INDUSTRIAL SECTOR TRADE REPORT

December 2023

GCP
INDUSTRIAL PRODUCTS

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Insights of the Month

Will We See a U.S. Factory Boom? Not Without AI:

AI, machine learning, the internet of things and cloud computing are all necessary elements in a return to U.S. production. Learn where all this new technology fits, what it means for human labor.
Listen Here >

Janet Yellen on the U.S.-China Economic Relationship:

Yellen revealed her 2024 U.S.-China gameplan in a major speech to business leaders, detailing her 2024 priorities in improving economic ties, communications, regulatory collaboration and transparency.
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Economic Forecast for the U.S. Economy

The U.S. economy appears to be coming in for a landing at last. Inflation is moderating, labor market conditions are cooling, interest rates are elevated but stable. However, the question remains, what kind of landing are we in for?
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Panama Canal to Cut Ship Crossings as Drought Worsens

A drought is causing record-low water levels on the Panama Canal, leaving ships facing an extra six days on their transit times. Overall cargo flows through the canal are down by an estimated 14 million tonnes on the year (a drop of about 5%).
Read Here >

December
2023

U.S./China Relations

- On December 14, Secretary of the Treasury Janet L. Yellen delivered remarks on the U.S.-China economic relationship at the U.S.-China Business Council's 50th Anniversary Dinner in Washington, DC.

- She started by saying, the Biden Administration strategy towards China begins with investing at home and rebuilding alliances abroad. I and other U.S. officials have repeatedly stated that the U.S. does not seek to decouple from China. This would be damaging to both our economies and would have negative global repercussions.

- America's fundamental economic strength means that we have nothing to fear from healthy economic competition, with China or any other country.

- The U.S. will pursue a healthy economic relationship with China, one that benefits both sides. We will seek to cooperate with China on global challenges. And because our national security must remain our foremost priority, we will deploy our economic tools when needed to secure our country's national security interests.

- Heading into 2024 she laid out three main priorities for the economic relationship. First, the U.S. will continue to responsibly manage the bilateral economic relationship. Second, we will press for clarity on China's economic policies and policymaking to better inform our own decision-making. Third, we will look to accelerate our work with China on areas where our countries and many others would benefit from our collaboration and joint leadership.

Raw Material Prices

Institute for Supply Management (IMS®) Price Index					
Month	Prices % Higher	Prices % Same	Prices % Lower	Net	Index
Nov 2023	16.0%	67.7%	16.3%	-0.3	49.9
Oct 2023	11.0%	68.1%	20.9%	-9.9	45.1
Sept 2023	12.9%	61.7%	25.4%	-12.5	43.8
Aug 2023	16.4%	63.9%	19.7%	-3.3	48.4
July 2023	13.9%	57.4%	28.7%	-14.8	42.6
June 2023	11.2%	61.1%	27.7%	-16.5	41.8
May 2023	15.4%	57.5%	27.1%	-11.7	44.2
April 2023	26.3%	53.7%	20%	+6.3	53.2
March 2023	21.4%	55.6%	23.0%	-1.6	49.2
Feb 2023	24.7%	53.2%	22.1%	+2.6	51.3
Jan 2023	18.2%	52.5%	29.3%	-11.1%	44.5
2022 Index Average Jan.-Dec.					64.7
2021 Index Average May-Dec.					82.8

Notes:

- The ISM® Prices Index registered 49.9% reading, which is 4.8% higher compared to October, indicating raw material prices decreased in November for the seventh consecutive month, though just barely and essentially flat month over month.
- The index has been in contraction (or "decreasing") territory since May, but a higher reading compared to October indicated a slower rate of price decreases.
- Commodity markets remain highly volatile. Recent decreases in energy markets are being offset by increases in the steel markets.
- In November, seven industries that reported paying increased prices for raw materials, in the following order: **Plastics & Rubber Products**; Fabricated Metal Products; Primary Metals; Machinery; Miscellaneous Manufacturing; Food, Beverage & Tobacco Products; and Nonmetallic Mineral Products.
- Six industries reported paying decreased prices for raw materials in November, in the following order, are: Textile Mills; Furniture & Related Products; Petroleum & Coal Products; Chemical Products; Computer & Electronic Products; and Transportation Equipment.

Commodity Pricing

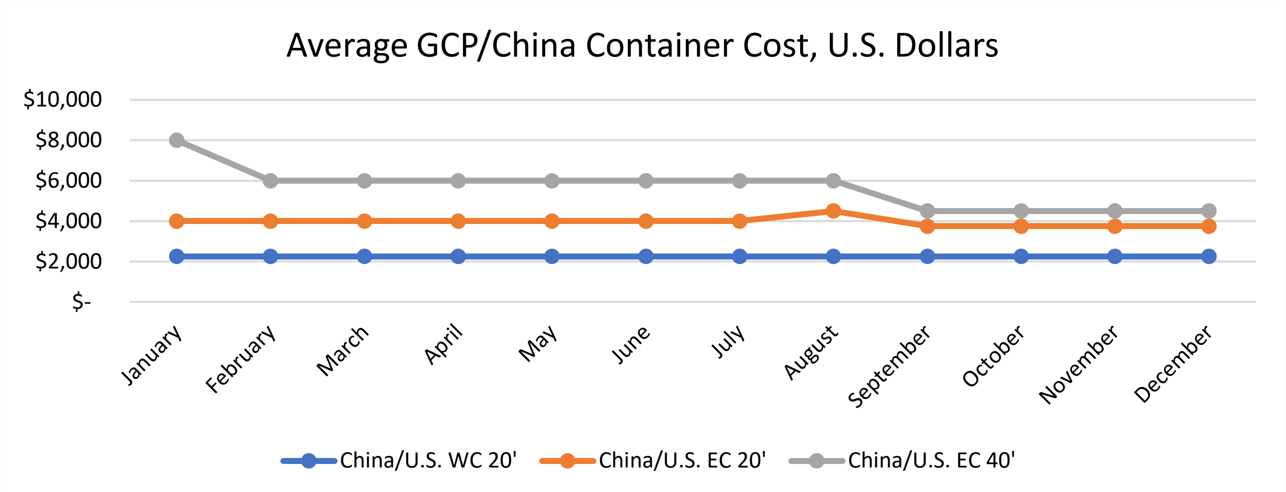
IMS® Commodity Price Change	
Prices Up	Prices Down
Cocoa Electrical Components Electronic Components (3) Labor - Temporary (3) Natural Gas (5) Polyethylene Polypropylene (2) Steel (5) Steel - Carbon Steel - Cold Rolled Steel - Hot Rolled	Aluminum (6) Corrugated Boxes (4) Crude Oil Diesel Nickel Steel Products (6)

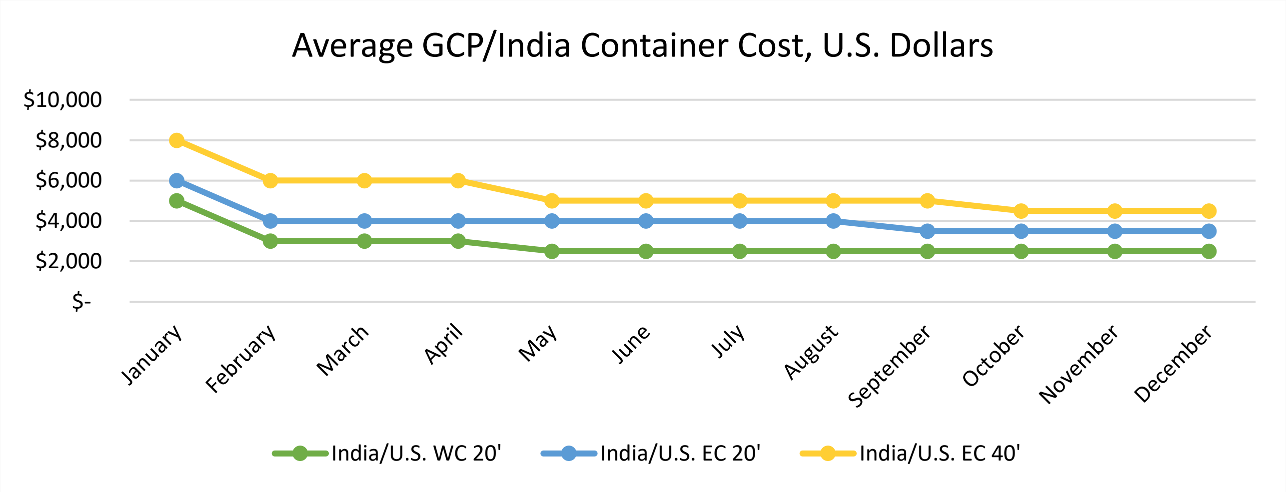
IMS® Commodities in Short Supply
Electrical Components (38) Electrical Equipment (2) Electronic Components (36) Semiconductors

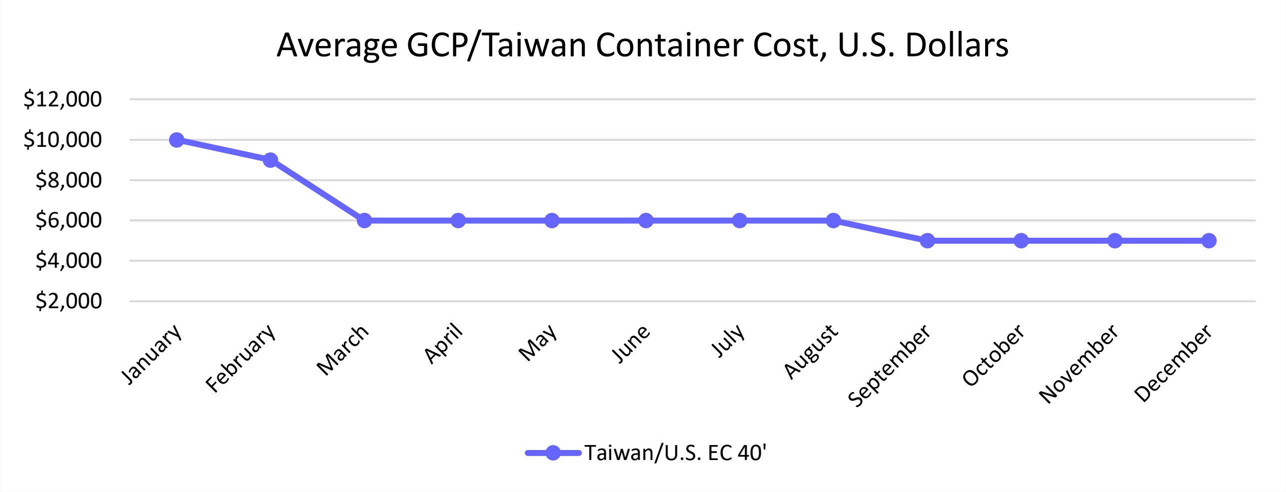
Notes:

- 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.

Ocean Freight







Ocean Freight

Notes:

- All rates stated on page 7 are port to door rates, fully delivered, inclusive of all fees.

