TRADE NEWS WEEKLY

September 27–October 1, 2021

A summary of international business news prepared by the Hawaii Foreign-Trade Zone 9 with the collaboration of the Research and Economic Analysis Division of the Department of Business, Economic Development & Tourism, and based on research and shipment data from Panjiva, Inc. which tracks companies involved in global trade. Other news sources may occasionally be included where indicated.

Q4'21 Outlook: The Logistics of Cheer

The fourth quarter in 2021 will likely look different than holiday seasons in years past. This is largely due to the ongoing high-water mark of imports that have been flowing into the country since March. Imports in March were the highest recorded, an unlikely time for volumes that normally peak in October. The levels reached in March, May and August of just over 3 million TEU, combined with freight rates and traffic outside of Los Angeles and Long Beach suggest that imports are near their maximum monthly capacity. This is greater than what was seen in the 2020 peak last October, 2.9 million TEU, but any companies that have not adapted may get stuck in congestion.

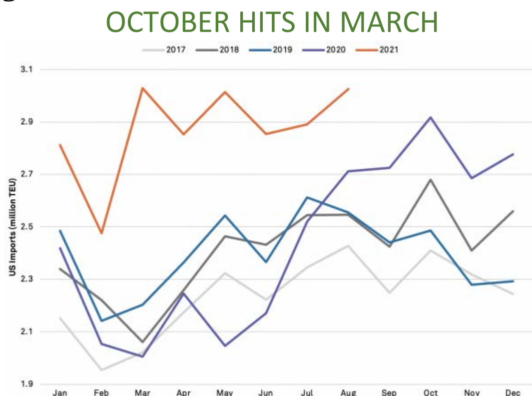

Chart shows U.S. seaborne imports by month. Source: Panjiva

Port Congestion Hits Across the Pacific

Chinese ports are seeing the same congestion signs seen at the ports of Los Angeles and Long Beach with 152 ships waiting to unload outside the ports of Shanghai and Ningbo, and 242 across the entire country. This shows how overwhelmed port infrastructure on both sides of the Pacific is as demand for service, and rates, remains sky high.

This congestion is likely to cause supply demand bullwhip in shipping services as operators bring online more vessels to try and take advantage of the high prices and could also cause more companies to start using non-traditional methods to import goods like Walmart did by chartering their own ships. Another potential impact of this could be a series of blank sailings as companies try to reposition vessels to maintain service in other parts of the world, further disrupting planned routes.

Carriers Reap the Benefits of High Demand

With demand for freight services outstripping supply, shipping rates have increased rapidly. The average price of container shipping out of China has increased by 95.1% since December 31st and continues to grow, increasing by 10.4% since the end of July and 2.5% in the week ending on September 24. Rates to the U.S. west coast have increased slower than the average, up 83.0% since December 31, but increased by 15.3% since the end of July. On the other hand, imports to Europe have increased faster, up 134.0% since December 31. These differences in regional pricing may reflect the relatively large capacity of the U.S. west coast, as well as the potential of acute events like the Suez blockage increasing spot rates.

High rates and high demand are great for logistics companies, who are likely as excited as retailers for a big holiday season. Carriers that stand the most to gain are ones who ship a greater proportion of goods in October, traditionally peak month, rather than those that balance shipments across the year. A high proportion of shipments in October would indicate an ability to burst capacity, adding services when needed and backing off during the parts of the year that are usually slow. The 2M Alliance seems to be the best at this with members MSC and ZIM importing 11.9% and 12.0%, respectively, in October 2020, greater than the baseline of October 2020 imports, 11.0%. These proportions were likely boosted by the shipping slowdown during the pandemic, but is equal to the next closest carrier, HMM, with 11.9% of 2020 imports in October. One outlier was unaffiliated liner SM Line, which had the highest proportion of October imports in 2019, 10.2%, but fell to 9.5% in 2020. This may indicate that the firm was impacted more than most by the pandemic, recovering slower for the 2020 peak season.

