# US Daily: US Port Backlogs: A Story of High Demand and Stretched Supply (Walker)


- The media is awash in anecdotes of congestion at US ports, with particular focus on the 77 ships at anchor outside of the ports of Los Angeles and Long Beach. With an estimated $24bn in goods sitting outside those two ports alone, resolving the bottlenecks at US ports could help ease the shortage of goods that has contributed to substantially higher prices over the last year.
- The backlog of ships is the result of both extremely elevated demand for goods — as imports have surged to keep up with goods consumption that is 14% above the pre-pandemic level — and constraints on inland shipping capacity — including shortages of labor, warehousing, and equipment — that have limited the industry's ability to expand.
- Commentary from both our analysts and industry leaders suggests that backlogs and elevated shipping costs are likely to persist at least through the middle of next year because no immediate solution for the underlying supply-demand imbalance at US ports is available. But pressures should soon begin to ease slightly as we pass the ongoing seasonal peak in shipping demand ahead of the holiday season, and should ease more meaningfully after Chinese New Year when the number of inbound shipping containers is historically near its seasonal low for a couple months.



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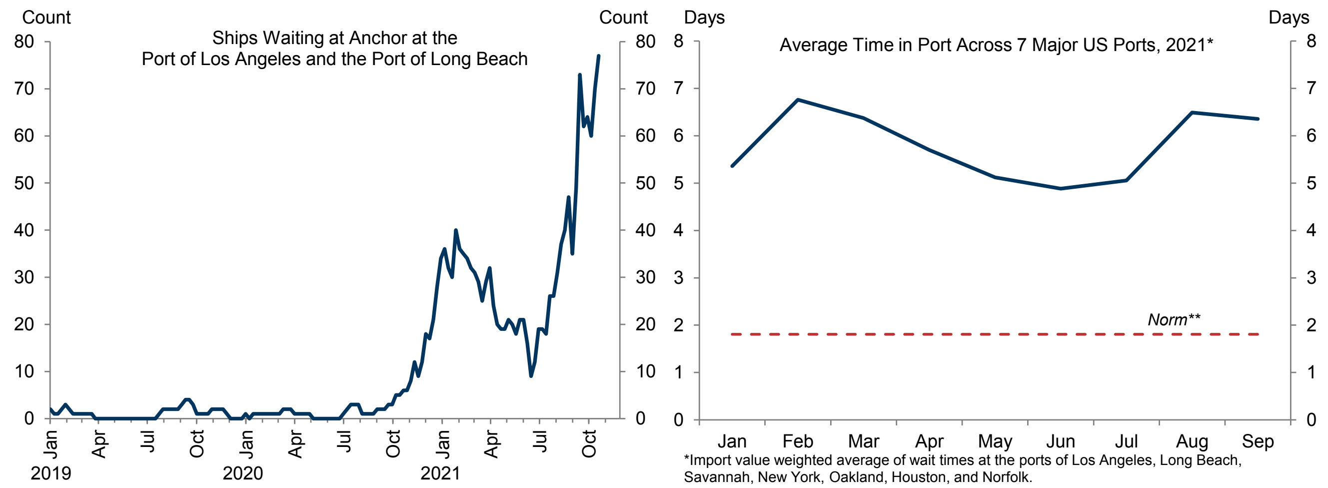
# US Port Backlogs: A Story of High Demand and Stretched Supply

Supply chain disruptions as measured by supplier delivery times in business activity surveys have remained near record-high levels for the last five months. Those disruptions partially reflect congestion at US ports, which the media has increasingly called attention to, with particular focus on the 77 ships at anchor outside of the ports of Los Angeles and Long Beach (Exhibit 1, left). However, the backlog of ships has not just been confined to southern California, as the time that it takes loaded ships to make it through major US ports is now three times longer than the historical norm (Exhibit 1, right).

**Exhibit 1: The Backlog of Ships at the Ports of Los Angeles and Long Beach Has Worsened Substantially over the Last Few Months; Turnaround Times at Major US Ports Are Three Times the Historical Norm**



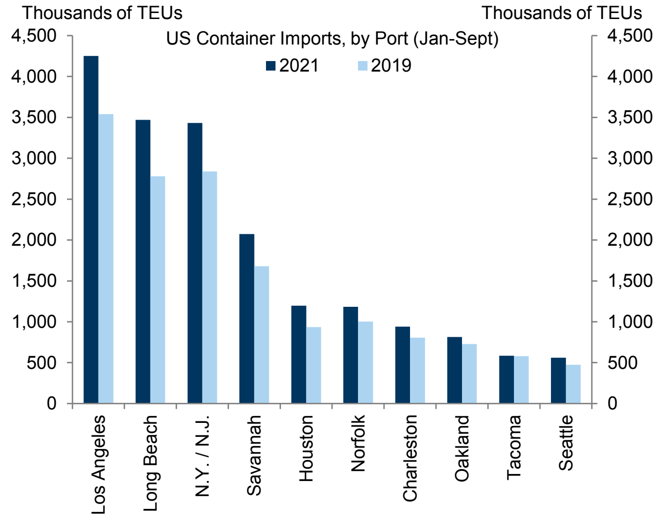

*Import value weighted average of wait times at the ports of Los Angeles, Long Beach, Savannah, New York, Oakland, Houston, and Norfolk.
**Based on data for 2013 from Slack, Brian, et al. "Ships time in port." *International Journal of Shipping and Transport Logistics* 10.1 (2018): 45-62.

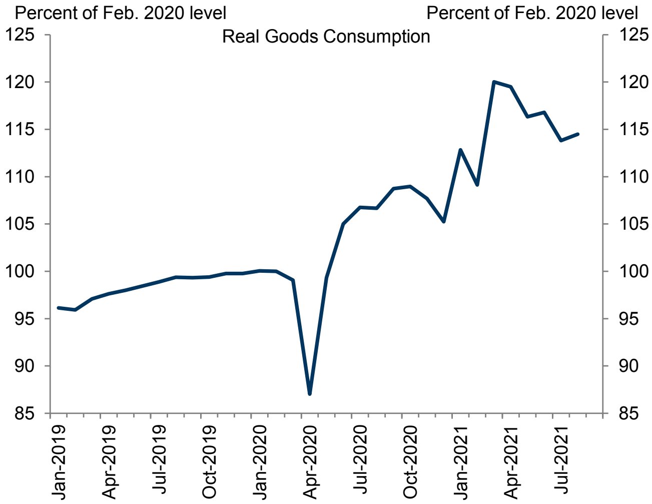
Source: Marine Exchange of Southern California, Shanghai Shipping Exchange, Goldman Sachs Global Investment Research

When we first wrote about international shipping backlogs in the spring, we focused on the inflationary consequences of higher shipping costs that would be passed along to consumers, costs that are quite modest. But as shortages of certain intermediate and consumer goods have intensified, scarcity rather than cost pass-through has emerged as the more powerful inflationary force. With an estimated $24bn in goods sitting outside of the ports of Los Angeles and Long Beach alone, resolving the bottlenecks at US ports could go a long way toward easing goods shortages.

Today's shipping backlog partially reflects elevated demand, as highlighted by our Asia and global economics teams. Port utilization has increased by roughly 20% at the largest US ports in order to keep up with goods consumption that is 14% above the pre-pandemic level (Exhibit 2).

