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Research Briefing | US

Supply chains started the new year under duress

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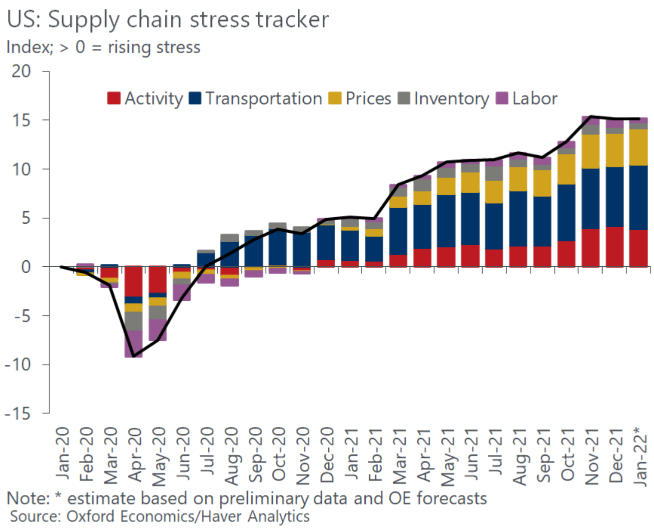
- **Our US supply-chain stress tracker suggests 2022 commenced with continuing pressures. Transportation channels remained strained in January, and inflation stayed high. Constraints eased on the activity front, but we believe this positive news will be short-lived since unfilled orders are still running at historic highs. The employment data confirm the labor market was very tight, while inventory dynamics didn't significantly change last month.**
- **Los Angeles and Long Beach port backlogs subsided slightly, but data for the San Pedro Bay don't fully reflect the latest developments since shippers diverted some cargo to other US ports. An uptick in shipping costs, historically high air freight volumes, and minimal excess trucking capacity signal that high logistics stress carried over into 2022.**
- **Wholesale services inflation likely hit an all-time high, above 8% y/y. Cost pressures also stayed elevated for goods producers, with the inflation rate for raw materials used in durables manufacturing up around 50% y/y and the cost of raw materials used in nondurables manufacturing up almost 30% y/y.**
- **Faster wage growth, greater overtime hours worked, and elevated job openings indicate the labor market was very tight.**
- **Omicron temporarily lowered our tracker's reading of stress on the activity front. With health conditions improving, activity will quickly come back online and soak up any excess capacity that's developed.**
- **Inventory growth didn't gain much momentum, let alone strengthen enough to fix its sizable imbalance relative to demand. In light of ongoing disruptions, businesses are rethinking their inventory management strategies.**

Figure 1: Extreme supply-side pressures carried over from 2021



Note: * estimate based on preliminary data and OE forecasts
Source: Oxford Economics/Haver Analytics

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Logistics started 2022 with major challenges

Logistics stress rose in January, according to the transportation component of our tracker (**Figure 1**). Shipping rates rose and lingered at historic highs. Strong demand made Q4 a banner quarter for ocean-borne shipping from a profitability perspective, and the industry expects demand and supply conditions to keep their profits high in 2022.

LA/Long Beach backlogs ebbed slightly, but were still very high (**Figure 2**). Importantly, these data don't fully reflect last month's developments. First, dockworkers out with Covid constrained cargo ship operations in the San Pedro Bay. Second, some shippers rerouted to other ports in order to avoid substantial delays in Southern California. Overall, US ports processed record numbers of inbound shipments as demand continued to outstrip supply. Meanwhile, air cargo remained historically high, and trucking capacity was still severely strained.

