

AOTW: Shipping Industry Chaos Causing Goods Shortages, Inflation

June 18, 2021

Good morning,

The equity markets finished what was a fairly quiet week with a down session Friday, as “hawkish” US Federal Reserve comments late in the week contradicted their prior stance on leaving US interest rates alone until 2023. They hinted at rate hikes being possible in 2022, partly in response to inflation numbers that are quite logically up over 12 months (3.6% for May), but also accelerating month to month. If you drive, eat food or track real estate prices, this won’t surprise you. Is this systemic and long term in nature, or are there temporary issues at play that will subside in the coming months? This week’s AOTW will suggest that indeed, there are some temporary factors at play, but other issues may indeed be more systemic.

Remember the Ever Given? The container ship that got stuck and gummed up the Suez canal for days? We focus this week on the shipping industry’s logistics challenges and the resultant product shortages, which in turn is resulting in inflation as millions of locked down online shoppers with nowhere else to spend money are bidding up the prices of cheap goods they must have now, many of which come from east Asia.

“On both land and at sea, the entire supply chain is struggling to keep up. In the Pacific Northwest, it's become such a clusterfest that the U.S. Coast Guard has been redirecting boats to anchor off the coast of Whidbey Island (near Seattle) and other places they typically don't park. Ship crews are having to wait days, even weeks, for the chance to dock at the ports and offload their precious goods.”

Is it just increased consumer demand that’s causing container ship traffic jams? Not entirely.

“Early in the pandemic, it wasn't the ships that were the problem; it was the containers. When the buying spree began, Chinese exporters struggled to get their hands on enough empty boxes, many of which were still [stranded in the](#)

U.S. because of all the canceled trips at the beginning of the pandemic. More importantly, processing containers here has been taking longer because of all the disruptions and inefficiencies brought about by the pandemic. Containers have been piling up at dockyards, and trains and trucks have struggled to get them out fast enough.

This container shortage was already an issue and the Ever Given only exacerbated that as tens of thousands of containers that would have been turned around at their destinations, sat at sea. So we have (likely) a temporary source of inflation from shipping container shortages. What about Covid impacts?

“As if all this weren't enough, last month there was [a COVID-19 outbreak](#) at the Yantian International Container Terminal in China, which is normally one of the busiest ports in the world. The Chinese government implemented stringent measures to control the outbreak, and as a result, [more than 40 container ships](#) had to anchor and wait.”

Another short term issue...could any of this be more permanent? Presumably we will get back to acquiring goods at stores and malls as post-Covid life slowly returns.

“With so much shipping capacity bogged down, importers and exporters have been competing for scarce containers and vessels and bidding up the price of shipping. The cost of shipping a container from China/East Asia to the West Coast has tripled since 2019, according to the Freightos Baltic Index. Many big importers pay for shipping through annual contracts, which means they've been somewhat insulated from surging prices, but they are [starting to feel the pain](#) as they renegotiate contracts. Rising shipping costs and delays are starving the economy of the stuff it needs and contributing to shortages and inflation.”

This latter aspect feels more permanent. Perhaps that free shipping of anything and everything on Amazon Prime will become a thing of the past, or the price of a Prime membership will have to increase significantly. This appears to be a problem that will not be going away for some time.

Pro tip from a recent experience: if you have a car lease expiring within 6 months or a vehicle on its last legs, start your search now. Dealers are desperately short of inventory (a friend from whom I recently acquired a used Dodge Ram told me a few weeks back that he had 13 new cars on his lot, the norm is 100 and he is expecting no new inventory until September), and there are bidding wars on used cars (your 10 year old clunker may be worth more than you think). Shipping bottlenecks are a part of this, but a [fire at one of the car industry's largest chip manufacturing facilities in Japan](#) a couple months ago didn't help, setting the supply of chips for cars back months.

If you can be patient with that “must have” cheap Amazon item order, things should normalize to some extent over the coming year, but if it's a replacement set of those “Made in China” solar LED lights for the backyard, be prepared to pay up.

Link below. Enjoy your weekend.

<https://www.npr.org/sections/money/2021/06/15/1006381735/how-chaos-in-the-shipping-industry-is-choking-the-economy>

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