



MARKET INSIGHTS

Global Logistics Update

JUNE 2023



State of Global Trade

While the worst of the pandemic-induced supply chain crisis is behind us, a [recent survey](#) by DispatchTrack reveals 72% of companies are still experiencing significant supply chain challenges. Some key issues highlighted in the report include high fuel costs, inflation, financial burdens due to increased operating costs, and various delays outside their control. Inventory supply remains a top concern, with one in three organizations grappling with inventory shortages and one in four contending with oversupply. Meanwhile, 53% are concerned about missing delivery windows. Despite the challenges, 61% maintain a positive outlook for the remainder of 2023.

Global economies showed further signs of weakening in May, clouding the outlook for the rest of the year. The U.S. nearly idled as business activity and orders downshifted, and the Producer Price Index (PPI) slid to a three-year low of 140.6 (-0.3% MoM). China's PPI dropped 0.9% MoM (-4.6% YoY) to 95.4, the steepest decline since February 2016. Export orders from the world's second largest economy contracted to their second-lowest level since May 2022, when manufacturing activity was hampered by Beijing's restrictive COVID restrictions. The waning demand has forced a large number of Chinese factories to reduce operating costs by shutting down production lines and cutting jobs. China's economic woes are beginning to reverberate throughout Asia, as evidenced by the sharp decline in exports to South Korea and Japan. Across the pond, the Eurozone has slipped into technical recession and fears that the UK is heading for a recession have swelled after the Bank of England raised borrowing costs more than anticipated – up half a percentage point to 5% (the highest rate since the 2008). Europe's PPI also fell, down to 44.6 from April's 45.8, with output, new orders, and backlogged orders all declining at an accelerated pace, especially in Germany.

Meanwhile, U.S. consumers continue to spend, defying economists' expectations. Retail and food sales were up 0.3% in May compared to April and up 1.6% YoY (seasonally adjusted). According to Forbes, consumers have shifted spending to discount stores and value chains, with spending at online retailers outpacing brick and mortar. With lower gas prices, no interest rate hike this month, the official end of the COVID pandemic, and consumer confidence at the highest level since January 2022 (up to 109.7, from 102.5 in May), "June looks even more optimistic."

Upcoming Global Holidays

| Holiday | Country | Date(s) Observed |
|-------------------------|---|------------------|
| Dragon Boat Festival | China and Taiwan | June 22 – 23 |
| Midsummer | Finland, Latvia, and Sweden | June 23 - 24 |
| Multiple | Indonesia, Malta, Malaysia, and Singapore | June 29 - 30 |
| Canada Day | Canada | July 1 |
| Independence Day | United States | July 4 |
| Jan Hus / Statehood Day | Czech Republic and Lithuania | July 6 |
| Bastille Day | France | July 14 |

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

Major Disruptions

- U.S. expands forced-labor embargo with ban on two new Chinese firms, warns more organizations are likely to be added
 - Ninestar Corp - along with eight of its subsidiaries - and Xinjiang Zhongtai Chemical Co. Ltd. were added to the entity list, the first additions since the law took effect in 2022
- U.S. exporters to Canada could take a big hit by a proposed change to Customs Valuations
 - Under the amendment, the Canada Border Services Agency (CBSA) is seeking to change the way duties are assessed by requiring that the last sale in a series of transactions be used for purposes of customs valuations – prohibiting the use of an earlier sale - which would result in significantly higher import duties on goods shipped to Canada
 - However, the proposed change could possibly violate the USMCA free trade agreement as well as WTO Customs Valuation Code regulations
 - The CBSA is accepting public comments by interested stakeholders until **July 26**
- One of the largest risks to the U.S. economy is the return of student loan repayments (deferred during the COVID pandemic), which are expected to resume by **September 1**
 - According to a study by the New York Federal Reserve, average student loan payments nationwide are \$393 per month
 - As reported by FreightWaves, the resumption of payments will come “as a personal cash flow shock to many households” and will have a significant impact on consumer spending

Air Freight

Market Expectations, Space, Volume, and Rates

Despite a slight uptick in week 24, up 1%, global volumes are now below pre-pandemic levels after falling 5% between the end of May and beginning of June. The uptick was sparked by strong growth from South Asia and the Middle East to Europe (+10%), and Asia Pacific to the Middle East and South Asia (+6%). All other origins posted a decline, most notably between Europe and Latin America (-11% northbound, -7% southbound), North America and Europe (-9% eastbound, -4%, westbound), North America and Latin America (-5% in both directions), and Europe and Africa (-11% northbound, -7% southbound).

