GCP Industrial Products
678 Belmont Ave W #202
Kitchener | Ontario | Canada | N2M 1N6
Toll: 888-893-5427
Phone: 519-893-8207
Fax: 866-527-1983
Web: www.gcpindustrial.com

INDUSTRIAL SECTOR COST REPORT

July 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	**$8,000/$10,000**	**$10,000/$12,000**	**$15,000/$18,000**
June	$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 another 10% this month to $16,000/$18,000 USD per container. That marks a 25% decline in rates over the last 2 months.

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	**$10,000/$12,000**	**$12,000/$14,000**	**$14,000/$16,000**
June	**$10,000/$12,000**	**$12,000/$15,000**	**$14,000/$16,000**

Notes:

- Not much movement in the rates out of India. Only a slight decrease in 20’ containers headed to the east coast.

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

Month	Van	Flatbed	Refrigerated
Current	**$2.67**	**$3.36**	**$3.05**
June	$2.68	$3.45	$3.04
May	$2.71	$3.45	$3.07
April	$2.80	$3.41	$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:

- Average pump prices declined, falling to $4.67 for regular gas and $5.642 for diesel. The dip in the national average per gallon occurred despite a slight rise in recent demand, due to the July 4th holiday and summer travel.

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

Month	Prices % Higher	Prices % Same	Prices % Lower	Net	Index
June	**65.2%**	**26.5%**	**8.3**	**+56.9**	**78.5**
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 25 consecutive months.

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

Prices Up		Prices Down
Adhesives and Paint (7)	**Natural Gas (12)**	Aluminum* (2)
Aluminum* (25)	Packaging Supplies (19)	Lumber*
Caustic Soda (4)	Paper (4)	**Ocean Freight**
Corrugate (5)	Petroleum Based Products (2)	Plastic Resins*
Corrugated Packaging (20)	Pigments and Dyes	Steel* (2)
Crude Oil (2)	Resin Based Products (3)	Steel - Cold Rolled
Diesel Fuel (18)	Plastic Resins* (6)	Steel - Hot Rolled (2)
Electrical Components (19)	**Rubber Based Products (11)**	Steel - Scrap (2)
Electricity	Steel* (23)	

Electronic Components (19) Energy (4) **Freight (20)** High-Density Polyethylene (HDPE) Resin Labor - Temporary (14) Lumber* (7)	Steel - Fabricated & Machined Components (2) Steel - Stainless (20) Steel Castings Steel Products (22) **Synthetic Rubber**	

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 = 6.758**	**1 USD = 20.84**	**1 USD = 0.996**	**1 USD = 1.309**
June 30, 2022	1 USD = 6.703	1 USD = 20.18	1 USD = 0.955	1 USD = 1.292
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 6.3% against the Yuan in 2022.
- Mexican Peso - The U.S. dollar has appreciated 1.9% against the Peso in 2022.
- Euro - The U.S. dollar has appreciated 13.1% against the Euro in 2022.
- Canadian Dollar - The U.S. dollar has appreciated 3.07% against the CAD in 2022.

KEY HEADLINES

1. *Raw Material Pricing*: Prices eased slightly for a third straight month in June. *(More on pg. 5)*

2. *Ocean Freight Rates*: The average China/U.S. west coast shipment now costs about 45% of what it did at the start of 2022. *(More on pg. 5)*

3. *Trucking Costs*: California's Assembly Bill 5 has thrown around 70,000 truck owner-operators in limbo. *(More on pg. 6)*

4. *Port Congestions*: Dockworkers on the west coast continue to work despite their contract expiring. However, container dwell times are increasing again. *(More on pg. 7)*

5. *Labor Costs/Shortages*: Small businesses continue to raise wages to keep employees and fill historically high levels of open positions. *(More on pg. 7)*

6. *Energy Prices*: Natural gas prices are straining economies and industries around the world as global powers battle an energy crunch. (*More on pg. 8)*

7. *U.S./China Relations (tariffs)*: The U.S. continues to weigh easing China sanctions to help address red-hot inflation. *(More on pg. 8)*

8. *Inflation*: Inflation is high, sticky, and is not slowing down. *(More on pg. 9)*

INSIGHTS OF THE MONTH

- The U.S. manufacturing sector continues to be powered (though less so in June) by demand while held back by supply chain constraints.

- Challenges with turnover (resignations and retirements) continue to plague the industrial sectors but to a lesser degree in June when compared to the previous months.

- Most U.S. businesses are still hiring aggressively to meet high demand. The labor market remains robust, which eases recession fears for now. However, it does increase the risk that the Fed will maintain an aggressive approach to raising interest rates.

