US Daily: Assessing the Potential Impact of the East and Gulf Coast Port Strike on GDP Growth and Nonfarm Payrolls (Peng/Rindels)

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- As of today, 45k East Coast and Gulf Coast dockworkers have gone on strike following the expiration of the International Longshoremen's Association (ILA) union contract with the US Maritime Alliance (USMX). The strike has halted operations at 14 major ports and a host of smaller ports that operate within the larger ports' districts, and it has the potential to negatively impact GDP growth, nonfarm payrolls and other upcoming data releases, but the impact will depend on how long the strike lasts.
- The 14 largest ports affected by the strike collectively handle 25% of US goods imports and 27% of goods exports, which are worth 2.8% and 1.9% of US GDP, respectively. If the strike lasts for only a short period of time, the effects on net exports and inventories would be roughly offsetting, resulting in little net effect on GDP growth. A longer strike may force domestic producers to scale back production, resulting in a larger drag on GDP growth. We estimate that a 10-day full shutdown of East Coast and Gulf Coast ports would result in a 0.2pp hit to quarterly annualized GDP growth in Q4.
- The strike has the potential to cause a sizeable drag on October nonfarm payrolls, but the timing of the strike and the payroll reference period make this less likely from a historical perspective. Most transportation-industry strikes since 2000 have lasted less than 2 weeks. In order to weigh on October payrolls, the strike would need to last the entire pay period including October 12th. If the strike lasts through the reference period, it would directly weigh on October payroll growth by 45k, but the effect would subsequently reverse upon the end of the strike.
- While the net effect on GDP growth is likely to be small, we expect the strike to have a more pronounced negative impact on monthly trade volumes in October if it lasts for more than a week. In that case, we expect it to disproportionately affect retailers and manufacturers in the clothing, furniture, and home appliance industries that heavily rely on imports. Effects on jobless claims should be minimal.

Assessing the Potential Impact of the East and Gulf Coast Port Strike on GDP Growth and Nonfarm Payrolls

As of today, 45k East and Gulf Coast dockworkers have gone on strike following the expiration of the International Longshoremen's Association (ILA) union contract. The ILA is arguing for a 61.5% pay raise over the next 6-year contract and a ban on the automation of cranes, gates, and container-moving trucks. As the ILA and the US Maritime Alliance (USMX) have not yet reached an agreement, the strike has now halted operations at 14 major ports and a host of smaller ports that operate within the larger ports' districts. The strike has the potential to negatively impact GDP growth, nonfarm payrolls, and other upcoming data releases, but the magnitude of the effect will depend on how long the strike lasts.

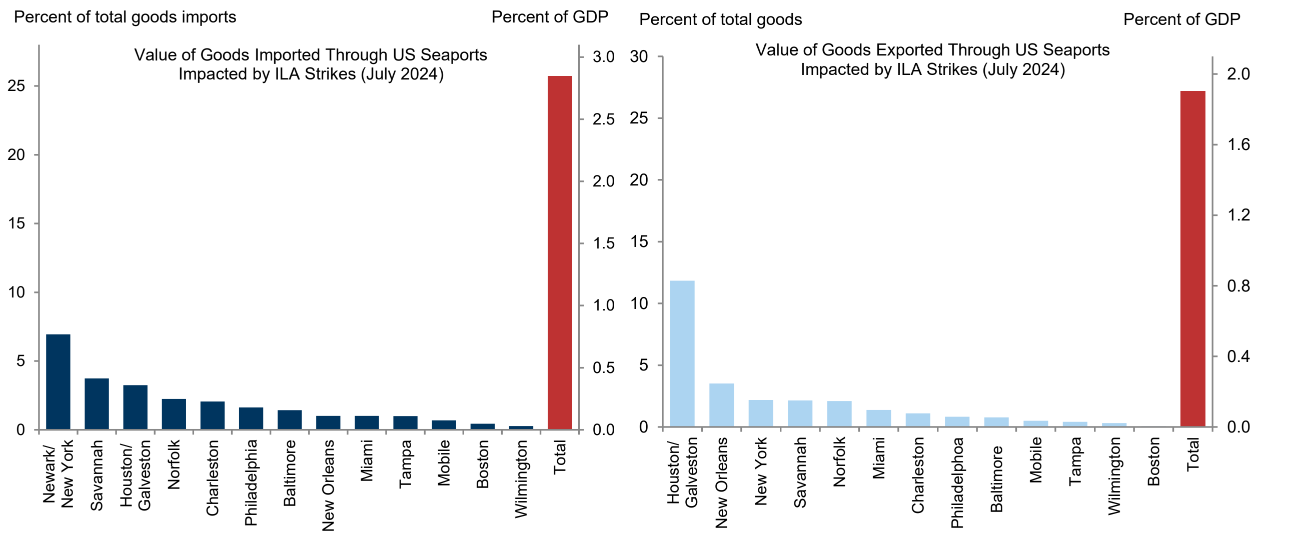
The impacted ports handle a significant share of total US goods imports and exports. Around 40% of total US international trade value occurs via water and roughly half of seaborne trade goes through the East and Gulf Coast ports. Exhibit 1 shows that the major 14 ports impacted by the ILA strike collectively handle 25% of total US goods imports and 27% of total US goods exports, which are worth 2.8% and 1.9% of total US GDP, respectively.

