

But Wait, There's More!

Trade and Economic Update
FDRA
July 21, 2022

SUPPLY CHAIN *TURMOIL*

A quick look at the major factors affecting the global supply chain:



REBOUNDED DEMAND

April 2021 - Ongoing
Everywhere/USA

Consumer demand for PPE, housing and home improvement products strained supply of items used by the pest management industry, higher-than-expected demand for many products across industries put additional pressure on a constrained supply chain.

5



WINTER STORM

February 13-17, 2021
Texas/Gulf Coast

Power outages seriously disrupt petrochemical processors that supply feedstock chemicals used to make pesticides, plastics, construction materials and more.

2

RAILROAD PINCH POINT

July 2021
Chicago

Railways Union Pacific and BNSF temporarily suspend service at freight-switching terminals near Chicago to relieve shipping container congestion, but this also delays subsequent shipments from West Coast ports to the Midwest.

6



TRUCK DRIVER SHORTAGE

Ongoing
Everywhere/USA

The trucking industry lost about 142,500 jobs in 2020; 1.1 million new drivers are needed over the next decade to meet demand, reports the American Trucking Association.

8



DELTA CLOSURES

Ongoing
Worldwide

The COVID-19 variant sickens unvaccinated workers, reducing production at raw material processors and factories. Among the affected: semiconductor manufacturers in Malaysia and makers of ceramic capacitors (used in electronics) in Japan.

9

WORKER SHORTAGES

Ongoing
Worldwide

COVID-19 shut down factories, raw material processors and transportation hubs like ports and railroads. The difficulty of finding child care and generous unemployment benefits deterred people from returning to the workforce, as did COVID-19 fears.

7



SUEZ CANAL BLOCKAGE

March 23-29, 2021
Egypt

The massive Ever Green freighter gets stuck, preventing 369 freighters from reaching port. The backup of ships isn't cleared until April 3, causing material and product delays.

3



THE IMPACT

Challenges expected through 2022:

- Longer lead times
- Product shortages
- Higher prices

10



PORT CONGESTION

March 2021 - Ongoing
California and China

Getting materials inbound and out of major shipping terminals on the West Coast (Los Angeles and Long Beach, Calif.) and China (Ningbo and Zhoushan, Zhejiang-Shenzhen, Guangdong) stalls due to COVID-related closures and fewer dock workers and truck and licensed hazmat drivers.

4

COVID-19 PANDEMIC

January 2020 - first quarantine in Wuhan, China

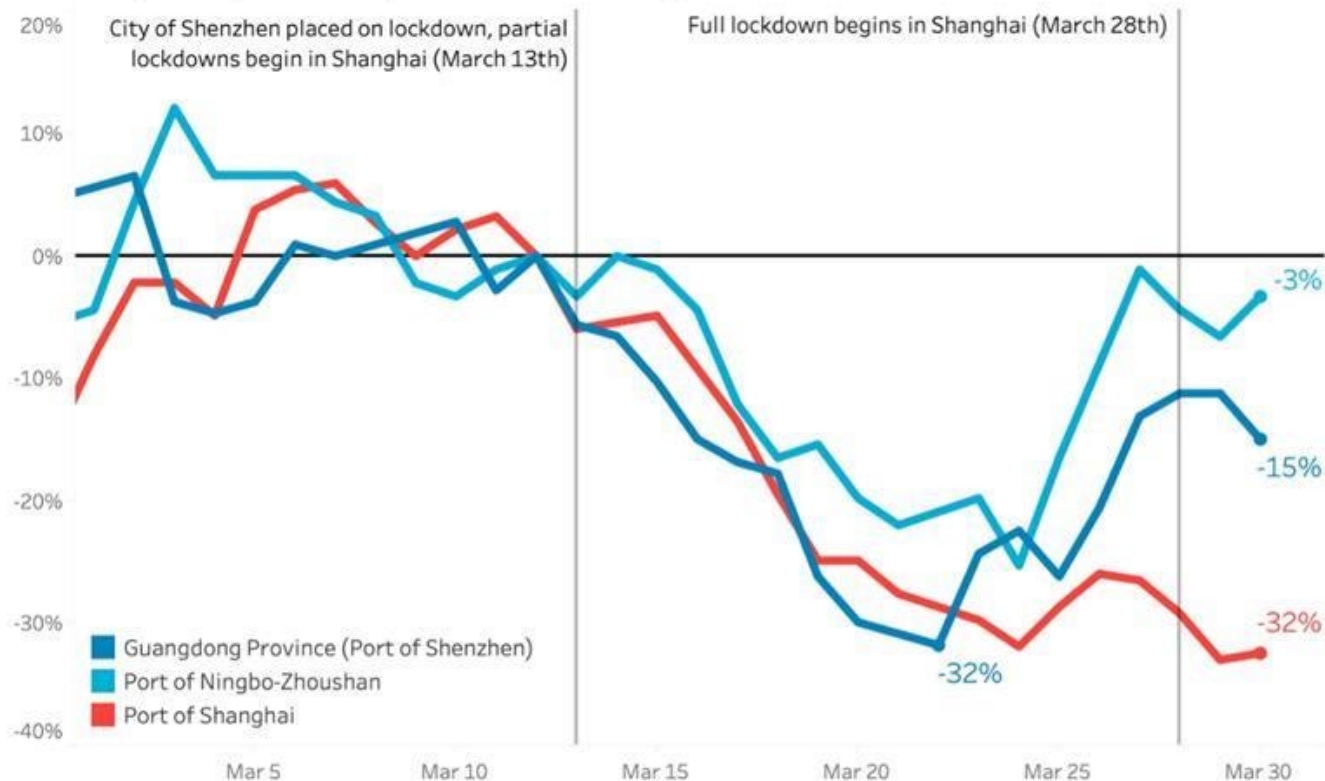
March 2020 - first U.S. stay-at-home orders take effect; demand for many consumer products declines and factories idled

