

Supercharged Economy Leaves Global Supply Chain "Stretched Thin"



BY TYLER DURDEN

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Shipping container shortages across Asia, vessel traffic jams at ports, higher shipping costs, and soaring input prices - are all part of the very stretched global supply chain in a post-pandemic world that remains in turmoil. Trillions of dollars unleashed by central banks and governments resulted in the overstimulation of the worldwide economy. Continuation of artificial demand stoked by stimulus could exacerbate supply-chain disruptions.

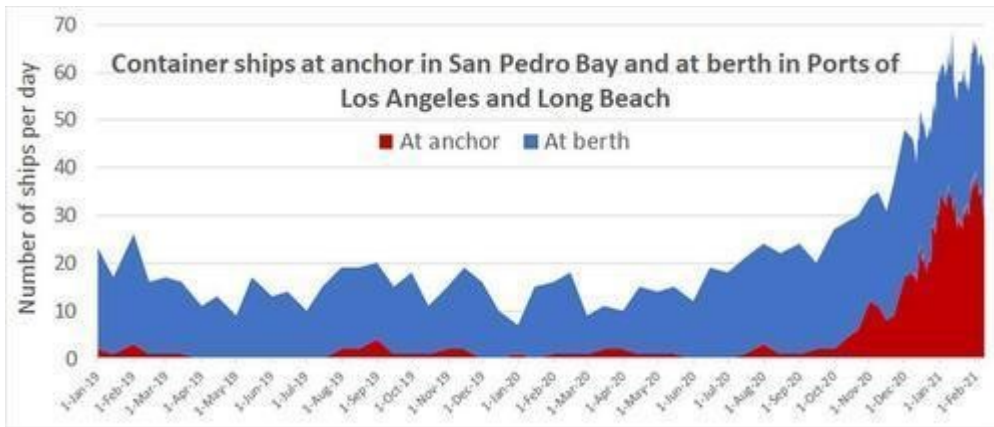
"I've never seen anything like this," Lars Mikael Jensen, head of Global Ocean Network at A.P. Moller-Maersk, the world's largest shipping company, told [NYTimes](#) last week.

... and, of course, Jensen had never seen anything like this before, due in part to the amount of stimulus unleashed, tens of trillions of dollars around the world, was entirely unprecedented.

More disorder nears as President Joe Biden's \$1.9-trillion relief bill is expected to turbocharge consumer demand for products made overseas, which will only result in additional stress on the global supply chain.

Chief Executive Steve Greenspon at Honey-Can-Do International LLC told [WSJ](#) that the rate at which Americans are purchasing clothes racks, shelves, and other housewares is remarkable. The "exceptionally high" demand produces bottlenecks at its manufacturers in China, resulting in a 50% increase in shipping cost and longer shipping time. Industry-wide, shipping costs are [hitting record highs](#).

"Ships can sit offshore for weeks at a time in the US," waiting to dock at busy ports, said Greenspon. "There doesn't seem to be any relief." Container ships [anchored](#) in San Pedro Bay and at berth in Ports of Los Angeles and Long Beach have risen to multi-year highs.



Data firm IHS Markit confirms a massive supply squeeze has been underway. Surveys of manufacturers around the world are reporting delivery times lengthening while input prices are soaring.

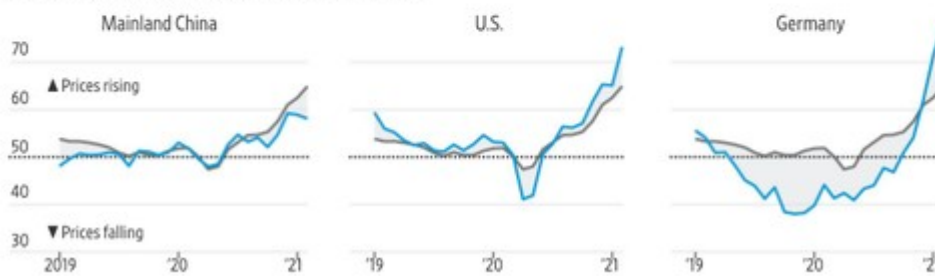
Supply Squeeze

Delivery times for factory supplies have lengthened sharply over recent months, and that has been reflected in a rise in prices for the things manufacturers need to make their goods.

Purchasing managers indexes for suppliers' delivery times



Purchasing managers indexes for input prices



Source: IHS Markit

Source: WSJ

IHS Markit said shortages of components pushed input prices higher at the sharpest rate in nearly a decade.

"It is difficult to get electronics, in some cases, delivery times are a little longer, but we can handle it," said Gordon Riske, chief executive of Kion Group AG, a Frankfurt-based manufacturer of forklifts.

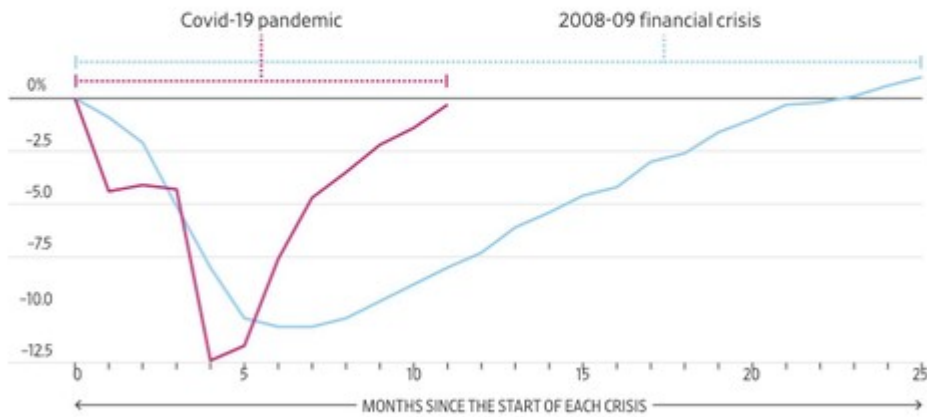
"Since the stimulus package is a done deal, the US will have about 7% growth. And we're likely to have some capacity issues that we will address."

The speedy rebound in global industrial production, fueled by central banks and governments spraying their respective economies with billions, if not trillions of dollars, has resulted in a "V-shaped" recovery. However, additional rounds of stimulus would be needed to maintain the so-called "recovery."

Rapid Rebound

Global industrial production has taken much less time to recover its pre-crisis level of output than during the last recession, responding to strong consumer demand for home office equipment and other goods.

World industrial-production volume, change since the start of each crisis



Notes: Excludes construction; seasonally adjusted; in 2010 prices
Source: CPB Netherlands Bureau for Economic Policy Analysis

Source: WSJ

Artificial demand has pushed up the "price of every material, every part, plastic parts, glue, everything from China has increased," said Lim Bao Lih, export manager at Classic International.

As Lih's input prices increase along with [shipping costs](#), Classic International might have to pass on costs to consumers.

Last week, readers found out their '[cup of joe](#)' in the future could cost more money because coffee processors have been slapped with higher freight costs.

Shortages have also been another tissue.

From semiconductors to [steel](#), shortages have materialized. Several manufacturers in the US and Europe have faced shutdowns of production facilities due to chip shortages. The problem is so concerning that major chip associations in the US and China are forming a working group to [alleviate](#) shortages.

Besides shortages of components, the lack of shipping containers in Asia because of one-sided trade [triggered](#) Costco Wholesale Corp and Honda Motor Co Ltd in the United Kingdom to delay shipments.

Many of the supply chain woes have been ongoing for the past year. Another round of stimulus from the US, supercharging consumers, even more ~~may result in unit price~~ inflation that will push up consumer prices.

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