



COVID19 Supply “Pain” News

A Condensed Update for American Shippers

These certainly are challenging times for all of us. During this unprecedented pandemic, we have compiled a condensed update of supply chain conditions. The below is the status of events as of **April 29, 2020**.

Quote of the Week:

“It is only in our darkest hours that we may discover the true strength of the brilliant light within ourselves that can never, ever, be dimmed.”

– Doe Zantamata

Fears Escalate for US Meat Supply Chain

- The White House signed an executive order invoking the Defense Production Act, which effectively forces meat packing facilities to remain open
- Meatpackers and farmers have applauded the action while also expressing concern for the health of the meatpacking workforce
- Tensions have spiked between meatpacking workers, unions and local governments over safe working conditions
- Delmarva Poultry in Delaware was forced to euthanize 2 million chickens as local processing plants were unable to keep up with demand due to depleted staffing levels
- Tyson and Smithfield executives have warned of potential shortages connected to an increased number of plant closures due to sick workers
- At least 24 meat processing plants have had to close or limit shipments between the US and Canada due to employee outbreaks
- The pork industry is estimating a \$5 billion loss in 2020 since 25% of US production goes to restaurants, schools, and other public institutions now closed
- Tyson became the first meat processor to re-open a major plant (Columbus Junction, Iowa) after being closed for 2 weeks after two dozen employees tested positive
- Food banks around the country are struggling to keep up with the increasing needs of Americans, with operating costs skyrocketing as volunteer hours decrease considerably

- The US Department of Agriculture (USDA) announced the Coronavirus Food Assistance Program (CFAP) which will provide \$19 billion in relief for US farmers; details of the program include:
 - **Direct support for farmers and ranchers:** \$16 billion will be provided based on actual losses agricultural producers have experienced
 - **USDA purchase and distribution:** \$3 billion will be used to purchase fresh produce, dairy, and meat which will then be distributed to food banks, community and faith-based organizations and other non-profits serving Americans
- The United Nations World Food Programme (WFP) is estimating that the number of people suffering from hunger will double to 265 million as a result of the global pandemic

Chinese Economy Shrinks for First Time in 44 Years

- China announced that its economy shrank by 6.8% in Q1 2020, after the country's manufacturing halted in January and February; this marks an end to an eye-popping growth run since 1976 (the end of the Chinese Cultural Revolution)
- Unlike the US and Europe, the Chinese government has not yet stepped in to prop up businesses and citizens after COVID-19, despite its economy being valued at over \$14 trillion
- Since many small and medium-sized businesses obtain loans and funding from family, friends, and informal groups, concerns are growing for the financial health of these smaller Chinese enterprises as liquidity declines considerably
- While China has largely re-opened, social distancing regulations are still in place, greatly affecting restaurants, passenger planes and trains, and overall retail foot traffic
- In 2020, total retail consumption YTD is down a whopping 16% from 2019; similarly, Chinese investment in fixed commercial assets is also down 16% YTD
- There are growing concerns about weakening global demand for Chinese exports with potential manufacturing throughput up to 85-90% of "normal" activity, while actual production sits at roughly 50%
- Originally scheduled to take place in May, the annual Canton Fair, an event that attracts tens of thousands of Chinese export exhibitors and hundreds of thousands of potential buyers from across the world, has been cancelled and replaced with a modest on-line event in June
- China's extremely tight borders and restrictions on foreign travelers block even Chinese nationals from returning home, thereby delaying the return of specialists and technicians crucial for new manufacturing and re-engineering efforts

