,000/$16,000**	**$17,000/$18,000**	**$20,000/$22,000**
January	$15,000/$17,000	$17,000/$19,000	$20,000/$26,000
2021 Average (May-Dec.)	$10,500/$12,500	$13,000/$15,000	$16,500/$20,500

Notes:

- With ongoing pandemic-related delays/closures, non-stop freight demand from Asia to North America, and a lack of capacity, ocean rates are still very elevated and transit times remain volatile.
- At the start of this year, 22 percent of the world's total container fleet was deployed between Asia and North America, up from 17.5 percent in January 2021. The increase was needed to compensate for the efficiency loss many ships face by long waiting times at port anchorages and missed voyages.
- Taiwan 40'/EC rates are holding firm at $23,000/$26,000 for the fourth consecutive month.

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

Month	Van	Flatbed	Refrigerated
Current	**$3.13**	**$3.16**	**$3.57**
January	$3.10	$3.12	$3.59
2021 Average (May-Dec.)	$2.80	$3.08	$3.22

Notes:

- Average spot rates are 32 percent higher year-over-year (YOY).
- Load post volumes are 74 percent higher YOY but are starting to trend downwards, following a more seasonal pattern.
- Average U.S. fuel prices are $3.95 /gallon, up 7.9% from last month.

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

Month	Prices % Higher	Prices % Same	Prices % Lower	Net	Index
January	**58.7**	**34.8**	**6.5**	**+52.2**	**76.1**
2021 Index Average May-Dec.					82.8

Notes:

- The January 2022 ISM® Prices Index registered 76.1 percent, an increase of 7.9 percentage points compared to the December 2021 reading of 68.2 percent.
- This is now 17 months in a row with the index above 60 percent. A index reading above 52.6 percent, over time, is generally consistent with an increase in producer prices for intermediate materials.

4. Commodity Pricing – Institute for Supply Management (IMS®) Report on Business

Prices Up		Prices Down
Adhesives and Paint (2)	Natural Gas* (7)	Crude Oil* (2)
Aluminum (20)	**Ocean Freight (14)**	Natural Gas* (2)
Aluminum Products	Packaging Film	Steel* (3)
Calcium Carbonate	Packaging Supplies (14)	Steel – Carbon
Caustic	Paper Products	Steel - Hot Rolled* (3)
Copper	Plastic Resins	Steel – Scrap
Corrugated Packaging (15)	Resin Based Products (12)	Steel Products*
Crude Oil*	Ridged Plastic Packaging	
Diesel Fuel (13)	**Rubber Based Products (6)**	
Electrical Components (14)	Semiconductors (12)	
Electronic Assemblies	Soy Based Products	
Electronic Components (14)	Steel* (18)	
Freight (15)	Steel - Hot Rolled*	
Hydraulic Components	Steel - Stainless (15)	
Labor - Temporary (9)	Steel Drums	
Lubricants (2)	Steel Products* (17)	
Lumber (2)	Vegetable Based Oil	
Lumber - Pallets	Zinc Compounds	

Notes:

- The number in brackets after each item indicates the number of consecutive months the commodity has been listed up or down.
- * Indicates those commodities both up and down in price.

5. U.S. Dollar - Against Other Currencies

Month	Chinese Yuan	Mexican Peso	Euro	Canadian Dollar
Current	**1 USD = 6.344**	**1 USD = 20.37**	**1 USD = 0.881**	**1 USD = 1.272**
January 31, 2022	1 USD = 6.361	1 USD = 20.78	1 USD = 0.891	1 USD = 1.276
January 03, 2022	1 USD = 6.356	1 USD = 20.45	1 USD = 0.880	1 USD = 1.270

Notes:

- January 03, 2022, represents the first trading day of 2022.
- Chinese Yuan - The U.S. dollar has depreciated 0.18% against the Yuan in 2022.
- Mexican Peso - The U.S. dollar has depreciated 0.39% against the Peso in 2022.
- Euro - The U.S. dollar has appreciated 0.11% against the Euro in 2022.
- Canadian Dollar - The U.S. dollar has appreciated 0.15% against the CAD in 2022.

