SHAPIRO FREIGHT

REPORT

Trans-Pacific Ocean U.S. Imports

JANUARY 2019

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OCEAN CARRIER UTILIZATION STATS

For late December to early January sailings, ocean carriers reported slightly declining utilization ratios across the board. The USEC, USWC and Pacific Northwest are all displaying fill factors between 90-95%, which is a 5% diminishment in all regions when compared to fill factors from late November to early December. Utilization ratios are likely to increase (5-10%) in the coming weeks as importers work against the impending Chinese New Year and the possibility of increased tariffs effective March 2. However, should future talks with China bode well and not lead to increased tariffs then it is likely that fill factors will continue to diminish (an additional 10-15%) as affected importers already house adequate inventory.

JANUARY 2019: YEAR IN REVIEW AND CURRENT RATE ENVIRONMENT

The Quadruple Bogey on Budgeted Costs for U.S. Importers

The majority of U.S. importers establish their annual budgets with start dates occurring at some point during Q1, with a relatively strong minority waiting until ocean contracts are in place in April. Despite what looked like a straight-forward course of "budget golf", nearly all players in 2018 ended up scoring well over their expected handicaps. Here are the four most common hazards that sent budget scores up, up, and away:

***Hole #1*:** The trade war with China began last summer with very high increases of 25%, but these substantial duties only hit a few industries and commodity verticals. However, with the imposition of List 3 tariffs, a great many importers endured increases of 10% with the very real possibility of an additional 15% (now scheduled for March 2) if forthcoming trade talks fail.

Hole #2: After the announcement of additional duties and with increasing fears of future commodity lists, U.S. importers felt compelled to rush their imports to their distribution centers, and this increased spot rates by 50-100% vs. those from August through November of 2017. Even larger contract holders found their space allocations insufficient and were forced to shift volumes to spot and to accept PSS surcharges to get cargo moving. On top of a spiked ocean market, many fearful importers saw their domestic freight costs skyrocket further when they opted to move East Coast cargo to the West Coast to take advantage of shorter transits.

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Hole #3: The continual frontloading of Chinese exports to the U.S. resulted in port container dwell-times that were at two-to-three-year highs, slower truck turns due to congestion, poor chassis availability, and hugely frustrating rail inefficiencies. Guess who pays more at each link of this twisted and kinky supply chain? That's right, it's U.S. importers.

Hole #4: When the demand for containers and vessel space is not directly related to consumer demand, that import cargo must be stored *somewhere*! U.S. importers found themselves (unexpectedly) in the market for short term warehouse space, for empty trailers for storage, and for the manpower to work the cargo… often in the chaos of congested yards and warehouse floors as wave after wave of cargo arrived ahead of schedule. Pundits feel that we have just begun to calculate the effects of hole #4 as these costs are both on-going and escalating.

The obvious question we all face as would-be scratch budget golfers is "how do we prepare for 2019's course?" Unfortunately, most of us are still busy looking for our ball so we can finish out the 2018 budget as best we can.

January 2019, Rate Environment

Just like a Yo-Yo on a String

After a 7.6% increase in U.S. imports from Asia in November and nearly a 10% increase from August through November, we finally witnessed a mini-slack season in December. We saw rate erosion of 40% to the USWC and almost 25% to the USEC over four weeks.

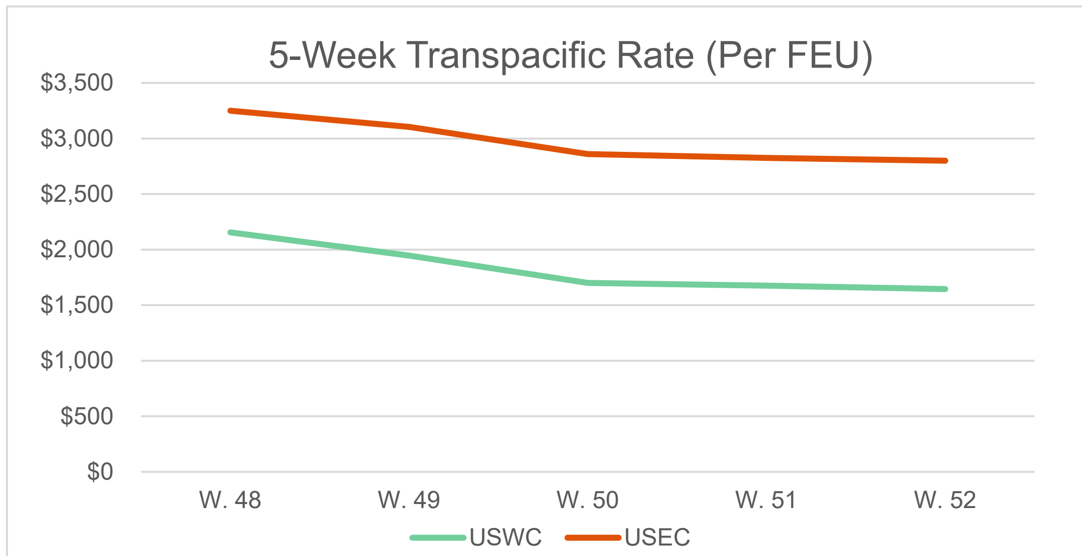
Many experts point to the postponement of the additional 15% duties for List 3 to explain the December demand dip, but many others believe that much of the Chinese New Year cargo has already shipped.

Despite the murky demand forecast, ocean carriers forced a GRI ($150/FEU to USWC and $300/FEU to USEC) into the spot market. However, that increase has already been mitigated twice in the two days since the GRI was imposed. We do expect volumes to build again toward late January, especially because not all importers are affected by List 3 tariffs. Winter allocation programs should help carriers if demand is even weaker than expected as we move into February.

At the end of the day, we expect rates to gently "yo-yo" from now until Chinese New Year with the Jan 1 levels being within $100 of the "top of the string."

January 2019, Rate Trends

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



We have also estimated future rates here: