



The Bottom Line

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PRESSURE ON OCEAN FREIGHT CHARGES

Summary

Shipping container prices have hit record highs in the past eight weeks. Ocean freight rates are experiencing significant upward pressure stemming from shortages of empty shipping containers and available load space.

Background

The near total shut down of the Chinese economy during the 2020 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, sat empty in China.

Exporters in other countries had difficulty in securing empty containers for their shipments. As manufacturing began to return to China in the summer, shipping companies canceled sailings due to the pandemic, and empty containers that would normally be returned to Asia, began building up in different worldwide locations.

During quarantine, Americans spent less on services (dining, travel and entertainment) and more on goods. Peak season re-stocking efforts kicked off in earnest in the August-September period last year. During the third quarter of 2020, as China's economy bounced back, U.S. expenditures in durable goods rose 20%. In November, China began experiencing significant container shortages. The rebound in economic activities in China, and the peak in demand for goods in the U.S. and European markets ahead of Christmas and New Year holidays, caused the shortage of containers globally.

Current Status

The recovery in the second half of the year took everyone by surprise, creating uneven levels of activity and how it impacted ports. John Butler, President of the World Shipping Council, told the Financial Times that congestion at ports is pushing up costs, with shipping lines charging extra "to compensate for longer waiting times." In December, spot rates were 264% higher for the Asia to North Europe

route, compared with a year ago, according to Mirko Woitzik, Risk Intelligence Solutions Manager at supply chain risk firm Resilience360.

China's economic recovery is also driving up prices for ships "carrying materials to feed the country's factories," the Telegraph noted, with deliveries of iron ore from Australia and South America being chartered "at rates of \$20,000 per day, almost double the level of six months ago," according to shipbroker Braemer's data.

As early as November, the Federal Maritime Commission received complaints that carriers were purposely refusing to ship U.S. exports in favor of the quicker turnaround of empty containers back to China. To mitigate the serious equipment imbalance, ocean carriers have adopted an aggressive strategy for European and U.S. exports, temporarily suspending bookings, preferring to fill backhaul ships with as much empty equipment as possible. Indeed, to deter all but the most valuable cargo, European exporters to Asia are being asked to pay in excess of \$5,000 per 40ft. container.

Impact

The shortage-fueled rate increase is further exacerbated by limited air freight capacity. Some high-value items that would normally be delivered by air, such as iPhones, now must use containers via sea instead due to continued restricted flight schedules. The arrival of the Chinese New Year holidays in two weeks could help ease shipping congestion as Chinese factories shut down production lines and workers return to their hometowns. Elevated container rates "may factor in for the rest of the year," even if the current disruptions get ironed out, said Chris Rogers, lead trade analyst for S&P Global Market Intelligence's Panjiva. "Companies that have seen much higher shipping costs are either going to have to swallow that in their profits or pass it through to their customers."

Normally container rates drop 15% to 20% after the Chinese holiday, he said, but "that might not happen exactly the same this year because the backlog has got to be cleared."

RESOURCES:

[Demand Makes Challenging Ocean Market](#) (Logistics Management)

[How to Fix the Container Blockage](#) (Drewry)

[Surging Rates Pose New Headwind for Global Economy](#) (Economic Times)