SHAPIRO FREIGHT

REPORT

Trans-Pacific Ocean U.S. Imports

JULY 2019

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OCEAN CARRIER UTILIZATION STATS

For late June to early July, ocean carriers reported stabilized, if not slightly increased, utilization ratios across the board. Fill factors for the USEC, USWC and Pacific Northwest are all sitting between 95-100%, again pointing to the carriers' skill at balancing capacity through the implementation of additional feeder vessels and blank sailings. Nonetheless, the supply/demand equilibrium is slowly moving further towards the carriers' favor as we move into peak season.

JULY 2019: THE BIGGER PICTURE AND CURRENT RATE ENVIRONMENT

Goldilocks Equilibrium

Since contracts went into effect in May, the Three Little Bear alliances have been keeping the rate porridge at just the right temperature by adjusting capacity swiftly and often. Fortunately for Goldilocks (and for us in the shipping community), the Bears have not just tightened space to make the market hot, they have also injected capacity to cool the market.

In July, the Ocean Alliance Bear will remove 33,283 TEUs to the West Coast in order to stabilize that market, which has been dropping and essentially could not accommodate a GRI on July 1st. At the same time, COSCO and the 2M Bears are adding six extra loaders for the Gulf and East Coast during July, which will add about 35,000 TEUs. While many people may speculate that a very special Goldilocks in Arkansas motivated the capacity injection, it is still welcome news for Gulf and East Coast shippers who face a market where rates are creeping toward $3000 per 40'.

Overall, rates on July 1st were up between 10-11% for both coasts and the Gulf compared to one year ago. The expected difference for 2019 vs 2018 is that rates shot up 25-40% starting in mid-August last year, and there is little evidence to forecast a demand surge to turn this year's porridge into caviar. In fact, imports from China are down almost 5% while imports from Asia are down closer to 1% overall. It seems that The Three Little Bears are content to trim capacity to keep the rates from getting too cold while also protecting valuable customer relationships by ensuring that the market does not get as hot as it did in 2018.

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Importers are still upset enough to break Baby Bear's chair over their busted budgets from last year. GRIs of $1000 and higher in the fall last year coupled with unexpectedly higher duties have put thousands of Goldilocks' on the hot seat (or in Baby Bear's broken chair?). All signs point to a smoother ride on the Transpac for 2019.

Fish, Family, and CONTAINERS Stink after Three Days

We've already mentioned the extreme spikes in ocean rates and duties that destroyed many a 2018 budget, but the salt in the wound to start 2019 was port and rail congestion. And, as all of my intelligent readers know, port congestion creates another spend, one which is tremendously difficult to control, and supply chain dislocation for importers. We watch helplessly as demurrage, per diem and driver wait time charges make a mockery of our careful planning.

One of the key measurements of port and rail fluidity is container dwell time, and the **most** essential measurement of family harmony is not to allow visitors to dwell in your home beyond the three-day mark! As it turns out, this is a very handy rule for us in the house of logistics as well. During her darkest moments in January, the port of LA/LGB was holding onto import containers for an average of 4.3 days in an industry that typically offers 4 free days…ouch! In her most desperate crisis in February, the rail facilities at Vancouver took an average of 5.6 days to get boxes on the trains….ouch, ouch!

Both ports are currently bragging about dwell times of 2 days and the fact that the fish in their cafeterias has never been fresher. This is great news as the trade prepares for peak season, even if this year's peak may not be a big one. Reports from other trouble spots for congestion, like the port of NY/NJ, are also trending well with driver turn-times and container dwell times both declining steadily. Many port executives indicate that the "perfect storm" of 2018 taught ports and rails many valuable lessons, especially on the management of empty containers.

July 2019, A Glance at Port Labor

APM Terminals and ILWU Clash over Automation

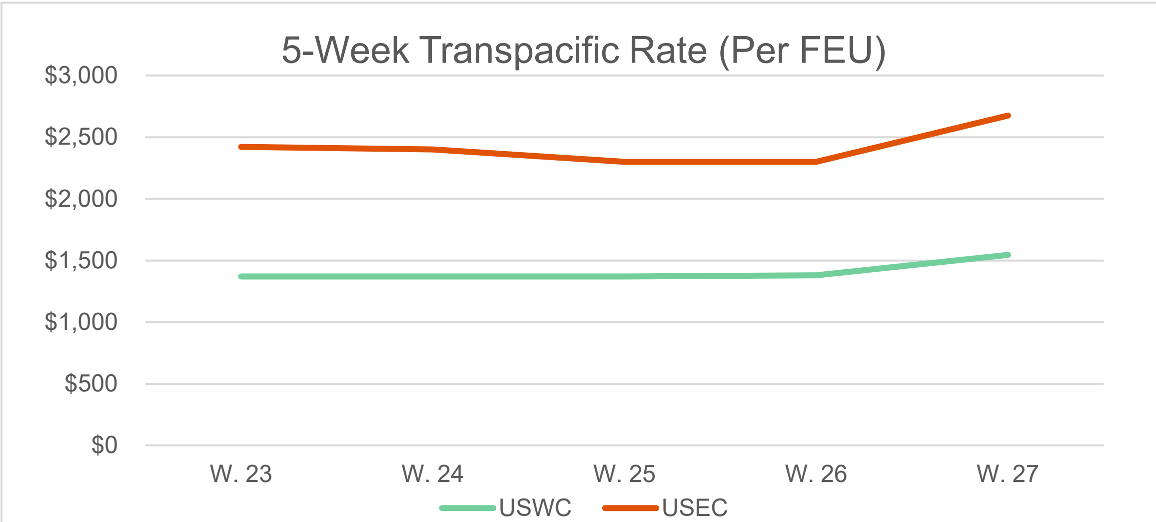
Despite the terms of their 2008 contract, that clearly provides for terminal automation and a promise by the union not to interfere with implementations, the ILWU has essentially blocked a current plan to add automation at APM's Pier 400 in Los Angeles.

The most troubling aspect of this move is that the ILWU negotiated improved wages and benefits as part of the 2008 agreement. This means that they have been paid at levels and terms, in part, to compensate them for future automation. So, the recent clash and threats to lobby for new labor laws in California breaks terms with the 2008 deal and the subsequent 2015 and 2017 agreements.

As the terminal faces higher and higher costs of doing business due to future environmental regulations, it feels quite likely that management will be more than a little feisty when the broader deal expires in 2022… perhaps before then. The West Coast has a long history of labor troubles at her ports, with the 2014-2015 tension marking the last significant disturbance. For many insiders, it is very hard to see the relative harmony we have witnessed continuing; we can only hope that today's political sparring does not spill over to the hard work of keeping containers flowing through America's largest port complex.

July 2019, Rate Trends

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



We have also estimated future rates here: