OCEANAIR

MARKET INSIGHTS

Global Logistics Update

AUGUST 2023

State of Global Trade

Major Disruptions

- **Fitch Ratings** strips U.S. of it's top-tier sovereign credit grade due to "political dysfunction and growing debt loans," according the CNBC
  - The credit rating firm also warned it may be forced to downgrade dozens of U.S. banks, including JPMorgan Chase
  - The Federal Reserve warns that multiple rate hikes in the coming months "could be required to get inflation back to healthy levels" and to reach their 2% inflation target
- While U.S. consumers are still spending more than they did last year, spending growth is slowing amid economic challenges and higher interest rates, warns the **National Retail Federation**
  - YoY spending growth fell to 1.6% in Q2, down from 4.2% in Q1, with retail sales up 3.1%, unadjusted for inflation
  - Armada Corporate Intelligence estimates that 61.5% of U.S. businesses remain overstocked, while 23.7% are "effectively balanced" and 11.3% are understocked
- Global manufacturing PMI output remained in contraction mode in July
  - Global: 48.7, marking the 11th straight month below the 50.0 mark
  - U.S.: 49.0, signaling the softest decline in three months
  - China: 49.3, falling for the fourth consecutive month
  - Germany: 38.8, the lowest reading since May 2020

  A PMI reading above 50 indicates growth, while anything below 50 denotes contraction
- The Netherlands has slid into a recession as chronic inflation and interest rate hikes hit exports and household spending
- The British Independent Retailers Association warns that Brexit is hitting independent retailers that trade with the EU, making them "suddenly uncompetitive"

Upcoming Global Holidays

Holiday	Country	Date(s) Observed
Summer Bank Holiday	UK	August 28
National Day	Vietnam	September 1 – 4
Labor Day	U.S. and Canada	September 4
Yom Kippur	Jewish	September 24 – 25
Independence Day	Mexico	September 16
Harvest Moon Festival	South Korea	September 28 – 30
Mid Autumn Festival	China	September 29 - 30
Golden Week	**China**	**October 1 – 7**

For a more comprehensive list of business holiday closures, please click here.

Announcements

- Air and ocean carriers prioritize emergency medical supplies, food, and equipment for Hawaii, after raging fires devastated the town of Lāhainā
- The **U.S. Department of Agriculture** (USDA) has published a new guide to help the trade community understand the new import regulations for organic goods, which take effect on **March 19, 2024**
  - The biggest change is the requirement for more operations in the organic supply chain to be certified as organic
- The **National Oceanic and Atmospheric Administration** (NOAA) predicts an above-average Atlantic hurricane season this year
  - The updated outlook now predicts 14-21 named storms and 6-11 hurricanes, including 2-5 major hurricanes, due to the ongoing El Nino conditions

Requests for Public Comment

- Nothing new to report.

Air Freight

CAPACITY | EQUIPMENT | RATES

Market Expectations, Space, Volume, and Rates

The air freight market has stabilized over the past few months, after a year of steady declines, and appears to be heading for a soft landing. Global tonnages, which are typically weaker over the summer months, declined 3% in Week 31 from the prior week. On a regional level, significant decreases were recorded from North America to Asia (-12%) due to weakening consumer demand in China and from Asia to Europe (-6%). Trade with Latin America has also declined, with volumes to/from North America and Europe down 4%. Meanwhile, flows ex-Middle East & South Asia to Europe posted the only notable increase, up 5%. Looking at YoY figures, global tonnages were down 6%, led by significant declines from North America (-19%) and Europe (-8%).

Overall capacity has stabilized since last month's report, with the only notable change reported from Asia Pacific origins (-2%). Meanwhile, flights between China and the U.S. are set to double by the end of October after Washington and Beijing agreed to relax travel restrictions put in place during the pandemic. Both countries will gain six weekly round-trip flights as of September 1, with the total rising to 24 by October 29.

On the pricing side, average global rates have edged up 1.2%, and remain significantly above pre-COVID levels. On a regional level, rates are a mixed bag, remaining stable or slightly declining on Latin America trades and from North America to Europe, but are up from all other main origins.

Market Forecast

Looking ahead, Q3 is expected to look similar to the first half of the year amid inventory destocking and economic concerns, followed by some sort of uptick in Q4. However, demand likely won't be at typical peak-season levels, with broad recovery not expected until mid-2024. Demand growth for 2023, as forecasted by the International Air Transport Association (IATA), is expected to be -4.1% YoY. Rates are expected to continue to decline in the coming weeks but will remain significantly higher than pre-pandemic levels.

Major Disruptions

- Industrial action and staffing shortages continue to impact flight schedules globally, leading to delays and cancellations

Announcements

- FAA allows airlines to extend New York City flight cuts through **October 28**
  - The flight cuts to **LaGuardia**, **JFK**, and **Newark Liberty** will help reduce the gridlock caused by the air traffic controller shortage, which caused significant flight delays earlier this year
  - Currently, the FAA has only about half the number of controllers on staff it needs to guide aircraft in and out of the region, according to the American Journal of Transportation
- **Southwest** pilots lose bid to be released from federal mediation, delaying a possible strike action
  - In its ruling, the National Mediation Board said it "didn't agree that further meetings would be fruitless"
  - Meanwhile the airline has reached a tentative agreement with the Transport Workers Union
- **Virgin Atlantic** pilots vote overwhelmingly in favor of a strike following "serious concerns" about fatigue and wellbeing around scheduling and rostering arrangements, which saw flying hours for pilots increasing by 20%
  - The vote comes after a survey of the airline's pilots revealed that 75.6% of respondents had operated with a colleague who was "clearly not fit to do so [fly] due to fatigue or tiredness," with another 88% saying they had experienced or witnessed a colleague make a mistake in the flight deck
- **British Airways** reaches agreement with the Unite union, averting strike
  - Unite said the deal restored salaries for 24,000 workers, excluding pilots, lost during the controversial "fire and rehire" tactic the airline pushed in 2020
  - **However, the airline has yet to reach an agreement with the pilots union**
- **TSA** encourages manufacturers and shippers to become a certified cargo screening facility (CCSF)
  - By becoming a CCSF, businesses will be able to assemble, pack, secure, and tender all of their cargo for air transportation in a secure manner that requires no additional security screenings by the TSA

Ocean Freight

CAPACITY EQUIPMENT RATES

Market Expectations, Space, Volume, and Rates

This month, U.S. imports are expected to reach the highest level in nearly a year, with the National Retail Federation expecting retailers to bring in over 2 million TEU's nationwide. While Transpacific trade has improved considerably this month, analysts say the market may have peaked for now. Meanwhile, imports continue to slump across Asia, highlighting weakening global demand. Across the pond, European demand remains subdued, with August marking the 15th consecutive month of declining import volumes.

Capacity continues to grow globally with another 200,000 TEU hitting the market in July, after June's record-breaking 300,000 TEUs. However, due to the uptick in volumes and efforts to reduce capacity on the Transpacific Eastbound, space is tight. With Golden Week quickly approaching, shippers are advised to book shipments 4 – 6 weeks in advance.

Global schedule reliability continues to decline amid the ongoing congestion in British Columbia, Canada (caused by last month's labor woes) and the difficulties of transiting the Panama Canal (due to issued caused by the severe drought). Subsequently, many vessels have opted to omit the canal entirely on the return leg to Asia, taking the longer routes through the Suez Canal or even sailing past the Cape of Good Hope.

Drewry's composite global spot index ticked up 1.7% this week as carriers implemented the latest round of general rate increases (GRI) and FAK rate increases on the major tradelines out of Asia. However, many industry insiders expect this rally to be short-lived. Meanwhile, rates continue to tumble on the backhaul from North America to Asia and appear to have stabilized on the Transatlantic tradelane, as least for now.

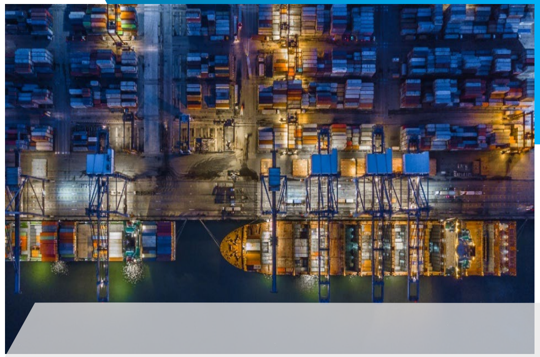
Market Forecast

Maersk expects the global container market to weaken further in Q4 as most developed economies are still working to draw down inventories, with the market contracting between 1%-4%, putting pressure on rates. Meanwhile, we are hearing rumblings that carriers may push for another GRI in September.

New vessels coming to the maritime sector threaten to overwhelm recent rate gains. According to JOC, a total of roughly 2.5 million TEU will be injected into the market in 2023, with the vast majority expected to arrive later this year, and another 3 million TEU in 2024. In an effort to prevent further rate erosion, carriers are expected become more aggressive with capacity management strategies to better match supply with demand. This will include bringing blank sailings back to January/February levels, where an average of 26% of capacity was removed, as well as schedule/rotation changes, slow steaming, and taking longer routes on the backhaul.

Major Disruptions

- Ship queues have eased slightly at the **Panama Canal** after authorities limited the number of reservations in order to clear the backlog of vessels without a booking, down from 161 last week to 131 on Wednesday
  - However, wait times for vessels with reservations have risen sharply to 16-17 days as transit times for the large Panamax vessels traversing the canal have surged from nine hours to 24 hours, and in some cases up to five days
  - Meanwhile, authorities have extended the vessel transit limits for both locks through **September 2**
  - Ripple effects are being felt at neighboring ports - including Balboa, Lazaro Cardenas, and Manzanillo – due to increasing numbers of vessels offloading extraneous cargo to comply with draft restrictions or to reroute cargo overland to U.S. East and Gulf Coast destinations
  - While rains have returned to the area, authorities are unlikely to make upward revisions to draft or transit numbers due to this year's El Nino
- Significant congestion has been reported at India's **Mundra Port** as it struggles to clear backlogs caused by last month's cyclone
  - The delays will likely lead to additional port-related (D&D) charges for both import and export containers
- Monsoon-ravished **Bangladesh** sees some relief as flood waters slowly recede; however, flooding persists in many areas including Chittagong, Bandarban, Ragamati, and Cox's Bazar, where severe damage has been reported

