MARKET INSIGHTS

Global Logistics Update

February 28, 2023

State of Global Trade

The official CNY holiday has come and gone, but many Chinese factories are expected to remain shuttered in the coming weeks amid sluggish orders and another wave of COVID. After falling 14 straight months, February's exports from the world's second largest economy fell to U.S. $946.68, the lowest level since 2015.

Persistent inflation, stifling monetary policies to curb it, and mounting geopolitical tensions with Russia and China will continue to stifle the progress of global trade. Inflation has become the single most influential factor inhibiting global trade as the elevated cost of living eats into consumer buying power and negatively impacts manufacturing activity. In its most recent report, the World Trade Organization predicts global merchandise trade will only grow a mere 1% in 2023.

According to the White House, January's inflation fell to 6.4%, much higher than the Federal Reserve's prediction of 4.3%, despite that fact that the cost of everyday essentials - including food, energy, and housing - continues to skyrocket, leaving much less in the pockets of consumers. The U.S. economy has fared better than many economists expected, with the Commerce Department announcing an annual rate increase of 2.7% in the last three months of 2022, although the number was down from its initial estimate of 2.9%. The data shows that while the U.S. economy is still growing, it is losing steam driven by lower consumer and business spend. However, more recent government data showed higher than expected retail sales in January, up 1.1%, the largest monthly increase since March 2021. A strong job market (unemployment is currently down to 3.4% despite massive layoffs in the tech and logistics sectors), and higher salaries were cited as the primary factors. Meanwhile, the Federal Reserve is expected to keep raising interest rates over the next few months to bring inflation down to 2%, which will make borrowing costs more expensive and will likely discourage consumers and businesses alike from spending.

Upcoming Global Holidays

Holiday	Country	Date(s) Observed
Sam Il Jul	S. Korea	March 1
Makha Bucha Day	Thailand	March 6
Purim	Jewish Holiday	March 6 - 7
Daylight Saving Time	**International**	**March 12**
St. Patrick's Day	Ireland / International	March 17

Looking abroad, inflationary pressures continue to mount in Europe, with underlying inflation hitting a record in January. Germany, Europe's largest economy, contacted stronger than expected in the last quarter of 2022, down 0.4% amid falling manufacturing PMI and weak consumer confidence. Meanwhile, China's economy has been re-energized after the lifting of strict COVID restrictions in December, with rising consumer demand pointing to a growing appetite for foreign goods.

For the most part, the global supply chain challenges of the past three years have largely abated, although some small pockets of congestion persist in some markets, primarily in Asia and Asia Pacific, and in some sectors, such as rail and energy. Overall transportation costs have also subsided, although air and rail freight prices remain well above pre-pandemic levels. Meanwhile, the sourcing of raw materials, inputs, and parts remains a significant challenge, leading to higher costs, although many analysts expect to see relief by the second quarter.

Meanwhile, staffing challenges continue to rock industries across the globe, from hospitality, retail, and transportation to manufacturing, healthcare, and education, and everything in between. Since the Great Resignation of 2021, the majority of industries, with the exception of big tech, have struggled to attract workers, and many recruitment firms are predicting that recruitment challenges will continue well into 2023, despite the economic uncertainty. In addition, many sectors are still facing significant labor unrest, as the overworked labor force continues to do more while making less money when adjusted for inflation. Labor unrest is expected to get worse this year, especially in Europe, and will likely bring more upheaval to global supply chains.

State of Global Trade (Cont'd)

Major Disruptions

- Rising political tensions between the U.S. and China over spy balloons have prompted some of the top trade associations to urge their members to diversify their supply chains to ensure resilient supply chains to meet consumer needs
  - The **National Retail Federation**, the **American Footwear and Apparel Association**, and the **Council of Supply Chain Management Professionals** said the spy balloon fiasco has resulted in new concerns for their members, who have been dealing with significant headwinds in the last few years, including Section 301 tariffs and supply chain disruptions from China's zero-COVID policy
  - According to CNBC, there has been a significant move of manufacturing to countries like Vietnam, the Philippines, India, and Mexico, where the benefits of the USMCA agreement has been used as a leverage to bring more manufacturing back to North America
  - Meanwhile, U.S. lawmakers want to block China's access to proprietary cargo shipping data through a new provision in the Ocean Shipping Reform Act which will be introduced in **May**
- French pension strikers threaten 'to shut France down' on **March 7** unless the government backs down on raising the retirement age from 62 to 64
  - The cross-sector strike action is expected to cause major disruptions across the country, from logistics and transport to manufacturing and energy and everything in between
- Passage into and out of Turkey and north-west Syria, where the earthquake struck, by air, ocean, and road have been blocked after multiple earthquakes rocked the region, including a 6.8 quake earlier this week
- Strikes continue across the UK as unions rally against pay offers that fall behind the rate of inflation, disrupting everything from logistics and transport to healthcare and everything in between
  - The British economy lost nearly 2.5 million working days in 2022 due to labor disputes
  - So far, the British government has refused to budge on public sector pay and is instead in the process of passing legislation to make it harder for those in key sectors to strike
- After months of protest, workers across Sri Lanka will stage a one-day strike which will bring the country to a standstill on **March 1** in protest against exorbitant tax hikes and the government's plans to postpone the March 9 election
  - Around 40 trade unions will join in the strike, including dockworkers, power, electricity, water, and telecommunications workers