SHIPPING RATES CONTINUE TO GROW INTO Q4

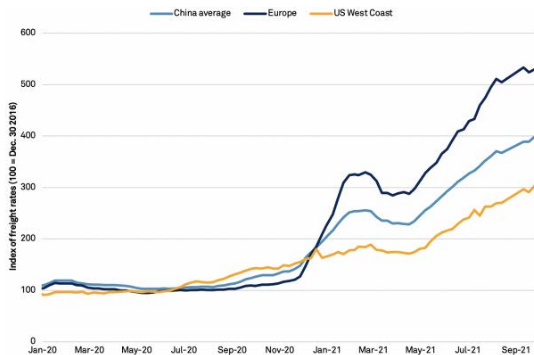

Chart shows shipping rates indexed to Dec 30 2016 on a weekly basis. Source: Panjiva

U.S. Steel Looks to Capitalize on Record High Prices

U.S. Steel has announced that they will be building additional capacity next year, the Wall Street Journal reports. The new plant will have the capacity to produce 3 million tons of steel sheet a year, a bet that high demand for building products will continue. CEO, David Burritt, said in an interview that, "We have the winds at our backs. Steel prices seem to be sustainable."

CapitalIQ data shows that the average price of sheet steel as of September 26 was 238.9% higher than September last year, when the first signs of price inflation started, but only increased 0.1% month on month from August. Similarly, the price of steel rebar increased by 50.7% year over year in the same period, and the import price index for steel increased by 54.3% year over year in August. The price of steel beforehand, however, had been declining, falling by 24.9% year over year from September 2018 to September 2020.

The investment in U.S. capacity likely assumes that Section 232 duties on steel products will remain in place for the foreseeable future. The main U.S. trading partners for steel are Mexico and Canada which made up 56.2% of U.S. steel exports and 36.4% of imports in the first half of 2021. Canada and Mexico were both exempted from Section 232 duties with the USMCA trade deal. Of those three, Mexico is the only one where the U.S. has a steel surplus, or exports more steel than it imports, with the surplus increasing by 508.0% year over year in Q2. This was lower than Q2 2019, by 23.6%, indicating lasting effects from the pandemic. This was driven by a 147.5% year over year increase in imports in Q2.

More steel is imported from Canada than exported, with imports surging recently. Q2 saw the deficit increase by 196.4% year over year, up 219.7% against 2019. A 159.4% year over year increase in imports from Canada likely drove this. Canada is likely to be the biggest competitor for U.S. Steel's new plant, and may get a boost from sales to the Mexican market.

STEEL PRICES STABILIZE AT HIGH WATER MARK

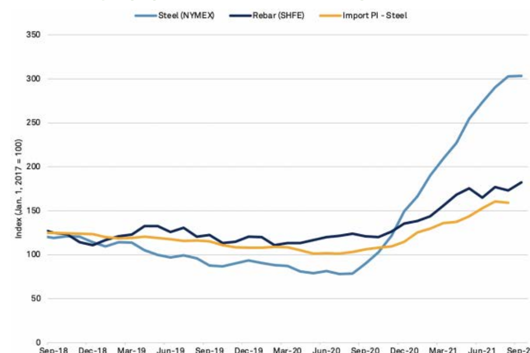

Chart shows a composite of U.S. hot rolled coil prices, rebar prices, and import price index for steel on a monthly basis. Source: Panjiva

HB Fuller Fights Inflation with Price Increases, China Consolidation

HB Fuller reported FQ3 results, announcing a 19.6% year over year increase in revenues that beat analyst expectations by 3.7%. Panjiva data shows that imports associated with the firm in FQ3, covering the three months to August 31, increased by 35.9% year over year. U.S. seaborne imports were also up 46.6% year over year when comparing against the same period in 2019, indicating sustained growth.

