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INDUSTRIAL SECTOR COST REPORT

April 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	**$12,000/$15,000**	**$14,000/$17,000**	**$18,000/$20,000**
March	$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:
- With capacity still in place and available exports dwindling, ocean rates out of China have fallen moderately since the start of the lockdowns.
- Taiwan 40'/EC rates are down slightly from previous months holding around $21,000/$23,000 USD per container.

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

Month	Van	Flatbed	Refrigerated
Current	**$2.86**	**$3.44**	**$3.21**
March	$3.02	$3.39	$3.40
February	$3.09	$3.18	$3.52
January	$3.10	$3.13	$3.59
2021 Average (May-Dec.)	$2.80	$3.08	$3.22

Notes:
- U.S. regular fuel prices are averaging $4.120 /gallon, down 2.8% vs last month, up 42.8% year-over-year.
- Average U.S. diesel fuel prices are $5.069/gallon, down 0.57% vs last month, up 64.5% year-over-year.

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

Month	Prices % Higher	Prices % Same	Prices % Lower	Net	Index
March	**75.1**	**24.0**	**0.9**	**+74.2**	**87.1**
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 22 consecutive months.

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

Prices Up		Prices Down
Adhesives and Paint (4) Aluminum (22) Aluminum Products (3) Brass Cable Assemblies (2) Caustic Soda Copper (3) Copper Products Corrugate (2) Corrugated Packaging (17) Crude Oil (3) Diesel Fuel (15) Electrical Components (16) Electronic Components (16) Energy Fasteners **Freight (17)** Hydraulic Components Labor - Temporary (11) Logistics Services Lubricants Lumber (4) Natural Gas (9)	Nickel Packaging Supplies (16) **Pallets (2)** Paper Paper Products (3) Pigments Plastic Resins (3) Plywood Polypropylene Precious Metals **Rubber** **Rubber Based Products (8)** Semiconductors (14) Solvents (2) Soy Based Products (3) Steel* (20) Steel - Hot Rolled Steel - Scrap Steel - Stainless (17) Steel Products* (19) Titanium Zinc Compounds (3)	Steel* (5)

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 = 6.372**	**1 USD = 19.85**	**1 USD = 0.926**	**1 USD = 1.256**
March 31, 2022	1 USD = 6.342	1 USD = 19.90	1 USD = 0.901	1 USD = 1.252
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 0.25% against the Yuan in 2022.
- Mexican Peso - The U.S. dollar has depreciated 2.93% against the Peso in 2022.
- Euro - The U.S. dollar has appreciated 5.22% against the Euro in 2022.
- Canadian Dollar - The U.S. dollar has depreciated 1.10% against the CAD in 2022.

KEY HEADLINES

1. *Raw Material Pricing* - March brought an 11.5% rise in material prices which is the largest month-over-month increase since December 2020. *(More on pg. 5)*

2. *Ocean Freight Rates* - Ocean rates from Asia to the U.S. are only down marginally since the COVID-19 lockdowns began in China. *(More on pg. 5)*

3. *Trucking Costs* - Three of the four elements that affect the trucking market have turned in a positive direction, causing rates to drop in most regions. *(More on pg. 6)*

4. *Port Congestions* - Cargo backlogs in Shanghai and other Chinese ports are a precursor to additional port bottlenecks that might be coming as COVID lockdowns drag on. *(More on pg. 7)*

5. *Labor Costs/Shortages* - A recent business conditions survey found 70% of those polled boosted salaries this year, up from 60% in the fourth quarter of 2021. *(More on pg. 7)*

6. *Energy Prices* - From geopolitical to demand to production there are significant sources of uncertainty continuing to impact the energy market and weigh on prices. (*More on pg. 8)*

7. *U.S./China Relations (tariffs)* - The U.S. is seeking to realign its commercial ties with China rather than seek a “divorce” between the largest economies. *(More on pg. 8)*

8. *COVID-19* - China’s zero-Covid policy and resulting lockdowns have pressured everything from manufacturing and trade to inflation and civil unrest. *(More on pg. 9)*

9. *Inflation* - At long last, observers across the political spectrum agree on one thing - that the Fed is well behind the inflation curve and have a lot of catching up to do. *(More on pg. 10)*

10. *War in Ukraine* - The war has made an already dire situation worse. Price and supply shocks are creating more risks and have lowered global trade growth. *(More on pg. 10)*

INSIGHTS OF THE MONTH

- The most recent The National Federation of Independent Business (NFIB) survey stated that 72% of small business owners said they raised prices last month. A further 51% of owners plan to raise prices soon.

