

Policy Note

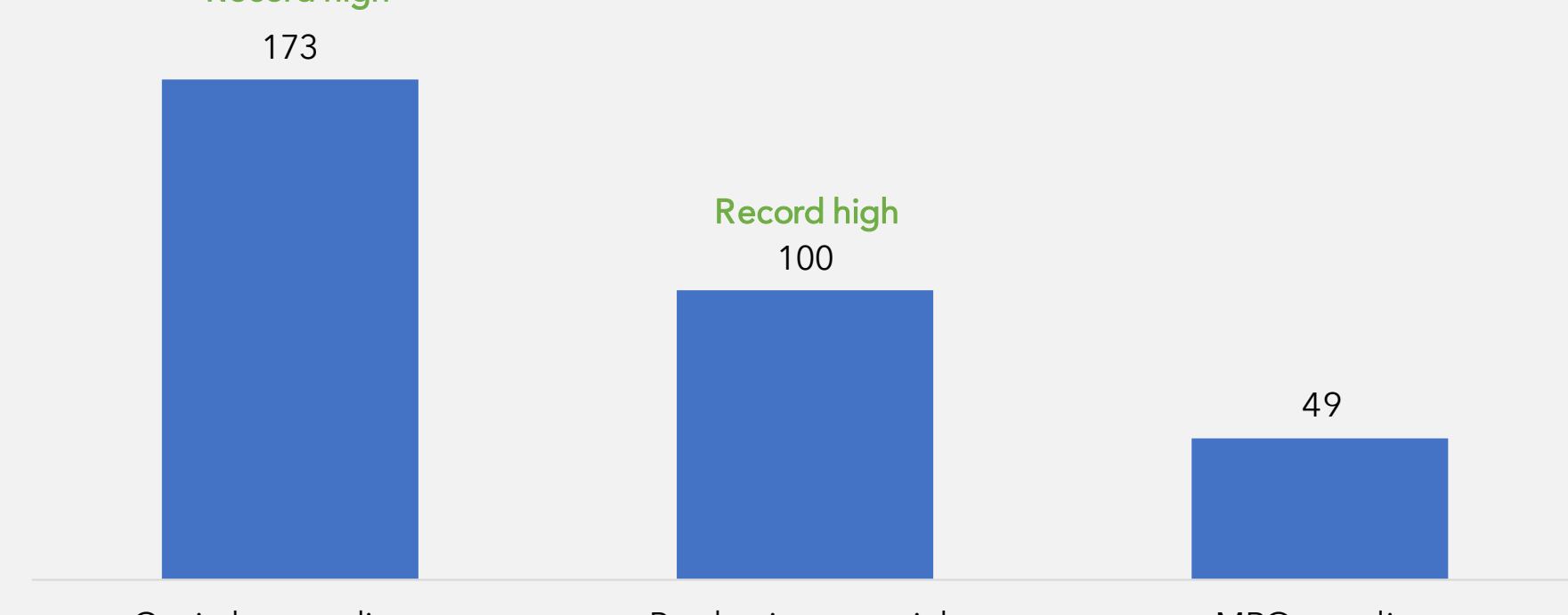
Global supply chain dislocations have shifted once again from transportation to manufacturing. Despite some recent improvement in transportation delays globally, challenges in manufacturing lead times have risen. ISM data for April shows the lead time on key manufacturing inputs lengthening, in some cases to record levels. At the same time, COVID-induced shutdowns in China have caused manufacturing PMIs to contract for two months in a row while the time between ordering a microchip and delivery has extended to double its pre-COVID average.

Persistent supply chain dislocations have, in turn, rippled through global trade. Notably, US auto sales are down (-23%) y/y as supply side disruptions have caused auto inventories to hit record low levels.

Looking ahead, a recent survey by Oxford Economics shows that nearly 75% of respondents expect dislocations to last beyond the end of this year with over half of businesses taking steps to improve the resilience of their supply chains.

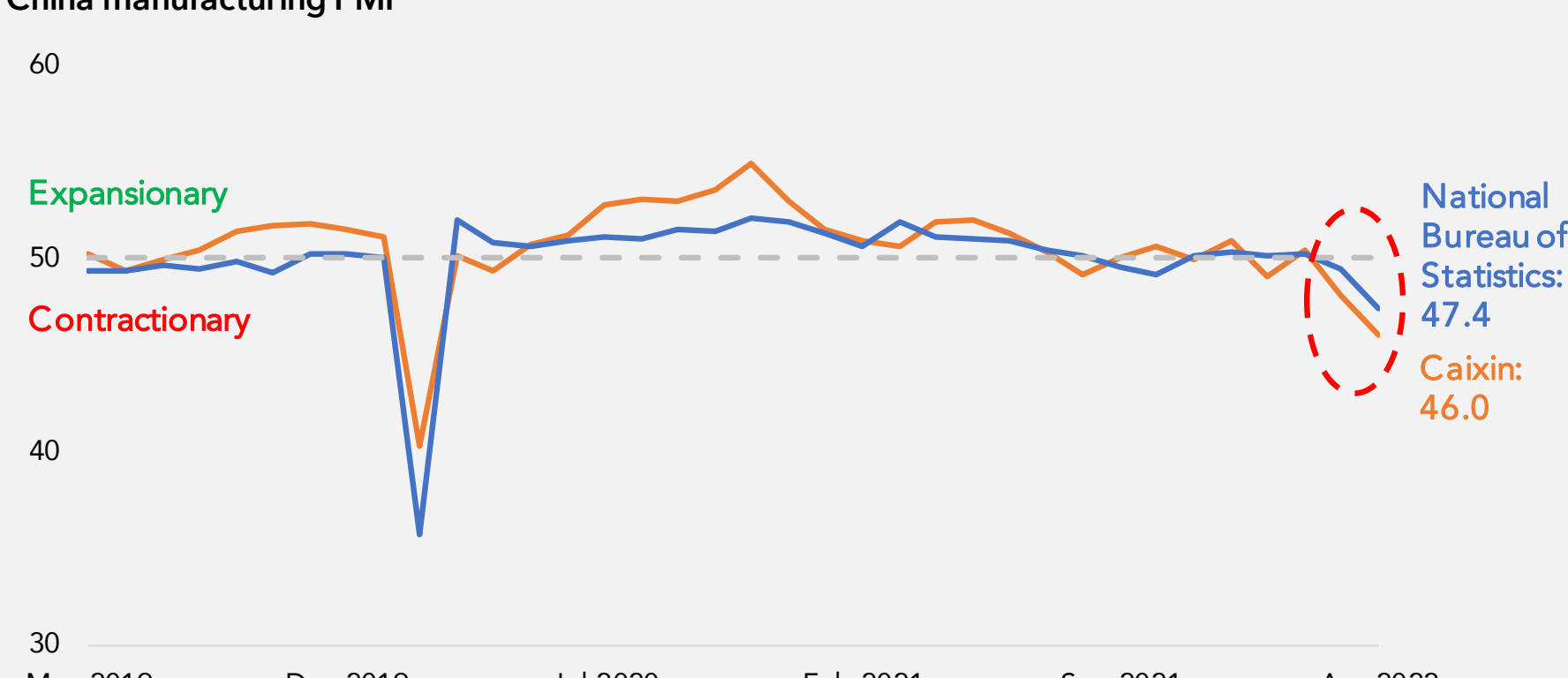
The lead time for production materials reached a record long 100 days in April while the average commitment time for capital expenditures reached a record long 173 days

