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INDUSTRIAL SECTOR COST REPORT

May 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**
April	$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:
- After an initial drop, ocean freights rates out of China have largely held steady since the start of the lockdowns in early April.
- Taiwan 40'/EC rates remain unchanged 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	**$2.70**	**$3.43**	**$3.04**
April	$2.79	$3.41	$3.15
March	$3.02	$3.40	$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:
- The combination of inflation, China lockdowns, war in Europe, and substitution back to services from goods are all leading to a downshift in the freight cycle. This is largely resulting in lower truckload rates around North America, despite the high cost of fuel.

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

Month	Prices % Higher	Prices % Same	Prices % Lower	Net	Index
April	**73.5**	**22.1**	**4.4**	**+69.1**	**84.6**
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 23 consecutive months.

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

Prices Up		Prices Down
Adhesives and Paint (4)	Natural Gas* (10)	Natural Gas*
Aluminum (23)	Nickel (2)	
Aluminum Products (4)	Packaging Supplies (17)	
Brass (2)	Paper (2)	
Caustic Soda (2)	Plastic Resins (4)	
Copper (4)	Plywood (2)	
Corrugate (3)	Polypropylene (2)	
Corrugated Packaging (18)	Polyvinyl Chloride (PVC)	
Diesel Fuel (16)	Resin Based Products	
Electrical Components (17)	**Rubber Based Products (9)**	
Electronic Components (17)	Solvents (3)	
Energy (2)	Soy Based Products (4)	
Epoxy	Steel (21)	
Freight (18)	Steel - Cold Rolled	
High-Density Polyethylene (HDPE)	Steel - Hot Rolled (2)	
Hydraulic Components (2)	Steel - Stainless (18)	
Labor - Temporary (12)	Steel Products (20)	
Lumber (5)	Titanium Dioxide	

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 = 6.792**	**1 USD = 20.08**	**1 USD = 0.960**	**1 USD = 1.293**

April 29, 2022	1 USD = 6.588	1 USD = 20.32	1 USD = 0.949	1 USD = 1.274
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 6.85% against the Yuan in 2022.
- Mexican Peso - The U.S. dollar has depreciated 1.80% against the Peso in 2022.
- Euro - The U.S. dollar has appreciated 9.09% against the Euro in 2022.
- Canadian Dollar - The U.S. dollar has appreciated 1.57% against the CAD in 2022.

KEY HEADLINES

1. *Raw Material Pricing* - Price increases continue to be passed on to customers based on costs of raw materials, logistics and labor to produce products. *(More on pg. 5)*

2. *Ocean Freight Rates* - Ocean carriers have been trying to keep their profitability high by implementing a considerable number of blank sailings. *(More on pg. 5)*

3. *Trucking Costs* - Diesel tops gas prices by the widest margin on record which is bad news for end user consumers. *(More on pg. 6)*

4. *Port Congestions* - There are no signs of an imminent slowdown in demand judging by the number of ships/containers coming through the twin ports of L.A./Long Beach. *(More on pg. 6)*

5. *Labor Costs/Shortages* - The U.S. set a record for job openings in March, and the number of those who quit their jobs also reached an all-time high. *(More on pg. 7)*

6. *Energy Prices* - As the Federal Reserve is trying to deal with rising inflation, soaring energy prices continue to create problems. (*More on pg. 7)*

7. *U.S./China Relations (tariffs)* - President Biden is considering dropping tariffs imposed on Chinese goods to help fight inflation. *(More on pg. 8)*

8. *COVID-19* - The economic fallout from China's Covid-19 lockdowns is widening both at home and abroad. *(More on pg. 8)*

9. *Inflation* - "Transitory" is out, "expeditious" is in. *(More on pg. 9)*

10. *War in Ukraine* - As the war drags on in Ukraine, western nations are looking to add to their sanctions roster, which had started to dry up in recent weeks. *(More on pg. 10)*

INSIGHTS OF THE MONTH

- The last of the G7 nations has committed to phase out imports of Russian oil as Japan ramps up the pressure on Vladimir Putin.

