SHAPIRO FREIGHT

REPORT

Trans-Pacific Ocean U.S. Imports

APRIL 2019

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TRANS-PACIFIC OCEAN U.S. IMPORTS

2019 | APRIL

OCEAN CARRIER UTILIZATION STATS

For late March to early April sailings, ocean carriers reported rather stagnant, if not downward trending utilization ratios. In regard to fill factors, the USEC is trending towards 90-95%, the USWC is trending towards 85-95% and the Pacific Northwest is estimated to be between 95-90%. The recurring stagnation and anticipated future decrease in utilization ratios is attributable to a market that appears a bit too reliant on blank sailings to prop spot-rates, particularly given the proximity to contract negotiations. However, as we head in to spring full force and contracts are solidified, shippers should expect to see significant upticks in fill factors (especially if blank sailings continue).

APRIL 2019: THE BIGGER PICTURE AND CURRENT RATE ENVIRONMENT

MARCH MADNESS: SQUEEZING THE RELIABILITY OUT OF SAILINGS SCHEDULES

Transit time reliability for the U.S. Transpacific trade has shifted from an average of about 75% on-time in 2016 to less than 30% as of March, 2019. This kind of decrease is not a trend, but rather a calamity for importers' supply chains. It is also the source of increasing tension and frustration in the essential relationship of trust between carrier and shipper or between carrier and 3PL (and his customers).

As is typical during March Madness, there are endless reasons why one team wins and another team loses, each of which cause excuses to pile up like containers in Long Beach. (*Fortunately for this writer, the Virginia Cavaliers packed no excuses in their bags for this year's Big Dance… Go Hoos!*).

<u>Here are the top carrier excuses for poor transit reliability</u>:

- Poor port productivity (especially in the U.S.)
- Heavy Typhoon season
- Fog
- Unstable demand for space

From the shippers' point of view, these are the top complaints:

- Blank sailings have a HUGE impact on transit reliability
- **Blank sailings have a HUGE impact on transit reliability**
- **BLANK SAILINGS HAVE A HUGE IMPACT ON TRANSIT RELIABILITY!**
- Mega-vessels are not new, and transit estimates need proper buffers for realistic delays
- Steamship lines are nearly 100% unwilling to speed up vessels to make up time due to increased fuel costs

Big data company, SeaIntelligence, also noted that the lack of schedule reliability is roughly the same for all three major alliances. This is a fascinating aspect of the story because it seems to indicate that there is validity to both sides of this growing crisis. Similar performances among alliances support carrier claims as they perpetuate the narrative that factors outside their control are affecting all lines. From the shipper side, it looks like a simple case of capacity manipulation made easier by the presence of well-coordinated alliances moving cargo on increasingly larger vessels. If one alliance blanks out a few sailings, news spreads fast, and their competing alliances can do the same without great fear of losing market share.

The industry can only hope that competition between carriers and between alliances will motivate the carriers to a return to sailing schedule integrity and a return to trust.

SUMMER, FALL, AND WINTER MADNESS: IMPORTERS' INDIRECT AND DIRECT COSTS

Transit Time Reliability

When carriers are not in port on time, sea ports struggle to manage cargo flows efficiently, railroads back up and then bunch up, and truckers can't keep the boxes moving.

Direct costs: demurrage, per diem, detention, missed pick-up fees, split chassis pick-up, split chassis return, additional fees when examinations occur, higher trucking charges as firms struggle to match loads, staff overtime

Indirect costs: late deliveries to customers diminishing trust and increasing chance of losing business, warehouse bunching and inefficiencies, higher likelihood of short-term storage costs, higher chances of mis-deliveries, higher chances of cargo damage, dislocation of staff labor as they rapidly shift from management by exception to fire fighting

Fuel Costs

As the steamship industry faces the low sulfur mandate, their direct costs go up, and shippers are left signing agreements for which future costs are largely unknown. Additionally, it appears likely that refineries will diminish the supply of some currently plentiful fuel types in order to meet new demand for the low sulfur fuel (which can be sold at a premium). The transportation marketplace anticipates higher costs for diesel, jet fuel, and perhaps even some kinds of gasoline (to say nothing of home heating oil).

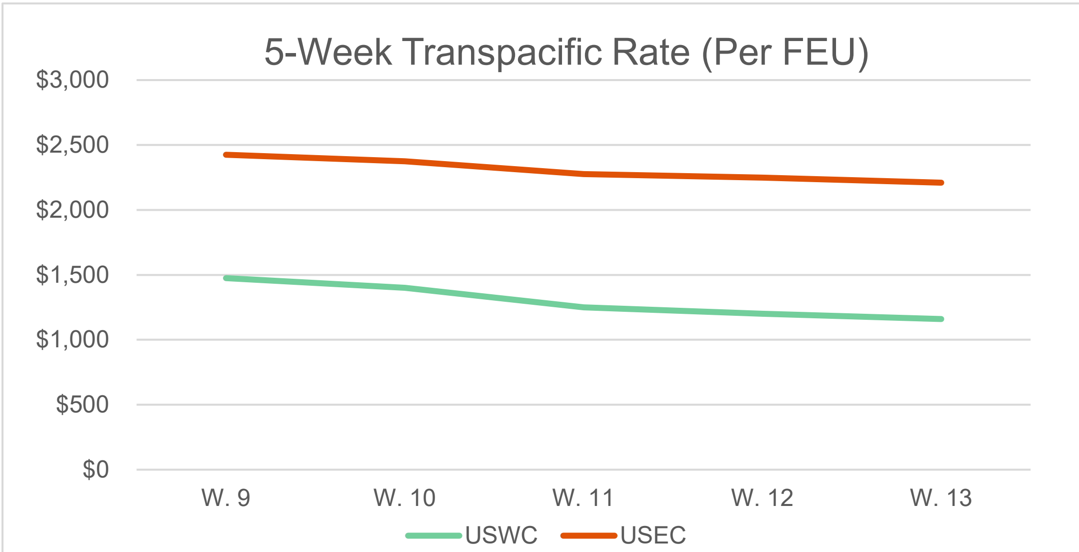
<u>Direct costs</u>: increased (and often unknown) BAF charges for ocean freight, higher fuel surcharges on domestic freight, higher airfreight surcharges, potentially higher energy costs at warehouses and within company premises overall

<u>Indirect costs</u>: hours of negotiation and re-negotiation time as fuel surcharges change more rapidly and with greater volatility, vendor instability as some work becomes unprofitable, delays caused by the chaos of surcharge negotiations and changes

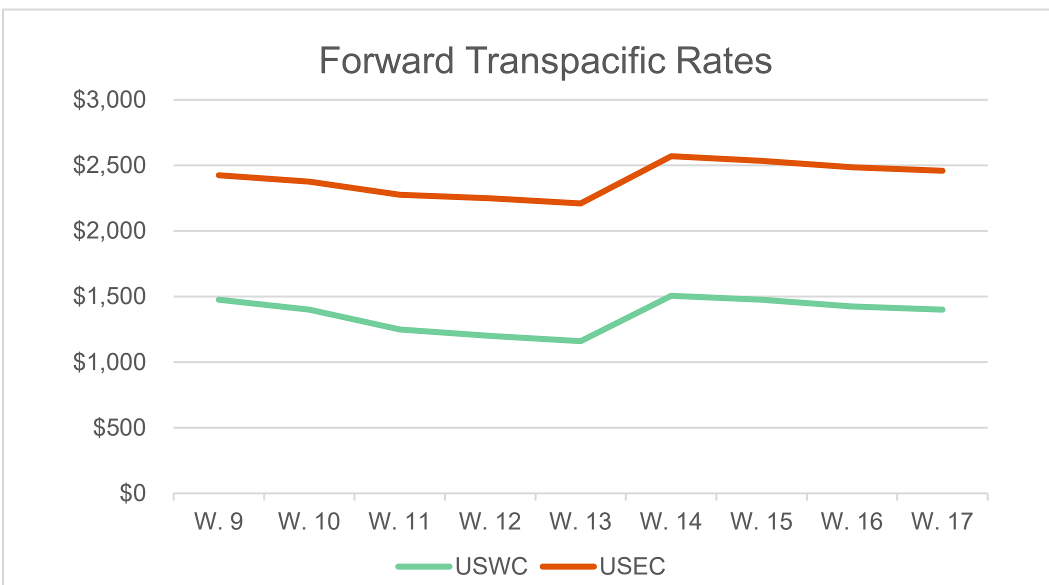
One final thought on fuel costs. In recent months, the subject of fuel costs has become a point of emphasis among U.S. politicians. As we stumble toward the next election and as the 150 or so Presidential candidates vie for an advantage (in some rather cold states like Pennsylvania, Michigan, Ohio, and Wisconsin), will the subject of transportation fuel costs pushing home fuel costs up make its way to the spotlight?

April 2019, Rate Trends

Please have a look at the rate picture for the recent past here:



We have also estimated future rates here:



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