1



COVID-19 Lockdowns in China Cause Further Disruptions to Supply Chain

Seven-day average ocean shipment volume, % change from March 12, 2022

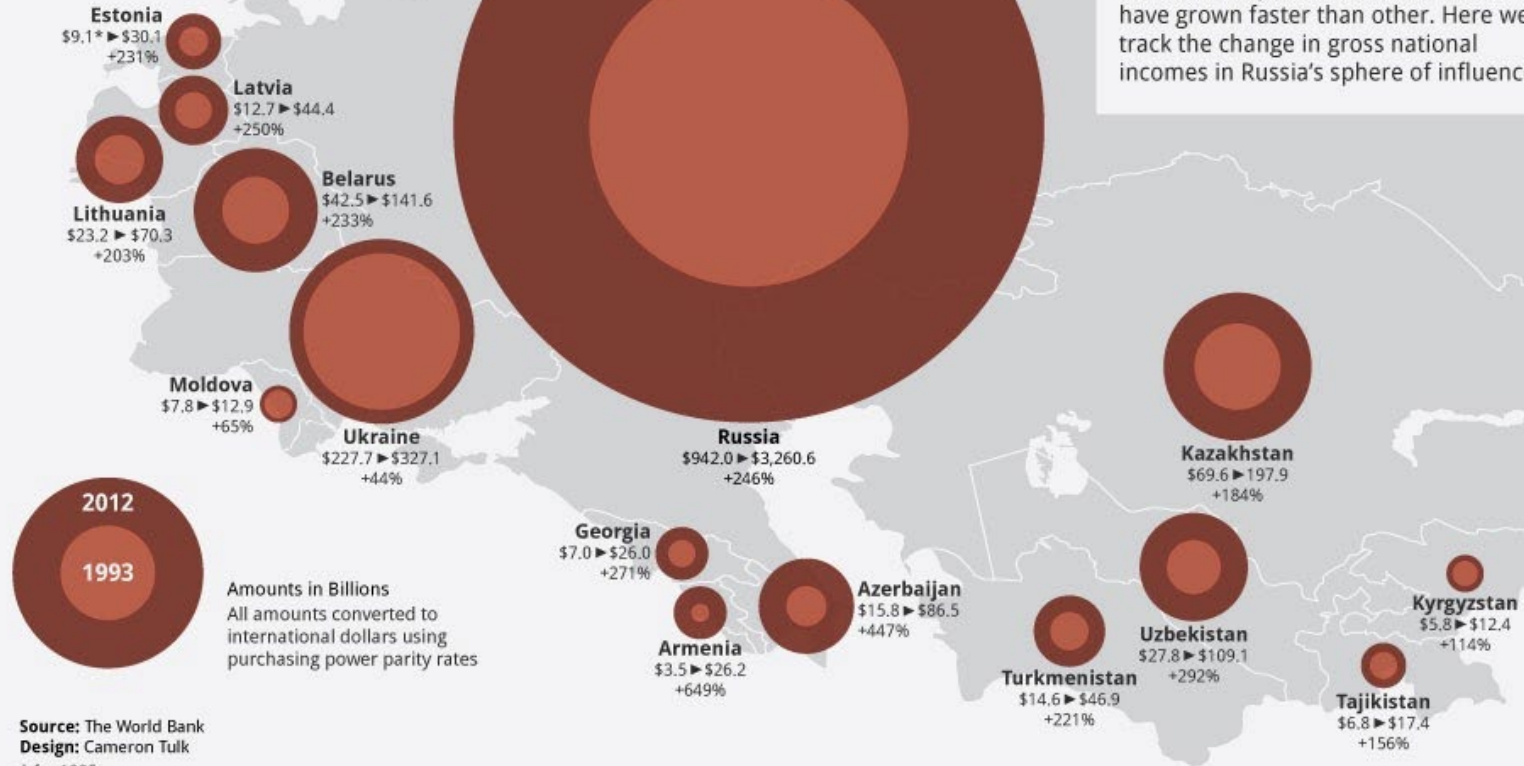


Source: FourKites Tracking Data (2022)



THE POST-SOVIET ECONOMIES

In the 22 years since the dissolution of the Soviet Republic, some economies have grown faster than other. Here we track the change in gross national incomes in Russia's sphere of influence.



Source: The World Bank
Design: Cameron Tulk
* for 1995

Growing pressures

Prices for energy, grains, and metals soared since the invasion of Ukraine, signaling that inflation rates are poised to accelerate.

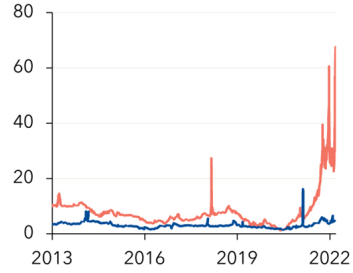
Brent Crude Oil

(\$US/barrel)



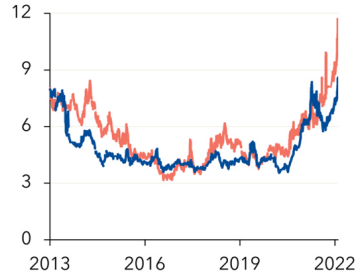
European & US Natural Gas*

(\$US/MMBtu)



Corn, Wheat

(\$US/bushel)

