



The Bottom Line

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EFFECTS OF CORONAVIRUS ON WORLDWIDE SHIPPING

Summary

Beyond the cancellation of airline services, the Coronavirus is having a series of secondary effects on the domestic and international freight network.

Background

On December 31, China alerted the World Health Organization (WHO) to several cases of a pneumonia-like illness in the city of Wuhan. On January 1, the Huanan Seafood Wholesale Market, where several of the infected had worked, was closed. Within days, officials had determined that this was not a recurrence of the severe acute respiratory syndrome (SARS) that spread in 2002–2003 but was, in fact, a new strain in the coronavirus family, which includes SARS and the common cold. Within weeks, Wuhan was quarantined and gatherings for the upcoming Lunar New Year were canceled. By the end of the month, the WHO had declared a global emergency as the virus spread across Asia.

Current Status

Beyond the strain the virus is having on the population and healthcare systems, the global transportation network is being impacted in primary and secondary ways. The near total shutdown of the Chinese economy during the Chinese New Year and overlapping quarantines led to container vessels' schedules being rewritten to adjust for the absence of cargo coming out of Chinese ports. One result of this change is that empty containers, which would have been filled and exported, are still sitting empty in China. Exporters in other countries are having difficulty in securing empty containers for their shipments. The resulting drop in export cargo means that steamship lines increase their rates. The slowdown has sent volumes plummeting this month at the Port of Los Angeles, the largest U.S. gateway for seaborne imports from China, and is expected to "drive sustained weakness" in demand for domestic trucking and intermodal services moving freight long distances by truck and rail. "Clearly the near-term impact is one

of reduced activity not only on international lanes linked to China, but also in terms of reduced freight activity in the U.S. given the expected fall off in imported container goods over the next month or longer," UBS analyst Thomas Wadewitz wrote in a research note.

As Chinese workers trickle back to factories, manufacturers and retailers are arranging to move goods by air to make up for lost time. Freight airlines expect demand for China service to surge in the coming weeks, exacerbated by the lack of cargo space on passenger jets after a wave of service cancellations that could stretch into April. Increased demand for limited space and lost passenger income for airlines are resulting in higher freight rates.

Impact

As Americans shy away from malls and movie theaters, the damage to livelihoods grows. While the course the pandemic takes is highly uncertain, economists differ sharply over how many jobs will eventually be eliminated. Many companies have shut factories and banned business-related travel. Major cultural institutions, like New York's Metropolitan Museum of Art, have closed; political rallies have been canceled; and big tech industry events, like the E3 gaming show, Facebook's F8, the Geneva Motor Show, Google I/O, and Mobile World Congress have been called off. Behind all these events, domestic transportation supports the delivery of people and supplies to and from these venues. Falling volumes in domestic trucking, both from the lull in import containers—China volumes are not expected to rebound until mid-April—and the elimination of events, which require support, should lead to excess capacity as the month goes on.

RESOURCES:

[Coronavirus Decimating IMO 2020](#) (Yahoo)
[Coronavirus Impact Seen Prolonging U.S. Freight Slump](#) (WSJ)
[Coronavirus Spreads, Businesses Announce Layoffs](#) (USA Today)
[Container Rates Surge](#) (Hellenic Shipping News)