

August 19, 2022

Global Supply Chain Issues: Pinch Points, Impacts, and How New Mexico can Build Resiliency

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Global supply chain disruptions have led to project slowdowns and inflation.

- The 2022 global supply chain shocks are the result of multiple factors. First, logistical disruptions from the pandemic-induced shutting of global ports and airports have delayed international commodity and resource deliveries. Second, a lack of technological investment that promotes efficient and resilient operations has hampered supply chains' ability to adapt to disruptions. Lastly, and arguably the most impactful, labor shortages have caused staffing and production issues across industries, exacerbating the abovementioned disruptions. As a result of the supply chain shocks, there are notable shortages of semiconductors, copper, construction materials, and refining oils.
- Transportation bottlenecks have contributed to estimated average ocean cargo shipping time from Asia to increase from about 50 days pre-pandemic to about 90 days, down from highs of about 120 days earlier this year.
- Global supply chain disruptions have contributed to the current stubborn inflation. IHS Markit predicts consumer prices to increase by 7.8 percent in 2022. In 2021, producer energy costs increased by 27.6 percent, residential construction by 11 percent, and crude materials by 44.5 percent. In 2022, producer energy costs are expected to increase by another 21.4 percent, residential construction costs by 14.3 percent, and crude materials by 26.9 percent.
- Significant increases in federal funding for infrastructure projects related to the Infrastructure Investment and Jobs Act (IIJA) have increased demand for materials and labor, with project costs for some transportation projects increasing by 50 to 100 percent, according to American Association of State Highway and Transportation officials.

Investing in supply chain infrastructure plays a critical role in combatting global shocks.

- Healthy supply chain infrastructure, composed of the physical and informational assets required to transport inputs, commodities, and final products from producers to consumers, can help build resiliency to global shocks. This includes buildings where a company manufactures and distributes its products, the equipment, the transportation fleets that

move the product, and the information technology needed to plan, execute, and track supply chain activity.

- The Infrastructure Investment and Jobs Act (IIJA) addresses supply chain infrastructure by allocating, of the total \$1.2 trillion, \$110 billion for roads, bridges, and major projects, \$17 billion in port infrastructure, \$66 billion for passenger and freight rail, \$25 billion to airports, intending to remove bottlenecks and expedite commerce. The act will allocate around \$3.8 billion to New Mexico to build new roads and bridges, improve clean water infrastructure, install a new electric vehicle charging network, improve airports, and create more affordable, high-speed internet. Further, the act has opportunities for New Mexico to apply for competitive grant programs like the National Highway Performance Program, Surface Transportation Block Grant Program, and the Capital Investment Grants Program.
 - The U.S. Department of Transportation recently announced \$2.2 billion in funding for infrastructure investments, mostly to local governments or transit authorities, regional councils, or tribal governments. In New Mexico, the cities of Albuquerque and Carlsbad received a total of \$12.6 million for two projects. The New Mexico Department of Transportation was not awarded, but is waiting to hear on applications for other competitive grant programs, including programs to allocate \$1.5 billion for larger projects costing up to \$100 million and \$2.4 billion for programs to repair and replace bridges.
- New Mexico can help build resilience to future supply chain shocks by developing supply routes with Mexico that allow for the increased passage of goods. For example, constructing a railway throughout the southern part of the state into Mexico and enhancing current railways would increase rail capacity, improve freight movement across the border and through the state, and increase connectivity with the national railway system.
 - New Mexico can pursue the Consolidated Rail Infrastructure and Safety Improvements (CRISI) grant program, announced by the Federal Railroad Administration in June of this year, aimed to support projects that create economic opportunities and help develop the country's freight network to meet growing demand. New Mexico did not receive any 2021 grants via CRISI, but pursuing grants in the coming years may be worthwhile.
- With suppliers unable to meet demand due to increased consumer spending and supply chain disruptions, the market for warehousing in southern New Mexico has substantially grown. The construction of speculative space, industrial space a developer constructs without having a contract with a tenant, would help companies needing to lease space in a relatively short time period. Transportation and logistics firms have the highest demand for additional warehousing. In response, more than 635 thousand square feet of speculative space are under construction in Santa Teresa, New Mexico, and San Jeronimo, Chihuahua, directly across the border from Santa Teresa. The Borderplex region, composed of El Paso, Juarez, and Southern New Mexico, is expected to see a 30 percent increase in speculative space rates by 2025 if current market trends continue.