

Inflation worries rising

MAY 18, 2021

Supply chain inflation has become an increasing preoccupation in the U.S. for economists, corporations and governments. Concerns have accelerated as freight costs accelerated, commodity prices increased and import prices returned to inflation, as discussed frequently in Panjiva's research since October 2020.

Tariffs, particularly on imports from China, have been a contributing factor. The Chair of the Biden administration's Council of Economic Advisors, Chair Cecilia Rouse, noted when asked about cutting tariffs to reduce inflationary pressures that "our trade representatives are looking at all of those factors" as well as in the context of longer-term economic policy.

Panjiva's analysis of official data shows that import prices rose by 4.9% year over year in April, by 4.0% compared to April 2019 and by 7.2% on a sequential, annualized rate when excluding the volatile food and fuels segments. The import price index of 103.5 was the highest since Feb. 2013. Prices of imports from China have increased by 2.14% year over year, the fastest rate since March 2012, and by 1.0% compared to 2019 in April.

Import price inflation accelerating and not just a COVID-thing

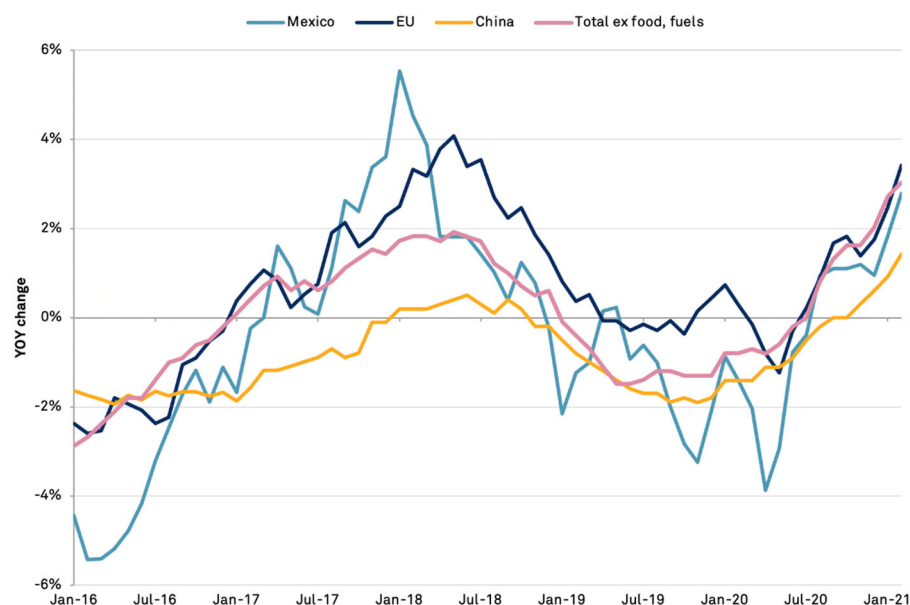


Chart segments U.S. import price indices by origin. Calculations based on Bureau of Labor Statistics data. Source: Panjiva

The price of imports from Canada rose by 50.0% year over year, largely due to the recovery in oil prices though an increase in prices of 9.0% compared to April 2019 also reflects wider commodity price inflation. That's likely due in part to lumber price increases which have been bolstered by housebuilding as well as home improvements during the pandemic.

Panjiva's [data](#) shows imports of lumber have skyrocketed, with Canada providing 77.2% of imports in Q1, with supplies increasing by 141.6% year over year. Imports from other countries have also increased, likely as importers look for alternative sources to Canada, by 36.0% year over year in the same period.

The rise in prices is a clear concern for building materials firms. Indeed, MDU Resources noted this increase in their May 6th [earnings](#) call, with David Barney, CEO of MDU's construction materials business Knife River Corp., saying that they are *"definitely seeing some inflationary pressure on steel and other products"*, though like an increasing number of firms MDU has *"been able to pass those costs on in our bids or in our materials side."*