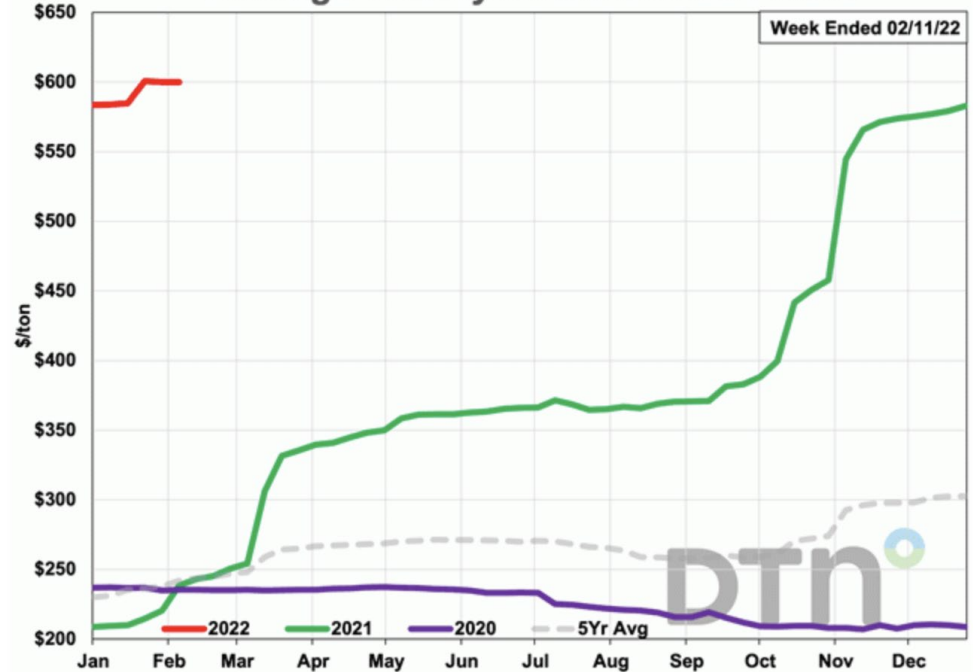


Metals Index**

(2016=100)



Average Weekly Retail UAN28 Prices

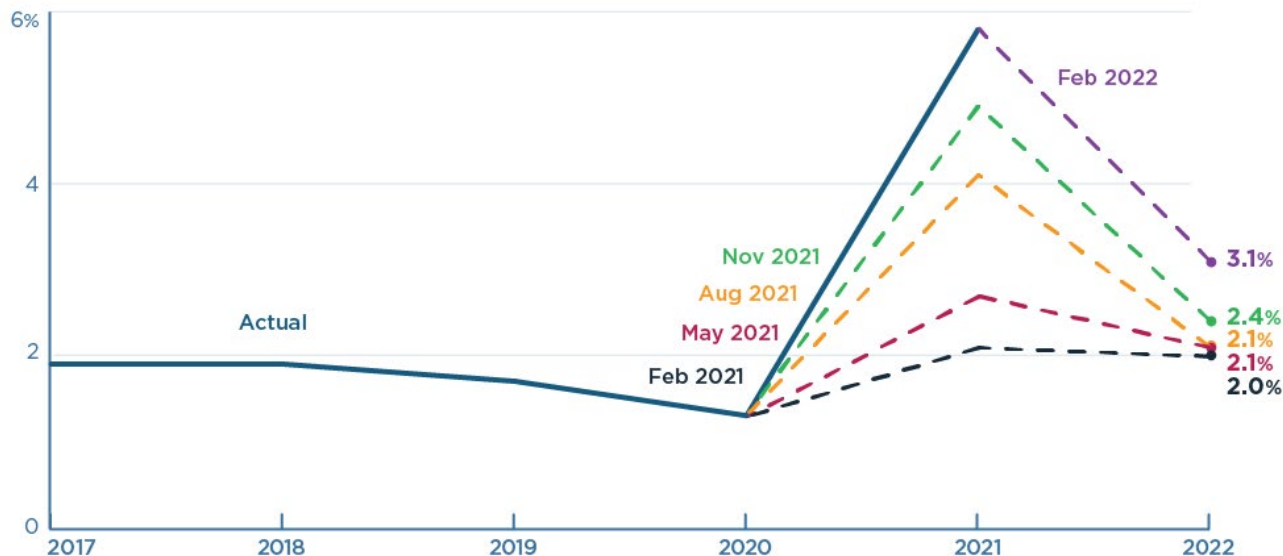


Source: Bloomberg, USDA, Datastream, and IMF staff calculations.

Note: *European & US natural gas prices use the Dutch TTF and Henry Hub as proxies, respectively. **Base Metals Price Index includes aluminum, cobalt, copper, iron ore, lead, molybdenum, nickel, tin, uranium, and zinc.

Forecasters underestimated US inflation in 2021 and are now revising 2022 forecasts up

Projected and actual percent change in Q4/Q4 inflation by forecast month



#PIIECharts

Learn more at piie.com/research/piie-charts



Note: Data refer to personal consumption expenditures inflation.

Source: Karen Dynan's blog post, "What is needed to tame US inflation?"

