MARKET INSIGHTS

Global Logistics Update

JULY 2023

State of Global Trade

Last week, the Federal Reserve raised interest rates by 0.25% to 5.5% - the highest since 2001 – despite signs of slowing inflation. According to a [recent article](#) by Business Insider, the U.S. is now in a rolling recession, which is hitting sector by sector, with weakness currently hitting manufacturing, energy, and housing. The mild recession will likely last through mid-2024, as the rolling downturn spreads to other sectors of the economy.

Meanwhile, U.S. trade activity showed renewed signs of resiliency in Q2, growing at its fastest pace in over two years. Recent data from Tradeshift showed the volume of new orders and invoices between U.S. buyers and their foreign suppliers grew 3 points higher than expected, recovering from 6 points below their baseline in the previous two quarters.

The emerging signs of stability in the U.S. contrast with the sluggish global picture, where total transactions are now 4 points below the expected range. The muted global growth outlook has significantly impacted the pace of China's economic recovery, with the country's exports falling 12.4% in June from a year earlier. The weakness in demand was widespread, with exports to the U.S. falling 24% amid rising geopolitical tensions, and shipments to Germany, Italy, UK, Canada, the Netherlands, and ASEAN falling by double digits.

Announcements

- UK signs **Electronic Trade Documents** bill into law, making it easier to conduct trade with countries who have already implemented digital trade agendas
  - In a recent **press release**, Paul Scully, Minister for Tech and the Digital Economy said, "What may look to many of us as a small change to the law is something that will have a massive impact on the way UK firms trade, and in turn, is going to boost our economy by over £1 billion over the next decade"
  - While UK businesses should get ready to go digital within the next 8 weeks, paper documentation is still acceptable to all authorities

Upcoming Global Holidays

Holiday	Country	Date(s) Observed
Multiple	Thailand and Switzerland	August 1
National Day	Singapore	August 9
Multiple	Bangladesh, European Union, India, and South Korea	August 15
Summer Bank Holiday	United Kingdom	August 28

For a more comprehensive list of holidays, please click **here**.

Requests for Public Comments

- The **Federal Maritime Commission** is requesting public comments on **proposed reforms** to international ocean supply chain practices related to container pickups and returns
  - The reforms will focus on practices of ocean carriers and terminal operators at the Ports of Los Angeles and Long Beach and the Port of New York and New Jersey that degrade cargo fluidity, lead to unreasonable demurrage and detention charges, and contribute to supply chain bottlenecks
  - Interested parties should submit comments to John Moran at jmoran@fmc.gov by **September 15**
  - Please note that all submissions will be treated as 'publicly available information'
- The **Federal Railroad Administration** (FRA) is seeking public comment on a plan to collect **train length data**
  - The FRA says the additional data collection is necessary to have sufficient data available to study train lengths and to better understand the impact of train length on safety
  - Comments should be submitted via the online portal at **regulations.gov** under Docket No. FRA-2023-0002 no later than **September 19**

Air Freight

Market Expectations, Space, Volume, and Rates

Global air cargo traffic ticked up 1% over the last two week, driven by stabilizing volumes ex-U.S. (+5%) and ex-Asia Pacific (+3%). Looking at the regional level, significant rises in tonnages were reported from the U.S. to Central and South America (+14%), Asia-Pacific to the Middle East/ South Asia (+8), and from Europe to Africa (+8). Moderate decreases were recorded from Europe to Asia Pacific (-5%), ex-Asia Pacific to Europe (-4%), intra-Asia (-3%), and Europe to U.S. (-1%).

Overall capacity continues to increase - up 10% from last year – boosted by an upsurge in leisure and business travel, especially out of Asia Pacific (+35%) and North America (+9%), resulting in a surplus of belly capacity.

While flight cancellations are 14% less than they were last summer, delays continue to mount amid chronic staffing shortages and labor disputes, especially in the U.S. and Europe.