- U.S. Industrial production increased 0.9% in March as activity continued its V-shaped recovery, rising for the third month in a row. Moreover, the gains in March were broad-based, with every major category posting gains.

- Business inventories remain lean, order backlogs are elevated, and demand continues to outstrip supply. Industrial production is now 3.5% above pre-pandemic levels.

- Ongoing issues with supply chains and labor shortages are hampering a more robust rise in industrial activity. Job openings in the manufacturing sector are currently more than double pre-pandemic levels.

- The U.S. Producer Price Index (PPI) rose 1.4% in March, coming in above the consensus expected of +1.1%. Producer prices are now up 11.2% versus a year ago.

- In a recent Texas manufacturing survey conducted by the Dallas Fed, respondents from the plastics and rubber industry noted, "The supply chain is in chaos right now. Everything is continually increasing. Suppliers struggle to get material from their suppliers. They struggle to get the personnel necessary to run production. Something has to give. These continual increases, which are almost monthly, are not sustainable."

- The U.S. economy is a battle between forces boosting growth and forces dragging it down. What's supporting growth? One, continued re-opening from COVID-19. Two, loose monetary policy. Three, tax rates remain relatively low.

- In Bloomberg's latest monthly survey of economists, 27.5% said there was a chance of a recession in the next year, up from 20% in March.

- Some food for thought. In the U.S., inflation has never topped 4%, and unemployment dipped below 4% without sparking a recession in the following 24 months. Current Inflation is running at 8.5% and the unemployment rate is 3.6%.

Sincerely,
The GCP Team

ADDITIONAL INFORMATION

RAW MATERIAL PRICING

- The ISM® Pricing Index registered 87.1%, up 11.5-points compared to the February reading of 75.6%. This is the biggest month-over-month increase since a 12.2-point gain (to 77.6%) in December 2020.

- The Pricing Index has now exceeded 70 percent in 15 out of the last 16 months.

- The index has been above 60% for 19 months in a row. An index reading above 52.6%, 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.

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

- The ISM also listed commodities in short supply, which includes: Aluminum (5); Aluminum Products; Cable Assemblies; Caustic Soda; Electrical Components (18); Electronic Components (16); Fabricated Metal Products; Food Oils (2); Freight; Labor - Temporary (11); Lumber; Nickel; Ocean Freight; Packaging Materials; Plastic Resins (13); Power Supplies; Printed Circuit Board Assemblies (3); Programmable Logic Controllers; Resin Based Products; **Rubber Based Products (2)**; Semiconductors (16); Steel (2); Steel - Stainless; and Wire - Copper.
  Note: The number of consecutive months the commodity has been listed in short supply is indicated in brackets after each item.

OCEAN FREIGHT

- After a year in which freight rates continued to set new highs, rates have started to decline (slightly) as we enter Q2 2022.

- Export volumes from China have dropped significantly since the start of their lockdowns. As of mid-April, exports have declined by more than 31%.

- With the lull in volumes out of China, the rates have followed suit, dropping 5% over recent weeks. However, this expected to be followed by a surge in pent up demand, which could translate to higher rates once China reopens.

- Asia-U.S. West Coast prices are still 160% higher than the same time last year. While Asia-U.S. East Coast rates are 175% higher year-over-year.

- It takes an average of 111 days for goods to reach a warehouse in the U.S. from factories in Asia, the longest travel time since mid-February and more than double the time it took in 2019.

TRUCKING

- The slowdown in imported volume is having an impact on the U.S. freight market as less volume of cargo is entering trucking and intermodal networks.

