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Market Update: COVID- 19

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Latest News

8,000. That is how many jumbo jets are needed to deliver Covid-19 vaccines to the entire world, says IATA. And the organization is urging governments to make that happen. Global air capacity contracted 23% year-over-year for the first two weeks of September, and yet this is still the most capacity seen since the pandemic began. It's going to be another coin toss to see how the markets fare as Golden Week begins later this week, slowing or stalling port operations ex-Asia. In the weeks to come, passenger flights are expected to slowly resume as several carriers and airports move to install screening technology, implement sanitation processes, and install plexiglass barriers to regain traveler confidence. KWE analysts suggest it is likely that US imports from Asia will remain strong through October as shipments of personal protective equipment (PPE), e-commerce fulfillment products, home office furnishings and traditional holiday season merchandise show no sign of letting up.

Air Freight

Capacity constraints limit air cargo's ability to bounce back.

- Airfreight volume fell nearly 13% YoY in August, according to the latest numbers from the International Air Transport Association. August volume was up nearly 2%, compared to July. Freight capacity fell more than 29% YoY in August.
- The slow recovery in air cargo is surprising, considering the strength shown in other economic indicators, specifically the manufacturing PMI, IATA said, adding that limited capacity is holding back further growth. International belly capacity was down 67% YoY in August, which is a slight improvement from nearly 71% in July.
- Dedicated freighter capacity is up 28% YoY. "At close to 11 hours/day, daily widebody freighters utilization is already at its highest level since the series started in 2012," IATA wrote in its report on August airfreight. "New freighters deliveries have been moderate in the past few months."

Lack of passenger flights holds down airfreight. The International Air Transport Association says August cargo volume fell 12.6% despite strong economic factors. The limited passenger service worldwide is keeping a lid on airfreight volumes, which should be growing faster based on strong global manufacturing activity and retail sales as the world adjusts to the coronavirus. The International Air Transport Association reported this week that air cargo demand in August improved nearly two points from July, but was still 12.6% below 2019 levels. And volumes shrank 14% year-over-year in the all-important international sector. At the same time, the Purchasing Managers' Index showed new export orders increased 5.1% on an annual basis, its best performance in three years. Manufacturing output continues to grow. Leading indicators tracked by the Organization for Economic Cooperation and Development are trending upward and Manpower Group's employment survey for this quarter shows improvement. But a shortage of available air transport is delaying some shipments or pushing them to ocean or Eurasian rail service. The main culprit is the large number of passenger planes still parked because of coronavirus-caused reductions in travel. Many passenger airlines carry cargo in the lower hold along with baggage, but belly capacity is more than two-thirds below levels in August 2019, IATA said. And capacity is likely to get tighter. The airline association downgraded its full-year passenger forecast, now estimating that traffic will be 66% less than a year ago compared to its previous estimate for a 63% decline due to a weaker-than-expected recovery as governments reinstate travel restrictions. August passenger demand was down 75.3% from a year ago, a disappointing improvement from the 79.5% year-over-year contraction in July. And available seat kilometers, a measure of capacity, was down 64%, with load factors plunging 27.2 points to an all-time low for August of 58.5%. Domestic markets continue to outperform international, although most are still well below last year's level, IATA said.

Sea Freight

PMA report warns U.S. West Coast Ports could lose up to 45% of intermodal imports to B.C. ports by 2030. A Mercator study commissioned by the Pacific Maritime Association (PMA) warns that high U.S. rail costs and other factors could cause U.S. West Coast (USWC) ports to lose between 15% to 45% of intermodal import business to British Columbia (BC) ports by 2030. The report says 15% of "Intact Intermodal import volumes" could be lost by 2022 and over "45% of the USWC's current intact intermodal import traffic is at risk of diversion to BC ports over the balance of this decade."

Seafarers Stranded by Virus Spark a Sudden Jump in Labor Costs. (Bloomberg) -- Shipowners are facing rising labor costs as widespread Covid-related restrictions limit movement of seafarers and make crew swaps more expensive. Because relieving and replacing ship workers has become so difficult during the pandemic, daily crew costs have increased 10% from January to mid-July, up to $3,144 for capesize dry-bulk carriers, according to the Baltic Exchange, a publisher of benchmark shipping rates, which traces its history to 1744. That figure is the highest since the bourse began tracking the data on a quarterly basis in May last year. Border and flight restrictions to fight the spread of Covid-19 have triggered a spiraling humanitarian crisis among the world's seafarers, the often-unseen labor behind global trade who are increasingly stuck aboard ships beyond their employment contracts or even the limits allowed under maritime law. The International Chamber of Shipping estimates there are now 400,000 seafarers stranded at sea despite repeated calls from the industry for governments to deem them "key workers" and facilitate their transfer. The situation could worsen before it improves.

North American supply chains are impacted by labor disruptions in Canada. Following a strike by dockworkers that lasted for one month and paralyzed operations at the Port of Montreal in August and September of this year, Resilience360 research indicates that major ports both on the west and east coast of Canada continue to experience disruption ranging from port congestion to rail car shortages. "While the strike ended more than four weeks ago, ocean and rail dependent supply chain operations across Canada are unlikely to fully normalize before November 2020," says Neža Kričaj, Supply Chain Risk Analyst, Resilience360. "Supply chain managers are therefore advised to adjust their routes and shipments accordingly, and explore options to divert cargo to alternative modes of transportation wherever possible."

US import bonanza could extend into 2021 on 'record' restocking. No one predicted a U.S. import surge in the middle of a pandemic — but it's happening. The big question now is: How long can this last? The answer has key implications for ocean spot freight rates and contract renewals, port throughput, and landside volumes for trucking and rail. Investment bank Jefferies issued an exceptionally bullish report on Wednesday implying that import flows should remain heavy all the way into 2021. Inventory restocking isn't about to peter out. It is just getting started, according to Jefferies. "We are just at the beginning of what is likely to be one of the biggest restocking cycles — if not the biggest inventory restocking cycle — in U.S. history," maintained Jefferies Chief Economist Aneta Markowska on a conference call held Thursday to discuss the report.

Trucking

The number of jobs in the U.S. truck transportation category rose 4,600 in September, less than half the rate of growth recorded between July and August.

In the latest monthly report released Friday morning by the Bureau of Labor Statistics, truck transportation jobs were reported at 1,454,400 for September, up from 1,449,800 for August. That August number was revised upward from 1,449,500 jobs in the preliminary report released last month. With that revision in August, and that the July numbers are now considered permanent and no longer preliminary, it shows that truck transportation jobs rose an even 10,000 positions between July and August, up to 1,449,800 jobs from 1,439,800 jobs. The July number was revised up to 1,439,500 jobs. The growth between August and September, even in a market for drivers that some analysts are likening to the crazy tightness of 2018, was not even half of what the growth was between July and August. The report for warehousing and storage jobs continues to show the impact of e-commerce. Jobs in that sector rose 32,300 to 1,253,800 jobs. It's also up 66,600 jobs just from July. The growth since July is actually more than the 60,600 job increase from September 2019. The August to September number was slightly less than the 34,400 job increase between July and August. On the rails, employment inched up 100 jobs to 145,900. That is still well below the 170,000 jobs from September 2019.

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