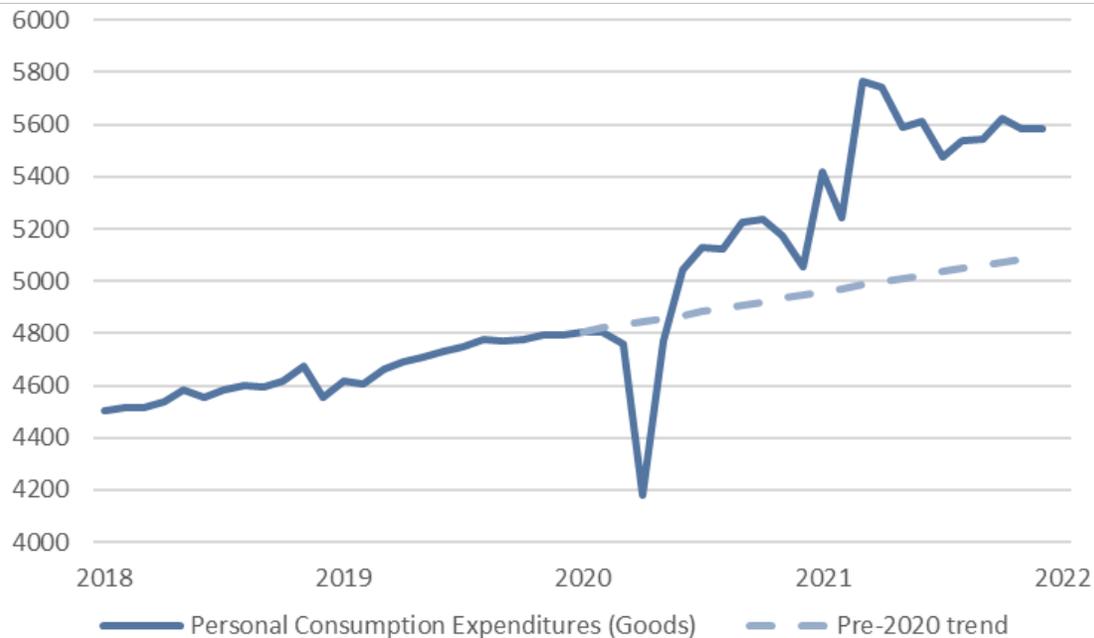


MARKET COMMENTARY

Fig. 1: Consumption of goods remains elevated (billions)



Source: Bloomberg, Mill Creek.

Our clients collectively voted supply chain disruptions as number two on their list of concerns for the new year. Supply chain challenges can be attributed to two main factors: **elevated consumer demand for goods** and **periodic labor shortages**.

Consumer demand has led to supply chain issues because households shifted consumption spending from services to goods over the last two years. Total consumer expenditures (goods and services) in the US are back in-line with the pre-COVID trend, but goods consumption is 10% above the earlier trend. Elevated goods consumption has put quite a bit of unexpected pressure on international and domestic supply chains.

Due to many factors (labor contracts limiting automation and working hours, shipping and rail capacities, trucking regulations, and primary reliance on Los Angeles and Long Beach ports for China-origin imports), increased goods demand resulted in bottlenecks at various points in supply chains.

Efforts have been made over the last few months to reduce some of the regulator-induced supply chain bottlenecks, but the backlog hasn't shown signs of dissipating.¹ Some [claims of progress by port officials](#) have proven to be misleading. For example, a new queuing system means that while the number of ships within the 40-mile "Safety and Air Quality Area" around the Southern California port complex has declined significantly, the backlog has been pushed further offshore.

COVID waves have also resulted in labor shortages, further disrupting supply chains. It was reported that [one in 10 dockworkers at the Los Angeles and Long Beach ports were unavailable for work due to COVID-related reasons last week](#). China has also pursued a zero-COVID policy, leaving entire cities [periodically quarantined for days or weeks](#) at a time.

Looking forward we agree that supply chain disruptions remain a risk for 2022. A normalization of household consumption away from goods and back to services would ease most of the demand pressures, but there are no signs of that happening. Furthermore, many US supply chain bottlenecks are difficult to solve without regulatory changes or modifying collective bargaining agreements. China continues to pursue a zero COVID policy which results in large-scale quarantines, and COVID-related labor force disruptions have escalated once again in the US.

¹Snyder, Chris, "Port Throughput Improving, Backlogs & Wait Times Unchanged," January 6, 2022.

QUICK LINKS

- [Risk Monitor: Inflation](#)
- [Q1 2022 Outlook](#)
- [Year Ahead 2022: Hurry Up and Wait](#)
- [House View Summary](#)

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