KEY HEADLINES

1. *Material Pricing* - Raw material prices increased for the 20th consecutive month, indicating that supplier pricing power continues to rise. *(More on pg. 5)*

2. *Ocean Freight Rates* - Transpacific ocean rates remain around 8X higher than the pre-pandemic norm. However, they could be on their way down soon. *(More on pg. 5)*

3. *Trucking Costs* - The national spot rate remains elevated at around $3.70/mile after backing off its all-time high of $3.83/mile earlier in January. *(More on pg. 6)*

4. *Port Congestions* - Disrupted schedules, omicron slowdowns and China’s Lunar New Year means we have yet to see a material improvement in port conditions for 2022. *(More on pg. 6)*

5. *Labor Costs/Shortages* - 47 percent of small businesses reported job openings they could not fill. The number of unfilled job openings far exceeds the average of 23 percent. *(More on pg. 7)*

6. *Energy Prices* - In January overall U.S. energy prices energy prices rose 0.9% and have increased 27% YOY. *(More on pg. 7)*

7. *U.S./China Relations (tariffs)* - U.S. trade deficit hit a record $355.3 billion in 2021 as surging demand from the pandemic shutdowns help drive imports. *(More on pg. 8)*

8. *COVID-19* - Unplanned worker absenteeism because of omicron made it tough for some businesses to meet customer demand in January. *(More on pg. 8)*

9. *Inflation* - The latest Consumer Price Index (CPI) showed a 0.6% rise in January, and a 7.5% rise YOY, the largest 12-month increase since 1982. *(More on pg. 9)*

INSIGHTS OF THE MONTH

- The industrial sector is still battling several issues including, shortages of critical intermediate materials, difficulties transporting products and a lack of labor on factory floors.

- National Federation of Independent Business (NFIB) reported 61% of businesses raised their average selling prices in response to rising inflation and labor costs.

- Freight moving westbound from Asia on transpacific routes takes an average of 110 days, just shy of the record of 111 days set in mid-January 2022.

- The costs of transportation and warehousing goods for final demand climbed 1.4 percent in January. Compared with a year ago, the Labor Department's gauge is up 16 percent YOY, the largest annual advance since 2009.

- The cost of shipping by rail is at its highest point since 2011. Along with air cargo inflation at its highest point in a decade.

- The U.S. Producer Prices Index (PPI) increased 1.0 percent in January and has gained 9.7 percent YOY.

- China's PPI fell 1.70 percent in January and has gained 9.1 percent YOY.

- The shortage of labor in the U.S. has led to an acceleration in wages. On the positive side, although wages have accelerated, so too has productivity.

- U.S. industrial production activity rose 1.4% in January to match the strongest monthly gain in nearly a year. Moreover, the acceleration in activity was broad-based with most major industries posting gains.

- North America and other western countries have seen covid case counts collapse over the past several weeks. It now looks like the worst of the omicron wave is behind us.

- For 2021, the total U.S. trade deficit grew by 27 percent, the largest on record. Expect the trade deficit to remain volatile from month to month but generally remain large in the months ahead. The demand for imports will likely continue to outstrip the demand for exports.

Sincerely,
The GCP Team

ADDITIONAL INFORMATION

MATERIAL PRICING

- Raw material prices increased for the 20th consecutive month, at a faster rate (an increase of 7.9 percentage points) compared to December 2021, indicating that supplier pricing power continues to rise.

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

- No industry reported paying decreased prices for raw materials.

- Rubber-based products continue to remain at elevated prices due to product scarcity coupled with continued high demand.

- The ISM also listed commodities in short supply, which includes, Aluminum (3); Aluminum Products; Brass; Caustic; Corrugate; Electrical Components (16); Electronic Components (14); Epoxy; Labor - Temporary (9); **Ocean Freight**; Paper; Plastic Resins (11); Printed Circuit Board Assemblies; Ridged Plastic Packaging Products; Semiconductors (14); and Steel Products. *Note: The number of consecutive months the commodity has been listed in short supply is indicated in brackets after each item.*

OCEAN FREIGHT

- Through January the average Asia/East Coast rate increased around 1%. There were higher price spikes leading up to the Chinese Lunar New Year, but those have subsided.