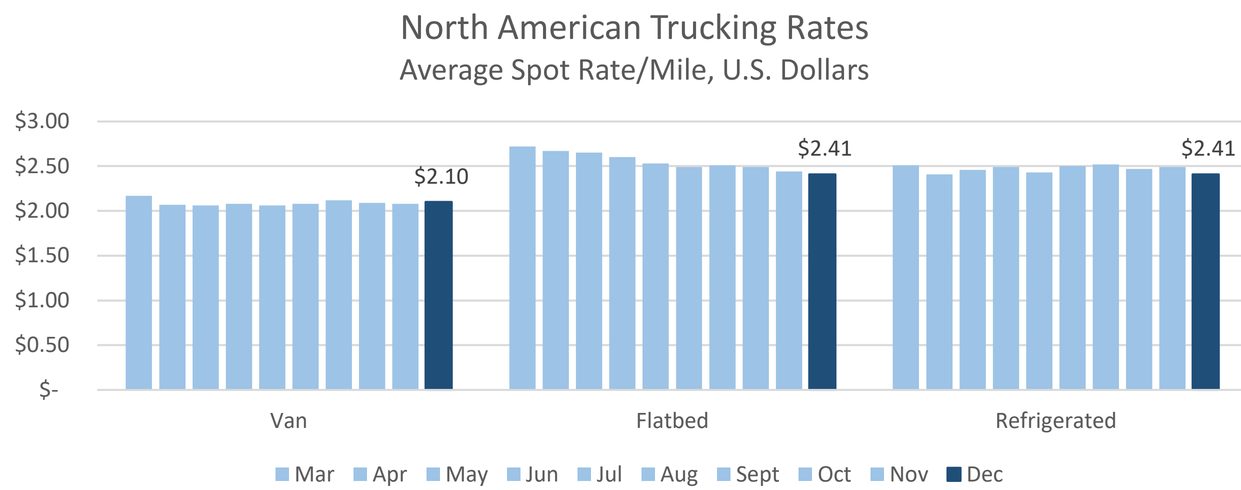
- In the Red Sea an increase in Houthi missile and drone attacks on ships – including container vessels operated by Maersk, MSC and others – has led to four of the top five largest container carriers announcing they will be avoiding the Red Sea and the Suez Canal until security is restored to the waterway.

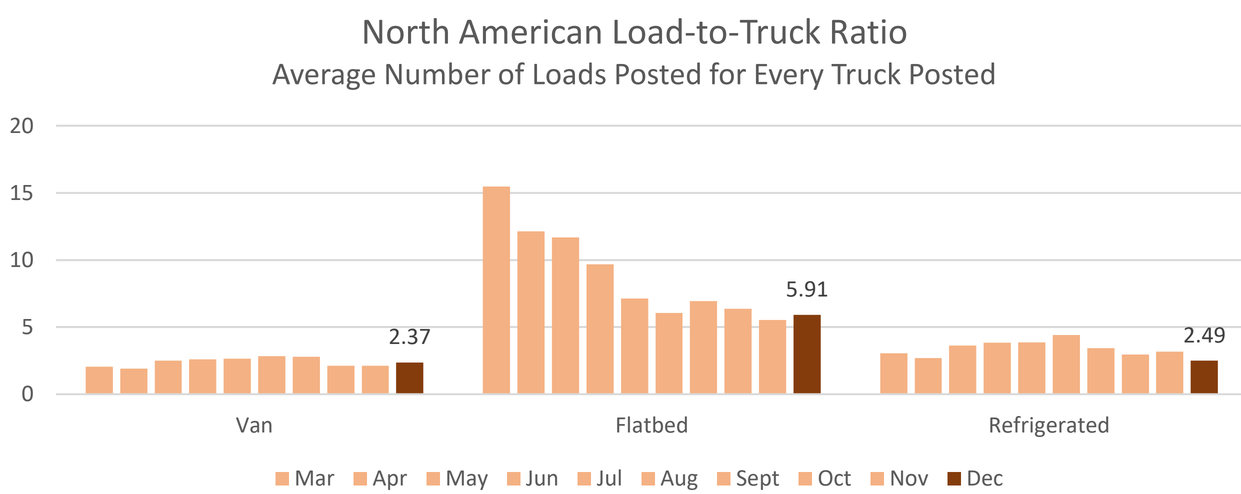
- Together with ZIM who was already diverting their Red Sea traffic, these carriers represent 56% of global capacity, meaning an estimated 17% of global volumes will be taking a longer, more expensive route from Asia around the southern coast of Africa to North Europe and the Mediterranean, as well as some Asia - North America traffic.

- Container diversions will take an extra 7-14 days in transit time depending on the lane and mean a 15-20% increase in costs for carriers. In addition to longer voyages and higher costs, disruptions to scheduled arrival times could cause congestion at destination ports and some equipment shortages as empty containers take longer to get back to origin ports.

- Some carriers were already extending service suspensions into 2024 as supply and demand are misaligned. Now, carriers will devote those extra vessels to services traveling longer distances and requiring more ships to keep to existing departure schedules on track.