On the pricing side, average spot rates continue their gradual descent, with rates on some corridors now dipping below pre-pandemic levels, according to the Baltic Air index. The most notable declines were recorded on intra-Asia, North-America to Europe, and Europe to Latin America flows. On the contract side, we are seeing some shippers moving back to longer-term contracts, suggesting that the airfreight cycle could slowly be leveling out.

Market Forecast

Looking ahead, the general consensus among economists and industry experts is for muted volumes in Q3 amid inventory and market concerns, following 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.

Major Disruptions

- **United Airlines** to cut 5% of daily flights to Newark Liberty (EWR) to “stabilize operations” amid a shortage of air traffic controllers; international flights unlikely to be affected
- Court rules that the Netherlands can cut Schiphol Airport capacity by 12%, beginning in **Q4’23**
  - Airlines and industry associations to take up fight to overturn the ruling

CAPACITY ↑ | EQUIPMENT ↑ | RATES ↓

Announcements

- **United Airlines**, pilots strike a deal, averting an industrial action
  - The union’s 16,000 members must ratify the deal; no date has yet been announced
- **American Airlines** pilots’ deal in jeopardy after United pilots received a better deal
  - According to FlightGlobal, American’s executives say they plan to re-open negotiations with the pilots association with a goal of matching the United terms
- **American Airlines** flight attendants, who have not received a pay raise for over four years, begin voting for a strike authorization; polls set to close on **August 29**
- **FedEx** pilots reject labor deal over concerns of outsourcing, back pay, working conditions, pension options, and lower than industry-average pay increases
  - There is no threat of an imminent strike, as FedEx pilots are covered under the Railway Labor Act, which requires both parties to return the negotiating table under the supervision of the National Mediation Board
- Bid to add international flights to DCA fails after House passes a bill to set funding and policy for the Federal Aviation Administration
  - The proposed bill would have added seven long-distance routes, a move local officials argued would compromise safety and increase congestion
- **Southwest Airlines** pilots have requested to be officially released from federal mediation, bringing them one step closer to a strike; the airline has formally objected to the request
  - In a statement, the pilots association said that union negotiators "have become increasingly frustrated with Southwest’s lack of commitment to negotiating in earnest and the pace of productivity during this negotiation cycle“ which has lasted for more than three years
- UK startup **One Air** launches new cargo service
  - In addition to offering services between Asia Pacific and Europe, the all-cargo carrier plans to expand into the U.S. market by 2024

Ocean Freight

Market Expectations, Space, Volume, and Rates

The peak season for container volumes to the U.S. has finally arrived, with import volumes showing a new YTD high and up by single digits compared with pre-pandemic levels. The latest booking data suggests that U.S. imports should remain healthy throughout August and into the first half of September. However, booking data from Chinese ports to the U.S. show significantly less volumes are being booked, clearly signaling that the peak on this trade has already been reached.

Now that an agreement has been reached between the ILWU and PMA, cargo has begun returning to the U.S. West Coast. However, weak consumer demand continues to hinder volume recovery.

Across the pond, yard utilization levels at some container terminals have fallen below 60% at a time when they should be crammed with peak season imports. Consequently, carriers have all but given up hope for a traditional peak season. To compensate, carriers will likely cut capacity and impose rate increases beginning August 1.

Taking a look at FreightWaves' tender rejection index, rejections have reached an all time high for the year, with 15.8% of bookings declined by carriers. This is likely due, in part, to weight restrictions caused by lower draft levels imposed by the Panama Canal Authority (ACP). As water levels have continued to deteriorate amid the prolonged drought, shippers should expect slight delays on Transpacific shipments bound for U.S. East and Gulf Coast ports.

Vessel capacity is expected to rise 1% across major east-west trades in August, with the biggest jump on the Asia-North Europe trade (+15%), according to Drewry. Effective capacity on the Asia – North America East Coast trade will expand 11%, and 8% to the West Coast. Capacity is projected to increase further in the coming months as more newly built vessels come online, steadily increasing the imbalance between supply and demand.

