

# Holiday inventory already delivered, but rail strike would be catastrophic in other ways, expert warns

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The House on Wednesday approved and sent to the Senate a measure aimed at preventing a national rail strike from crippling the U.S. economy during the holiday season.

The deal was first brokered by the White House in September and adopted by eight freight rail unions, but rejected by others. So President Joe Biden turned to Congress to override the normal ratification process before the Dec. 9 strike deadline.

The deal, which passed the House on a vote of 221-207, would deliver 24% pay increases and seven days of paid sick leave. It now moves onto the Senate where it's expected to receive less support from Republicans.

Failure to reach a compromise would be "absolutely catastrophic," for [consumers](#), according to Nada Sanders, distinguished professor of [supply chain](#) management at Northeastern. She notes that the dispute is between rail workers and rail management, and Congress would only step in to avert a national economic disaster.

Sanders spoke with News@Northeastern in September and again Wednesday about the potential ramifications of a rail strike, why labor has leverage over management, and how supply chains are being reinvented in real time. Her comments have been edited for brevity and clarity.

## **How would a rail strike impact supply chains during the holiday season?**

A rail strike would not impact the holiday season in a direct way as far as availability of goods for gifts. Almost all the holiday items have already been delivered at various stores and warehouses. These shipments have already been made via rail and the products are in place. It is safe to say

that Christmas will not be canceled.

However, the rail strike would impact the [holiday season](#) in a much more devastating way. Prices and access to items needed for everyday life would be directly impacted. While goods may be available at retail stores, prices of fuel at the gas pump and [food items](#) may be significantly higher. In this way the impact would actually be far greater.

Further, a number of manufacturing facilities may be forced to stop operating as their ability to function relies on parts delivered via rail. This may mean workers furloughed as they wait for factories to reopen. These are very significant economic consequences, with higher prices, shortages and workers out of jobs.

## **How much do U.S. supply chains rely on railroads?**

Railroads are a major link in the U.S. supply chain, with about a third of all freight moved via rail. Most consumers think of products in finished goods form—a car, computer, food at the grocery store—but they don't think about the [raw materials](#) in bulk that go into these items. Rail moves those items, from chemicals for [water treatment plants](#), to paint, parts for auto manufacture, feed for livestock, ethanol that goes into gasoline at the pump. Most of the products we enjoy in finished form cannot be made without these raw materials.

It would take about 450 trucks to actually replace one long freight train. Given a current shortage of truck drivers, diverting to another mode of transportation cannot happen. We simply do not have enough trucks, drivers or capacity on the road for this alternative. Also, many items moved by rail cannot be moved via another mode of transportation, such as ethanol for gasoline.

If you think about how rail works, these are items that are being moved

in bulk in these large containers. Consumers don't realize the importance of this main artery that feeds all of these raw ingredients into so many different products in the broader supply chain.

## **What would be the impact of a rail strike?**

I don't even want to imagine what it would do to prices in a supply chain that is so fragile—and coupling that with inflation, the [consumer price index](#) and all the other metrics.

The impact of the rail strike would be immediately felt at the gas pump with prices rising. The cost of the strike would grow rapidly, especially as agricultural items begin to perish and workers are furloughed. For example, 75% or all cars in the U.S. and parts for their manufacture are moved via rail. Auto manufacturing plants rely on rail to deliver these parts and without them manufacturing facilities cannot operate.

We can't get rid of [rail](#), which is extremely inexpensive compared to trucking or air transport. It's an intricate logistics network. If this were to shut down, it would be absolutely catastrophic—something like \$2 billion per day in economic impact.

Even a shutdown of a short duration, say 24 hours, would be extremely damaging. Supply chains need time to ramp up after a stoppage and there would be cascading effects.

## **Supply chains have regained strength since the low point of the COVID-19 pandemic. But how would you gauge the state of supply chains overall?**

Supply chains continue to be quite fragile as they have not recovered since COVID-19. Further, we have had a continuing series of

disruptions, from the war on Ukraine to China's zero COVID policy, all impacting global supply chains.

I would say it's in this very dynamic period of evolution. And it's changing very quickly. For example, retailers have overestimated the amount and type of goods to carry, and are now holding large amounts of inventory. Coupled with a difficult economic situation this reveals the volatility.

We are in a very turbulent time. The entire business cycle is rapidly shifting and the window of change is now extremely short.

## **What is the key to understanding the new supply chains?**

Supply chains are about a smooth flow through various pipelines. Any interruption stops the flow and getting it up and running is very difficult. There are a lot of variables because so many things have to be optimized. It's very dynamic and requires a whole new way of thinking.

Which items do I want? How many? Where do I locate them? This is where analytics comes in. There's a real art to it—which metrics do I look at?

Even companies that are sophisticated like Amazon, Walmart, Target, Nordstroms—they find themselves being stuck with inventories because it's so challenging and we are in a fast-moving landscape.

## **Will we look back and say that the pandemic forced businesses to create more sophisticated supply chains?**

Yes. But we also have to realize that as consumers we've been spoiled by the lean supply chains that existed before COVID. Products don't come just simply from pressing the button and Amazon magically delivers them to our doorstep.

As consumers we have to brace ourselves for the fact that it will cost us more and we will have fewer choices. But isn't that better than not having products?

Provided by Northeastern University

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