- U.S. retail gasoline and diesel prices hit another record just ahead of the summer driving season. It now costs an average of $4.56 a gallon to fill up on gasoline and $5.57 for diesel. The increase adds to inflationary pressures and comes as OPEC kingpins sounds the alarm on dwindling global energy capacity.

- Labor negotiations at 29 west coast ports (22,000 dockworkers) started mid-May. Both sides are saying they want to avoid further upheaval in supply chains. The dockworkers current contract expires on July 1.

- The manufacturing sector continues to be one of the worst-hit sectors in the ongoing labor shortage. The good news, job openings are down over 100,000 from the peak. The bad news, they are still twice what they were pre-pandemic.

- Figures from the latest IMS® report showed it is taking producers an average of 100 days to receive production materials, the longest on record dating back to 1987.

- Industrial activity continued its recovery in April, rising for the fourth month in a row. Looking at the details, manufacturing output was the main contributor to the increase, rising 0.8%.

- The U.S. Producer Price Index (PPI) rose 0.5% in April, matching consensus expectations. Producer prices are up 11.0% versus a year ago.

- In the past year, U.S. prices for goods are up 16.3%, while prices for services have risen 8.1%. Prices for intermediate processed goods rose 2.2% in April and are up 21.9% versus a year ago. Prices for intermediate unprocessed goods increased 5.3% in April and are up 48.1% versus a year ago.

- Inflation pressures receded slightly, but that doesn't mean a return to 2% inflation is on the horizon. Inflation continues to run at the highest pace in decades. This is what happens when you add money to the system at a faster pace than you can grow output.

- The consensus among economists puts the odds of a recession starting sometime in the next year at 30%, according to Bloomberg's most recent survey. But 70% believe the near-term pessimism is overdone. Yes, a recession is likely on the way, but it probably has about two more years before it arrives.

Sincerely,
The GCP Team

ADDITIONAL INFORMATION

RAW MATERIAL PRICING

- The ISM® Pricing Index registered 84.6%, down 2.5 points compared to March's reading of 87.1%.

- The Pricing Index has now exceeded 70 percent in 16 out of the last 17 months.

- The index has been above 60% for 20 months in a row. An index reading above 52.6%, over time, is generally consistent with an increase in producer prices for intermediate materials.

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

- The ISM also listed commodities in short supply, which includes - Aluminum (6); Cable Assemblies (2); Caustic Soda (2); Corrugated Boxes; Electrical Components (19); Electronic Components (17); Freight (2); Hydraulic Valves; Labor - Temporary (12); Nylon; Paper; Resin Based Products (2); Semiconductors (17); Soy Based Products; Steel (3); Steel - Stainless (2); Steel Products; and Steel Wire Products.
  Note: The number of consecutive months the commodity has been listed in short supply is indicated in brackets after each item.

- Rubber business is still very robust. Material price increases continue to be passed on to customers based on costs of raw materials, logistics and labor to produce products.

OCEAN FREIGHT

- Lockdowns in Shanghai has sent export volumes plummeting. In response to lowered demand for freight, ocean carriers have continued to cancel a significant number of sailings out of Asia.

- Major ocean carriers have announced additional cancellations totaling more than a third of the scheduled sailings out of Asia through early June.

- Between weeks 17 to 23, The Alliance will blank 33% of its scheduled sailings from Asia, the Ocean Alliance will void 37%, while the 2M alliance of MSC and Maersk will cancel 39% of its voyages.

- The Asia/U.S. west coast route has seen the highest number of blank sailings over the past five weeks both in absolute volume and as a share of offered capacity. Between April 4 and May 8, 63 sailings were blanked, removing a total of 517,300 twenty-foot equivalent units (TEUs), 25% of the initial capacity offering.

- Despite the canceled sailings average Asia/U.S. west coast ocean freight rates have fallen roughly 20% since the start of the Shanghai lockdowns. While Asia/U.S. east coast costs have decreased 9%.

