INDUSTRIAL SECTOR COST REPORT

December 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**	**$7,000/$9,000**
November	$2,000/$3,000	$3,000/$5,000	$9,000/$11,000
October	$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 are $9,000-$11,000 having decreased nearly 60% year-to-date. All 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	**$4,000/$6,000**	**$6,000/$8,000**	**$8,000/$10,000**
November	$7,000/$9,000	$8,000/$10,000	$10,000/$12,000
October	$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 37% this past month, while India/EC rates fell 22%. 40' container pricing fell the least, declining 18% from the previous month. All 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	**$2.40**	**$2.76**	**$2.73**
November	$2.38	$2.83	$2.79
October	$2.42	$2.88	$2.79
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	$3.46	$3.08
April	$2.80	$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:

- Van load-to-truck and flatbed load-to-truck rates are down 48.2% and 75.2% respectively year-over-year, helping lead to lower rates.

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

Month	Prices % Higher	Prices % Same	Prices % Lower	Net	Index
November	**13.1%**	**59.8%**	**27.1%**	**-14.0**	**43.0**
October	19.7%	53.8%	26.5%	-6.8	46.6
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 decreased for the second time in 29 months in November.

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

Prices Up	Prices Down
Electrical Components Electricity	Aluminum (7) Copper (2)

Electronic Components (24) Labor - Temporary (3).	Freight Lumber (3) Ocean Freight (3) Plastic Resins (6) Polypropylene (4) Steel (7) Steel - Carbon (5) Steel - Hot Rolled (7) Steel Products (5)

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 9.6%**	**Down 3.5%**	**Up 7%**	**Up 7%**
Current	1 USD = 6.968	1 USD = 19.72	1 USD = 0.942	1 USD = 1.360
November 30, 2022	1 USD = 7.078	1 USD = 19.29	1 USD = 0.968	1 USD = 1.351
October 31, 2022	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*: With uncertain economic conditions ahead, raw material prices continue to soften. *(More on pg. 6)*

2. *Ocean Freight Rates*: Prices continue to fall, but sailing volatility remains. (*More on pg. 6)*

3. *Port Congestions*: 55 container ships are waiting off North American ports, but the twin ports of LA and Long Beach declare things are finally back to normal. *(More on pg. 7)*

4. *Trucking Costs*: Signs pointing to lower spot rates as we close out 2022 and head into 2023. (*More on pg. 8)*

5. *Labor Costs/Shortages*: Job openings in manufacturing remain at historic levels, which suggests companies are still struggling to secure workers. *(More on pg. 8)*

6. *Energy Prices*: Crude oil prices are often a tell for the global economy, which could indicate trouble ahead after recent price declines. (*More on pg. 9)*

7. *U.S./China Relations (tariffs)*: The U.S. is on track to import more goods from China in 2022 than in any year prior. (*More on pg. 10)*

8. *Inflation*: A long way to go. (*More on pg. 10)*

INSIGHTS OF THE MONTH

- Real GDP growth in Q3 was revised higher to a 2.9% annual rate from its earlier estimate of 2.6%. Upward revisions to consumer spending, business investment, government purchases, and net exports were positive contributors to the growth in the quarter.

- U.S. total volume of trade (imports plus exports) rose by $0.3 billion in October and is up a robust 13.7% versus a year ago. The increase was driven by more goods and services, but also higher prices.

- The Producer Price Index (PPI) rose 0.3% in November and is now up 7.4% versus a year ago. Prices for intermediate processed goods declined 0.9% in November but are up 7.7% versus a year ago. Prices for intermediate unprocessed goods declined 3.2% in November but remain up 3.0% versus a year ago.

- After hitting a 20-year high this fall, the U.S. dollar is now weakening. The drop suggests markets now think the worst of the recent inflation is over, and therefore the Fed can soon start to slow down or even stop its rate-hiking program.

- The Senate has passed a bill that will avert a rail strike. The legislation provides railroad workers with a 24% increase in wages from 2020 through 2024, immediate payouts averaging $11,000 upon ratification, as well as an additional paid day off on top of existing vacation time.

- Bloomberg Economics predicts a rocky year ahead for the global economy, with a recession in Europe at the start, a U.S. contraction at the end and acceleration in China. Its base case for 2023 is global growth of 2.4%, down from 3.2% this year.

ADDITIONAL INFORMATION

RAW MATERIAL PRICING

- The Institute for Supply Management (ISM®) Prices Index registered 43% in November, down 3.6% from the Octobers reading of 46.6%.

- This is the index's lowest level since a reading of 40.8 percent in May 2020.

- Over the past eight months, the index has decreased 44.1 percentage points.

- None of the top six manufacturing industries reported increases in prices in November. Price declines continue to be driven by relaxation in energy markets, copper, steel, aluminum, plastics, corrugate and as well as volatility in freight costs.

