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

August 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	**$6,000/$8,000**	**$8,000/$10,000**	**$14,000/$16,000**
July	$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 remained flat at $16,000/$18,000 USD per container over the past month.
- The rates stated above are port to door rates, fully delivered, inclusive of all fees.

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**
July	$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:

- No change in our container pricing out of India this month.
- The rates stated above are port to door rates, fully delivered, inclusive of all fees.

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

Month	Van	Flatbed	Refrigerated
Current	**$2.57**	**$3.14**	**$2.93**
July	$2.64	$3.30	$3.00
June	$2.68	$3.45	$3.04
May	$2.71	$3.45	$3.08
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:

- Truckload capacity continues to loosen on the spot market. Diesel prices have also tapered off from their all-time highs, removing some of the added pressure on rates. As a result, national spot rate averages for all major trailer types have fallen in August.

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

Month	Prices % Higher	Prices % Same	Prices % Lower	Net	Index
July	**41.5%**	**37.0%**	**21.5%**	**+20.0**	**60.0**
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 26 consecutive months.

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

Prices Up		Prices Down
Adhesives and Paint (8)	Labor - Temporary (15)	Aluminum* (3)
Aluminum* (26)	Logistics Services	Aluminum Products
Caustic Soda (5)	Maintenance, Repair and	Copper
Corrugate (6)	Operating (MRO) Supplies	Diesel Fuel*
Corrugated Packaging (21)	**Natural Gas* (13)**	Lumber (2)
Crude Oil (3)	Petroleum Based Products (3)	Natural Gas*
Diesel Fuel* (19)	Plastic Resins* (7)	Plastic Resins* (2)

Electrical Components (20) **Electricity (2)** Electronic Components (20) **Freight (21)**	Polyethylene **Rubber Based Products (12)** Solvents Steel Products* (23)	Steel (3) Steel - Carbon Steel - Hot Rolled (3) Steel Products*

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 = 6.788**	**1 USD = 19.90**	**1 USD = 0.982**	**1 USD = 1.291**
July 29, 2022	1 USD = 6.737	1 USD = 20.27	1 USD = 0.980	1 USD = 1.285
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 6.8% against the Yuan in 2022.
- Mexican Peso - The U.S. dollar has depreciated 2.68% against the Peso in 2022.
- Euro - The U.S. dollar has appreciated 11.6% against the Euro in 2022.
- Canadian Dollar - The U.S. dollar has appreciated 1.65% against the CAD in 2022.

KEY HEADLINES

1. *Raw Material Pricing*: Prices increased for the 26th consecutive month, but at a fraction of the pace compared to previous months. *(More on pg. 5)*

2. *Ocean Freight Rates*: Container prices have fallen over 50% since the start of the year but still remain higher than pre-pandemic levels. *(More on pg. 5)*

3. *Trucking Costs*: Excluding fuel, spot rates have decreased 30%, but remain above pre-pandemic levels. *(More on pg. 6)*

4. *Port Congestions*: Another month of high volume as ports remain overwhelmed in the U.S. but the situation is improving. *(More on pg. 6)*

5. *Labor Costs/Shortages*: Job openings and a lack of skilled labor continues to hamper small business. *(More on pg. 7)*

6. *Energy Prices*: Oil and natural gas prices are moving in opposite directions as supply and demand factors create uncertainty in both markets. (*More on pg. 7)*

7. *U.S./China Relations (tariffs)*: Nancy Pelosi's visit to Taiwan places further strain on the U.S. China relationship as President Biden mulls China tariff decision. *(More on pg. 8)*

8. *Inflation*: Is the inflation scare over? Not by a long shot. *(More on pg. 9)*

INSIGHTS OF THE MONTH

- According to the Institute for Supply Chain Management (ISM®) the manufacturing sector continued to expand in July, though at a slightly slower pace, with eleven of eighteen industries reporting growth.

- Real GDP declined in both first and second quarters of the year, but the unemployment continues to drop, company payrolls continue to rise, and industrial production is running at a 5.2% annual rate over the first six months of the year. The bottom line is that, for now, the economy continues to grow.

- Total volume of trade (U.S. imports plus U.S. exports), which helps gauge the overall health of the economy, is up a robust 21.2% versus a year ago, sitting at a record high.

- The U.S. Producer Price Index (PPI) declined 0.5% in July. Producer prices are up 9.8% versus a year ago.

- U.S. Prices for intermediate processed goods declined 2.3% in July but are up 17.4% versus a year ago. U.S. prices for intermediate unprocessed goods fell 12.4% in July but are still up 27.5% versus a year ago.

- China's PPI eased to a 17-month low of 4.2% in July. The latest figure represents the 19th straight month of slowing producer prices, amid a drop in raw material costs.