Financial Update: Transportation Industry

- The US Commerce Department announced that the economy contracted by 4.8% in the first quarter of 2020, representing the first time US gross domestic product (GDP) has turned negative since 2014
- IHS Markit is estimating that US real domestic product will fall 26.5% in Q2 2020
- As of April 23, more than 26 million Americans have filed for unemployment since mid-March; this will equate to a 15-20% unemployment rate by early May
- US consumption of petroleum products has fallen to its lowest level in several decades; reports reveal that there's been a 31% drop in gasoline demand alone since March 1
- While many businesses are struggling to adjust to current economic and confinement challenges, 3PL warehouses fulfilling on-line sales have seen a steady increase in order volume week over week since the first "stay at home" mandate
- Overall Ecommerce volumes have increased by 154% between March 19 and April 20
- The American Chamber of Commerce in Shanghai surveyed senior executives from 25 U.S. companies with over \$500 million in revenue from a variety of industry verticals about their China logistics concerns post COVID-19; according to the data:
 - 70% expected their supply chain operations in China to return to normal in fewer than 3 months
 - 96% forecasted a return to normal within 3-6 months

US Rail on Track to Realize Worst Volume Year in a Decade

- International shipments moving by US rail face chassis and container imbalances left over from the heavy blank sailing programs during Chinese New Year; the equipment imbalances are largely unpredictable and are creating extra costs for US importers and exporters through split pick-ups and returns, per diem, detention, and demurrage
- US rail cargo is experiencing declines unseen since the Great Recession in 2008, with overall rail volume down nearly 10% in the first 16 weeks of 2020
- Coal, vehicles and parts, and chemicals are the 3 industry verticals down the most YTD
- US average diesel prices are down approximately \$1.17 over this time last year, positively affecting bottom line railroad numbers
- Railroads are taking active measures to retain service quality while reducing costs by reducing rail frequency and increasing customer communications
- CSX alone has reduced the number of train starts by 23% to help offset a projected 25% decline in demand in Q2
- All 7 North American Class I railroads have reported that train speeds are up over 2019 numbers, showing improvements of 2-3 miles per hour

- Although volumes are notably down across the board, revenue performance has not necessarily been affected as powerfully:
 - CSX has reported only a 5% revenue decline
 - KCS has announced a net revenue increase of 8% YoY
 - The Union Pacific posted a Q1 net income increase of 5.7%
- Following an operationally challenging Q1 2020, Canadian National reported a YoY net income increase of 28.6%
- US federal railroad regulators announced that more than \$311 million in funding is available “for projects designed to improve freight and passenger rail connectivity”

US Exports Shrink While Headaches Intensify

- The Commerce Department announced that total U.S. exports fell 6.7% to \$127.6 billion in March with the following verticals suffering the greatest value declines:
 - Motor vehicles and parts
 - Industrial supplies
- COVID-19 will make initial trade volume commitments under USMCA (the NAFTA replacement) challenging to reach in the short-term, as recent data indicates US merchandise trade relevant to the program fell 4.2% YoY in March
- According to a recent announcement from the U.S. Energy Information Administration (EIA), US energy exports reached an all-time high in 2019, marking the first time in 67 years that annual U.S. gross energy exports exceeded U.S. gross energy imports; YTD 2020 export levels are 13% higher than 2019
- CBP met with FEMA and the Cybersecurity and Infrastructure Security Agency (CISA) to discuss many of the questions the trade has concerning the import and export of personal protective equipment (PPE); highlights of the call included:
 - FEMA noted that a template sample Letter of Attestation (LOA) will be posted to its website as soon as it is approved
 - The LOA should be in the Document Image System (DIS) in ACE prior to export; if exporters receive a receipt stating that the letter was accepted into the DIS system, nothing further will be required unless CBP contacts them to examine prior to export
- The 2M Alliance greatly mitigated terminal congestion in LA-Long Beach last month by upsizing four vessels to 19,000 and 23,000 TEU to facilitate the export of thousands of empty containers back to Asia, thus opening operational space at the ports
- In response to chronic shortages of empty containers in the Midwest, Peter Friedmann, executive director of the Agriculture Transportation Coalition, said his agricultural export shipper members are “buffeted by continual uncertainty as to what’s actually happening with the ocean carriers and marine terminals”