Commodities prices soar as Russia-Ukraine war deepens

Indices rebased, Jan 2006

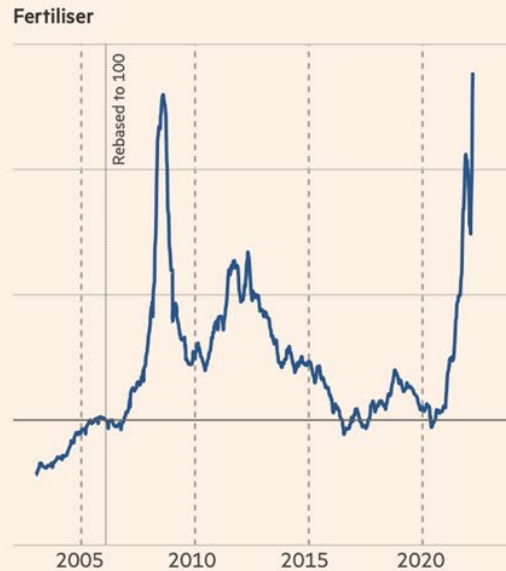
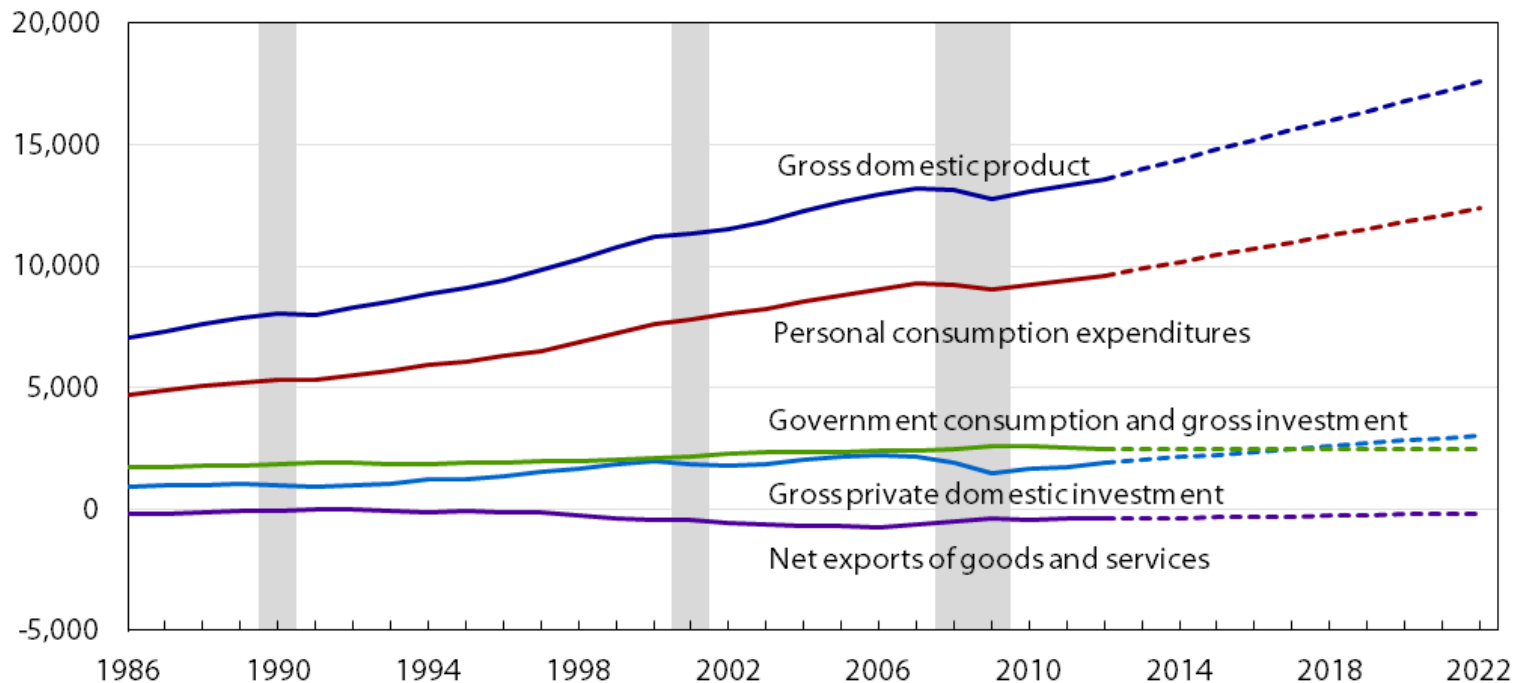


Figure 1. Nominal gross domestic product and final demand, 1986–2012 and projected 2022