- The Federal Reserve officials at their July meeting indicated they likely would not consider pulling back on interest rate hikes until inflation came down substantially. The central bank is widely expected to hike rates next month by either 50 or 75 basis points.

Sincerely,
The GCP Team

ADDITIONAL INFORMATION

RAW MATERIAL PRICING

- The ISM® Pricing Index registered 60% in July, 18.5 compared to the June's reading of 78.5%.

- The Pricing Index has been at or above 60 percent for 23 straight months. An index reading above 52.6%, over time, is generally consistent with an increase in producer prices for intermediate materials.

- The month-over-month decline of 18.5% points is the fourth biggest decline on record (since 1948) and the steepest since a 22.1% drop in June 2010.

- The slowing price increases is being driven by (1) volatility in the energy markets, (2) softening in the copper, steel, aluminum, and corrugate markets and (3) a significant decrease in chemical demand.

- In July, 12 of 18 industries reported paying increased prices for raw materials, in the following order: Nonmetallic Mineral Products; Printing & Related Support Activities; Paper Products; **Plastics & Rubber Products**; Textile Mills; Computer & Electronic Products; Food, Beverage & Tobacco Products; Chemical Products; Miscellaneous Manufacturing; Machinery; Furniture & Related Products; and Transportation Equipment.

- The three industries who reported paying a decrease for raw materials in July are: Petroleum & Coal Products; Fabricated Metal Products; and Wood Products.

- The ISM also listed commodities in short supply, which includes: Adhesives and Paints; Aluminum; Electrical Components (22); Electronic Components (20); Hydraulic Components (3); Labor - Temporary (15); Plastic Resins (3); Resin Based Products; **Rubber Based Products (2)**; Semiconductors (20); and Steel Products (4).
  Note: The number of consecutive months the commodity has been listed in short supply is indicated in brackets after each item.

OCEAN FREIGHT

- Ocean rates have fallen significantly since the start of the year, but the average container price from China to the U.S., is still around 3-5 times higher than in June 2019.

- GCP's Asia-U.S. west coast prices decreased again this month to $6,000/$8,000 USD/twenty-foot equivalent unit (TEU). This rate is 46% lower than the same time last year.

- GCP's Asia-U.S. east coast rates also lowered this month to $8,000-$10,000 USD/TEU. These prices are 40% lower year-over-year.

- National Retail Federation data for U.S. Ocean imports indicate that volumes peaked and set a monthly record in May. June volumes were 6% lower compared to May, and July's imports are about even with June's. It is expected volumes will gradually decline through October.

- Despite the expected decline in imports, each of the upcoming three months (August, September, October) would still be 12-15% higher than numbers from 2019.

- For the rest of 2022 many in the industry predict that rates will not increase, but not substantially drop either, likely remaining well above pre-pandemic levels.

TRUCKING

- Sky-high freight rates are falling, and that tells an important story about what's going on in the economy overall. Nearly every good consumed in the U.S. is put on a truck at some point. Currently, there are hints of a slowdown in demand.

- The void in trucker supply has also been stabilizing as a flood of new truckers entered the industry to cash in on the lucrative boom of the pandemic.

- In the spot market, the cost to book a truck, excluding fuel, has plummeted 30%, but rates still remain above pre-pandemic levels.

- Moving forward, freight-watchers largely fall into two camps. Some say the industry is simply coming into balance after two years of unsustainable activity. Others say the sector is rolling over, and a freight recession is on the horizon.

PORT CONGESTIONS

- Supply-chain problems are still a big issue as ports remain overwhelmed in the U.S. Thankfully contract negotiations between the dockworkers and employers at some of the most important ports on the west coast aren't adding any fuel to the fire.

- U.S. Labor Secretary Marty Walsh said he sees no signs of a strike or a lockout looming in the contract negotiations, even as workers continue without a contract which expired July 1.

- The twin ports of L.A./Long Beach are seeing vessel wait times from 6 to 16 days which is a dramatic reduction from 109 days in January. On the other hand, the average wait time for rail-bound containers to leave the ports rose to 16.4 days in July, compared with 13.3 days a month early.

- In Seattle vessel wait times are 2 days, but the delays for rail cargo and general truck capacity are averaging up to 14 days.

- In Oakland, the port terminal is still recovering after closures in July from truckers protesting the California AB5 law. The backlog from closures will impact all operations at the port and add to the existing delays/congestion for the foreseeable future.

- Savannah continues to catch the overflow from U.S. west coast ports, with vessel wait times averaging 10-17 days. General truck capacity wait times are averaging 10 days.

- In Canada, the port of Vancouver is not fairing any better. Vessel wait times are ranging from 14-56 days and yard utilization is currently running at 108% of capacity. Delays for trucking capacity is around 10 days for all equipment types.

LABOR COSTS/SHORTAGES

- The National Federation of Independent Business (NFIB) most recent report found that small businesses across the U.S. are continuing to raise wages in efforts to keep employees and fill a historically high level of job openings.

- To keep employees, 48% of business owners reported raising compensation, just two points below the 48-year record high set in January.

- 49% of owners reported job openings they could not fill, down just one point from June and two points from May’s 48-year record high. This shows the labor shortage remains frustrating for many small business owners as they confront inflation and other economic headwinds.

- 21% of owners said labor quality was their top business problem, down two points from June, while 9% said labor costs were their top issue.

- Overall, 64% of owners reported hiring or trying to hire in July. Of those trying to hire, 91% of owners reported few or no qualified applicants for their jobs.

- On a broader scale, outside small business, the story is a bit different. The most recent U.S. Labor Department’s Job Openings and Labor Turnover Survey (JOLTS) found the U.S. had 10.7 million positions available, fewer than economists predicted, and the least since September. Openings have gone down each month since hitting an all-time high in March.

- Quits have also decreased across the board, to the lowest total since October 2021. Although quits in the manufacturing sector are up slightly month-over-month.

ENERGY PRICES

- U.S. crude prices continue to tumble as a recent report from the Energy Information Administration showed rising stockpiles of oil and gas, hinting at a slowdown in demand.

- U.S. benchmark West Texas Intermediate crude oil closed below $90 a barrel in mid-July for the first time since February.

- The drop in crude oil prices has led to a substantial drop in the retail price of gasoline. After hitting record high in June, the national average for regular unleaded gas is under $4 per gallon. That is a 21% decline off the highs.

- On the other hand, natural gas prices in the U.S. and Europe continue to hit new heights, as expectations of a fuel crisis grows.

- The benchmark U.S. natural gas futures are currently sitting near 14-year highs, and European natural gas prices have jumped over 130% since end of June to new all-time highs.

- Russia, the largest supplier of gas to Europe, has been cutting back on shipments, in response to the sanctions levied on them after its invasion of Ukraine.

- Shipments are now down to 20% of pre-invasion levels, and Russia has signaled that it will end supplies through its Nord Stream 1, pipeline to Europe at the end of the month.

- Going forward, many energy experts believe the world is facing a generalized energy shortage that spans the entire energy complex, from oil to natural gas and coal. Due to geo-political events, as well as demand and supply factors prices are likely to remain extremely volatile for the coming months.

U.S./CHINA RELATIONS

- Early August, Taiwanese leader Tsai Ing-wen greeted U.S. House Speaker Nancy Pelosi in a high-stakes visit that has enraged Beijing. Pelosi reaffirmed a pledge that the U.S. wouldn't abandon Taiwan, saying solidarity was more important than ever in a "world [that] faces a choice between autocracy and democracy." While there, the two also discussed deepening economic cooperation and supply chain resilience.

- Within minutes of Pelosi's arrival, China’s Army announced six exclusion zones encircling Taiwan to facilitate live-fire military drills.

- The White House has sought to distance itself from the visit, saying it cannot control another branch of government, but this is yet another headache for the administration, which already mulling what to do about the $350B Trump-era tariffs currently imposed on China.

- In the wake of Pelosi’s visit, China’s war games around Taiwan have led Biden administration officials to recalibrate their thinking on whether to scrap some tariffs or potentially impose others on Beijing.

- President Joe Biden has not decided on the issue, and officials stress all options remain on the table. His team has been wrestling for months with various ways to ease the costs of duties imposed on Chinese imports during predecessor Donald Trump’s tenure, as it tries to tamp down skyrocketing inflation.

INFLATION

- The Consumer Price Index (CPI) came in below the consensus expected +0.2%. The CPI is up 8.5% from a year ago.

- July’s downside surprise was the mirror-image of June’s upside surprise, both of which were driven by the volatile energy sector. The decline in energy prices for the month drove the year-ago comparison for the headline index down to 8.5% (versus 9.1% in June).

- When you look at inflation on a year-ago comparison basis, it has likely peaked in June at 9.1%, but that doesn’t mean inflation is no longer a major problem.

- In the past two months, taking the surge in June as well as the unchanged overall price level in July, consumer prices are running at a 8.1% annual rate. That is no different than the 8.1% annualized increase in April and May, before the spike and then decline in energy prices.

- Stripping out food and energy, “core” prices rose 0.3% in July, leaving the year-ago comparison unchanged at 5.9%.

- Since February 2020 (pre-COVID), consumer prices are up at a 5.6% annual rate and core prices are up at a 4.2% rate. How did we get here? By forcing an economy to shut down while simultaneously injecting an unprecedented amount of fiscal and monetary stimulus.

- Inflation has been, and always is a monetary phenomenon. 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 consistent control.

