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INDUSTRIAL SECTOR COST REPORT

March 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**
February	$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:

- So far, ocean rates from Asia to the U.S. have not increased because of the war in Ukraine and the resulting boycott of Russian shipments by several carriers.
- There is some belief that inflation, the war, and oil prices could slow demand and begin to ease ocean volumes for the first time in nearly two years.
- Taiwan 40'/EC rates are holding firm at $23,000/$26,000 for the fifth consecutive month.

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

Month	Van	Flatbed	Refrigerated
Current	**$3.06**	**$3.29**	**$3.46**
February	$3.09	$3.17	$3.52
January	$3.10	$3.12	$3.59
2021 Average (May-Dec.)	$2.80	$3.08	$3.22

Notes:

- The four elements that affect the trucking market show inbound container shipments are up. Load volume is down, truck capacity is up, and fuel prices are up.
- U.S. regular fuel prices are averaging $4.31 /gallon, up 23.3% from last month.
- U.S. diesel fuel prices are averaging $5.13/gallon, up 31.4% from last month.

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

Month	Prices % Higher	Prices % Same	Prices % Lower	Net	Index
February	**56.2**	**38.8**	**5.0**	**+51.2**	**75.6**
January	58.7	34.8	6.5	+52.2	76.1
2021 Index Average May-Dec.					82.8

Notes:

- Raw materials prices have increased for the 21st consecutive month, although February's increase was at a slightly slower rate than January.

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

Prices Up		Prices Down
Adhesives and Paint (3)	**Ocean Freight (15)**	High Density Polyethylene (HDPE)
Aluminum (21)	Packaging Supplies (15)	Polypropylene
Aluminum Products (2)	**Pallets**	Steel* (4)
Cable Assemblies	Paper Products (2)	Steel - Cold Rolled
Copper (2)	Plastic Resins (2)	Steel - Hot Rolled (4)
Corn	Polyethylene	Steel Products* (2).
Corrugate	Resin Based Products (13)	
Corrugated Packaging (16)	**Rubber Based Products (7)**	
Crude Oil (2)	Semiconductors (13)	
Diesel Fuel (14)	Solvents	
Electrical Components (15)	Soy Based Products (2)	
Electronic Components (15)	Steel* (19)	
Food Oils	Steel - Stainless (16)	
Freight (16)	Steel Products* (18)	
Labor - Temporary (10)	Surfactants	
Lumber (3)	Zinc Compounds (2)	
Natural Gas (8)		

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 = 6.380**	**1 USD = 20.87**	**1 USD = 0.914**	**1 USD = 1.283**
February 28, 2022	1 USD = 6.310	1 USD = 20.45	1 USD = 0.891	1 USD = 1.274
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 appreciated 0.37% against the Yuan in 2022.
- Mexican Peso - The U.S. dollar has appreciated 2.05% against the Peso in 2022.
- Euro - The U.S. dollar has appreciated 3.86% against the Euro in 2022.
- Canadian Dollar - The U.S. dollar has appreciated 1.02% against the CAD in 2022.

KEY HEADLINES

1. *Material Pricing* - The highest reading of any ISM® index in February came from the Prices Index, though it fell slightly from the month before. *(More on pg. 5)*

2. *Ocean Freight Rates* - Current rates sit about 20% below their record highs set in September of last year, but China's worsening Covid outbreak could change that. *(More on pg. 5)*

3. *Trucking Costs* - Driver availability and chassis production are both improving while spot rates turn lower despite rising fuel prices. *(More on pg. 6)*

4. *Port Congestions* - Congestion at the ports of Los Angeles/Long Beach is down to less than half the record high of 109 ships that were waiting in early January 2022. *(More on pg. 7)*

5. *Labor Costs/Shortages* - Job openings remain near record highs as worker shortages persists, pointing to a tight labor market that continues to generate strong wage gain. *(More on pg. 7)*

6. *Energy Prices* - While wild swings have been experienced in many areas of the commodity market, one stands out above the rest: oil. *(More on pg. 8)*

7. *U.S./China Relations (tariffs)* - The U.S. is taking a holistic, and pragmatic approach to the relationship with China, grounded on a worker-centered trade policy. *(More on pg. 8)*

8. *COVID-19* - Tens of millions of people are living under lockdown in China, as the country battles its worst Covid outbreak since the early days of the pandemic. *(More on pg. 9)*

9. *Inflation* - High inflation isn't going away. In fact, prices are going up at their fastest rate since the early 1980s. *(More on pg. 10)*

INSIGHTS OF THE MONTH

- The industrial sector continued to expand in February, highlighted by strong demand from customers. According to the Institute for Supply Management (ISM®) 16 of 18 tracked industries reported growth.

