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FREIGHT RATES IN 2022

Summary

Since early 2020, shippers have been experiencing capacity crunch scenarios resulting from container shortages, port congestion, and skyrocketing freight rates. And now the experts agree that 2022 will be another year of unreliable, costly international ocean transportation.

Background

The increase in ocean freight rates commenced in mid-2020 and skyrocketed by the end of the year. The pandemic and lockdown measures triggered this change. Rate increases affected both the import and export of goods. Over the last four months, ocean and air freight rates have leveled out and dropped. With the onset of active conflict between Russia and Ukraine, the United States, in concert with the U.K. and E.U., has applied pressure through a steadily increasing sanctions program. Current sanctions have resulted in airspace closure over Russia and banning Russian carriers from U.S. airspace and port facilities.

Current Status

Limited air capacity presents a double whammy for shippers. According to monitors, air freight rates are spiking with the airspace over Ukraine closed to civilian flights and airlines avoiding Russian airspace. "The flying ban has (resulted in) canceled flights and removed 10 million miles of airspace from international freight routes," said Dylan Alperin, head of professional services at supply chain software platform Keelvar. "With airlines responsible for flying around 20% of cargo, this will dramatically decrease capacity provided by carriers." Limited capacity will increase competition for space and raise rates. Judah Levine, head of research at freight booking company Freightos Group, said that as airlines avoid Russian airspace, they will take alternate, longer routes — jacking up fuel costs on top of the rate increases. Record price spikes for oil will worsen the already lousy outlook for carriers as fuel costs rise, Alperin said. "We're in for record backlogs and delays while experiencing some of the highest prices on record for transportation and beyond." Oil prices have been rising for weeks and surging to record levels.

Port congestion is a significant factor exacerbating the pressure on sea freight rates, particularly in the United States and Europe. The most recent annual joint study entitled 'C-TIMING' by Container xChange and applied research firm Frauhofer-CML reports that containers are moving in and out of China at record speeds. At the same time, port congestion in Europe and the U.S. continues to slow the return of boxes to Asia and stymie the recovery of global ocean supply chains. By comparison, dwell times at U.S. ports in 2021 averaged 50 days, albeit down from 66 days in 2020. New York recorded 61 days of container idle time at depots, followed by Houston (59 days) and Savannah (56 days). The ports of Los Angles and Long Beach recorded 40 to 42 days of container idle time on average. "Once containers reach Asia, they're being redeployed at record speeds," says Schlingmeier.

"However, the mismatch between supply and demand at many origin ports, including in China, means that it's hard for U.S. and European importers to secure boxes unless they have planned ahead or are working closely with their box supplier, forwarder, or container line to ensure they have both a vessel slot and a container available in advance."

A recent wave of COVID-related manufacturing and port closures in China will undoubtedly exacerbate congestion and schedule problems.

Impact

Patrik Berglund, CEO of Xeneta (Xeneta Shipping Index), believes the logistics chain remains stressed 'with demand outstripping supply, port congestion, a lack of equipment and the ongoing pandemic impacting across key global trades.' Berglund says this puts carriers in a position to dictate terms to smaller shippers through elevated rates and limited availability while locking in 'bigger fish' at favorable prices. Indeed, this tough stance from the container lines obliges many smaller and even mid-sized shippers to 'survive' on the respective carrier's spot platform for bookings, causing high levels of financial and operational uncertainty in supply chains. He advised shippers of low-margin goods to be especially wary of the risk involved in locking in long-term contracts at peak rates. Such shippers "need to make sure they're in a position to move somewhat with the market," keeping contract durations to 12 months at the most. On the other end of the spectrum are shippers of high-margin and high-value commodities that are "focusing on securing access to boxes and space on vessels, more than focusing on price."

While rates have seen some easing in the past two months, the conditions that led to the record highs have not fundamentally changed.

Rates will continue to be volatile and reactive to changing conditions so long as capacity remains tight for both air and sea freight.

RESOURCES

New Wave of contracts will lock in much higher shipping rates (American Shipper)

Projected rate changes for international ocean freight in 2022 (Harry Hiensen & Co SRL)

Year of continually rising freight rates comes to an end (Recycling International)

Ocean Cargo Trends: Pandemic continues to wreak havoc (Supply Chain Management Review)

How the Russia-Ukraine Ware is Worsening Shipping Snarls and Pushing Up Freight Rates (CNBC)

Air Freight "Turned Upside Down" as Capacity Slumps and Rates Climb (The LoadStar)