The Bottom Line

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EXPECT SCHEDULE BLANKS AS RATES CONTINUE TO FALL

Summary

As container volumes and ocean rates continue to fall sharply, steamship lines are predicted to aggressively blank sailings to compensate. Port operations, however, are expected to benefit from the decrease.

Background

Blank sailing, also known as void sailing, is when a shipping line or carrier decides to skip a particular port or an entire voyage of a scheduled sailing route. There are many reasons for a blanked sailing, including making up time for a vessel behind schedule. The practice of blank sailing largely depends on the demand for space on a ship. If the need for a specific string is low, shipping lines issue a blank sailing. By omitting sailings and limiting space on available vessels, carriers can keep rates up. Blanked sailings are commonly seen right after holidays, such as Chinese New Year and Golden Week.

Shipping companies have benefited from tight capacity following the pandemic's outbreak in early 2020. In mid-2020, a severe shortage of containers propelled ocean freight rates to an elevated level, which rose as high as five times typical rates. As a result, exporters rushed to ship their goods and execute overseas orders amid increased demand. However, capacity demand for Chinese exports is currently in decline, mainly due to full inventories in Europe and the U.S.

Current Status

According to a recent reading of the China-U.S. west coast component of the Freightos Baltic Index (FBX), the spot price for a 40 ft. plunged another 20%, to $2,361, compared with a typical premium rate a year ago of $20,000. Ships are reported to be leaving Asia for the U.S. west coast barely three-quarters full, despite aggressive blanking by carriers, and spot rates are on track to fall through the $2,000 watershed next week. And unless carriers take radical action to take out more capacity on the route, rates could dip below pre-pandemic levels before the start of the next contract season, which will severely hobble the lines' negotiating position.

"As booking levels, which indicate future import volumes, continue their descent, peak season demand on the ocean looks muted," said Tony Mulvey, senior analyst at FreightWaves. "Softer demand on the ocean is leading to carriers increasing the number of blank sailings in an effort to slow the rapid decline in Trans-Pacific spot rates."

The bottleneck on the U.S. West Coast started with five ships on Oct. 15, 2020, then pushed past 40 in February 2021 as Americans snapped up merchandise for their Covid confinement. The line dipped to nine in June 2021, then swelled above 60 this time last year before peaking at 109 in January of this year. But like many benchmarks of supply-chain pressure lately, this one is dwindling. Just eight ships were on the arrival manifest as of late last week. One reason for the decreasing backlog is slowing U.S. import volumes. Amid high inflation and rising interest rates, the National Retail Federation predicts imports will continue to fall over the next few months. Onshore, container dwell times have also decreased, suggesting that cargo is now moving more freely onto trucks and trains. Another reason is that congestion has shifted to other U.S. ports. For example, New York and New Jersey ports just reported their busiest August ever.

Impact

In supply chain circles battered by two years of chaos, the word "normal" is creeping into the outlook for 2023. That's not to say everything will soon run smoothly across the global economy. Companies still struggle with shortages of parts and workers. Fragile supply chains are heading into another holiday season vulnerable to shocks ranging from freakish weather and dockworker strikes to China's Covid lockdowns and Russia's war in Ukraine.

For cargo owners, the falling rates are soothing the sting of the record-high prices of the past two years. But it's also ending the most profitable period in container shipping history. Moreover, new ships launching in 2023 and 2024 may hasten the industry's reversal of fortunes. The order-book-to-fleet ratio of 28% is the highest since 2010, according to Moody's, and that increase in capacity will exceed projections for global trade volumes.

The outlook remains bleak as inflation in the U.S. dents consumer demand. In an effort to keep rates from falling too far, steamship lines will exert pressure where they can and limit capacity with schedule adjustments.

RESOURCES:
What is a Blank Sailing? (Container-Xchange)
China Shipments are Way Down, But U.S. Ports Are Still Struggling (CNBC)
Container Ship Backlog at Port of Long Beach and LA Eases (Marketplace)
Worst Yet to Come for Container Shipping's Spot Rate Collapse (gCaptain)
When Will the Supply Chain Return to Normal? (gCaptain)