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INDUSTRIAL SECTOR COST REPORT

June 2022

KEY COST INDEXES

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

Month	20' To West Coast	20' To East Coast	40' To East Coast
Current	**$10,000/$12,000**	$12,000/$15,000	$14,000/$17,000
May	$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:

- Taiwan 40'/EC rates have decreased nearly 15% from last month to $18,000/$20,000 USD per container.

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

Month	20' To West Coast	20' To East Coast	40' To East Coast
Current	**/**	**$12,000/$15,000**	**$14,000/$16,000**

Notes:

- Pricing for 20-foot containers was not provided by our freight partners in time for the release of this report.

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

Month	Van	Flatbed	Refrigerated
Current	**$2.71**	**$3.48**	**$3.03**

May	$2.71	$3.45	$3.07
April	$2.79	$3.42	$3.15
March	$3.02	$3.40	$3.41
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:

- Late spring season typically provides a boost in trucking demand between now and July 4, shooting spot rates up by as much as $0.30/mile in recent years, but so far not this year. Volumes are down 16% compared to this time last year or the equivalent of almost 30,000 fewer truckloads a week.

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

Month	Prices % Higher	Prices % Same	Prices % Lower	Net	Index
May	**70.2%**	**24.2%**	**5.6%**	**+64.6**	**82.2**
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 24 consecutive months.

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

Prices Up		Prices Down
Adhesives and Paint (6)	Paper (3)	Aluminum*
Aluminum* (24)	Petrochemical Based Products*	Petrochemical Based Products*
Aluminum Extrusions	Petroleum Based Products	Steel*
Aluminum Products (5)	Plastic Resins (5)	Steel - Scrap
Caustic Soda (3)	Polyethylene	Steel - Hot Rolled
Copper (5)	Polypropylene (3)	
Corrugate (4)	Polypropylene Containers	
Corrugated Packaging (19)	Resin Based Products (2)	
Crude Oil	**Rubber Based Products (10)**	
Diesel Fuel (17)	Semiconductors	
Electrical Components (18);	Solvents (4)	
Electronic Controls	Steel* (22)	
Energy (3)		
Epoxy (2)		

Fiber Optic Cable **Freight (19)** Hydraulic Components Labor - Temporary (13) Lumber (6) **Natural Gas (11)** Packaging Supplies (18)	Steel - Fabricated & Machined Components Steel - Stainless (19) Steel Bar Steel Castings Steel Products (21) Wheat	

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.

6. U.S. Dollar - Against Other Currencies

Month	Chinese Yuan	Mexican Peso	Euro	Canadian Dollar
Current	**1 USD = 6.712**	**1 USD = 20.59**	**1 USD = 0.950**	**1 USD = 1.294**
May 31, 2022	1 USD = 6.665	1 USD = 19.59	1 USD = 0.931	1 USD = 1.267
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 5.6% against the Yuan in 2022.
- Mexican Peso - The U.S. dollar has appreciated 0.68% against the Peso in 2022.
- Euro - The U.S. dollar has appreciated 7.90% against the Euro in 2022.
- Canadian Dollar - The U.S. dollar has appreciated 1.88% against the CAD in 2022.

KEY HEADLINES

1. *Raw Material Pricing*: Commodity pricing increased for the 24th consecutive month, although at a slower rate compared to April. *(More on pg. 5)*

2. *Ocean Freight Rates*: Despite ocean carriers reducing capacity through blank sailings, the decrease in available exports out of China is pushing ocean rates downward. *(More on pg. 5)*

3. *Trucking Costs*: Fuel prices are up significantly, but spot rates have been mostly falling since the start of the year. *(More on pg. 6)*

4. *Port Congestions*: Responsible for about 42% of all U.S. containerized trade with East Asia, the L.A./Long Beach twin port recently ranked as the worlds least efficient. *(More on pg. 6)*

5. *Labor Costs/Shortages*: Expectations from independent business owners for better business conditions have deteriorated every month since the start of the year. *(More on pg. 7)*

6. *Energy Prices*: Surging prices of both natural gas and crude oil have company utility bills on the rise. (*More on pg. 7)*

7. *U.S./China Relations (tariffs)*: Biden signals interest to end some of Trump's China tariffs to help ease inflation. *(More on pg. 8)*

8. *China Lockdowns*: China is starting to re-impose Covid-19 restrictions just weeks after easing them in selected cities. *(More on pg. 8)*

9. *Inflation*: The Fed admits it has an inflation problem. *(More on pg. 9)*

INSIGHTS OF THE MONTH

- U.S. Producer Price Index (PPI), which tracks the average change in prices received by domestic producers for their output, rose 0.8% in May and is now up 10.8% versus a year ago. That is a modest improvement from the 10.9% reading in April and 11.5% in March.

- China's PPI fell again in May to 6.4% versus a year ago. This marks the 7 straight month the PPI has decreased.

- The U.S. Consumer Price Index (CPI) increased 1.0% in May, pushing the 12-month increase to a new post-COVID peak of 8.6%, the highest in more than 40 years.