- Total volume of trade (U.S. imports plus U.S. exports), which helps gauge the overall health of the economy, set a record high in May, growing $4.9 billion, and is now up 22.6% versus a year ago.

- Real GDP shrank at a 1.6% annual rate in the first quarter, but this does not necessarily indicate a recession. Real gross domestic income (Real GDI), an alternative measure of economic activity that is just as accurate, was up 1.8% over the same period.

- The Producer Price Index (PPI) rose 1.1% in June. Producer prices are up 11.3% versus a year ago. Prices for processed and unprocessed goods for intermediate use are up 22.2% and 58.0%, respectively, in the past year.

- The Consumer Price Index (CPI) climbed 1.3% in June, accelerating from May's 1% increase. Now up 9.1% verse last year, it is the greatest 12-month increase for the index since November 1981.

Sincerely,
The GCP Team

ADDITIONAL INFORMATION

RAW MATERIAL PRICING

- The ISM® Pricing Index registered 78.5%, down 3.7 points compared to May's reading of 82.2%.

- The Pricing Index has now exceeded 70 percent in 18 out of the last 19 months.

- The index has been above 60% for 22 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 in the following order: Petroleum & Coal Products; Textile Mills; Paper Products; **Plastics & Rubber Products**; Miscellaneous Manufacturing; Nonmetallic Mineral Products; Chemical Products; Electrical Equipment, Appliances & Components; Furniture & Related Products; Apparel, Leather & Allied Products; Printing & Related Support Activities; Machinery; Computer & Electronic Products; Food, Beverage & Tobacco Products; Transportation Equipment; Primary Metals; and Fabricated Metal Products.

- The ISM also listed commodities in short supply, which includes: Electric Motors; Electrical Components (21); Electronic Components (19); Hydraulic Components (2); Labor - Temporary (14); Packaging Products (2); Paper (3); Plastic Resins (2); **Rubber Based Products**; Semiconductors (19); Steel - Fabricated & Machined Components (2); Steel - Stainless; and Steel Products (3).
  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 June.

OCEAN FREIGHT

- There was a 3% reduction in global shipping volumes in May compared to last year. Additionally transpacific container vessels sailed less than 90% full (a key level to keeping rates high or climbing) for the first time since mid-2020.

- GCP's average 20' Asia/U.S. west coast container prices are nearly 20% lower than the same time last year and 45% lower than the start of the year.

- GCP's average 20' Asia/U.S. east coast container prices are now 15% lower than the same time last year and nearly 40% cheaper than the start of the year.

- The extra available space, especially from China to the U.S., has helped push rates down significantly since early May. A drop in underlying demand is likely the cause of falling rates as businesses placed peak season orders early in the efforts to build inventory.

- Nonetheless, the latest National Retail Federation (NRF) data shows U.S. container import volumes set a new record in May, with 2.4 million twenty-foot equivalent Units handled.

- July imports are projected to be 4% below the May's record and August is estimated to be 6% lower than May. With signs of decreasing demand and significant front loading of peak season orders, the NRF projects a sharp drop of U.S. bound containers for September and October.

- But volumes, like rates, are falling from an extremely high starting point. So even with these projected decreases, the latest monthly volumes would still be 13% to 15% higher than in 2019. Suggesting that even with some cooling, the import market continues to run hot.

TRUCKING

- California truck owner-operators must now comply with Assembly Bill 5 (AB5) after the Supreme Court on June 30 refused to review a case challenging the legislation that sets out the tests for employment-status classification.

- AB5 requires truckers to satisfy a three-part test to be considered independent contractors, or else be seen as employees entitled to job benefits.

- The trucking industry relies on contractors. More than 70% of truckers serving some of the country's largest ports, including L.A., Long Beach and Oakland are owner-operators.

- The industry is projecting some level of capacity loss as drivers exit the marketplace because they don't want to be employees, nor do they want to obtain their own operating authority which could cost $20,000 annually for appropriate licenses and fees.

- It is uncertain how AB5 will play out, but many are expecting it will force carriers to immediately downsize their contracted owner-operator fleets or hire former owner-operators as company drivers. It may push others to lease out of state or into retirement due to increased market pressures.

- Some companies have been planning for this, but the ruling will have a profound effect on driver supply and costs for the interim.

- This means, added capacity and upward cost pressure in California during an environment where transport drivers are already at a premium.

PORT CONGESTIONS

- A joint letter released by the Pacific Maritime Association and the International Longshore and Warehouse Union said, “cargo will keep moving, and normal operations will continue at the ports until an agreement can be reached.”

