INDUSTRIAL SECTOR COST REPORT

October 2022

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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	**$2,000/$3,000**	**$3,000/5,000**	**$9,000/11,000**
September	$2,500/$4,500	$5,000/$7,000	$10,000/$13,000
August	$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 decreased another 13% this past month, bring the year-to-date price drawdown to 56.5%.
- The rates stated above (including Taiwan) 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	**$7,000/$9,000**	**$8,000/$10,000**	**$10,000/$12,000**
September	$8,000/$10,000	$9,500/$11,500	$12,000/$14,000
August	$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:

- India/WC rates fell 11% this past month, while India/EC rates fell 14%. 40' container pricing fell the most, declining 15% from the previous 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	**$2.44**	**$2.88**	**$2.81**
September	$2.45	$2.91	$2.84

August	$2.52	$3.06	$2.90
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:

- The four elements that affect the trucking market show inbound container shipments are down. Load volumes are up, truck capacity is up, and fuel prices are down. This mix has the spot rate market basically flat to slightly down moving into October.

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

Month	Prices % Higher	Prices % Same	Prices % Lower	Net	Index
September	**31.4%**	**40.5%**	**28.1%**	**+3.3**	**51.7**
August	31.7%	41.6%	26.7%	+5.0	52.5
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 28 consecutive months (and index reading above 50% means rising), although at a much slower rate over the past 3 months.

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

Prices Up	Prices Down
Adhesives	Aluminum (5)
Copper	Diesel*
Diesel*	**Freight* (2)**
Electrical Components (22)	High-Density Polyethylene (HDPE) Resin
Electricity	Lumber - Hardwood
Electronic Components (22)	Lumber - Softwood

Freight* (23) Hydraulic Components (2) Labor - Temporary Natural Gas (15) Paint Paper (2) Plastic Resins* (9) **Rubber Based Products (14)** Semiconductors Steel - Stainless*	Methanol **Ocean Freight** Plastic Resins* (4) Polyethylene Polypropylene (2) Steel (5) Steel - Carbon (3) Steel - Hot Rolled (5) Steel - Stainless* (2) Steel Products (3)

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
USD YTD Change	**Up 13.1%**	**Down 1.8%**	**Up 16.7%**	**Up 9.2%**
Current	1 USD = 7.191	1 USD = 20.07	1 USD = 1.027	1 USD = 1.388
September 30, 2022	1 USD = 7.116	1 USD = 20.15	1 USD = 1.020	1 USD = 1.375
August 31, 2022	1 USD = 6.895	1 USD = 20.20	1 USD = 0.993	1 USD = 1.311
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.

KEY HEADLINES

1. *Raw Material Pricing*: The rubber industry continues to seesaw between materials in short supply, prices increases and price decreases. *(More on pg. 6)*

2. *Ocean Freight Rates*: Falling import volumes and increased ship capacity are leading to lower rates. *(More on pg. 6)*

3. *Trucking Costs*: With slowing demand and increased capacity it seems cost relief is on its way for 2023. (*More on pg. 7)*

4. *Port Congestions*: The number of ships waiting off North American ports peaked at over 150 in July 2022, currently there are less than 100. *(More on pg. 8)*

5. *Labor Costs/Shortages*: Work shortage remains a top issue for small business. *(More on pg. 8)*

6. *Energy Prices*: Expected higher fuel costs and higher energy consumption are pointing towards increased energy costs on both sides of the Atlantic this winter. (*More on pg. 9)*

7. *U.S./China Relations (tariffs)*: United States Trade Representative (USTR) announces the next steps in their review of $300 billion worth of tariffs on China imports. *(More on pg. 10)*

8. *Inflation*: Sticky and elevated. Another month, another hot inflation reading. *(More on pg. 10)*

INSIGHTS OF THE MONTH

- One of the 12 railway unions has voted to reject the tentative agreement brokered last month. Four unions have approved and seven more will conclude their voting process in November. With this development, the bargaining process moves into status quo period and earliest strike, or labor action would be November 19, 2022.

- U.S. factory activity surprised to the upside in September, hitting a new record high and signaling that the U.S. economy is not yet in a recession. The latest reading puts industrial production 3.4% above pre-pandemic levels.

- The U.S. Producer Price Index (PPI) rose 0.4% in September and is now up 8.5% versus a year ago. Prices for intermediate processed goods are up 13.1% versus a year ago while prices for intermediate unprocessed goods are up 34.2% versus last year.

- 22,000 dockworkers on the U.S West Coast are still working without a contract since the previous agreement expired on July 1, 2022. The major sticking points between them and their employers is centered around working hours and increased automation.

- Despite all the recent complications, it seems supply chains aren't shifting in any meaningful way. In 2022, U.S. imports from China are broadly consistent with their 2021 levels.

