

## Logistics and Supply Chain Update

August 23, 2021

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Increased ocean port congestion and COVID outbreaks in Asia are further extending lead times and creating continued upward pressure on transportation costs with all modes for international shipments. With continued demand and manufacturing indexes continuing at over 50, most analysts expect the tight supply chain with elevated costs to continue now through the Chinese Lunar New Year. Predictability of Ocean deliveries is at all-time low and requiring 90 days of planning from manufacturing ready to on site. Congestion in many major airports such as LAX and Ohare is pushing heavy air delivery times in some locations to 3 weeks. Lead-time for international small parcel is now 5-7 days with greater days likely from Shanghai with additional sanitation restrictions, weight limitations and limited capacity. This coupled with market availability of parts makes it critical to have a minimum of 12 months visibility with limited to no changes in a quarter to help ensure availability to move larger products. Bottlenecks in ports, railways and airports and worker availability is further straining LTL and FTL transportation. We do not recommend using rail – only last measure as some lines have stopped shipments with no intermodal capacity and backlogs in some yards have gone from days to as long as two weeks. Expect continued higher pricing for transportation services and extended lead times at least into the fall.

### OCEAN

Lead times continue to rise and we are no planning on 90 days for the remainder of the year. As of last week more than 350 container vessels were waiting anchorage outside ports around the world. With increased covid rules and outbreaks in Ningbo & Shanghai congestion and holding times have worsened in these two top container ports which many suppliers utilized. There were 496 scheduled sailings last month of which 18 sailed blank.

Ocean container costs are 5x the spot market. Shipping only cost exceeding \$15k with some reports of over \$15 container port to port. Delivery charges depending on location ranging from a few thousand in nearby cities to up to \$10k to central region. Delay in unloading with demurrage charges are frequent. The commission is currently reviewing some of the fees.

Despite all the challenges, in June 2021 scheduled reliability actually improved 0.8%. to 39.5%! This as the first month that has not declined where to date we have seen Year over year reliability down 30% .

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### **SMTC Action**

- Expanded planning window for ocean to 90 days.
- Evaluating with customers need to pull in PCS and plastics and whether to have shorter lead times less inventory risk with more costly heavy air options.
- Preposition LCL shipments 3 weeks prior to departure and 6 weeks for FCL
- Work with customer to ensure 12-month minimum forecast window.
- Advise customers of impacts on changes inside 13 weeks; resulting in expedites and increased costs.

### **International Heavy Air (palletized > 150kgs) & International Small Parcel**

Situation in China with Covid rules and restrictions is resulting in large reduction of flights and restrictions out of Shanghai with ~ 20% capacity. Most heavy air carriers in Shanghai offer express rate or spot rate due to limited capacity and subject to confirmation on space, commonly with more backlogs, delays and flight cancellations. An alternative truck solution to divert cargo from Shanghai to other gateways for export, however longer lead times are expected since there is a congestion in domestic traffic as well. For this week DHL announced they will not handle any items over 100kgs from all of East China.

Delta outbreak is not only impacting China. Other countries are enacting crew quarantine rules which is increasing delays in domestic Asia and international flights. At the same time in China, the US has imposed a 40% reduction in available China to US flights. This has led He added: "Carriers are re-positioning flights, with China Southern and China Eastern announcing significant cancellations in major US schedules until the end of August. This is placing further pressure on already constrained tradelanes from mainland China.

Delay times are increasing in unloading Air cargo with standard lead time for heavy air at 14 days and in some markets approaching 21 days. Volumes of planes are down on a year ago, but trucks are having to wait longer at large US airports to collect imported freight. The largest gateways to include Los Angeles, Chicago and Dallas are having the greatest impact. The problems stem from a combination of factors, chiefly shortages of handling staff and issues with loading and unloading 'passenger freighters' as the increase in passenger flights have increased with no additional support. Limitations in space have resulted in continued 2x costs.

Passenger traffic has peaked and there is overall now less capacity to move product than last month.

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### **SMTC Actions**

- Continue to closely monitor production plans and work with customers. As critical shipments need to go by air and when possible, SMTC is using small parcel for best delivery time and tracking
- We will supplement rates with the PSS (Peak Season Surcharge). In this dynamic pandemic environment, customer teams will advise capture and pass on the details for recoupment to customers.
- Utilize a TMS tool with frequently updated rates and lead-time for small parcel, heavy air and ocean for procurement teams to make informed decisions with suppliers and our carriers on whether to ship material via ocean/air freight or small parcel. To offset costs and longer lead times SMTC continues to look to break down shipments and utilize small parcel.

### **US and Border Crossings**

- LTL and FTL market is strained by congestion and workers. This summer pricing has increased ~40% above higher rates. We employ pricing and bid tools to minimize impacts but availability is becoming tight on the spot market.
- US small parcels ground and air – still experiencing some delays of 1-2 days.
- MX to US Border Crossing. Our operations for cross-docks continue with minimal delays. We continue to monitor MX driver availability. There are delays but generally less than a full day.

**Chuck Fries, VP Logistics & Planning**