June 2021 NACD Shipping Survey – Results

Key Takeaways

- A survey of members of the National Association of Chemical Distributors (NACD) taken during June 2021 showed that the shipping bottlenecks previously reported in the Association's March 2021survey results continue to plague the industry, and in some ports and regions, have grown worse.

- As previously reported, inventories have been falling, with 84.5 percent of companies nationwide now report being out of stock of at least some imported products, up from 46.6 percent in March. An additional 7.1 percent of surveyed members reported being close to running out of stock, meaning nearly 92 percent will soon be suffering from shortages. With increased demand for shipping as the holiday season approaches, these shortages are likely to get worse before the year ends.

- Delays in shipping have also continued to worsen, with 82.1 percent of respondents reporting average delays of more than 11 days, and the longest reported delay being in excess of 180 days. The average length of the longest delay that respondents had experienced was nearly 61.5 days, 15 days longer than in March. Half of companies now report delays greater than two months.

- Despite the decline in reliability, the cost of shipping continues to rise. Previously, 55 percent of respondents reported being charged additional premiums by carriers beyond tariffs and contract rates. Now a whopping 61 of the 84 respondents, or 72.6 percent, report paying these premiums.

- Previously, western states were reporting the highest increases in cost for shipping. High costs have now spread nationwide, with surveyed distributors reporting an average of 166 percent rise in shipping costs in the last three months. Large distributors using west coast ports continue to report the highest costs, up over 200 percent, or triple what it was at the start of the last survey.

- These delays continue to cost chemical distributors revenue as well, with 89.3 percent reporting lost revenue, over half of whom report losses in excess of $100,000.

Introduction

The National Association of Chemical Distributors (NACD) sent a survey to its members requesting information on the current state of the maritime logistics system as it relates to their products. The survey was sent on June 7, 2021, and 84 responses were collected meaning that the survey is significant with a range of +/- 9.0 percent.

Bottlenecks in shipping cargo to and from the west coast ports has been in the news lately, and with trillions of dollars in relief entering the economy, as well as consumer spending rebounding after a year of being locked up by the pandemic. Simultaneously, a shortage of shipping containers has led to reduced ocean freight capacity. As was noted in our previous report, *the Wall Street Journal* reported on March 18, 2021, *logjams at U.S. ports are spreading beyond Southern California's choked gateways, and shipping officials are projecting the backups will continue into the summer*.[1] This has proven to be a prescient statement, and the NACD survey indicates that at least 80 percent of companies in each region; East, Central, South, and West, are now reporting delays and cost increases.

[1] Paris, Costas, *Shipping Logjams Spread on Crush of Imports*, Wall Street Journal, March 18, 2021, at: https://www.wsj.com/articles/shipping-logjams-spread-on-crush-of-imports-11616089979

Survey Results

A total of 84 companies answered at least part of the survey. These companies included manufacturing distributors, brokers, importers, and full-line chemical distributors, located throughout the country. Table 1 outlines the types of distributors that responded to the survey by location.

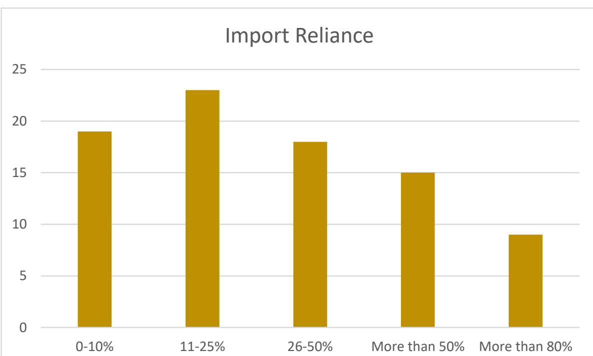
Table 1
Respondents by Type and Location

