

When will bottlenecks end?

What businesses are saying about trade disruption

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Economics - Global

- ◆ Ongoing logistics disruption and supply shortages are impacting companies around the world
- ◆ We take a look at what companies have been saying about these issues recently and how they have coped...
- ◆ ...and set out three scenarios for when trade disruption could start to ease

Under pressure

Businesses around the world and across key sectors are feeling the impact from ongoing supply chain disruptions. Supply shortages and logistics issues are pushing up prices and eating into margins. In this note, we look at what companies have been saying about trade disruption using Natural Language Processing (NLP) techniques to analyse data from Q3 earnings calls, along with recent business surveys.

What companies are saying

Companies around the world from Asia to Europe are concerned about supply shortages, with this issue rising in prominence in recent management discussions in the consumer goods, industrials and tech sectors. Consumer goods and industrials companies have become increasingly concerned about shipping costs, with ongoing disruptions weighing on company sentiment on supply chains. In the UK, the combination of COVID-19 and Brexit has raised company concerns around trade disruption, while 70% of US CFOs think shipping delays will resolve in 2022 (Reserve Banks of Richmond and Atlanta).

Measures to mitigate

In the meantime, details from earnings calls reveal that multinational companies are taking various measures to mitigate supply chain disruptions. These include: shifting production and distribution to other markets; strengthening relationships with suppliers; looking at alternative modes of freight; building up buffer stocks; nearshoring; exploring vertical integration, and entering into long-term contracts with shipping lines.

When will trade disruption ease?

Although crystal ball gazing during times of significant uncertainty is challenging, we set out three potential scenarios:

1. Disruptions start to ease after Lunar New Year 2022
2. Disruptions start to abate in H2 2022
3. Disruptions show no signs of easing by end-2022

However, even once trade disruptions do start to ease, it could still take months for supply chains to fully disentangle. And much will depend on how long COVID-19 restrictions remain in place and the ongoing strength of global goods demand.

This is a Free-to-View version of a report by the same title published on 17-Nov-21. Please contact your HSBC representative or email AskResearch@hsbc.com for more information.



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1. What are businesses saying?

Trade disrupted

Supply chain disruptions are impacting businesses across all sectors, affecting margins and adding to inflationary pressures. Key ports around the world remain congested and issues persist with landside logistics leading to backlogs and long lead times for certain goods. Add to that, recent factory closures in manufacturing hubs and low retail inventories in Western economies – and global supply chains remain stretched ahead of the holiday shopping season. The economic impact is clearly being felt broadly, as recent notes by our economists make clear.

Given businesses have now been dealing with supply chain snarls for well over a year, we take a look at what companies around the world have been saying about trade upheaval using data from earnings calls and recent business surveys. In particular, we look at the issues companies are concerned about, how they have managed to cope with supply chain challenges, and how long they think trade disruptions may persist.

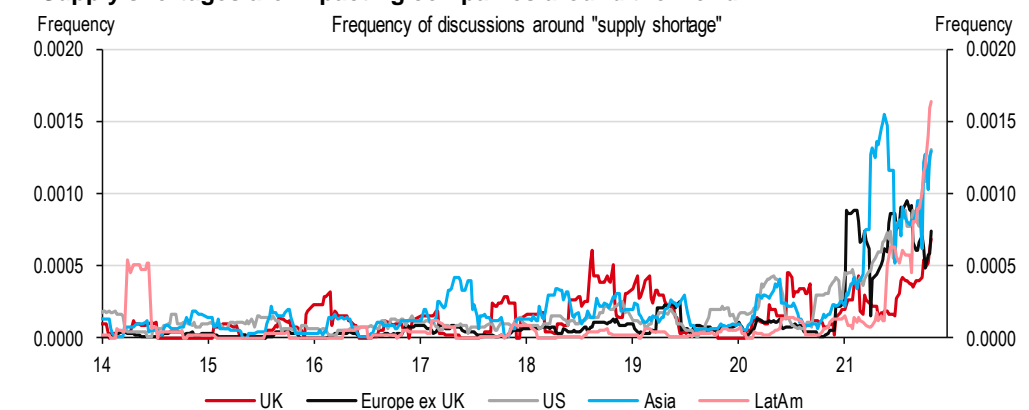
Although it is difficult to predict when exactly supply chains will normalise, we set out three scenarios for when and how trade disruptions could ease.