Disruption at the East and Gulf Coast ports will affect GDP growth directly through net exports and inventories. As we have discussed in analysis ahead of previous port strikes, the strike will limit both exports and imports. If the strike lasts for only a short time, blocked exports will lead to an increase in domestic inventories because firms will continue to produce and products that are meant for export will pile up in inventory. Blocked imports will lead to a decline in inventories because firms are unlikely to scale back their production in the short term as they can rely on intermediate inputs already in their inventories. The effects on inventories and net exports will be roughly offsetting, resulting in little net impact on GDP growth.

If the port disruption lasts longer, domestic producers may be forced to scale back production and some of the accumulated inventory could lose its value, resulting in a larger drag on GDP growth.

Using cost estimates from CBO and our prior studies as a reference, we estimate that a 10-day full shutdown of the East and Gulf Coast ports will cause a 0.2pp hit to quarterly annualized GDP growth in Q4 (or a 2bp hit per day).

Exhibit 1: Ports Affected by the ILA Strike Handle About 25% of Total US Goods Imports (2.8% of US GDP) and 27% of Total US Goods Exports (1.9% of US GDP)



Source: Census, US Bureau of Economic Analysis (BEA), Data compiled by Goldman Sachs Global Investment Research

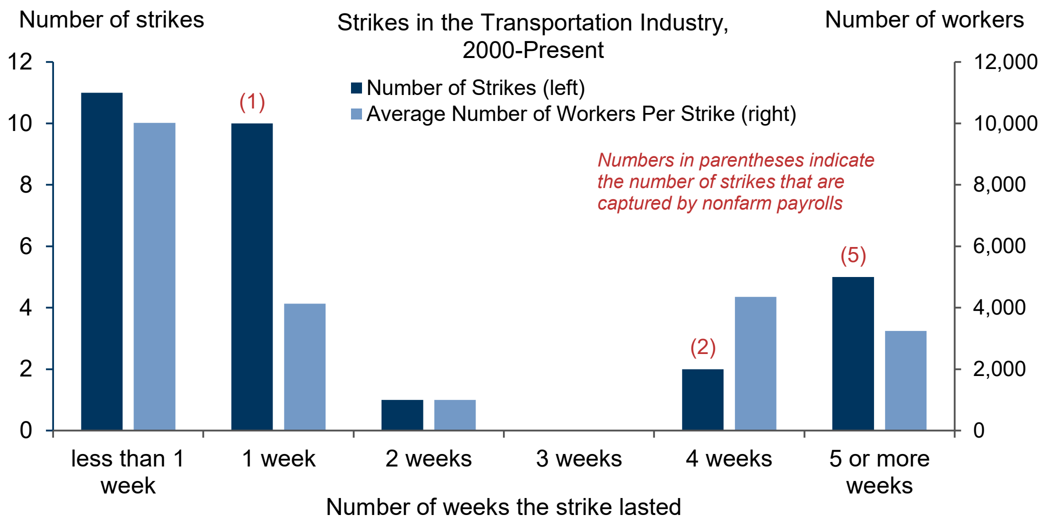
While the strike could assert a sizeable drag on October nonfarm payrolls, the timing of the strike and the payroll survey week make this less likely from a historical perspective. First, most transportation-industry strikes since 2000 have lasted less than 2 weeks and the largest strikes have tended to last less than one week, possibly because larger strikes hinder business operations to a greater degree which might incentivize quicker negotiations (Exhibit 2). The ILA strike is notably larger than the next largest transportation-industry strike since 2000—the 2005 New York City Metro strike which impacted 35k workers—suggesting some scope for a shorter-lived strike if this one follows recent trends.

Second, to be excluded from payroll employment, striking workers must miss work for the entire payroll survey reference period, which is the pay period that includes the 12th of the month. Because employers can pay workers on varying schedules (weekly, biweekly, monthly, etc.), the reference period is not necessarily the same for all establishments. However, several states[1] with ports that will be impacted have labor laws that require weekly or biweekly pay schedules for hourly employees. This means that the strike will need to last at least 12 days in order for workers to miss the entire payroll survey reference week that includes October 12.[2] If the ILA strike lasts through the payroll reference week, we would expect a direct hit of 45k to payroll growth in October. While large, the hit to October payrolls would be temporary, easily identified in the data (the BLS's strike report released on October 25th would reveal the direct impact), and would reverse upon the end of the strike.

