The State of Shipping in April 2021

Why is there a container shortage? Why are rates so high?

When the Suez Canal, which handles 12% of world trade, was blocked in March 2021, it symbolized the current global blockage and disruption in supply chains. Logistics are facing a perfect storm of lockdowns, large shifts in supply and demand, a vessel shortage, a container shortage, port congestion, and spiking shipping rates.

How did we get here?

Pandemic Lockdowns Reduced Supply and Increased Consumer Demand

A year ago, in March 2020, when the pandemic created global lockdowns, all non-essential activities, including manufacturing, shut down. In the summer of 2020, when China recovered from COVID-19, faster than other countries, they ramped up production to deliver goods for North America's peak (Christmas) season.

U.S. demand for consumer goods was strong, and in some cases, higher than pre-COVID. Consumers shifted spending from restaurants, entertainment, and travel to household and consumer goods such as bikes, toilet paper, furniture and building materials. Add ketchup packets and coffee to the list of supply and demand imbalances in April 2021.

The supply chain for many products has never come back to full capacity, which has caused a shortage of supply and has affected other manufacturing and assembly in

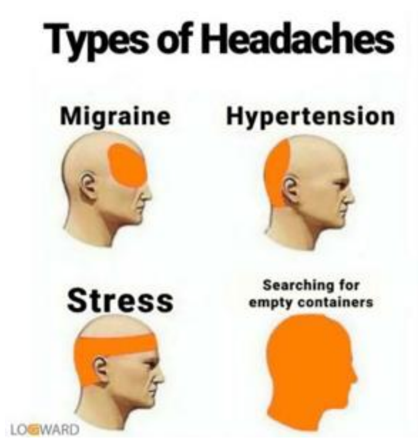
North America. One of the hardest hit areas is automotive assembly where factories are being shut down due to a shortage of parts, including semiconductors.

Vessel Shortage and Port Delays Disrupted Shipping

When world trade slowed down, some vessels had their voyages interrupted due to on-board COVID-19 cases. In addition, North American ports, warehouses and retailers were unable to receive shipments due to a shortage of manpower and drivers, so vessels and containers were left sitting at port authorities for long periods until businesses were able to receive them. This caused a delay in how quickly containers could be returned to Asia, and it was worsened as many ports quarantined incoming shipping, further reducing the number of available containers.

During the pre-holiday season China would traditionally send as many as 900,000 containers to North America every day. Due to "stranded" containers hundreds of thousands of containers were out of circulation.

The Shipping Container Cycle is Disrupted



The container process, involving loading, delivering, unloading and then shipping the container back for the next load is usually 45 days. This has increased to as much as 66 days in American and Chinese ports. It has also heavily affected the European and South Asia markets. Usually, containers move from China to North America full of consumer goods, and those are filled again with crops and shipped back to Asia. However, the demand for consumer goods from China is strong so it makes sense financially for them to ship containers back empty.

Compounding this, production of new containers is low. The rate was down in 2019 and dropped even further in 2020. China, the largest producer of containers, has now ramped up manufacturing by extending hours from eight to 11 hours a day. Meanwhile, China International Marine Containers (CIMC) has seen the price of their 20-foot standard container (TEU) more than double from a year earlier to above US$3,500.

This Perfect Storm Has Resulted In Skyrocketing Freight Rates.

Container shipping freight rates have soared by as much as 300% to 400% and, for now, there is no sign that prices will come down. If the backlog of containers isn't resolved prices could continue to rise. Some shipping lines are charging General Rate Increase (GRI) or Recovery Rate (RR) plans to help offset increased business costs.

Shipping fees from China to the east and west coasts of the United States recently reached US$5,735 and US$4,909, respectively, for larger 40-foot containers. North Europe-bound freight, which travels through the Suez Canal, was as high as US$7,485 for the same 40-foot containers. Analysts expect rates to fall in the second half of 2021. But as a result of the Suez accident, some now believe rates could stay high.

When supply chains break down, one of the first options for time-critical shipments is airfreight. But, in March, businesses who hunted for air transport to avoid the bottleneck in the Suez Canal experienced a rude awakening: there are no spare aircraft. Much of the available capacity had already been committed.

Some Good News

As nations are vaccinated supply chains should return to a new normal. Meanwhile, many businesses say they've begun to adapt. 'Just in time' may become 'just in case.' Most suppliers have adjusted assumptions and forecast models to account for the delays and longer lead times.

A McKinsey report found that 93% of executives stated they will be increasing investments in supply chain resilience.

The U.S. plans major investment in infrastructure. President Biden stated, "It's not tinkering around the edges. It's a once-in-a-generation investment." However, investment will require commodities from China such as steel, cement, and tarmacadam for roads and bridges, and cobalt, lithium, and rare earths for batteries. Copper will be needed for the electric vehicles that Biden plans to buy for the government fleet, the charging stations to power them, and in the cables connecting new wind turbines and solar farms to the grid.

What Can You Do?

Trust and collaborate with your 3PL partner. As a 3PL we have many options available as we work with over 300 partners worldwide. We will recommend only actions that are in your best interests. As a trusted partner who shares your business goals, we have a vested interest in your success.

Over-communicate with partners. Good communication makes for strong collaboration. What are your goals, priorities, back-up plans? Constantly drive transparency of your messaging with partners throughout the supply chain.

We can help with logistics, and provide more information on how end-to-end solutions can reduce complexity and volatility. Reach out to us at logitsics@willsonintl.com or call 1 866 945 5378.

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