Overall capacity continues to increase as we head into the summer travel season, up 12% YoY. Double-digit increases were recorded from most regions, but most notably from Asia Pacific, up 30%.

On the pricing side, the global Baltic Air Freight Index edged up 1% amid strong eCommerce business out of Asia, although pricing varied between origins. While average prices remain more or less stable from Asia Pacific and Africa, pricing was down from all other main origins.

Market Forecast

The outlook for a recovery in air freight in the second half of the year appears muted given the ongoing economic environment and inventory destocking process, with the future - at best - uncertain. While aviation professionals remain upbeat that air traffic will revive in Q4, Xeneta's chief airfreight officer Niall van de Wouwover told FreightWaves, "The overall market sentiment seems to be changing. More airlines and forwarders are clearly getting nervous and are accepting the fact that hopes of an uptick in peak season demand later in the year are dwindling." Meanwhile, the International Air Transport Association (IATA) projects that air freight demand will shrink 3.8% this summer. The market will likely be over-supplied with belly space during the busy summer travel season, putting more pressure on rates that will eventually regress to 2019 levels.

Announcements

- **United Airlines** pilots union to hold strike vote after contract negotiations stall; a date for the vote has yet to be announced
- **FedEx** pilots to hold a ratification vote on **July 5**, after leaders approved a tentative contract
- **FedEx** to ground 29 more planes as demand continues to wane



CAPACITY



EQUIPMENT



RATES

Major Disruptions

- Pete Buttigieg [warns of potential mass disruption](#) in the aviation sector due to the **July 1** 5G expansion that may interfere with navigation and autopilot equipment on older planes
 - "There's a real risk of delays or cancellations... This represents one of the biggest – probably the biggest – foreseeable problem affecting performance this summer," the Labor Secretary told Fox News
 - Only 80% of domestic airliners and 10% of international airliners have made the necessary changes to prevent interference with the 5G signal
- The **FAA** is asking airlines to reduce or cancel routes in an effort to reduce airport congestion and keep delays to a minimum amid industry-wide challenges, including pilot and air traffic controller shortages and aircraft delivery delays
- **American Airlines** to slash at least 10,000 flights (-26.7%) in September and cancel at least ten routes between major cities
 - The most impacted routes include Newark – O'Hare, Reagan Washington National – Portland, ME, Los Angeles – Boston, Chicago – Richmond, and Los Angeles – Miami
- **IATA** warns that industrial actions by airport staff across Europe are "cause for concern" ahead of the busy summer season; disruption and delays should be expected
- **Virgin** engineers in Australia have voted to strike at airports across the country over pay and working conditions, beginning **June 27**
 - The engineers have vowed to walk off the job every day until "Virgin treats their staff fairly"
- **Spirit Aerosystems**, a major supplier to the world's largest aircraft manufacturers, suspends plant operations after IAM union workers reject labor contract
 - The industrial action is expected to add to the supply chain headaches that aircraft manufacturers have wrestled with since the beginning of the pandemic
- **Korean Air Line** and **Asiana Airlines** halt flights between South Korea and China as demand wanes amid strained relationships between the two countries



Ocean Freight

Market Expectations, Space, Volume, and Rates

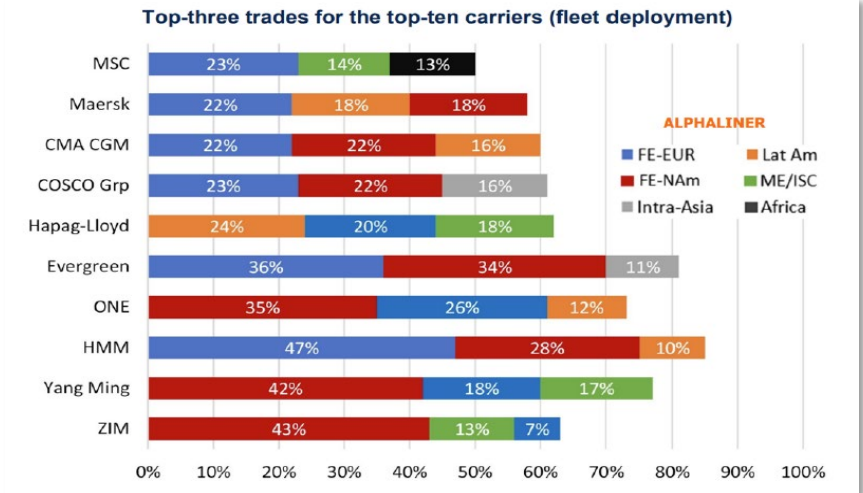
Ocean freight demand on most trade lanes remains generally flat, with demand performing better on some lanes than others. Load factors from Asia to North America and Europe show a mixed picture, with some services running full while others - especially from China and Korea - struggle to maintain 80% utilization.

