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# INDUSTRIAL SECTOR COST REPORT

December 2021

## KEY COST INDEXES

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

Month	Asia/West Coast	Asia/East Coast	40' Containers
<b>Current</b>	<b>\$10,000/\$13,000</b>	<b>\$15,000/\$16,000</b>	<b>\$16,000/\$20,000</b>
November	\$10,000/\$13,000	\$13,000/\$15,000	\$16,000/\$20,000
October	\$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:

- Not much changed this past month. The average Asia/WC rates stayed flat while the Asia/EC rates moved slightly higher. Both routes remain elevated at 283% and 240% respectively YOY.
- Pricing for 40' containers from China to U.S. remained flat as well. Taiwan/EC rates are averaging between \$20,000-\$26,000 which is the same as last month.

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

Month	Van	Flatbed	Refrigerated
<b>Current</b>	<b>\$2.98</b>	<b>\$3.04</b>	<b>\$3.41</b>
November	\$2.92	\$3.03	\$3.44
October	\$2.85	\$3.07	\$3.26
September	\$2.82	\$3.07	\$3.23
August	\$2.75	\$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:

- Spot rates for all three equipment types combined are 16% (or \$0.44/mile) higher compared to this time last year.
- Around 25% of total freight volume is moving on the spot market, which is keeping spot rates 46% higher than the average rate during the four years prior to the pandemic.
- Fuel prices are currently 53% higher YOY.

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

Prices	% Higher	% Same	% Lower	Net	Index
<b>November</b>	<b>67.9</b>	<b>29.0</b>	<b>3.1</b>	<b>+64.8</b>	<b>82.4</b>
October	72.3	26.7	1.0	+71.3	85.7
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 November ISM® Prices Index registered 82.4 percent, a decrease of 3.3 percentage points compared to the October reading of 85.7 percent.
- Raw material prices have now increased for the 18th consecutive month. This is also the 15th month in a row that the index has been above 60 percent and the 12th straight month it has exceeded 70 percent.

### 4. U.S. Dollar - Against Other Currencies

Month	Chinese Yuan	Mexican Peso	Euro	Canadian Dollar
<b>Current</b>	<b>1 USD = 6.366</b>	<b>1 USD = 21.21</b>	<b>1 USD = 0.888</b>	<b>1 USD = 1.287</b>
November	1 USD = 6.382	1 USD = 20.54	1 USD = 0.873	1 USD = 1.252
October	1 USD = 6.397	1 USD = 20.44	1 USD = 0.858	1 USD = 1.235
September	1 USD = 6.464	1 USD = 20.51	1 USD = 0.863	1 USD = 1.274
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 2.53% in value from mid-December 2020.
- Mexican Peso - The U.S. dollar has appreciated 5.56% in value from mid-December 2020.
- Euro - The U.S. dollar has appreciated 7.21% in value from mid-December 2020.
- Canadian Dollar - The U.S. dollar has appreciated 0.15% in value from mid-December 2020.

## KEY UPDATES

- For the third month in a row, we will provide an update on the 9 crucial challenges we've identified impacting the world of industrial products.
  - This month we will also introduce a 10<sup>th</sup> challenge to our list, labor shortages.
1. *Global Power Crunch* - European countries from the Mediterranean Sea to the Arctic Circle are now facing the highest prices for gas and electricity in history, leading to economic damage and possible blackouts to homes and businesses this winter.
  2. *China Power Crunch* - Beijing's efforts to secure China's energy supply has achieved initial positive results. However, it is believed coal production must be ramped up to ensure power capacity ahead of the winter months.
  3. *Material Pricing* - Raw material prices have increased for the 18th consecutive month. This is putting pressure on producer prices in China and the U.S. which are likely to remain elevated in the short term due to higher energy costs, supply constraints, and material shortages.
  4. *Ocean Freight* - 2021 started with persistent rate hikes up to Chinese New Year (CNY), then declined for a short period, only to then rocket upwards over summer. Rates are now holding at historically high levels, and we are once again seeing signs that they could start to creep even higher as we head towards CNY 2022.
  5. *Port Congestions* - Experts believe the port congestion bottlenecks, will last late into 2022 and possibly 2023. COVID-19 has highlighted the need for the U.S. to upgrade its port infrastructure. The twin ports of L.A./Long Beach are set to become more automated like their global counterparts, which are twice as productive and more efficient at sorting containers.
  6. *Trucking Shortage* - In addition to the driver and equipment shortages that have battered the trucking industry this past year, a new issue has emerged. There are literally thousands of empty containers sitting on chassis that truckers can't access to move new imported goods. This is placing more strain on supply chains and increasing transportation prices.
  7. *U.S./China Relations (tariffs)* - The trade war started by the Trump administration is technically on pause. But the cycle of tariffs and counter-tariffs that began in 2018 has shown the world how interconnected the two countries' economies are and how vulnerable they remain if either side goes further to "decouple" them.
  8. *COVID-19* - Businesses of all kinds have been contending with pandemic-related setbacks for nearly two years, from supply-chain woes and labor shortages to higher costs and shifting government rules. The fast-spreading Omicron variant presents the latest test.