Announcements

- Postal codes to be required on all imports from China, effective **March 18**
- **CBP** has issued **guidance** for all shipments containing biological materials due to an influx of biological material imports (microorganisms, genetic/clinical materials derived from living sources, [tissues/organs or body fluids], microorganisms, biologic toxins and agents [anthrax, ricin, etc.], or infectious substances [viruses]) with missing, conflicting, or improper packaging and/or documentation
  - Must be shipped with accurate descriptions of the shipment's contents
  - Must be documented, labeled, packaged, placarded, and declared in accordance with all relevant international, federal, and state regulations
  - Must be accompanied with all required documentation upon arrival at port of entry, including import permits, letters of no jurisdiction, health certificate, official statements, and accurate invoices
- U.S. launches a Disruptive Technology Strike force, headed by the Department of Justice and Department of Commerce to investigate and prosecute export violations
  - The strike force will operate in 12 metropolitan regions with oversight from local U.s Attorney's Offices in Atlanta, Boston, Chicago, Dallas, Houston, Los Angeles, Miami, New York city, San Jose, Phoenix, Portland, and Washington D.C.
- **CBP** has released additional guidance for compliance with the Uyghur Forced Labor Prevention Act
  - **More detailed FAQs**
  - **Best practices for applicability reviews**
  - **Guidance for importer applicability review submissions**
  - CBP will also host a Force Labor Technical Expo in Washington, DC on **March 14-15**
    - Click here to register

Requests for Public Comments

- The **Consumer Product Safety Commission** is seeking public comment on a **proposed rule** that would establish a mandatory safety standard for button cell or coin batteries, including consumer goods using these types of batteries, due **March 13**
  - The rule would establish performance requirements for battery compartments on all consumer products, require warning labels on product packaging and instruction manuals, and require customer notification of performance and safety data at the point of sale
  - Affected goods include remote controls, games and toys, calculators, keychain flashlights, watches, flashing shoes and clothing, musical greeting cards, cameras, flameless candles, and holiday ornaments

Air Freight

Market Expectations, Space, Volume, and Rates

After a rather abysmal start to the year, global air cargo demand rebounded in week 5 (+14%), albeit with significantly lower volumes, followed by a slight decrease in week 6 (-2%). The post-LNY recovery was most notable on intra-Asia flows and from North America and Europe to Asian countries. Over this two-week period, global volumes were down 16% compared to the same period last year. Looking at the U.S., overall air imports fell 2%.

Despite waning volumes, more capacity continues to hit the market and is now only 2% below 2019 levels, with carriers adding freighter capacity, expanding routes, and resuming passenger operations, especially in Asian countries where governments are lifting COVID travel restrictions.

Global schedule reliability continues to be impacted by labor shortages, industrial actions, and IT-related issues. Across Europe, strikes over the past few weeks have led to thousands of flight cancellations, especially in Germany, the UK, and Spain, and more are expected in the coming weeks.

Despite the effects of higher fuel surcharges, global spot rates continue to fall, although they remain stubbornly higher than pre-pandemic levels. As a result, the gap between contracted rates and spot rates continues to widen on most major lanes, with many shippers still paying higher contract rates from when they committed to long-term allocations to guarantee space when capacity was scarce.

Industry analyst expect demand will likely continue decreasing this year as the world enters a period of uncertainty due to inflation, a slowing global economy, and more supply than demand. The International Air Transport Association (IATA) predicts air cargo volumes will drop 4.3% this year, falling roughly 5% below 2019 levels, with volumes declining by 22%. Spot prices are likely to fall further in the spring when more capacity is added for the start of the summer flying season, putting shippers negotiating spring contracts in the driver's seat. Meanwhile, jet fuel prices are expected to rise in the coming weeks as U.S. refinery outages, refinery strikes in France, the EU embargo on Russian refinery products, and the lifting of China's COVID-19 travel restrictions impact available supplies.