While carriers continue to blank sailings, their capacity management strategies have not been enough to offset lower import demand, resulting in an oversupply of capacity. For weeks 26 – 30, carriers have cancelled a mere 5% of scheduled sailings, with 26 of the cancelled voyages on the Transpacific, 8 on the Asia-Europe trades, and 2 on the Transatlantic. Despite the downtick in blank sailing activity, we are seeing an uptick in rolled cargo, especially from Asian origins.

Overall schedule reliability continues to improve, although the latest data by Sea-Intelligence shows that the rate of recovery is losing momentum. In April, schedule reliability improved 1.7% MoM, with average delays for late vessels down to 4.34 days. Of the top 14 carriers, 10 had a schedule reliability of over 60% while the other four ranged between 50% - 60%, and only 7 recorded MoM improvements. Yang Ming remained the least reliable at 52.1%.

A recent survey by *Alphaliner* reveals that carriers have set course for more-profitable routes as trading conditions return to “normal” post-pandemic. Most of the top ten carriers have reduced the number of vessels operating between Asia and North America, with MSC cutting Transpacific tonnage to just 9%, down from 16%. According to the survey, Asian carriers are now allocating more of their fleets to intra-Asia, European, and Latin America services, while European carriers now have a stronger presence on North-South routes. However, if rates continue to decline on the Transpacific and Asia-Europe tradelanes, more carriers are likely to rethink their exposure to east-west routes and look to boost coverage to Latin America, Africa, and the Middle East.

After two flat weeks, Drewry’s World Container Index shows declines on all major tradelanes this week, with rates on most trades back to pre-pandemic levels as carriers price in order to win volume. Meanwhile, rates on the Transatlantic, which are essentially flat WoW, remain significantly higher than 2019 levels. However, the influx of capacity on this trade will add pressure to rates over the coming weeks.



Source: Alphaliner

Market Forecast

The *National Retail Federation* is projecting a slight uptick in U.S. container volumes between July – August, with a tapering off in September and October. Due to the projected spike in volumes, *Drewry* expects spot rates will rise again over the next few weeks. However, the resolution of the West Coast labor negotiations will further weaken the outlook for Transpacific rates as the risk of peak season disruptions has been significantly reduced.

Looking further ahead, industry analysts are expecting the instability to continue into Q4 due to the fragile world economy, with overall volumes and rates expected to fall more in line with 2019 levels. Meanwhile, U.S. imports from China are expected to decline further as supply chains continue to shift to near-shoring and friend-shoring for resiliency.



Ocean Freight (cont'd)

Major Disruptions

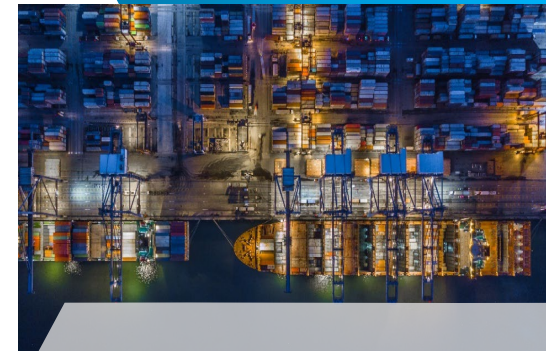
- West Coast dockworkers have reached a tentative agreement with port operators, ending worker slowdowns and sporadic work stoppages
 - The 6-year collective bargaining agreement covers more than 22,000 dockworkers and 29 ports in California, Oregon, and Washington
 - The tentative deal is subject to ratification by both the PMA and ILWU and is expected to take several months to complete
- Canadian West Coast dockworkers have voted overwhelming in support of a strike; a date has not yet been announced
 - As the “cooling off” period has officially ended, both sides are now able to commence with a strike or lockout with 72-hours’ notice
 - Over 99% of ILWU Canada members voted in favor of the strike against the British Columbia Maritime Employers Association, which represents ports across the country’s west coast including Vancouver and Prince Rupert
 - U.S. imports may be affected by the labor action, as approximately 15% of U.S. inbound and outbound cargos move through the Port of Vancouver, while two-thirds of cargos coming into Prince Rupert are transported via rail to U.S. destinations
- Low water levels on the **Rhine River** in Germany are hampering cargo flows, as carriers are forced to impose weight restrictions and surcharges