Trucking

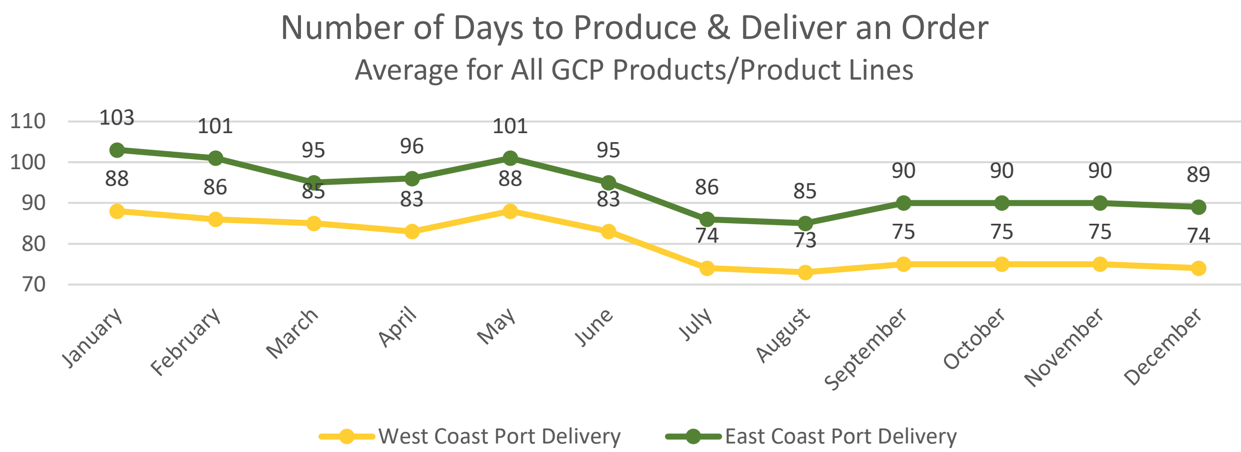




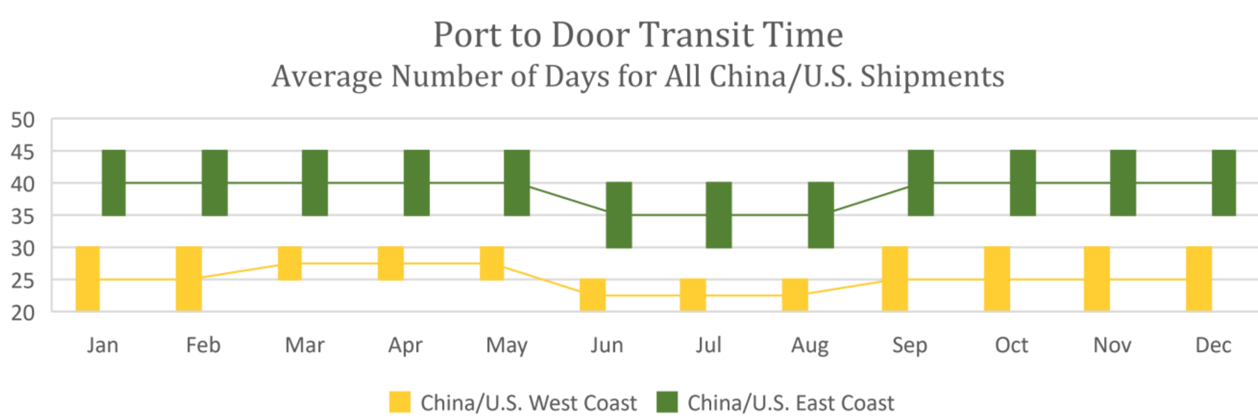
Notes:

- Truckload demand is barely a shadow of what it was during the pandemic, but it has been growing throughout most of 2023.
- Tender volumes are averaging over 10% higher year-over-year in December and have been growing steadily since last winter.
- National average spot rates continue to stay low, though van rates pushed up to the highest they've been since September even as fuel prices fall.
- The surprising strength of the economy in 2023 may provide less support for freight in 2024, but some market participants feel a supply contraction could present itself in 2024 which could change the trajectory of rate trends, even if the broad economy slows.

Transit Times



The chart above measures the change an average GCP order will take to supply from the time a purchase order is submitted to the time it is delivered (all facilities, all products). This includes the time it takes to book a container, which currently stands at an average of 10.5 days, as well as ocean shipping and all other transit times.



Our port-to-door transit time tracks the change in days an average GCP order will take to cross the ocean, including all other intermodal shipping.

Notes:

- The average production time for all GCP products moved slightly lower this month with an expected completion time of 49.5 days compared to 50.8 last month. Regarding factory activities, recent details show that Chinese factories are producing less and hiring fewer people. Policy support will remain in the spotlight as global demand is expected to stay weak heading into 2024.

- For specific production times on each of our product lines and products, please see our December 2023 production report. (View here)

Port Operations

Current North America Vessel Dwell Times				
Region	Port	Vessels Waiting	Average Wait for Berth	Rail Dwell Times
U.S. West Coast	LA/LB	9	4 days	5 days
	OAK	2	0 days	3 days
	SEA/TAC	0	1 day	7 days
Canada West Coast	Van	3	2 days	5 days
	PRR	0	1 day	6 days
U.S. East Coast / Gulf Coast	NY/NJ	1	0 days	3 days
	BAL	0	1 day	N/A
	NOR	2	1 day	3 days
	CHS	3	1 day	3 days
	SAV	3	1 day	3 days
	HOU	N/A	N/A	N/A

Notes:

- Inbound cargo volume at North America's major container ports should continue to slow in the final weeks of 2023 after reaching its peak later than expected this fall.
- U.S. ports handled a higher-than-expected 2.05 million Twenty-Foot Equivalent Units (TEUs) in October, the latest month for which final numbers are available. That was up 1.3% from September and up 2.5% from October 2022 for the first year-over-year increase since June 2022.
- By topping September's 2.03 million TEU, October should turn out to be the peak of the holiday shipping season. With 1.96 million TEU, August had originally been expected to be the peak month.
- Numbers are not yet finalized for November, but projections for the month stand at 1.96 million TEUs, up 10.5% year-over-year. December is forecast at 1.93 million TEUs, which would be up 11.5% year-over-year.
- Those numbers would bring 2023 to 22.4 million TEUs, down 12.4% from last year. Imports during 2022 totaled 25.5 million TEUs, down 1.2% from the record high of 25.8 million TEUs set in 2021.

Labor Costs & Shortages

- According to The National Federation of Independent Business (NFIB) monthly jobs report, 40% of all owners reported job openings they could not fill in the current period, down three points from last month.