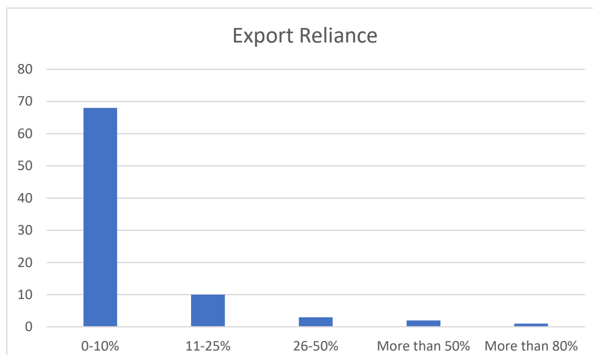
Firm Type	Number	Percent	Western States	Percent	Central States	Percent	Eastern States	Percent	Southern States	Percent	Multiple Geographies	Percent
Full Line/Factory Pack Distributor	46	54.8%	6	54.5%	7	63.6%	5	33.3%	6	60.0%	22	59.5%
Trader/Broker/Importer/Agent	16	19.0%	2	18.2%	1	9.1%	4	26.7%	2	20.0%	7	18.9%
Distributor	8	9.5%	2	18.2%	2	18.2%	2	13.3%	0	0.0%	2	5.4%
Manufacturer	7	8.3%	1	9.1%	0	0.0%	2	13.3%	1	10.0%	3	8.1%
Distributor and Manufacturer	4	4.8%	0	0.0%	0	0.0%	2	13.3%	0	0.0%	2	5.4%
Other	3	3.6%	0	0.0%	1	9.1%	0	0.0%	1	10.0%	1	2.7%
Total	84	100.0%	11	100.0%	11	100.0%	15	100.0%	10	100.0%	37	100.0%

International Cargo Shipping

All of the 84 firms that responded to the survey reported on the reliance of their business in terms of cargo shipped. Of these, 77.4 percent reported having a reliance on imports of more than 25 percent, and 19 percent having a reliance on exports of more than 25 percent, with a large number reporting a substantial but still non-zero number of export reliance. *Figure 1* shows the breakdown of firms by the magnitude of reliance.

Figure 1
Importing and Exporting





Firms located in eastern states reported the lowest import reliance, with only 20 percent reporting a reliance of more than 25 percent, while over 63 percent of western states reported a reliance on imports greater than 25 percent. As noted in the March report, southern states are the most reliant on exports, with 30 percent of respondents based in the south reporting a reliance of more than 25 percent on exports. Firms located in the western states were far more reliant on imports, importing on average nearly 60 percent more than those in multiple geographies, the next region with the highest reported import percentage. Firms in southern states, and those in multiple geographies, all reported the highest export numbers, over six times higher than in any other region. See Table 2 on the following page.

Table 2
Average Number of Containers Exported/Imported by Respondent Location

	Eastern States	Southern States	Central States	Western States	Multiple Geographies	Total
Imports	584.3	236.7	183.0	1,155.2	739.9	633.7
Exports	35.5	215.2	4.3	16.7	239.4	140.2

Even though the firms that tend to ship and receive more cargo are not concentrated in the western part of the country, the seaports that they rely on are. Of the ports used by respondents, 38.1 percent were west coast ports, 44.2 percent east coast ports, and 17.7 percent on the Gulf Coast. One respondent reported receiving cargo via the inland waterway system. Los Angeles/Long Beach was the port most mentioned by respondents, followed by the Port of New York/New Jersey.

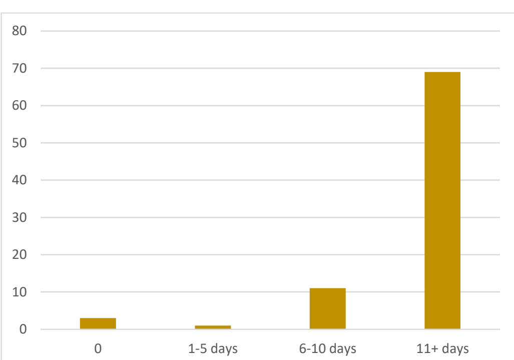
Table 3
Seaports Used by Responding Firms

Seaport	Western States	Central States	Eastern States	Southern States	Multiple Geographies	Total	Percent
Long Beach	10	6	5	3	24	48	57.1%
New York/New Jersey	-	8	14	2	23	47	56.0%
Los Angeles	9	6	5	3	24	47	56.0%
Houston	3	5	4	8	26	46	54.8%
Savannah	1	5	6	4	16	32	38.1%
Charleston	1	-	3	3	10	17	20.2%
Seattle/Tacoma	3	5	1	-	6	15	17.9%
Norfolk/Hampton Roads	-	3	1	-	10	14	16.7%
Baltimore	-	1	1	-	5	7	8.3%
Jacksonville	-	-	1	2	2	5	6.0%
Oakland	2	-	-	-	3	5	6.0%
New Orleans/Baton Rouge	-	1	-	-	2	3	3.6%
Boston	-	1	-	-	1	2	2.4%
Canada	1	-	-	-	2	3	3.6%
Other	-	-	-	1	3	4	4.8%

<u>Logistics Issues</u>

Delays have worsened for chemical distributors since the last survey, stemming from shortages in both containers and workers, as well as port congestion. Only three respondents to the survey reported no delays in average transit times, with 69 of the 84 respondents (82.1 percent) reporting average delays longer than 11 days.

