# The Bottom Line

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## Ocean Rates Show Signs of Returning to “Normal” for Now

### Summary

In some lanes, spot rates for containerized cargo have fallen below long-term contract rates as demand for goods falls in consumer markets.

### Background

The increase in ocean freight rates commenced in mid-2020 and skyrocketed by the end of the year, triggered by the pandemic and lockdown measures. Rate increases continued through 2021 and affected the import and export of goods. During contract negotiations, shippers of low-margin goods have been especially wary of the risk of locking in long-term commitments at peak rates. On the other end of the spectrum are shippers of high-margin and high-value commodities that have been "focusing on securing access to boxes and space on vessels, more than on price." Over the last four months, the shutdowns in China, inflation warnings in the U.S., and stories of retailer stock surpluses have conspired to ease demand. Consequently, ocean and air freight rates have leveled out and dropped.

### Current Status

"There were more signs this week of inventory surpluses and a resulting slowing in orders by major retailers suggesting a decrease in demand – at least for certain goods – as consumers shift spending to services or the inflated costs of necessities, or both," commented Judah Levine, head of research at Freightos, who also pointed out that there is minimal port congestion in Shanghai showing there's still no sign of a surge of pent up demand many expected to follow the city's reopening.

There do seem to be indications that the situation is improving. Flexport data shows that the time taken to transport goods from Asia to the U.S. has fallen to 95 days in the last week, a rate not seen since mid-2021. Additionally, they report their shipping rates to have fallen from highs of $20,000 per container to $10,000, roughly. These positive trends seem to suggest some improvement. As goods can be transported more quickly, retailers can have inventory stocks instead of the bare shelves from the pandemic's peak. In addition, shipping prices falling helps ease general economic pressure. Major retailers such as Walmart, Target, and Amazon have lately indicated inventory overstocking, which could see them cutting down their imports to improve inventory turnaround times. Business Insider reports that while prices are still rising, this is at a slower pace.

### Impact

"We think a slowdown in trade or the normalization in demands will lead to a significant slowdown in global growth," Capital's Global Economist Ariane Curtis said. "It won't be back to the pre-COVID state of things given the backdrop of cost of living squeezes and ongoing supply shortages, but it won't quite be a recession either, at least not in most countries."

"While we should stress that we believe it is too early to confidently declare that there will be no 2022 peak season, the continued signs of market weakness … are hard to miss: Spot rates tumbling faster than seasonality, congested capacity being re-activated, contracts being reopened, rate declines not driven by capacity injection, and continued sluggish demand, utilization dropping below the 'magic' rate-rocketing level, and a return to normal in U.S. consumer demand for durable goods," Sea-Intelligence stated in its latest weekly report. "The signs suggest a return to a more balanced market." Sea-Intelligence has also predicted the potential return of blank sailings if volumes dry up.

RESOURCES

Shock for carriers as spot rates fall below long-term contract prices - The Loadstar

Business Reporter - Management - Is an end to the global supply crisis in sight? (business-reporter.co.uk)

Demand data points towards the end of the ‘wild’ carrier party - Splash247

Container spot rates duck below long-term rates on the transpacific - Splash247