Drewry's composite global spot index edged up 2.5% this week, led by soaring Transpacific Eastbound rates. After three weeks of steady increases, rates from Asia to the U.S. West Coast are now at the highest level since October 2023, while rates to the East Coast are the highest since early February. Rates on this tradelane will rise again in mid-August when carriers are scheduled to impose Peak Season Surcharges. On the backhaul, rates appear to have stabilized.

Meanwhile, the latest date from Xeneta shows global long-term shipping rates fell 9.4% in June after a massive collapse of 27.5% in May. Contract rates have now shed 51.7% of their value since the beginning of the year across all key trading corridors.

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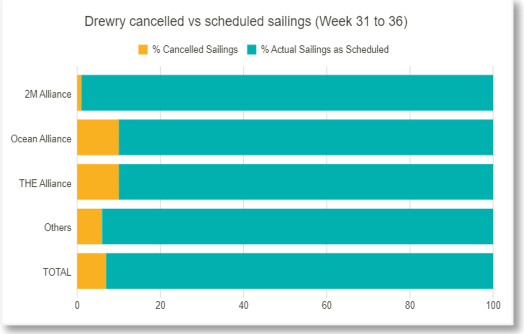
Blank Sailings Forecast

Across the major east-west trades, carriers have announced 46 cancelled sailings between Weeks 31 – 36, representing a 7% cancellation rate. 48% of the blank sailings will be on the Transpacific Eastbound trade, 28% on Asia – Europe, and 23% on the Transatlantic.



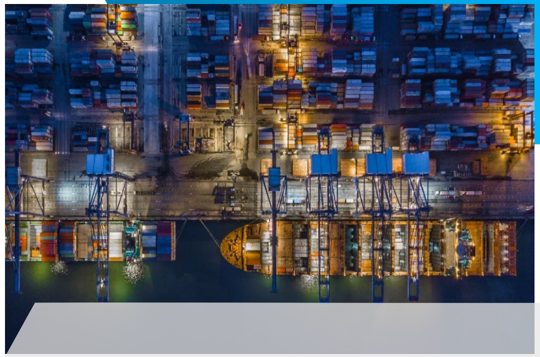
Source: Drewry

Market Forecast

According to the National Retail Federation, U.S. containerized imports are expected to peak at 2 million TEUs in August before slowing backing off. Meanwhile, volumes from China are expected to begin a downward trend in August that will likely persist throughout the rest of the year.

Looking further ahead, industry observers expect a weakening in the container market in the second half of the year. In response, carriers are likely to resort to more aggressive capacity management strategies to mitigate further rate erosion.

Should demand continue to wane amid sustained economic headwinds and tightening fiscal policies, competition among carriers could intensify, triggering a price war as they fight to gain market share. Consequently, heightened tension among the three carrier alliances could result in a significant reorganization of the container market, further reducing their ability to effectively maintain GRI, setting the stage for rates to reach a new bottom.



Ocean Freight (Cont'd)

