

# COVID-19: SUPPLY CHAIN IMPACTS

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# GLOBAL ECONOMIC OUTLOOK & DEMAND EVOLUTION



The data is already reflecting the **beginning of a rebound across Western Europe from May onwards**. The timing and gradient of recoveries will reflect differences in various factors, including containment of the COVID-19 virus, unwinding of activity restrictions, exposure to the sectors most severely affected, and policy space and effectiveness.

**Feb marked the end of the longest (128 months) US economic expansion on record**. Based on IHS Markit proprietary measure of monthly GDP, they estimate that, in just two months, real GDP plunged 16%, the steepest peak-to-trough decline since the 27%, recorded over four years, from 1929 to 1933. Yet, the recent downturn may also be the briefest recession on record, as data suggests the recovery began in May.

**Sizable declines in a broad range of economic activities in Japan** in April, due to stricter COVID-19 containment measures in response to a nationwide state of emergency, suggest a historical q/q contraction in the second quarter following two consecutive quarters of contraction.

**Mainland China's economy has continued to recover**, with both industrial and service sector output rebounding to above year-earlier levels. Industrial production rose 4.4% y/y in May, up from 3.9% in April. The rebound in the automobile sector has been especially impressive. Automobile output grew 12.2% y/y in value and 19.0% in vehicle units in May.

In June, IHS Markit have **further reduced growth forecasts for most countries in the Latin American region**. The two major drivers of these downgrades are a worse-than-anticipated external environment and poor management of the COVID-19 crisis.

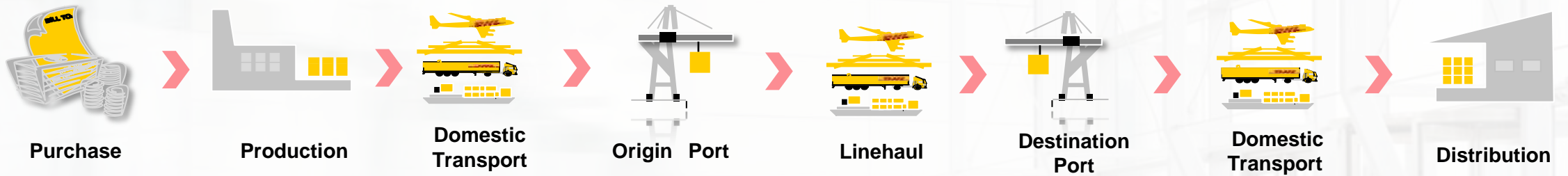
After hitting a record low of 26.2 in Apr, the JPMorgan Global Composite Output Index (compiled by IHS Markit) rebounded to 36.3 in May. While the increase is encouraging, a reading below 50 usually signals contraction. **The worst of the declines may have ended, but business conditions remain difficult across sectors and regions.**

Source: IHS Markit, IHS Purchasing Manager Index Manufacturing, a PMI at 50 is considered neutral, expanding above 50, and business shrinking below 50.