Manufacturing lead times, days



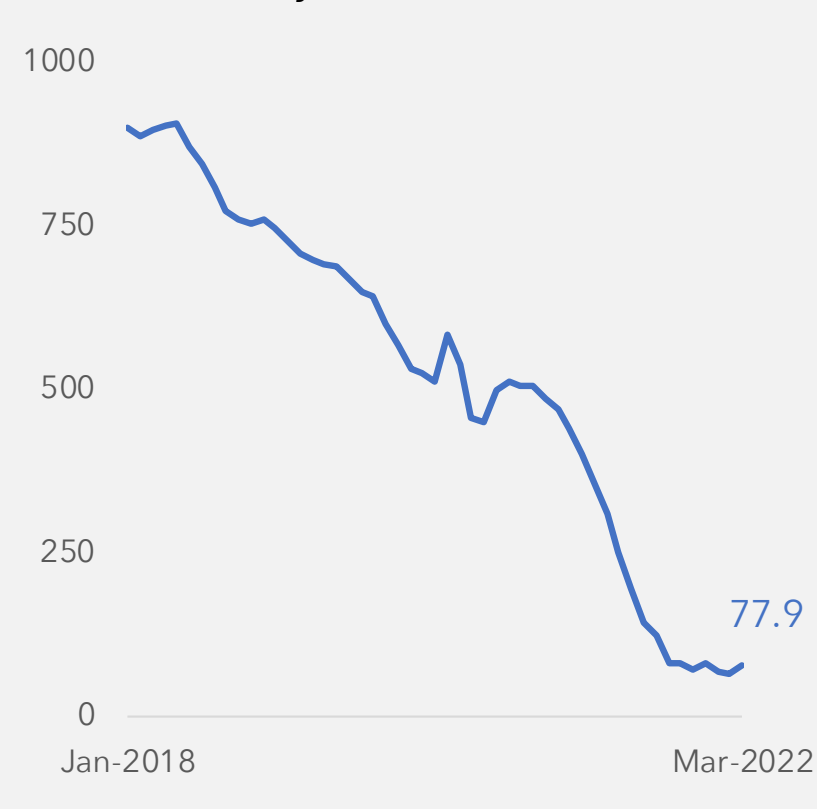
China's manufacturing PMI has contracted for two consecutive months in response to COVID-induced lockdowns. The manufacturing disruption is expected to have ripple through effects for global trade in the weeks and months ahead.

China manufacturing PMI

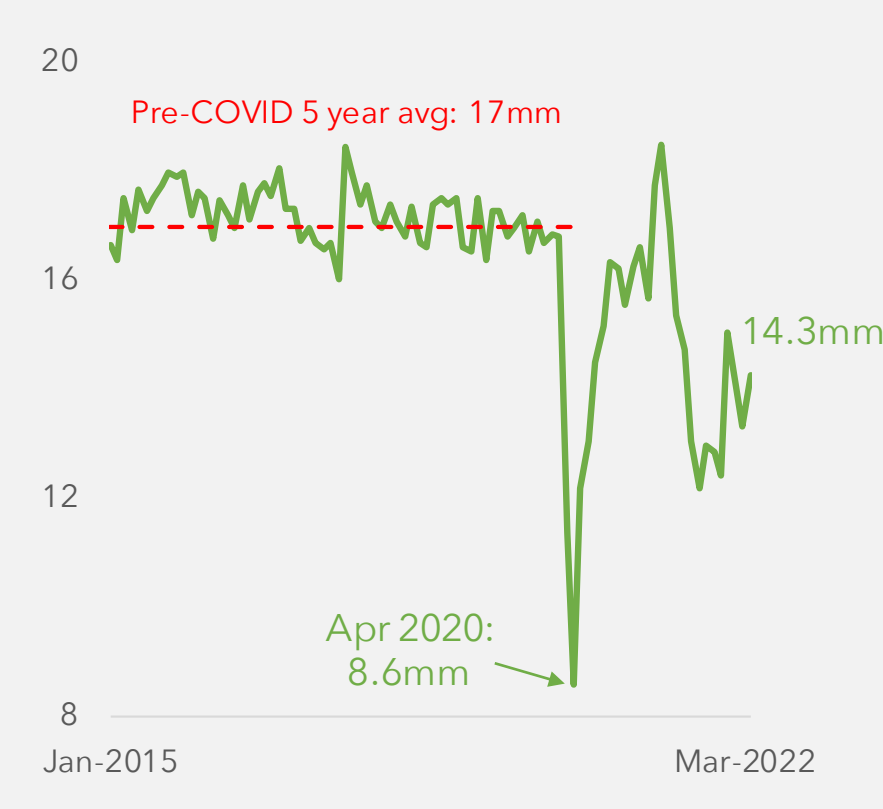


Supply chain dislocations, in particular an extended lead time for new microchips, has caused US auto inventories to decline (-78%) y/y to historically low levels. The inventory shortage has weighed on US auto sales in 2022, which are down (-23%) y/y.

