



The Bottom Line

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POWER OUTAGES THREATEN CHINESE PRODUCTION

Summary

High demand and soaring energy prices have forced some factories to shut down, adding further problems for already snarled global supply chains.

Background

During quarantine, Americans spent less on services and more on goods. Peak Season restocking efforts kicked off in earnest in the August-September period last year. The U. S. economic stimulus payments in April and December 2020 spurred consumer spending and had measurable effects on the U.S. economy. Seaports and airports, local and long-haul trucking companies, and warehouses struggled with sick employees and outbreaks. These personnel shortages resulted in delivery delays, longer turn times for shipping containers, and increased berth time for vessels being unloaded and reloaded. In addition, a series of incidents involving containers falling overboard or stuck offshore waiting for berth space has resulted in fewer containers available in the transportation network.

As more world regions reopen after pandemic-induced lockdowns, the demand on China's electricity-hungry export factories is increased. Export demand for aluminum, one of the most energy-intensive products, has been strong. Demand has also been robust for steel and cement, central to China's vast construction programs. As electricity demand has risen, it has also pushed up the price of coal to generate that electricity. But Chinese regulators have not let utilities raise rates enough to cover the rising cost of coal, so the utilities have been slow to operate their power plants for more hours. Two-thirds of China's electricity comes from burning coal, which Beijing is trying to curb to address climate change. As a result, coal prices have surged along with demand. Faced with losing more money with each additional ton of coal they burn, some power plants have closed for maintenance in recent weeks, citing safety reasons. Many other power plants have been operating below capacity and have been leery of increasing generation when that would mean losing more money, said Lin Boqiang, dean of the China Institute for Energy Policy Studies at Xiamen University.

Current Status

Power cuts and even blackouts have slowed or closed factories across China in recent days, adding a new threat to the country's slowing economy and potentially further snarling global supply chains ahead of the busy Christmas shopping season in the West.

The outages have rippled across most of eastern China, where the bulk of the population lives and works. Three publicly traded Taiwanese electronics companies, including two suppliers to Apple and one to Tesla, issued statements on Sunday night warning that their factories were among those affected. In addition, the local power transmission authority in Houjie, a township in northwestern Dongguan, issued an order shutting off electricity to many factories from Wednesday through Sunday. On Monday morning, the suspension of industrial electricity service was extended at least through Tuesday night.

Impact

The sudden restart of the world economy led to shortages of critical components like computer chips. This surge in business helped provoke a mix-up in global shipping lines, putting too many containers and the ships that carry them in the wrong places. Power supply chains are similar. Compared with last year, electricity demand is growing in China at nearly twice its usual annual pace - swelling orders for the smartphones, appliances, exercise equipment, and other manufactured goods that China's factories churn out has driven the rise. The resulting electricity shortage is starting to make supply chain problems worse. China's power problems are contributing in some part to higher prices elsewhere, like in Europe. Experts said a surge in prices in China had drawn energy distributors to divert ships laden with liquefied natural gas to Chinese ports, leaving others to scurry for other sources.

Analysts at Goldman Sachs noted "considerable uncertainty" headed into the final quarter of the year.

RESOURCES

[Power Outages Hit China, Threatening the Economy and Christmas](#) (The New York Times)

[China's Growing Power Crunch Threatens More Global Supply Chain Chaos](#) (CNN Business)

[China Goes All Out to Cope with Power Outages](#) (YiCai Global)

[China's Power Problems Expose a Strategic Weakness](#) (The New York Times)