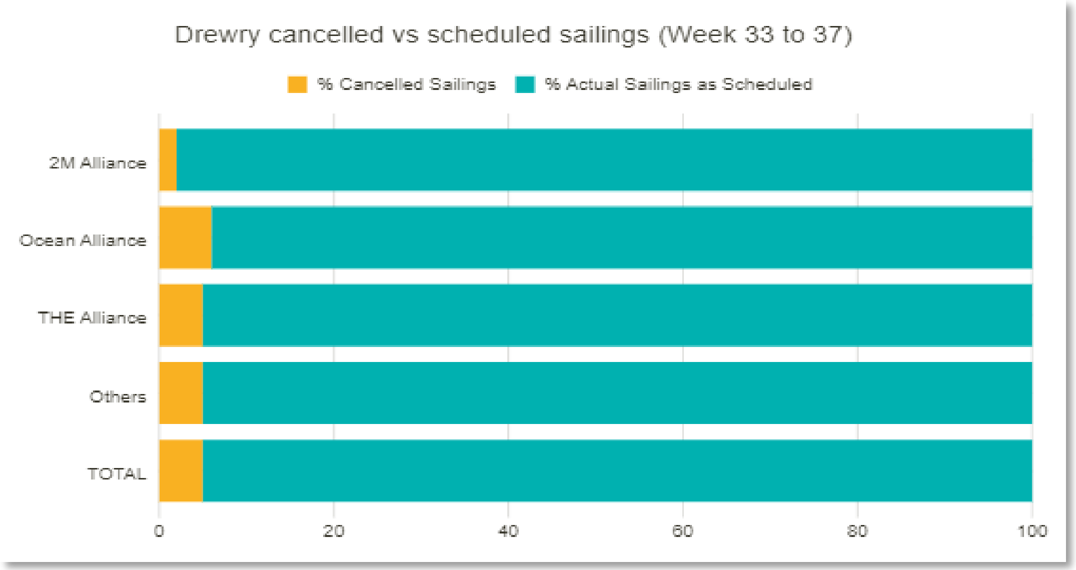


Ocean Freight (Cont'd)

Blank Sailings Forecast

Between Weeks 33 – 37, carriers have announced 32 cancelled sailings across the major east-west trades, representing a 5% cancellation rate, with 50% of the blank sailings on the Transpacific, 31% on the Transatlantic, and 19% on Asia – Europe trades.

In addition, carriers continue to cancel voyages at the last minute, pushing departures to the following week to enable better utilization, often with little or no notice.



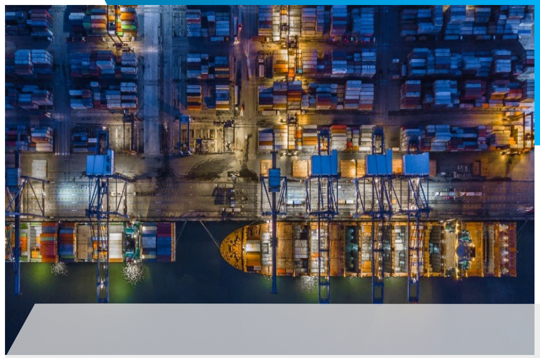
Source: Drewry

Port Rotation Changes

- **MSC** has revised its Far East to U.S. **Santana** service, effective from the sailing of MSC VEGA (UX334A)
  - Laem Chabang • Vung Tau • Ningbo • Shanghai • Busan • Manzanillo • Cristobal • Caucedo • New York • Norfolk

Announcements

- **Hapag Lloyd** announced a general rate increase (GRI) on shipments from India to the U.S. West Coast, effective **September 15**
  - The GRI will be applied to all 20' and 40' dry, reefer, and special containers, including high cubes, transported from Nhava Sheva, Mundra, Pipavav, and Hazira
- The latest push by the House to end ocean carrier antitrust immunity has stalled
  - According to the Journal of Commerce, the lack of movement over the last five months "is likely tied to federal regulators still sorting through the fallout of last year's passage of the Ocean Shipping Reform Act (OSRA) of 2022"
- The **Occupational Safety and Health Administration** (OSHA) has ordered **Maersk** to pay a seaman over $450,000 in back wages, interest, compensatory damages, and punitive damages
  - The whistleblower was terminated after reporting numerous safety concerns about a Maersk vessel to the U.S. Coast Guard
- The **Federal Maritime Commission** (FMC) probes claims that **MSC** overcharged customers more than $2 million in demurrage and detention (D&D) fees
  - The investigation follows an audit of MSC's D&D charges in 2021 that found - on at least 925 occasions - the carrier misapplied operating reefer rates to non-operating reefers (NORs)
    - A practice that has allegedly become "normal and customary" for the carrier
  - The carrier also failed to supply the separate D&D charges for NORs that the FMC requested for public inspection in 2021 (as required under OSRA) until March 2023, forcing the FMC to glean information from Bills of Lading (BOLs) supplied by MSC's customers
- Dutch customs made their largest-ever drug bust when eight tons of cocaine was found among bananas in a Maersk container, representing a street value of $653 million



Trucking

CAPACITY EQUIPMENT RATES

Market Expectations, Space, Volume, and Rates

Following seasonal trends, total load activity across all segments declined 6% in Week 32, after rising 4% the previous week, with load activity declining in all regions. Dry van loads fell 5.3%, falling in all regions except the Midwest. Refrigerated loads fell 8.1% after rising 14% the prior week. Loads were up in the Mountain Central region, but down in all other regions. After a making a brief comeback, flatbed loads were down in all regions, falling 6.9%.