- Industrial production increased 0.5% in February continuing its recovery, posting a second gain on the heels of January's increase which was the strongest in nearly a year. Last month's rise puts U.S. industrial production 2.3% above pre-pandemic levels.

- Staffing troubles remain a persistent issue for in the industrial industry with continuing higher-than-normal quits rate and early retirements.

- A new Covid variant has entered the mix in North America, nicknamed stealth Omicron (officially BA.2). Early research suggests that while BA.2 may be more transmissible, it's unclear if the strain causes a more severe infection in those who test positive.

- The latest ISM® Purchasing Managers Survey showed the average lead times for production materials, capital equipment and supplies all reached the highest points since 1987. What took 67days a year ago, now takes 97 days.

- The U.S. national average for a gallon of regular unleaded gas crossed $4 a gallon for the first time since 2008, according to AAA. Gas prices at the pump are at record highs.

- Data from last month showed China's Producer Price Index (PPI) increasing 8.8% year-over-year. Although down almost 1% from January's reading.

- The Labor Department reported U.S. PPI is up 0.3% in February and has gained 10% year-over year, the most since 2009.

- A decline in inflation does not equate to decline in prices. According to ITR Economics, prices will continue to rise throughout this year, just at a slower pace. Expect most prices to remain elevated throughout 2022.

- National Federation of Independent Business' (NFIB's) February survey of small businesses stated that inflation was the most pressing business problem. Owners are responding by passing costs along to consumers through raising prices.

- Ensure you are maximizing your margins. "Profitless prosperity," wherein your top-line expands with inflation but your bottom-line shrinks, will be a real pitfall moving forward.

Sincerely,
The GCP Team

ADDITIONAL INFORMATION

MATERIAL PRICING

- The ISM® Pricing Index fell slightly in February to 75.6. While this is considerably slower than the peak reading of 92.1 in June, it still signals rapid increase in prices from a historical perspective.

- This is now the 18th month in a row with the index reading above 60 percent. An index reading above 52.6 percent, over time, is generally consistent with an increase in producer prices for intermediate materials.

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

- We have started to hear the potential for cost increases due to rising oil prices, specifically with SBR and fabric costs. If that takes place, it will likely spill over to other materials as well.

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

- No industry reported paying decreased prices for raw materials.

- The ISM also listed commodities in short supply, which includes - Aluminum (4); Corrugate (2); Electrical Components (17); Electronic Components (15); Food Oils; Temporary Labor (10); Plastic Resins (12); Printed Circuit Board Assemblies (2); **Rubber Compounds**; **Rubber Based Products**; Semiconductors (15); Specialty Chemicals; and Steel.
  Note: The number of consecutive months the commodity has been listed in short supply is indicated in brackets after each item.

OCEAN FREIGHT

- 2021 brought historical swings in demand rocking global supply chains and boosting container shipping rates to all-time highs.

- This year, war has returned to Europe and further reduced any remaining slack in the global trading system. Or so we thought. Recent Covid outbreaks in China export hubs are adding unwanted pressure. *(Jump to page 9 to read specifically about the covid situation in China.)*

- The good news, so far, all major ports have remained open, and carriers have yet to cancel port calls. The degree to which ocean logistics and prices will be impacted depends on how long restrictions and lockdowns lasts.

- If the ports stay open, the lull in manufacturing (and available trucking) could be an opportunity to clear some of China's export backlog.

- If some of the ports close, U.S. destinations could experience a welcome lull of arrivals in the coming weeks, followed by an unwelcome surge as pent-up demand is rushed out.

