

Taylor Financial Group

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Shortages and Bottlenecks Expose Weak Links in U.S. Supply Chains



Some supply constraints may ease in the coming months, but other problems could take longer to resolve.

U.S. consumers won't soon forget the troubling shortages of personal protective equipment during the early days of the pandemic, or when the first stay-at-home orders spurred panic buying and stress-inducing shortages of toilet paper, cleaning products, and food.

Now, as the economy reopens fully and all at once, consumers are again experiencing a wide array of shortages. Businesses are having trouble hiring workers as well as acquiring sufficient supplies of raw materials and key components needed for manufacturing.

Businesses that shut down or cut back when the economy was closed could not ramp up quickly enough to meet a flood of demand in the spring of 2021. The speedy rollout of widespread COVID-19 vaccinations unleashed this pent-up demand faster than expected, catching many businesses off-guard. At the same time, the flow of goods ordered from overseas was slowed by shipping bottlenecks.

Some of these supply disruptions were triggered or worsened by extraordinary calamities, and panic buying by consumers and businesses intensified the more serious shortages.

Here's a look at some of the events that have stressed corporate supply chains and impacted the economy — regionally, nationally, and globally — in the first half of 2021.

Gas crisis

In mid-May, a ransomware attack led to the multi-day shutdown of a 5,500-mile pipeline responsible for supplying 45% of the fuel on the East Coast. Existing stockpiles might have held up, but news of the outage caused a run on gasoline, and states of emergency were declared by the governors of North Carolina, Georgia, Virginia, and Florida. The average price of a gallon of gasoline spiked to a six-and-a-half-year high, but increases were larger in states that rely heavily on the pipeline.¹⁻²

Trade disrupted

Longer delivery times caused shortages of some raw materials and many types of consumer goods purchased from overseas. Congestion in the busiest West Coast ports left dozens of huge container ships from all over the world anchored off the California coast, waiting to unload. These log jams peaked in February 2021, when imports surged. Now that port workers can be vaccinated, operators are aiming to clear the backlog by the summer.³ In March, a six-day blockage of the Suez Canal by a grounded cargo ship caused massive disruption in international trade. Globally, container ship capacity is stretched and demand is high, so costs could remain elevated for some time.⁴

Texas freeze

In mid-February, a brutal winter storm knocked out the power grid in Texas, shut down numerous chemical plants, and froze the production of plastics used for packaging and materials needed to make many goods, including auto parts, computers, PVC piping, and paint. This resulted in global shortages, production delays, and higher costs for manufacturers and homebuilders, which will likely be passed on to buyers.⁵

The same storm closed major chicken-processing plants. Large losses of chicks and eggs, on top of COVID-19-related staffing problems, caused a nationwide chicken shortage and price hikes for restaurants.⁶



Lumber and housing

When the pandemic hit, many U.S. lumber mills were closed, and the expectation was that housing demand would falter. However, after a brief pause, demand for homes and home remodeling took off, surprising builders and domestic lumber producers. The price of lumber was already rising due to tariffs, but it has skyrocketed more than 300% since April 2020 and caused the price of a new single-family home to increase by nearly \$36,000.⁷

Chips and cars

A global shortage of semiconductors, or computer chips, is limiting the production of all kinds of goods, including home appliances, cars, PCs, gaming systems, servers, and 5G equipment. The effects of the chip shortage are far-reaching but most evident in the market for new and used cars. Auto makers have been forced to cut production of more than 1.2 million vehicles in North America. Dealer inventories are strained, and new and used car prices are causing sticker shock.⁸⁻⁹

The U.S. Senate is debating a bipartisan bill that would invest \$100 billion in research, commercialization, and training programs to boost critical technologies, including the domestic production of semiconductors.¹⁰

Labor concerns

Some employers report having difficulty finding workers who are willing to take lower-paying jobs, and staffing issues are a contributing factor in the shortages. Some workers may be reluctant to accept jobs because the enhanced unemployment benefits provide more income than they would normally earn through work. For others, opportunities to participate in the workforce are more limited due to lack of child care or skill gaps. To attract much-needed workers, some large employers in the retail and restaurant industries have raised entry-level wages. At least 22 states plan to end the \$300 federal benefit by this summer in a bid to spur more people to seek jobs.¹¹

Hard lessons

Since the pandemic began, businesses have had to make difficult decisions amidst great uncertainty. Some supply constraints could ease in the coming months, but other problems, like the chip shortage, could take longer to resolve. Recent events also serve as a reminder that critical energy-control systems and infrastructure are vulnerable to cyberattacks and weather events, and that the damage can ripple throughout the economy when energy providers are knocked offline.

In April 2021, inflation shot up 4.2% over the previous year, the highest rate since 2008. Mismatches between supply and demand are pushing up consumer prices, which is one reason many economists believe the spring rise in inflation will be mostly "transitory."¹² Regardless, prices rarely fall once they have risen, which means even short-lived bursts of inflation can be painful for consumers.

The longer-term path of inflation is still unclear and could depend on economic policy decisions yet to be made. Moreover, the nation's economic prospects will largely be determined by how U.S. businesses react to the challenges they are facing, and whether corporate leaders can reshape their strategies and invest in ways that strengthen their supply chains for the future.

1-2, 12) *The Wall Street Journal*, May 13, 2021

3) Bloomberg, May 16, 2021

4) Bloomberg, May 3, 2021

5) *The Wall Street Journal*, March 17, 2021

6) Associated Press, April 25, 2021

7) CNBC.com, April 30, 2021

8-9) *The Wall Street Journal*, April 19 and May 13, 2021

10) Reuters, May 17, 2021

11) *The Wall Street Journal*, May 20, 2021

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