

March 4, 2020

# Impacts of Coronavirus (COVID-19) on Supply Chain

*From the customer advisory email on March 4, 2020*

While the situation in China has stabilized and is under control, the number of new COVID-19 cases reported outside China has exceeded those inside the country for the first time in recent weeks. Per a Moody's report, with cases rising quickly beyond China, the odds of the outbreak turning into a pandemic have now doubled — from 20% to 40%. On March 1, the World Health Organization (WHO) raised the global risk assessment of COVID-19 to its [highest level](#) after the epidemic spread to sub-Saharan Africa and caused financial markets to plunge.

Based on the information we have as of today, March 4, 2020, the situation is as follows:

## Business Reopening & Potential Impact on Economy

- This week, most of the companies in China have resumed work. Data shows that by the end of February the work resumption rate of all types of companies has reached 53% and for the state-owned enterprises the rate has reached over 90%.
- China's official February purchasing managers' indices (PMI) for both manufacturing and services was released on Feb 29. The manufacturing PMI dropped to 35.7, which is below the previous all-time low of 38.8 set in Nov 2008 during the global financial crisis. A reading below 50 indicates a contraction in activity. The non-manufacturing PMI, a gauge of sentiment in the services and construction sectors, also dropped to 29.6. This is the lowest on record, beating the previous low of 49.7 in Nov. 2011.
- A [recent report](#) from McKinsey & Co. indicates that based on their "base-case scenario," the continued spread of COVID-19 could drive a 0.3- to 0.7-percentage-point reduction in global GDP growth for 2020. The report also outlined several action items that "can help businesses of all kinds" mitigate the risks.

## Flexport Employees and Operations

- Beginning the week of March 2, Flexport's Hong Kong, Shanghai and Shenzhen offices are open. Teams in Asia have been divided into two groups (Team A /Team B) and are alternating the week each team will work in the office. This is a common practice recommended by the government that many companies are using to minimize health, safety and business risks.
- All international travel for Flexport employees worldwide has been suspended until further notice, unless business critical. The suspension currently excludes travel within North America and travel within Europe.

## Air

- Air freight volumes increased in the past week in all major trade lanes, TPEB, FEWB and Intra-Asia. We've observed significant rate per-kilo market increase from the beginning of last week which will continue in the coming week. Certain airlines increased TPEB rates out of PVG four times in just one week.
- Rates will be very unstable and might change from one day to another based on demand and supply. Loyal and long term shippers and clients to airlines and master loaders and BSA holders will have uplift priority.
- With the outbreak of COVID-19 in Korea, many passenger flights in and out of South Korea were cancelled which triggered further rate increases for flights scheduled to depart in the coming weeks.
- Market rates are expected to continue to increase, causing many customers to seek charter flight solutions.

## Ocean / Shipping Lines & Ports

- TPEB trade capacity is currently stabilized with weeks 10 and 11 showing around 12% reduction in capacity, while weeks 12-14 have single digit (5-9%) reductions. March GRI was postponed, but carriers have announced and currently expect mid-March and April 1 GRIs, which indicates that volume is expected to pick up by then.
- For Asia to North Europe trade, carriers have implemented an additional 17 blank sailings which have led to an incremental drop of 18-20% in weeks 6-10 on top of already significantly reduced capacity in those weeks. Overall, carriers have only been running at approximately 45%, 55%, 49%, 73% and 61% of the normal total capacity on the trade in weeks 6, 7, 8, 9 and 10, respectively. Weeks 11 and 12 will be back at around 84% and 88% of usual capacity and indicates that the number of blank sailings are going down. Some carriers have announced a rate increase in mid-March assuming that volumes will have picked up by then.
- There will still be some blank sailings until mid-March as volumes need to improve gradually. However, there should hopefully be a more complete recovery from mid-March onwards.
- For detailed information on specific schedule changes, please do not hesitate to contact your dedicated Flexport Squad.

## Terminals & Inland Operations

- The overall market capacity for inland operations (trucking, warehousing, etc) continues to recover across mainland China. As of the week of March 2, the recovery rate has reached as high as +80% as expected. The trucking capability of almost all China PoLs (ports of loading) are back to normal, except Tianjing and Dalian.
- However, due to unbalanced demand and supply, the market rate is still relatively higher than normal for some special pickup addresses and locations. Long-haul trucking is still yet to be recovered, and it is now highly dependent on pick-up areas.

## Flexport.org

- Flexport continues to work to provide aid to those in need.
- We delivered 143,000 face masks and medical coveralls to Amity Foundation in Nanjing, China this week for our client Project CURE.
- We also have five shipments in the air from private donors to nonprofits and medical centers in Hubei and other affected provinces, totalling 209,000 face masks, exam gloves, medical gloves and goggles.
- If your organization would like to support relief efforts, please contribute to the [Flexport.org](https://flexport.org) Fund at <https://flexport.org/fund-ngo/>