Asia – North America / Asia - Europe

Demand from China and other parts of Asia is particularly low, with global tonnage declining 21% YOY. While rates from all Asian origins continue to drop, most remain significantly higher than pre-pandemic levels, with the exception of Vietnam and India to the U.S. where rates have retreated back to 2019 levels.

Inbound flows to Asia from both North America and Europe have seen a sharp uptick, up 25% and 22% respectively. Even with higher fuel surcharges, rates continue to decline due to the additional capacity infused into these tradelanes.

U.S. - Europe

Westbound Transatlantic trade remains robust, with volumes up 6% YOY. Despite the continued strong volumes, rates have dropped slightly due to a significant fall in jet fuel prices. Eastbound trade remains flat and is expected to remain unchanged over the coming weeks.

Oceania

More capacity is returning to most Oceania markets despite softer demand, increasing options and driving rates down.

Latin America

After a strong increase in week 5 on northbound traffic, demand fell sharply in week 6, down 11%. Meanwhile, southbound traffic and rates remain steady.

On the European tradelane, westbound traffic has dropped 7% and rates have held steady. Traffic flows into Central and South America saw a modest increase, causing freight rates to jump.

Air Freight (Cont'd)

Announcements

- New European Union rules for air imports takes effect on **March 1** and will impact all air shipments into the EU, Norway, and Switzerland
  - Under the new regulations, exporters will be required to submit safety and security data through the Entry Summary Declaration (ENS) prior to cargo loading (via the ICS2 platform) prior to pre-loading at origin and again at pre-arrival at destination, including:
    - Shipper and Consignee name, address, phone number, and email address
    - Consignee's EORI number (similar to the Employer Identification Number [EIN] in the in U.S.) – *only applicable to EU-bound shipments*
    - A complete commodity description for each of the shipment's line items, along with total quantity and weight
    - 6-digit HS codes
  - In order to avoid shipment delays and/or possible detention of goods, exporters are urged to update their databases accordingly and provide complete and accurate information as early as possible to your carrier and freight forwarder
- **SouthWest Airlines** to reduce the number of flying hours for new pilots – from 1,000 hours to 500 hours – as it looks to accelerate hiring this year, effective **February 7**
  - The airline said that it hasn't changed flight training operations and "all current and future first officer candidates must pass all elements of the curriculum prior to flying" for the airline
- **FedEx** pilots approved a strike authorization vote – a date has not yet been announced - after six months of federally-mediated labor negotiations failed to produce a fair deal
  - After 30-days of being released from mediation, both pilots and management could exercise a union strike or a company lockout
  - In a statement, pilot leaders warn FedEx customers to plan alternative means in the event the strike action moves forward
- Heathrow Airport workers to vote on strike action in pay dispute; ballots close **March 17**
- **Lufthansa Cargo** to expand its freighter network services from Frankfurt to China and India, beginning **March 26**
- The European Organization for the Safety of Air Navigation warns that flight disruptions and delays are likely to get worse this summer due to persistent staffing shortages and industrial actions

OCEANAIR

Major Disruptions

- U.S. jet fuel inventories lowest in four decades, leading to higher freight rates
- Major airlines and airports continue to struggle with labor shortages and labor disputes, resulting in flight cancellations and limits
  - Backlogs and delays continue at airports across Germany, as the country's aviation industry recovers from last weekend's staff strike
    - The strikes led to the cancellation of 2,300 flights on Friday from Frankfurt, Munich, Bremen, Hamburg, Stuttgart, Hanover, and Dortmund and isolated cancellations on Saturday and Sunday
    - In addition, Lufthansa was forced to ground all flights on Friday due to an IT issue
  - **Lufthansa** plans to cut 34,000 flights from their summer schedule amid chronic staffing shortages
    - Additional cancellations are expected at Lufthansa's subsidiaries, including **SWISS** and **Eurowings**
  - Hong Kong's aviation industry struggles to reopen amid a massive labor shortage
    - Both the airport and airlines are struggling to hire local staff after the COVID pandemic forced the layoff of thousands of workers, including pilots and ground crews
    - Adding to the pressure to fill vacancies is the ongoing mass exodus of residents fleeing China's draconian COVID policies
  - UK airport border staff to strike again on **March 15**
    - The union has warned of multiple strike actions over the course of 2023
  - Heathrow Airport will not add any ad hoc flights to its summer schedule
  - Spain's Air traffic controllers and handling crews will walk off the job every Monday, Tuesday, and Thursday between **February 27 and April 13**
    - The industrial action will affect several airports, including Madrid, Reus, Málaga, Barcelona, Alicante, Valencia, Murcia, Fuerteventura, Lanzarote, Almería, Salamanca, Valladolid, Burgos, Logroño, Zaragoza, Huesca, and Gran Canaria
  - Canada's Toronto Pearson Airport to limit the number of commercial flights during the spring and summer season amid an air traffic controller shortage