- Cass Information Systems has released their latest Transportation Index Report. It shows freight volumes slowed in March with just 0.6% year-over-year growth, compared to 3.6% in February.

- Current national load-to-truck ratio which represents the number of loads posted for every truck available is 3.03. This represents a decrease of 35% from March's 4.72 ratio.

- National average van rates are currently $2.87 per mile, a $.16 decrease from March's average. The highest rates are in the Midwest at $3.21 per mile. The lowest average van rates are in the West at $2.77 per mile.

- National average flatbed rates are currently $3.44 per mile, $.05 higher than March's average. Again, the Midwest owns the highest average flatbed rates at $3.79 per mile while the lowest rates are in the West at $2.99 per mile.

- Three of the four elements that affect the trucking market are pointing in a positive direction. Inbound container shipments are down. Load post volume is down, and truck capacity is up. On the flip side, fuel prices remain near all-time highs.

PORT CONGESTIONS

- U.S. ports are bracing for another surge in supply-chain backlogs. There's been a lull in trade flows since China has lockdown major trade hub cities, including Shanghai and Shenzhen, in an attempt to curb their latest wave of COVID-19 cases.

- Currently there are roughly 45 container ships are waiting off the coast of southern California, which is down considerably from the more than 100 during the height of the backlog.

- However, in China there are over 475 bulk cargo or container waiting at Shanghai's combined anchorage with Ningbo. There are hundreds more at various other Chinese ports.

- A shortage of port workers and internal trucking restrictions are slowing Chinese ports abilities to load and unload cargo causing major buildups.

- The reality of the situation is that shipping systems are overwhelmed, and the problems are far reaching across the entire logistics network. From workers to trucks to warehousing, no matter the county, cargo is continuing to pileup at the terminals around the world.

LABOR COSTS/SHORTAGES

- A National Association for Business Economics (NABE) survey found 70% of those polled boosted salaries this year, up from 60% in the fourth quarter of 2021. The most in the 40-year history of the survey.

- According to the NFIB 47% of small business owners had job openings they couldn't fill in March. 22% said that labor quality was their second biggest business problem after inflation.

- Among small businesses the number of unfilled job openings remains far above the 48-year historical average of 23%. The difficulty in filling open positions is particularly acute in the transportation and manufacturing sectors where many positions require skilled workers.

- 92% percent of businesses trying to hire reported they had few or no qualified applicants for the positions they were trying to fill.

- On the positive side, owner's plans to fill open positions remain high. The persistence of record levels of unfilled openings indicates that owners are still seeing opportunities to grow their businesses despite the lack of labor and rising cost challenges.

ENERGY PRICES

- The short-term energy outlook remains extremely uncertain resulting from a variety of factors, including Russia's continuing invasion of Ukraine and China's continued COVID-19 lockdowns.

- The Brent crude oil price averaged $117 per barrel (b) in March, which was a $20/b increase from February. It is now fluctuating between $100-$105 with an expected price average of average $108/b for Q2 2022.

- In March, the Henry Hub natural gas price averaged $4.90 per million British thermal units (MMBtu), which was up from the February's average of $4.69/MMBtu. Pricing touches as high as $7.80 but has since dropped to under $7. The expected average for prices in Q2 2022 is $5.68/MMBtu.

- Natural gas prices in Europe remain 300% higher year-over-year because of Europe's increased demand for LNG amid supply uncertainties due to Russia's invasion of Ukraine.

- The longer energy prices stay high, the greater the economic consequences are likely to be. With high energy costs, all forms of transportation (shipping, trucking, airlines) become more expensive as well as the cost of production which leads to more expenses being passed on to end users.

U.S./CHINA RELATIONS

- Asked whether U.S.-China tensions could lead to complete decoupling, U.S. trade chief Katherine Tai said the administration's policy was instead focused on "realigning its commercial ties with China rather than seek a divorce."

- This comes on the heels of a U.S. federal trade court ruling last week that said the Trump administration failed to adequately justify its decision to expand tariffs on billions of dollars' worth of Chinese goods. Now the Biden administration must present a fuller explanation to keep them.

