



MARKET INSIGHTS

Global Logistics Update

MAY 2023



State of Global Trade

Global manufacturing PMI continues to contract as the world’s economies soften, led by unexpected falls in China’s manufacturing sector, which have fallen to a four-month low of 49.2. New export orders in the world’s second largest economy have also fallen to 48.8, from 53.6, despite an 8% fall in the Producer Price Index, which measures the input cost for finished goods. The current weakness in commodity markets, especially for oil, also signals that Chinese manufacturing is not taking off as expected.

Meanwhile, the Consumer Price Index, which measures the price consumers pay for goods has kept increasing, adding to the prolonged inflationary pressures in the U.S. and Europe. Core inflation in the U.S., minus food and energy, continues to climb, and Federal Reserve economists are now predicting a recession will begin this summer. However, retail spending in the U.S. grew 0.4% in April to -3.7%, up from March’s pace of -4.1%. The growth was driven by seasonal demand for building materials (+0.2%), health and personal care (+2.8%), and general merchandise (+1%). Other products didn’t fare as well, including clothing and accessories (-6%), sporting goods (-7.8%) and furniture (-13.3%).

Industry experts are currently forecasting that this year’s peak season could be anemic and will likely arrive later than normal, souring prospects for a rebound in air, ocean, and domestic transport. This is because inventory destocking at the big box stores took longer than expected. While analysts say that they big box stores have finally brought inventory back to 2019 levels, they are not yet ready for a full restocking campaign until there is more certainty about consumer demand. Meanwhile, we are seeing an uptick in imports by smaller retailers who carried far less inventory than their larger counterparts.

Upcoming Global Holidays

Holiday	Country	Date(s) Observed
Pentecost	Belgium	May 28
Multiple	U.S. UK, BE, FR, and DE	May 29
Public Holiday	Indonesia	June 1 - 2
Multiple	Italy and Singapore	June 2
Multiple	DK, IE, MY, NZ, and TH	June 5
Dragon Boat Festival	China and Taiwan	June 22 – 23
Midsummer	Finland, Latvia, and Sweden	June 23 - 24

For a more comprehensive list of holidays, please click [here](#).

Major Disruptions

- Pension strikers in France have called for another nationwide protest on **June 6** ahead of parliament’s National Assembly
 - The protests are expected to impact air, ocean, and ground transport across the country as logistics workers join in the protest
- The **Federal Reserve** has been hinting at another one or two rate increases later this year, which threaten to dampen demand
- Currently, the greatest risk to trade in general is the U.S. debt ceiling
 - The government has warned that it could default on bills it owes in early June unless the debt ceiling is raised, causing fears of an “economic rupture”
- Recent bank failures are leading banks and financial institutions to raise their lending standards, making it harder for businesses to obtain loans



Air Freight

Market Expectations, Space, Volume, and Rates

Global air cargo volumes partially bounced back in week 19, up 7%, after a sharp 11% drop earlier this month. Comparing weeks 18 and 19 with the preceding two weeks, overall volumes decreased 7%, led by declines on shipments from Latin America to North America and Europe, down 16% and 14% respectively. Other notable decreases were from Asia to Europe (-12%) and to North America (-8%), and on the Transatlantic trade, down 10%. Comparing the overall market with the same period last year, volumes have decreased 8%, with demand flagging in key sectors, including pharmaceuticals, fashion, high tech, and automotive.

Industry analysts have warned the air freight recession hasn't reached the bottom amid the growing economic uncertainty, anemic manufacturing activity, and the ongoing inventory overhang. Demand is expected to remain muted throughout the remainder of 2023, and any improvement in demand in early 2024 "will barely be perceptible." At any rate, the consensus among retail and manufacturing circles is that inventory levels are beginning to normalize, and bookings will pick up soon. However, many are cautioning against over-relying on inventory data for forecasts.