Other components sent mixed messages

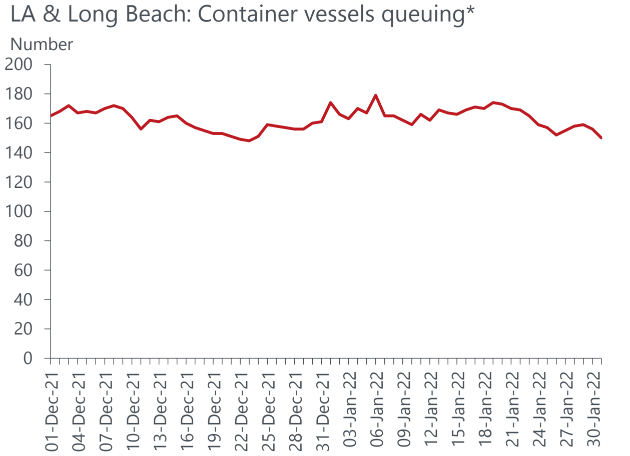
Last month's price developments weren't encouraging. Wholesale services inflation likely firmed above 8% y/y, a new record. And manufacturing production costs increased on a monthly basis – in part because of the recent oil price spike. The inflation rates for raw materials used in durables and nondurables manufacturing stayed high (**Figure 3**). But, not all the news was negative. For a second straight month, regional Fed surveys show that fewer manufacturers paid higher production costs and raised their selling prices.

Labor market stress stayed high. Looking past the unexpectedly strong nonfarm payrolls increase, stronger wage growth, a continued rise in overtime hours worked, and job openings likely at historic levels signal a tight labor market (**Figure 4**).

Activity was less stressed last month, but we believe last month's reading was temporarily depressed because of Omicron. With health conditions improving in the second half of January and unfilled orders at historic levels, we look for capacity utilization rates to bounce back and factory activity to stay on a solid growth track.

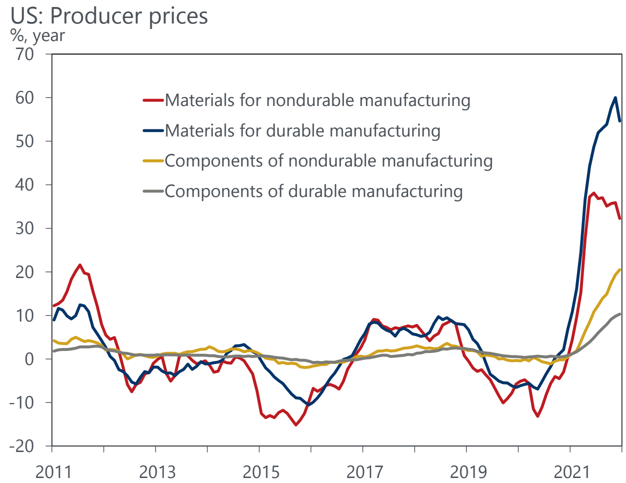
Dynamics on the inventory front weren't meaningfully different than December. Indeed, inventory growth was weak, according to the latest ISM Manufacturing and Services surveys.

Figure 2: Ship backlogs at LA and Long Beach eased only slightly in January



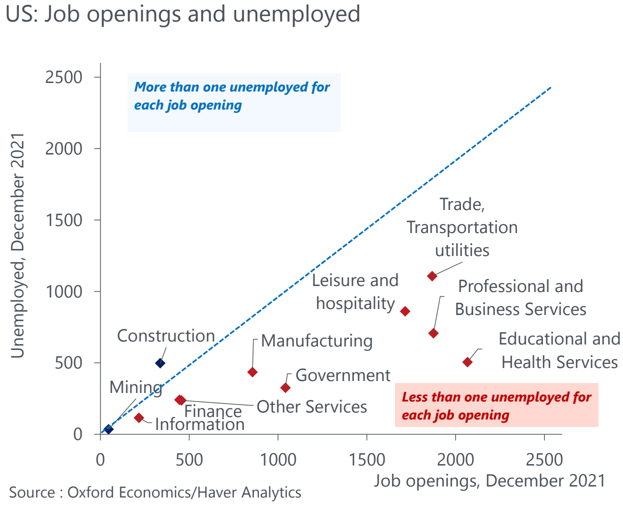
Note: Vessels in port and those that filed a CTA but are drifting 40+ nautical miles offshore
Source: Oxford Economics/Haver Analytics

Figure 3: Inflation rates for durable and nondurable goods inputs are running high



Source: Oxford Economics/Haver Analytics

Figure 4: The labor market is tight across all US industries



Source : Oxford Economics/Haver Analytics

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