- 165M barrels have been sold from the U.S. Strategic Petroleum Reserve this year, bringing the emergency stockpile volume to just 405M barrels, marking their lowest level since 1984.

- World trade is expected to lose momentum in 2023 as multiple shocks weigh on the global economy. World Trade Organization economists now predict global trade volumes will grow by 1.0%, down sharply from the previous estimate of 3.4%.

ADDITIONAL INFORMATION

RAW MATERIAL PRICING

- The Institute for Supply Management (ISM®) Prices Index registered 51.7% in September, down 0.8% from the August reading of 52.5%.

- This is the second reading below 60% since August 2020 (59.5%) and this is also the lowest reading since June 2020 (51.3 percent).

- Over the past six months, the index has decreased 35.4 percentage points, including a combined 26-percentage point plunge in July and August.

- For rubber materials specifically, business is still strong, and materials are becoming more available with some raw materials price decreases making their way to the marketplace.

- In September, 10 of 18 industries reported paying increased prices for raw materials, in the following order: Miscellaneous Manufacturing; Nonmetallic Mineral Products; Printing & Related Support Activities; Primary Metals; Computer & Electronic Products; Paper Products; Machinery; Transportation Equipment; Food, Beverage & Tobacco Products; and Chemical Products.

- There were seven industries who reported paying decreased prices for raw materials in September. They are, in the following order: Wood Products; Petroleum & Coal Products; Apparel, Leather & Allied Products; **Plastics & Rubber Products**; Textile Mills; Electrical Equipment, Appliances & Components; and Fabricated Metal Products.

- The ISM® also listed commodities in short supply for the month, which includes the following. Electrical Components (24); Electronic Components (22); Hydraulic Components (5); Labor - Temporary; **Rubber Based Products (4)**; Semiconductors (22); and Wire Harnesses (2).
  Note: The number of consecutive months the commodity has been listed in short supply is indicated in brackets after each item.

OCEAN FREIGHT

- In September U.S. Ocean import volumes fell by 10% versus August and October volumes are projected around 10% lower than last year. We will likely see gradually declining monthly volumes to close the year.

- The decrease in volumes as well as easing congestion has pushed GCP's China - U.S. West Coast rates down by more than 80% since May, while our East Coast prices have fallen by almost three-quarters.

- Yet ocean rates remain above 2019 levels. However, some observers are suggesting spot rates could recede to 2019 levels by the end of 2022.

- Entering the last few months of the year it seems unlikely to reverse the pattern of falling volumes, especially when considering the high demand at the end of 2021 and beginning of 2022.

- The injection of previously tied up capacity has led to a situation where the shortage of ships, which drove the freight rates up for much of the pandemic, is no longer a central issue impacting costs.

- As we move into 2023, global demand growth is not expected to be high enough to counter act the effects of high fleet growth, leaving freight rates likely to continue to decline. One factor which could change this picture is blanked/canceled sailings. We have started to see an increase in blanked sailings as carriers seek to stabilize rates.

TRUCKING

- While U.S. load volumes were up nearly 5% year-over-year in September, the month-over-month comparison fell 2.9% versus August.

- It appears the massive cumulative effort to ramp up supply chain capacity over the past two years, amid varying stages of crisis, is now bearing fruit.

- If we follow normal seasonality trends from here, load demands will be about flat for the year with the supply recovery turning the market from tight to lose. Thus, the reason market pricing dynamics are shifting is not that there is less freight, it's because there is more capacity.

- As we move into the fourth quarter, with the U.S. trucking market loosening, rates are leveling off and positioned to turn lower in the months to come.

- While shippers might not be seeing any real savings yet, it is likely cost relief is on its way for 2023.

- That said, depending on what happens to fuel prices, it could significantly change the trajectory of rates.

- Fuel as a percentage of operating costs has increased by 52% versus a year ago and ranks as the number one expense for owner-operators.

- Current U.S. average diesel prices have risen slightly over the past month to around $5.28 a gallon, but still sits well below the June peak of $5.81 a gallon.

PORT CONGESTIONS

- As schedule reliability and vessel delays improved over the summer, the global fleet that was unavailable due to these delays dropped to 7.9%, from a peak of 13.8% in January 2022.

- The baseline of vessel unavailable capacity is 2% (as there are always some delays), which means at the height of the bottleneck, there was an additional 11.8% of capacity not available. Since January 2022 congestion issues have been nearly cut in half.

- When we look at the ports, the good news is, there are fewer than 100 container ships waiting off North American ports. The bad news is, there are still 99 container ships offshore. The pre-COVID norm was in the single digits.

- According to the latest ship-position data, there are 27 container vessels off the West Coast and 72 off the East/Gulf coasts.

- Savannah, Georgia, continues to have the largest queue in the East/Gulf coast, with 29 container vessels waiting. The second-largest queue is off Houston, with 17 vessels sitting idle.