- The negotiations involve 29 ports in California, Oregon and Washington that together handle around 40% of all U.S. imports.

- Both sides understand the strategic importance of the ports to the North American economy and are mindful of the need to finalize a new coast-wide contract as soon as possible.

- The lack of an official contract opens the door to pressure tactics, but both sides said they are not preparing for a strike or lockout. Not to mention both sides are facing heavy political pressure to reach a resolution.

- As negotiations are ongoing the wait time for containers leaving west coast ports continues to tick up. Dwell time for a container bound for rail is 7.5 days at the port of Los Angeles, 8 days at the ports of Long Beach and Tacoma, and 16 days at the port of Seattle.

- The lack of rail cars servicing the west coast, is getting worse and is the major culprit in slowing down container processing at the ports.

- The Class I freight railroads and the 12 rail unions have been embroiled in a labor dispute since 2020 and are currently in a 30-day “cooling off period”.

- Many have urged the President Biden to get involved as a strike by the railroad workers would be more disruptive than the dockworkers as it would impact all trade throughout the county and beyond.

LABOR COSTS/SHORTAGES

- The labor shortage continues to stymie small businesses as they compete for workers.

- The June survey of small business owners by the National Federation of Independent Business (NFIB) showed that 50% of owners reported job openings they could not fill. That is down 1% from the previous month but remains at historically high levels.

- 94% of companies reported they are hiring or trying to hire but had few or no qualified applicants for the positions they were seeking to fill. That is up 2% from last month.

- 48% of businesses reported raising compensation, while a further 28% of owners plan to raise compensation in the next three months. Both numbers trending near historical highs.

- 23% of organizations said that labor quality was their top business problem, unchanged from last month and remains in second place behind inflation.

- The share of companies raising prices to deal with increased labor and inflation costs decreased 3% to 69%. Price raising activity over the past 12 months has escalated to levels not seen since the early 1980s.

ENERGY PRICES

- Energy concerns in Europe are getting grimmer by the day, with an emboldened Russia in a position to squeeze the bloc over its heavy sanctions and support for Ukraine.

- The European benchmark natural gas price (Dutch TTF) has risen more than 400% over the past year. And as of early July, European prices are a staggering 9X higher than U.S. costs.

- While the EU is desperately trying to replace Russian supply with liquefied natural gas (LNG), the move is further straining the marketplace.

- The U.S. has quickly become a large exporter of the energy source, but the U.S. has its own supply chain constraints that puts a ceiling on flows to Europe.

- For U.S. producers to send their gas over to the EU it first must be liquefied. The complex and expensive facilities that transform gas into LNG are already operating at max capacity.

- For that reason, much of the gas produced domestically stay in the U.S., meaning gas prices are largely driven by regional dynamics rather than global arbitrage.

- The oil market, on the other hand, is far more global: Prices for U.S. and European benchmarks (known as WTI and Brent, respectively) track closely to each other. Current price for WTI is in the mid $90's and Bent is in the upper $90's.

- Oil prices dropped below $100 a barrel (bbl) for the first time in two months on growing concerns the global economy could be heading for a slowdown that would reduce demand.

U.S./CHINA RELATIONS

- Chinese tariff relief still appears to be on the table at the White House as the Biden administration battles with red-hot inflation readings.

- Analysts at the Peterson Institute for International Economics said removing Chinese import tariffs would lead to a 1% reduction in inflation as American businesses adjust markups to compete with lower prices.

- Earlier reports suggested a tariff rollback could come at the beginning of July. As we know that has not happened yet, though a decision isn't final, and an announcement one way or the other could come any day.

- From what we know, possible steps include: One, lowering duties on several categories. Two, a broad framework to allow importers to request tariff waivers. Or three, a fresh probe under Section 301 of the Trade Act focused on China's industrial subsidies.

- From the domestic political perspective, there are two very strong, competing concerns to removing the tariffs. One is the need to be perceived as fighting inflation. And the other, is the need to be seen as very strong in standing up to China.

- The question remains, will the Biden administration pick one over the other, or possibly attempt to take these divergent concerns and harmonize them into one policy?

INFLATION

- CPI soared 1.3% in June. It is the largest monthly increase in more than a decade, pushing the year-ago comparison to a new post-COVID peak of 9.1%. The highest reading in more than four decades.

- Meanwhile, “core” prices rose 0.7% in June, and is up 5.9% from a year-ago. Unfortunately, stripping out food and energy does little to improve the inflation picture, nearly every core category reported higher prices.