- U.S. lawmakers have also criticized the Katherine Tai's office for failing to include negotiations on lowering tariffs (a traditional goal of trade deals) in its recently released policy agenda and four-year strategic plan.

- The administration has made clear it is willing to enter into trade agreements with the Chinese government to limit anticompetitive trade practices, but it is also willing to defend the current Section 301 actions and implement new actions, including tariffs, if necessary.

- Next up, Tai's office is now facing a review of the first group of tariffs on more than $300 billion in Chinese imports.

COVID-19

- The prospect of even more lockdowns isn't welcome news for anyone relying on the world's second largest economy. Especially because Chinese policy makers seem hamstrung in their ability to contain the outbreaks.

- There are also few signs that China is thinking of relaxing its zero-Covid policy, nor rolling out the type of expansive stimulus that could ease the economic pain.

- The zero-Covid policy is intended to eradicate any trace of the virus in the community, but instead all it seems to have done is heap pressure on everything from manufacturing and trade to inflation to civil unrest.

- A study by Gavekal Dragonomics found that 87 of China's 100 largest cities by GDP have imposed some form of quarantine curbs.

- This includes dozens of cities along the 1,300 miles of highway between the capital, Beijing, and the southern province of Guangdong. Imposed travel restrictions along this main freight route, has caused many truckers to be grounded and cargo prices to rise by 20% in a matter of weeks.

- For GCP's part, all our factory partners are located outside the hardest hit locked down areas. Our production output has not been impacted and we are working with our freight partners to move shipments to ports with the least resistance.

INFLATION

- It simply doesn't matter how you cut it, or which inflation gauge you prefer, they all show inflation running far above the Fed's target.

- Consumer prices are up 8.5% from a year ago, the largest increase since 1981. And while the Fed is talking tough and started rising rates by 0.25% in March, monetary policy remains very loose.

- Chairman Powell has hinted recently at raising the target by 50 basis points (a half percentage point) in early May. The market also expects another 50 bp in June and another 100 bp or more, combined, during the four meetings in the second half of the year.

- The real source of the problem is money supply. The M2 has soared, growing at an 18.7% annual rate in the last two years.

- As short-term interest rates go up, so too will the amount the Fed pays the banks in interest on the excess reserves it has created. This is why most are skeptical the Fed won't act as aggressive as needed and why monetary policy is likely to stay loose.

WAR IN UKRAINE

Human Impact

- As Ukraine faces an uncertain future amid the ongoing invasion by Russia, we would be remiss if we made note of the economic impact being felt by the war with no mention of the immense human tragedy taking place.
  - There are 15.7 million people (36% of pre-war population) in need. Six million people are without certain access to water and sanitation.

- At least 136 hospitals have been targeted in fighting, and on average 22 schools a day have been attacked.
- At least 5.1 million refugees have fled Ukraine since Feb. 24, according to the United Nations High Commissioner for Refugees (UNHCR).
- The Office of the United Nations High Commissioner for Human Rights (OHCHR) has reported 5,264 civilian casualties in the country, including 2,345 killed and 2,919 injured. OHCHR said the actual figures are considerably higher.
- GCP has chosen to donate to the Canadian Red Cross in order to aid the humanitarian effort. This terrible war has caused enormous suffering and has forever altered the lives of millions of people.

Economic Impact

- The World Bank is slashing its global growth forecast for 2022 by nearly a full percentage point to 3.2%, down from 4.1% due to the impact of Russia's invasion of Ukraine.

- Higher food and fuel prices were major factors for the slowdown in growth, as well as the sweeping sanctions the U.S., its allies have already imposed on Russia.

- IMF Chief Economist Pierre-Olivier Gourinchas explained the war is adding to a series of supply shocks the global economy has dealt with in recent years, and "like seismic waves, its effects will propagate far and wide," impacting commodity markets, trade, and financial linkages.

- Gourinchas also noted that just as a durable recovery from the COVID-19 pandemic was in sight, the invasion occurred, potentially erasing recent gains. He called for "commensurate and concerted" policy actions by world leaders to prevent even worse outcomes and improve the economic outlook.

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