



The Bottom Line

APRIL 2022 | VOL. 131

CHINA SHUTDOWN EXPECTED TO LEAD MORE CONGESTION

Summary

As of April 19, more than half of China's biggest cities were under lockdown—including vital transportation hubs like Changchun, Jilin, Shenyang, Tianjin, Shenzhen, and Guangzhou—and the supply chain is backing up like water behind a dam.

Background

Last May, the enormous Yantian container terminal at the Port of Shenzhen throttled down to 30% of average productivity for a month to stamp out a handful of positive cases there. Hundreds of thousands of shipments that couldn't enter the port accumulated in factories and warehouses. Many vessels skipped the port to avoid waiting seven days or more at anchor. It took weeks after the port reopened to clear the cargo backlog. The effects cascaded to the U.S. and Europe, resulting in port traffic jams, transit times triple the norm, and missed retail deliveries for the holidays.

While global attention has fallen on Shanghai, where 27 million people have been cooped up in their homes for weeks in China's most extensive lockdown, there are over 20 other Chinese cities, large and small, under lockdowns or heavy restrictions on movement.

Current Status

In March, China's manufacturing activity fell to a five-month low as lockdowns, and other restrictions forced factories to suspend production. Export containers already at the Port of Shanghai when the lockdown started are making it onto vessels. However, most goods booked on outbound vessels are stranded at warehouses because shuttle trucks can't make pickups or deliveries.

Reduced manufacturing output and limited truck access to the port and airport are causing a significant drop in air and ocean export volumes. Less demand is translating to lower freight rates. Asia-U.S. East Coast rates have fallen 7% since the outbreaks in March, said freight booking site Freightos, which also publishes an ocean rate index.

"China's COVID restrictions are weighing heavily on its domestic demand, which has already been weak even before the recent Omicron outbreaks and lockdowns," says Tommy Wu, a lead economist from Oxford Economics based in Hong Kong. He adds that those same restrictions are now "also affecting the country's industrial production and export activity, which will amplify the ongoing global supply disruptions." Wu cautions that there will likely be supply

shortages of some consumer goods in the U.S. in the coming months:

"Notably electronics, home appliances, and also apparel and garments to some extent."

Chinese officials on Monday issued new guidelines to normalize industrial production and logistics flows, part of an effort to minimize the impact of strict lockdown measures in Shanghai. Under rules endorsed by the central government, localities will self-select specific companies in critical industries that can restart operations. The phased reopening of manufacturing and freight transportation in cities subject to mass sequestration could ease the growing backlog of import and export shipments and avoid another massive chokepoint for global supply chains. Whether near-term logistics relief results likely will depend on the implementation of new work rules for factories and transport.

Impact

"If Shanghai cannot resume production by May, all of the tech and industrial players who have supply chains in the area will come to a complete halt, especially the automotive industry," Richard Yu, a top Huawei executive, warned last week in a WeChat post. "That will pose severe consequences and massive losses for the whole industry."

The slowdown in China exports should provide temporary relief to congestion-plagued U.S. ports on both coasts and in Europe. However, logistics experts say the breather is likely to be followed by a tsunami of deferred cargo once the lockdowns are lifted. The cargo volume will far exceed the handling capability of the ports, with containers jamming up terminals faster than they can be transferred to inland transport and pushing vessels into long queues at sea.

RESOURCES

[The World Braces for Shortages and Higher Prices as Export Giant China Doubles Down on Its Zero-COVID Strategy](#) (TIME)

[Get Ready for the Next Supply Chain Shockwave](#) (American Shipper)

[China's Covid Shutdowns Go Far Beyond Shanghai](#) (The New York Times)