MAR 16
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Lockdowns in key Chinese manufacturing hubs compound supply chain issues

Article

The news: Major manufacturing hubs in China, including Shenzhen and Dongguan, have been put under lockdown after detecting new COVID-19 cases, per Bloomberg.

- **Toyota** and **Volkswagen** halted production at several plants, and key **Apple** manufacturer **Foxconn** said it would **suspend its Shenzhen operations** until further notice from the government.
- Trucking delays and long lines at China's ports are compounding the issue and raising fears of a global shipping slowdown.

How we got here: While most of the world has loosened coronavirus-related restrictions, Beijing maintains a hard stance on COVID-19 outbreaks.

- A December 2021 outbreak in Zhejiang province, another key manufacturing hub, closed factories, and strict quarantine rules made it difficult for truckers to pick up goods and access ports.
- China averages more than 5,100 daily cases—less than one-tenth the number of new cases the US reported on Monday, per The New York Times—**but more than 45 million people are under lockdown**.

What this means for retailers: Many companies rely on goods manufactured in China. Even if their factories are operational, **it's getting harder—and more expensive—to get goods out**.

- **Wang Xin**, the head of the Shenzhen Cross-Border E-Commerce Association, says the lockdowns "are creating significant disruption to the production and delivery of goods sold on major online marketplaces" like **Amazon** and **Walmart**.
- Delays on order fulfillments could create major backups at ports across China, which could **bring global shipping to a halt**.
- Freight prices, already high, are rising further: It costs at least **$16,353** to ship a container of items from Asia to the West Coast as of this writing, up nearly $200 from a week ago, per data from Freightos.

Top 3 Countries/Regions of Origin From Which International Parcels to Select Countries Originated, H1 2021

Canada	US	Australia	UK
1. US	1. China	1. China	1. China
2. China	2. Europe	2. US	2. Germany
3. Europe	3. Mexico	3. New Zealand	3. US

Note: based on data tracked by Parcel Monitor; broader industry metrics may vary
Source: Parcel Monitor, Sep 22, 2021

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Shoppers in China feel the pinch: In addition to its international impact, Beijing's zero-COVID policy is largely hurting the Chinese economy.

- Consumers stuck inside are unable to support local stores and restaurants, while travel restrictions have hit the hospitality industry hard.
- Businesses face lost revenues due to shutdowns and higher commodities costs, which have lowered their margins significantly and made it more difficult to operate.

The big takeaway: The combination of war in Ukraine and manufacturing shutdowns in China has added to the challenges retailers face, making it difficult to guarantee inventory and keep prices down.

- Inflation has changed US consumers' shopping habits as they increasingly look for ways to save money. The prospect of product shortages coupled with higher prices is likely to depress consumer sentiment even further.
- Retailers with more muscle, like Walmart and Amazon, may be able to secure priority for their shipments, but others will have to get creative with product sourcing if they want to weather the next supply chain crunch.

Further reading: *For a closer look at how China's lockdowns are affecting the tech and auto industries, check out the coverage from our Connectivity & Tech Briefing here.*