

China: Chip disruptions from Covid

The small number of Covid cases in China's Guangdong province is disrupting production and shipments. Supply chains are once again being hit. If Covid can't be contained before the summer holidays, it will also hurt China's retail sales



Movement has been restricted in parts of Guangdong province in China because of a rise in Covid cases

Even limited Covid cases can cause significant disruption

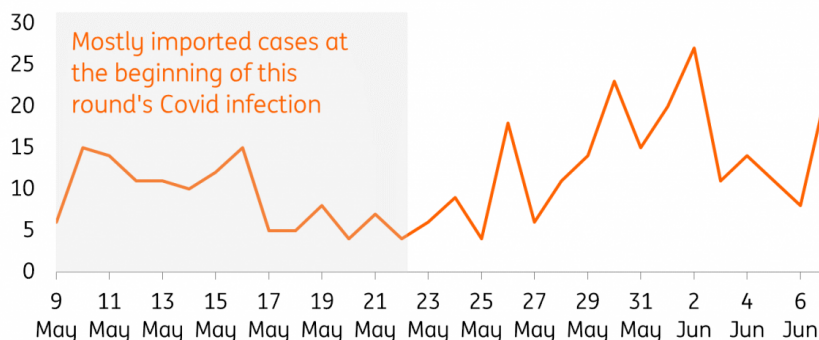
There have been around 10-20 confirmed Covid cases every day in Guangdong province, which is the location for many electronic factories. There were also confirmed cases at Yantian port, which is located in Shenzhen, which is the major port for electronics' throughput.

This small number of Covid infections has resulted in shipment delays of more than a week and is expected to increase further if there are more infected cases coming from the port. The [media](#) has reported that there were 40 vessels waiting outside the port as of 3 June 2021. This number has likely increased further, and it will take several weeks to clear these vessels.

Apart from port disruptions, people in Guangdong are queuing up for testing, and therefore factories are not operating at their usual capacity.

Supply chain disruption, mostly in electronics, will add to growing price pressures, especially on semiconductors, and producers are likely to pass at least some of these costs on to consumers. These consumers include Mainland China consumers as well as those in the rest of the world.

Guangdong province, China's factory base, confirmed Covid cases



Source: Health Commission of Guangdong Province, ING

How long will this last?

To clear the vessels outside Yantian port could take the whole month of June. The assumption is that Yantian port can run at normal capacity from the beginning of July. This is not impossible because China is taking very strict steps on localised area lockdowns and many people are being tested following this round of infections. The speed at which this virus will spread should hopefully now begin to slow.

Cross province and cross border travels will be strict

The impact of the lockdowns and testing will not only be felt in production and shipments. The medium-term impact could be restrictions on travel across provinces within China and from overseas. This will affect business activity. It will also affect retail sales which were being supported by internal leisure travel within China.

Even though the numbers are small, if this recent outbreak cannot be contained before the summer holidays, retail sales in China will be hurt.

We will continue to monitor the situation to gauge if we need to change our GDP forecasts.