For more on the Natural Language Processing (NLP) techniques used to analyse earnings calls in this note, please email AskResearch@hsbc.com

Supply shortages, logistics headaches

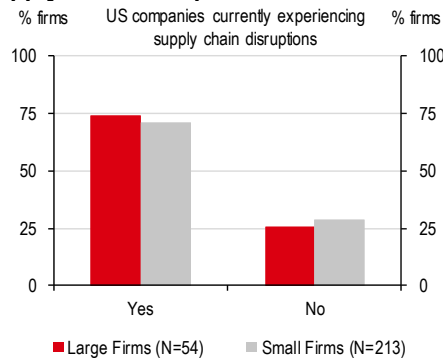
The issue of supply shortages remains top of the minds for companies around the world (Chart 1). A recent CFO survey by the Federal Reserve Banks of Richmond and Atlanta found that nearly three quarters of businesses continue to face disruption (Charts 4 and 5).

1. Supply shortages are impacting companies around the world



Source: HSBC, Refinitiv TRKD

4. US businesses of all sizes are facing supply chain disruptions...



Source: Reserve Banks of Richmond and Atlanta. Note: Q3 2021 survey.

5. ...mainly around supply shortages and shipping delays

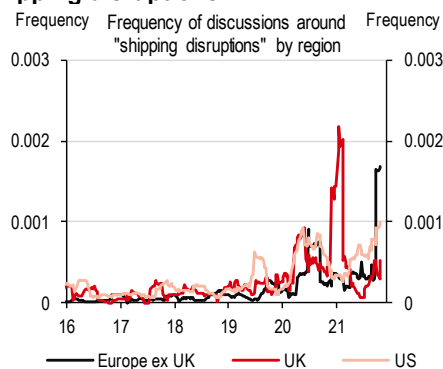


Source: Reserve Banks of Richmond and Atlanta. Note: Q3 2021 survey.

In the UK, 85% of businesses reported experiencing at least some form of supply chain disruption over the past three months according to Deloitte's Q3 2021 CFO survey. A similar share expects to encounter disruptions in one year's time, with the CFOs mentioning labour shortages, the pandemic itself and inflation as the top risks facing their businesses.

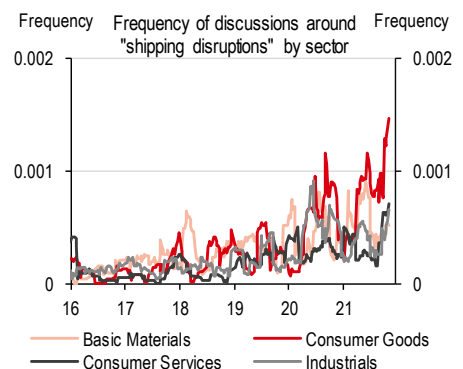
Logistics disruption has been a particular cause for concern for businesses since the pandemic began. Based on earnings calls, shipping disruptions were of most concern to European and US companies and featured prominently in discussions in the basic materials, consumer goods and services, and industrials sectors. Higher costs due to freight disruption and supply shortages are taking a toll on businesses, with sentiment on margins and supply chains having deteriorated recently

7. Companies are concerned about shipping disruptions...



Source: HSBC, Refinitiv TRKD

8. ...across key manufacturing sectors...

