

Chip wait times get longer as companies continue to stockpile, predicating a worse chip shortage

Article

The news: Global chip problems are plaguing various industries a year into the chip shortage, some delivery delays are being pushed into 2024, per The Wall Street Journal. The extended shortage, which [we predicted](#), reveals that global supply chains are under duress from a number of fronts.

What are the issues compounding the chip shortage?

- [Factories were shut down](#) in Japan, North America, and Malaysia due to the rise of COVID-19 cases. In Toyota's case, the company said in a statement that 27 production lines in 14 factories worldwide were stalled in September.
- Droughts in Taiwan impeded production due to stringent water use restrictions. Rolling power outages and coal shortages are similarly constraining production, with more than 10 Taiwan-based semiconductor companies closed temporarily last month.
- **One-third of Asian chipmakers, 67% of North American companies, and 63% of European companies** say it's difficult to find qualified workers. North America and Asia also reported rising labor costs, which complicates factory staffing issues.
- Some companies are [stockpiling](#) chips to offset their future production needs. This could lead to an inflated sense of demand and could lead to a chip glut.

What industries are most affected?

- **The auto industry** has been hit particularly hard by the chip shortage, which has [cost](#) the industry \$210 billion in sales. **Toyota**, the world's second-largest carmaker, cut production by 40% in September, and **Stellantis** (maker of Chrysler) cut production by 30% in Q3.
- **The smartphone industry** saw global shipments slip 6% in Q3 2021. The number of new device models launched in the first half of 2021 declined **18% YoY** to 310, per Counterpoint. Most notably, **Apple** is [slashing](#) iPhone 13 production targets for 2021 by 10 million units during its most profitable quarter, and **Samsung** saw shipments drop by 20%.
- **The PC industry** saw [demand far outstripping supply](#). "We are selling everything we can produce," said HP Chief Executive Enrique Lores.

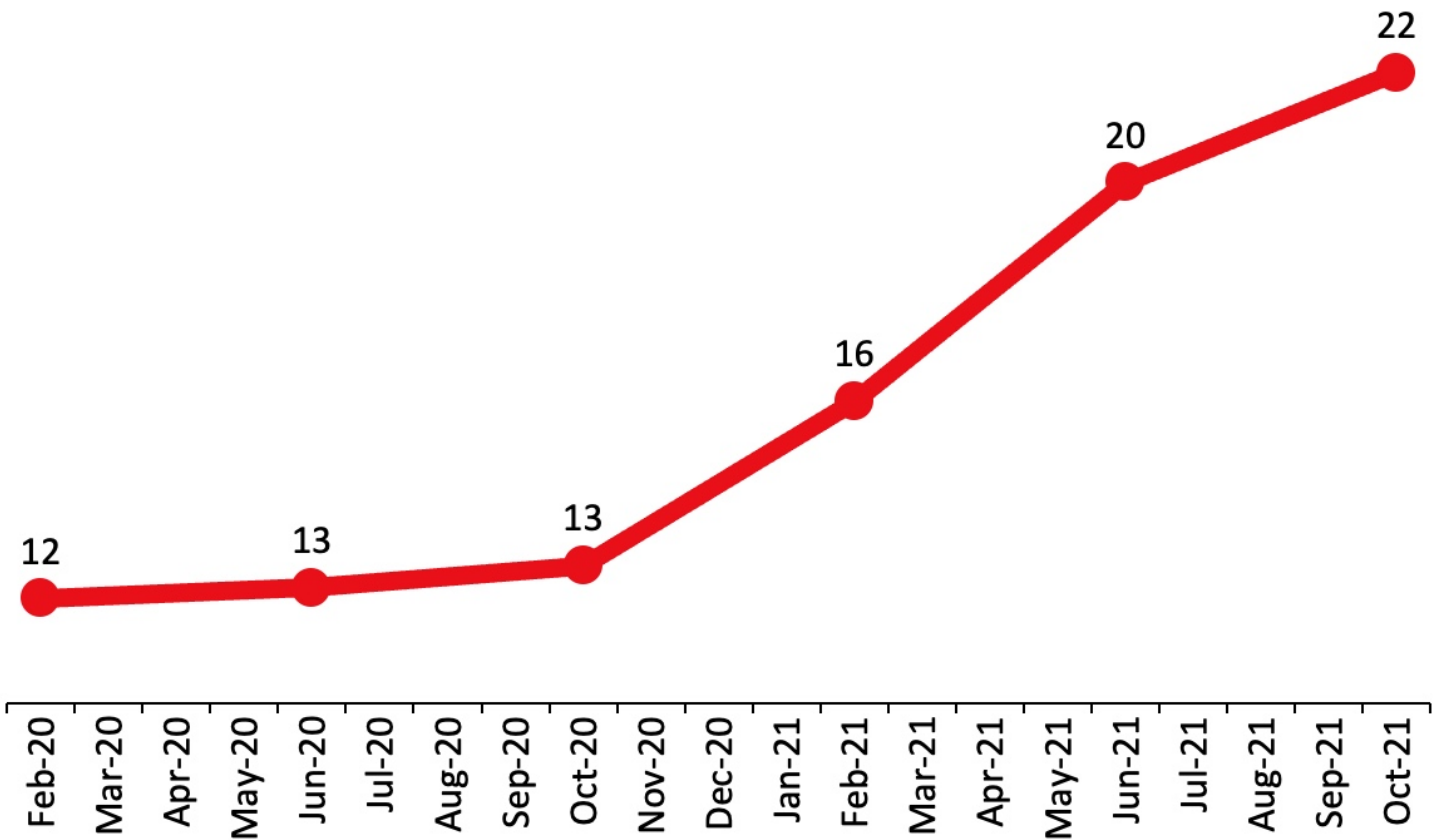
The big takeaway: There's not much that can be done to address the production crisis or the increasing gap between ordering and chip delivery times.

If inventory hoarding continues (which seems likely), it'll only intensify the imbalance between demand and supply—which could even result in overproduction. When companies produce

more than the market can take, this results in bloated inventory, increased storage costs, work stoppage, plant closings, and the loss of jobs.

- Some companies, like **Tesla**, are **innovating** their way around the problem. The EV maker rewrote its software to take advantage of existing chip supplies.
- Various countries are **doubling down** on building their own local chip facilities closer to home. While these won't be able to boost production soon, they can safeguard against future shortages as well as ease reliance on a handful of manufacturers.

Gap Between Ordering a Chip and Delivery (In weeks)



Source: Susquehanna Financial Group, 2021

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