

Supply Chain Disruptions Fuel Higher Prices, Longer Waits for Goods



The coronavirus-induced global supply chain disruption continues to wreak havoc on consumer's wallets and patience. (Sem Van Der Wal/ANP/AFP via Getty Images)

By Marisa Herman | Monday, 20 September 2021

The rising cost of items ranging from food to electronics – and the amount of time it takes to restock items that are missing off shelves – isn't expected to get better anytime soon as the coronavirus-induced global supply chain disruption continues to wreak havoc on consumer's wallets and patience.

While some of the delays in shipments of certain items are still a direct result of coronavirus-related lockdowns – last month the third busiest container port, Ningbo-Zhoushan, was partially shut down for two weeks due to a positive COVID-19 case – economists say the overall supply chain disruptions stem from the way the pandemic completely upended how Americans do business.

Aaron Alpeter, founder of Izba, a supply chain consulting, outsourcing, and technology firm, said the pandemic accelerated the nation's digital economy by a decade due to remote working and learning, which completely shocked the longstanding architecture of the supply chain.

"COVID-19 fundamentally changed the game and marketplace of consumer preferences," he said.

Financial analyst John Boyd, principal of Florida-based The Boyd Company, agrees that the "unprecedented boom in e-commerce, which has skyrocketed during the pandemic" poses a "longer-term challenge to supply chain efficiencies."

"All indications are that online purchase habits developed out of necessity during the height of the pandemic are now here to stay," he said. "Leading e-commerce players are recording over-the-top sales. Amazon recently reported its highest ever quarterly sales, surpassing \$100 billion. Walmart's online business was up almost 80 percent in a recent quarter, while Target saw its e-commerce volume surge by 154 percent during the same period."

But while Americans have grown accustomed to ordering an item online and having it delivered to their doorstep quickly, the pandemic has shown that fulfilling an order isn't always easy and simple.

For the past 18 months, all types of products have either been temporarily out of stock, on backorder, or become noticeably more expensive as the result of a pandemic-related supply chain issue.

Alpeter said the true source of the backlog consumers are facing is, in some ways, a "trillion-dollar question."

"Is this all virus-related or not? I think the answer depends on what you mean by virus-related," he said.

Alpeter notes the question comes down to whether an order is delayed because a facility is temporarily shut down due to a virus outbreak or because of an overall consumer shift to e-commerce, with either scenario being plausibly considered a result of the pandemic.

Eventually, he said the U.S. will reach a point of equilibrium, but until then he expects prices to continue to rise and delays on deliveries to become a semi-regular occurrence.

He predicts that 2022 and even early 2023 will still be a “very dynamic and difficult time from a sourcing perspective.”

The item facing the biggest shortage but generating the greatest demand are semiconductor chips, which are a crucial component in the assembly of nearly all electronics, from vehicles to PlayStations.

Kir Kshetri, a professor at the Bryan School of Business and Economics at the University of North Carolina-Greensboro, said as many as 169 different U.S. industries rely on chips to make their products.

While “COVID has affected pretty much every industry that has a global supply chain,” Kshetri said the impact is most evident in industries that rely on chips.

While automakers are dominating the headlines when it comes to chip shortages, manufacturers of simple electronic items such as toasters and blenders are also being hit.

Supply chain issues have impacted nearly every consumer product at some point over the past 18 months. But experts say some industries are at least starting to see relief.

Alpeter pointed out that items that were tough to get ahold of early in the pandemic – such as masks, hand sanitizer, and certain cleaning supplies – are now more widely available.

He said products that tend to “move in tandem with people’s fear and perceptions” typically have quicker recoveries from supply chain issues.

And fear, coupled with other logistical supply chain issues, could be what is driving a national ammunition shortage.

As firearm sales surged amid the pandemic, nationwide protests during the summer of 2020, and the election of President Joe Biden, so did the demand for ammo.

Historically, it is typical for gun sales to increase and for ammunition to become in shorter supply following the election of a Democrat president, as that party is generally seen as more critical of firearms.

Meanwhile, bumps in the food supply chain have caused food prices to rise. According to the Labor Department, meat, poultry, fish, and eggs are up 5.9 percent over the last year, and up 15.7 percent from prices in August 2019, pre-pandemic.

And the reason the price of a steak has skyrocketed could be related to a virus-imposed shutdown at a facility or the result of some other random snag along the supply chain.

Boyd said the coronavirus isn't the only cause of the overall supply chain challenges, too. Other disruptions stem from weather, including storms such as Hurricane Ida, which recently hit the Gulf Coast, as well as a national labor shortage, and an increase in transportation costs.

Boyd said labor-intensive fulfillment centers have been hit especially hard by the labor crunch.

"Another speed bump in our nation's supply chain is the current labor shortage," he said. "Companies throughout the U.S. are struggling to find workers and no industry is struggling harder than warehousing, especially labor-intensive fulfillment centers. Finding workers has been a challenge for a number of reasons, including the federal government's extended unemployment insurance benefits, continuing apprehension of contracting COVID-19, and the need for some employees to care for their remote schooled children."

With some states ending extra unemployment benefits and most areas returning to in-classroom learning, there is hope that more of the workforce returns to the job market. Though new mandatory coronavirus vaccine policies pose a new threat to the rebound.

And as big box retailers begin to prepare for the holiday season by going on a hiring spree, Alpeter said smaller companies that rely on e-commerce shipments will struggle to compete for labor.

In addition to warehouse workers, Alpeter noted there is a shortage of truck drivers, a problem that predates the pandemic.

"There has always been a truck driver shortage," he said. "They have one of the oldest average ages in the workforce and it is a difficult job to recruit for because it's not a particularly sexy role."

Before the pandemic, he said there was about one driver for every two to three delivery loads. In the thick of the pandemic, however, he said that ratio increased to 20 to 30 loads per driver.

"It is difficult to get people to move things around," he said.

Not only is it tough to find people to drive the trucks to deliver consumer goods, the cost to do so has also increased.

Alpeter pointed out that the price of shipping containers has surged and freight costs have gone up in price. The added expense has caused some companies to rethink their manufacturing structure.

He noted that Peloton, which sells high-end exercise bicycles, used to import its product from overseas. But recently, the company acquired a company in the U.S. to assemble the bikes in order to save time and money.

He expects to see more companies that produce bulky items typically shipped on a container relocate operations to North America. However, he said companies that produce smaller items will likely continue operating overseas, especially in Southeast Asia.

“For certain industries, it will be difficult to relocate,” he said.

As companies work out the kinks in their supply chain, Alpeter said one thing is for certain for the time being: “Prices for things we care about are going to go up.”

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