Ocean Freight

Market Expectations, Space, Volume, and Rates

CAPACITY EQUIPMENT RATES

U.S. imports volumes at the ten biggest ports fell 17.9% YOY in January, the largest monthly drop in over a decade, with volumes hovering near 2019 levels. Los Angeles and Long Beach were the hardest hit, with loaded import volumes plummeting 13% and 32.5% respectively. The East and Gulf Coasts performed better, with import volumes dropping 12.6%. New York saw the East Coast's largest contraction, down 20.6% And it looks like things are going to get worse before they get better, with experts anticipating a significant volume decline in February and a soft first half of the year. Overall U.S. exports fared much better, up 11.9% YOY. The gain was due entirely to a 25.7% spike from the East Coast as shippers continue to divert cargo away from West Coast ports, where exports fell 5.2%. Across the pond, volumes at major container hubs, including Rotterdam, Antwerp, and Hamburg, also continue to fall. Overall throughput at Hamburg fell 6.8% in January, with a 6.1% drop in imports and a 4.1% decline in exports.

While U.S. and European port congestion has eased significantly, congestion continues to grow across China due to longer wait times, reduced port productivity, and intentional berthing delays by carriers. Global congestion is expected to continue through at least Q2, especially at ports and major transit hubs in Asia. Container dwell times in the U.S. also continue to return to normal, with truck-bound container dwell times at the ports of Los Angeles and Long Beach down to 3.2 days and 4.3 days for rail-bound containers, from peaks of 8.4 day and 16.5 days respectively. Meanwhile, empty containers are piling up at global ports as trade slows. In China, the surplus of empty containers at Shanghai, Ningbo, Tianjin, and Shenzhen has grown so large as overseas orders dwindle, that terminals are now moving surplus boxes to secondary ports to free up space.

Global schedule reliability continues to improve, with transit times beginning to normalize. Carriers continue to adjust schedules and blank sailings to balance the supply. They are also updating, cancelling, and creating services in an effort to differentiate themselves and attract volumes. As a result, the need for flexibility remains as the adjustments impact route options, lead times, and costs.

Average global spot container rates continue to see modest declines, with the exception remaining the westbound Transatlantic trade. Meanwhile, the gap between contract and spot rates have rapidly narrowed, with the greatest fall on the Far East to U.S. East coast corridor. Carriers appear to be slashing rates rather than reducing capacity, a move many analysts view as a strategic decision to invoke a price war.

The long-term outlook for container shipping remains uncertain, as the slow market pickup in China, high global inflation, eroding consumer confidence in the U.S., and low consumer demand in North Europe, suggest stormy seas are still ahead. The National Retail Federation is forecasting a significant decline in import volumes through at least April, with U.S. inventory-to-sales ratios expected to

decline in import volumes through at least April, with U.S. inventory-to-sales ratios expected to
return to pre-COVID levels in the coming months. Economists anticipate that consumer demand in North Europe is unlikely to improve any time soon. Rates are likely to continue eroding in the coming weeks, with some analysts forecasting a fall of 15-20%, as the unprecedented supply growth exceeds demand.

Asia – North America / Asia - Europe

China's export volumes remain at a three-year low following the CNY holiday, suggesting the normal slack season following the holiday could be much worse than originally feared. Daily exports from South Korea have tumbled an average of 14.9% throughout February, after falling 8.8% in January. Meanwhile, emerging export markets Southeast Asia, particularly in Vietnam, Indonesia, and Thailand, remain steady, prompting carriers to add more coverage on these routes. While demand from India is gradually recovering, volumes are lethargic.

Rates continue eroding to all destinations as the market continues to correct.

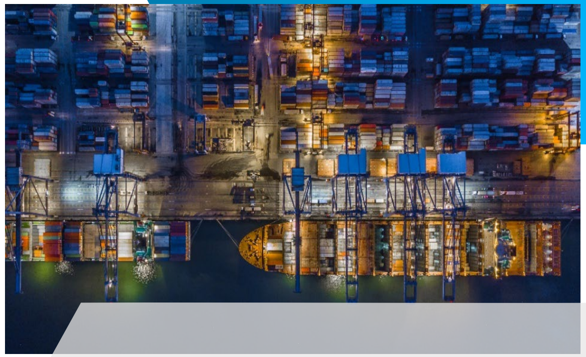
U.S. - Europe

The Transatlantic trade remains the bright spot in the global market, with robust demand on the eastbound trade. Meanwhile, rates continue to fall as carriers add more capacity on this lane, resulting in an oversupply.