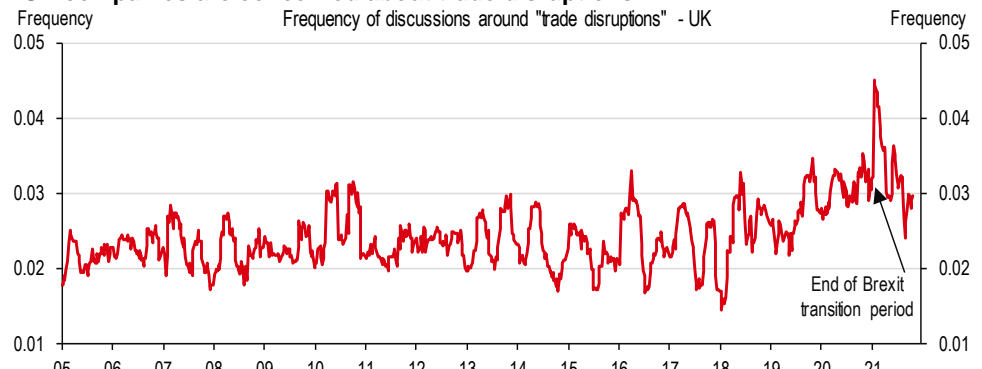


Source: HSBC, Refinitiv TRKD

Double whammy: COVID-19 and Brexit

Trade disruption was also a key topic in company discussions in Europe and the UK due, in part, to Brexit-related factors. Indeed, UK companies were most concerned about trade disruption immediately after the end of the Brexit transition period, although this issue has risen in prominence in recent months coinciding with the shortage of truck drivers in the UK.

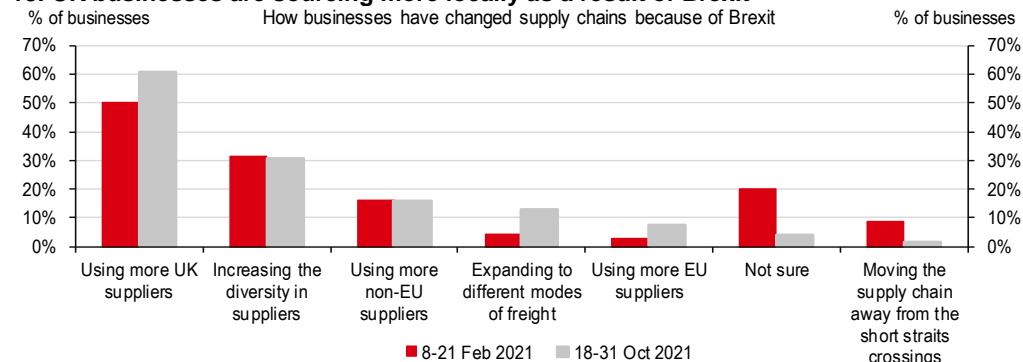
12. UK companies are concerned about trade disruptions



Source: HSBC, Refinitiv TRKD

However, a recent ONS survey found that just 5% of UK businesses currently trading have made changes to their supply chain due to Brexit. Of those, over 60% are using more UK suppliers, around 16% are using more non-EU suppliers and 13% are expanding to different modes of freight.

13. UK businesses are sourcing more locally as a result of Brexit



Source: ONS. Note: Based on businesses currently trading as at survey date that have made changes to their supply chains due to the end of the Brexit transition period.

According to the Bank of England's latest Decision Maker Panel survey, the pandemic currently remains a more important source of uncertainty for businesses than Brexit. The share of businesses that reported that COVID-19 was in their top three sources of uncertainty has declined since May 2021 to 50% in October 2021, while the share of firms that reported Brexit in their top three sources of uncertainty was 38% in October.

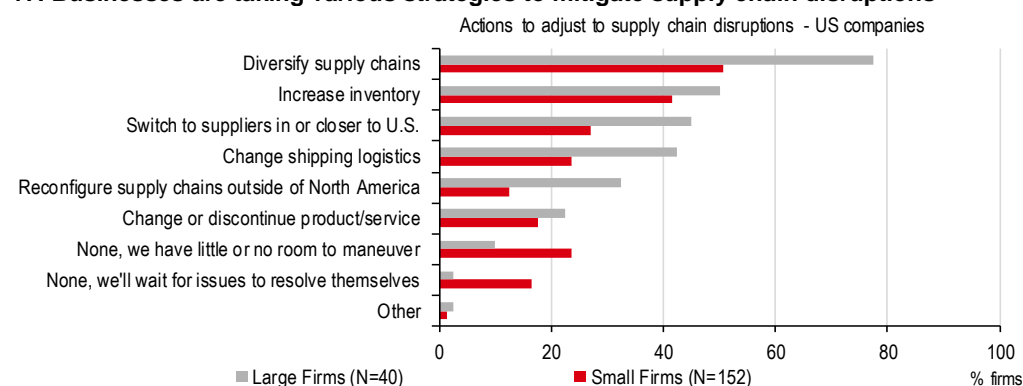
Looking ahead, there could be more Brexit-related trade frictions to come. The UK will start imposing full customs declarations requirements on imports from the EU on 1 January 2022, and Export health certificates, phytosanitary certificates and checks for plants, and safety and security declarations from 1 July 2022. Moreover, trade tensions over the Northern Ireland Protocol could potentially lead to the UK triggering Article 16 and EU trade retaliation.

