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Research Briefing | US

Supply chain remained strained at year end

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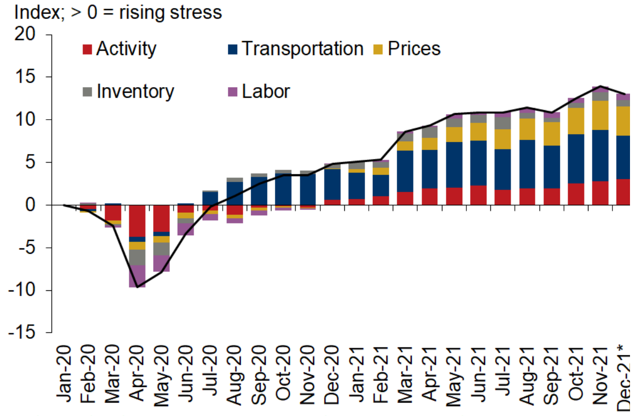
- **Our US supply-chain stress tracker offers some encouraging news to kick off the new year. Pressures on the inventory front diminished in December, albeit modestly. However, logistics bottlenecks remained – despite improvement on the surface in our transportation tracker measure. Meanwhile, on the activity, price, and labor fronts, stress rose. The Omicron variant threatens to jam the economy's gears, intensifying already severe supply-chain problems.**
- **Los Angeles and Long Beach port operators implemented a new policy that makes inbound ships wait further offshore for an open berth. So, while the official tally shows fewer ships loitering nearby, the reality is that congestion has not substantially eased. Shipping costs, air freight volumes, and pricing data all corroborate that logistics stress remains high.**
- **The inflation rate of raw materials for durables manufacturing likely reached a new high in December, up roughly 60% y/y. And wholesale services inflation climbed more than 7% y/y. While the inflation rate for raw materials used in nondurables manufacturing slowed, it remains high at 30% y/y.**
- **On the activity front, higher capacity utilization rates and stronger shipments point to reduced slack. And forward-looking orders data signal that excess capacity will remain minimal as strong demand persists into 2022.**
- **The economy created jobs more slowly, and higher wages, rising overtime, and near-record job openings levels indicate businesses faced a tough hiring environment. Omicron risks making it harder for businesses to find workers, though we think the variant's threat will diminish after the first quarter.**
- **Inventories rose but remain lean relative to sales – specifically with respect to raw materials. Firms are also stocking up to lower the risk of future disruptions.**

Figure 1: Businesses faced ongoing and significant supply-chain challenges last month



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

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Supply chain remained strained at year end

Transportation faced persistent troubles

On the surface, our tracker indicates that transportation problems eased at the end of 2021 (**Figure 1**), as the number of ships that waited in the immediate vicinity of LA/Long Beach fell sharply (**Figure 2**). However, a new protocol that makes ships wait further offshore in the San Pedro Bay means the latest data overstates any real improvement. And, while the threat of loitering fees may have also lowered dwell times and cleared some backlogs, the ports of LA/Long Beach – not to mention ports across the country – are still unloading record numbers of shipments.

Other logistics datapoints in our tracker substantiate that transportation logjams haven't improved. Shipping rates rose 1% last month, staying near their historic highs. Meanwhile, air cargo load factors also remain close to records – and the cost of air freight is set to rise in 2022. The chronic truck driver shortage continues to create bottlenecks. And warehouse capacity remains stretched, most notably in Southern California.