Billions of current dollars

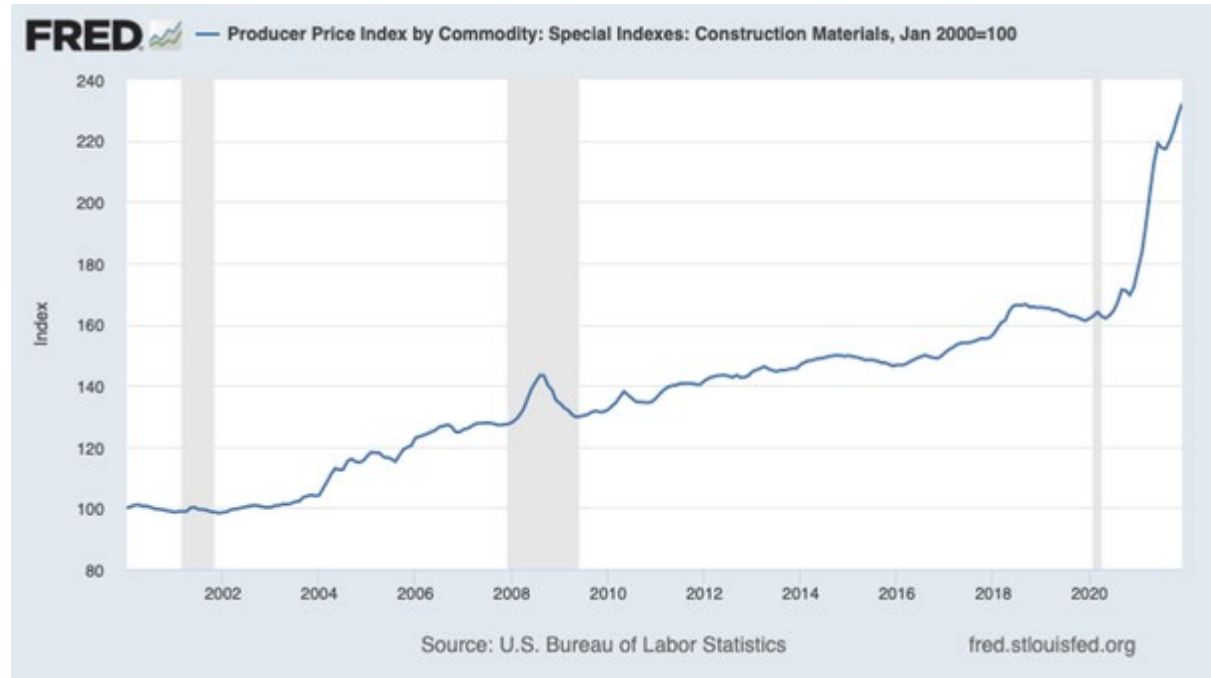


Note: Shaded regions represent recessions as designated by the National Bureau of Economic Research. Turning points are quarterly.

Sources: Historical data, U.S. Bureau of Economic Analysis; projected data, U.S. Bureau of Labor Statistics.

The First Domino

- In February 2022 data, the 30-year, fixed-rate mortgage stood at 3.8 percent. Since then, rates have increased sharply, reaching 6.1 percent in mid July
- The increase in rates since February, holding household income constant, resulted in a \$80,000 decline in house-buying power.