- So far this year, M2 money supply is running up at 1.7% annual rate, after climbing at an 18.4% annual rate in 2020-21. By contrast, M2 grew at a 6.2% annual rate in the ten years leading up to COVID.

OUR BRANDS

PREMLENE®

We offer a complete sheet rubber product line with everything from commercial Neoprene, EPDM and Nitrile materials to high-performance ASTM, ISO, Aerospace, Automotive and AASHTO specification grades. Covering all major elastomer types, our sheet rubber is manufactured in continuous rolls, and is available in various durometers, widths, thicknesses, ASTM tolerances and with or without fabric inserts.

Visit: www.premlene.com
Call: 1-877-241-4503

NS NATIONAL™ SILICONE

Our series of solid silicone and closed cell silicone sponge/foam are designed for premium performance. They provide excellent resistance to aggressive chemicals and are an ideal choice for extreme temperature environments in gaskets and sealing applications. Manufactured in continuous rolls, these products are available in various durometers, firmness, widths, thicknesses, and industry certifications.

Visit: www.nationalsilicone.com
Call: 1-888-814-6599

RUBATEX®

Our range of Neoprene/EPDM/SBR blended closed cell sponge are carefully designed to ensure the best combination of cost effectiveness and performance. These general-purpose materials are manufactured in buns and continuous rolls. Offering 3 densities, which meets most industry specifications you will require for closed cell sponge rubber.

Visit: www.rubatexusa.com
Call: 1-855-347-0816

SOURCES

Pricing

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

Ocean Freight

- https://fbx.freightos.com/
- https://www.freightos.com/freight-resources/coronavirus-updates/
- The Impact of Coronavirus on Shipping
- https://nrf.com/media-center/press-releases/imports-slowing-second-half-year-2022-should-see-gain-over-2021
- https://www.joc.com/international-logistics/freight-demand-remain%C2%A0strong-through-2022-analyst_20220803.html

Trucking

- https://gasprices.aaa.com/
- https://www.dat.com/trendlines
- https://www.wsj.com/articles/truck-driver-pay-rose-almost-11-amid-strong-freight-demand-last-year-11660161041?mod=djemlogistics_h
- https://www.chrobinson.com/en-ca/resources/insights-and-advisories/north-america-freight-insights/

Port Congestions

- https://www.hapag-lloyd.com/en/services-information/operational-updates/north-america.html
- https://hillebrand.com/port-updates
- US Labor Chief Sees No Sign of Strike, Lockout in West Coast Port Talks
- https://www.supplychainbrain.com/articles/35395-container-ship-backlog-grows-again-at-the-port-of-savannah?oly_enc_id=0806A5434578A4U
- https://www.fb.org/market-intel/port-congestion-peaks-again-but-there-is-likely-a-different-culprit-this-ti

Labor

- https://www.bls.gov/news.release/jolts.nr0.htm
- https://www.nfib.com/surveys/small-business-economic-trends/
- https://www.reuters.com/markets/us/us-small-business-sentiment-edges-up-july-nfib-says-2022-08-09/
- https://www.usnews.com/news/economy/articles/2022-08-09/nfib-small-businesses-see-some-optimism-for-the-economy-despite-continued-concern-over-inflation

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://www.reuters.com/business/energy/us-crude-gasoline-stockpiles-rise-unexpectedly-eia-2022-08-03/
- EU Nations Back 15% Gas-Cut Target as Russia Reduces Flows
- https://www.bloomberg.com/news/articles/2022-08-16/european-gas-jumps-amid-rising-demand-and-moscow-s-supply-grip

US/China Relations

- https://www.theguardian.com/us-news/2022/aug/07/nancy-pelosi-taiwan-china-visit-military
- https://www.cnbc.com/2022/08/10/us-rethinks-steps-on-china-tariffs-in-wake-of-taiwan-response-sources-say.html
- https://www.bloomberg.com/news/articles/2022-08-02/ustr-defends-tariffs-on-china-amid-debate-to-lower-some-levies
- https://oilprice.com/Geopolitics/International/White-House-Rethinks-China-Tariffs-Amid-Taiwan-Turmoil.html

Inflation

- https://www.bls.gov/news.release/cpi.nr0.htm
- https://fred.stlouisfed.org/release/tables?rid=21&eid=1217588#snid=1217591
- https://www.cnbc.com/2022/08/10/consumer-prices-rose-8point5percent-in-july-less-than-expected-as-inflation-pressures-ease-a-bit.html
- https://economics.td.com/us-cpi
- https://www.longtermtrends.net/m2-money-supply-vs-inflation/
- https://www.cnbc.com/2020/08/05/the-ballooning-money-supply-may-be-the-key-to-unlocking-inflation-in-the-us.html

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