On the westbound trade, demand and rates remain flat. Space is available from most origins on the East Coast but remain tight from the Gulf and West Coasts.

Latin America

Demand and rates remains steady on all Latin American trades. While space has improved on most services, limited options and blank sailings are keeping supply tight for exports to Europe and Oceania.



Ocean Freight (Cont'd)

Oceania

While space remains tight from the U.S. to Oceania, the market is expected to wind down by the end of February as the peak season for this tradelane ends. Meanwhile, space from Oceania continues to loosen. Rates on both hauls continue to decline and are expected to decline further in the coming weeks as carriers compete for market share.

The Europe to Oceania trade remains stable, with space relatively open. Congestion at transhipment hubs continues to improve, leading to better transit times. While space remains tight ex-Oceania, shippers are finding it easier to find space. Rates continue to decline on both hauls.

Major Disruptions

- Below average water levels on the Saint Lawrence is impacting shipments to / from Montreal
- The UK border force strike on **March 15** is expected to impact shipments across the country
- Finland's port have been paralyzed after dockworkers and truckers walked off the job indefinitely after rejecting an unfair labor deal, severely interrupting foreign trade
  - The union has warned "the strike will continue until an agreement is reached"
  - In addition, the Finnish Post and Logistics Union have staged a sympathy strike that will significantly delay letter and parcel deliveries
- Italy's labor unions plan nationwide port strike, **February 25**
  - The unions have called for the strike to denounce safety shortcomings following the deaths of two port workers, to call for an end to the war in Ukraine, and to demand higher wages
- Sri Lanka dockworkers announce a nationwide strike on **March 1** to protest the Tax Act

Announcements

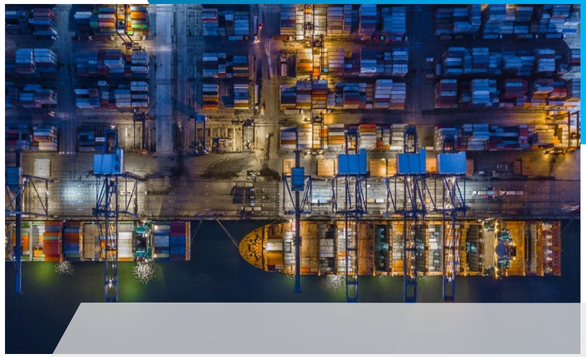
- West Coast port labor talks continue into the 10th month, with no agreement in sight
  - While the parties have reached a tentative agreement on health benefits, the main sticking points are yet to be resolved
  - Shippers have voiced frustration over the long wait for a resolution and have warned the stalemate will result in permanent loss of business for West Coast ports, with many exporters planning to divert traffic through other gateways
  - There are also rumors that the White House is preparing to intervene, as they did last year in the contract negotiations with railway workers
- Port of Savannah to expand cold storage capacity by 11% in 2023
- **ONE** to equip its entire container fleet with 'smart' technology

Rotation Changes

- **ZIM** expands service to the Port of Baltimore (Baltimore Express), from biweekly to weekly
  - Jakarta • Laem Chabang • Cai Mep • Yantian • Kaohsiung • Panama Canal • Kingston • Baltimore
- **Maersk** suspends its Asia –U.S. East Coast (TP20) service due to lower-than-expected demand
- **MSC** expand its Sentosa service to include India and Sri Lanka
  - Port Klang • Singapore • Tanjung Pelepas • Laem Chabang • Vung Tau • Da Chan Bay • Shekou • Long Beach • Oakland • Busan • Qingdao • Shanghai • Ningbo • Kaohsiung • Shekou • Singapore • Nhava Sheva • Mundra • Colombo
- **ZIM** upgrades it Asia – U.S. East Coast (ZXB) service
  - Jakarta • Laem Chabang • Cai Mep • Haiphong • Yantian • Kaohsiung • Panama Canal • Kingston • Baltimore • Norfolk • New York • Boston • Suez Canal
- **Wan Hai Lines** suspends is Asia –U.S. East Coast (AA7) service

Blank Sailings

- Carriers have only blanked 20-25% of capacity from weeks 7 to 9, not nearly as much as analysts anticipated, due to expectations that volumes will pick up heading towards March
  - The majority of the blank sailings are on the Asia-Pacific Northwest and Asia – Europe trades
  - If volumes do not pickup as carriers expect, we will likely see a rise in blanked sailings in the coming weeks
- Carriers continue to cancel sailings at the last minute – often with little to no notice – if vessel utilization dips below 65% - 75%
- Carriers are also utilizing slow steaming and sailings through the Cape of Good Hope instead of the Suez Canal to reduce the overall supply
- The global inactive container shipping fleet has now grown to 6.2% of total capacity as carriers remove more vessels from service



