

## Logistics and Supply Chain Update

May 7, 2021

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**The current transportation market remains heavily strained with continued elevated lead times and upward pricing on all overseas shipments. Greater US demand continues to starting US ground and air transportation modes. This coupled with market availability of parts makes it critical to have at least 12 months visibility with limited changes in a quarter and to expect continued higher pricing for transportation services.**

### OCEAN

Transit times and pricing continue to increase, although at slower rates. Surcharges are now over 30% with the biggest challenge in spot markets with over a 3X increase. Delays have resulted with some Asia transit times of 90 days from shipment ready at factory to US dock of 90 days! Four factors prevail that continue to drive the market:

- Increased demand for durable goods - month over month and compared to 2019.
- Blank Sailings – vessels continue to cancel sailings with little notice or cancelling ports of call (stops) in their routes. The Suez Canal incident has only added to this problem at all ports.
- Equipment Shortage - there is a massive equipment shortage on Full Container Loads (FCL). US West Coast container volume is up 41% in the past 6 months and just starting to level off.
- Port Congestion continues. It is easing at Long Beach from the 14-day peak but is shifting some to other ports now with greater use. Carriers are using larger vessels in the pacific to mitigate anchoring issues. Starting to see some relief in worker availability with inoculation and COVID rates.

### SMTc actions

- Lead times for Asia Ocean transport 65 days. We schedule all ocean pickups 3 weeks before sail date for a full 90-day window if needed.
- To ensure sailings and spots with FCL loads we are now placing bookings for FCL 4-6 weeks
- When possible ship LCL (less than container load) as it is not as impacted as FCL

### INTERNATIONAL AIR

Heavy weight (> 150kg palletized) shipments have seen a renewed increase in rates. Lead-time remains up to 3 weeks. Expect now over 2X cost surcharges. International small parcel lead-time have increased 2-4 days; standard shipments to 4-6 days and palletized 7-10 days (including in bond clearance). Surcharges for small parcel continue to run 6-15%. The cost/capacity issues are being driven by:

- Demand is increasing to transport COVID-19 vaccine that will take limited air spots. Pfizer just starting shipping its vaccines to MX and we will soon see shipments to Asia.
- Ocean backlogs in both Pacific and Atlantic are resulting in greater demand for air shipments.



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- Insufficient transport. Over 30% of the international capacity remains parked with only possible relief coming to Europe in late summer – none expected for Asia. Air cargo companies have made small purchases of plane capacity but not nearly enough.
- FedEx, DHL, & UPS pallet conveyor process are bottlenecked at US international arrival locations. Additional capacity is now required (capital and resources).

### **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.

### **US and Border Crossings**

- US ground and air – still experiencing some delays with small parcel. Increased demand with intermodal and continued driver shortages have resulting in continued delays and longer scheduling for LTL and FTL.
- 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.

**Country Impacts:** No new developments or changes. Greater limitations in India while the European community as announced plans to open more markets end of May but not specifics at this time.

**Our consensus is that we see little if any relief through the summer. With increased demand of products and perhaps only a slight increase in late summer European wide body air flights, expect little relief in Ocean freight and international air into Q3. We hope to see some relief in Ocean with greater worker availability at the ports. US demand and the strain in the ocean market is creating a bullwhip effect resulting in continued but manageable delays on US small parcel but with greater FTL and LTL constraints that should ease some with worker availability. The situations continues to be dynamic and we will continual pulse our providers, analyst and supplier partners.**

Chuck Fries, VP Logistics & Planning