US auto inventory, thousands of units

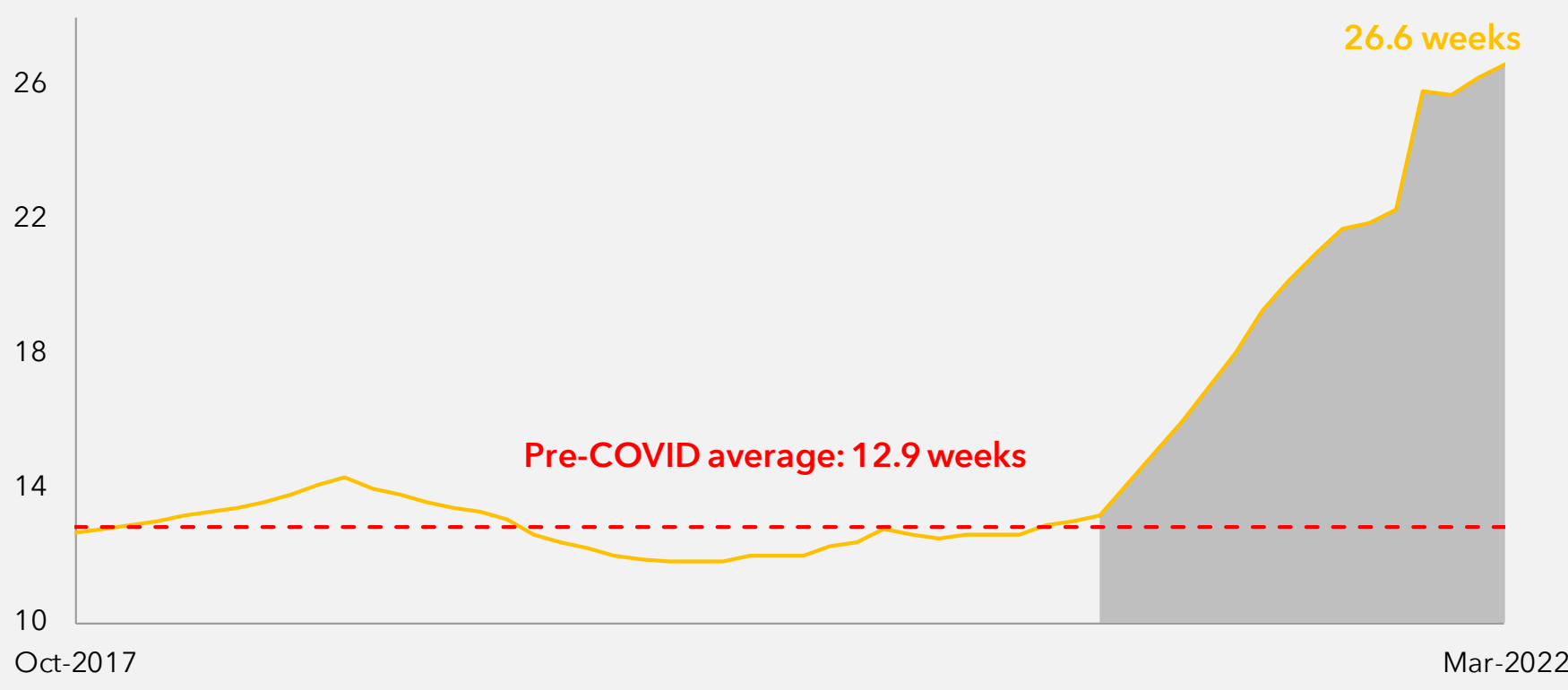


US auto sales, millions



