S&P Journal of Commerce

Trans-Pac spot rate spread for East, West coasts narrows ahead of Lunar New Year

Concerns over still-unresolved labor talks are preventing retailers from pivoting to a full-scale return to the West Coast. Photo credit: StockStudio Aerials /Shutterstock.com.

Longshore labor | Container shipping | North American ports | Ports | Trans-Pacific

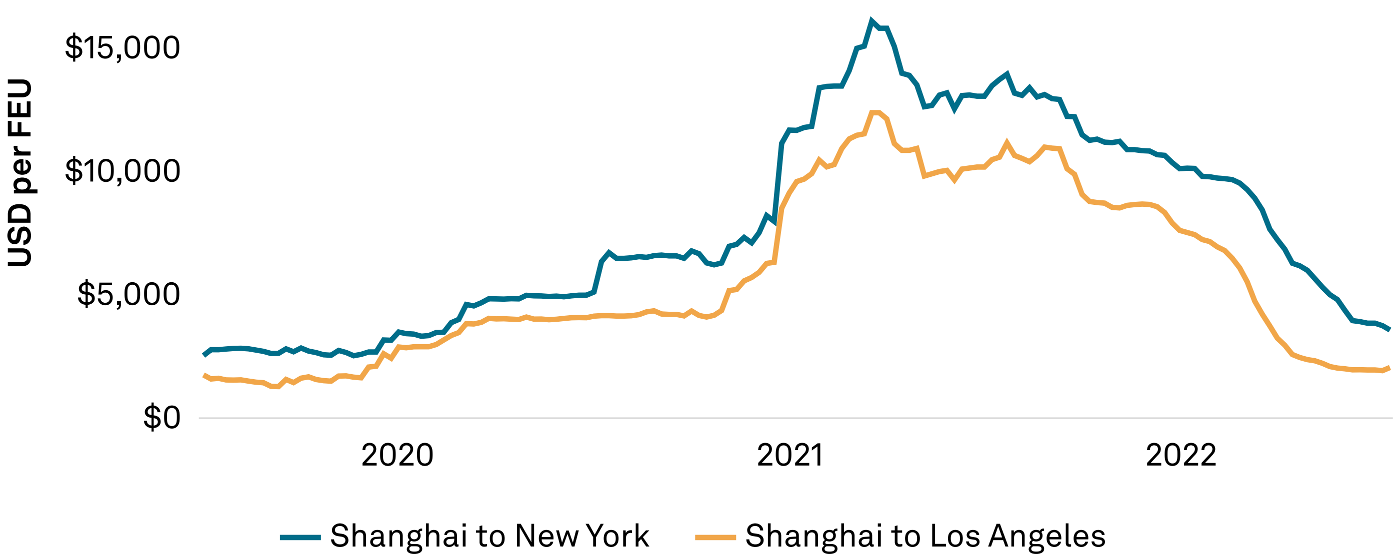
Bill Mongelluzzo, Senior Editor | Jan 17, 2023, 4:29 PM EST

The differential between spot rates to the US East and West coasts via the eastbound trans-Pacific has contracted by 36 percent since Dec. 1 and should continue to narrow as congestion in key ports like Houston and Savannah recedes and trans-Atlantic volumes slow.

A spread that was $2,369 just over six weeks ago has been shaved to $1,520 as of Jan. 12, according to Drewry's World Container Index, about $500 higher than the pre-pandemic norm of a $1,000 differential. The narrowing comes as spot rates to the East Coast have fallen by 18 percent during that time while West Coast rates have ticked slightly higher.

Trans-Pac eastbound spot rate spread narrows sharply

World Container Index assessed by Drewry rate per FEU from Asia to US coasts



Source: World Container Index assessed by Drewry

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Volumes to both coasts are expected to fall over the next several months on a year-on-year basis, US retailers say, starting with factories in Asia shutting down for an extended Lunar New Year break that will last into February.

"It will be pretty soft for the next six to eight weeks," David Bennett, chief commercial officer at the non-vessel-operating common carrier Farrow told the *Journal of Commerce.*

Beyond that, import volumes are expected to remain at pre-pandemic levels into spring because retailers must eliminate their inventory overhang to make way for spring and summer merchandise.

"What we're hearing from Gemini customers is, 'Our volumes have dropped crazily.' They are not being replenished and there are still tons of stock at our shippers' warehouses and facilities," said John Westwood, director of procurement and product at Gemini Shippers Group.

According to a third-party logistics provider with warehouses on the West and East coasts, "Importers ate so much food last year they're still stuffed. They'll need a couple more months to sift through this inventory."

