



THE OUTLOOK FOR THE SUPPLY CHAIN IN 2022

This guide examines the outlook for the Supply Chain in 2022 and beyond. We look at the root causes of the Supply Chain breakdown and evaluate what could change in the next few months.

THE SUPPLY CHAIN IS BROKEN

HOW DID WE GET HERE?

We are all aware of the hopeless mess the global Supply Chain is in. When will it improve and what is the outlook for the Supply Chain in 2022 and beyond? In this article we look at what is causing the problem and what could change in the next few months.

The current Supply Chain mess is a result of many factors. The Coronavirus pandemic was one factor, economic slowdown was another, public policy decisions, mistakes and external factors were yet another. The Coronavirus caused global lockdowns, disruption to normal business activity, backlogs and shortages of goods. This in turn created a global slowdown in economic activity as businesses were closed and consumers were put on lockdown. At the same time, massive government spending kicked off a vicious inflation trend and perversely created massive labor shortages. The Coronavirus also led to a global imbalance and shortage of containers as these stopped moving because of factory closures, stranding empty containers and leading to shortages in other places. This led to a reduction in shipping flows, shipping delays, port congestion and trucking shortages.

What is likely to change over the remainder of 2022?

WHAT COULD CHANGE WITH CORONAVIRUS IN THE NEAR-TERM?

CORONAVIRUS IS RECEDING

The Coronavirus threat seems to be receding and the US and European countries are reopening – that bodes well. Once the lockdowns are lifted and businesses are allowed to reopen, we can expect to see an economic resurgence. Also, the perverse disincentives to work as a result of the huge Coronavirus relief bills passed, should go away. This will hopefully address the widespread labor shortages.

BUT SHANGHAI IS ON LOCKDOWN DUE TO CORONAVIRUS

Despite the opening up of the Western economies, there have been recent resurgences of the Coronavirus in China. The pandemic-related full lockdown of Shanghai was more draconian than anything to date. It put hundreds of millions of consumers and workers in full lockdown and was a huge hit to industrial production and retail demand in China. Shanghai is responsible for more than 3% of China's GDP, and more than 10% of China's total trade. The BBC reported that studies from the Chinese University of Hong Kong show a two-week lockdown in megacities like Beijing or Shanghai cost China 2% of its monthly GDP. This lockdown has already run for more than six weeks. However, there is now a plan in place to reopen in June so long as there are no signs of a rebound in infections.

WHAT COULD CHANGE IN THE US ECONOMY IN THE NEAR-TERM?

STAGFLATION IN THE US ECONOMY

Over the past few years, the US has been the main driver of the global economy along with China.

However, the US economy is currently facing a period of “stagflation,” characterized by slowing economic growth and rising inflation. Inflation is higher than it has been in 40 years and rising fast. All the experts making predictions last year about how inflation was going to be “transitory”, are now backtracking as fast as they can, and the Fed has belatedly begun to raise interest rates to fight inflation. Fed Chair Jerome Powell said the Fed will continue raising interest rates until there is “clear and convincing” evidence that inflation is coming back down. While raising interest rates is the way to bring inflation under control, it will also cause considerable collateral economic pain. This could throw an already fragile US economy into full recession. There are questions as to whether the Fed has the fortitude to apply the tough medicine needed to fight inflation and risk a full-blown recession or worse.

WHAT COULD CHANGE IN THE US ECONOMY IN THE NEAR-TERM?

STAGFLATION IN THE US ECONOMY (CONT'D)

On the growth side, there are still serious challenges in the US. The stagnation is being driven by the administration's "green" policies and other policies which are holding down growth. The green agenda together with the war in Ukraine have combined to cause huge increases in energy prices. There are also widespread concerns about food security as fertilizer prices have also skyrocketed. These types of concerns have led to worsening consumer sentiment and deterioration in consumer spending. Concerns about energy prices as well as uncertainty as to the steps that will have to be taken to fight inflation, combine to hinder investment which will in turn lead to less growth as capital sits on the sidelines. This is the core challenge of stagflation that whatever steps are taken to fight inflation hurt the economic growth and vice versa.

WHAT OTHER GLOBAL CHANGES ARE THREATENING IN THE NEAR-TERM?

OTHER GLOBAL GROWTH CHALLENGES

Another troubling sign for global economic growth is the recent China Evergrande default. Evergrande, the most indebted company in the world with a debt load exceeding \$300 billion, defaulted on its bonds in December 2021. The default of Evergrande is read by many as the “canary in the coal mine.” There have been serious, long-standing problems in China’s property sector for years. Developers continued to build fueled by excessive borrowing even though about 20% of China’s housing stock is vacant as buyers bought properties as investments. Some estimate that as much as 70% of household wealth in China is concentrated in real estate. Many are concerned that this could all blow-up now. The real estate sector is estimated to account for almost 30% of China’s GDP compared to about 6% in the US. The effects of any kind of fallout in the property bubble in China could have very profound implications both on China’s growth and global economic growth.

WHAT OTHER GLOBAL CHANGES ARE THREATENING IN THE NEAR-TERM?

SHIPPING PROBLEMS AND PORT CONGESTION

A return to normalcy will cause the flow of shipping containers to re-equilibrate. However, the concentration of manufacturing in China is unlikely to reduce in the near-term. So, any disproportionate recovery between China and the US and Europe could exacerbate rather than fix the problem. A further complication is that by its nature, the shipping industry workforce is confined in close quarters for extended periods and therefore susceptible to the highly transmissible Coronavirus. This introduces another uncertainty as to whether the shipping traffic will normalize quickly.

OTHER EVENTS

The war in Ukraine is causing immense damage, devastation and economic disruption. It is also creating major issues related to energy, grain and fertilizer availability. This is not a wholly extraneous event as Russia chose to start this war when it did. The assumption has to be that Russia acted when it perceived it could perhaps get away with it, in light of all the other things going on. Speculation is widespread that China too may move on Taiwan using the same kind of calculation. Any such hostilities involving Taiwan could massively affect the worldwide availability of semiconductors with enormous and widespread economic impact.

CONCLUSION

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There are many economic and geopolitical unknowns that could cause the Supply Chain mess to improve or get worse in 2022. Any kind of overarching projection of what will happen is as likely to be wrong as it is to be right. The only approach that makes sense is to watch each of the contributing factors many of which are interrelated to understand what is happening. In the meantime, distributors should take steps to tighten up their inventory control, reduce costs, improve efficiency and get better technology.

Contact us today to learn how Accolent ERP can help you to get better control of your distribution business. When things improve – as they will – you'll be much better positioned.



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