2. How have businesses coped with supply chain disruptions?

Risk mitigation strategies

Details from earnings calls and business surveys reveal that companies have adopted various strategies to ensure parts and final goods keep moving around the world. A September 2021 survey by the Atlanta Fed found that one-third of businesses have shifted from just-in-time inventory management to a just-in-case model.

17. Businesses are taking various strategies to mitigate supply chain disruptions



Source: Reserve Banks of Richmond and Atlanta. Note: Q3 2021 survey.

Companies across various sectors continue to pursue longer-term digitisation strategies, which should help strengthen their supply chains in the longer term. We recently wrote about how the pandemic has highlighted the need to embrace digital solutions more than ever before.

The full note contains a summary of six risk mitigation strategies used on what companies have been discussing on their earnings calls. Email AskResearch@hsbc.com for more information

3. When will trade disruptions end?

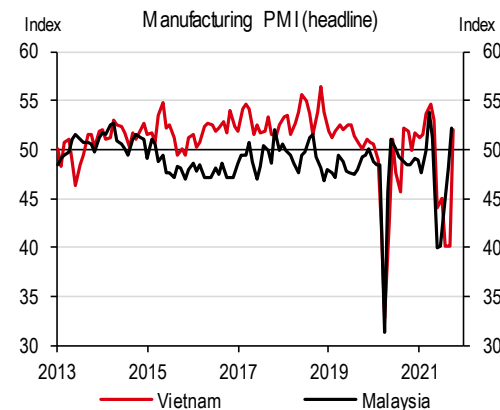
Supply versus demand

Global goods trade has been running at a record level this year but the pace of growth is starting to come off the boil as lockdown restrictions lift and purchases of goods that were in high demand during lockdowns slow.

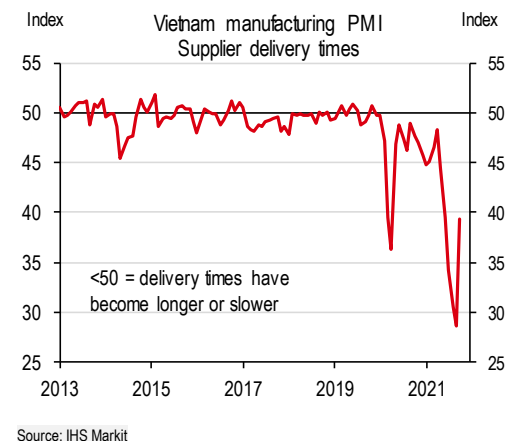
On the supply side, shortages of critical components still remain and there is a risk that operations in key manufacturing hubs continue to be disrupted periodically. China also maintains a very low tolerance for COVID-19 cases, which could disrupt port operations and exacerbate congestion.

On the other hand, the rebound in industrial production across various Asian economies could help to ease supply chains disruptions (Chart 18). However, labour shortages in Vietnam present a downside risk and even if industrial production rebounds. It will also take time to clear backlogs and for production to normalise (Chart 19).

18. Manufacturing activity is rebounding following factory shutdowns in Asia...



19. ...but producers still face delays with deliveries



What are shipping lines and port operators saying about the outlook?

Shipping line Maersk expects global container demand to increase by 7-9% y-o-y in 2021 and by 2-4% in 2022, supported in part by inventory replenishment and the shift to e-commerce, with a higher number of customers to move to longer term contracts to secure capacity and rates amid ongoing disruption.

Drewry Maritime Research does not expect logistics disruption to ease before Q1 2022, while port operator DP World recently noted it expects supply chain bottlenecks to linger until 2023. Similarly, Associated British Ports thinks current supply chain disruptions are likely to last until 2023.

Three scenarios

The full note contains three scenarios about when supply chain disruptions might ease:

- **Scenario one – Disruptions start to abate after Lunar New Year 2022**
- **Scenario two – Disruptions start to abate in H2 2022**
- **Scenario three – Disruptions show no signs of easing by the end of next year**

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