The Bottom Line

JULY 2021 | VOL. 94

NO RELIEF IN SIGHT FOR SKY-HIGH FREIGHT RATES

Summary

As Peak Season for 2021 approaches, cargo owners' hopes of relief from historically high freight rates are fading.

Background

The transportation industry has moved from one crisis to the next for the last eighteen months. The strength of the economic recovery in the second half of 2020 took everyone by surprise, creating uneven levels of activity and how it impacted ports. Congestion at ports started to push up costs, with shipping lines charging extra "to compensate for longer waiting times". In December 2020, spot freight rates were 264% higher for the Asia to North Europe route, compared with December 2019. To mitigate the resulting equipment imbalance, ocean carriers adopted an aggressive strategy for European and US exports, temporarily suspending bookings, preferring to fill backhaul ships with as much empty equipment as possible. In January of 2021, the amount of available airlift for cargo was 19.5% less than 2019. That's the result from a 49% plunge in international belly hold cargo capacity combined with a 29% hike in freighter capacity. The limited space resulted in reservation delays and shippers paying top dollar for all-cargo carriers. On a global basis, year-over-year, airfreight rates were 84% higher than January 2020.

Since January, delays and container repositioning challenges resulting from the Ever Given grounding and extreme port congestion on the US West Coast have led to annual contract negotiations between container carriers and shippers with spot rates at multi-year highs and space on ships at a premium. COVID-related port shutdowns in Yantian and increasing infections in manufacturing centers around Asia are continuing to exacerbate the problems, in spite of hopes that as vaccinations increased, pressures on transportation and supply would decrease.

Current Status

COVID-driven supply chain issues have been highly disruptive to U.S. importers' transport timelines. Import demand has been robust and disruptions to both manufacturing and transportation have served to decrease effective capacity of ships and box equipment. Multiple Asian countries that produce U.S. containerized imports, including Bangladesh, Indonesia and Thailand are now seeing high infection rates and lockdowns from COVID variants. For cargo shippers, these conditions have led to a one-two punch of exceptionally high transport costs and exceptionally poor service. Daily rates from China to the U.S. West Coast are up 66% since January and more than 400% since the beginning of 2020, according to the Freightos Baltic Index. Spot rates from Asia to Northern Europe are up 92% and 480%, respectively, over the same periods. Data from Denmark-based Sea-Intelligence ApS show that in the first five months of this year, more than 400 ships on the trans-Pacific trade lanes and 140 from Asia to Europe were late by more than two weeks. That compares with 388 and 69 ships on the same routes, respectively, for the combined years from 2012 to 2020.

Impact

"With tight capacity there will be more pressure on freight rates," said Nils Haupt, a spokesman for Germany-based Hapag-Lloyd. "The pressure is immense with the start of the peak season. It has not let up since the third quarter of last year and we see retailers ordering year-end holiday merchandise earlier this year." Shippers will need to brace themselves for a round of general rate increase (GRI) rate hikes on 1 July, with yet another hike likely from the middle of the month and a peak season surcharge (PSS) of several thousand dollars.

RESOURCES

Tight Capacity on Shipping Lines Brings Record Rates, Delays (Wall Street Journal)

How COVID Variants Could Impact Container and Tanker Shipping (American Shipper)

Shipper Fury as Container Freight Rates Soar (The Loadstar)