



# The Bottom Line

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## FREIGHT CAPACITY ISSUES EVERYWHERE

### Summary

Congestion across the transportation spectrum is resulting in transit delays and higher-than-normal rates.

### Background

During quarantine, many Americans were spending more on goods and less on services (dining, travel, and entertainment). Peak season restocking efforts began to kick off in the third quarter last year (August-September); China's economy bounced back as U.S. expenditures in durable goods rose by 20%. The U. S. economic stimulus payments in April and December 2020 spurred consumer spending and had measurable effects on the U.S. economy. During the surge, many transportation workers, while classified as 'essential', were not immediately eligible for vaccines. Sea ports, airports, trucking companies, and warehouses struggled with sick employees and outbreaks. These personnel shortages resulted in delivery delays, longer turn times for shipping containers, and increased berth time for vessels being unloaded and reloaded. A series of incidents involving containers falling overboard has resulted in fewer containers available in the transportation network. Demand for ocean freight has pressured rates to historic highs, and with air capacity still limited due to a lack of passengers, overflow has no outlet.

### Current Status

Annual negotiations between container carriers and shippers are entering their final phase at the start of the second quarter. Shippers remain on the backfoot with spot rates at multi-year highs and space on ships at a premium, though both are expected to soften later this year as the COVID-19 vaccine rollout eases coronavirus-related supply tightness.

The amount of available airlift for cargo in January was 19.5% less than 2019, according to IATA's monthly market report. That's the bottom line from the 49% plunge in international belly hold cargo capacity combined with a 29% hike in freighter capacity. The limited space is

putting pressure on cargo owners and logistics companies experiencing reservation delays and paying top dollar to guarantee spots on passenger or all-cargo carriers because of the heavy flow of cross-border trade. On a global basis, year-over-year, rates are 84% higher than a year ago.

The number of outbound truckload and domestic rail container moves fell notably during February as severe weather conditions limited or drastically curtailed service throughout many provider networks. But by the end of the month shipments had quickly recovered with truck volumes surging well ahead of levels seen prior to the storms. The TL linehaul index, a measure of linehaul rates on a per-mile basis excluding fuel and accessorials, increased 8.1% year-over-year, posting eight straight sequential increases. Spot rates continue to step higher as contractual bid season moves along.

### Impact

With a third stimulus payment in the works, consumer spending is expected to rise again. UBS transportation analyst Tom Wadewitz said he sees a "perfect storm" for freight demand, pointing to tight capacity, inventory rebuilding and a steady stream of stimulus money. "The combination of strong goods spending and low retail inventory levels should support freight demand in 2021," the report read.

### RESOURCES

[Uptrend in Container Rates Looms Over 2021 Contract Negotiations](#) (S&P Global)

[Air Cargo 2021: The Good, the Bad and the Ugly](#) (American Shipper)

[Analysts All-in on Transportation; Spending on Services no Threat](#) (Freightwaves)

[February Weather Only Temporary Impediment to Freight Cycle](#) (Freightwaves)

[US Rail Backlogs Being Cleared After Difficult Weather Conditions](#) (World-Grain.com)