SMTC
MANUFACTURING INNOVATORS

Logistics and Supply Chain Update

March 9, 2021

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The return of Asia from Chinese New Year has not eased demand greatly. We are now starting to see some recovery in ground and air shipments as the US weather has created over a week of backlog in stranded shipments. The current logistic market is status quo.

- Lead times for Asia Ocean transport 65 days with continued 20%+ surcharges and 3x absorbent spot rates.
- Placing of ocean LCL booking 3 weeks in advance is required to ensure sail dates.
- Heavy air (palletized > 150kgs) lead time remains up to 3 weeks, expect over 2x normal cost surcharges.
- Closely monitoring and working with customers, as critical shipments need to go by air. When possible, SMTC is using small parcel for best delivery time and tracking
- US ground and air – still experiencing delays and recovery of stranded shipments mostly in the upper and lower central. For LTL continue to assume 2-day delays to one week in some situations.
- 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.

Our consensus findings for Q2 2021 is that continued steady forecasts for strong volumes suggesting significant Ocean and Heavy Air congestion thru at least June and a continued tight market for trucking and rail in North America will continue to strain lead times and will not result in elevating higher costs in H1 2021

- The Trans-Atlantic westbound trade is experiencing continued strong demand, operations issues (esp. equipment issues) & continued higher rates.
    - Ocean shipments spot rates peaked at 300%. Surcharges on negotiated rates remain at over 20%
    - Severe congestion in both US and Asia markets continues to extend lead-time. Manufacturers need to have product ready 3 weeks before expected sailing to secure spots
- Asia to Europe cargo volume seems to have dropped off with slight easing in rates but
- Bad weather in the US has added insult to injury….but getting better
- Box availability has gotten better in parts of China but this warrants close watching because the apparent greater availability of containers may be the result of CNY impact on cargo activities
- Driver availability and rising fuel costs continues to drive up North America ground and air. All major carriers have announced another year of additional general rate increases of > 5% and surcharges of more than 15% for rising fuel have increased the cost for spot LTL and FTL shipments.
- Economic consensus
    - Covid will still be an issue (herd immunity perhaps but variant strains) and covid spending patterns will still prevail
    - Improved GDP growth vs 2020 but employment numbers not great
    - Inventory re-building & safety stock development still in progress. Still seeing the impact of 150% of annual volume trying to move on 100% of all available assets
    - Rising oil prices and driver availability will continue to put pressure on truck rates

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Outlook H2 2021: Requires closely monitoring with possible improvement in Ocean availability but likely no improvement in cost of any mode

- Ocean: Assuming Covid eases, expect vessel, container & terminal issues to start to ease in June. Most ocean forwarders expect sufficient vessel capacity and improved stock to handle normalized cargo volume in the 2nd half of 2021. However, given continued strong volume there is still the possibility of some, but less severe, network congestion in 2H. If carriers manage blank sailings as they did in 2020, there will be no easing in rates and surcharges will continue.
- International air: Cargo capacity will likely remain tight and high surcharges continue. PPE shipments should decline and may result in some increased availability of commercial space. Until international travel flights increase there will be continued pressure on availability and surcharges.
- Minimal impact in NA trucking. Costs will likely depend on impacts of Oil.
- Border crossing and travel between Mexico and Canada will continue with little if any impact

2020 to 2021 Cost Impacts

- Ocean spot market pricing rose 300%, surcharges on top of negotiated pricing 20%+ At a minimum surcharges expected to continue
- Heavy international air pricing premium surcharges 100% - 200%; likely continue through 2021.
- International Sm Parcel ~ 5% GRI and 5-10% premium surcharge expect to prevail.
- US small parcel ground and overnight expect another year of general rate increases of 4-6.5% and possible increase for fuel surcharges in H1 due to rising oil costs.
  LTL continued pressure expected with oil pricing.

Country Impacts: No new developments or changes. Sourcing impacts based on product availability and not COVID restrictions.

Chuck Fries, VP Logistics & Planning