



# HALO GLOBAL SUPPLY CHAIN UPDATE



May, 2021

## Executive Overview

A global economic recovery combined with residual impact of the COVID-19 pandemic and natural disasters have created historic supply chain disruptions impacting product costs, product stock issues and production lead times. HALO is taking aggressive efforts to mitigate the impact on our clients.

## Key Global Supply Chain Factors

- **U.S. Economic Recovery**—Estimates of 2021 U.S. GDP growth range from 6%-10%.  
The economic growth is creating unforeseen demand across all consumer products, resulting in tight supply of ocean container availability. Ocean freight expense, traditionally 20% of the cost of a landed product, have increased 293% in the past 12 months, with a 70% increase since November, 2020.
- **Raw Material Cost Increases**—Costs for key raw materials have increased due to global demand. Costs for product components have also increased due to raw material increases.  
In addition, the many governments have blacklisted cotton produced in the Xinjiang province in Northwest China due to the treatment of ethnic Muslim Uighurs in the region. 20% of all global cotton is produced in Xinjiang, creating a shortage in raw material for apparel and headwear.
- **Exchange Rates**—The U.S. Dollar (USD) has deflated against key overseas currencies, specifically, the Chinese Yuan (RMB) and the Honduran Lempira. The resulting decrease in the power of the dollar increases the relative cost of goods manufactured in these countries.
- **Tariffs**—The current administration has kept the previous administration's 25% tariffs on most Chinese goods imported to the U.S. Many key manufacturers migrated production outside of China in response to the tariffs based on the GSP duty exemption for goods produced in these countries. The GSP duty exemption expired in 2020, increasing the cost of many goods manufactured outside of China.
- **Labor**—Domestic manufacturers/suppliers are experiencing labor shortages as many employees take advantage of unemployment benefits and a tighter labor market to migrate to better paying jobs. Job training and worker scarcity have extended production lead times and created higher labor costs.
- **Port Congestion**—Due to capacity constraints and dramatic increases in imports, every major U.S. port has experienced delays in processing goods from overseas, extending delays in product availability.
- **Natural Disasters**—Production levels in key apparel producing countries were diminished with the spread of COVID-19 in mid-summer, 2020. Hurricane Eta, followed shortly by Iota severely damaged apparel production in Latin America.

## Key Impacts

- Several major suppliers have notified HALO of cost increases, with additional increased anticipated throughout 2021.
- Production lead times have been extended from 5-10 business days to 10-20 business days based on available inventory. This is expected to continue through Q3 '21.
- Inventory shortages, particularly in apparel, will continue through Q4 '21 as repairs to key production facilities are completed.

## HALO's Client Commitment

HALO's role in supply chain management includes identifying vulnerable products and product categories and negotiating supply agreements with our key channel partners to reduce disruption for HALO customers.

- HALO Essentials—HALO provides price and production guarantees on our 150 highest purchase volume products across multiple product categories.
- HALO Global Sourcing—HALO has aligned with key global production partners on annual purchase agreements to reduce costs and assure consistent delivery on key imported products. With over three decades of sourcing experience, HALO will provide the highest quality products, manufactured in the most price-advantageous countries.
- HALO Logistics—HALO's dedicated logistics team is aware of current developments in ocean and air freight, and uses multiple sources to assure cost containment and provide reliable delivery options.
- HALO Preferred Suppliers—HALO has identified high-demand products and diligently works with our key manufacturers to minimize price increases and reserve inventory for HALO clients.