Pressures rose across most other dimensions

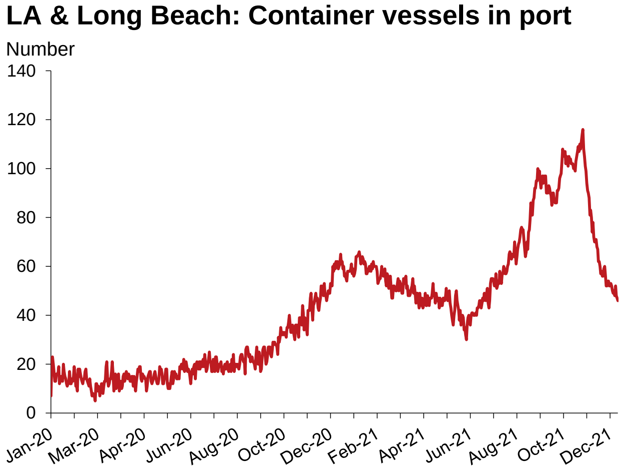
The inflation rate of raw materials used in durables manufacturing rose to a new high, up around 60% y/y. At the same time, wholesale services prices rose at a record clip, up more than 7% y/y. But there was some positive news last month. The inflation rate for raw materials used in nondurables manufacturing subsided, edging down to around a 30% y/y pace, from 36% y/y. And, slightly fewer manufacturers faced higher production costs, and raised their own selling prices last month (**Figure 3**).

Pressures on the activity front increased in December. Capacity utilization rates and durable goods shipments climbed higher as manufacturers worked to meet strong demand.

Stress also rose modestly on the labor front. The economy created jobs at a slower rate in December, and higher wages, a rise in the number of overtime hours worked, and job openings lingering near historic highs indicate that labor market constraints haven't loosened significantly.

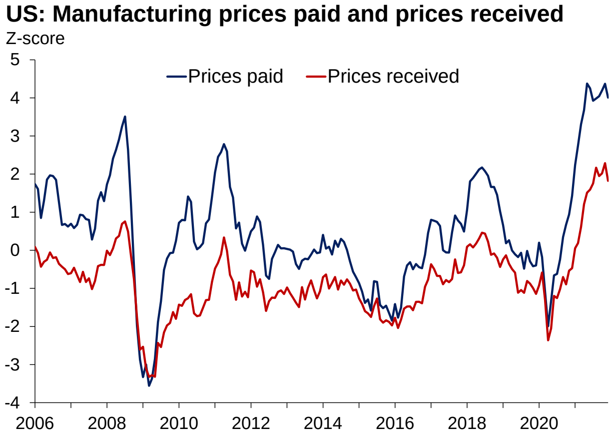
Meanwhile, inventory dynamics were more encouraging, as businesses continued to restock. However, there's much room for improvement – the latest ISM Manufacturing and Services surveys conveyed that customers' stockpiles remained very low (**Figure 4**).

Figure 2: Ship backlogs at LA and Long Beach decreased last month



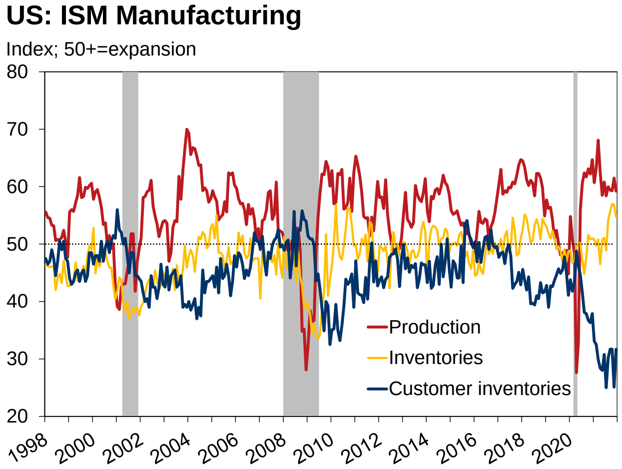
Source: Oxford Economics/Haver Analytics

Figure 3: Pressures remained high on the production costs and selling price fronts



Note: The average z-scores of the Texas, Kansas City, Empire State, Philadelphia and Richmond Fed manufacturing surveys.
Source: Oxford Economics/Haver Analytics

Figure 4: Manufacturing customer inventories still aren't rising fast enough to meet demand



Source: Oxford Economics/Haver Analytics