[1] For example, the New York Department of Labor requires that hourly employees are paid weekly, while the Texas, North Carolina, Louisiana, Virginia, Pennsylvania, and Maryland Departments of Labor require that non-exempt employees are paid at least twice a month.

[2] For workers paid on a biweekly schedule, the strike will need to last 19 days for workers to miss the entire reference period, which runs from October 6 through October 19 on the standard biweekly pay schedule. If some workers are paid on a monthly basis, then the strike will need to last until the end of the month in order for the impact of the strike to be fully counted by the payroll report.

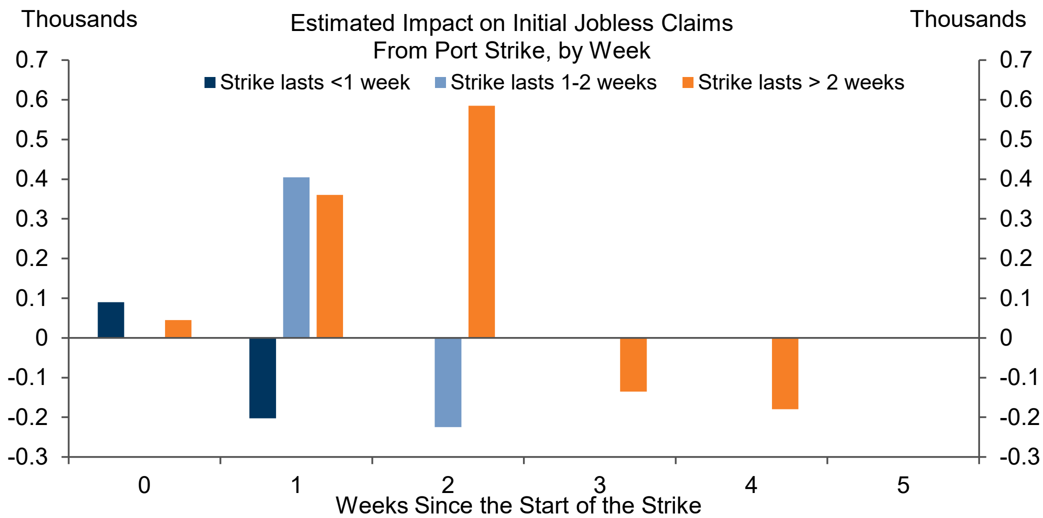
Exhibit 2: Most Transportation-Industry Strikes Since 2000 Lasted for Less Than 2 Weeks; Shorter Strikers Were Less Likely to Occupy the Entire Payroll Survey Reference Pay Period, So They Were Also Less Likely to Be Captured by the Payroll Report



Source: Goldman Sachs Global Investment Research, US Bureau of Labor Statistics

We expect the impact of the port strike on jobless claims to be modest, as most states do not allow workers who are on strike to receive unemployment insurance benefits and some that do, including New York, only allow striking workers to receive benefits if the strike lasts at least 14 days. Nonetheless, we think that initial jobless claims could be impacted because 1) some workers may still file for unemployment insurance even though their applications might not get approved and 2) workers who are not participating in the strike may still be negatively impacted and would qualify for unemployment insurance benefits. Using detailed data on strikes since 1993, we estimate that the port strike could boost initial jobless claims for the week ending October 12 by a modest amount if it lasts about 1-2 weeks. If it lasts more than 2 weeks, we estimate that the boost to initial claims will be slightly larger and could spill over into the subsequent week.

Exhibit 3: The Port Strike Will Only Have a Modest Impact on Weekly Initial Jobless Claims



Source: Goldman Sachs Global Investment Research, Department of Labor, US Bureau of Labor Statistics

While the strike's near-term effect on GDP should be small, it is more likely to have a pronounced and front-loaded impact on monthly goods trade. Certain sectors are more exposed to trade through the East and Gulf Coast ports than others, so the strike will have more notable impacts on their production and hiring plans in the near term. Our prior analysis and conversations with our transportation analysts suggest that the strike will disproportionately negatively affect the clothing, furniture, home appliance, food product, and auto industries because of their high exposure to imports and commodity-based industries including plastic, wood/paper, and auto manufacturers because they rely on ports to export.

If the proposed wage contract (61.5% pay raise over the next 6 years) is approved as a result of the strike, we expect the wage increase to assert a modest 3bp of upward pressure on sequential wage growth for unionized workers when the new contract becomes effective.

Under the Taft-Hartley Act, the White House is authorized to intervene in strikes that threaten national security or safety by imposing the 80-day cooling-off period. So far, the Biden Administration has maintained that it will not intervene in the ILA strike to reopen the ports.

Elsie Peng

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Disclosure Appendix

Reg AC

We, Jan Hatzius, Alec Phillips, David Mericle, Ronnie Walker, Manuel Abecasis, Tim Krupa, Elsie Peng and Jessica Rindels, hereby certify that all of the views expressed in this report accurately reflect our personal views, which have not been influenced by considerations of the firm's business or client relationships.

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