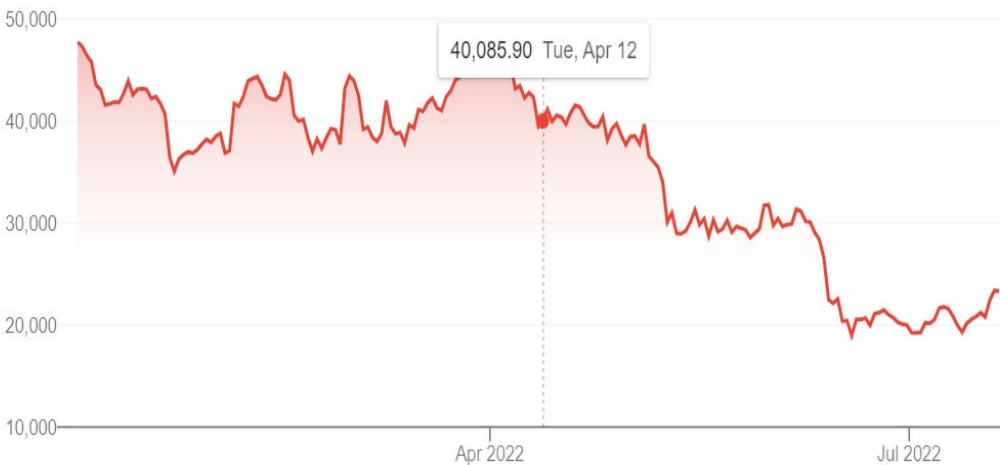


23,330.40 USD

-24,403.00 (51.12%) ↓ year to date

Jul 20, 4:29 AM UTC · [Disclaimer](#)

1D | 5D | 1M | 6M | YTD | 1Y | 5Y | Max



1 | BTC ▼ | 23330.40 | USD ▼

Feedback

Second Domino

Crypto Currency has no tangible value or utility outside the digital asset ecosystem, nor does it have any intrinsic value, nor is it an investable class asset.

In other words, it's a bubble that will eventually burst.

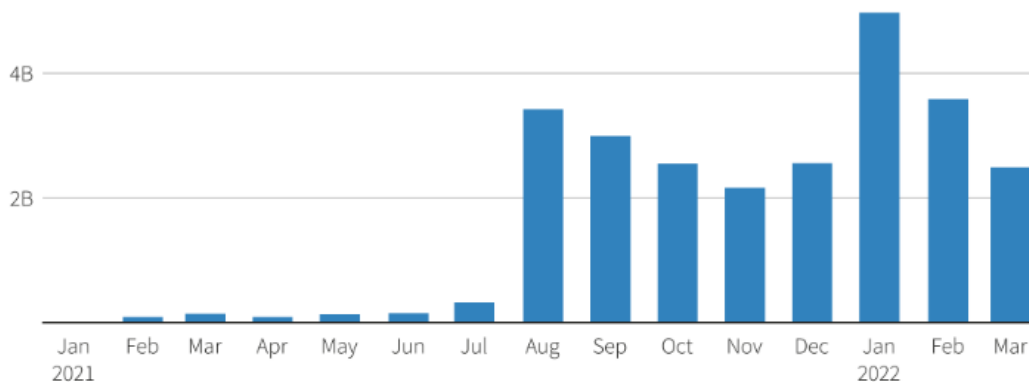
Third Domino

An NFT representing a piece of computer-generated abstract images from a collection called Art Blocks would sell for around \$15,000 on average at a peak in September 2021, but fetched just under \$4,200 last month, according to CryptoSlam.

Meanwhile, Bored Ape Yacht Club NFTs - a set of 10,000 variations on a cartoon primate - still sell for around \$300,000 on average.

Past the peak?

Monthly NFT sales on OpenSea have halved since January 2022



Note: Sales volume in U.S. dollars. Data shows sales on the ethereum blockchain only.
Source: opensea.io, cryptoart.io, Dune Analytics

Fourth Domino

To give you a measure of the excess liquidity there is currently in the system, the FED has been injecting \$120B per month in financial markets ever since March of 2020. Now that it has started to “taper”, it’s only buying \$90B worth of securities. This is all money flowing into the stock market, and when this trend reverses and the selling starts, it might get ugly.



Simply ...

- A lot of money that wasn't supposed to be in the economy was inserted “out of nowhere” and this trickled “up.”
- This money has lead to exuberance in the investing markets.
- A rush from cities to suburbs has forever changed the housing market. Along with this is a new desire by large corporations to enter into the real estate market.
- Eventually, any input has to be accounted for - and we are about to see it happen, in a (truly) fantastic fashion.
- Buckle up.

Broken Ocean Freight

- Carriers are aligned on strategy
- Rates are slowly falling into a tier where carrier see long term success.
- As energy begins to to deflate costs, carriers will to continue to constrain capacity.
- New capacity comes into the market in 2024 - and old capacity get scraped.
- Banks are beginning to ask difficult questions.

It's All Gone Pear Shaped

Nearly everything in the movie Dr Stangelove was true ..

In order to ensure simplicity and compliance - The code necessary to launch a missile was set to be the same at every Minuteman site: 00000000.