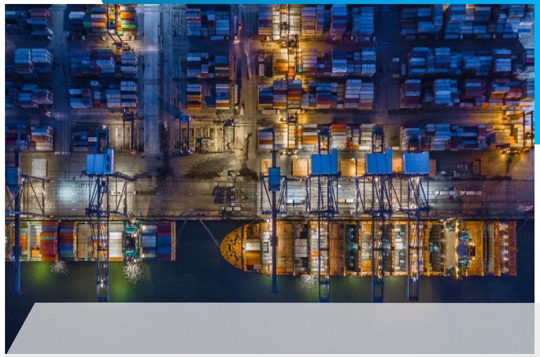
CAPACITY EQUIPMENT RATES

Major Disruptions

- Vessel queues continue to grow in British Columbia following the ILWU Canada labor strike
  - There are currently 9 vessels anchored off the Port of Vancouver and 6 at Prince Rupert, with an average wait time to berth of 8 days
- Drought-stricken Panama Canal limits daily vessel crossings in an effort to conserve water
  - The daily vessel limits will invariably increase the waiting time for vessels crossing the canal, especially if the limitations remain in place for an extended period
- Water levels on the Mississippi and Ohio Rivers are falling at an alarming rate – dropping 6' in a week – and are threatening disruption on U.S. inland water ways
  - While traffic continues to flow on the two rivers that serve as major inland freight arteries, the severe drought conditions affecting the Midwest are expected to worsen in the coming weeks, prompting fears of a repeat of last year when low water levels seriously disrupted cargo flows
- Australian Ro/Ro carriers are facing severe congestion and lengthy port delays due to biosecurity screening regulations, which were rolled out in December by Australia's Agricultural Department
  - Some carriers have bee forced to reduce services into Australia due to the delays, while a few have completely suspended their services
- Six hundred shipping containers were lost overboard after a containership sank at Kaohsiung Port in Taiwan
  - Efforts to retrieve the containers are expected to take several days to complete

Announcements

- ILWU Canada members mull over contract offer, while experts warn of more labor strife after B.C. Maritime Employers Association says "it's the same agreement union leaders previously rejected"
  - McGill University Associate Professor of Sociology Barry Eidlin warned that "the full membership may not be receptive to the deal, given that issues such as automation and jurisdiction of maintenance work may be existential for the long-term viability of these workers' jobs"
- House passes defense bill prohibiting U.S. ports from using Beijing's shipping platform LOGINK
  - LOGINK, which provides massive amounts of U.S. trade data to the Chinese Communist Party, has helped give China "unrivaled visibility" into container flows into the U.S., giving them the ability to "systematically underbid foreign competitors"
  - The legislation now faces a vote by the Senate
- **Zim** to downsize its containership fleet amid waning demand
  - The Israel-based carrier has vowed to 'actively manage and rationalize' its fleet by offloading multiple leased vessels, including early terminations of at least 5 charters and offloading at least 4 more leased ships



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Trucking

CAPACITY EQUIPMENT RATES

Market Expectations, Space, Volume, and Rates

In line with typical seasonal trends, overall trucking activity continued to decline in Week 28, with total loads down 6.7% WoW, led by declines on the spot market. Meanwhile, accepted tender volumes on the contract market ticked up 0.58%. Of the 135 markets tracked, 65 reported increased volumes, mostly in smaller markets. Chicago saw one of the highest gains, with volumes growing 10%.

By mode, the dry van and refrigerated markets experienced some growth, up 1.08% and 1.4% respectively. On the flipside, the flatbed market continues to struggle due to the drop in housing starts, falling 12.7% - its weakest performance since late December.

Despite the on-going exodus of small, independent owner operators and declining fleet sizes (based on data published by BLS employment statistics which showed publicly traded fleets contracted 1.6% in Q1), the sector continues to combat too much capacity. As a result, tender rejections have fallen 2.94% from the prior week, led again by sharp falls in the flatbed market. Meanwhile, capacity is generally finding freight in the dry van and refrigerated markets.

As is typical for the month of July, overall spot rates continue to show weakness. After eight straight weeks of declines, the spot market is now the lowest since August 2020. By segment, dry van and flatbed rates continued to fall, while refrigerated and LTL ticked up. While the uptick in LTL rates is difficult to correlate directly to Yellow Corp's troubles, the index jumped sharply in reaction to the announcement earlier this month that Yellow was running out of money, and shippers started shifting loads to other carriers.

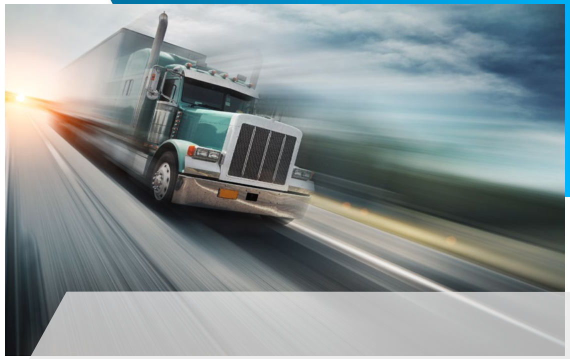
Dry van volumes and rates are expected to tick up in the coming weeks as the peak season finally kicks off, although industry experts are anticipating a shorter, more subdued season this year. Looking further ahead, analysts at FreightWaves expect a bottoming out of trucking rates in Q4, followed by a rebound in 2024. In the LTL market, capacity will be squeezed in the short term due to disruptions caused by Yellow Corp, putting upward pressure on rates. However, any service disruption will likely be short lived, taking only a few months for the dust to settle.

