

BUSINESS

# Supply-Chain Problems Show Signs of Easing

Asian output is coming back and some bottlenecks are clearing, but labor shortages could persist into next year



Congestion at the Port of Los Angeles has lessened but remains severe.

PHOTO: APU GOMES/AGENCE FRANCE-PRESSE/GETTY IMAGES

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Global supply-chain woes are beginning to recede, but shipping, manufacturing and retail executives say that they don't expect a return to more-normal operations until next year and that cargo will continue to be delayed if Covid-19 outbreaks disrupt key distribution hubs.

In Asia, Covid-related factory closures, energy shortages and port-capacity limits have eased in recent weeks. In the U.S., major retailers say they have imported most of what they need for the holidays. Ocean freight rates have retreated from record levels.

Still, executives and economists say strong consumer demand for goods in the West, ongoing port congestion in the U.S., shortages of truck drivers and elevated global freight rates continue to hang over any recovery. The risk of more extreme weather and flare-ups of Covid-19 cases can also threaten to clog up supply chains again.

An easing of supply-chain choke points would allow production to move toward meeting strong demand and would lower logistics costs. If sustained, that, in

turn, would help alleviate the upward pressure on inflation.

The number of ships waiting to unload at the ports of Los Angeles and Long Beach, the biggest U.S. gateway for imports from Asia, has improved but is still hovering near record levels. There were 71 container ships anchored offshore on Nov. 19, down from a peak of 86 three days before, according to the Marine Exchange of Southern California, and 17 more were expected to arrive within three days. Before the pandemic, it was unusual for any ships to anchor offshore.

Shipping and retail executives say they expect the U.S. port backlogs to clear in early 2022, after the holiday shopping season and when Lunar New Year shuts many factories for a week in February, slowing output.



Ports world-wide, such as this one in Hong Kong, have experienced backlogs in recent months.

PHOTO: ANTHONY KWAN/GETTY IMAGES

German shipowner Jan Held said congestion, particularly in Asia, is getting better. His ships transport mainly industrial goods, like giant windmills, rather than containers, but would sometimes spend a month waiting outside of Asian ports.

Mr. Held said it would be some time before the global transport system normalizes. “For that, the pandemic has to end and that is not happening any time soon, in my opinion,” said Mr. Held, co-owner of Held Bereederungs GmbH & Co. KG, based in the north German city of Haren.

Trans-Pacific freight rates have cooled in recent weeks as most big U.S. retailers have imported what they need for the holiday season, gradually opening up space on the front end of the trip. The cost to move a container across the Pacific fell by more than a quarter in the week ended Nov. 12, the biggest decline in two years. Rates rose about 5% this week to about \$14,700 per 40-foot container and are still more than three times year-ago levels, according to the Freightos Baltic Index.

“Globally speaking, the worst is behind us in terms of the supply-chain problems,” said Louis Kuijs, head of Asia economics at Oxford Economics. A survey by the research house among what it described as “country experts” covering 45 economies found that almost all believe supply-chain disruptions have peaked or will peak in the last quarter of this year.

Any hiccups, such as a repeat of the temporary closure of China’s Ningbo-Zhoushan Port in August due to a single Covid-19 infection, could send freight rates soaring again.

Many big chains, including Walmart Inc., Home Depot Inc. and Target Corp. , said this past week they are well stocked for the holidays, mainly because they imported goods earlier than usual this year. Some also chartered their own ships to get around bottlenecks.

Few executives said their problems are over, and in the most recent round of results, global companies continued to cite issues at ports and roads around the world. Several retailers reported lower profit margins, citing elevated freight costs to move their goods.

For Christine Humphreys, there seems to be no easing of the supply-chain chaos that means her U.K. drinks company has only half its stock for Christmas, her busiest period.

Journeys from Germany to the U.K. that would have taken two weeks are now taking six, said Ms. Humphreys, a co-founder of the Mindful Drinking Company Ltd., also known as The Alcohol-Free Shop. “Come on, it’s not a million miles away, it’s only across the water,” she said.