**Exhibit 2: Port Volumes Have Reached Record Highs to Try to Keep Up With Strong Goods Demand…**



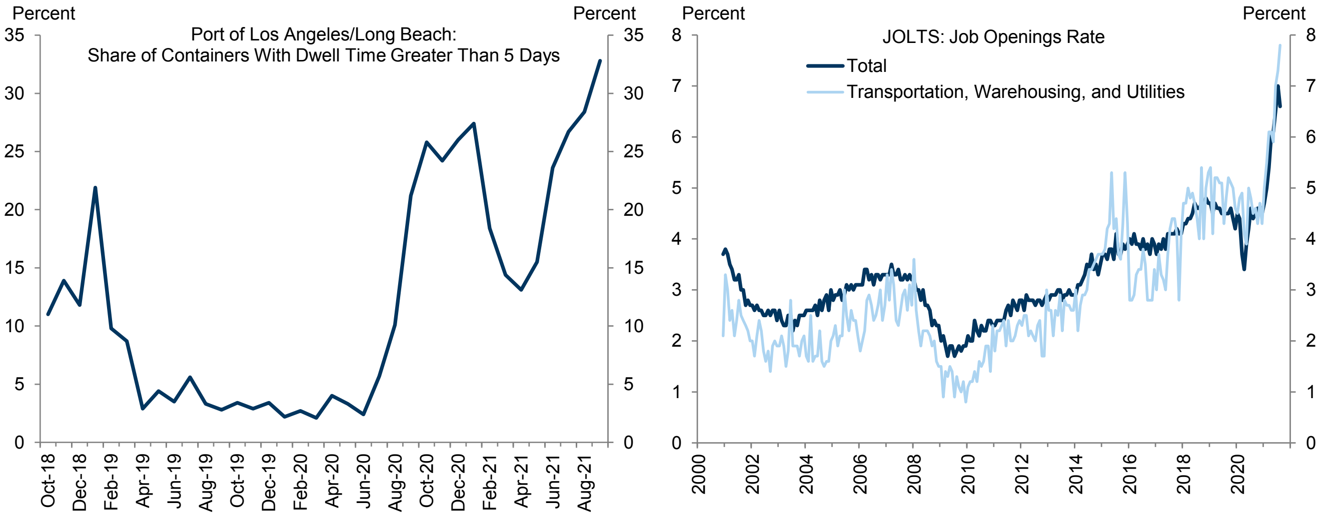




TEU=Twenty-foot equivalent unit

Source: Datamyne, Bloomberg, Department of Commerce, Goldman Sachs Global Investment Research

But with already record volumes of inbound containers, ports are now constrained by their capacity to handle containers after they are unloaded, with industry officials primarily citing shortages of labor, warehousing space, and equipment as the main obstacles to accelerating acceptance of inbound containers. In September, roughly one-third of shipping containers at the ports of Los Angeles and Long Beach sat for more than five days after making it off the ship, before being transported out of the port, whereas that share was typically in the low single digits before the pandemic (Exhibit 3, left). Our shipping analysts note that these longer dwell times lead to less overall supply chain efficiency that can slow the pace of offloading containers at ports. And consistent with that reduced efficiency, the number of offloaded containers declined by 3.6% (month-over-month) at the Port of Los Angeles in September and 9.1% at the Port of Long Beach, and not for lack of demand.

**Exhibit 3: …But Truck and Rail Transportation Have Not Been Able to Keep Up with the Record Ship Volumes, in Part Because of Labor Shortages**




Source: Pacific Merchant Shipping Association, Department of Labor, Goldman Sachs Global Investment Research

What is the outlook for normalization? On the demand side, we expect goods demand to decline moderately through the end of next year as disposable income moderates and consumers rotate from elevated spending on goods back to a normal level of spending on services, though we expect that shift will happen only gradually.

On the supply side, there had been some hope for a fast resolution after the White House secured commitments from the Port of Los Angeles, several private sector transportation companies, and the International Longshore and Warehouse Union to begin operating on a 24/7 basis. While increasing operational hours may help at the margin, the proposal to run 24/7 was met with skepticism by the Port of Los Angeles's director prior to the White House's announcement, in part because resolving the current bottlenecks would also require full cooperation across inland supply chains, which include both small and large businesses including ports, truck drivers, rail operators, and warehouses. Additionally, substantially increasing operational hours would require expanding the transportation industry's labor force, but it is unclear that could meaningfully happen in a short amount of time, given that it is already facing shortages of labor that are even more acute than the broader economy's shortage (Exhibit 3, right) and that many transportation jobs require specialized licenses and training. That said, accelerating wages for transportation workers and fading hurdles to employment — such as the end of enhanced federal unemployment insurance and the decline in Covid cases — should gradually help to increase labor supply and alleviate some of the bottlenecks.

The upshot is that the outlook offers no immediate fixes for the underlying supply-demand imbalance at US ports. Looking ahead, our sector analysts' analysis suggests that congestion at ports should start to ease slightly in coming months, as we have now passed the seasonal peak for shipping demand. And assuming minimal further shocks to supply chains — including further pandemic-related lockdowns in East Asia, which caused surges of increased ship volumes that bunched at US ports following their easing earlier this year — our analysts expect congestion to ease more meaningfully following Chinese New Year in February, a time at which the number of inbound containers to the Port of Los Angeles has typically fallen 25% from its August seasonal peak and will allow ports to clear existing backlogs to restore lost efficiency. However, congestion will likely persist to some extent through at least the middle of next year, and our analysts expect that freight rates will likely remain meaningfully above pre-pandemic levels for at least the next year.

**Ronnie Walker**

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