

SPECIAL REPORT

APRIL 2, 2020

HAS CHINA REBOUNDED FROM COVID-19 IMPACTS?

Despite reporting a sharp recovery in March, China's manufacturing sector is facing strong headwinds as the global economy plunges into recession. More Chinese factories re-opened in March following widespread shutdowns in the previous months as most Chinese cities emerged from lockdowns. However, weak demand will prevent running at optimal capacity.

China's official manufacturing purchasing managers' index (PMI) for March rose to 52.0, the highest reading since September 2017, from a record low of 35.7 in February 2020. A PMI figure above 50 indicates an expansion in the manufacturing sector.

The new export orders index also rose in March to 46.4 but is still well below the expansion threshold, indicating slumping external demand. China's official non-manufacturing PMI rebounded to 52.3 in March from 29.6 in February. "We view the jump in both the manufacturing and non-manufacturing PMIs in March as a one-off gain from the very low comparison base in February. We see two main headwinds: a second wave of infections and slumping external demand," Japan's Nomura Global Markets Research said.



China manufacturing is recovering slowly, but global demand is weak. Expect production slowdowns, order delays and lengthening delivery times.

Caixin's general manufacturing PMI published this week rose from a record low of 40.3 in February to 50.1 in March. The Chinese PMI reading is based on a survey of about 500 private and state-owned enterprises in China. Most domestic factories did not resume any production until the second half of

February. Upon resumption of operations, production was at reduced rates in view of the rapid spread of the deadly coronavirus.

Most of China's end-products are meant for exports, demand for which could continue to dissipate now that the global economy is at a standstill. "The initial euphoria from the return to a semblance of normality in China is likely to ease as other major economies take a bigger hit from the pandemic due to factors including lockdowns of cities," Singapore-based UOB Global Economics & Market Research said.

As of 1 April, the total novel coronavirus infections stood at more than 820,000 globally, with around 82,000 confirmed cases in China.

Production in the world's second-biggest economy rose slightly in March but the pandemic continued to weigh on demand and disrupt supply chains, with total new orders falling for the second month

running and delivery times lengthening sharply. Furthermore, new export work fell during the month as nations around the world grapple with containing the spread of the virus. "The worsening situation overseas is another blow to manufacturing demand," said Zhengsheng Zhong, chairman and chief economist at Chinese research firm CEBM. "The sub-index for total new orders stayed in contractionary territory for the second straight month in March, while the gauge for new export orders was still way below levels seen before the epidemic," Zhong added.

SHIPPING INDUSTRY REACTS TO CHANGING DEMAND PATTERNS

Container ship operators have canceled more than half of their sailings to China, as COVID-19 restrictions froze work at ports last month. Now import activity is bracing for a second wave of disruption. Although China has resumed exporting, shipping companies expect thousands of shipments to be stranded at seaports as the pandemic engulfs the U.S. and Europe.

"In China we had a supply shock, a production shortage from closed factories and reduced truck numbers," Jeremy Nixon, chief executive of Japan's Ocean Network Express, the world's sixth biggest container carrier by capacity. "Now we are looking at a demand side shock which is impacting North America and Europe by the sudden lockdowns of cities."

Container ships move the vast majority of manufactured goods, from medicine and food to clothing, electronics and cars. Shipping executives expect volumes to decline about 10% this year because of the spreading Covid-19 crisis.

China accounts for an estimated 40% of container shipping freight. In response to the outbreak, China shut down factories, roads and ports in the second half of February, including a broad lockdown in the industrial Hubei province. Cargo containers piled up at terminals and on vessels for weeks as operations ground to a near standstill.

Corporate purchasing and shipping patterns are changing. There is an opportunity to selectively build reserve inventory of core items while demand is temporarily depressed. Review your standard orders and revise as needed.

Container volumes from China into were off 35.2% in February from a year ago, according to trade data research group Panjiva. More recent figures suggest the downturn is deepening. Panjiva, which tallies information on goods entering U.S. ports, said overall U.S. seaborne imports fell 15% in the first two weeks of March, including a 44.9% decline in imports from China and a 6.5% slide in goods from Europe.

There have already been some disruptions at U.S. seaports. The Port of Seattle closed operations at two of its four container terminals earlier this month because of diminished demand. The Port of Houston shut operations at its two main box terminals after a worker tested positive. Italian operators say their cargo ships have been blocked from entering some ports around the world because of fears of spreading the virus. Cargo terminal operators at the ports of Los Angeles and Long Beach, which together make up the largest gateway for U.S. seaborne imports, cut the operating hours at their gates by an hour each day to thoroughly clean terminals and equipment there.

Corporate purchasing and shipping patterns are changing, meanwhile, as spreading lockdowns in Western cities trigger steep changes in consumer buying patterns. Demand is soaring for some household goods as consumers strip shelves of products like toilet paper and cleaning supplies, while there is a sharp falloff in demand in sectors like apparel and automotive parts.

WASTE FIRMS FACE TRASH DELUGE

As the crisis impact continues, the U.S. waste industry is encountering a rise in infectious waste and potential exposure to trash handlers. Trash companies are looking to China, where daily medical waste volume jumped six fold in Wuhan as the virus spread. The Chinese government deployed dozens of portable waste treatment facilities and officials recently said medical waste facilities in 29 mainland cities were at or near full capacity.

Waste collection impacts include worker safety, handling capacity and hauling delays. Monitor closely and consider secondary suppliers.

In the U.S. hospitals are already generating more trash that requires special treatment along with increased household collection volume. Stericycle, one of the largest U.S. medical waste processors, steam sterilizes infectious trash before it is landfilled or incinerated. The company has also started handling waste from new sources of quarantines, such as cruise ships.

When COVID-19 first emerged, some states recommended that any waste generated by patients be classified as regulated medical waste, needing special treatment. Federal regulators have since required that only a small amount of waste from health facilities needs such treatment, such as that contaminated with bodily fluids. Medical waste volume rises proportionally to the amount of disposable personal protective equipment being used. Commercial and industrial waste volumes dropped as operations widely shut down.

Concern about infectious waste goes beyond medical facilities. Janitorial staff and trash handlers are worried about pathogen exposure and gloves, sanitizer and masks are in short supply. These shortages have led to a rising number of recycling programs being suspended to protect workers who sort items by hand.

A NOTE FROM PROCUREABILITY

In the last few weeks, the coronavirus has drawn the world's attention. First and foremost, we hope that you, your family, your friends and your colleagues are keeping well in these uncertain times. COVID-19 has disrupted the economy, normal work patterns, and just about every aspect of life. Our priority from day one has been to focus on all our people, both internal employees and external client teams. We want to simply recognize that we understand the pressures you and your company are under. Price volatility and supply chain uncertainty, combined with challenging economic conditions, make each day's decisions that much more consequential. If you're like most of the customers we've worked alongside, you've built a culture of preparedness from decades of experience. However, COVID-19 has been very effective in showing how unforeseen circumstance can trigger a cascade of devastating problems. As always, all of us at ProcureAbility stand with you. We're ready. Please give us a call or drop us an email if we can help you.

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