- Although many believe the lower rates will be short lived. Observers are anticipating that once the China lockdowns end, the reopening will release the floodgates of pent-up demand, renewing upward pressure on rates.

TRUCKING

- Diesel prices are outstripping consumer gas prices by record margins, and what's bad for truckers is bad for everyone else.

- Rising diesel costs bring higher shipping costs, which brings rising product costs. All those extra expenses are typically passed on to end user consumers.

- In mid-May, the average price of diesel hit $5.577, while consumer gas prices were over a dollar cheaper at$4.567. That marks the largest difference in diesel vs. gas prices since 2005.

- The trouble began well before the war in Ukraine. Diesel refining capacity has shrunk in both the U.S. and Europe due to pandemic closures and permanent shutdowns of refinery plants, while trucking volume has grown during the pandemic which has increased demand for diesel.

- On the bright side, spot rates in the dry van and refrigerated market have been steadily falling since the beginning of the year, even though trucks account for roughly 70% of diesel consumption in the U.S.

PORT CONGESTIONS

- The ports of L.A./Long Beach have moved record levels of imports during the pandemic, with the first quarter being its busiest to date. May arrivals looking strong as well.

- The ports moved 820,718 TEUs of container cargo in April, up 10% from the previous record set in April 2021. Imports rose 9.2% to 400,803 TEUs, while empty containers moved through the Port increased 16.9% to 298,039 TEUs.

- The ports have moved 3,281,377 TEUs during the first four months of 2022, a 5.1% increase from the same period in 2021.

- At the beginning of May, the Southern California Marine Exchange (SCME) reported a total of 89 ships were in the ports que system while the number of ships waiting just outside the ports have been reduced to almost zero (there were over 100 at the beginning of the year).

- This is a positive indicator that port congestion has been easing, however, it is uncertain how long it will continue once the China lockdowns are lifted and economic activity restarts.

- When the hundreds of the accumulated vessels start sailing out of China, logistic experts are concerned that a flood of containers could clog domestic ports. The surge of imports is anticipated to occur in June or July, which will more than likely create congestion issues for ports all around North America.

LABOR COSTS/SHORTAGES

- The Labor Department's Job Openings and Labor Turnover Survey (JOLTS) found 11.55 million positions were available at the end of March, an increase of 205,000 from February.

- Total quits jumped to 4.54 million, a gain of 152,000 from the month before. Both job openings and quits were the highest since the government began keeping track of the data in 2000.

- Small business owners remain worried about high inflation and worker shortages according to the most recent survey from the National Federation of Independent Business (NFIB).

- NFIB Chief Economist Bill Dunkelberg said in a statement, "small business owners are struggling to deal with inflation pressures. The labor supply is not responding strongly to small business' high wage offers and the impact of inflation has significantly disrupted business operations."

- The survey also found 47% of owners reported job openings that could not be filled. The difficulty in filling open positions is particularly acute in the construction and manufacturing sectors.

ENERGY PRICES

- Russia's invasion of Ukraine has created havoc in the global energy markets. The European Union is outlining a new round of sanctions against Russia including banning Russian oil and energy products. For context, Russia supplies roughly 40% of Europe's total energy needs.

- In early May liquified natural gas prices crossed $8.00 per million BTUs, the highest level in 13 years. Price have more than doubled so far in 2022.

- The spike in demand driven by Russian energy being taken off the market has driven up prices and added to inflationary pressures around the world.

- The U.S. is the world's largest producer of natural gas. Production is down and gas in storage is lower than this time last year. Two regions, West Texas, and Appalachia are seeing production slow with companies blaming a lack of adequate pipeline infrastructure.

- Oil prices have also barreled up nearly 50% since the start of the year. Add to that low inventory reserves, increased sanctions on Russia and global demand uncertainties, it is expected crude prices will remain elevated and volatile for the coming months.

U.S./CHINA RELATIONS

- The White House is carefully studying the inflationary impact of tariffs imposed on China by former President Donald Trump given a surge in consumer prices.

