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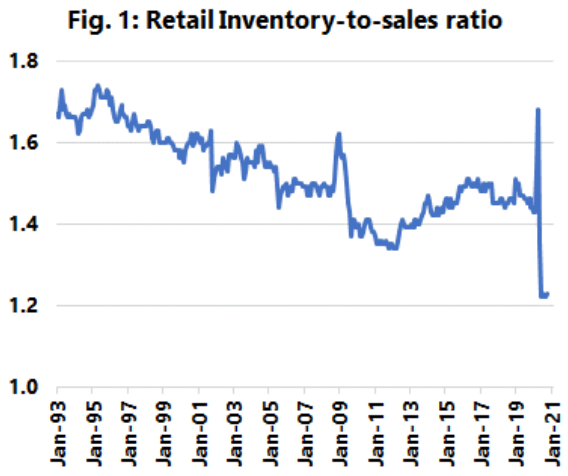
Inventory correction looming in the US for 2021?

In issue 494 of the *Sunday Spotlight*, we took an in-depth look at the latest US sales and inventories data published by the US Census Bureau, to bring some sense to the continuing sharp volume growth in North America, which, according to Container Trade Statistics (CTS) was at 20.4% Y/Y in October. It is clear that there is a mismatch between container volume growth and total sales growth in October 2020, which was at only 2.2% Y/Y. In or analysis we explored if this mismatch was due to inventory building.

We started by looking at the Y/Y sales growth in the three sub-categories: Manufacturers, Retailers, and Wholesalers. We found that retail in October grew by 8.3% Y/Y, outgrowing the other two sub-categories and making it abundantly clear that this is what is driving the rebound in sales in the US. As retail goods by nature are a highly containerized group of goods, herein lies part of the explanation for the strong growth, but clearly not the full explanation, as there remains a large gap up to the 20% Y/Y growth seen in North America imports in October.



We then considered the impact of inventories, with the October 2020 Y/Y inventory change for retail a negative -8.5%. Hence, there might be talk about inventory re-stocking, but from the raw inventory numbers, there appear to be little catch-up happening. Looking at the inventory-to-sales ratio, for manufacturers and wholesalers, the figure had returned to pre-pandemic levels, but for retailers, the figure was 1.23 in October, a historical low (for comparison, the pre-pandemic level was 1.44).

Rebuilding inventories to pre-pandemic levels would mean an increase of import volumes of an additional 21%. If replenishment takes place over a 3-month period, this means a growth of 7.0 percentage points each month, on top of the sales growth. That still puts growth of retail at 13.3%, 16.0%, and 15.3% in August-October, still below the growth in North American imports, which implies that there is still something 'missing'.

This means that there is a distinct likelihood that the ongoing cargo boom supports a large inventory build-up, bringing inventory levels significantly above the pre-pandemic levels. This understanding of the development would close the "missing gap" between the qualitative and quantitative approach to understanding the market. But this would also imply that at some point in 2021, we would be due for an inventory correction.

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