- Supply-chain problems are still a big issue as ports remain overwhelmed in the U.S. The ports of L.A./Long Beach currently have 25 container ships waiting to be unloaded. Although this is near recovery lows, its well above the 0 - 1 normal level experienced pre-COVID.

- Total volume of trade (U.S. imports plus U.S. exports), remains up 23.1% versus a year ago, and sits just off the record high set in March 2022.

- According to the most recent Institute for Supply Management (ISM®) report, the manufacturing sector continued to expand in May. Two of the most forward-looking indices, new orders, and production, posting gains after two consecutive months of declines.

- JP Morgan CEO Jamie Dimon caused a stir when he talked about an economic "hurricane" hitting the US economy. Many economists think he will eventually be right but is way too early. May's employment report confirmed the US economy continues to grow.

Sincerely,
The GCP Team

ADDITIONAL INFORMATION

RAW MATERIAL PRICING

- The ISM® Pricing Index registered 82.2%, down 2.4 points compared to April's reading of 84.6%.

- The Pricing Index has now exceeded 70 percent in 17 out of the last 18 months.

- The index has been above 60% for 21 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; Nonmetallic Mineral Products; Printing & Related Support Activities; Textile Mills; Chemical Products; Computer & Electronic Products; Food, Beverage & Tobacco Products; Paper Products; Machinery; Miscellaneous Manufacturing; Transportation Equipment; Petroleum & Coal Products; Primary Metals; **Plastics & Rubber Products**; Furniture & Related Products; Electrical Equipment, Appliances & Components; and Fabricated Metal Products.

- The ISM also listed commodities in short supply, which includes - Aluminum (7); Aluminum Products; Cable Assemblies (3); Electrical Components (20); Electronic Components (18); Electronic Controls; Freight (3); Hydraulic Components; Labor - Temporary (13); Packaging Film; Packaging Products; Paper (2); Petrochemical Based Products; Phosphoric Acid; Plastic Resins; Power Transmission Products; Resin Based Products (3); Semiconductors (18); Steel - Fabricated & Machined Components; Steel Products (2); and Sunflower Products.
  Note: The number of consecutive months the commodity has been listed in short supply is indicated in brackets after each item.

- No industry reported paying decreased prices for raw materials in May.

OCEAN FREIGHT

- Average Asia/U.S. West Coast rates dipping to their lowest level since last July, declining 30% since the start of the lockdown. Prices are still over 30% higher verse a year ago, which is modest by 2022 standards as west coast rates had been triple 2021 levels through April.

- Average Asia/U.S. East Coast prices are dropping as well, currently sitting about 15% higher year-over-year, after falling 32% since the start of the lockdown.

- The recent dip in rates almost certainly reflects the lull in manufacturing while China was shut down. But the shift in consumer spending from goods to services may also be taking place.

- Many observers are expecting a surge in volumes out of China as the country begins restarts. However, if the net underlying demand deteriorated during the lockdown, or enough importers had already pulled orders forward, then there may be no surge in the short term which would mean less pressure for rates to rise.

- If dropping consumer demand is the main driver, then we should expect rates to keep falling. Although, analysis of the freight futures market suggests otherwise. Contract rates remain elevated, and its looking like pricing is set to increase as peak season approaches.

TRUCKING

- Gas prices are up over 60% this year, and diesel prices are nearly 80% higher year-over-year. For the first time in history, the average price for a gallon of gas passed $4 in all 50 states.

- As of mid-June, the national average price of diesel and consumer gas hit all-time highs with prices of $5.775, and $5.016 per gallon respectively.

- On the bright side, it appears as if some of the tightness that was hurting trucking capacity at the beginning of the year is starting to ease. The latest employment report released by the Bureau of Labor Statistics showed that for the third time in the last four months, the truck transportation category added more than 10,000 trucking positions.

- Except for the 2,700 jobs dropped in March, total employment in truck transportation has risen every month since the almost 80,000-job plunge in April 2020.

- As a result of the increased capacity spot rates have steadily declined in two of the three categories for the past several months (van and refrigerated). This despite record fuel prices and continued elevated demand for shipments.

PORT CONGESTIONS

- During a visit to the port of L.A./Long Beach, President Joe Biden made no bones about taking on the nine ocean carriers in the three main global shipping alliances for their role in stoking U.S. inflation.

- “These companies have raised their prices by as much as 1,000%, and there’s no better place to start than right here in the port to let those nine foreign shippers understand the rip-off is over,” the president said.

- Carriers, terminal operators, labor unions, trucking associations and port bosses credit the Biden team for getting representatives from across logistics networks to sit at the same table and hammer out solutions for issues ranging from the Covid-19 logjams to how these operations can become more competitive and efficient.

- The next test comes in negotiations over a new labor contract for 22,000 dockworkers at 29 West Coast ports. The current arrangement with more than 70 terminal operators and ocean carriers ends on July 1.

- The International Longshore and Warehouse Union and the Pacific Maritime Association that represents the employers have all committed to keeping operations going and averting a slowdown. But the issue of automation could be a sticking point at the bargaining table.