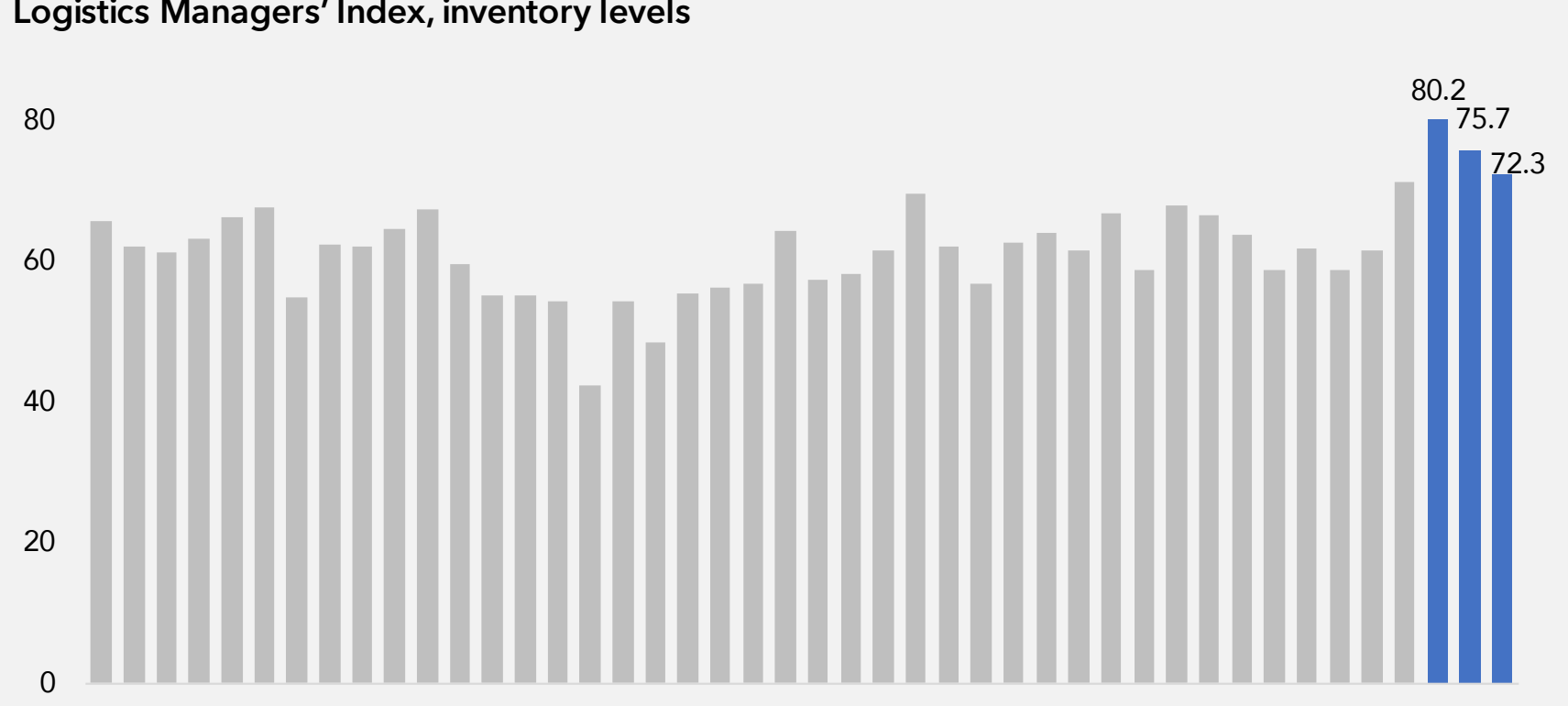
The time between ordering a microchip and delivery has extended to double its pre-COVID average