CEO, James Owens, discussed the firm's outlook on the September 23 call, noting that they viewed inflation as a positive to margin, but that they "continue to see inflationary cost pressures in terms of materials, freight and labor." This gives the company an opportunity to push up prices themselves, with the CEO continuing that, "price increases were going through more smoothly than they ever have." Price increases likely get easier as costs push their way through value chains, and HB Fuller is likely able to build price increase justifications off their own costs.

The company is also seeing headwinds in supply chains, with CEO Owens saying that they are, "material by material managing what's a very complex global supply chain that's evolving every month, every quarter," and that "any little issue that pops up creates a disruption that we have to manage." This reinforces the notion that even supply chains that have been able to adapt to congestion and delays still face the possibility of problems in acquiring goods.

Footwear's Race to Adapt to Supply Chain Shifts

Recent data shows that the footwear sub-industry is probably ahead of the curve in adapting to the new normal. Imports associated with Russell 3000 footwear companies increased 278.0% year over year in July and August, accelerating from 39.3% year-over-year growth in the second quarter.

This could be a sign of early imports and supply chain shifts, with companies such as Steve Madden adapting to changing conditions by "mov[ing] about half of the Steve Madden Women's production to Mexico and Brazil for fall." Apparel retailers such as TJX may be facing more headwinds, as they sit farther down the supply chain than manufacturers. TJX noted that it was planning for "freight, supply chain and wage costs to be higher" in the future, and imports associated with the firm slowed in July and August, increasing 42.6% year over year, whereas they had grown 138.3% in the second quarter.

These pressures may be compounded for general merchandise stores – their broad inventories make it more difficult to stock up ahead of time. Imports associated with that sub-industry fell 53.2% in the second quarter and 79.3% year over year in July and August.

FOOTWEAR AHEAD IN 2021 IMPORTS

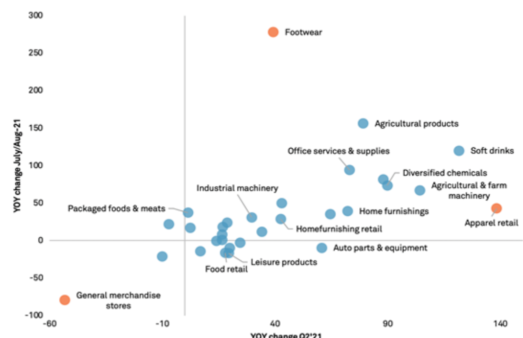

Chart shows U.S. seaborne imports associated with sub-industries comparing July/August 2021 to Q2 2021. Source: Panjiva

U.S. Soy Exports Face Terminal Delays

Soybean supply chains are adjusting to impacts of both Hurricane Ida and a crane accident in Washington that are causing disruption in export markets. The majority of soybean exports to Asia through the U.S. West Coast travel through the impacted terminal and the hurricane in the gulf shutdown another potential avenue.

Meanwhile, climate conditions in Brazil have made that country's farmers optimistic by expecting a record 143.75-million-ton harvest. Producers of animal feed in Asia will likely look

to sources like Brazil if U.S. exports remain constrained, and the slowing of exports could have impacts to the final outcome of the U.S.-China Phase 1 trade deal.

Power Could Be Next Culprit in Chip Shortage Saga

Some chipmakers in China, including suppliers to Apple and Tesla, have reported shutdowns due to power restrictions. Acute shutdowns like this are likely high on the list of disturbances the industry wants to avoid coming into the holiday season.

Chip-related shortages have caused production stoppages at downstream plants and have caused lopsided supply and demand for the automotive industry among others. Retailers will likely want to turn around the decline in technology imports for the holidays as well to ensure that store inventories remain healthy.

521 ALA MOANA BLVD, STE 101 • HONOLULU, HI 96813
Tel. 808-586-2507 • administrator@ftz9.org
www.ftz9.org • www.facebook.com/HawaiiFTZ
Twitter at: @FTZ9