- Some analysts point out that the 12-month increase for core prices has moderated of late, dropping from 6.5% in March. However, look for it to rebound in the months ahead as third quarter inflation softened temporarily in 2021, meaning upcoming readings could push core inflation to near 7.0% on a 12-month basis as soon as September.

- Inflation has been, and always is, a monetary phenomenon. The M2 measure of money supply is up over 41% since February 2020. To get inflation back down to 2.0%, the Fed needs to focus less on hiking interest rates and more on getting the growth in the money supply under control.

- This most recent CPI report makes it all but certain that the Fed will raise interest rates by another 0.75% at its meeting later this month. It also raises the likelihood that rate hikes of that magnitude may not be over, and that an even larger one could be on the table.

SOURCES

Pricing

- https://www.ismworld.org/supply-management-news-and-reports/reports/ism-report-on-business/pmi/june/

Ocean Freight

- https://fbx.freightos.com/
- https://www.freightos.com/freight-resources/coronavirus-updates/
- https://splash247.com/demand-data-points-towards-the-end-of-the-wild-carrier-party/
- https://windward.ai/blog/falling-demand-for-china-u-s-ocean-freights-hasnt-yet-impacted-container-movement/
- https://nrf.com/media-center/press-releases/us-ports-set-another-record-volume-remains-high-and-west-coast-labor

Trucking

- https://gasprices.aaa.com/
- https://www.dat.com/trendlines
- https://www.supplychainbrain.com/articles/35255-supreme-court-ruling-may-take-70-000-truckers-off-road-spur-jams
- https://landline.media/ab5-case-denied-by-supreme-court-whats-next/
- https://californiaglobe.com/articles/u-s-supreme-court-refuses-to-hear-ca-truckings-ab-5-case/

Port Congestions

- https://www.voanews.com/a/us-west-coast-shipping-operations-continue-amid-labor-talks/6646977.html
- https://www.freightwaves.com/news/fingers-crossed-as-west-coast-port-labor-talks-head-into-overtime
- https://www.cnbc.com/2022/07/08/railroad-bottleneck-at-west-coast-ports-reaches-inflection-point.html
- https://www.freightwaves.com/news/california-ports-piling-up-again-with-long-dwelling-import-containers
- https://www.usnews.com/news/business/articles/2022-07-05/west-coast-dockworkers-still-talking-after-contract-expires

Labor

- https://www.bls.gov/news.release/jolts.nr0.htm
- https://assets.nfib.com/nfibcom/2022-June-Jobs-Report-FINAL-003.pdf
- https://www.reuters.com/markets/us/us-small-business-sentiment-drops-near-9-12-year-low-june-nfib-2022-07-12/
- https://economics.td.com/ca-cfib
- https://www.uschamber.com/sbindex/summary

Energy Prices

- https://www.eia.gov/outlooks/steo/pdf/steo_full.pdf
- https://tradingeconomics.com/commodity/natural-gas
- https://tradingeconomics.com/commodity/crude-oil
- https://markets.businessinsider.com/news/commodities/natural-gas-prices-energy-crunch-rationing-us-europe-russia-ukraine-2022-7
- https://www.iea.org/reports/gas-market-report-q3-2022/executive-summary
- Worst of Global Energy Crisis May Still Be Ahead, IEA Says

US/China Relations

- https://time.com/6193925/us-china-tariffs-inflation/
- https://www.voanews.com/a/biden-considers-rolling-back-some-trump-era-tariffs-on-china/6648963.html
- https://www.bloomberg.com/news/articles/2022-07-05/china-s-liu-raises-concerns-about-us-tariffs-in-call-with-yellen
- https://www.dw.com/en/us-weighs-restructuring-trump-era-china-tariffs-to-fight-inflation/a-62375744

Inflation

- https://www.usinflationcalculator.com/inflation/united-states-core-inflation-rates/
- https://www.bls.gov/news.release/cpi.nr0.htm
- https://www.bloomberg.com/news/articles/2022-07-13/us-inflation-accelerates-to-9-1-once-again-exceeding-forecasts
- https://www.wsj.com/articles/us-inflation-june-2022-consumer-price-index-11657664129
- https://www.piie.com/blogs/realtime-economic-issues-watch/fight-inflation-cutting-tariffs-china-only-start

Foreign Exchange

- https://ycharts.com/indicators/us_dollar_to_chinese_yuan_exchange_rate
- https://ycharts.com/indicators/us_dollar_to_mexican_peso_exchange_rate
- https://ycharts.com/indicators/us_dollar_to_euro_exchange_rate_h10
- https://ycharts.com/indicators/us_dollar_to_canadian_dollar_exchange_rate