BUYING STRATEGY

Inflation Expectations

2018Q3	In one year (2019Q2)	Sector industry
↓	↓	**Petroleum products:** Dated Brent will average in the $77-$79/barrel range through the last two quarters of the year. The spread between West Texas Intermediate (WTI) and Brent has increased to nearly $10 as of early September. WTI prices will average $70/barrel through the last two quarters of the year. Rising production in North America will put downward pressure on domestic oil prices in 2019.
↓	↑	**Natural gas:** Henry Hub cash prices will hold above $2.90/MMBtu in the third quarter due to extended storage withdrawals that has created a 500-billion-cubic-feet US inventory deficit compared with the five-year average. Continued production growth will allow the market to rebound from the current storage deficit. Absent a warm winter, we expect higher winter prices to reduce power sector demand—eliminating the storage deficit by the end of Q1 2019. Seasonal demand decline in Q2 of 2019 will cause prices to drop below $2.50/MMBtu.
↑	↑	**Wage growth:** Tightening labor markets are increasing competition for workers across all industries. Construction workers will experience the largest wage increase of 3.2% in 2018 followed by manufacturing workers at 2.7% growth. Professional and related workers will finally see wages break the 2.0% wage growth threshold, coming in at 2.6%. Employers should expect labor costs to continue to accelerate through 2020.
↑	↑	**Benefits:** Benefit cost growth will average 2.8% in 2018. Tight labor markets are forcing employers to increase vacation packages, bonuses, and retirement contributions. While health insurance cost growth remains subdued at 1.9%, employers are also absorbing a larger portion of premium increases, reversing a recent trend of shifting these expenses to employees.
↑	↑	**Steel:** Prices are past their mid-summer peak, in almost every region of the world. Declines will continue through the end of 2018. The pace of pricing relief will be mild in Asia, accelerating in the United States, but temporarily halted in Europe as safeguards boost import prices until early February.
↓	→	**Nonferrous metals:** Nonferrous metals: Expect prices to remain relatively flat over the near term. This said, the third quarter correction in prices due to trade fears makes current prices for certain base metals – aluminum, copper and nickel -- very attractive.
↓	→	**Chemicals:** While pricing pressures persist, a noticeable increase in contract pricing overall for the chemicals and resins sector is generally not expected over the near term. Thus, overall market sentiments remain fairly positive for buyers. Nevertheless, concerns remain regarding the direction of energy pricing, which impacts feedstock costs. Growing trade tensions bear watching as well.
↑	→	**Building materials:** After a rapid climb in the previous 12 months, building material prices are set to cool off. Lumber prices have begun to fall from record levels. The decline will continue into 2019. Ready-mix concrete prices will increase moderately in 2019 after spiking in early 2018. Total construction cost growth will slow in 2019.
↓	↓	**Electronic components:** Price escalation for electronic components has been significant in the last year and is expected to remain at a high level for the rest of 2018. Demand from nontraditional end markets has been very strong—increased content in automobiles, industrial machinery, and others has led to significant strain on the supply chain. Strong investment and increased production signal better conditions for buyers by 2019.
→	→	**Electrical machinery and equipment:** Price escalation is expected to soften over the near term after noted increases through 2018. Demand for electrical transmission and distribution equipment has been subdued; industrial production has been modest, while

		utilization rates remain quite low. Input costs will see short-term upward pressure as prices for steel and aluminum products trend higher. Price escalation will therefore accelerate in the third and fourth quarters, before moderating in the early parts of 2019.
→	↑	**Nonelectrical machinery and equipment:** Prices will continue to move higher over the near term as inputs costs for materials such as steel and aluminum rise. Demand from export markets is expected to soften from the price increase. Overall, demand for the category will be muted over the near term, as the pace of investment in industrial equipment remains modest. An increase in oil prices will spur global mining and energy markets into production and create demand that will provide upward pricing pressure on mining and construction machinery/equipment prices, allowing input material cost to be passed through.
↑	↑	**Transportation equipment:** Prices for transportation equipment will post increases for the rest of 2018 and 2019. Rising prices are attributable to higher levels of demand and greater input costs. Tariffs on US steel and aluminum imports will ensure increases in material costs, with OEMs more impacted than finished vehicles. New orders for transportation equipment are currently higher than they were this time last year, as are input costs. Both will continue to put upward pressure on prices. Price escalation for motor vehicles and parts will slightly exceed growth in the broader transportation equipment category.
→	→	**Transportation and logistics:** Prices will continue to see pressure coming from fuel (rail, air freight, and trucking) and supply shortages (trucking). Water transportation prices jumped higher in late summer as surging import orders coincided with reduced capacity, but these price pressures are already showing signs of easing. By mode, TL trucking prices are seeing the strongest growth and air cargo the weakest, but rates of price growth among the various transportation types should move towards closer alignment in early 2019.
→	↓	**Paper and packaging:** After price increases were set by suppliers each month thus far in 2018, the market is finally beginning to show signs of stabilization as the latest data pointed to flat or lower than previous months price increases. Prices are expected to flatten headed into 2019, as market fundamental rebalance. As a result of trade actions between the United States and China, exports of pulp, paper and packaging products from the US to China are expected to decrease which should inflate domestic supply availability. Logistical challenges continue to plague pulp and downstream product companies as railcar and trucking shortages continue to increase lead times and costs for the paper industry. Capacity utilization remains above 97% across most major products as producers attempt to keep up with demand growth. Pulp and packaging demand is expected to increase 2-3% year-on-year heading into 2019. Global economic growth along with similar trends are expected for the rest of 2018 and 2019. Demand for packaging materials continues to grow, thanks to increased manufacturing output and shifting global dynamics in paper goods usage.