Gap between ordering a chip and delivery, weeks



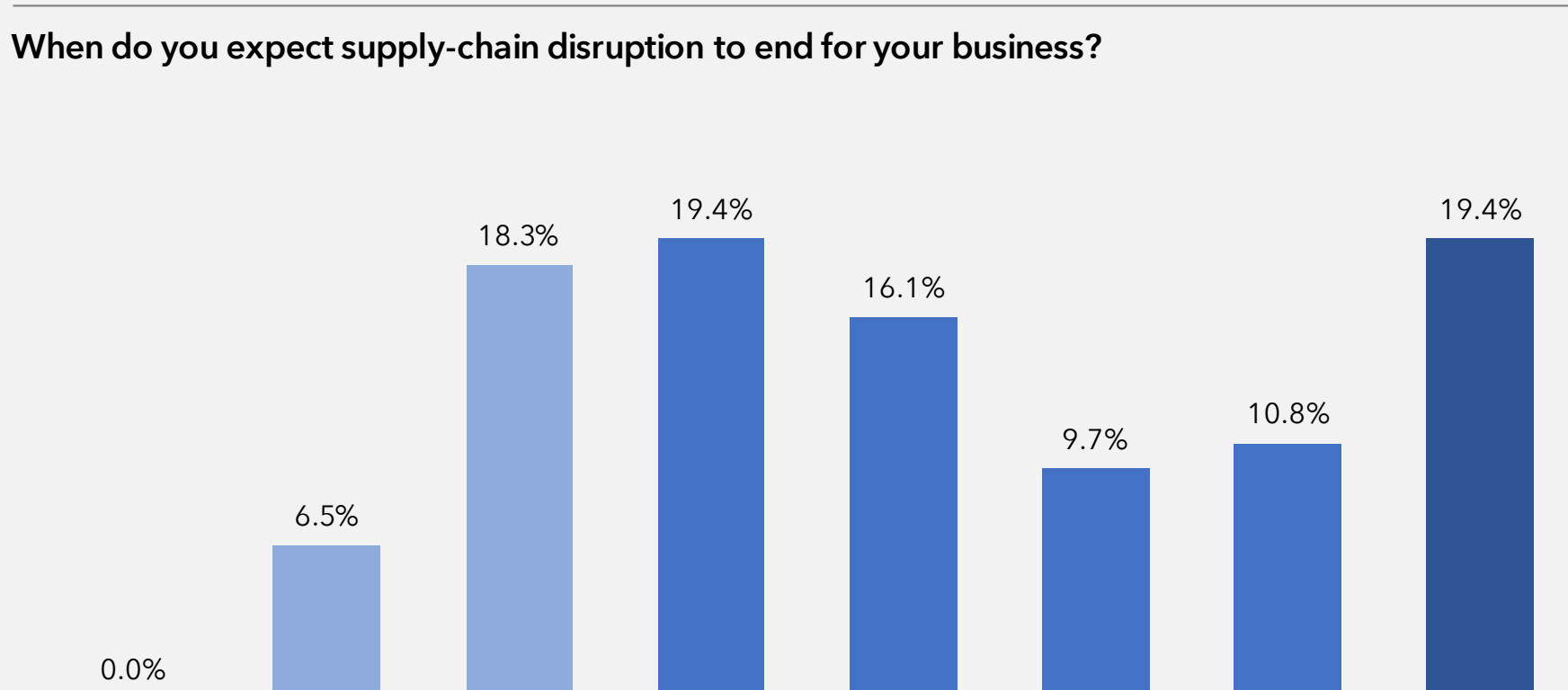
In an effort to improve supply chain resilience, businesses increased inventories to record levels in February and March this year. Although April's level fell slightly, it is the fourth-highest value ever for the index.