Rotation Changes

- **MSC** announces port rotation change on Far East to Pacific Northwest (**Chinook**) service, effective **July 15**
 - Yantian • Shanghai • Qingdao • Busan • Vancouver • Seattle • Portland
- **MSC** to drop Boston, New York, Charleston, and Singapore from its **Santana** service
 - Haiphong • Shanghai • Ningbo • Busan • Manzanillo • Cristobal • Cauce do • Port Everglades • Baltimore
- **CU Lines** has suspended its TCP service until further notice amid dwindling demand

Announcements

- Transpacific carriers are expected to attempt another general rate increase (GRI) on July 1
 - However, carriers will likely continue struggling to achieve the critical mass in container volumes need to sustain the GRI
- The Federal Maritime Commission has ordered **Hamburg Sud** to pay \$9.8m for retaliation against a U.S. shipper, according to *The Loadstar*
 - In its ruling, the FMC found the carrier in violation of the U.S. OSRA 22 Shipping Act by refusing to honor contractual obligations “in retaliation for potential litigation”
 - Following the ruling, the **FMC** announced it will revise OSRA 22 to provide a clearer definition of “refusal to deal”
- After receiving much-needed rainfall over the past few days, the **Panama Canal Authority** has delayed implementation of the June 25 draft restriction until further notice
 - This year’s El Nino is forecast to bring higher temperature and less rain to the region, which will likely result in further draft restrictions in the coming weeks
- **CMA CGM** has postponed implementation of its Panama Canal Adjustment factor until **August 1**
- U.S. Senate [introduces legislation](#) that would change U.S. labor laws to rein in West Coast port workers
 - Under the legislation, a labor slowdown by maritime workers would be classified as an “unfair labor practice” and any union found in violation would be subject to stiff penalties - equal to twice the damage sustained by the labor action
 - The Chamber of Commerce estimates that the recent disruption in Los Angeles and Long Beach cost nearly half a billion per day, so the unions would be penalized ~\$1 billion/day for the duration of the labor action under the proposed law



Trucking

Market Expectations, Space, Volume, and Rates

After jumping 10% in early June, overall load activity across the U.S. fell for a second straight week, down 1.8% in week 25, pulled down by a sharp decline in flatbed volumes. Dry van and refrigerated loads, meanwhile performed well, up 11.2% and 18.4% respectively. Taking a look regionally, load activity was up in all regions across the country, except for the South Central region. Despite the capacity losses caused by the continuing exodus of fleets across the country, capacity remains loose with carriers actively hunting for freight to haul.

Meanwhile, new truck orders came in above expectations in May, rising nearly 9% MoM, after falling six out of the prior seven months - a sign that many in the industry are anticipating a Q3 rebound. However, FreightWaves analysts warn that the data is "not telling us what some think it does." They say the surge in new truck orders is due to a backlog of orders caused by COVID-related supply issues that "screwed up the heavy-duty production cycle" and that carriers are now seeking to replace their old, worn-out fleets.

Market Forecast

The road ahead remains unclear, with experts divided on the prospects for a recovery in the second half of the year. Avery Vise, VP at FTR Transportation Intelligence said, "The data that drives our forecasting model still suggests that market conditions for trucking companies are at or near bottom, but the recovery looks fairly shallow – certainly compared to recent markets." Some see little hope for recovery, unless there is a peak season rebound. However, the National Retail Federation predicts a 7.9% decline in Q3 volumes, dimming hopes for a rebound in imports. Meanwhile other industry observers see more bumps ahead, including benchmarking firm Breakthrough, who expects the market won't hit bottom until Q3, pointing to high debt levels and a slow housing market.

