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Our three calls on supply chain frictions for 2022

The good news is that supply chain problems will begin to ease next year. But it's going to take a while. Semiconductor production won't be back to normal for many months.



Chips for many electronic goods have been in short supply. Pictured, an Apple store in Beijing

1 Supply chain frictions will start to ease but not until well into 2022

We expect input shortages and transportation issues to abate only after the Chinese New Year. Earlier improvements in Asian countries will first be used for domestic destinations before going overseas. Consequently, global supply chains should expect another few months of extreme market conditions. International transportation should improve throughout the year, while it could take well until the end of the year before microchip production is back to normal. With an enormous backlog for industry and richly-filled order books, shipping prices will remain elevated; prices for key inputs that are in shortage at the moment are set to remain well above pre-crisis levels.

2

No rush towards deglobalisation in 2022

Don't expect any swift advances as far as deglobalisation is concerned. Any reshoring activity is set to be marginal despite pandemic disruptions. Sure, some businesses will move production back to Europe and the US but the vast majority is expected to keep globalised production in place. Firms generally expect a more normalised global economy within a year or so and that means they're willing to take the current supply-chain issue pain now rather than move to areas where consumption is highest as such relocations carry significantly higher costs.

3 Input shortages likely to remain a key theme in 2022 but oversupply could return

Current extreme shortages and price pressures are not here to stay indefinitely. Some key inputs currently causing problems such as semiconductors, plastics and chemicals are likely to remain problematic for most of 2022; in some cases supply is set to pick up substantially only by early 2023. The big question is when the turnaround will be. Current estimates of supply in certain critical markets are improving, think of semiconductors and containers, but demand is overstretched at the moment due to hoarding effects from businesses. This could result in a quick turnaround in prices once demand drops off to more regular levels.

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