Total truckload spot rates have declined modestly led by falling flatbed rates, which have declined in nine of the past 11 weeks. Dry van spot rates edged up slightly, while reefer rates have eased. Meanwhile, contract rates have stabilized after dropping over the past nine months.

Market Forecast

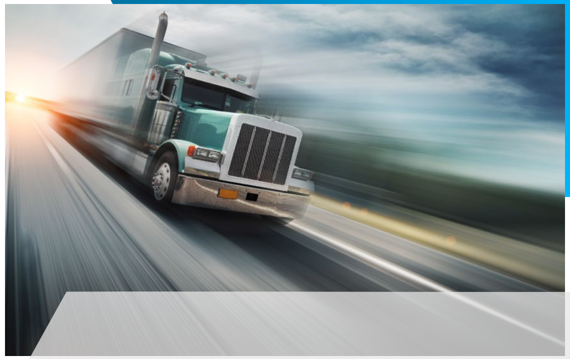
While forecasts call for an uptick in freight activity in Q3, coinciding with the peak shipping season, industry insiders are calling for a somewhat muted peak season as retailers continue to drawn down on bloated inventories. Looking further out, the consensus is for declining tonnages in the last quarter and a continuation of the rate slide, which will likely lead to continued capacity attrition.

Major Disruptions

- U.S. diesel prices surge, threaten to deplete already low inventories
  - According to EnergyPortal.eu, the “depleted diesel inventories and the rapid escalation in diesel prices are warning signs that capacity constraints and upward pressure on goods prices are likely to re-emerge in the near future”
- In another blow to the electric vehicle market, **Volvo**, **Mack**, and **Nikola Motors** are recalling nearly all electric trucks made over the last four years due to risk of battery fire
- Carriers continue to leave the market space; however, the rate of attrition has slowed
- A shortage of chassis has been reported across the Midwest, which is expected to worsen in the coming weeks, causing potential cost increases and delays

Announcements

- **Forward Air** to merge with Dallas-based **Omni Logistics**, with a focus on expedited LTL
- **UPS** saw larger-than-expected shipment losses over labor concerns, with roughly 1 million daily packages diverted to competitors
- **XPO** to add additional capacity after seeing a rise in shipments following the collapse of rival carrier **Yellow**
- **Schneider National** acquires dedicated carrier **M&M Transport Services**
  - The deal adds 500 trucks and 1,9000 trailers to its fleet
- Canadian truckers fight to claim more than $9 million in unpaid wages by various employers in Ontario through a scheme known as Driver Inc.
  - Under the Driver Inc. scheme, carriers misclassify truck drivers as independent contractors to avoid paying taxes and benefits to workers, while also disregarding national labor laws by withholding wages and payments from drivers
  - Workers advocates said that wage theft is growing crime across the country’s trucking and logistics industries, with immigrants particularly vulnerable to the scam



Rail

CAPACITY EQUIPMENT RATES

Market Expectations, Space, Volume, and Rates

U.S. rail volumes continue to decline, with railroads logging a 4.1% drop in carloads, containers, and trailers in Week 32 compared with the same week last year. According to data issued by the Association of American Railroads, total carloads fell 3.0% YoY, while intermodal units tumbled 5.6%. Looking at year to date figures, total combined volumes showed a 4.9% decline compared to the same period last year.

Three of the top 10 commodity groups posted weekly increases, including motor vehicles and parts (+11.4%), petroleum and petroleum products (16.6%), and miscellaneous carloads (+8.1%). Meanwhile, commodity groups that posted decreases included grain (-28.2%), forest products (-15.1%), and farm products (-3.4%).