Major Disruptions

- **UPS** Teamsters vote overwhelmingly to authorize a strike that could start as soon as **August 1**, a move that could bring the package delivery service giant to a standstill
 - **In a recent statement**, the Teamsters said they are fighting for better working conditions, more full-time jobs, and "an end to forced overtime and harassment from management"
 - Meanwhile, UPS has agreed to install air conditioning in all new vehicles purchased after January 1, 2024 and to install two fans in older vehicles



CAPACITY



EQUIPMENT



RATES

Announcements

- Teamsters leaders approve new **ABF Freight** labor deal, narrowly avoiding a potential strike
 - In addition to better benefits and wage increases, the deal prohibits "invasive technologies" like inward-facing cameras, in-cab monitoring, and self-driving vehicles as well as an end to outsourced transportation and the attendance point system
 - A ratification vote will be held over the next two weeks
- Teamsters say they won't "**bail out**" **Yellow** again after the LTL carrier announced that it will be out of money by August unless the company undergoes major restructuring
 - Yellow's restructuring plans include closing 24 of its 300+ facilities, consolidating operations in the East, Central, and South regions under **One Yellow** (including YRC Freight), drastically changing or eliminating driver jobs, and outsourcing transportation
 - Teamsters general president Sean O'Brien said union members will not approve the proposed changes, arguing they violate the current contract
 - In response, Yellow has filed a \$137 million breach of contract lawsuit against the Teamsters for blocking the proposed changes
- Trucking groups from 48 states call on the U.S. District Court of Appeals to uphold the prior ruling that Rhode Island's truck-only tolling plan RhodeWorks is a "clear violation" of the Commerce Clause, as it discriminates against out-of-state drivers in favor of local drivers
- FreightWaves reported that nearly half of the country has filed legal challenges to EPA/California emission regulations under the Advanced Clean Trucks rule and the push toward electric trucks, arguing "the EPA and California have no right or legal justification to force truckers to follow their radical climate agenda"
 - The states involved in the legal action include Alabama, Arkansas, Georgia, Indiana, Iowa, Kansas, Kentucky, Louisiana, Mississippi, Missouri, Montana, Nebraska, North Dakota, Ohio, Oklahoma, South Carolina, Utah, West Virginia, and Wyoming



Rail

Market Expectations, Space, Volume, and Rates

Overall U.S. rail traffic continued to decline in week 24, dropping 3.0% YoY. According to the Association of American Railroads (AAR), weekly carload volumes increased 1.2%, while intermodal volumes dropped 6.5%. Year-to-date figures show overall traffic down 5.5%, with cumulative carloads up 0.7% and intermodal units down 10.7%.

Seven of the 10 carload commodity groups tracked by AAR posted a YoY increase, including motor vehicles and parts, nonmetallic minerals, and metallic ores and metals. Commodity groups that posted declines were chemicals, forest products, and grain, down 4,892 carloads.

Announcements

- **Canadian Pacific Kansas City** expands Mexico Midwest Express (**MMX**) reefer rail service with the addition of 1,000 refrigerated containers
- **Norfolk Southern** becomes the first Class 1 railroad to provide paid sick time to all of its workforce, with most unions receiving four days of paid sick time with the option to convert three days of personal leave to sick days
 - Meanwhile the other railroads are making progress in negotiating sick leave, with 65% of rail workers securing this basic benefit
- Court finds **Canadian Pacific** in contempt for not providing adequate rest time for train crews
 - Crew fatigue was listed as a factor in at least 32 train derailments between the early 1990s and mid-2022, according to a statistic from the Transportation Safety Board of Canada
 - “Canadian Pacific recklessly puts lives on the line in forcing so many train crews to work longer than allowed. They do this because they operate under the dangerous delusion that they are above the law, and that it’s OK to ignore the court orders on safety issues. This company needs to smarten up and stop putting profits over people before another tragedy occurs,” said François Laporte, national president of Teamsters Canada
 - Penalties are still to be determined; however, CPKC said in a statement that it will be filing an appeal



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RATES

Container Dwell Times

| Rail Terminal | Average Dwell |
|--------------------------|--|
| Charleston | 2 days ● |
| Chicago | 1 week+ ● |
| Los Angeles / Long Beach | 7 days ● |
| Memphis | 2 days ● |
| New York / New Jersey | 3 days ● |
| Norfolk | 2 days ● |
| Oakland | 5 days ● |
| Savannah | 2 days ● |
| Seattle / Tacoma | 5 days ● |

Major Disruptions

- Bridge collapse in Montana on Saturday sends 10 freight cars carrying hazardous materials into the Yellowstone River
 - The train cars were carrying hot asphalt and molten sulfur, which creates sulfuric acid when mixed with water
 - While no injuries were reported and the area around the crash is sparsely populated, the section of the Yellowstone River Valley is surrounded by ranches and farmland



In Other News

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