



# Will an uncertain supply chain spoil your holiday shopping?

October 26, 2021

*Factors causing supply chain shortages and delays are still here. But manufacturers and retailers are taking them into account as they prepare for the holiday rush.*

## **A slower than expected return to normal**

Two years plus into the pandemic, supply and demand is still out of balance for many markets and industries. While the factories that the world relies on in China have mostly reopened, as the delta variant has spread, we've seen intermittent closures in other key production centers like Vietnam and Malaysia.

Supply remains unpredictable. For example, closures in Vietnam, where skilled workers make a lot of the name-brand footwear that consumers are eyeing for gifts, are particularly worrisome — especially against strong demand. Consumers are generally flush and eager to buy, driven by pent-up demand, excess savings and an ever-growing appetite for technology products and services.

## **A short supply of bargains**

“Overall, retailers have planned inventory very conservatively heading into the holidays, with the intention of maximizing full price selling,” says Mari Shor, senior equity research analyst (focused on retailers) at Columbia Threadneedle Investments. “In fact, this trend of lower promotions is not new for the holidays. Retailers have been planning conservatively and had lower promotions throughout the pandemic. Recent history is giving them confidence that aggressive promotions are a thing of the past and so consumers really won't have a choice if they want to buy certain products; they're going to have to pay full price. As a consumer that might not feel great, but for investors in the space, that sort of pricing power is critical.”

One of the reasons clothing retailers may have a happier holiday is an evolution in their supply chains that occurred prior to COVID. “Retailers and brands have always had to figure out ways to improve inventory management. Even if you're producing the best product in the world and you have the best marketing behind it, if you don't have a fast and flexible supply chain, you're either overproducing or under producing. Supply chain speed, flexibility and resilience are requirements to success. So, we are seeing many companies doing a better job of bringing goods into stores for the holiday season even with the current challenges — and doing it by any means necessary in some cases.”

### All supply chains are not created equal

For many other supply chains, though, the outlook remains uncertain. A case in point is microchips, which are still in short supply after major disruptions earlier in the pandemic. “For hot holiday commodities like gaming consoles, lack of chips is affecting everything from development to release schedules to retail availability and prices,” says Dave Egan, senior equity analyst for semiconductors and semiconductor equipment at Columbia Threadneedle. “The big electronics manufacturers are probably going to struggle to meet demand.”

---

*While the picture is slowly improving, we have a way to go before supply chains regain their consistency and predictability.*

---

### The big bottleneck

The common denominator for all supply chains is transportation — or more accurately, the lack of it. Routine shipping and transport have been fundamentally disrupted and working out the kinks is taking time. “High shipping costs, congestion at ports and labor shortages are all factors,” says Paul DiGiacomo, Head of Equity Research at Columbia Threadneedle. “So, it’s not only taking longer for products to get where they need to be, it’s much more expensive to get them there.” In the end, it’s likely that those increased costs will be passed on to consumers.

### ► Shipping costs have risen dramatically in the pandemic period

Hong Kong to Los Angeles shipping rates, price per container, 01/15-09/21



Source: Drewry, Columbia Threadneedle Investments. Price is per forty-foot equivalent container (FEU).

**The bottom line**

Pressure on supply chains is likely to continue through the holidays. For their part, manufacturers and retailers are doing everything within their power to get product to market for the holidays, but much is still out of their control. For consumers, the holiday season is likely to be more expensive.



To find out more, call [800.426.3750](tel:800.426.3750)  
or visit [columbiathreadneedle.com](http://columbiathreadneedle.com)



Not Federally Insured	No Financial Institution Guarantee	May Lose Value
-----------------------	------------------------------------	----------------

Securities products offered through Columbia Management Investment Distributors, Inc., member FINRA. Advisory services provided by Columbia Management Investment Advisers, LLC.

Columbia Threadneedle Investments (Columbia Threadneedle) is the global brand name of the Columbia and Threadneedle group of companies.

The views expressed are as of the date given, may change as market or other conditions change and may differ from views expressed by other Columbia Management Investment Advisers, LLC (CMIA) associates or affiliates. Actual investments or investment decisions made by CMIA and its affiliates, whether for its own account or on behalf of clients, may not necessarily reflect the views expressed. This information is not intended to provide investment advice and does not take into consideration individual investor circumstances. Investment decisions should always be made based on an investor's specific financial needs, objectives, goals, time horizon and risk tolerance. Asset classes described may not be appropriate for all investors. Past performance does not guarantee future results, and no forecast should be considered a guarantee either. Since economic and market conditions change frequently, there can be no assurance that the trends described here will continue or that any forecasts are accurate.