- Notably, 87% of respondents reported paying the same or lower prices in November, compared to 80% in October

- In November, only one industry reported paying increased prices for raw materials: Miscellaneous Manufacturing.

- 10 industries reporting paying decreased prices for raw materials in October, in the following order: Wood Products; Textile Mills; Wood Products; Furniture & Related Products; Fabricated Metal Products; **Plastics & Rubber Products**; Transportation Equipment; Chemical Products; Electrical Equipment, Appliances & Components; Machinery; and Computer & Electronic Products.

- The ISM® also listed materials in short supply for the month, which includes the following: Electrical Components (26); Electronic Components (24); Hydraulic Components (7); **Rubber Based Products**; Semiconductors (24); and Steel Products.
  Note: The number of consecutive months the commodity has been listed in short supply is indicated in brackets after each item.

OCEAN FREIGHT

- Lower demand and easing congestion continue to push container rates down.

- As we enter December GCP's average Asia - U.S. West Coast have declined nearly 85% since the start of the year and are approaching rates back in line with 2019 pricing.

- East Coast prices have now decreased over 75% since January, though some lingering congestion is one factor keeping rates higher than pre-pandemic pricing.

- To this end, ocean carriers are ramping up their efforts to halt the relentless erosion of spot rates by blanking more sailings from Asia.

- According to Drewry's weekly *Cancelled Sailings Tracker*, carriers have announced 96 cancelled sailings out of 730 scheduled sailing between December 5 and January 8, which is a 13% cancellation rate of global capacity.

- Moreover, it looks like blanked sailings are set to increase next year, as more capacity comes online. Carries have signaled they will continue to suspend services unless there is a quick recovery in global economies.

- Other indications of excess capacity in the market are the recent uptick in carriers scrapping older vessels (kept in use while demand was surging) and the trend of vessels taking longer on return routes from Europe to Asia as a way to tie up some capacity.

- Even with recent declines, total 2022 shipping volumes are projected to be about even with the 2021's record-setting year. This suggests that some of the decline (in volumes and in rates) is due to the significant pull forward of peak season demand and buildup of inventories, and not only to – the so far modest – changes in consumer habits and spending.

- The question now, is whether there will be a soft landing from inflation resulting in volumes normalizing to pre-pandemic levels and more ordinary ordering patterns. Or will economic forces lead to a recession, slashing demand, and lead to significantly falling volumes pushing rates even lower?

PORT CONGESTIONS

- Executive Director of Marine Exchange of Southern California declared the container ship backup has finally ended. After twenty-five months, things are finally back to normal at the ports of LA and Long Beach. As of mid-December, there are just 4 vessels waiting for birth with an average of 4 days wait time.

- While the backup might be over in Southern California, it's not completely done yet for the rest of North America.

- Latest ship-position data and port queue lists shows 55 container ships waiting off North American ports, mainly along the East and Gulf coasts.

- The port of Savannah shows the largest backlog with 21 ships currently waiting for berth, followed by Houston with 13 and Oakland with 9.

- For Canada the port of Vancouver is still working through its issues. While there are only 3 ships waiting for berth, the average expected wait time is nearly 30 days per ship.

- Moving forward, key economic indicators such as the growth of the economy, jobs, inflation, interest rates and fuel costs paint a conflicting picture of their impact on the future direction of container import volumes. End of the year tracking shows more relief but continues to point to a congested and challenging global supply chain heading into 2023.

TRUCKING

- The four elements that affect the trucking market show inbound container shipments are down. Load volume is up, truck capacity is down, and fuel prices are down month-over-month.

- North American container import volumes are projected to be down again in November coming in at 1.95 million twenty-foot equivalent units (TEUs). That would represent a 12% decrease month-over-month.

- Load volume has tightened slightly in the dry van and flatbed markets. Dry van capacity decreased with a rising load-to-truck ratio of 3.6:1 so far in December. That is up from 34% from November. While in the flatbed market, capacity remained largely consistent with the previous month up 2% in December with a load-to-truck ratio of 9.5:1.

- In terms of available capacity, beginning right around Thanksgiving many truck drivers who've reached their earning goals for the year hang up their keys for the remainder of the annual cycle. This reduces the overall capacity available and makes it tougher to secure a truck though the end of the year.

- National diesel prices are down almost 10% month-over-month but still up 35% versus a year ago. With pricing still higher than historical averages, it will continue to negatively impact the cost of carrier operations.

- Going forward, after a surge in activity at the end of November for U.S. Thanksgiving, and most companies having stocked up on inventories earlier in the year, all signs point to a softer spot rate market to close out the year.

LABOR COSTS/SHORTAGES

- For the most part, jobs are plentiful, and businesses have a robust appetite for new employees who are in short supply. The result is higher wages, which have risen faster than consumer prices in the last few months.

- But while the flourishing labor market continues to benefit America's workers, companies are having a hard time attracting and retaining employees.