- For comparison, the Covid outbreak at the port of Yantian last May saw operations decrease by about 75%. It took around three weeks to recover, causing average Asia to the U.S. ocean rates to increase by more than 25% due to congestion backlogs.

- Average rates from Asia to the U.S. West Coast are already 86% higher than they were after the May China Covid outbreak increase of 2021.

- The latest indicators suggest transpacific demand will remain strong, with current rates 20% below the records highs of September 2021. So, depending on the extent of the current disruption, it could send prices up, though perhaps not to the same degree as last spring or fall.

TRUCKING

- The average rate per shipment accelerated 37% year-over-year in February. The increase was mainly due to the Omicron-related effects on capacity.

- Class 8 (capable of carrying 33,000 lbs. and above) tractor capacity remains tight and a worsening chip shortage due to the Russia/Ukraine war could hit vehicle production.

- On the positive side, there are tangible signs of driver availability improving, which could begin to bring down rates in the near-term.

- Chassis production is also improving enough to turn the direction of the chassis fleet from contraction to slight growth. Although still far from what is needed, it is moving in the right direction.

- The dry van spot market is also cooling as load post volumes drop for the fourth week in a row. Early March's volumes were 17% below this time a year ago.

- Dry van capacity is loosening as well. March is showing a load-to-truck (LTR) ratio decreasing by 10% to 5.88 loads per truck, which is about where it was last year.

- March has also shown signs of lower spot rates despite the large increase in fuel prices.

PORT CONGESTIONS

- As of mid-March, congestion at the twin ports of Los Angeles/Long Beach is down to 43 ships. That is less than half the record high of 109 ships recorded on Jan. 9, 2022.

- The main problem at Los Angeles/Long Beach is not a lack of labor, but limited capacity at warehouses, which means containers cannot be delivered in a timely manner.

- As a result of the recent backlogs in Southern California volume has switched to other North American destinations like Vancouver, British Columbia, as well as U.S. East Coast ports.

- Vessel-positioning data from MarineTraffic shows that as of mid-March, 11 container ships were waiting off New York/New Jersey; one off Philadelphia; 11 off Virginia; two off Savannah, Georgia; 24 off Charleston, South Carolina; one off Mobile, Alabama; 11 off Houston; one off Seattle/Tacoma; 14 off Oakland, California; and 19 off Vancouver.

- Add that to the Los Angeles/Long Beach queue and there are still over 140 container ships off North American ports.

- On the positive side, U.S. import demand appears to have at least temporarily slackened in 2022, beyond the normal post Lunar New Year lull.

- Going forward, inflation could also be a demand headwind. Americans are no longer being juiced by government stimulus and inflation has risen sharply which could deter business and consumer spending.

LABOR COSTS/SHORTAGES

- NFIB's recent survey showed 48% of business owners reported job openings they could not fill in the current period, up 1% from January.

- The number of unfilled job openings remains far above the 48-year historical average of 23%.

- 93% of owners hiring or trying to hire reported few or no qualified applicants for their open positions, same as January.

- 45% of businesses reported raising compensation, another 26% said they plan to raise compensation in the next three months. Both figures are historically high but off all-time highs.

- The labor shortage will remain a challenge for the foreseeable future. While employment numbers are rising, job openings are rising faster. There are 11.3 million jobs opening in the U.S. which is slightly down from record highs but still 55% higher year-over-year.

ENERGY PRICES

- To say things are volatile is an understatement. While the swings were seen in many commodity areas of the market, one stands out above the rest: oil.

- After surging over $120 a barrel early March, West Texas Intermediate crude (WTI) dropped to under $100, entering a bear market just five days after settling near 14-year highs.

- A few reasons came to light as to why this reversal took place:

    - A hit to demand due to the strict restrictions in China, where millions of people are now under lockdown as coronavirus cases climb day over day.

    - There are reports that the U.S. could lift sanctions on Venezuelan oil.

    - Perhaps the largest reason was initial reports that said Russia and Ukraine have made "significant progress" on a peace plan and Russian withdrawal.

