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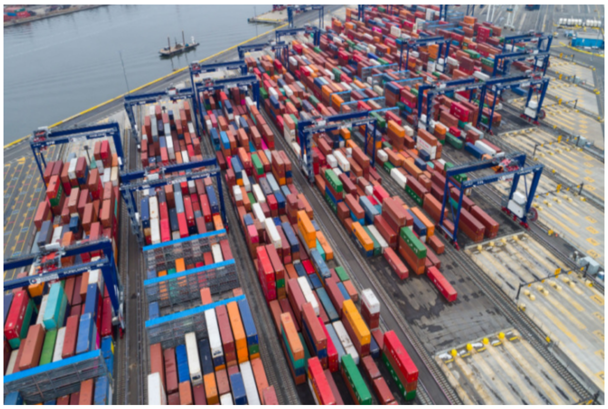
Home > Falling spot rates, strong imports give rise to trans-Pac disconnect

Bill Mongelluzzo, Senior Editor | Jul 29, 2022 8:00AM EDT



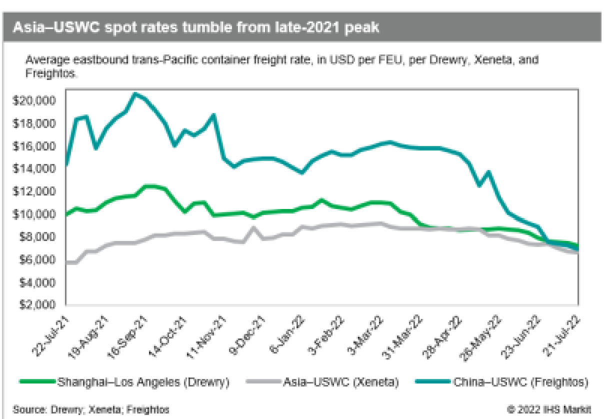
Spot rates in the trans-Pacific have come down about 30 percent since Jan. 1 yet remain well more than twice what they were two years ago. Photo credit: Shutterstock.com.

With peak season cargo volumes already at North American ports or on the water, forwarders expect eastbound trans-Pacific container spot rates — now at their lowest since June 2021 — to continue easing through the rest of the year.

Drewry's Shanghai–Los Angeles spot rate reached $7,199 per FEU as of July 28, down from $10,520 per FEU on Jan. 1 but still well more than double the spot rate of $2,934 per FEU in July 2020.

Yet despite Asia imports that hit a record for June, and retailer forecasts of near-record imports in the second half of the year, forwarders report greater loosening of capacity on some trades. And while booking volumes are still rising in the aggregate, forwarders say some shippers are curbing or even outright cancelling orders.

"We expect inventory by year-end to be approximately flat year over year, and to see reductions in on-hand supply by the end of Q3," toy maker Hasbro said in its earning statement this week.



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US import booking demand, as tracked by E2open, eased in July. Average weekly volume booked was down approximately 13 percent for the month compared with the weekly average year to date, according to E2open, a software provider to large shippers and logistics providers.

"My guess is brands are slowing down or canceling planned orders for two reasons: the global economic crisis and an anticipated recession, and a potential backlog of inventory with a lack of storage," said Gary Barraco, assistant vice president of product marketing at E2open

Importers generally need to send new purchase orders to factories in Asia by mid-August to receive items before Black Friday in late November, the official kickoff of the holiday retail shopping season. According to forwarders and industry analysts, if orders do not pick up noticeably in August, there will be no surge in imports in September and October, traditionally two of the busiest months of the year.

Return to traditional service contract negotiations?

Last year, carriers began their 2022-23 service contract negotiations with their largest customers in November and December to leverage the extremely high spot rate levels at the time. Most of the service contracts with large retailers had been signed by March. With spot rates expected to drift lower at least through the end of 2022, negotiations for the 2023–24 service contracts may follow the more traditional timeline of beginning in March and ending in early May.

"The decline in spot rates has been quite drastic," said Shabsie Levy, CEO and founder of digital freight forwarder Shifl. "This year alone, the spot rates have dropped 56 percent from January 2022 until May 2022 for the USWC [West Coast] and 53 percent on the USEC [East Coast] for the same period."