Canada constructs lumber success

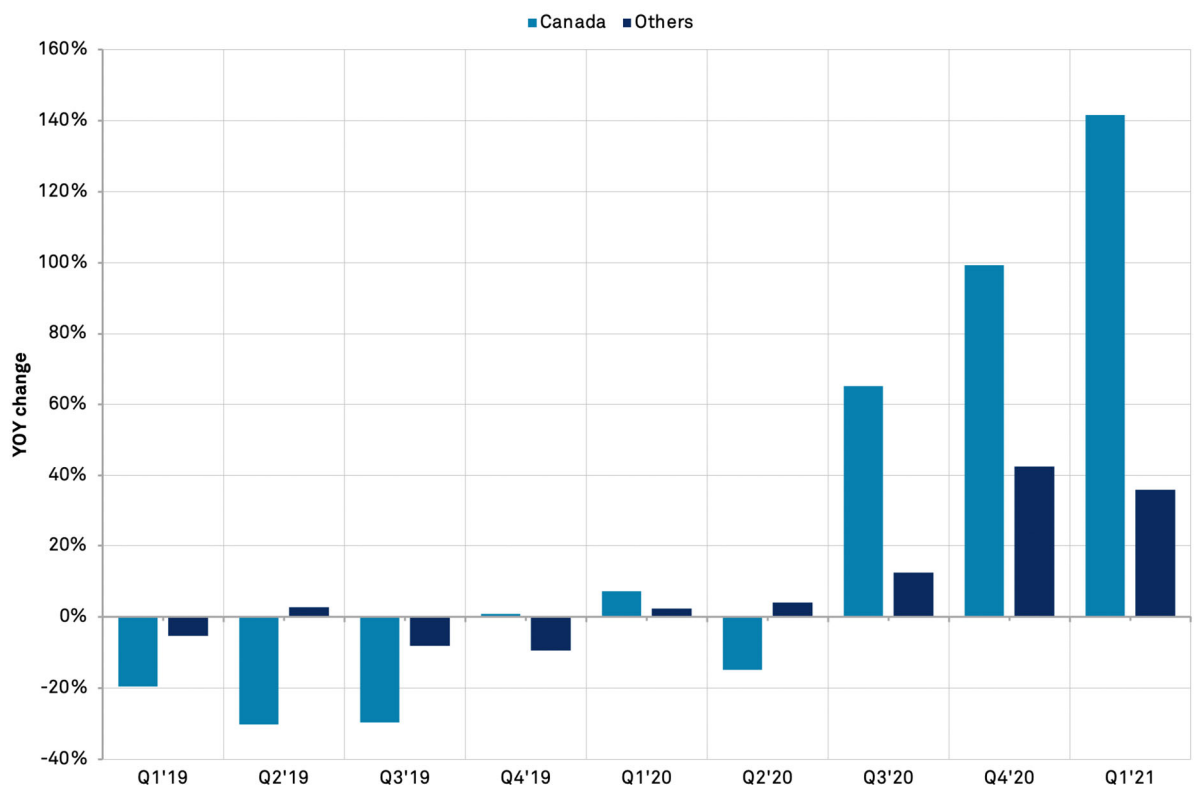


Chart segments U.S. imports of lumber by origin on a year over year quarterly basis.
Source: Panjiva

Panjiva's analysis of corporate conference calls across over 7,000 firms globally, gathered via S&P Global's [Textual Data Suite](#), shows 56.0% of firms mentioned "inflation" as a topic during the conference calls in the April 1 to May 12 period.

That compares to 48.0% in Q1'21 and 35.9% in Q4'20. Supply chains (58.7% of calls in April / May versus 52.3% in Q4'20) and logistics / freight (53.7% versus 48.4%) have also been increasing preoccupations.

