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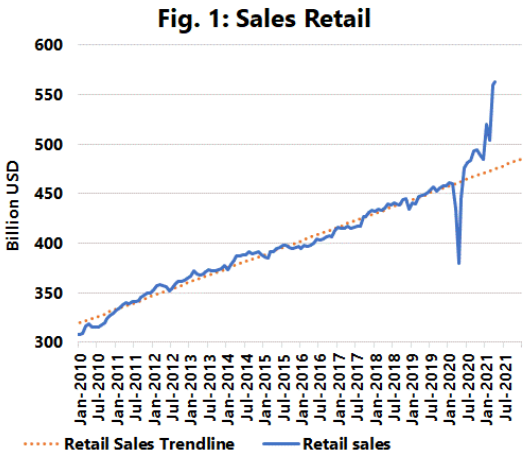
US consumption, inventories, and sales

With liner shipping now heading into what is normally the traditional peak cargo season, the markets are showing no signs of slowing down. Since the current demand boom is primarily driven by the US Imports, in issue 521 of the *Sunday Spotlight*, we reviewed the latest figures for US Personal Consumption, Inventories, and Retail Sales, taken from the US Bureau of Economic Analysis and the US Census Bureau.

To start off, we looked at the spending on consumer goods, which is unprecedented. Of the past 12 months, 11 months have had a Y/Y growth over 10% (this is compared to 2019 and then annualised). To put this into perspective, in the 18 years before the pandemic, the average growth rate was 4.7%, only crossing the 10% mark five times, and that also for one or two months only.

From here, we looked at the US inventories and inventory-to-sales ratio, which, for manufacturing and wholesalers, has dropped a bit under their pre-pandemic levels, but the retail ratio has dropped off a veritable cliff and is fast approaching a ratio of just 1.0. For reference, in the 28 years before the pandemic, the ratio has never dropped below 1.34, and in the two years pre-pandemic, was in the rage of 1.43-1.50.



Lastly, we looked at US retail sales. As we can see in figure 1, which shows actual monthly US Retail sales since 2010 on top of a long-term trendline, there was a sharp dip in April 2020, but by May retail sales were almost back to the trendline. Since then, retail sales have completely overshot the trendline.

Our analysis left us with two propositions, that to us seem reasonable: 1) US Retail sales should come back down from their current abnormal heights as lockdown restrictions are lifted and stimulus spending is reeled back, and 2) The current levels of the Retail Inventory-to-Sales ratio does not seem sustainable, and a return to a pre-pandemic ratio of around 1.46 seems a rather reasonable estimate.

We do not know when these seemingly reasonable market corrections will happen, as we are so far into "black swan" territory, that we have no models that can adequately predict how long the current demand boom will last, but our analysis does suggest that even when retail sales return to "normal" there will be an extended period of inventory replenishment.

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