

Evidence of the supply chain crisis we are facing is hard to miss. Right now, off the coast of Los Angeles, over 80 large container ships are sitting idle waiting to dock and offload their cargo. The ramifications of this and other bottlenecks in our global supply chain system have caused a backlog of nearly \$3 billion in goods that have been ordered but not yet shipped, according to U.S. Census data.¹ What caused this to happen, what happens next, and when will it be over? This report will answer these questions and explain the causes behind our current predicament.

WHAT CAUSED THE CURRENT SUPPLY CHAIN BACKLOG?

The crisis began when the pandemic led to temporary plant closures to contain the outbreak, workers calling out sick, and international borders being closed. Many companies assumed consumers wouldn't want to spend money during a crisis, so they scaled down production and furloughed and laid-off employees. They were wrong. Flush with stimulus checks and all the money they saved from not going out or on vacations, Americans stuck at home decided to commence home improvement projects. They purchased new appliances, embarked on remodeling projects, and purchased 60-inch televisions they'd always wanted. Instead of falling, demand soared.

Factories ramped back up as quickly as possible, but doing so hasn't been a quick or straightforward process. Not all COVID-19 restrictions have been lifted, and not all workers have returned to their previous jobs. Consequently, even though companies have tried to meet the increased demand from consumers, they haven't been able to do so. Moreover, not only were companies unable to keep up with demand, what they had manufactured, they could not ship to retailers because a shipping container shortage impacted Asia. The containers piled up in parts of the world that needed goods from China, such as protective gear needed in West Africa, but didn't produce many goods that could be shipped back. Suddenly the cost to move goods exploded, becoming about ten times more expensive than pre-pandemic. Those costs, plus tariffs on the goods, are passed on to consumers. Adding to the backlog, the Suez Canal was shut down for nearly a week in March after a ship became stuck in the waterway. Add to this, a pervasive shortage of workers unloading goods at ports and drivers getting them to their destinations is further compounding the situation.²

Until now, we have been merely considering the supply chain issues congesting our imports, but the gridlock on the export side of U.S. supply chains is equally as important and, unfortunately, equally as troublesome currently. Hundreds of thousands of empty containers are filling marine terminals and truck yards across Southern California, and are tying up scarce trucking equipment as ocean carriers scramble to return empty boxes to factories in Asia. Shipping lines have made recovering the empty containers a priority because they want to get them back across the Pacific Ocean to take advantage of increased freight rates for Asian exports. Unfortunately, that has fractured a round trip for shipping containers that stretches typically across the U.S., with more customers now unpacking shipments at nearby warehouses already swamped with goods. With ships already full, there isn't enough space for empty boxes that are then piled onto increasingly high stacks to await transport and loading onto outbound vessels. Consequently, this backlog in our system, both on the import and export side, is causing prices to rise, delays in every sector of our economy, and shortages of parts, materials, and products on a system-wide basis.³

WHAT HAPPENS NEXT IN THE IMMEDIATE NEAR-TERM?

If retailers are able to get goods onto shelves, the next challenge is getting e-commerce orders delivered to consumers. Carol Tomé, the CEO of UPS, has said orders will outstrip delivery capacity by about 5 million packages a day this year.

UPS, FedEx, and DHL are already planning for a frantic holiday season without enough workers by substantially increasing fees, giving raises, and buying robots. The gaps the traditional players can't fill, alternative package-delivery companies like LaserShip and OnTrac are looking to capitalize by merging their resources as one entity to compete against UPS and Fedex. Combined, the companies will be the country's largest regional parcel carrier, stretching from the Atlantic to Arkansas and from the Pacific to Colorado.⁴

WHEN WILL THE SUPPLY-CHAIN ISSUES END?

Unfortunately, the supply chain issues will not end anytime soon. Most economists and supply chain analysts expect the current bottlenecks and backlogs to continue until 2023.⁵

The problem is that the crisis doesn't have easy solutions. Even if the ports in Los Angeles and Long Beach clear up, there still won't be enough trucks on the road, workers in warehouses, or delivery vans out on the streets. Moreover, COVID-19 could continue to cause shutdowns and delays. However, there are three things specialists in logistics are looking at to know when the supply-chain crisis will ease and possibly end:

1 WATCH THE SHIPS OFF OF CALIFORNIA'S COAST

Los Angeles and Long Beach recently had more than 80 ships in line to be unloaded. The holdup stems from labor and equipment shortages, COVID-19 protocols, and months of relentless demand. When the lines diminish again, and stay down for some time, you'll know things are flowing more normally in California and worldwide.

2 WATCH DOMESTIC TRUCKING RATES

Trucking rates show how difficult it is for companies to move goods even after arriving at the port. When shipping becomes more affordable, it will be a huge indicator of opening on the U.S. side of global supply chains.

3 WATCH THE INVENTORY-TO-SALES RATIO

Monitoring the amount of inventory in the country relative to the amount sold is one way to chart just how desperate retailers are for all types of goods. When the ratio falls, it signals that sales are depleting inventories faster than they can be replenished.⁶

Sources:

¹ Realtor.com <https://bit.ly/3dbmQkd>

² Clare Trapassa Trends Report <https://bit.ly/3lfu2Kl>

³ WSJ: <https://on.wsj.com/3xJwG6i>

⁴ Business Insider: <https://bit.ly/3rq2wE8>

⁵ See Ali Wolf, chief economist of building consultancy Zonda, and Robert Dietz, chief economist of the National Association of Home Builders. <https://bit.ly/3ofTCXM>

⁶ Business Insider: <https://bit.ly/3danm1M>

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