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INDUSTRIAL SECTOR COST REPORT

September 2021

KEY COST INDEXES

1. Ocean Freight Rates - Average GCP Container Cost, U.S. Dollars

Month	Asia/West Coast	Asia/East Coast	40' Containers
August	**$12,000/$14,000**	**$14,000/$16,000**	**$16,000/$20,000**
July	$10,000/$12,000	$12,000/$14,000	$20,000/$25,000
June	$10,000/$12,000	$12,000/$14,000	$18,000/$20,000
May	$8,000/$10,000	$10,000/$12,000	$15,000/$16,000

Average Asia-US West Coast prices are between 415%-530% higher than the same time last year.
Average Asia-US East Coast prices are between 400%-500% higher than the same time last year.
For 40' containers from Taiwan-US East Coast we are currently being quoted $26,000/$32,000.

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

Month	Van	Flatbed	Refrigerated
August	**$2.76**	**$3.08**	**$3.15**
July	$2.72	$3.11	$3.13
June	$2.67	$3.15	$3.09
May	$2.67	$3.10	$3.09

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

Prices	% Higher	% Same	% Lower	Net	Index
August	**62.8**	**33.3**	**3.9**	**+58.9**	**79.4**
July	73.8	23.8	2.4	+71.4	85.7
June	84.8	14.5	0.7	+84.1	92.1
May	77.1	21.6	1.2	+75.9	88.0

The ISM® Prices Index registered 79.4 percent, a decrease of 6.3 percentage points compared to the July reading of 85.7 percent, indicating raw-materials prices increased for the 15th consecutive month, but at slower levels.

4. US Dollar - Against Other Currencies

Month	Chinese Yuan	Mexican Peso	Euro	Canadian Dollar
August	**1 USD = 6.462**	**1 USD = 19.82**	**1 USD = 0.841**	**1 USD = 1.246**
July	1 USD = 6.466	1 USD = 19.97	1 USD = 0.842	1 USD = 1.237
June	1 USD = 6.384	1 USD = 19.90	1 USD = 0.818	1 USD = 1.203

Chinese Yuan - The US dollar has depreciated 6.70% in value from August 2020.
Mexican Peso – The US dollar has depreciated 11.07% in value from August 2020.
Euro – The US dollar has appreciated 0.35% in value from August 2020.
Canadian Dollar – The US dollar has depreciated 5.30% in value from August 2020.

KEY UPDATES

- With ongoing pandemic-related delays and closures, non-stop demand for ocean freight from Asia to the US, and a lack of capacity, ocean rates are still very elevated and transit times extremely volatile. – *Freightos*

- The National Retail Federation (NFR) projects that August will set a new monthly container import record. Its forecasting 2.37 million twenty-foot equivalent units (TEU), which would be up 12.6 percent year-over-year and top May's 2.33 million TEU for the largest number of containers imported into the U.S. during a single month since NRF began tracking imports in 2002. – *National Retail Federation*

- The number of vessels in port and at anchor waiting to unload on the west coast, are now back to the record-levels set earlier in February. Further inland, intermodal rail yards (not designed to handle such unprecedented volumes of freight) are bursting at the seams, forcing shippers to look to road transport to move much-needed cargo. – *DAT Freight*

- 5.2 days is the average number of days incoming container wait to leave by truck from the ports of Los Angeles and long Beach. – *Pacific Merchant Shipping Association*

- As we enter the third quarter, all segments of the manufacturing economy are being impacted by near record-long raw-material lead times, continued shortages of critical basic materials, rising commodities prices and difficulties in transporting products. – *Institute for Supply Management*

- Despite the recent run-up of inflation, it seems the Federal Reserve is still comfortable keeping real interest rates negative to promote business investment and employment growth for the remainder of 2021. Leaving plenty of scope for rate hikes to potentially begin later in 2022. – *National Bank of Canada*

PLAN FOR THE REST OF 2021

- We continue to ask customers to plan as far into the future and as accurately as possible. This will help for container bookings and if those forecasts are accurate, seasonal planning can work better.

- Communication and accuracy remain vital. Pay close attention to the dynamics of your business, marketplace, and customers.

- Keep pushing price increases whenever and wherever you can.

- Pricing today could yield better-than-expected profits a year from now if you can be aggressive.

- The 2022 Beijing Winter Olympics are fast approaching. Presently we do not see a great disruption for many of our production facilities like we did in 2008. However, we do expect our conveyor belting production to be impacted. To ease any disturbance we are planning to pre-produce enough material to get us through the Olympic timeframe.