- All this comes on the heels of a report from the World Bank and S&P Global Market Intelligence where it ranked the country's two largest ports of L.A./Long Beach the least efficient trade hubs for handling containers in the world.

LABOR COSTS/SHORTAGES

- Data out this month shows that job openings in the industrial sector are at record highs and roughly 150% of where they were pre-pandemic.

- Amid a tight labor market, 51% of owners reported they had job openings they could not fill in May. This according to the most National Federation of Independent Business (NFIB). May's reading is up four points from April and matches a 48-year record high set in September 2021.

- A further 92% of businesses hiring or trying to hire reported few or no qualified applicants for the positions they were seeking to fill.

- An additional 12% of companies cited labor costs as their top business problem, while 23% said that labor quality was their top business problem.

- The NFIB's Optimism Index fell again in May, for the fifth straight month. Owners expecting better business conditions over the next six months declined four points to a net negative 54%, the lowest level recorded in the survey's 48-year history.

- The share of owners raising prices to deal with increased labor and inflation costs rose again to 72%. This matching March's number from earlier this year, which ties the highest reading on record.

ENERGY PRICES

- U.S. natural gas futures have sord in recent weeks, with benchmark price, known as "Henry Hub" rising to a high of $9.32 before coming back down to around the mid $7 mark.

- Natural gas prices are up over 130% this year and is the largest source of fuel for power production in the U.S., with a roughly 40% share. As a result, company utility bills are almost certainly going to rise sharply.

- The surge in U.S. natural gas prices is part of a much broader global story. With supplies from the world's largest producer (Russia) increasingly in doubt, American exports of natural gas to Europe have grown but production in the U.S. hasn't, leaving low supplies.

- In terms of crude, at its June 2 meeting, OPEC+ announced an upward adjustment of production targets for July and August. However, that announcement has done little to bring down the cost of crude with prices sitting around $120 per-barrel, up over 65% on the year.

- Also putting pressure on crude prices is the decision by EU leaders to ban 90% of Russian crude by the end of the year. It is the bloc's sixth sanctions package on Moscow since the start of the invasion.

- Following the news, oil pricing is now on the longest run of consecutive monthly gains in over a decade.

- Help soon may be on the way. The White House formally announced President Biden would visit the oil-rich kingdom of Saudi Arabia in mid-July with the goal stabilizing energy markets.

U.S./CHINA RELATIONS

- In mid-June the White House signaled some willingness to adjust former President Donald Trump’s tariffs on Chinese products.

- Press secretary Karine Jean-Pierre said, “some Trump tariffs were irresponsible and do not advance our economic or national security and instead raise costs for families and businesses.”

- She continued to say, “the Biden administration is working to align these haphazard tariffs and our priorities,” but stressed no decision has been made at this time.

- Treasury Secretary Janet Yellen indicated her own position, asserting that President Donald Trump's trade war tariffs on Chinese goods "impose more harm on consumers and businesses" while accomplishing nothing on issues relating to China.

- Many economists have found that Chinese exporters generally didn't lower prices to keep their goods competitive, meaning U.S. importers passed the duties on to American businesses and consumers.

- A potential decision on the matter is expected as early as this month.

CHINA LOCKDOWNS

- Just as optimism was starting to build with port delays were easing, trucking shortages quickly abating, employment rising and supply chains strengthening.

- China has started to re-impose Covid-19 restrictions just weeks after easing them in key cities. Outbreaks have re-emerged just days after Beijing and Shanghai eased social curbs that had been in place for months.

- The quick rebound in cases shows the difficulties of fully stamping out the more contagious virus variants. Only China is still engaged in the effort to fully eliminate transmission.

- Its zero-tolerance approach leaves the country stuck in a cycle of disruptive shutdowns and reopening's that hint at lingering economic pain. Lockdowns have roiled supply chains and impacted the operations of companies worldwide.

- In terms of GCP, none of our partner facilities are in cities which have re-imposed Covid-19 restrictions. We have also been avoiding shipping anything through the Shanghai port. At this point we are not expecting any further delays due to the re-imposed restrictions.

INFLATION

- The Federal Reserve raised rates by three-quarters of a percentage point (75 basis points) at their June meeting, the most at any meeting since 1994.

- At the post-meeting press conference, Powell made it clear that the Fed doesn't expect 75 bp rate hikes to become "common," but a rate hike in the 0.5% - 0.75% range should be expected at the next meeting in July.

- Notably, the Fed downgraded its real GDP growth forecast for this year to 1.7% versus a prior estimate of 2.8%. Growth in 2023-24 was revised down slightly as well.

- Wrestling inflation back down will require a persistently slow pace of money supply growth for at least the next couple of years.

- The M2 measure of the money supply soared during COVID and now consumers are paying the price in much higher inflation. Until the Fed gets growth in the money supply under persistent control, high inflation is here to stay.

- The Fed is now more aware of the enormity of the inflation problem it has created, although it is still too early to tell how quickly it will get it back under control.

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