# HOW WILL SUPPLY CHAINS CHANGE?

## SUPPLY CHAINS...



**Will adapt but not go away**

**Shift from finished goods to raw materials**

**More complexity**

**Comparative advantages will remain**

# HONG KONG'S UNIQUE ADVANTAGES



Low tax rate / Duty free port



Efficient customs administration



Fully convertible currency



Privileged financial linkages with China

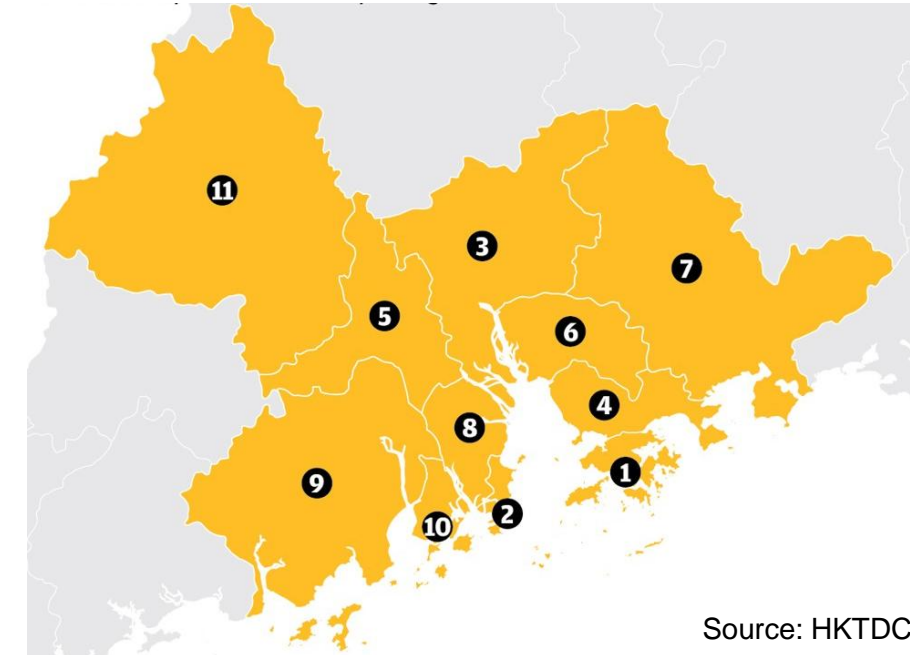
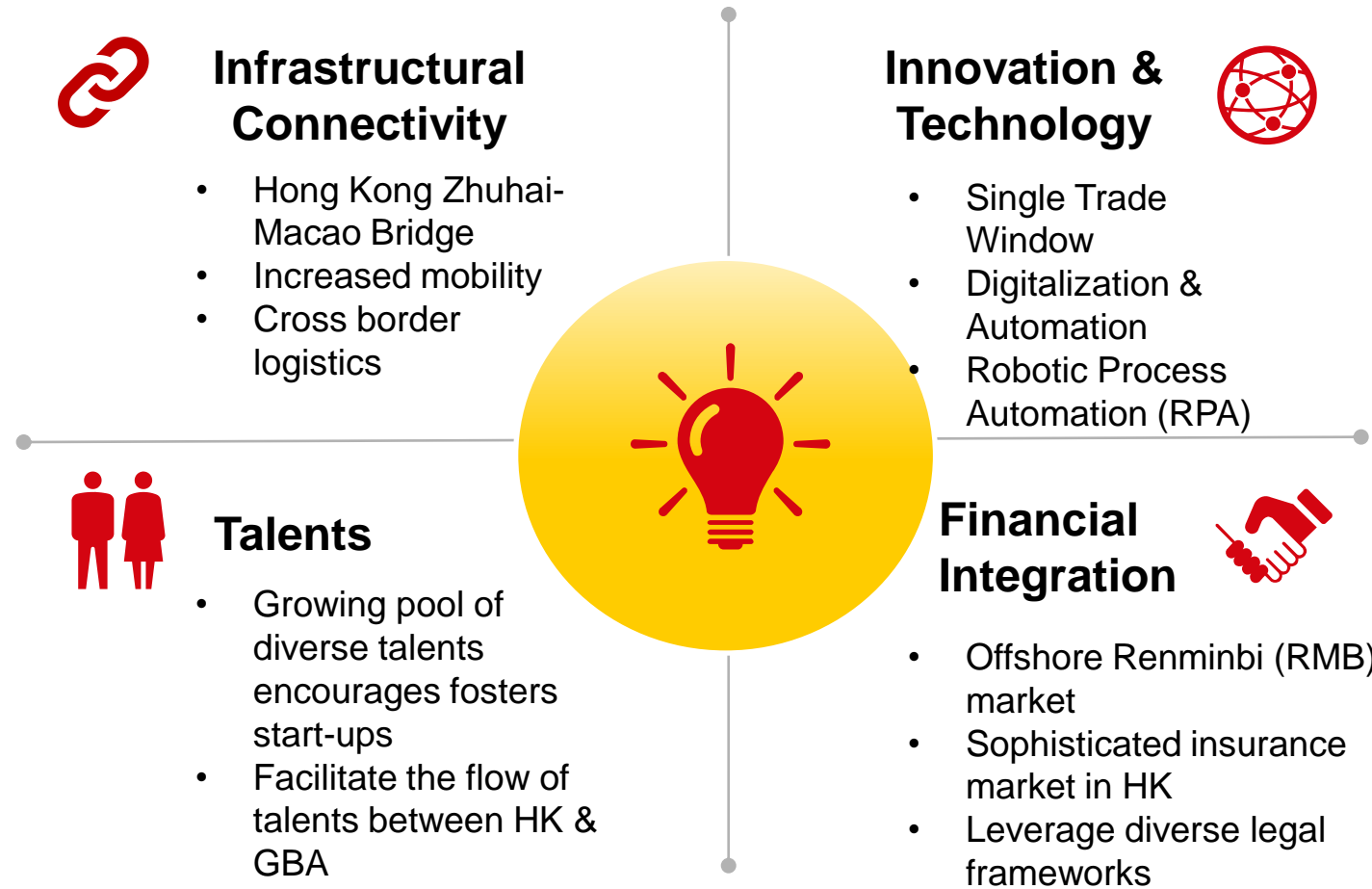


World class transportation infrastructure



Transparent legal framework

# HONG KONG'S OPPORTUNITY IN THE GREATER BAY AREA



Source: HKTDC

- |             |             |             |
|-------------|-------------|-------------|
| 1 Hong Kong | 2 Macau     | 3 Guangzhou |
| 4 Shenzhen  | 5 Foshan    | 6 Dongguan  |
| 7 Huizhou   | 8 Zhongshan | 9 Jiangmen  |
| 10 Zhuhai   | 11 Zhaoqing |             |



# WAY FORWARD



## DIGITALIZATION

- Supply chain visibility
- Real-time track & trace
- Quick access to critical locations
- Paperless



## DUAL-SOURCING STRATEGIES

- Strategic cost-benefit analysis
- Contingency planning
- Multiple sourcing locations

**THANK YOU**

