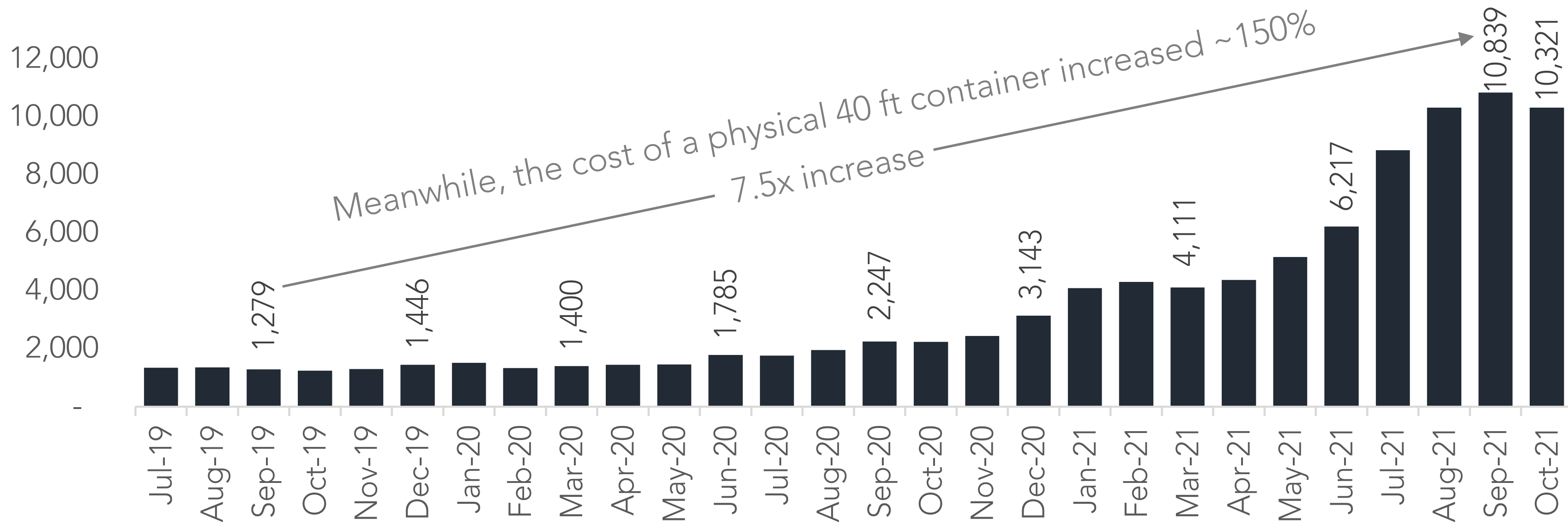
1. Skyrocketing container freight prices

Global container freight rate index (in U.S. Dollars)[1]



- As seen in the graph above, the average price to ship a container went from $1,279 back in September 2019 to $10,839 in September 2021, a relative increase of 7.5 times in 24 months
- Nevertheless, there is great heterogeneity: the price from China to the U.S. West Coast is 13 times its pre-Covid levels, while for the reverse route is only 2 times its pre-Covid level[2]
  - Thus, some carriers are willing to return to China with empty containers instead of waiting around for U.S. exports to (slowly) reach the ports. Same happens in Europe and Latam
  - The issue should normalize no earlier than in 9-12 months. Meanwhile, the imbalance is impacting container circulation and the flow of trade, causing higher costs and delays

1. Source: Freightos, October 2021 (www.fbx.freightos.com).
2. Source: Forbes "No End In Sight For The COVID-Led Global Supply Chain Disruption" (September 3, 2021).

2. What happened?

Pre-Covid

- U.S. / China trade tensions and "Trump" tariffs, particularly to intermediate goods, created volatility in supply and demand, stressing global logistics
- Note: Biden did not eliminate these tariffs; extending the distortion

1H'20

- As lockdowns became the norm, demand for most goods decreased
- Manufacturing capacity was cut, workers were furloughed, and sailings and rail routes canceled
- There was a global rush to take protective gear from China to the World

Summer 2020

- Driven by massive fiscal stimulus, imports surged (demand shock); these should have been phased-out
- Manufacturing and trade resumed, increasing logistics' demand

3Q'20

- Supply chain issues begin to emerge as predictability and precision were lost
- Logistics workers in wealthy countries stay at home
- Distancing measures reduce productivity at ports and warehouses

4Q'20

- A shortage of shipping containers emerged: those used to carry masks from Asia to Africa and S. America early in the pandemic remain empty and uncollected as carriers focus on their most profitable routes

1Q'21

- Congestion at most ports erupted: ships in L.A. sit 2.5x longer at anchor
- Congestion spread to railroads and trucking; shortage of drivers
- There is no space in distribution centers as e-commerce growth took most available space (prices increase)
- The Ever Given blocks the Suez Canal, Covid-related shutdown of key ports in China leave ~350k containers idle

2Q-3Q'21

- Shipping rates: 8.5x their pre-Covid rate
- Semiconductor shortage
- Logistics workers threaten to go on strike

1. Sources: Forbes, Bloomberg and The New York Times

3. Macroeconomic consequences

Commodity prices and shipping costs are causing inflation worldwide, while supply chain disruptions are slowing down the global economic recovery

- A sooner-than-expected rebound in global demand, together with supply chain disruptions and reduced inventories have pushed commodity prices and transportation costs higher
- According to an OECD report[1], these higher prices account for ~2/3 of the increase in inflation observed during the past 12 months in G20 economies: 1.5 pp of annual inflation
  - The effect on inflation is expected to peak in Q4'21 at 1.6pp to then decrease slowly until reaching zero by mid-2023. The expected effect on 2022 inflation is ~0.9 to 1.2 pp
  - Shipping costs will rise further by ~25% in 4Q'21, continue rising until stabilizing in 1H'22
- Nevertheless, supply chain issues also have a real effect on GDP: according to an April 2021 Goldman Sachs note, chip/semiconductor shortage could shave 1.0pp of U.S. GDP in 2021
  - Semiconductors make 0.3% of U.S. GDP; the components they go into make up ~12%
  - For Mexico, they represent ~0.0% of GDP, but they go into ~65% of its exports

Policy makers argue that this issue is temporary and short-termed; in reality, it is proving to be more persistent and thus may be solved only in the medium-term (~2-3 years)

1. Source: "Keeping the Recovery On Track", Interim Report September 2021, OECD.