- Meanwhile, the ship backlog off the West Coast continues to dwindle. There were 13 ships waiting for berths in Oakland, eight off L.A./Long Beach, six in Vancouver, British Columbia and zero waiting off Seattle/Tacoma.

- As port queues wind down, vessel capacity is released into the market. This increases the number of slots available for cargo and helps creates downward pressure on ocean rates.

LABOR COSTS/SHORTAGES

- The remarkable resilience in the U.S. labor market is great for workers but tough for business owners.

- The U.S. labor market is exceptionally strong with the unemployment rate falling to 3.5% from 3.7%. The last time it was lower was May of 1969. Which means pretty much every American who wants a job right now can get one.

- This is proving particularly problematic for businesses in the industrial sector because it seems many of the jobs that are open are unappealing to job seekers.

- With inflation eating into people’s earnings, workers want to hold out for better, higher quality opportunities with future growth potential.

- That means companies who are able to fill their open positions are significantly paying up in order to do so.

- Grappling with a shortage of workers continues to be a top issue for small business owners, with over 22% of those surveyed by the National Federation of Independent Business (NFIB) saying it is the single most important problem in business.

- 64% of businesses reported hiring or trying to hire in September, up one point from August. However, 89% of those owners hiring or trying to hire reported few or no qualified applicants for their open positions.

- While the share of businesses planning to increase compensation for workers fell one point to 45%. 23% of respondents plan to raise compensation within the next three months.

ENERGY PRICES

- As winter approaches, both sides of the Atlantic are bracing for higher energy costs this winter.

- In Europe, climate change and Russia's war in Ukraine are wreaking havoc on the energy market causing shortages and driving up costs.

- The European Commission is set to propose another set of emergency measures to tackle high energy prices. In its proposal the EU could, as a "last resort", set a temporary "maximum dynamic price" on gas trades using the TTF Dutch gas hub benchmark.

- This is the European Union's latest effort to address the spike in energy prices and fuel supply crunch that have gripped Europe after Russia cut gas flows.

- The TTF benchmark is up over 60% on the year but down significantly from its peak when it reached up over 380% on the year at the end of August.

- In the U.S., the Energy Information Agency (EIA) has stated they expect winter energy expenditures are going to be higher than previous years.

- Higher forecast expenditures reflect both higher energy prices and increased fuel consumption.

- The National Oceanic and Atmospheric Administration are forecasting weather temperatures to be slightly colder than previous winters, contributing to more consumption across all fuel types and regions.

- Additionally, inventories across fuel types are low, which puts further pressure on the possibility for high price volatility, particularly if the weather turns out to be very cold.

- The EIA is forecasting the average consumer expense for natural gas will be up 28.5%, heating oil up 26.6%, electracy up 10.2%, and propane up 3.6% for the upcoming winter.

U.S./CHINA RELATIONS

- The Biden administration is asking for public comment on the Trump-era tariffs which it placed on hundreds of billions of dollars of Chinese imports.

- The USTR is seeking public comments on “the effectiveness of the actions in achieving the objectives of the investigation, other actions that could be taken, and the effects on the U.S. economy and consumers.”

- The USTR will open a public web portal for comments on Nov. 15 with the window for submissions closing Jan. 17, 2023.

- The electronic portal will include more detailed questions on these issues, including questions about the impact of the Section 301 tariffs on U.S. workers, U.S. small businesses, U.S. manufacturing, critical supply chains, U.S. technological leadership, and possible tariff inversions (i.e., where additional tariffs on goods are lower than additional tariffs on inputs used to produce those goods).

- To facilitate the public’s preparation of comments, USTR intends to post the questions by November 1, in advance of the docket opening.

INFLATION

- Inflation is still a major problem. Overall consumer prices rose 0.4% in September, well above the consensus expected gain of 0.2%. The reading was held down by the volatile energy sector, which declined 2.1% in September due to a 4.9% drop in gasoline prices.

- Overall, consumer prices are up 8.2% from a year ago. While consumer prices may have peaked back in June, they still have a long way to go to get back to the Federal Reserve’s 2.0% target.

- Stripping out the food and energy categories makes the inflation picture look even uglier. “Core” prices rose 0.6% in September, pushing the 12-month increase to a new post-pandemic peak of 6.6%, the highest in four decades.

- Even more troublesome, inflation has persisted despite improvement in factors that were supposedly keeping it elevated (think energy prices and prices for used vehicles, which declined 1.1% in September).

- That’s because overall inflation is a monetary phenomenon. Therefore, keeping the growth in the money supply under consistent control will be critical to bringing down inflation.

- In the meantime, expect to see another 0.75% hike in short-term rates at the conclusion of the next Fed meeting in early November.

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