



Supply Bottlenecks May Be Peaking

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KEY INSIGHTS

- While consumer demand has rebounded sharply amid widespread coronavirus vaccinations, restoration of global supply chains has been more sluggish.
- Supply chain disruptions have caused shortages and driven up prices; however, key data suggest that supply bottlenecks may be peaking.



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The coronavirus pandemic caused a sudden and unprecedented stop and restart of the global economy. Although consumer demand has since rebounded rapidly as vaccination campaigns have progressed, a corresponding restart of global supply chains has lagged, causing shortages and driving up prices globally.

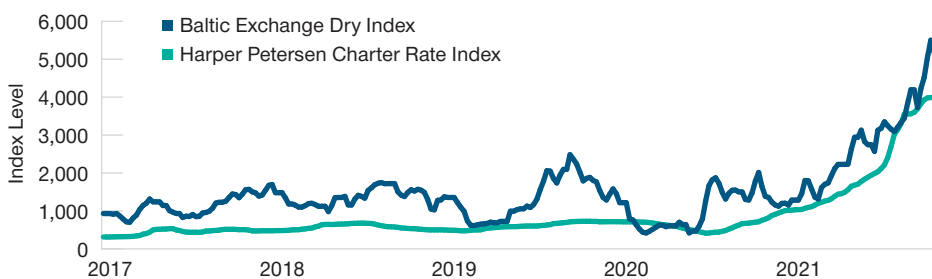
Recently, the term “stagflation”—an economic environment featuring soaring inflation, high unemployment, and slow

growth—has begun to creep into the economic discourse. A major area of concern is the shipping industry, where extensive labor shortages at ports are leaving many container ships waiting offshore for weeks to offload their cargo, driving up shipping costs.

A review of the Baltic Exchange Dry Index, which shows average prices for transporting dry bulk materials across more than 20 routes, and the Harper Petersen Charter Rate Index (HARPEX),

Global Traffic Jam on the Seas May Be Abating

(Fig. 1) Shipping costs appear to have peaked

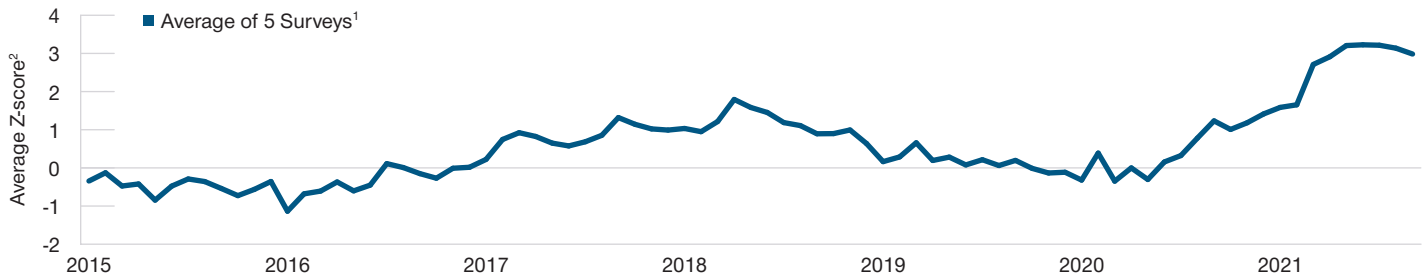


January 3, 2017, through October 15, 2021

Sources: The Baltic Exchange and Harper Petersen/Haver Analytics.

Consumer Wait Times Could Ease

(Fig. 2) Supply delivery times may have stopped getting worse



January 1, 2015, through September 30, 2021.

Past performance is not a reliable indicator of future performance.

¹ Manufacturing surveys conducted in Chicago, Dallas, Kansas City, New York, and Philadelphia.

² A z-score is a numerical measurement that describes a value's relationship to the mean of a group of values. A z-score is measured in terms of standard deviations from the mean, with a positive value indicating the score is above the mean and a negative score indicating it is below the mean.

Sources: Federal Reserve Banks of Dallas, Kansas City, New York, and Philadelphia, MNI Market News/Haver Analytics. Data analysis by T. Rowe Price.

which shows price developments in the global charter market for container ships, (Figure 1), illustrates the considerable rise in costs since early 2020. However, recent pricing trends—particularly in the HARPEX—indicate that issues may have at least stopped getting worse.

Supplier delivery times are another barometer for possible supply chain problems. In the U.S., these key data are tracked in monthly manufacturing surveys conducted in several U.S. Federal Reserve districts. An average of five of these surveys shows that delivery times began to deteriorate during the second

half of 2020 and reached elevated levels during the summer of 2021 (Figure 2). However, the average leveled off in May and recently turned downward.

Overall, we are experiencing the impact of the mismatch in timing between the rebound in demand versus a ramp-up in supply. In our view, the worst appears to be behind us. While markets may face a challenging combination of high inflation and moderating economic growth in the near term, we believe that the longer-term economic outlook remains favorable.

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