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Uncovering COVID-19's Real Impact on Freight Strategies

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Three Keys to Uncovering COVID-19's Real Impacts on Supply Chains

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As COVID-19 continues to spread and the resulting social distancing measures influence the supply and demand of goods, shippers need to quickly adapt to changes in the market. Headlines about the impacts of this pandemic have flooded inboxes, news outlets, and research, meanwhile experts across the globe continue to try to make sense of this uncertain landscape.

Cut through the noise with three key points that illustrate how shippers can plan and navigate the COVID-19 landscape.

THREE KEYS TO UNCOVERING COVID-19'S REAL IMPACTS ON SUPPLY CHAINS:

1. Economic indicators can create a model for the future based on their performance through historically similar experiences.
2. The impact will play out differently for shippers' supply chains based on their unique data footprints.
3. The most effective supply chain landscape will depend on an awareness of changes across the collective freight ecosystem.

1. MODELING THE FUTURE WITH ECONOMIC INDICATORS

Although all economic factors ultimately feed into the result a shipper experiences in their transportation and supply chain strategies, looking at the directionality of key indicators can simplify the narrative about how the current conditions will manifest. In the case of COVID-19, several key indicators emerge to watch closely: policy uncertainty and consumer sentiment.

Economic Uncertainty is Unprecedented, and Consumers are Nervous

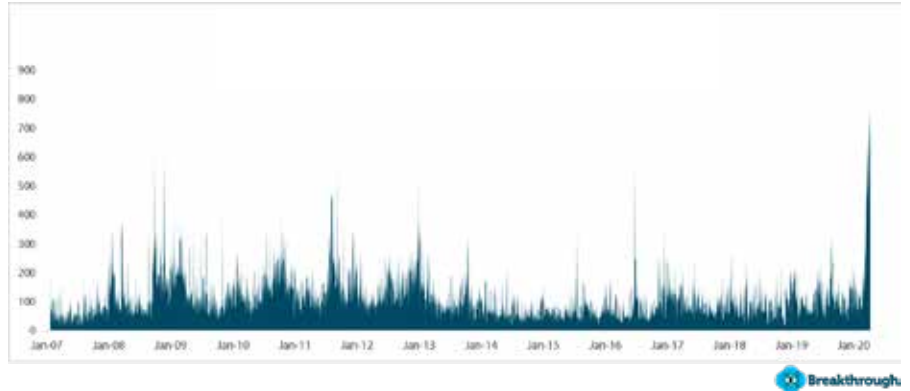
Simply put, uncertainty in the economic and financial landscape makes consumers nervous. When consumers are nervous, they more likely to slow their spending patterns, saving their money for the possibility of financial hardship and insulating their wealth from volatile markets.

Consumer sentiment has always been an indication of freight demand, but under the current influence of COVID-19 it will be an even more important indicator for Q2 and Q3 freight planning.



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Economic Policy Uncertainty for the United States



As a result of COVID-19 developments over the last few months, economic policy uncertainty has skyrocketed, surpassing levels experienced during the Great Recession, 2007-2009. Source: Baker, Scott R., Bloom, Nick and Davis, Stephen J., *Economic Policy Uncertainty Index for United States [USEPUINDXD]*, retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/USEPUINDXD>, April 3, 2020.

In the current landscape, uncertainty is reaching unprecedented highs because we have yet to understand the magnitude and duration of COVID-19's influence. The circumstances of a global pandemic are novel, making it difficult to understand future impacts. This uncertainty far surpasses that of even the Great Recession and will lend itself to challenging investment decisions for consumers for the foreseeable future.

Consumer Sentiment is Entwined with Future Freight Demand

The way consumers feel about the health of the economy, their livelihoods, and their role in economic activity reflects a major segment of demand generation—particularly in the case of the COVID-19 pandemic. When consumers are confident in their financial footing, they are more likely to infuse money into the economy, and therefore purchase goods—from refrigerators to mac and cheese.

But for the foreseeable future, consumers will be limited in both their physical ability to spend capital, and in their confidence to do so. Shelter-in-place and social distancing orders have housebound many, while other essential workers continue to be called to the front lines.

Additionally, stock market activity has instilled panic among investors, and widespread layoffs and furloughs are pushing unemployment inquiries to historic highs. This creates a landscape where people are not confident in tomorrow's financial circumstances, pushing them to slow their spending, and consequently, their demand for goods.

Consumer sentiment has always been an indication of freight demand, but under the current influence of COVID-19 it will be an even more important indicator for Q2 and Q3 freight planning.

2. UNIQUE IMPACTS ACROSS UNIQUE NETWORKS

Once you understand how consumers are interacting with their environment, you can rationalize what that may mean for your business—particularly the goods you manufacture and ship.

