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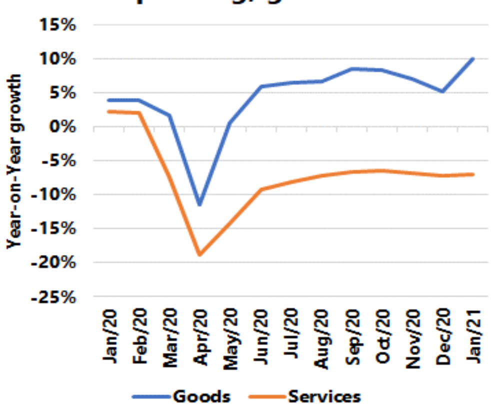
US demand boom continues unabated

In issue 506 of the *Sunday Spotlight*, we looked at the latest data released by the US Census Bureau relating to the sales and inventories.

The first impact of the pandemic was an extremely high spike in the inventory to sales ratio, much larger than the financial crisis, as sales plummeted rapidly at first. This was essentially reversed within a single month, as sales started booming again from May 2020. Inventory levels then stayed constant from August to December 2020, only to take another drop in January 2021. This means that the demand boom experienced in the 2nd half of 2020 was sufficient to cater for the sales, but not sufficient to fully replenish the inventories.

A deeper dive into the data showed that manufacturers and wholesalers have seen periods in the past with lower inventory levels, but that is not the case for the retailers. In the past 29 years, the US economy has never seen such a low level of retail inventory size relative to sales as in January 2021 – and this is despite the boom in import cargo.

Fig. 1: Personal consumption spending, growth



The year-on-year development in Personal Consumption in the US, calculated on data from the US Bureau of Economic Analysis, showed that the average US consumer still spends less than a year ago. However, if we break consumption down (figure 1), we see that spending on goods has seen positive growth since June 2020, and this is the primary driver behind the demand boom. The growth rate in spending on goods in January 2021 was higher than at any point during 2020-2H. In other words: The boom in the US in terms of goods is accelerating, it is not slowing down.

These developments lead to the conclusion that the pressure on the containerised supply chain into the US will not abate in the near-term future. If anything, the January data points to an increase in the strength of the boom, as especially retailers struggle to not only keep up with sales growth, but also to replenish their inventories. And this is where we hit the chicken-and-egg effect. The current bottlenecks prevent importers from getting their cargo in time, causing some to try to front-load volumes, to secure timely delivery. This in turn intensifies demand pressures, making the bottlenecks worse – keeping the high pressure on freight rates. When demand is strong, and inventories are low, rates are likely to stay high.

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All quotes can be attributed to: Alan Murphy, CEO, Sea-Intelligence.
For more information, please contact: ia@sea-intelligence.com, am@sea-intelligence.com