- In the latest National Federation of Independent Business (NFIB) survey, 44% of owners reported job openings that were hard to fill, down two points from October but still historically high and not typical of a recession period.

- 54% of owners reported few or no qualified applicants for the positions they were trying to fill (down 1 point from last month). While 31% of owners reported few qualified applicants for their open positions (up 1 point) and 23% reported none (down 2 points).

- The share of owners raising selling prices to deal with increases costs climbed one point to 51%, a high reading but lower than earlier this year.

- According to the latest jobs report from the U.S. Labor Department, in November, manufacturers added 14,000 jobs, roughly half the 32,000 new positions the sector added in October.

- The number of job openings in the manufacturing sector dropped significantly, with the Labor Department recording 746,000 unfilled positions for the sector. This is compared to 835,000 open positions reported the month pervious.

- Notably, job openings in the manufacturing sector remain at historic levels. The average number of unfilled positions in 2019 was 437,000, roughly half of what they are today, suggesting manufacturers are struggling with finding workers.

ENERGY PRICES

- WTI crude oil futures have fallen significantly from earlier in year, amid growing concern about the state of the global economy. Prices are now around $74 USD/barrel, down from $119 in early March.

- Brent crude tells a similar story, hovering around its lowest level of the year at 78 $USD/barrel, down from $123 in June.

- The recent sell-off came despite ostensibly good news for the crude market, as China phases out the COVID policies in order to focus on economic growth and a price cap on Russian oil is imposed by U.S. and European allies.

- The cap, agreed at $60 per barrel, is meant to be enough to give Russia incentive to keep pumping oil, contributing to global supply, but prevent windfall profits amid its war in Ukraine.

- Looking ahead to next year, a deeper-than-expected global recession, including a delayed Chinese recovery due to a surge in Covid-19 cases, could lead to a sizeable collapse in oil demand, even with a resilient economy in 2023.

- With oil prices already falling, should a resolution of the Russia-Ukraine conflict occur, this would remove the "war-related risk" causing prices to lose an estimated 50% of their value in the first half of 2023.

- Risk related to military conflict had helped to keep contract prices elevated relative to deferred contracts, but an end of the war would see the oil curve invert in 2023.

- In this potential scenario, the collapse in oil prices would likely take international benchmark Brent crude to just $40 per barrel, its lowest point since the peak of the pandemic.

U.S./CHINA RELATIONS

- While the office of the United States Trade Representative (USTR) is in the middle of seeking public comments (closing Jan. 17, 2023) regarding the Section 301 tariffs on billions of dollars of Chinese goods.

- It hasn't slowed down the U.S. weighing new tariffs on Chinese steel and aluminum as part of a bid to fight carbon emissions and global overcapacity.

- The move would mark a novel approach, as the U.S. and EU would join up and seek to use tariffs (usually employed in trade disputes) to instead further their climate agenda.

- The idea generated within President Joe Biden's administration, is still in an initial phase and hasn't been formally proposed, but he tariff plan would likely deepen divisions between Beijing and Washington.

- This among the backdrop where it appears the U.S. will import more goods from China in 2022 than in any year prior. Through the first three quarters of the year, the U.S. has imported $418 billion in goods from China, or $23.7 billion more than it did in the same period of 2018, the current record holder.

INFLATION

- Consumer prices index (CPI) rose 0.1% in November, falling well short of the consensus expected 0.3% and pushing the year-over-year comparison down to 7.1%.

- Energy prices declined 1.6% in November, driven by lower prices for gasoline (-2.0%) and natural gas (-3.5%). Stripping out energy and its other volatile counterpart, food prices, "core" prices rose 0.2% versus a consensus expected rise of 0.3%. Core prices are up 6.0% versus a year ago.

- The Fed slowed the pace of its hikes to 0.5% in December, as expected, but signaled tightening will continue.

- "We will stay the course until the job is done," Jerome Powell said in his December press conference, adding “We need to be honest with ourselves that there's inflation. 12-month core inflation is 6% CPI. That's three times our 2% target. Now it's good to see progress, but let's just understand we have a long way to go to get back to price stability."

- Powell continued to say "I don’t think anyone knows whether we’re going to have a recession or not, and, if we do, whether it’s going to be a deep one or not. It’s just - it’s not knowable... The historical record cautions strongly against prematurely loosening policy."

- Despite weaker economic growth and higher unemployment projected for 2023, the Fed dot plot chart shows a path for higher rates, with the median for 2023 finishing at 5.125% versus September’s 4.875% forecast. The Fed is clearly showing that, despite pain on the employment side of the dual mandate, inflation is the priority.

- While its good inflation numbers have improved, the necessary path to bring it back in line with the Fed’s target will likely bring much more volatility, and short-term pain. The economic medicine, while bitter, is part of the price we pay for the policy decisions made over the past few years.

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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