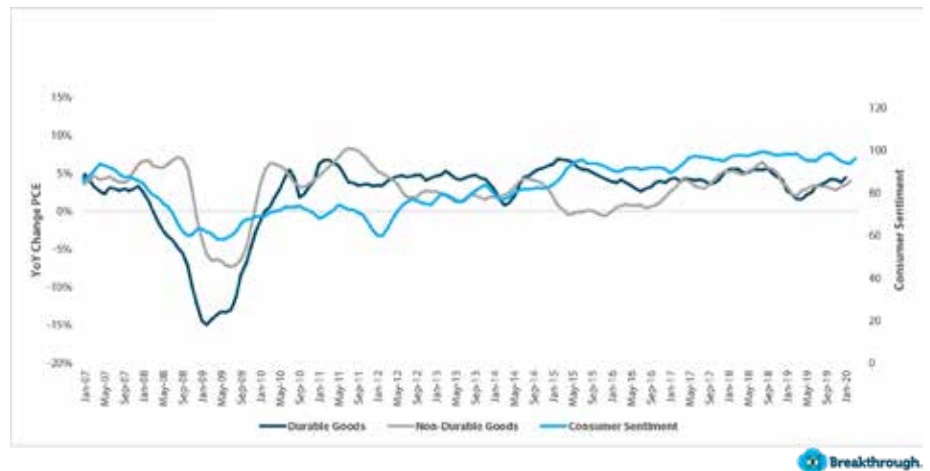
As transportation teams seek answers for their own fluctuating networks, it's important to recognize that most information in the marketplace is biased in some way.

The biggest differentiating factors COVID-19 has among shippers are based on what kind of goods are being shipped, and where they are coming and going.

Durable vs. Non-Durable Goods

Durable goods are typically more expensive, have longer purchase cycles, and tend to do well in times of strong economic performance when consumers feel confident in their finances and have extra money to spend—refrigerators, cars, and homes, for example. Non-durable goods are often disposable, are repurchased often, and are more essential to survival – like mac and cheese, deodorant, and toilet paper.

Consumer Sentiment, Durable and Non-Durable Goods PCE
4 Month Moving Averages



This chart illustrates the negative impact on both durable and non-durable goods as they relate to consumer impact – but the differing nature and duration of the decreases is a testament to the type of good and the role it plays in the lives of consumers. Source: U.S. Bureau of Economic Analysis, Personal Consumption Expenditures: Durable Goods [PCEDG], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/PCEDG>, April 3, 2020.

As you can see during the Great Recession from 2007-2009, both types of goods dipped significantly as consumer sentiment quickly plummeted. But it is also important to note that durable goods began their 15 percent decline several months before the dip in non-durable goods – and this behavior lasted much longer.

Meanwhile, non-durable goods had a short-lived increase as people stockpiled their shelves, before dropping more suddenly because most people already had a large reserve built up. Non-durable goods also found a quicker rebound, because over time people had to buy more food and other essential consumer packaged products well before they needed appliances and new cars.

Looking at Breakthrough shipper clients' networks we see a similar pattern emerge. Non-durable goods clients are seeing roughly a 20 percent year-over-year increase in shipment volume, meanwhile durable goods are down roughly 20 percent. We could expect a bullwhip effect to emerge for non durables in the coming weeks, but its magnitude and duration will depend on how long the negative influence of the virus endures.



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Issues of *CSCMP Hot Topics* may include early results from ongoing research being conducted for CSCMP or other organizations; new supply chain practices, thought-provoking ideas, or emerging trends; discussions of changes in the broader business and regulatory environment that may impact the supply chain and logistics field.



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Unique Network Information for an Agile Approach

When looking at the entire ecosystem, several other factors will influence a shipper's freight dynamics.

Questions like, "Are you creating and moving essential goods? Are they durable or non-durable?" can give initial context to your network's freight expectations. But, so should the nature of your network's wider role within COVID-19's landscape.

"Are the retail locations you contract with in geographies that are at higher risk? Low risk? What regulations are at play in your key geographies?"

No different than typical sourcing best practices, looking at the supply and demand dynamics of both shipper and carrier networks will better inform the cost and service facing your freight flows. Using robust datasets will instill a level of confidence to decision-making amid uncertain waters.

3. A COLLECTIVELY OPTIMIZED SHIPPING ECOSYSTEM

As transportation teams seek answers for their own fluctuating networks, it's important to recognize that most information in the marketplace is biased in some way. It is difficult to illustrate the full scope of how COVID-19's disruption will affect the entire supply chain industry, and many analyses feature a limited subset of either shipper or carrier data.

Similarly, the trends a shipper sees in its data can be limited, only telling one small part of a greater story. When making strategic decisions about moving goods to market, shippers often look at their specific carrier networks, their own changing freight needs, and the service levels within their independent scope of influence. While this is a good way to understand an organization's current and historical challenges, effectively navigating them and sourcing the right capacity through the uncertainty to come is better achieved with a full picture of the broader marketplace.

In response to COVID-19, your freight volumes could be surging or slumping, but that is not representative of every shipper's experience. It is important to think of transportation as an ecosystem—not all that unlike a biological ecosystem. Many diverse players are acting on the same plane at any given time, with different factors influencing each of them to different degrees.

Cut Through the Noise with Data and Fundamentals

Remember, never has a widespread global slowdown been forced simultaneously and under normal, healthy economic activity. It is an unsettling time for many, and knowing where to turn for trustworthy, accurate information is a challenge. Relying on robust data that is backed by sound market fundamentals will enable you to make more rational analyses and more informed decisions about your network strategy.

ABOUT THE AUTHOR

Heather Mueller is [Breakthrough's](#) Chief Operating Officer leading the execution and delivery of its Network Intelligence service offering. Heather also oversees Breakthrough's Applied Knowledge team, which brings market information to clients to drive a more strategic approach into their transportation energy and supply chain management strategies. She holds a Master of Business Administration from the University of Chicago-Booth School of Business and a Bachelor of Science from the University of Minnesota Carlson School of Management.