Major Disruptions

- LTL giant **Yellow Corp** ceases operations, putting 30,000 out of work
  - After laying off thousands of non-union workers on Friday, the cash-strapped company notified the Teamsters union on Sunday that it is shutting down its 300 terminals nationwide and will be filing for bankruptcy

Announcements

- **UPS**, Teamsters leadership reach tentative agreement on labor contract
  - While the handshake agreement is a major step in avoiding a nationwide strike, the bargaining process isn't over yet…
  - Local Teamsters representatives are set to meet on **July 31** to review the agreement
  - If approved by the local representatives, the tentative contract will be sent to rank-and-file members on August 3, with polls expected to close on **August 22**
- **UPS** shippers will likely face double-digit rate increases in 2024 as the carrier looks to recoup the "astronomical" costs of the contract, warns FreightWaves
- Major trucking companies seek exemption for driver training, claiming the FMCA's behind-the-wheel requirement is causing a shortage of trainers and new drivers



Rail

CAPACITY EQUIPMENT RATES

Market Expectations, Space, Volume, and Rates

U.S. rail volumes continue to decline, with railroads logging a 3.2% drop in carloads, containers, and trailers in Week 29 compared with the same week last year. According to data issued by the Association of American Railroads, total carloads ticked down 1.3%, while intermodal units tumbled 4.8%. Looking at YTD figures, total combined volumes showed a 5.1% decline compared to last year.

Six of the 10 commodity groups posted weekly increases, including motor vehicles and parts (+17.2%), petroleum and petroleum products (1.4%), and farm products excl grain and food (+1.2%). Meanwhile, commodity groups that posted decreases included grain (-22.8%), forest products (-9.9%), and coal (-4.8%).

Congestion in rail networks across the country have largely been cleared up, with cargo flows through West Coast gateways freed from disruption.

Meanwhile, rail freight from Canada to the U.S. continues to drop as the railroads work to clear the backlogs in Vancouver and Prince Rupert caused by the on-again, off-again ILWU Canada strikes in British Columbia. Last week, total rail volumes from our neighbor to the north were down 12%, a drastic improvement over Weeks 27 and 28, which saw declines of 46% and 35% respectively.

Major Disruptions

- Torrential rains and flooding in Nova Scotia, Canada over the weekend washed out a key rail link connecting to the U.S. and Central Canada
- **Canadian National** warns it could take up to 2 months to recover from impact of the B.C. port strike, the 900 or so “wild” fires raging across the country, and the Nova Scotia flooding
- UK operator **DB Cargo** pulls the plug on electric locomotives as energy costs soar

Announcements

- Senate reintroduce **Reliable Rail Service** bill to make common carrier obligation less “ambiguous”
  - The legislation charges the Surface Transportation Board to better define what constitutes “reasonable” rail service and establish specific criteria to determine whether a rail carrier has violated its obligation
- **Union Pacific** to ramp up its push for one-person train crews with the rollout of new pilot program in Nebraska and Colorado later this summer
  - During the pilot program, the railroad will deploy a truck from a nearby station to respond to problems on train, which will be manned by two-person crews, according to AP
- Debates about whether Class I railroads should be allowed to deploy one-person crews continues to heat up with a number of state legislatures adopting rules restricting one-person crews from operating in their states, including Arizona, California, Colorado, Minnesota, Nevada, Ohio, Washington, West Virginia, and Wisconsin, with Kansas hoping to join the growing in the coming weeks

In Other News

Factory Fires, Leadership Transition, M&A Rank Top Supply Chain Disruptions

Supply and Demand Chain Executive

Labor disruptions are also substantially higher this year -- up 136%. This includes company and site-level strikes, national strikes, layoffs and labor protests, among others ...

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