- The percent of small business owners reporting labor quality as their top operating problem remains elevated at 24%.

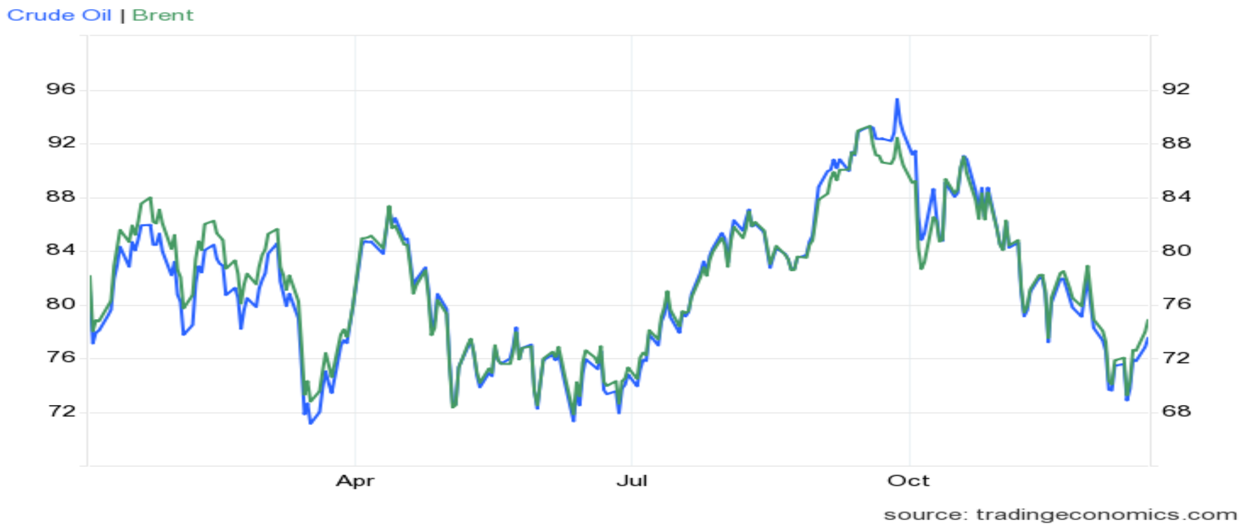
- Labor costs reported as the single most important problem for business owners decreased one point to 8%, five points below the highest reading of 13% reached in December 2021.

- “Despite the slight decline in November, small business job openings remain stuck in historical territory,” said NFIB Chief Economist Bill Dunkelberg. “For owners across the country, there are not enough workers to maintain current operations, much less chase new opportunities. As we near the end of the year, owners continue to raise pay to attract and retain qualified employees.”

- With respect to U.S. manufacturing specifically, employment in the sector increased by 24,000 jobs in November, recouping some of the 35,000 jobs lost in October, according to the latest jobs report from the Labor Department.

- Additionally, the latest Job Openings and Labor Turnover survey finds that while unfilled positions in U.S. manufacturing are still historically high, open positions in the sector continue to decline. The Labor Department recorded 601,000 unfilled positions for the sector in October, down from the 647,000 unfilled positions reported for September, and a far cry from the nearly one million open positions reported for the sector one year ago.

Energy Prices

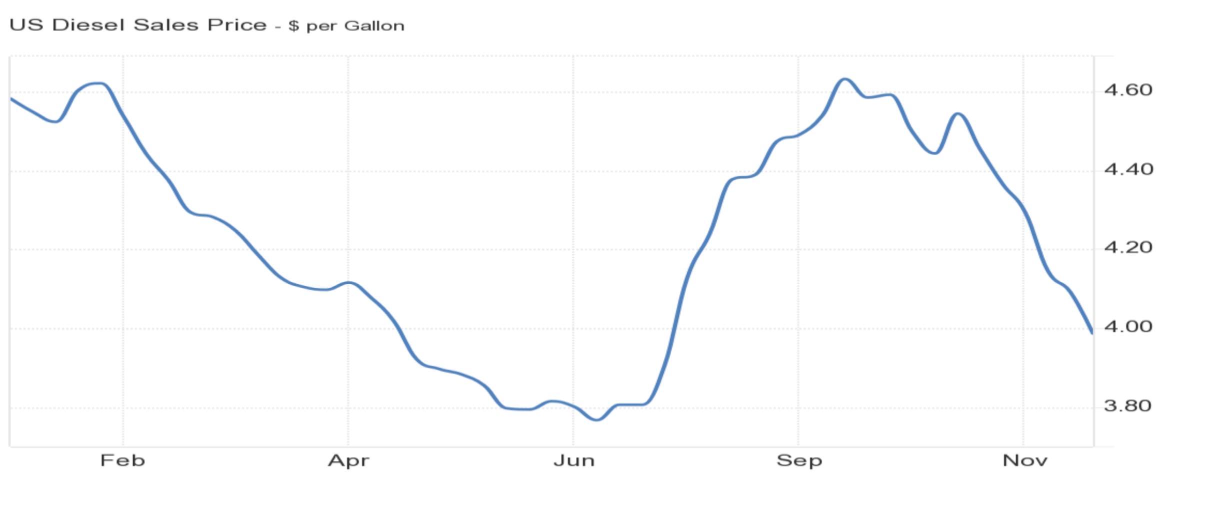


Crude prices are hovering around $73 per barrel after gaining due to fears of supply disruptions as Houthi militants in Yemen stepped up attacks on ships in the Red Sea. This prompted shippers to divert vessels away from the Red Sea, with oil major BP and oil tanker group Frontline avoiding passage through the waterway as the crisis widened to include energy shipments.