- The average Asia/West Coast rate has been a bit more volatile rising around 8% to start the year.

- The latest National Retail Foundation projections for U.S. import demand show no sign of decreasing volumes through the first half of the year, meaning that freight rates will likely stay high for the interim.

- Port bottlenecks, strong demand and shipping capacity tied up at ports remain the three major drivers of high rates.

- The good news, cost might be on their way down soon. Maersk Chief Executive recently stated “The high level of freight rates we have now is not sustainable for our customers. As the pandemic eases and more people return to work, the ships will be handled quicker in ports, which will free up capacity. At some point during the year, we will see a more normal situation."

TRUCKING

- The national spot rate, based on [Truckstop.com’s]() load board, has backed off its all-time high of $3.83 earlier in January. It remains elevated at around $3.70 per mile.

- Elsewhere, the Canadian trucker protests had a significant impact on spot rates on “auto alley” between Laredo and Canada. With tight capacity the 7-day rolling average is now double the long-term average.

- Availability of truck chassis was a primary issue in 2021 and contributed to rising rate. The good news, chassis production has improved considerably over the past six months. The bad news, chassis fleets remain far from what is needed to address the congestion.

- As capacity is being added back to the market, it’s not enough to keep up with demand (yet). Build slots for truck manufacturers are effectively sold out, so any easing in the pricing will have to come from the demand side of the equation.

- At this point, it looks like elevated rates will continue through the second quarter.

PORT CONGESTIONS

- U.S. ports are expected to handle 13 million Twenty-Foot Equivalent Units during the first half of 2022, up 1.5 percent over 2021. By contrast, the first half of 2021 saw a record 35.7 percent increase over the first six months of 2020.

- Since early January, the number of ships waiting to dock at the ports of Los Angeles and Long Beach has decreased by nearly 30 percent. However, the congestion is still significant with almost 80 vessels waiting.

- Many ships are forced to wait two weeks before being unloaded, meaning they are missing one or two potential voyages depending on the delays they experience in Asia.

- Missed voyages, lowers capacity and lower capacity keeps ocean freight rates high.

- To lower rates, port backlogs will need to be cleared. This is no easy task as terminals continue to face a lack of space brought on by the rest of the supply chain’s inability to efficiently transfer cargo out of the terminals to its end destinations.

- A shortage of equipment, worker availability and space at distribution centers and warehouses across the country also remains problematic. As does the export of empty containers back to Asia.

- In what is a best guess as to when port backlogs could be potentially cleared. Sea-Intelligence, a maritime data and advisory firm, is suggesting the disruptions could be solved in eight to nine months. For their estimate, they are using the 2015 U.S. West Coast labor dispute that led to major port delays and bottlenecks, as their guide.

LABOR COSTS/SHORTAGES

- A historic number of small businesses are struggling to increase their workforce, according to NFIB's monthly jobs report.

- According to NFIB 50 percent of small business owners reported raising compensation, up two points from December that represents a 48-year high reading. A further 27 percent plan to raise compensation in the next three months.

- 47 percent of businesses reported job openings they could not fill in the current period.

- Overall, 59 percent of small employers reported hiring or trying to hire in January. 93 percent of those hiring or trying to hire reported few or no qualified applicants for the positions they were trying to fill.

- The U.S. Bureau of Labor Statistics also reported the average hourly and weekly earnings in January 2022 is up YOY across every industry sector they track.

ENERGY PRICES

- Oil prices have surged to their highest levels in more than seven years, with both Brent and West Texas Intermediate crude moving over $90 a barrel, a level not hit since 2014.

- U.S. electricity costs gained 4.2 percent in January, 10.7 percent YOY.

- U.S. natural gas prices are up 16.5 percent month-over-month. Higher prices in January were a result of colder-than-normal weather as demand increased for space heating and power generation.