9. *2022 Beijing Olympics Preparations* - Authorities in China are set to close scores of factories in northern production hubs to cut pollution and ensure blue skies for the games. These restrictions on production are likely put further pressure on supply chains globally.
10. *Labor Shortages* – 2021 has been coined the year of the Great Resignation as businesses all over North America have reported workers quitting at record levels. And while many have termed it a labor shortage, others argue it's more of a wage shortage.

## INSIGHTS OF THE MONTH

- The U.S. manufacturing sector remains in a demand-driven, supply chain-constrained environment.
- All segments of the manufacturing economy are being impacted by record-long raw materials lead times, shortages of critical materials, and high commodity prices.
- Overland transport challenges and container shortages continue to persist across global supply chains, causing instability in many marketplaces.
- From the high seas and U.S. rail yards to the nation's highways and airports, inflation pressures from shipping costs continue to mount.
- The latest data on U.S. producer prices showed the costs of transportation and warehousing goods for final demand soared more than 18% in November from a year earlier. That's the largest annual advance in data dating back to 2009.
- Higher freight costs are feeding an inflation beast that's eating away a bigger share of consumers' incomes and raising costs for companies.
- The cost of moving freight across oceans in November was up almost 26% from a year ago, the biggest annual gain dating back to 1988.
- Truckstop.com's weekly measure of average equipment rates is up more than 18% in mid-December compared with the same period YOY. The group's index of market demand, which compares loads available to trucks available, is up 24.8% as well.
- The Port of Savannah and Norfolk Virginia, both set a new monthly container import processing records for November. While the ports of Vancouver (Canada) and L.A./Long Beach set records for the number of ships waiting at anchor.

Sincerely,  
The GCP Team

# ADDITIONAL INFORMATION

## GLOBAL POWER CRISIS

- Energy prices in Europe are repeatedly breaking records, this before the cold winter months really kick in.
- Price spikes in the U.K. over the last month forced some industrial companies to cut production and seek state aid, a sign for what could play out widely over Europe this winter.
- France, Europe's second biggest economy, is particularly at risk. Power prices are currently at their highest level since 2012.
- France is also a key exporter of electricity to neighboring countries, meaning the effects of a crisis there would reverberate in Germany, Spain, Italy, and Britain.
- The situation is already grim because of the blistering rally in natural gas prices. Stores of the fuel used to heat homes, businesses, factories and to generate electricity, are lower than usual and are being depleted quickly.
- If the weather gets abnormally cold in Europe for the months ahead, countries might have no choice but return to lockdowns to help curb power demands. Though there is a great reluctance for governments to do so.

## CHINA POWER CRUNCH

- The world's No 2 economy is slowly recovering from its most severe energy crunch in decades. It seems Beijing's intervention in September likely averted a large-scale energy shortage.
- After surging more than 40% in the fall, coal prices are now less than half of what they were during their peak, while stockpiles are also returning to healthier levels.
- With coal prices easing, most other commodity prices are stabilizing as well. However, they are doing so at relatively high levels, especially versus a year ago.
- The effects of the fall price surges are still rippling through the economy. Electricity prices and natural gas prices are near record highs. This is putting additional cost pressures on manufacturers which has a knock-on effect throughout supply chains.
- As we move into winter, rising demand could test energy supplies. Beijing officials have warned some supply shortfalls might be possible in the near term.