Natural gas prices have fallen to around $2.4/MMBtu, due to elevated output and an anticipated decrease in demand during the upcoming week, coinciding with the Christmas holiday. Gas production is reaching new highs this month, averaging 108.4 bcfd. On the other hand, the market remains supported by strong expectations of consistent exports and LNG terminals consuming 15 billion cubic feet/day. Furthermore, concerns regarding disruptions to maritime trade in the Red Sea prompted BP to suspend its shipments and urged global freight firms to reroute around the Cape of Good Hope.

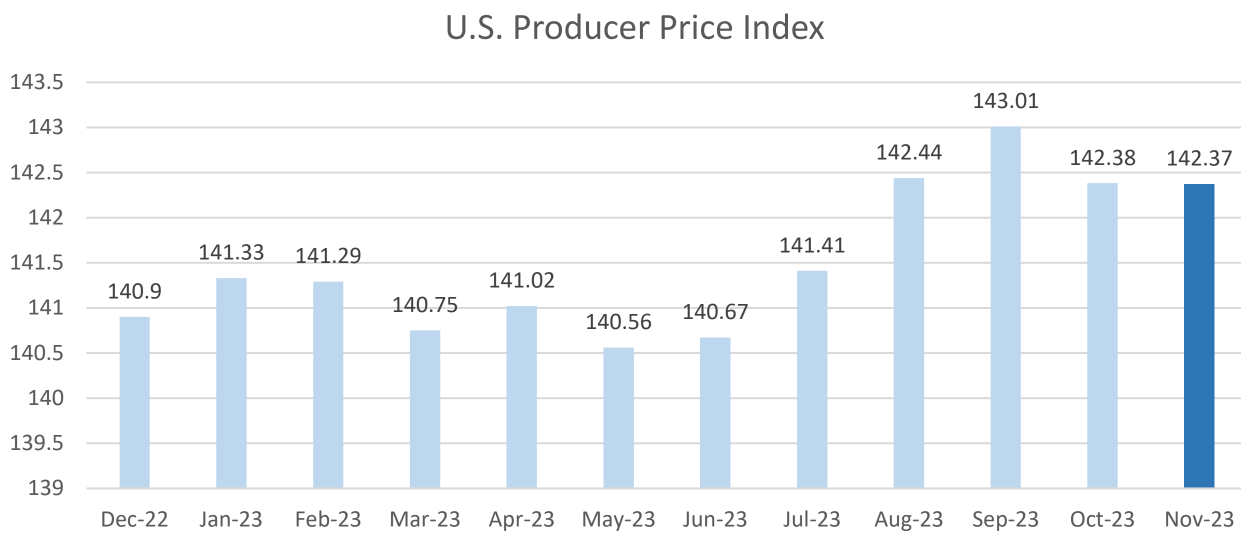
Energy Prices

Coal prices extended their strong momentum toward $150 per tonne in December, close to their highest in over two months, amid increasing demand from key consumers. Japan and South Korea, the main consumers of high-grade coal increased their purchasing activity toward the end of the year as utilities piled on thermal coal instead of liquified natural gas. The developments mark a contrast to the softening demand for lower-grade coal, largely attributed to muted buying from India and China.



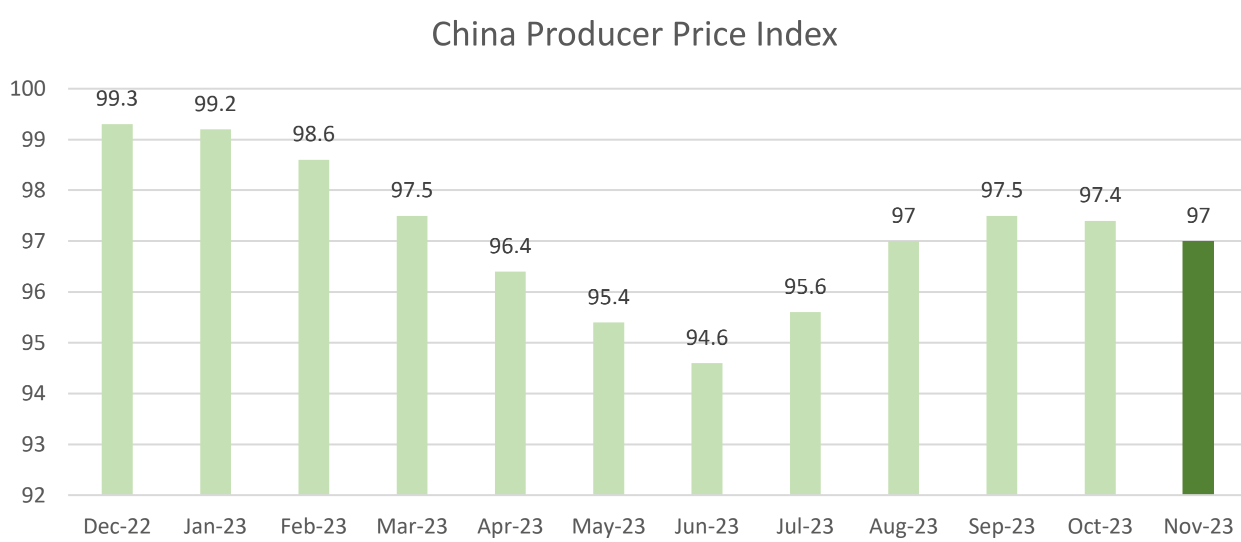
U.S. diesel prices are ringing in the holidays with lower rates. For the week of Dec. 18, the U.S. Energy Information Administration reported that diesel costs have continued to drop nationwide for the eighth week in a row, with current nationwide prices at $3.894 per gallon. While last week marked the first-time diesel prices reached below $4 per gallon. This week, the East Coast, Lower Atlantic, Midwest, Gulf Coast, and Rocky Mountain regions all offered prices below that threshold.

