Corporate concerns: lockdowns and the war in Ukraine are worsening supply bottlenecks

The latest survey from economiesuisse finds that difficulties in sourcing primary products and raw materials have continued to worsen. Lockdowns in China have either fully or partially shut down large parts of industry and individual ports. At the same time, the war in Ukraine and the sanctions imposed have caused the price of raw materials to spike. Two-thirds of the companies surveyed will have to increase their prices over the coming months because of supply bottlenecks. Most companies do not expect a rapid return to business as usual.

The war in Ukraine has continued to escalate for over three months now, and so has the size of its impact – on the Swiss economy, too: 70 per cent of companies said that they had been affected by the war, either directly or indirectly. Nine in ten industry representatives said that they had been affected, which is more than one and a half times as many compared to the previous survey in March. Sanctions also play a role in this, albeit more of a minor one: about a quarter of companies surveyed have been impacted by the economic sanctions.

Ukraine war causes raw material and primary product shortage

Higher energy prices and difficulties in sourcing raw materials and primary products are the main issues. More than half of the companies surveyed said that they had been affected by this as a result of the war. There is a shortage of steel and steel products in the mechanical and electrical engineering industries. Difficulties importing raw food materials like Ukrainian wheat are causing problems for wholesalers, and there's also a shortage of wood and packaging in the construction and transport sector.

An increasing number of industries are also feeling the indirect effects of the upheaval. As an example, Ukraine is one of the most important suppliers of wire harnesses, which are used in the car industry. Production has been disrupted due to the war, resulting in production downtime for car manufacturers as well as affecting Swiss suppliers, like those from the chemical and textile industries, as a result of cancelled or postponed orders.

Shipping logistics disrupted

In addition to restricted manufacturing, the war has also predominantly resulted in logistics issues. Ukraine's major ports, including Odessa, are closed due to the conflict and a Russian naval blockade. The impact of this has been immense. Before the war, over 70 per cent of the country's exports were transported by ship. The war has also worsened the staff shortage in cargo ship logistics. This is because about one in six cargo ship employees are from Russia or Ukraine. The conflict has also affected land routes in addition to sea routes. Drivers from both countries make up a significant proportion of European transport companies.

There's another good reason for disrupted supply chains too: China's strict coronavirus policy, with its tough regional lockdowns, has resulted in cargo ship traffic jams and factory closures. About three per cent of the world's container ship capacity is currently stuck in a traffic jam just outside of the port of Shanghai. 62 per cent of the companies surveyed saw this as the reason for the ongoing supply difficulties. The transport and logistics problems are vital issues, regardless of the mode of transport: nine in ten industry representatives attributed the disrupted supply chains to these problems.

Disrupted supply chains increase prices

It's hardly surprising that difficulties in sourcing primary products continue to take first place when it comes to issues Swiss companies are concerned about. But there's not just a shortage of products and raw materials: it's also proving difficult to recruit skilled workers. More than a quarter of the companies surveyed can't find enough trained staff. At the same time, the demand for many consumer goods remains high.

This distinct shortage is not without consequences. All industry representatives surveyed said that purchase prices have increased. This is in addition to the increase in energy prices caused by the war. This not only makes production more expensive – especially in energy-intensive industrial sectors – but also drives up the already high logistics costs even further.

So far, companies have used their margins to absorb the higher purchase and energy prices. However, they have not been able to reduce price pressure despite looking for new suppliers and aiming for higher inventory levels. As such, supply bottlenecks are slowly affecting company capital. These ongoing difficulties mean that two thirds of those surveyed are now planning to increase their sales prices by an average of six per cent in the next six months.

Quick recovery not expected

Even if the port blockades in Shanghai were lifted, for example, things wouldn’t simply bounce back to running smoothly again. It will take several months for supply chains to return to normal. The majority of the companies surveyed didn’t think that significant improvements in the situation would occur this year. More than three quarters expected delivery bottlenecks to continue for the next six months. economiesuisse’s latest economic forecast goes into in-depth analysis on what this means for Switzerland’s economic recovery.

economiesuisse’s survey was conducted from 11 to 23 May 2022. 182 organisations took part in the survey. The survey covered all parts of Switzerland. 18 industry associations completed a consolidated survey for their entire industry. The evaluation of responses gives a snapshot of the current economic climate in Switzerland. The responses have not been weighted and economiesuisse does not claim that the conclusions made are representative.