- Tariffs on Chinese goods were raised drastically to over 20% in late 2019 during the heightened trade war between the Trump administration and the Chinese government.

- At a basic level, economists have found that Chinese exporters generally didn't lower their prices to keep goods competitive, meaning tariff duties were mostly paid by U.S. companies.

- The current administration eased some Trump-era tariffs on Chinese imports in March but had left on $350 billion worth.

- President Biden is taking the first step towards reviewing those tariffs which is required to keep them from starting to automatically expire in July.

- The U.S. Trade Representative's office is notifying about 600 representatives of domestic industries that benefit from the duties of their possible end in July and the opportunity to request that they remain.

- A recent study by the Peterson Institute found that cutting the tariffs could potentially reduce the U.S. Consumer Price Index (CPI) by 1.3%.

- The Biden administration will continue its review and is expected to decide on the tariffs in coming weeks.

COVID-19

- China's economy has taken an enormous hit from the government's stringent efforts to keep the virus at bay. China is the single largest contributor to global growth, so its slowdown will ripple out in the form of lower economic activity and corporate profits worldwide.

- Industrial output in world’s second-largest economy slid to the worst levels since the pandemic began. April’s figures show how China’s zero-COVID policy weighed particularly heavy on manufacturing, declining 4.6%, and industrial output, dropping 2.9%.

- Meanwhile, the unemployment rate across China's 31 largest cities climbed to a new high of 6.7% in April as hundreds of millions of people remained under full or partial lockdowns.

- The good news is some cities (like Shanghai) are taking the first steps toward reopening, and there’s optimism that April’s data could mark the worst of the slump.

- The National Bureau of Statistics said the Covid outbreaks had a “big impact” on the economy in April, but the effects are likely to be short-lived. “With progress in Covid controls and policies to stabilize the economy taking effect, the economy is likely to gradually recover.”

INFLATION

- The Fed raised short-term interest rates by half a percentage in early May. The rate hike was the largest at any one time since May 2000.

- It is anticipated another 0.50% hike in June, and at least an additional 1% in rises spread over the four meetings in the second half of the 2022, with more to come in 2023. Taken as a whole, the expected the path forward will bring the Feds Fund rate to at least 2.5% by year-end.

- Many have questioned if the Fed would flinch on rate hikes due to the Russia/Ukraine conflict, or the slower activity out of China, or the weak first quarter economic growth. But Fed Chair Jerome Powell said he will back interest rate increases until prices start falling back towards healthier levels.

- In a direct address to the American people, Powell said that inflation is far too high, demand is strong, unemployment is low, and households and business are in good financial strength. From their vantagepoint, interest rates are far from neutral, and need to be raised to address inflation.

- While the Fed plans to act expeditiously, the Fed remains well behind the inflation curve with the CPI up 8.3% from a year ago, the largest increase since the early 1980s.

- Yes, some of the rapid pace of inflation is due to volatile food and energy prices, but "core" inflation (up 6.2% versus a year ago) is also running unusually hot. Until the Fed gets money growth under control, high inflation is here to stay.

WAR IN UKRAINE

- 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 U.S. is now considering a full block to Russia's ability to pay American bondholders. Things could happen quickly if the Biden administration lets a temporary exemption expire next week that had allowed for payments to originate from non-U.S. accounts be made through American financial institutions.

- Some officials at the Treasury Department had previously argued that allowing Russia to pay its debt would further "drain its remaining valuable dollar reserves" that would otherwise be spent on funding the war in Ukraine.

- The thinking now, however, is to intensify the financial pressure on Moscow as it looks to stave off a financial crisis via a set of emergency measures and strict capital controls.

- The ruble has already pared all the losses seen since the invasion to become the world's best performing currency this year, while economic activity is improving as Russia continues to make revenue on gas flows to the EU.

- With a limited number of economic sanctions left in the pipeline, the west is also looking to strengthen the relationships of its armed forces. Finland and Sweden formally applied to join the NATO alliance, breaking longtime defense doctrines of military neutrality.

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