Delays and congestion continue to grow at U.S. IPI locations, most notably in Chicago and other Midwest rail ramps, as container volumes begin to make their way from Western Canada, following last month's labor disruption. As the delays and congestion are projected to last well into September, there is an increased likelihood for shippers to incur storage and detention charges. To mitigate supply chain risk, shippers are urged to transport low-inventory or high-demand SKU shipments inland by way of truckload or intermodal.

U.S. Rail Traffic[1]
Week 32, 2023 – Ended August 12, 2023

	This Week		Year-To-Date		
	Cars	vs 2022	Cumulative	Avg/wk[2]	vs 2022
Total Carloads	**224,412**	**-3.0%**	**7,166,006**	**223,938**	**0.2%**
Chemicals	29,957	-5.9%	994,603	31,081	-3.8%
Coal	69,176	-0.2%	2,089,262	65,289	0.4%
Farm Products excl. Grain, and Food	15,635	-3.4%	516,495	16,140	1.1%
Forest Products	7,415	-15.1%	260,432	8,139	-7.3%
Grain	14,533	-28.2%	589,823	18,432	-12.3%
Metallic Ores and Metals	20,361	-1.1%	660,296	20,634	4.8%
Motor Vehicles and Parts	14,945	11.4%	469,456	14,671	13.4%
Nonmetallic Minerals	33,157	-2.4%	1,013,478	31,671	4.2%
Petroleum and Petroleum Products	9,952	16.6%	298,653	9,333	9.5%
Other	9,281	8.1%	273,508	8,547	-2.1%
Total Intermodal Units	**248,086**	**-5.3%**	**7,578,973**	**236,843**	**-9.4%**
Total Traffic	**472,498**	**-4.2%**	**14,744,979**	**460,781**	**-4.9%**

[1] Excludes U.S. operations of CPKC, CN and GMXT.
[2] Average per week figures may not sum to totals as a result of independent rounding.

Source: Association of American Railroads

Container Dwell Times

Rail Terminal	Average Dwell
Charleston	1 day
Chicago	11 days+
Los Angeles / Long Beach	6 days
Memphis	44 days+
New York / New Jersey	4 days
Norfolk	3 days
Oakland	5 days
Savannah	3 days
Seattle / Tacoma	6 days
Vancouver / Prince Rupert	8 – 10 days

Major Disruptions

- A shortage of chassis has been reported at U.S. IPI locations and Western Canada, which is expected to worsen in the coming weeks, causing potential cost increases and delays

OCEANAIR

In Other News

Hard Landing for Trade Roils World Export Champs

gCaptain

As economists gauge the likelihood of recessions in major economies around the world, a slew of recent data show that a downturn is already evident when it comes to global commerce …

READ MORE

What you need to know to prepare for Golden Week 2023

Maersk

Across the world, businesses are gearing up for peak shipping season that typically runs from August to October, and preparing for the expected increase in demand ahead …

READ MORE

Planning is key to navigating festivals in peak season

Container News

Golden Week in China may be the more disruptive given that major manufacturing centres will shut down during the first week of October, but the five-day Hindu festival of Diwali will have an effect on supply chains …

READ MORE

'The Death of Globalization': What Will Take Its Place?

Supply Chain Brain

Is the age of globalization coming to an end? If so, what will the future of trade look like? In this podcast, Professor John Manners-Bell paints a picture of the future of trade …

LISTEN TO PODCAST

Before Joining Federal Safety Program, Freight Railroads Push to Change It

The New York Times

After the derailment in East Palestine, Ohio, the nation's major freight railroads agreed to join a federal program for workers to report safety issues. But first, they want it to be overhauled …

READ MORE

Workers are mad as hell this summer

Vox

From actors to delivery drivers, why 2023 is a perfect storm for strikes.

Everyone, it seems, is on strike or threatening to be. Not only have delivery drivers, teachers, and hotel workers taken to picket lines in recent months, so have the people who play them on TV …

READ MORE

OCEANAIR

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.
5 Centennial Drive, Suite 400
Peabody, MA 01960

Phone
781.286.2700

Email
solutions@oceanair.net