## MATERIAL PRICING

- Product pricing across industry remains volatile.
- The Institute for Supply (ISM®) Prices Index registered 82.4 percent, a decrease of 3.3 percentage points compared to the October reading of 85.7 percent.
- This means, raw material prices increased for the 18th consecutive month.
- In November all 18 industries reported paying increased prices for raw materials. This includes, Apparel, Leather & Allied Products; Nonmetallic Mineral Products; Textile Mills; Wood Products; Furniture & Related Products; Paper Products; Miscellaneous Manufacturing; Transportation Equipment; Primary Metals; Computer & Electronic Products; Petroleum & Coal Products; Food, Beverage & Tobacco Products; Electrical Equipment, Appliances & Components; Chemical Products; Machinery; Fabricated Metal Products; Printing & Related Support Activities; and **Plastics & Rubber Products**.
- The ISM also listed commodities in short supply, which includes, Aluminum; Aluminum Products; Corrugated Packaging (5); Electrical Components (14); Electronic Components (12); Fasteners; Freight (3); Glass Bottles; Hydraulic Components; Labor - Temporary (7); Magnesium; **Ocean Freight (8)**; **Ocean Freight Containers (2)**; Paper; Plastic Containers (3); Plastic Products (10); Plastic Resins - Other (9); Printed Circuit Board Assemblies (PCBAs) (4); Semiconductors (12); **Silicone**; Steel (12); and Steel Products (10).

*Note: The number of consecutive months the commodity has been listed in short supply is indicated in brackets after each item.*

## OCEAN FREIGHT

- Ocean rates on major Asia-North America trade lanes have stabilized, although still sitting at extremely elevated highs.
- Demand and congestion are the main drivers for the sustained sky-high rates. The National Retail Federation (NRF) estimates annual U.S. ocean imports will set a record in 2021, up more than 20% compared to 2019.
- No letup is expected: NRF expects December import volumes to be 30% higher than 2019 and just slightly lower than November 2021, which was one of the busiest months on record. January volumes are expected to increase ahead of the 2022 CNY.
- To make matters more complicated, shippers in Asia are getting squeezed by a shortage of empty containers. The port congestion issues in North America and Europe are leading to blank (canceled) sailings and the return of critical containers to Asia.
- As CNY draws closer the expectation is rates from Asia to North America will start to rise. This is due to continued elevated demand and a lack of available equipment to ship goods.

## PORT CONGESTIONS

- The Port of Savannah set a new monthly volume record for November, handling 495,750 twenty-foot equivalent units. This is a 6.7% increase from November 2020.
- The Port of Norfolk Virginia set a new monthly volume record for November, handling 290,759 twenty-foot equivalent units. This is a 4% increase from November 2020.
- In mid-December the Port of Vancouver hit a milestone as the number of ships waiting for a berth reached 60, despite the resumption of rail service.
- As of mid-December, 102 cargo vessels are anchored outside the L.A./Long Beach ports, which is up from 86 in mid-November, when a new ship queuing system was enacted.
- L.A./Long Beach port import volumes are on track in 2021 to reach 5.5 million twenty-foot equivalents (TEUs), topping the previous record.
- The port of Los Angeles logjam has been described as a game of whack-a-mole. Once they take care of one thing, three others pop up.
  - The average wait time at anchor is 20.7 days, which is staying near a peak of 20.9.
  - Rail dwell time has dropped to 11.5 days, down 2 days from its peak which was reached over the summer.
  - Dwell time for containers moving by truck is down to six days from 11, although officials say that needs to come down even further.
  - Street dwell time, the number of days it takes a truck chassis and container to leave the port and return, is now at an all-time high of 10 days.

## TRUCKING

- With the current focus on the tens of thousands of containers stuck on ships outside major U.S. ports, it's easy to forget a maxim of supply chain management: If it's not on wheels, it's not moving.
- Restrictions on empty-container returns at major ports is now one of the top issues that needs fixing to help ease U.S. supply chain bottlenecks.
- Equally important as the containers themselves, is the set of wheels, the chassis, that ferries them between modes and to final destinations. Chassis today are in seriously short supply.
- A significant number of chassis are stuck beneath containers, parked in port yards waiting for trucks to haul them away.