- However, that was last week. This week, oil prices are rising again as the war in Ukraine approaches the end of its first month with no conclusion in sight. WTI crude climbed as much as 5% to over $108 a barrel. So long as oil continues to climb, we can expect the implementation of fuel surcharges from trucking, ocean, and air freight companies.

- Elsewhere, European natural gas prices continue to drop. They've now decreased over 50% from their early March highs, as Qatar agreed to work on supplying Germany with LNG.

- The EU is also considering whether to impose an oil embargo on Russia, which in doing so would likely prompt Moscow to cut LNG supply to Europe. This would have a significant impact on costs and supply as 40% of Europe's natural gas comes from Russia.

U.S./CHINA RELATIONS

- In President Joe Biden's State of the Union address he said the U.S. needs to be positioned to win the economic competition of the 21st century, particularly against China.

- A few hours before Biden's address, U.S. Trade Representative Katherine Tai released Trade Policy Agenda for this year and her office's 2021 annual report to Congress. In it she notes:

    - The U.S.–China economic and trade relationship is one of profound consequence. As the two largest economies in the world, the bilateral relationship affects not just the two participants, but the entire globe.

    - The relationship with China is complex and competitive. With respect to trade, competition must be fair.

- The U.S.'s approach to China is and will continue to be deliberative, with a focus on the long term.

- Her team promises to work with lawmakers to evaluate the efficacy of current trade tools and identify areas where new tools may be needed.

- They remain mindful of the effects trade actions can have on American businesses.

- The USTR has restarted a targeted tariff exclusions process to ensure U.S. economic interests are being served, and we will keep open the option of further tariff exclusions as warranted.

- The Biden Administration understands that durable coexistence between the U.S. and China requires engagement as well as accountability.

- Tariffs on $370 billion dollars on goods remain in place, as trade between the two nations is as robust as ever.

COVID-19

- North America and other western countries have seen their case counts from the Omicron wave collapse over the past several weeks, and it now looks like the worst of this wave of the virus is behind us. As a result, restrictions are starting to be removed at a rapid rate.

- However, in China they are suffering their worst outbreak since the pandemic began.

- China has pursued a "zero-COVID" strategy, imposing strict lockdowns and containment measures to prevent viral transmission among its population. Now, with a growing wave of cases the government has signed for the first time it is willing to make policy adjustments.

- President Xi stated they are striving to minimize the impact of the epidemic on economic and social development.

- Millions of people are still under restrictions and lockdowns around the country. International passenger flights have also been canceled for the next six weeks, which will impact cargo flows and rates.

- China is seeking to keep ports running during this time by requiring port workers to live at the docks.

- As of now, all GCP partner manufacturing facilities remain open and continue to produce materials. However, our China team is unable to travel for order inspections.

- We remain in contact with our partners and will update you if/when the situation changes.

INFLATION

- Prices rose 7.9% in February compared to the year prior, according to the most recent Consumer Price Index (CPI) report. This is the biggest annualized growth in CPI inflation since January 1982.

- The inflation numbers from February were broad based. Even when stripping out the typically volatile energy and food components, "core" prices still rose 0.5% for the month and are also at a multi-decade high.

- Energy prices increased 3.5% last month and going forward we can expect energy to be a massive contributor for March inflation number given the recent spike in oil prices.

- As we entered 2022 politicians and economists have tried to blame inflation on anything but excess money growth. It's been everything from greedy companies to higher government spending, bigger budget deficits, de-globalization and now Putin.

- There's no question the Russia-Ukraine war has caused a spike in prices for oil and other commodities. However, high inflation was around before the war.

- Ultimately, it's the increase in the money supply that's responsible for inflation.

- It doesn't matter whether government spending is high or low, or if free trade is growing or shrinking; inflation is based on decisions made by central banks.

- If the money supply grows too fast, you get more inflation; if the money supply grows too slowly or shrinks, you get deflation. If the central bank does its job right, you get stable prices.

- Currently the money supply is still growing rapidly, and the Fed just implemented its first rate hike (0.25%) since December 2018. Many feel the Fed is well behind the curve, but Fed officials believe they can still engineer a soft landing for the economy. Time will tell.

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