- The U.S. Energy Information Administration (EIA) has noted several factors they are watching which will impact energy prices in 2022. These include consumer/business demand because of the pandemic, production decisions of OPEC+, the rate at which U.S. oil and natural gas producers increase drilling, and geopolitical events.

- Speaking of geopolitical events, if Russia were to engage in an armed conflict with Ukraine it is expected Europe's energy market will be most affected. Russia exports around 85% of its natural gas to Europe, much of which flows through a pipeline network in Ukraine.

- Natural gas is the main source of heating for homes and business in Europe, and prices are already up over 340% YOY.

U.S./CHINA RELATIONS

- The U.S. Census Bureau said that the U.S. 2021 trade deficit with China rose by $45 billion, or 14.5%, to $355.3 billion, the largest since a 2018 record of $418.2 billion.

- The rising trade deficit has created two main viewpoints from inside the U.S. On one hand, a consensus had emerged with Americans in both political parties wanting to pursue a tougher approach to China.

- Meanwhile, many in the business community continue to press the Biden team to let go of the tariffs and sanctions that constitute the leverage of the competitive approach, and smooth relations with Beijing for the economy's sake.

- There is no question officials in Washington are losing patience. China met less than 60% of its purchasing goal implemented under Trump's "Phase 1" trade deal, two years ago.

- Many in the political community are now urging the Biden administration a look at implementing new China tariffs to level playing field.

- For its part the Biden administration has said they recognize the tariffs in place are putting pressure on American companies and therefore American workers. They understand the need to address that piece, despite the challenges presented by the Phase 1 deal.

- What comes next is likely more status quo since tariffs are mainly paid by American companies and consumers. Raising tariffs would be controversial at a time when the U.S. is seeing its highest inflation in decades, while cutting the duties would risk accusations that the administration is going soft on China ahead of mid-term election campaigns.

COVID-19

- The shortages of labor (due to omicron-fueled unplanned absenteeism) impacted businesses and made it tough for some to meet customer demand.

- The Bureau of Labor Statistics reported 3.6 million people absent from work in January because of illness, almost twice as many as during the first wave of the pandemic.

- Despite a wave of Omicron infections that sickened millions of workers, and left businesses short-staffed U.S. employers added 467,000 jobs in the month.

- The strong hiring gain was unexpected, as the pandemic maintained its grip on the economy.

- As a result of the Omicron wave, forecasters predict real GDP will now grow at an annual rate of 1.8 percent for Q1 2022, down 2.1 percentage points from the prediction of 3.9 percent.

- On the positive side, covid case counts have dropped significantly and businesses are viewing the omicron wave as having, at most, a temporary effect on the economy. Many remain confident about longer-term growth prospects.

INFLATION

- The latest Consumer Price Index (CPI) showed a 0.6% rise in January, and a 7.5% rise YOY, leading to the largest 12-month increase since 1982. Economists had forecasted a 7.3% YOY spike, after a 7% jump in December.

- The core CPI, which excludes volatile food and energy prices, rose 6% YOY, also the largest annual rise in 40 years.

- However, after you get past the headline data consumer sentiment tells a bit of a different story. In a recent survey by the New York Federal Reserve, U.S. consumers lowered their expectations signaling that inflation concerns may be easing slightly.

- In the survey, short-term inflation expectations (for one year ahead) fell from 6 percent in December to 5.8 percent in January. That marks the first drop since October.

- Medium-term inflation expectations (for three years ahead) fell by half a percentage point to 3.5 in January. That’s the largest monthly decline since the survey started in 2013.

- Log-term inflation expectation (for five years ahead) fell by 0.2 percent to 3 percent.

- While the overall decrease in consumer expectation is nice, high inflation isn’t going away on its own, and controlling it remains the main task of the Federal Reserve.

- Economics are now forecasting anywhere from three to seven rate hikes for the year, with the potential of 0.5 percent increase in March.

- Recently, James Bullard, president of the Federal Reserve Bank of St. Louis, said “inflation is broadening and possibly accelerating." He called for a full percentage point increase in the Fed's key rate by July 1. That would mean rate hikes at the Fed's March, May, and June meetings, with one of those hikes amounting to a half-point.

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