- According to port regulations, to pick up a container, a truck needs to bring an empty container to free up the loaded chassis. This is proving difficult as it is estimated there is over 115,000 empty containers sitting at L.A./Long Beach ports waiting to return to their point of origin.
- If a truck can't gain access to the property, it can't move an imported container. The empty-container restrictions/chassis restrictions are putting more strain on the supply chain.
- As a result of the congestion (and higher fuel costs), trucking rates were 38% higher YOY in November, accelerating from the 36% YOY increase in October.
- For the full year, rates in 2021 are trending up about 23% over 2020 and are pointing higher heading into 2022.

## **U.S./CHINA RELATIONS**

- No relationship is shaping the planet more. And no relationship touches on such a wide and consequential set of issues, with more tension and mistrust.
- The United States and China are profoundly at odds on how people and economies should be governed.
- The virtual summit in November between President Biden and China's top leader Xi, reiterated points of longstanding contention, and agreeing on the need to prevent competition from escalating into broader conflict.
- To that, the Phase One deal agreed upon in February 2020, is set to expire in this month which has led to further questions around the deal's future.
- Political minds believe opening the Phase One deal to re-adjustment and negotiations seems the most plausible option. The agreement has largely been a success despite not living up to its full terms.
- For the short term, it is also expected both the U.S. and China will continue to exempt certain goods and services from harmful tariffs on an ad hoc basis. As that continues, most hope diplomacy and negotiations remain the long-term goal.

## **COVID-19**

- On November 26, 2021, WHO declared Omicron a new SARS-CoV-2 variant of concern. The world's reaction has been an unpleasant mixture of dread, fatigue, and déjà vu.

- Omicron's accelerating spread has hampered operations for some companies and slowed sales at others, as workers fell sick, and co-workers/customers have become more cautious.
- Companies of all sizes are rethinking their plans to send workers back to the office as the new variant adds another layer of uncertainty. Some are delaying their return-to-office plans, while other businesses whose employees have already returned are considering adding extra precautions.
- Around Europe officials in the United Kingdom, Denmark, Norway, and Sweden have asked people in recent days to work from home if they can because of concerns about the variant.
- Here at home, some evidence suggests consumers are hunkering down again. Shoppers have been making fewer visits to physical stores in the weeks. Foot traffic to stores was 23% lower for the week ended Dec. 18, compared with the same week in 2019.
- Omicron is a sobering reminder that SARS-CoV-2 has the advantage of rapid mutation and can produce new variants faster than people, businesses and governments would like.

## **2022 BEIJING OLYMPICS**

- Efforts to reduce smog ahead of the games have extended shutdowns from 28 to 64 cities this winter. It covers five provinces, in addition to Beijing and Tianjin.
- The impacted area encompasses some of the country's most important industrial hubs, such as Tangshan, the world's biggest steel-producing city; Shanxi, the country's largest coal mining province; and major aluminum producing provinces Shandong and Henan.
- All 64 cities have specific air quality targets for high concentrations of harmful microscopic particles and an upper limit for the number of severe pollution days between October 2021 to March 2022.
- It is too early to quantify the total impact of production curbs, but its broad coverage means it will likely be significant.

## **LABOR SHORTAGES**

- Less than two years after 20 million people lost their jobs in one month, those same people are facing a job market that values them more highly than ever, with 57% more job openings than before the pandemic.
- Some are pointing to low wages as the reason why so many openings are left unfilled.
- An MIT and CNBC analysis found that businesses paying higher wages haven't struggled as much with labor shortages and understaffing.

- As a result, employers are now having to offer traditionally lower-paying occupations - janitors, bus drivers, factory workers, etc. salaries above minimum wage, as well as providing signing/referral bonuses to entire classes of workers.
- Of course, wages aren't the only reason. According to an Indeed survey of about 1,000 people who "voluntarily resigned from at least two jobs since March 2020," most of them (92%) said "the pandemic made them feel life is too short to stay in a job they weren't passionate about."
- This has left small to medium-size businesses hurting the most. The data from the Department of Labor shows that the Great Resignation is largely a small and medium-size business phenomenon, where quits have been concentrated.
- Experts believe the labor shortage is likely to persist through 2022. However, companies that can adapt to the new world, provide employees greater independence and transform their practices will fair better in the long run.

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