Contract talks drive coastal shift

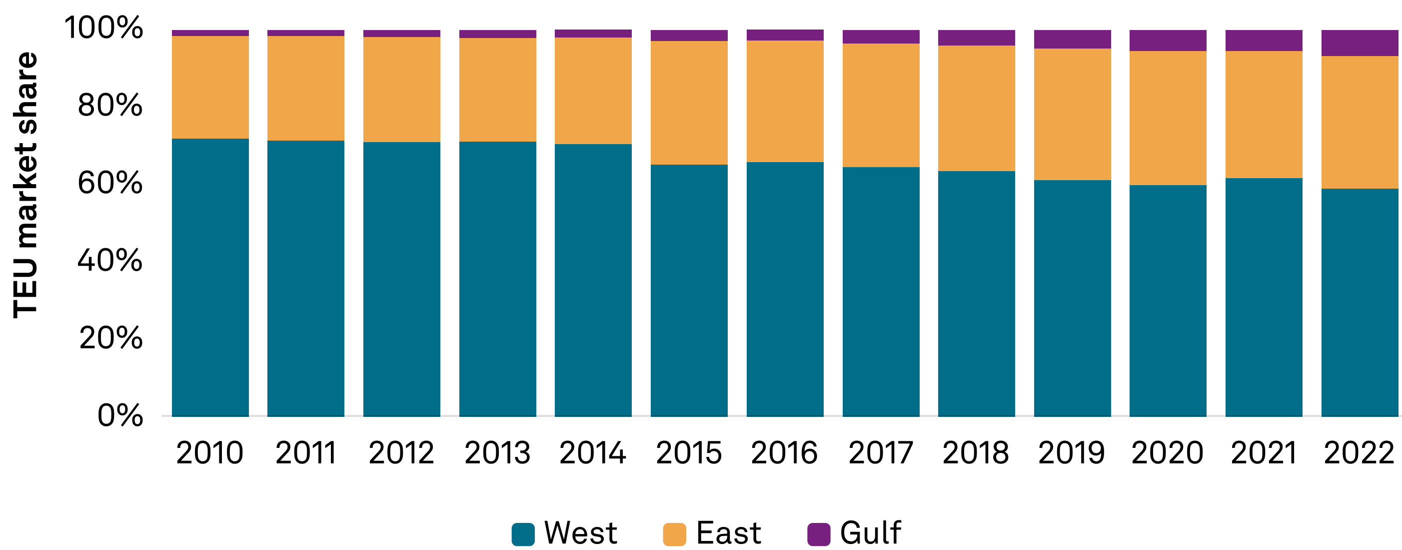
East Coast rates soared over the past year as retailers shifted discretionary freight away from the West Coast because of concerns over potential disruptions linked to the still-unresolved contract negotiations between the International Longshore & Warehouse Union and marine terminal operators. Talks began in May 2022 and sources close to the matter told the *Journal of Commerce* that little progress has been of late.

The shift in cargo helped ease congestion at West Coast ports. By late November, the Marine Exchange of Southern California reported that the once-crippling container ship backlog at the ports of Los Angeles and Long Beach, which peaked at 109 in January 2022, was gone.

If there are no serious work slowdowns or stoppages at West Coast ports in the coming weeks or months, importers and NVOs anticipate a gradual migration of freight back to the West Coast. But they also say that some of the market share West Coast ports lost over the past year will never return, based on past experiences during ILWU contract years. The West Coast's share of US imports from Asia last year was 58.82 percent, down from 61.5 percent in 2021, according to PIERS, a JOC.com sister product within S&P Global.

US West Coast ports cede share amid ILWU negotiations

Market share of containerized US imports from Asia by US coast



Notes: 2022 YTD

Source: PIERS, S&P Global

3Y MAX

An NVO told the *Journal of Commerce* that one client, a power equipment distributor, was bringing freight through Savannah during the height of the West Coast congestion but is now routing those goods through the West Coast due to lower rates and fewer terminal delays. “It costs them more to go all-water into Savannah and transloading to truck,” the source said. “Now they are going back to the West Coast because it is the cheaper option.”

Still, sources acknowledge there will be no massive shift of cargo back to the West Coast until the ILWU has a new contract.

Declining spot rates will impact service contract negotiations

The current environment in the trans-Pacific does not bode well for carriers as they launch into serious service contract negotiations with their customers ahead of the late-April expiration of most of the existing contracts.

economy and consumer demand in the second half of the year, carriers and their customers may choose to hedge their risks through creative contract strategies such as multi-year pricing with semi-annual or quarterly adjustments.

Importers may consider committing a portion of their anticipated volumes to several core carriers and NVOs with fixed named account arrangements, Kauffman said, adding they may also want to reserve a portion of their import volumes for the spot market.

Associate Editor Michael Angell contributed to this story.

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