U.S. Trucking: Pay and Profits Squeezed

- Unlike the airline industry, the trucking industry did not receive a federal stimulus bailout; 70% of drivers reported lower pay since March despite their work conditions becoming more dangerous; on average, truckers are seeing an 8% decline in compensation
- Despite a brief demand spike in March, U.S. FTL truckers have seen loads plummet by 32.5% YTD, according to DAT Freight & Analytics
- On April 27, freight market intelligence platform SONAR determined that diesel truck stop actual price per gallon was down 65.2 cents/gallon since the start of 2020, a decline of 21.27%
- Equipment rental rates in April, on average, have fallen considerably:
 - **Van:** \$1.67 per mile, 20 cents lower than the March average
 - **Flatbed:** \$1.95 per mile, down 24 cents compared to March
 - **Reefer:** \$1.99 per mile, 24 cents lower compared to March
- 800,000 protective masks are slotted for distribution to truckers at 6 rest stops along the nation's highest-volume trucking lanes as a result of a combined effort of FEMA, DHS, and the USDT

Air Cargo Supply Under Pressure

- Overall airport traffic is down 70%, with some of the lost passenger traffic being replaced by a surge in cargo flights carrying medical supplies and other "essential" goods
- The International Air Transport Association (IATA) has released new data confirming a shortage in capacity needed in order to keep up with existing medical demand
- In March, global airfreight volumes fell by over 15%, while capacity shrunk by approximately 23%
- 87% of current air cargo volumes are linked to international flights
- The Australian government has secured subsidized airfreight for exporters to help rescue agricultural and seafood industries who were having trouble finding and paying for available air cargo capacity
- US airlines continue to work with the Federal Aviation Administration (FAA) to reconfigure and reimagine passenger aircrafts for cargo utilization
- The FAA is reducing the hours of operations for approximately 100 air traffic control towers due to a decrease in volume and an effort to maintain safe operations for employees
- As airfreight capacity tightens, airlines are only offering quotes with a 24-hour validity
- Delta Airlines is currently expanding their Asia operations to meet high demands for medical and "essential" items

Update: U.S. Customs and Border Protection (CBP)

- 305 CBP officers have tested positive; officers who have small children or who live with elderly family members are being encouraged to take weather and safety leave
- CBP has implemented staggered schedules so that officers are keeping their interaction with each other to a minimum
- CBP has temporarily suspended operations at their Trusted Traveler Program Enrollment Centers until at least June 1, 2020 in an effort to limit the exposure for their personnel
- APHIS and Fish and Wildlife mandatory ACE filing implementations are on schedule, with releases in August and October respectively
- The Department of Justice (DOJ) has argued to suspend antidumping and countervailing duty (AD/CVD) cases on mattresses, indicating that they are “essential” goods for hospitals and treatment facilities
- The Americans for Free Trade called for expanded duty deferments into May and June arguing that small and large importers face an urgent liquidity crisis
- Similarly, the NCBFAA (National Customs Brokers and Forwarders of America Association) has lobbied to extend deferments, contending that shippers need the cash to preserve American jobs
- CBP and DHS have increased collaboration with CISA and FEMA to ensure that imported products marked for relief or prevention of COVID are legitimate, accurately labeled, and prioritized for clearance
- USTR continues to seek comments for exclusions for any COVID-19 related items
- July 1, 2020 is the named transition day from NAFTA to USMCA

Shap Fact of the Week:

In late August 1918, military ships departed the English port city of Plymouth carrying troops unknowingly infected with a new, far deadlier strain of the Spanish flu. As the ships arrived in cities like Boston in the U.S. and Freetown in west Africa, the second wave of the global pandemic began.

The leadership and staff of Shapiro understand the personal and business anxiety each of you is experiencing. We want nothing but safety today and a return to normalcy tomorrow for you and your families. Please reach out to us if you have any questions—or if we can assist you in any way.