Producer Prices By Country



Notes:

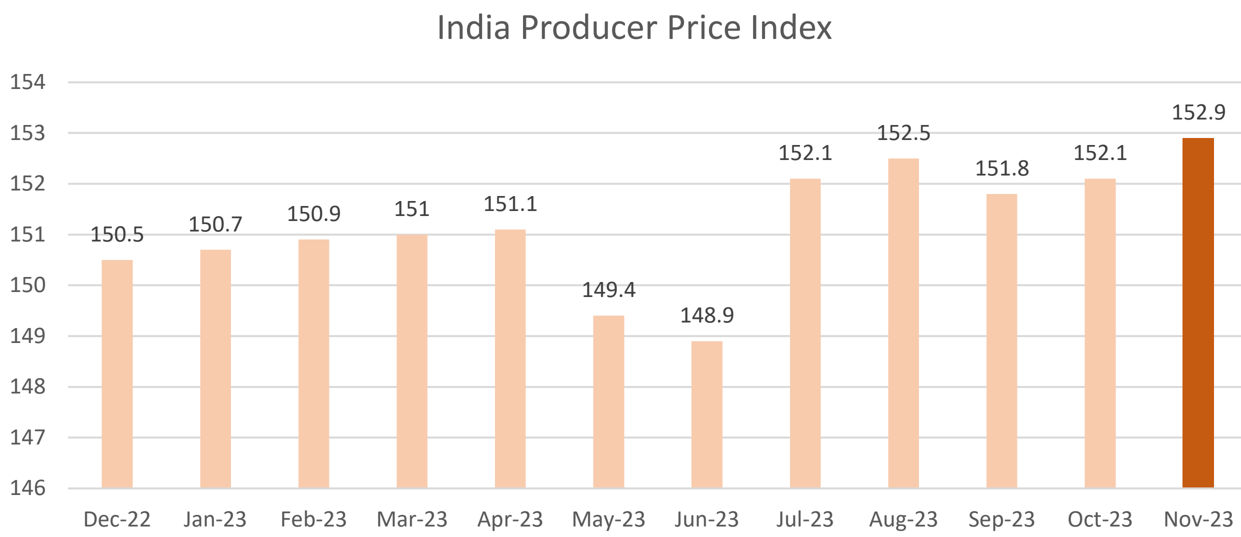
- U.S. producer prices decreased for the second month in a row, declining 0.01% month-over month, while the twelve-month comparison is up 0.85%.



Notes:

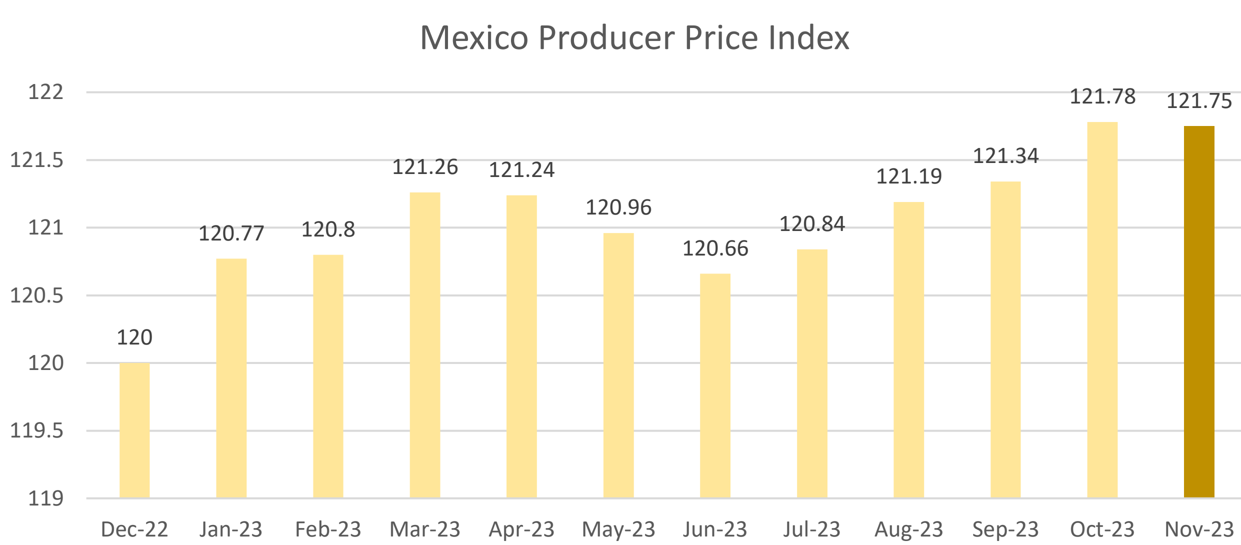
- Chinese producer prices decreased from last month declining 0.41%, with the year-over-year comparison also down 1.72%.