Trucking

Market Expectations, Space, Volume, and Rates

CAPACITY EQUIPMENT RATES

U.S. trucking demand continues to normalize toward typical seasonal trends, with tender volumes up 3.3% month-over-month. While volumes are underperforming against the same period of 2022, down 32.2%, year-over-year comparisons actually highlight the magnitude of last year's bull run rather than current market trends. Part of the growing strength in the truckload sector is attributed to a modal shift away from rail due to the prolonged state of inadequate rail services. Of the 135 U.S. markets, 58 reported weekly volume increases, with Detroit seeing the largest gain, up 30.3%. Dry van and reefer markets saw modest decreases, down 0.33% and 0.51% respectively, implying much of the traffic came from flatbeds and other modes. Meanwhile, loads moving on the contract market remain nearly steady, up 0.62%.

Capacity on the spot market continues to decline, as independent truckers increasingly throw in the towel due to high operational costs and a softening market, where many are having trouble finding loads to haul. Revocations of trucking authorities have increased over the last three months and are outnumbering applications for new authorities. At the same time, large contracted trucking firms have expanded their capacity, an indication that many owner-operators have abandoned the freedom of independence in favor of a steady paycheck.

The dry van and reefer spot markets appear to have bottomed out, with rates on some hauls dropping back to 2019 levels, while the flatbed sector is having a good week with rates ticking up slightly. On the East Coast, rates are continuing to see modest declines. Meanwhile, rates from Los Angeles to Dallas (one of the most congested lanes in the country) continue to freefall, as shippers increasingly turn to Gulf Coast ports to avoid disruptions in Southern California. Taking a look at the contract market, rates have held steady this week after rebounding from a dip earlier in the month.

While the less-than-truckload (LTL) sector performed much better than the truckload and reefer sectors, overall volumes have declined 7%. Shippers hoping for more advantageous pricing from their LTL providers may be disappointed, as pricing discipline by the carriers have kept rates relatively stable. On a positive note, service levels are continuing to improve and are reaching pre-COVID levels.

Analysts expect demand to and supply to contract further in the first half of the year amid sluggish import volumes, slumping manufacturing output, and a contracting housing market, but remain hopeful for a recovery in H2. Rates will likely continue to drop over the coming months but are expected to tick up in the second half of the year as tighter capacity and stronger demand will put pressure on rates.

China

The trucking market is gradually recovering after CNY holiday, and transit times are normalizing.

Europe

Demand continues to wane as prolonged inflationary pressures curb consumer spending. Meanwhile capacity remains tight due the chronic shortage of drivers - especially in Latvia where the situation has reached critical levels - and delayed deliveries of new truck orders. Spot rates are continuing their descent back to Earth but remain well above pre-COVID levels due to the capacity restrictions and soaring operational costs, including upward pressure on diesel prices and driver wages. Looking ahead, contract rates are likely to fall in first quarter, while spot rates will become increasingly volatile due to consumer demand uncertainty.

Canada / Mexico

Load to truck ratios remain generally balanced across the Canadian market. Canada's growing truck driver shortage has been temporarily made worse by migrant workers returning home for the winter, removing even more capacity from the already tight market.

Cross-border traffic has been significantly impacted by a growing imbalance between northbound and southbound freight, with loads into Canada rising faster than loads into the U.S. As a result, there are not enough trucks available for northbound shipments which has led rising freight rates.

The Mexican – U.S. trade continues to increase as companies lessen their dependence China through nearshoring. As Mexican truckload carriers are looking to prioritize these shipments, many are offering attractive rates, both on the spot and contract markets.