Major Disruptions

- Airline pilots in Spain are proposing a series of strikes this summer in protest of an unlawful "minimum services" law requiring pilots to work a minimum of 90% of scheduled flights while engaged in labor actions to demand pay increases
 - The strikes are expected to impact multiple airlines including **Air Nostrum**, **Air Europa**, **Jet2**, **Norwegian**, **EasyJet**, **Ryanair**, **Iberia**, **Vueling**, **Eurowings**, **Plus Ultra**, and **Swift Air**
 - The law was recently found by the Spanish National Court to be in violation of the Spanish Constitution which grants the right to full strike actions
 - Air traffic controllers, flight attendants, and ground transportation workers are likely to join in the industrial action to pressure both the airlines and the Spanish government
- **Air Europa** cancels over 100 flights ahead of pilot strikes scheduled between **May 22 - June 2**
 - Union members claim the airline has increased ticket prices by over 50% while continuing to impose pay cuts on employees and accuse management of overlooking labor and salary demands
 - More strikes are expected throughout the summer, which could lead to significant operational impacts over the coming months



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RATES

Announcements

- **FedEx** to close pilot bases in California, Alaska, and Germany to improve profitability
 - Domiciled pilots in Los Angeles, Anchorage, and Cologne Bonn Airport will be gradually transitioned to other FedEx bases
 - FedEx will also reduce flight hours by more than 10% this quarter and plans to outsource more flights in the long term
- **American Airlines** and **Southwest Airlines** pilots vote overwhelmingly to authorize a strike over pay and working conditions, including scheduling issues and "operational disasters"
 - Meanwhile, American Airlines has reached a tentative deal with the Allied Pilots Association, which will take a couple of weeks of them to complete contractual language before presenting the contract to the board for approval, at which point union members will have a final vote
 - A work stoppage will likely take months to materialize due to the hurdles they face under the Railway Labor Act
- **FedEx** pilots have voted overwhelmingly in favor of a potential strike once federal mediation is complete
 - The pilots have been working under a contract that was negotiated in 2015 and have been negotiating for over two years for a new contract
- **Air Lingus** pilots have begun voting on a possible strike after accusing the airline of failing to enter collective bargaining talks with union leaders
 - The results are expected to be announced the week of **May 29**
- Federal judge rules **American** and **JetBlue** must dissolve partnership as the alliance diminishes competition in Boston and New York, leading to higher prices for both freight and passengers
- **CMA CGM** discontinues air cargo service to the U.S., redeploys fleet to Asia, the Middle East, and India



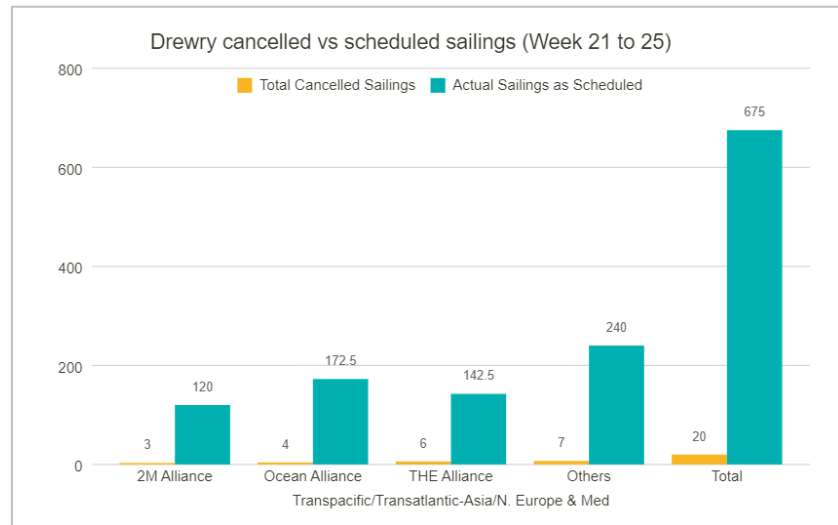
Ocean Freight

Market Expectations, Space, Volume, and Rates

Volume recovery continues in May with U.S. import volumes up 12% MOM. Despite the paring back on blank sailings this month, load factors to the U.S. East and West Coasts have only marginally improved since late April, and, in some cases, are worse. Meanwhile, utilizations to the Gulf Coast remain strong, partially attributed to reduced weight allocations for vessels transiting the Panama Canal due to severe drought conditions that have been exacerbated by El Niño.