Logistics Managers' Index, inventory levels



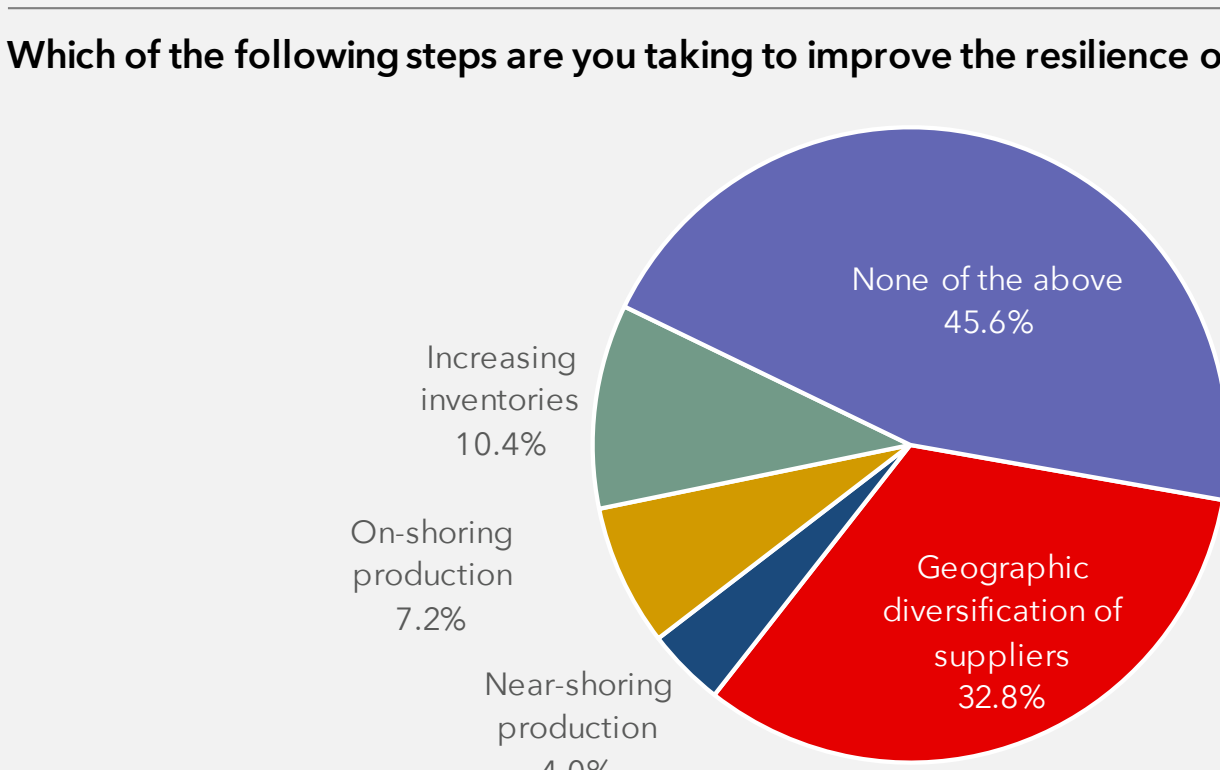
According to an Oxford Economics survey of over 150 businesses conducted at the end of April, 75% of respondents expect supply chain disruptions to continue beyond this year, up from 60% last month

When do you expect supply-chain disruption to end for your business?



In response to ongoing supply chain disruptions, 54% of businesses are taking steps to improve the resilience of their supply chains, according to the same Oxford Economics survey

Which of the following steps are you taking to improve the resilience of your supply chains?



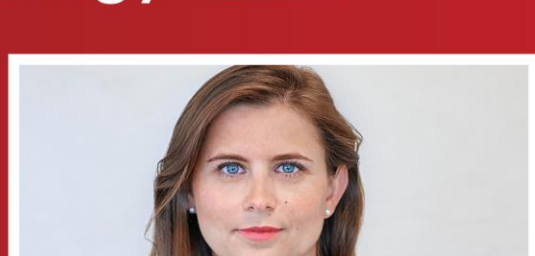
Source: (1) Bloomberg Government, "Storm of Disorder Worsens for US Manufacturers" (May 3, 2022). MRO = maintenance, repair & operating. (2-4) Bloomberg, Data as of May 3, 2022. US auto sales is the total annualized SAAR number. (5) Bloomberg, "Wait Times for Chips Grow Again in March as Shortages Drag on" (April 5, 2022). Susquehanna Group. (6) Logistics Managers' Index April 2022 Report. (7-9) Oxford Economics, "Global - Businesses see war as the key risk - and not just in near term" (April 28, 2022). Survey conducted April 14 - 28 by 159 businesses, primary clients of Oxford Economics across a wide range of sectors and geographical regions.

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