Domestic Trucking (Cont'd)

Major Disruptions

- Road transport workers in Finland to stage a series of strikes in March after labor negotiations broke down, dates yet to be announced
- Computer issues affecting U.S. and Mexico customs created huge traffic delays for trucks heading north- and south-bound over the past week
- Italy's gas station representatives have taken to the streets over the high price of petrol
  - The ongoing strikes are likely impact transportation across the country
- UK border force strikes will impact freight movements between France and the UK transiting the Coquelles Channel Tunnel Terminal, **March 15**
- New road restrictions in the Czech Republic and Slovakia will result in detours, longer transit routes, and increased freight rates for shipments to Germany and Central Europe, beginning **March 1**
- The devastating collapse of a major Australian trucking firm, Scott's Refrigerated Logistics, threatens the country's perishable supply chain

Announcements

- **UPS** lays of delivery drivers across the U.S.
  - While the size of the layoff is unknown, jobs cuts have been widely reported around the country, including Massachusetts, New York, Washington, and California
  - So far, the layoffs have targeted second-tier drivers, the lowest-paid drivers who split their time between making deliveries and working in warehouses
- **Coyote** to layoff 200 employees due to restructuring at parent company **UPS**
- **FedEx** lays of 10% of its top management staff as demand continues to freefall
- Seattle's **Convoy** is closing its close Atlanta office and will lay off 7% of its workforce

Rail

Market Expectations, Space, Volume, and Rates

CAPACITY | EQUIPMENT | RATES

U.S. rail traffic slipped for the seventh straight week, posting the largest weekly decline this year. Total rail volumes for week 7 fell 6.5% YOY, after falling 6.2% in week 6. Carload volumes fell 3.9% YOY while intermodal traffic tumbled 8.8%, marking the 16th consecutive monthly decline for the intermodal sector. Year-to-date figures show overall traffic down 4%, with carload traffic up 0.3% and intermodal volumes down 7.8%.

Meanwhile, demand for U.S. rail services continues to outstrip available capacity, even though many shippers have shifted away from intermodal towards domestic trucking to avoid the chronic issues in the rail sector. While unfilled car orders for new shipments decreased 28.5% compared to the same period last year, 8,130 car orders went unfilled, mostly with BNSF and UP, according to data posted by the Surface Transportation Board. Meanwhile, carriers continue to chip away at unfulfilled car orders 11+ days past due. While the long-standing car orders are down 72% from January, they are 24% higher YOY with over 12,130 orders waiting to be filled.

Four of the ten commodity groups saw annual gains, including nonmetallic minerals, petroleum and petroleum products, motor vehicles and parts, and farm products (excluding grain) and food. Grain, chemicals, miscellaneous carloads, and forest products all posted annual declines.

While some slight improvements have been seen in this sector in recent weeks, major challenges remain. Average rail origin dwell times (the number of hours trains spend waiting at origin) have decreased 10% since last month but are 15% higher than they were last year at this time. Severe congestion continues to plague inland rail ramps, including Chicago, Memphis, Detroit, Savannah, and Houston, with rail delays in excess of 10 days. Average train speeds have fallen 5% MOM, but are 4% higher than this time last year, while the average turn times have increase 17% MOM due to lengthier trains. We continue to see gate capacity restrictions and limited rail reservations at inland points, especially in Chicago.

However, more concerning is the significant rise in train derailments, which have been on everyone's mind since the devastating derailment of a Norfolk Southern train in East Palestine, OH earlier this month, and the "controlled burn" which released highly a toxic plume - containing including vinyl chloride, dioxins, and other carcinogenic chemicals - into the environment. In 2022, there were 1,044 derailments with 447 cars containing hazardous materials, an increase of 4.2% over 2021. So far this month, there have been more than a dozen derailments, many which have contained hazardous shipments.

Plume of highly toxic chemicals over East Palestine, OH

The dramatic rise in derailments is fueling anxiety across the country about the growing health and environmental risks from risky practices and cost-cutting measures of precision scheduled railroading, including longer trains, heavier loads that are not evenly distributed, decreasing inspections (down from 2.5 minutes to less than 30 seconds per rail car), and deferred maintenance, along with a reduced workforce that is suffering from chronic fatigue due to long working hours and on-call mandates. The rise in incidents is also calling into question the reliance on automated safety controls that union representatives have continually called out over the past year. In the East Palestine derailment, video footage has emerged showing a car axle on fire some twenty miles prior to the derailment, yet both the hotbox detector, a device used to monitor railcars for potential safety issues, and the track sensors, which are designed to flag potential mechanical failures, failed to alert the crew of the fire. There is also been a lot of debate about the rollback of the electronically controlled pneumatic (ECP) brake regulation, but in the case of the East Palestine derailment, the regulation would not have prevented the disaster as the train did not meet the hazardous threshold requirements and, therefore, the regulation would not have applied. The bottom line is, compromised safety measures and staff reductions are quoted by experts as the major cause of the East Palestine crash and something must be done to ensure the railroads make safety their main priority.

Meanwhile, the DOT has accused the rail companies of spending millions of dollars on lobbying efforts to oppose safety regulations, rather the support rail safety measures that the union leaders have called for, including greater federal oversight.