Figure 2
Reported Average Increase in Transit Times



While it was previously reported that these delays were worse on the west coast, the delays have now spread nationwide, with 93.3 percent of respondents based in eastern states reporting delays of more than 11 days. Firms based in southern states report the least number of delays, with only 50 percent of respondents from those regions report delays of 11 days or longer.

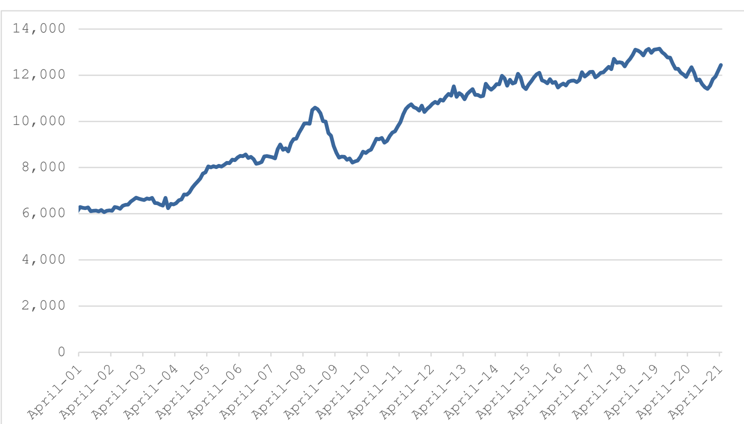
Table 4
Reported Average Delay by Region

	Eastern States	Southern States	Central States	Western States	Multiple Geographies	Total
0	6.7%	0.0%	9.1%	0.0%	2.7%	3.6%
1-5 days	0.0%	10.0%	0.0%	0.0%	0.0%	1.2%
6-10 days	0.0%	40.0%	0.0%	18.2%	13.5%	13.1%
11+ days	93.3%	50.0%	90.9%	81.8%	83.8%	82.1%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Shipping has become less reliable, while average delays have increased modestly in the past three months, respondents also reported huge increases in their longest delays, in some cases up to six months. The March survey indicated that the longest delay chemical distributors faced on average was 46.5 days, in June this number had grown by over 30 percent, to 61.5 days, with firms in central states reporting average delays of over 77 days, or 2.5 months. In the previous survey, 15.8 percent of respondents had suffered delays of three months or more, this number has now grown to 27.4 percent. As summer presses on and shipping demand for the holiday season increases, these delays are likely to grow as well, further straining the chemical distribution industry.

For much of 2020, inventories of chemicals had been falling, something that last occurred during the *great recession*.[2] As of April 2021, these inventories had begun to replenish, however they remain below pre-pandemic highs, and with rising demand for goods and lower shipping capacity, these shipping delays could soon turn to chemical shortages, particularly as delays spread from west coast ports to those in south and east.

Figure 3
Chemical Inventories



Costs associated with shipping have continued to rise for chemical distributors:

2 *Monthly Wholesale Trade Survey*, US Department of Commerce, Bureau of the Census, March 24, 2021.

- 72.6 percent of respondents reported being charged increased premiums (up from 38.6 percent in the previous survey),
- 47.7 percent of respondents reported additional demurrage (up from 37.5 percent in the previous survey), and
- 58.3 percent of respondents reported increased service fees (up from 30.7 percent in the previous survey).

These costs, while previously concentrated on shipments through west coast ports, are now impacting companies nationwide; in March only 13.3 percent of firms located in the central states reported increased service fees, that number has now grown to a whopping 72.7 percent.

While the premiums were inconsistently reported by respondents, either as percentages or dollar values, the average increase was 110 percent from the 15 respondents reporting a percentage, and $4,472 from the 27 respondents reporting a dollar amount. Demurrage was reported as going up 87 percent from 52 of the respondents who provided a percentage value in response to the survey prompt.

Table 5
Increases in Charges by Geography

	Eastern States	Southern States	Central States	Western States	Multiple Geographies	Total
Increased Premiums	73.3%	70.0%	81.8%	63.6%	73.0%	72.6%
Increased Demurrage	53.3%	30.0%	36.4%	54.5%	51.4%	47.6%
Increased Service Fees	46.7%	80.0%	72.7%	36.4%	59.5%	58.3%

In addition to fees and delays, the cost of shipping has risen dramatically. In March, 56.8 percent of respondents reported increased shipping costs, while the June survey reveals that number has grown to 97.6 percent, meaning that nearly the entire industry has now been impacted. Table 5 shows average cost increases by company location.

In March, survey respondents indicated that shipping costs had risen approximately 80.5 percent since the onset of the pandemic. On top of that increase, survey participants were asked in this round of surveying how much shipping costs had increased in the last 3 months, reflecting not the increase of costs during the pandemic, but since the March survey was conducted. The responses paint a worrying picture. On average costs have increased by 165 percent nationwide, tripling for firms operating out of multiple regions, and with one firm reporting an 11x increase in shipping costs.

Table 6
Shipping Cost Increase in Last 3 Months

	Median Reported Increase	Average Reported Increase	Maximum
Eastern States	145.0%	163.5%	500.0%
Southern States	25.0%	101.3%	500.0%
Central States	67.5%	130.8%	450.0%
Western States	90.0%	117.3%	350.0%
Multiple Geographies	141.5%	209.0%	1100.0%
Total	100.0%	165.7%	1100.0%

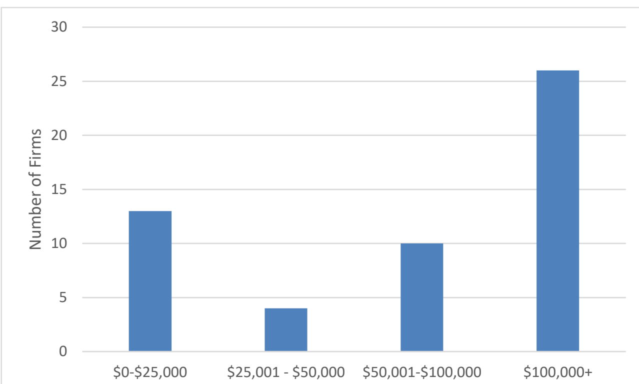
While previously firms operating out of the west coast were the hardest hit by shipping prices, east coast firms reported a more than doubling of costs in the last three months, and although median prices demonstrate a slightly less dire situation, all regions report double digit increases in shipping costs.

Table 6
Firms Reporting Going Out-of-Stock on Imported Products

	Eastern States	Southern States	Central States	Western States	Multiple Geographies	Total
Yes	86.7%	60.0%	90.9%	90.9%	86.5%	84.5%
No, but we will be soon	6.7%	10.0%	0.0%	9.1%	8.1%	7.1%
No, not at all	6.7%	30.0%	9.1%	0.0%	5.4%	8.3%

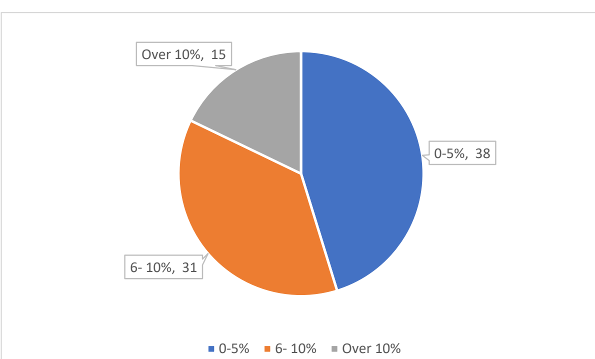
Continuing delays have also cost firms revenue, as reduced inventory has impacted sales. Of the firms surveyed, 89.3 percent reported losing revenue due to shipping delays, and of those reporting losses, 40 out of 75 (53.3 percent) have reported losing more than $100,000 in revenue, similar to what respondents were reporting in March.

Figure 3
Lost Revenue Resulting from Delays



Coupled with the rising cost of shipping, which will likely only become more burdensome as the year goes on, the profitability of the chemical distribution industry is being attacked from both sides; falling revenues as distributors are unable to sell products, and rising costs, as products become more costly to import.

Figure 4
Shipping Costs as a Percent of Expenses



Conclusions

The updated June 2021 survey of members of the National Association of Chemical Distributors (NACD) showed the costs and delays associated with shipping have continued to rise dramatically over the last three months. Shortages of products, reported by 84.5 percent of firms, are hurting revenue streams for chemical distributors already taxed by a year-long pandemic. With half of survey participants reporting a more than doubling of costs, and a decline in revenue of more than $100,000, the current situation with shipping seems that it will likely get worse before it gets better.