More business, more worries

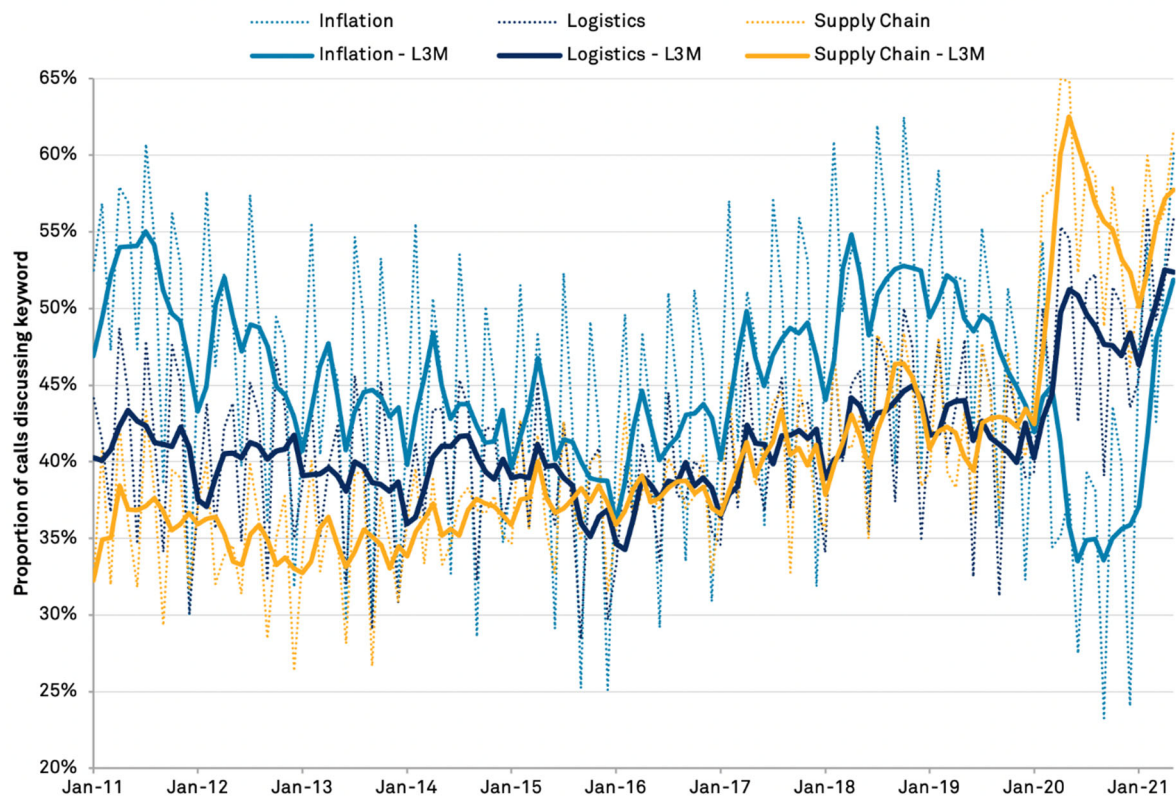


Chart compares proportion of company conference calls including specific keywords on a monthly and three-month average basis. Source: Panjiva

At the industry level the increase in discussions of inflation has been seen in Household Products and Leisure Products with 100% (from 41.2% in Q4'20) and 90% (from 33.3%) of firms respectively mentioning the topic in April and May combined. There's also been a marked increase in semiconductors (77.3% from 26.8%) and automotive components (100% from 50.0%) reflecting the shortage of chips that is contributing to supply chain disruptions as well as higher costs.

Inflation concerns widespread and rising

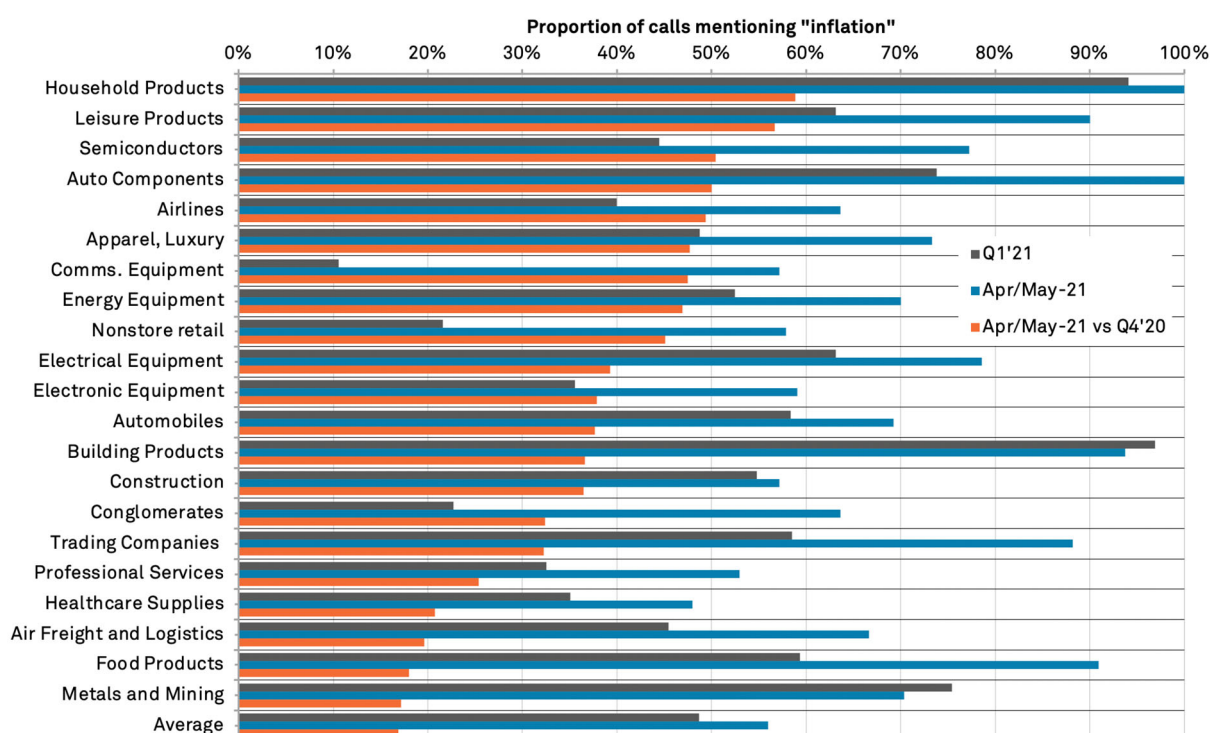


Chart compares proportion of company conference calls including keyword "inflation" by date when call was held. Source: Panjiva

There are signs that some of the firms that Panjiva has analyzed in detail since the start of April have reduced their supply chain activity in response to higher costs. Panjiva's U.S. seaborne data shows that nine out of 20 companies analyzed decreased their shipments in April 2021 versus April 2019 and / or cut them on a daily average basis in April 2021 versus Q1'21. Shipments associated with Steve Madden fell by 55.9% in April versus Q1'21 while those linked to Lakeland fell by 45.2%.

The majority of firms are still increasing their shipments however, choosing to either pass through higher costs in the form of price hikes or to take reduced profit margins in the name of increasing total profitability. Firms across a wide range of industrial and consumer goods industries are still expanding rapidly, with imports linked to PPG up by 100.8% and those associated with Lovesac having increased by 45.4%.

Supply chain cutbacks becoming more common, but still in the minority

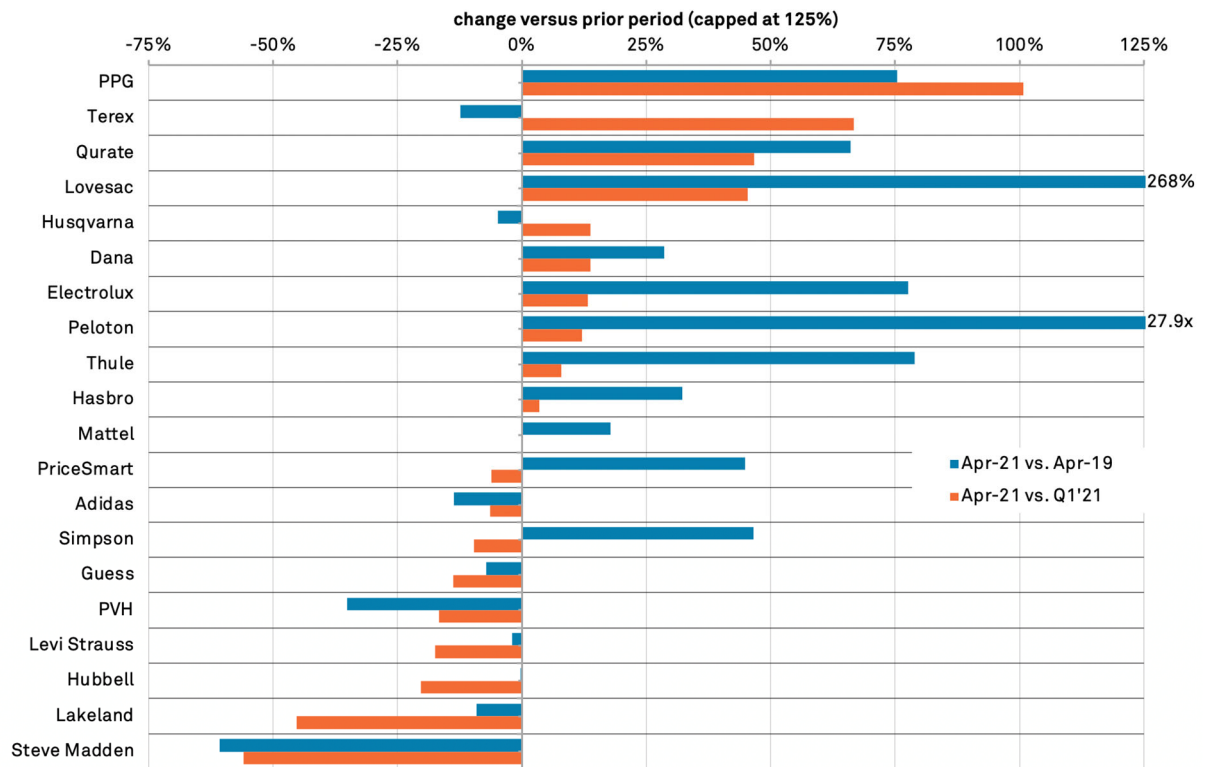


Chart shows change in U.S. seaborne imports in April 2021 versus April 2019 and versus Q1'21 on a daily average basis. Source: Panjiva