Carload spot rates have begun to soften, while rates for intermodal have fallen to levels not seen since 2019. Despite the drastic drop in intermodal rates, the cost advantage in this sector over trucking is near all-time lows. Meanwhile, contract rates show a mixed picture, depending on the lane.

Rail (Cont'd)

Overall carload traffic is expected to remain flat this year due to the slowing economy. Analysts also expect little change in the intermodal sector in the coming months, stating growth will likely not occur until 2024.

China - Europe

Despite a slump in westbound volumes, rates continue to rise and are currently five times higher than ocean freight rates. Meanwhile, demand and rates from Europe to China remain stable. Schedule reliability continues to improve, but delays of 4 – 5 days still remain. On time departures have stabilized from Xian, but are less stable at second tier hubs, including Jinhua and Suzhou.

Canada / Mexico

Canada's carload volumes jumped 10.5% YOY in week 7, while intermodals units tumbled 11.4%. Congestion at various inland ramps have led to significant dwell times at Vancouver, Prince Rupert, Montreal, Saint John, and Halifax, ranging from 4 -10 days.

Mexican railroads saw the best week with carloads up 4.9% and intermodal units up 4.5%

Major Disruptions

- Portugal's railworkers to stage a nationwide strike **February 27 – March 2**
- Additional strikes dates have been announced in the UK after RMT and Aslef union workers rejected the government's 'best and final' pay offer
  - The 24-hour strikes will be held on **March 16**, **March 18**, **March 30**, and **April 1**
  - Meanwhile, the TSSA union, one of the smaller unions involved in the rail dispute, has accepted a two-year 9% pay deal, as well as job security commitments, and will halt its participation in the rail strikes
- Unprecedented congestion is being reported in India's Nagpur-Bhusawal section, delaying the movement of import and export-bound containers from Inland Container Depots
- Many industry stakeholders are concerned about whether the Class I railroads will be able to retain their current workforce once the frustrated workers receive their lump sum back raises and bonuses
  - A mass exodus of railworkers would be detrimental to the market, as rail companies have struggled unsuccessfully for over a year to attract new recruits

Announcements

- Three rail carriers to finally offer paid sick leave for some employees - a benefit that most Americans enjoy - in an effort to address sinking morale and improve their reputation after public outcry
  - Six of twelve **CSX** union workers will 'soon' get four days of sick leave; in addition, workers will no longer be penalized for missing work for medical appointments
  - **Union Pacific** has agreed to provide two of its unions with up to seven paid sick days
  - **Norfolk Southern** to offer four days of sick leave to one of its unions
  - The other Class I railroads, including **BNSF** and **Kansas City**, have yet to offer paid sick leave for their employees, despite just reporting extremely healthy 2022 earnings
  - Meanwhile, Washington has demanded that railroad carriers offer their workers at least seven paid sick days or they will find themselves testifying before the Senate
    - Senator Bernie Sanders' office said in a statement that rails spent 184% more on returns to shareholders than on workers' wages and benefits and estimated that guaranteeing seven paid sick days to rail workers would cost the industry $321 million, equating to less than 1.2% of its profits in a single year
- **BNSF** announces plans to outsource locomotive maintenance to contractors outside the unions
- **Union Pacific**, **Norfolk Southern**, and **BNSF** announce plans for new pilot programs using one-man crews, something which supposedly had been taken off the table by the new contract imposed by the White House
- **Norfolk Southern** reported a rise train accidents over the last four years during an **earnings call** on January 23, just weeks before the derailment in East Palestine, OH
  - According to *Axios*, rail executives have been telling investors they can "bolster their profit margins by keeping a lid on costs"; meanwhile the railway companies have lobbied against new rules aimed at making trains safer
- **Canadian National** union workers to vote on strike action after labor negotiation break down
- **Union Pacific** looks to replace CEO Lance Fritz after a hedge fund went public with concerns about his leadership, stating Fritz has "lost the confidence of shareholders, employees, customers, and regulators"
  - The investor also said under Fritz's leadership, "UNP's total shareholder return has been the worst in the industry"

Equipment Shortages

- While chassis shortages have eased at major U.S. ports, there are still significant concerns that there will not be enough chassis at inland rail ramps to process incoming IPI freight due to declining import volumes at West Coast ports

Thank You

Please note the information contained in this publications is compiled from a variety of sources - including trade publications, local media outlets, federal agencies, and partner agents - and is based upon information available at the time of writing. This information is provided to our valued clients for informational purposes only, and we do not accept liability or responsibility for reliance on the information contained herein.

www.oceanair.net

OCEANAIR, Inc.
186A Lee Burbank Highway
Revere, MA 02151

Phone
781.286.2700

Email
solutions@oceanair.net