Covid-19 vaccines being administered to workers at a Malaysian factory in July.

PHOTO: LIM HUEY TENG/REUTERS

After slowdowns in production in recent months due to Covid-19 outbreaks, output at factories across Malaysia, Vietnam and other countries rebounded over the past month as Covid-19 cases declined and production limits were lifted,

easing some bottlenecks that have choked output of semiconductors and textiles globally.

“It’s a huge change in a positive way as it should improve industrial output in Asia and global supply,” said Trinh Nguyen, senior economist at Natixis in Hong Kong. Still, she cautions that many countries continue to grapple with other problems, like shortages of workers.

“There are certain aspects of supply-chain shocks that are easing, but the shortage issue isn’t going to completely disappear,” she said.

In Vietnam, factory owners in the country’s southern manufacturing hub said production is far smoother than it was several months ago, but challenges remain, including high shipping costs and labor shortages, as many workers that had returned to their villages during the Covid-19 wave have yet to return.

Do Xuan Lap, the head of Vietnam’s Timber and Forest Products Association, said that the situation is improving and that medium-size furniture factories, with around 200 to 500 workers, are operating at around 80% capacity. But larger furniture makers, with up to 3,000 workers, were missing more laborers and operating at around 65% capacity.



A Chinese factory manufacturing Christmas products. Supply-chain worries are likely to abate somewhat following this year’s holiday-shopping season in the U.S.

PHOTO: ALY SONG/REUTERS

In China, a power crunch that hit the country’s manufacturing hubs earlier this fall has eased in recent weeks after authorities allowed coal-fired power plants to charge higher prices. Previously, some plants were curbing power output. Oil prices, too, have pulled back after hitting their highest level since the 2014 energy bust.

Manufacturing production has largely resumed at normal capacity since October, according to interviews with several factory owners based in China’s southern manufacturing hub of Guangdong.

Shortages of shipping containers also appear to be easing.

Thomas Broertjes, managing director of Foshan Oufeng Furniture Co. based in Guangdong province, said that in September, he wasn't able to ship any products because he was unable to secure space on even a single shipping container that month. "That was really the lowest point," he said.

While the company has been able to book more containers since October, it still takes days until it can confirm bookings with vendors. Prices remain three or four times what he paid before 2020. "I'm hopeful that things are getting better. It couldn't get worse," he said, though he added, "it's still a big hassle."



Last week, trucks were waiting to exit from the Port of Los Angeles, which is still being swamped with containers.

PHOTO: BING GUAN/BLOOMBERG NEWS

Other factory owners say they are still struggling to deal with bottlenecks. Since this June, boxes filled with auto parts began to pile up at the warehouse of Zhejiang Songtian Automotive Motor System Co. as more importers from the West held off on taking delivery amid soaring freight rates. The company recently repurposed sections of a new factory to store products.

"The entire factory is now filled with finished goods that couldn't be shipped out. This is our biggest headache at the moment, and there's nothing we can do about it," said Dai Xuezhi, chief executive of the company based in the southeastern Chinese city of Wenzhou.

Data provider eeSea says containership delays fell in October from September, but there hasn't been much change when it comes to the vessels waiting outside of ports in November. As of Friday morning, there were 500 large container ships waiting to dock outside ports in Asia, Europe and North America, up slightly from the 497 vessels that waited on Oct. 8.

In the U.S., the destination for many of the goods made in Asian factories, there are few signs that the gridlock is easing.

Freight railroads recently lifted their limits on inbound cargo into congested container terminals in the Chicago area. But boxes are still swamping the ports of Los Angeles and Long Beach, and shipping executives note the backlog of vessels offshore suggests the flow of inbound shipments isn't letting up.

"We are still in the thick of it," said Alan McCorkle, chief executive of Yusen Terminals LLC, at the Port of Los Angeles.

—Costas Paris, Stephen Wright, Paul Berger and Sarah Nassauer contributed to this article.

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## Supply-Chain Woes

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