Expectations of a second half recovery have weakened, with many industry analysts now anticipating a relatively short peak season, likely beginning in September. The World Trade Organization now believes export growth “will stutter for the duration of the year,” estimating that world trade will grow 1.7%, down from 2.7% in 2022. However, the prospect of new products coming to market later this year and large retailers, such as Walmart and Target, making significant headway in reducing excess inventories provide some optimism for a second half recovery.

Blank Sailings Forecast – Weeks 21 to 25



Source: Drewry



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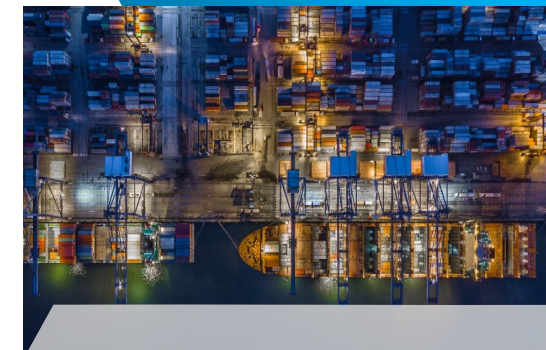
RATES

Major Disruptions

- Carriers are imposing cargo weight limits and draft surcharges due worsening drought conditions at the Panama Canal, reducing overall capacity, boosting the risk of delays, and increasing rates to the U.S. East and Gulf Coasts
 - The draft limit - how low vessels settle in the water - will be lowered again on **May 30** to 44 feet, which will translate into 40% less cargo space available on vessels transiting the canal
 - Some shippers will need to split heavier cargo into multiple containers, resulting in additional freight charges
 - Water levels in Lake Gatun, the largest lake that feeds the canal, are expected to hit historic lows by July, and further draft restrictions are likely
 - Should Panama become overly congested, shippers can opt for alternative routes to either the U.S. West Coast (additional cost of cross-country rail/truck movement) or to the East Coast via the Suez Canal (increased transit time)
 - **CMA CGM** has postponed its implementation of the Panama surcharge to **July 1**

Announcements

- With many importers yet to finalized long-term contracts, carriers are considering a June GRI of \$400 - \$600 per FEU to help them finalize some outstanding contract negotiations
 - According to the LoadStar, several carriers are proposing Transpacific GRIs of up to \$,1000
 - Carriers are also likely to ramp up blanked sailings in order to entice shippers to seal deals at acceptable levels for carriers
- Beginning **June 1**, **ONE** will only assess detention and demurrage charges on U.S. bound cargos on days when pick-up or return facilities are open
- **MSC** announces terminal change on Southeast Asia to U.S. West Coast (Sentosa) service, beginning **June 2023**
 - The service will alternate calls between Los Angeles and Long Beach on a weekly basis



Trucking

Market Expectations, Space, Volume, and Rates

Freight volumes continue to weaken further, with national outbound tender volumes ticking down 1% WOW in week 19 amid declining import volumes. YTD volumes continue to underperform compared to last year's bull run, down 16.3%. Contract loads also dipped last week by 1.37%, falling 11.9% YOY.

Of the 135 total markets tracked, 70 reported weekly increases in tender volumes, although freight flow in many of the major markets was relatively stagnant. 99 markets reported higher rejection rates over the past week, although 64 of those only saw marginal increases. Meanwhile, cross-border trade with Mexico is heating up the market in Texas as U.S. manufacturers opt to nearshore their operations in Mexico to avoid the disruptions caused by China's erratic lockdowns and the overall headaches with Transpacific shipping of the last few years.

Reefer volumes remain disappointing, pulled down by late-winter storms that created major disruptions for California's agricultural sector and the migrant crisis in Texas which is slowing the flow of Mexican produce crossing the border. Dry van volumes remain unimpressive due to sluggish demand for durable and consumer packaged good.

Relative capacity in the market rose 2.89% despite the ongoing exodus of owner-operators from the market, suggesting many independent operators are leasing their trucks to larger carriers.

With macroeconomic indicators suggesting lackluster demand in the coming months, the road ahead for the trucking sector remains bumpy.