Sincerely,

The GCP Team

ADDITIONAL INFORMATION

OCEAN FREIGHT

- How extreme is the situation? GCP was recently quoted over $30,000 USD for a forty-foot equivalent unit (FEU) container. The quote is a bit of an outlier, but still is an indication of how much power carriers can wield they hold the cards.
- The freight market in July was marked by more disruptions – including fires in Canada, flooding in Europe, a typhoon in China, and COVID outbreaks in Asia and elsewhere.
- Vessel operators have no extra ships to meet the tidal wave of freight demand. Containers are in short supply or can't get quickly repositioned where needed, and destination ports are piling up with boxes because they can't keep up with the volume.
- As ocean freight peak season continues to heat up, congestion and delays at the ports in Asia and North America are on the rise once again. The length of time container ships must wait in a bay is a major reason why its estimated it takes 25% more fleet capacity than usual to move the same volume of cargo.
- Ocean imports are expected to taper in the fall, but with double-digit increases compared to 2019, the decline isn't likely to significantly reduce rates or delays.
- With close to no capacity many importers and exporters are willing to pay premiums in addition to regular elevated rates just to keep their goods moving.
- Bottomline, freight is really expensive, and with high consumer demand, still-lagging inventory levels, prices are not expected to let up anytime soon.

CONTAINER SHORTAGE

- Shippers say they are unable to get containers or space on vessels at ports of origin, as demand for ocean freight continues to outstrip supply. This is keeping ports congested and prices high.
- Availability of containers in several parts of the world has become incredibly tight because large volumes of containers are stuck in the wrong places.
- In recent years there has been a pullback in container production that has contributed to today's shortages, but the disruption triggered by the pandemic is the main factor hampering availability.

- The price of a new twenty-foot (TEU) container is now $3,800 per box. The price of a new TEU container, pre-COVID, was around $1,600 per TEU, less than half the current level.

- More capacity is coming. Container factories, which are mostly located in China, are expected to produce a record 5.4 million TEUs, this year. Production has significantly grown from 2019 since 2.8 million TEUs were produced.

TRANSIT TIMES

- The higher rates aren't resulting in better service. In fact, schedule reliability — within a day of scheduled arrival — for ocean carriers is about 35% to 40% globally, and 25% at West Coast ports, according to Sea-Intelligence. Three-quarters of vessels that are late by 10 days.

- As an example, transit times, including cargo staging and the vessel voyage, from Shanghai to Chicago via the port of Los Angeles/Long Beach have more than doubled to 73 days from 35 days. That means it takes 146 days for a container to circulate back to the point of origin for reloading, effectively reducing container capacity by 50%.

- The massive number of imports has cascaded into air transport, trucking, rail, and warehousing. Sheer volume is overwhelming capacity in many commercial centers. Carriers have canceled many sailings in an effort to restore schedules.

- When does it end? The consensus among logistics executives is that the transportation crunch won't ease before the Chinese Lunar New Year next February.

TRUCKING RATES

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

- Cass Information Systems has released the Transportation Index Report for July. Cass reports the shipments component grew 15.6% year over year in July. This was lower than the June increase of 26.8%.

- Cass points to a continuing issue with driver and equipment shortages as the reason behind slowing shipment volumes.

- DAT reports the current national load-to-truck ratio is 5.79 loads to truck, compared to the July 18th average of 5.55. Ratios are high on the east coast, throughout the southwest, and the Rocky Mountain states. The lowest ratios are in the Pacific Northwest.

MATERIAL PRICING

- The Institute for Supply (ISM®) Prices Index registered 79.4 percent, a decrease of 6.3 percentage points compared to the July reading of 85.7 percent.

- Raw-materials prices increased for the 15th consecutive month, but at slower levels. This is the index's first time below 80 percent in seven months.

- In August, 16 of 18 industries reported paying increased prices for raw materials. This includes: Apparel, Leather & Allied Products; Plastics & Rubber Products; Printing & Related Support Activities; Nonmetallic Mineral Products; Fabricated Metal Products; Furniture & Related Products; Paper Products; Machinery; Transportation Equipment; Electrical Equipment, Appliances & Components; Primary Metals; Computer & Electronic Products; Miscellaneous Manufacturing; Chemical Products; Wood Products; and Food, Beverage & Tobacco Products. The only industry reporting a decline in prices in August is Petroleum & Coal Products.

FOREIGN EXCHANGE

- The US Dollar Index is now hovering around 93.5 which is up from the start of the year when it was 90.5. However, it is still down from its pre-pandemic high of 99.1 in March of 2020.

- The Dollar Index (USD/DXY), a favored gauge of the Greenback's value relative to a basket of 6 major foreign currencies (Euro, Swiss Franc, Japanese Yen, Canadian dollar, British pound, and Swedish Krona).

- Strategists argue the US dollar's recent strength is going to peter out as U.S. economic growth begins to slow. Citing two reasons, a slowdown in fiscal spending and inflation that will weigh on dollar.

- Another important factor for the US dollar is what the rest of the world's recovery looks like. If countries continue to improve it could signal a weaker dollar, if they struggle, we could see the dollar gain strength as a safe-haven currency.

- With so many COVID associated risks still around, expect increased negative and positive volatility, but an overall weaker US dollar for the remainder of 2021.

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