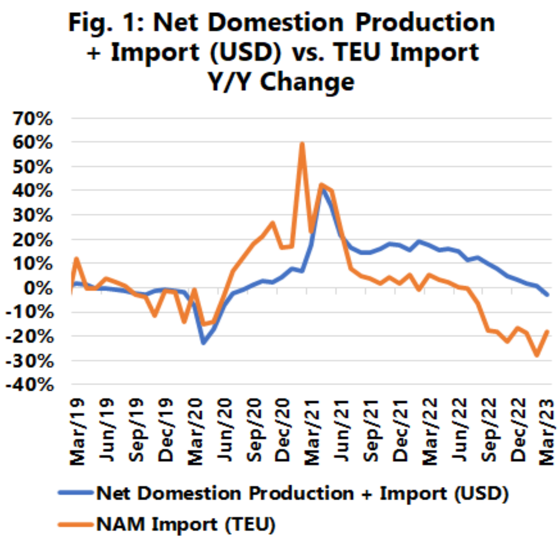
Continuing US inventory problem

Global decline in container demand abated sharply in March 2023 on most major trade lanes, with a major exception: US imports from Asia, which have now continually dropped at a pace fluctuating around -20% Y/Y. This has often been explained by US inventory correction. However, from the point of view of sales, data from the US Census Bureau clearly shows that the process of clearing inventories is not progressing rapidly.

Since inflation impacts both sales and inventories, an inventory to sales ratio is not impacted by inflation. The data shows that for manufacturers, the size of inventories have stagnated and certainly not decreasing. Both retailers and wholesalers on the other hand are seeing an increasing trend. This means that the size of inventories relative to sales continues to increase, and if any underlying inventory correction is going on, it is clearly insufficient.



If we sum monthly total sales and the monthly net change in total inventories, it should equal the value of imports + domestic production. Assuming that domestic production is a relatively stable small share, we would expect a strong correlation to volume imports. Figure 1 shows that here was a clear correlation pre-pandemic, whereas USD imports lagged behind during the pandemic. The sharp drop in TEU imports thereafter is not reflected to the same degree in the value of imports.

Part of the disconnect might simply be owing to the contraction of the supply chain, however the supply chain is now rapidly approaching normalisation. One alternative explanation might very well be a normalisation of consumer spending habits. The boom in US imports in 2020-2021 was to some degree driven by consumers shifting spending away from services and over onto goods, which increases container volumes as well. A reversal of this spending behaviour will mean a negative impact on container volumes for quite a while longer – and consequently the upcoming peak season 2023 might turn out not to be present.

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