Not all shippers suffering amid global supply chain chaos

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If we are to believe the headlines, the supply chain disruption — or perhaps more aptly titled as "chaos" — is a major problem. But it is worthwhile to look a bit deeper and begin to see a possible glimpse of the future.

Starting at the current calamities, there is no doubt whatsoever that the supply chain is presently in a state of disarray and there is no realistic hope of a short-term resolution. The queues of vessels outside Los Angeles/Long Beach have exceeded 100 vessels. Vessel schedule reliability globally has been between 30 to 40 percent for a year, and consistently worse than that in the trans-Pacific.

The most stable and non-volatile global rate index available — from Container Trade Statistics — is showing rate levels which are up 183 percent compared with before the pandemic. Conversely, the most volatile index — the Shanghai Container Freight Index spot index — is up 408 percent compared with before the pandemic.

Flexport data shows that the average transportation time for a container from exporter in China to importer in the US is up from 45 days, to 113 days.

And this is before we start to mention the Suez Canal blockage, the shutdown of Yantian and Ningbo, rail closures in Vancouver, shortage of containers, shortage of trucks and chassis, etc. Let us stop the listing of calamities here as the list is almost interminable.

With this backdrop it is easy to jump to the conclusion that this is a disaster for the shippers and hence a major problem for the global economy. But then it is worthwhile to do something else. Let us have a look at a few statements from the latest quarterly results from the five largest container importers in the US who are publicly listed:

Walmart: *"Our momentum continues with strong sales and profit growth globally. Consolidated operating income was $5.8 billion, an increase of 0.2 percent."*

Target: *"... Announced its third quarter 2021 financial results, which reflected growth in both sales and profitability on top of record increases a year ago."*

Home Depot: *"Net earnings for the third quarter of fiscal 2021 were $4.1 billion ... compared with net earnings of $3.4 billion ... in the same period of fiscal 2020."*

Lowe's: *"... Reported net earnings of $1.9 billion...for the quarter ended October 29, 2021, compared to net earnings of $692 million ... in the third quarter of 2020"*

Dole Food: *"Adjusted EBITDA up 12.6 percent."*

In other words, despite the massive supply chain problems and the sharp increase in freight rates we have seen, the largest shippers increased their profitability. This means that we cannot see the supply chain problems through a singular simplistic prism equating supply chain problems with problems for shippers in general.

It is clear that the logistics departments in the five aforementioned large shippers have had a tough job in the past year, but it is equally clear that it is a challenge some shippers have been able to meet successfully.

According to the latest report from UNCTAD, global trade in goods had a value of $5.6 trillion in Q3 2021 and they expect the same for Q4 2021. Maersk is the carrier with the most recent earnings update; [they expect revenues for Q4 2021 to be $18.5 billion]. Maersk has a global market share of approximately 17 percent, implying an industry revenue on the order of $109 billion in Q4 2021. This means that the currently very high freight rates account for 1.9 percent of the value of the global trade in goods.

Look beyond the headlines

This is, of course, subject to significant uncertainties given different transport modes, and different exposure for regional carriers versus a global carrier such as Maersk, etc. However, it shows that the relative impact seen as a whole is less than headlines might lead us to believe.

The reality we see unfolding right now is that some shippers — exemplified above with the five largest importers who are public companies — are perfectly capable of growing their business profitably in the current environment.

It is equally true that some shippers — such as a range of smaller import shippers as well as very sizeable export shippers — do not have long-term viable business models in the long run under the current circumstances.

As it appears unlikely to see significant alleviation of the problems in the short term, what we are likely to see evolve going forward is a market where import freight rates will fall back to levels which are still much higher than pre-pandemic. This will cause a reshaping of the landscape of importers favoring those who are capable of thriving under an environment with sustainably higher rates. Importers who are currently non-viable need to assess their situation carefully — precisely because their larger competitors are indeed capable of retaining profitability under the current circumstances.

But we are also likely to see an evolution where backhaul rates might go down a bit and capacity again become more accessible as the current market clearly shows many exporters simply cannot profitably move cargo under these circumstances.

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