Producer Prices By Country



Notes:

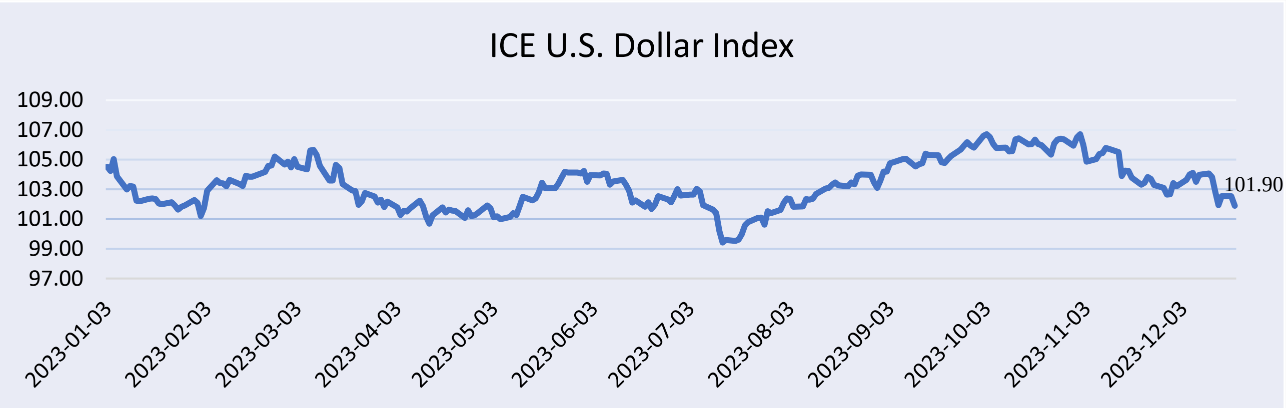
- India's producer prices increased in November, gaining 0.52%, while the year-over-year comparison is up 0.26%.



Notes:

- Mexico's producer prices ticked down ever so slightly for the firs time in 26 months. The year-over-year comparison is still up 1.79%.

Foreign Exchange



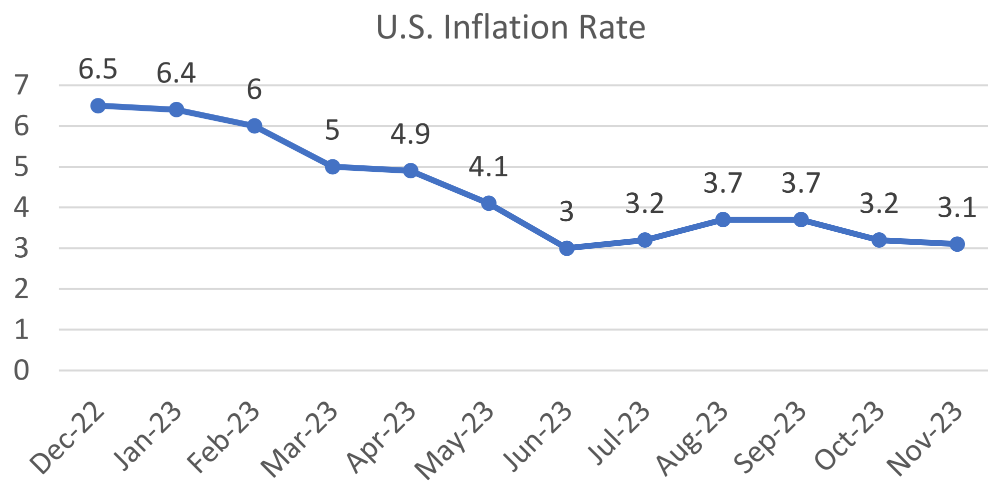
U.S. Dollar - Against Major Trading Partners

Month	1 U.S. Doller = Chinese Yuan	1 U.S. Doller = Mexican Peso	1 U.S. Doller = Euro	1 U.S. Doller = Canadian Dollar
USD YTD Change	***+ 3.04%***	***- 11.28%***	***- 2.24%***	***- 1.39%***
Current (Dec 15, 2023)	¥7.109	$17.30	€0.915	$1.339
November 30, 2023	¥7.136	$17.40	€0.914	$1.360
October 31, 2023	¥7.316	$18.04	€0.941	$1.385
September 29, 2023	¥7.310	$17.47	€0.943	$1.343
August 31, 2023	¥7.287	$16.73	€0.920	$1.354
July 31, 2023	¥7.149	$16.70	€0.907	$1.321
June 30, 2023	¥7.269	$17.08	€0.920	$1.327
May 31, 2023	¥7.107	$17.72	€0.936	$1.365
April 28, 2023	¥6.919	$18.05	€0.910	$1.364
March 31, 2023	¥6.875	$18.06	€0.919	$1.355
February 28, 2023	¥6.937	$18.31	€0.941	$1.357
January 31, 2023	¥6.757	$18.83	€0.923	$1.345
January 02, 2023	¥6.899	$19.50	€0.936	$1.358
% Change in 2022	Up 8.5%	Down 4.4%	Up 6.5%	Up 6.6%

Notes:

- The U.S. dollar index dropped below 102 level for the first time since August, as U.S. Fed officials attempted to temper rate cut expectations saying recent bets on a March reduction were premature.

Inflation



- The Consumer Price Index (CPI) rose 0.1% in November, above the consensus expectation of no change. The CPI is up 3.1% from a year ago.

- The "core" CPI, which excludes food and energy, rose 0.3% in November, matching consensus expectations. Core prices are up 4.0% versus a year ago.

- There appears to be a growing belief that inflation is in the rearview mirror, but we're not all the way home yet. While the twelve-month CPI comparison ticked down to 3.1%, which is leaps and bounds better than the 7.1% reading in November 2022, it is still well above the Fed's 2.0% long-term target.

- Taking a deeper look under the inflation hood reveals more concern. The twelve-month "core" comparison remains a worrisome 4.0%. That is not a huge improvement versus the 6.0% reading in November 2022.

- True, inflation is trending down. But much of the improvement is due to energy, which is down 5.4% over the past twelve months.

- At it's December meeting the Federal Reserve, projected a soft landing as its base case in the years ahead. Not one policymaker on the Federal Open Market Committee (FOMC) thinks the short-term interest rate target will be higher a year from now than it is today, which is 5.375%.

- The Fed didn't change short-term interest rates, nor did it alter the pace of Quantitative Tightening. The economy is still growing, but a recession in 2024 is still possible if real GDP growth significantly lags the 1.4% predicted by the FOMC.

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