Major Disruptions

- Truckers have warned they are having difficulties returning empty containers to ports across the country, especially in Los Angeles and Long Beach
 - In most cases, truckers are only able to return empties to off hour/off port termination facilities or when conducting dual transactions
 - This will likely lead to increased drayage and detention costs for BCOs
- The worsening driver shortage in Washington state has forced some haulage companies to turn down contracted loads



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RATES

Announcements

- The trucking industry is sounding the alarm on new federal EPA emissions regulations and the push toward electric trucks
 - American Trucking Association (ATA) president Chris Spear warns the restrictions are not only dangerous but threaten small businesses and the overall U.S. economy
 - The new restrictions will “significantly increase costs” for equipment and operations, which would cost the industry a staggering \$6 billion
 - The costs would then be passed on to customers and consumers
 - Inefficiencies with electric vehicles, the lack of charging infrastructure, and lengthy charging times could lead to significant freight delivery issues
 - The costs associated with the standards could put many smaller trucking operations across the country out of business, leading to further supply chain uncertainty
 - While Congress on Tuesday overturned the EPA rule, Biden plans to veto the resolution; a veto override would require a two-thirds vote in both the House and Senate
- Trucking insurance agency Reliance Partners sounds alarm on affects of banking crisis on carriers, warning the situation is “more serious than many think”
 - In effect, it could affect a carrier's ability to secure and pay back loans to help fund essential business assets, increasing the likelihood of job cuts or even closures
- The Teamsters union warns they are prepared to strike unless a labor agreement is reached with **UPS** by **July 31**, the current contract's expiration date
- Small Independent owner-operators are leaving the market in droves as demand wanes
 - Between January and April, 24,806 owner operators shut their doors across the country, with southern states leading the way



Rail

Market Expectations, Space, Volume, and Rates

Overall U.S. rail traffic continues to decline, with volumes down 19 out of the past 20 months. Weekly carload volumes for week ending May 13 were basically flat, up 0.9% compared to the from the same period last year, while intermodal volumes fell 12%. Year-to-date figures show overall traffic down 6%, with international containers accounting for 18% of the decline and domestic containers, 13%.

Through the first 19 weeks of 2023, the Association of American Railroads reported that five of the 10 carload commodity saw annual gains, including motor vehicles and parts, petroleum and petroleum products, and non-metallic minerals. Commodity groups posting annual declines include grain, miscellaneous carloads, farm products excluding grain, and food.

While overall rail service has improved has since last year, rail service “remains inadequate and unreliable.” In a [May 12 letter to the STB](#), Agriculture Secretary Tom Vilsack urged the STB to follow through on a number of actions to bolster service, including moving forward on private rail car use, reciprocal switching, emergency service orders, and to address demurrage fees and clarify the definition of common carrier obligation.

“The railroads should not be able to continue to operate without buffer for unexpected demand, make historic profits, and engage in enormous stock buybacks, all while providing subpar service to agricultural shippers and disregarding safety,” wrote Vilsack. “STB can and should counteract these negative trends in rail transportation by increasing competition and improving oversight with enhanced data. The Board should also ensure the railroads balance their focus on shareholders with their duty to provide high-quality common carrier rail service to the Nation.”

Announcements

- The Surface Transportation Board (STB) [has granted Union Pacific’s](#) request to keep certain information regarding the use of embargoes from public view
- **BNSF** to expand intermodal services between Houston and Denver, beginning **June 2**
- **Norfolk Southern** reaches agreement with engineers’ union for five days of paid sick time, along with the option to convert two personal days to sick days



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Container Dwell Times

Rail Terminal	Average Dwell
Charleston	1 day ●
Chicago	2 days ●
Houston	1 days ●
Los Angeles / Long Beach	7 days ●
Memphis	2 days ●
New York / New Jersey	3 days ●
Norfolk	2 days ●
Savannah	2 days ●
Seattle / Tacoma	4 days ●

Major Disruptions

- Employment levels at the Class I railroads remains well below levels needed to improve rail service
 - [In a letter](#) to the STB, seven unions argued that head count in the different craft unions are still well below pre-pandemic levels despite the railroads saying employment levels have grown since last year



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