

# TROUBLE IN STORE

The upheaval in 2020 caused by the pandemic often makes 2021 year-over-year comparisons misleading. In general, consumer spending exhibited growth in recent quarters, both in stores and online. Many retailers reported positive sales growth, not only compared to 2020, but also versus 2019. However, there are several issues that retailers will continue to grapple with during the fourth quarter and critical holiday shopping season.

## THE CHAIN IS BROKEN

Many retailers faced supply chain disruptions throughout 2021 that impacted the flow of inventory. COVID-19 outbreaks resulted in factories closing temporarily, delaying production. Even once factories manufactured the product, multiple transportation issues arose – container shortages, backups at ports that led to long delays in unloading times, and trucking shortages that resulted in delays getting product from the port to a retailer.

### PRODUCTION

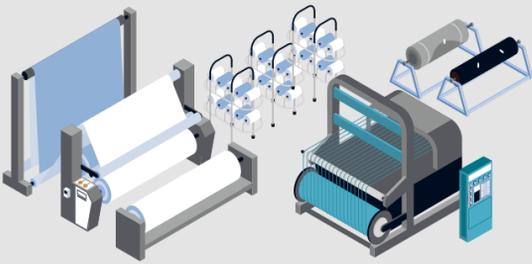
Punitive tariffs on goods from China led retailers to move some production to alternative countries, such as Vietnam.

#### IMPORTS FROM VIETNAM

**\$65,428.6M** in 2021 (↑ 33.6% YOY)  
**\$48,965.8M** in 2020 (↑ 14.8% YOY)  
**\$42,670.5M** in 2019 (↑ 33.8% YOY)

Source: U.S. Census Bureau

Sectors that became more reliant on Vietnam faced production delays when factories temporarily closed due to COVID-19 outbreaks. Even after reopening, some factories operated at reduced capacity.



### TRANSPORTATION

Transportation issues have been in play throughout 2021 and have caused lead times to increase.



Sources: Business Insider and The Guardian

#### TRUCK DRIVER SHORTAGES

**2019 pre-pandemic = 60k**  
**2028 projected = 160k**

Source: American Trucking Association

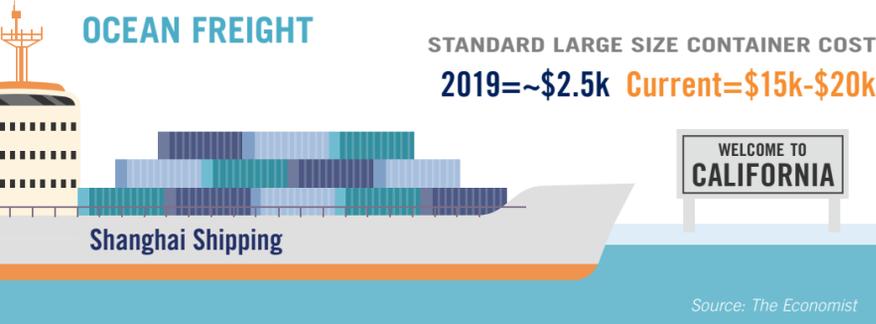
## TIME TO PAY UP

All the issues straining the supply chain have caused prices to increase on several fronts.

### OCEAN FREIGHT

#### STANDARD LARGE SIZE CONTAINER COST

**2019=~\$2.5k** **Current=\$15k-\$20k**



### PRODUCT COSTS

CONSUMER PRICE INDEX  
 (12 MONTHS ENDED OCTOBER 2021)

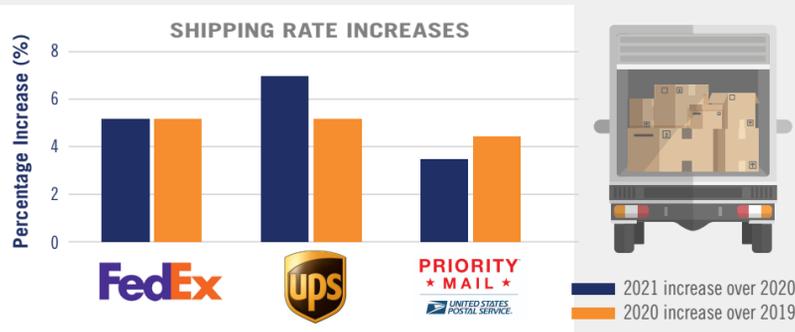
**↑ 6.2% YOY**



Source: U.S. Bureau of Labor Statistics

### GROUND SHIPPING

Rates for ground shipping have increased among major providers.



### AIR FREIGHT

Some retailers have switched to air freight as a cost-effective alternative to container shipping. However, air freight prices have also been on the upswing.

#### TAC INDEX: AIR FREIGHT RATES JULY 2021

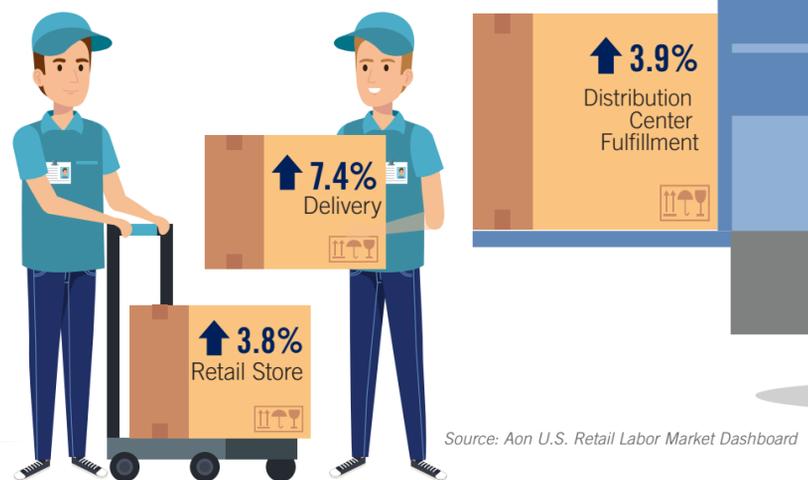
**↑ >60% YOY**



### LABOR COSTS

Due to a general labor shortage, retailers have had to increase wages to attract workers to stores and warehouses.

#### MEDIAN WAGES FOR SIX MONTHS ENDED MARCH 2021



## RETAILERS RACE AGAINST THE CLOCK

Retailers are working to offset these issues ahead of the holidays. Some companies are switching to air freight or buying ahead when possible to avoid being out-of-stock. Some are raising prices to consumers to avoid gross margin declines. In general, the retail sector is expected to see strong demand from consumers during the holiday season, with sales expected to increase anywhere between 3% and 9%. Retailers keeping adequate stock will likely be able to avoid excessive discounting as consumers are ready to spend. E-commerce is expected to remain popular, and consumers may have to expect shipping surcharges to ensure products arrive on time.