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"News Flash"

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Ocean Freight Rates Rise, Space Demand Increases, and Canal Constraints Continue

As outlined in our last News Flash, the impact of the Panama Canal and Suez Canal disruptions, in addition to the ramp up of volumes before Chinese New Year, have created significant constraints and volatility within the global transportation arena as warned.

The Suez Canal is still facing continued missile attacks carried out by Houthi rebels of Yemen, targeting commercial vessels and causing disruption in the Red Sea and Gulf of Aden. While some carriers continue to attempt passage through the Suez Canal together with naval escorts, the majority of carriers have committed to using the longer transit around the Cape of Good Hope in South Africa for safer passage. The longer transit has an immediate impact on vessel capacity and frequency, coping with an additional 14 days is needed to complete the loop. With more fuel being burned, absorption of more capacity for a longer period, and even the need for some carriers to charter more vessels, the cost burden has risen. In recent weeks, we have seen the impact on several trade lanes globally with recently large rate increases. Another major concern is going to be the equipment imbalance as rotations take longer, which means that returning empty equipment back to origins will likely be another condition to manage.

The Panama Canal has adjusted its daily slot allowance to 24 vessels a day, up from a previous average of 20 per day seen in December and still far off from the average of 36 when operating under normal conditions. With the continued draft issues, this will remain a long-term constraint until more rain hits the region and can improve the water levels to allow for more traffic. This means that there will be continued weight restrictions and required appointments that will limit capacity and volumes destined for the U.S. East and Gulf coast moving eastbound as well as traffic moving westbound. As more vessels push further into their journeys after reconsidering this route, a significant amount of volume is now being moved through the U.S. West Coast ports and railed across country. This is a result of shippers that need to improve the transit, recognizing the delays via the Panama and Suez Canal constraints, but also to take advantage of more vessels departing China, in particular, before the factory closings for Chinese New Year.

The above situations, together with normal traffic prior to Chinese New Year have caused a surge of volume that is now pushing through to the U.S. and Canada West Coast ports. As a result, carriers have significantly increased pricing over the past few weeks, while managing increased volumes against current capacity. In speaking to some ocean carriers on the subject, they have reported that vessels are overbooked and the demand is far beyond their forecasted expectations. One of the carriers even cited a significant number of past clients that have not supported them during this season, looking for assistance as options are more scarce and the window is now very short prior to factory closings as the Chinese New Year holiday which starts February 10th. Mixed with scheduled void sailings, container rolling has increased out of several China ports as well as an increase in transshipment routings where congestion and further delays are expected to continue. The next few weeks will also determine the capability of discharge ports and inland rail movement as the volumes arrive. We have witnessed some delays already for shipments that have recently discharged and awaiting movement to Midwest inland rail ramps. In Vancouver, there have been reported rail car shortages and overall delays nearing 10 days. Rail shipments out of Los Angeles/Long Beach are experiencing delays up to 5 days longer than recent schedules.

Continued supply chain disruptions are to be expected and there can be more unforeseen constraints that could arise from the current events and market conditions. We always encourage longer booking times, an increase to your required transit times when planning final destination arrivals and providing volume forecasts that can be shared well in advance for improved planning and more reliable on-time arrivals needed. Should you need assistance, we recommend you contact your local handling office and account manager for guidance.

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