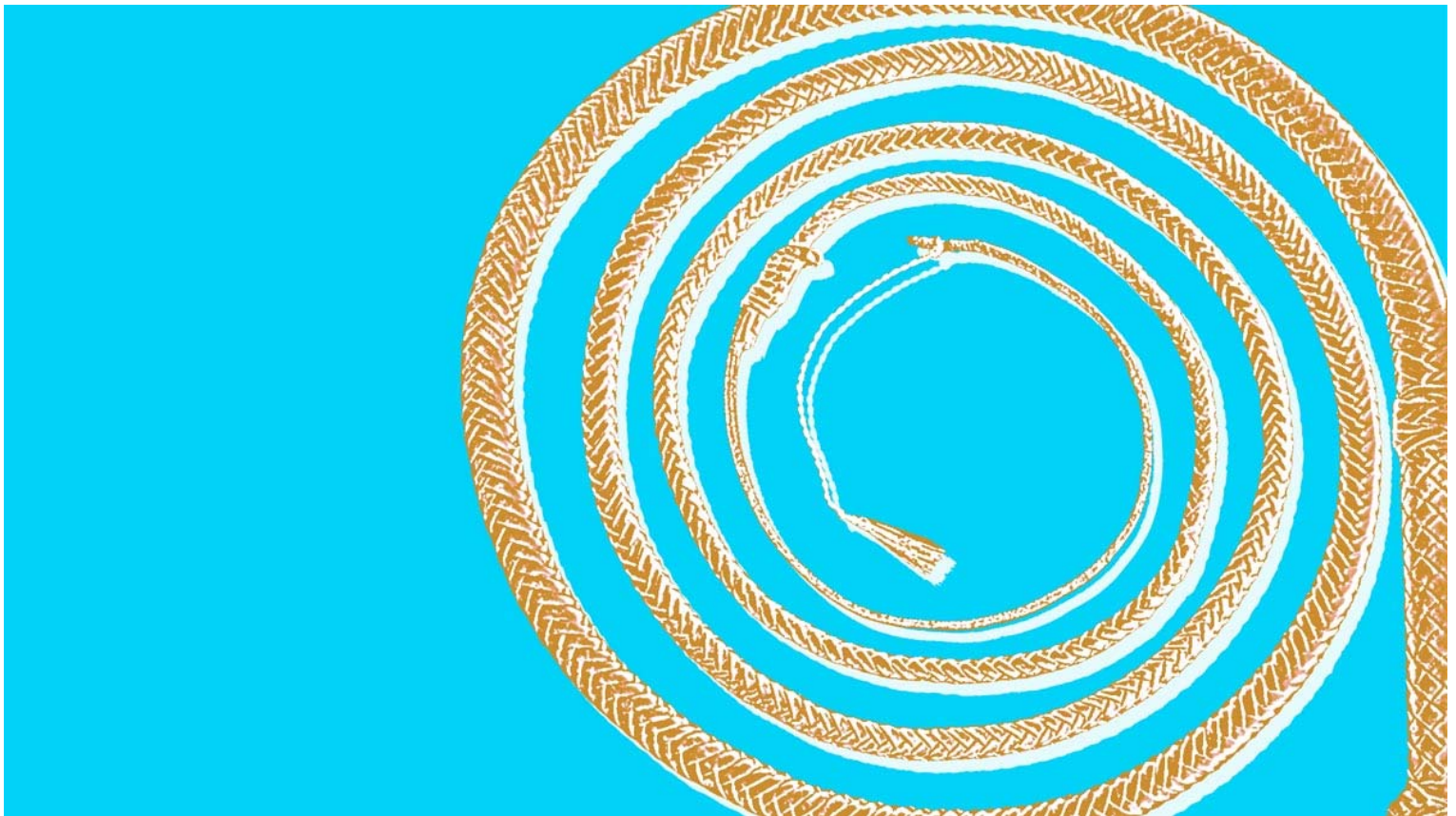


China's Slowdown: The First Stage of the Bullwhip Effect

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For the last two months, global supply chains have been experiencing the first stage of a bullwhip effect triggered by uncertainties about the severity of China's economic slowdown. While the contractions in business activity along global supply chains will cause companies to cut capital investments and inventories, we should remember that this is only the first leg of the phenomenon. The second stage of the bullwhip is likely to involve renewed demand, with orders reverberating upstream with increasing amplitudes. Consequently, although companies should cut costs now, they should be on the lookout for the quick rebound that is likely to follow.