Container spot rates on four major indices — produced by Drewry, Freightos, the Shanghai Containerized Freight Index, and Xeneta — show that rates have fallen to levels not seen in more than a year.

The current dichotomy in the trans-Pacific of spot rates continuing to sink even as imports from Asia each month are at record or near-record levels is due to the placement of purchase orders with factories in Asia six to nine months ago, when economic conditions in the US were more robust than they are today, according to logistics managers.

Fearing a repeat of last year, when a fair amount of their fall and holiday merchandise arrived late in — or after — the shopping season due to supply chain bottlenecks, retailers this year placed their fall merchandise orders six to nine months ahead of the shipment dates rather than the normal three months, said Scott Weiss, vice president of technical sales at the forwarder Performance Team.

"They ordered what was selling well at the time," Weiss said.

That fall and holiday merchandise is now sitting in warehouses, filling them to capacity. With rising inflation and high gasoline prices to contend with, consumers are now pulling back on retail purchases.

"The inventory buildup is real," said Jack Chang, a transportation consultant. Many retailers last year missed holiday sales because their merchandise was delayed due to supply chain bottlenecks, so this year they pulled product forward and over-ordered, Chang said.

Demand varies by product

Logistics managers say that in the current economic environment, import volumes must be viewed on a product-by-product basis. Christian Sur, executive vice president of ocean freight and contract logistics at Unique Logistics International, said apparel imports are "steady" and auto parts imports are strong, but home appliance and furniture imports are down.

The logistics manager at a furniture retailer who did not want to be identified said his import levels are down 20 to 25 percent this year, and he expects that to continue if the housing market continues to cool.

Generally, the big-box retailers that sell a wide variety of household products that consumers need every day have not pulled back on orders and continue to restock their inventories, said Weston LaBar, head of strategy at Cargomatic, which manages freight movement from 20 US ports to the final destinations.

"We haven't seen any dip due to a change in orders," LaBar said. "There are still certain commodities that people want."

Still, with the 2023 back-to-school merchandise already on store shelves, and much of the fall and holiday merchandise already having been shipped from Asia, logistics managers and non-vessel-operating common carriers (NVOs) say any hope by carriers for a strong peak shipping season — and a reversal in spot rates — is fading fast.

"It's a relatively muted market, and rates reflect that," said Jon Monroe, a consultant to NVOs.

"The peak is over," said Michael Braun, vice president of customer solutions at the ocean and air freight rate benchmarking firm Xeneta. Xeneta's West Coast spot rate index, which peaked at $9,177 per FEU on March 3, was down to $6,677 per FEU this week.

Continued softening of spot rates expected

Braun, who sees spot rates continuing to drift lower for the rest of the year, does not anticipate that carriers will begin to seriously blank sailings and risk losing freight opportunities to competitors. With West Coast spot rates still three times the $2,000 per FEU level prior to the COVID-19 pandemic, carriers continue to realize strong margins, he said.

Brian Bourke, chief growth officer at forwarder SEKO Logistics, said he does not expect spot rates to return to their pre-pandemic averages.

"Rates aren't going to go down to pre-2019 levels," he said. "We advise our clients not to expect rate levels to revert to pre-pandemic levels any time in the medium, short, or long term. And that's important for shippers to take into consideration as they even start to think about next year's budgets already."

Although spot rates from Asia to the US East Coast this year have also declined from last fall's lofty levels, the drop has not been nearly as dramatic as in rates to the West Coast. That's because national retailers this year have shifted some of their West Coast volumes to the East Coast in case labor disruptions should occur linked to the ongoing contract negotiations between dockworkers and marine terminal employers.

According to Drewry, the Shanghai to New York–New Jersey spot rate last week was $9,842 per FEU, down from $11,872 per FEU in the same week last year and an all-time high of $16,138 per FEU in September 2021.

With West Coast spot rates under greater pressure, the spread between the East and West Coast rates is now $2,562 per FEU, according to Drewry. Before the pandemic-driven supply chain disruptions, the spread was about $1,000 per FEU.

JOC Analyst Cathy Roberson contributed to this report.

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