Supply Chain Issues and Their Impact on The International Moving Industry & Its Customers

A White Paper Published by the International Association of Movers

Ver 2.0 Revised April 26, 2021

TABLE OF CONTENTS

SUPPLY CHAIN CRISIS

Introduction

There is currently a shipping and supply chain crisis directly affecting every facet of international commerce; its impact far-reaching enough to touch the lives of consumers and businesses everywhere in the world. Simple solutions are not available in our interconnected global economy. While significant industry efforts are underway to highlight the issues and draw attention to them, the plight of the international moving industry and its customers will barely register as a blip on the radars of government regulators.

The intent of this paper is to expound on the wide-ranging impacts of this global crisis on the moving industry and its corporate, government, and private moving services consumers. It is IAM's hope that this will lead all parties to have a better understanding of the problem and promote a collaborative environment where key players can find answers and solutions to this complex issue.

The Cause of the Crisis

The following estimates reveal the reality of container trade imbalances in the current international commerce:

1. Over 90% of the total volume of world cargo is transported by sea. Containerized cargo makes up more than 70% of this sea shipment volume.
2. More than 17 million shipping containers are in circulation. Out of this number, only around 6 million are available for cargo transport. The remaining majority is utilized for storage and other local applications.

The supply chain has always struggled to keep up with these challenges, but the arrival of the COVID-19 virus and the ensuing global pandemic set in motion a perfect storm that has severely impacted every aspect of global commerce including the international household goods shipping industry.

Container Imbalances

A Transmetric Blog post cites some staggering statistics from the Boston Consulting Group: 1 in 3 containers, globally, is repositioned empty, costing the shipping industry up to US$20 billion per year. Major ports, like Los Angeles, are estimated to move over 50% of their containers empty due to trade imbalances between Asia (China, in particular) and the rest of the world.

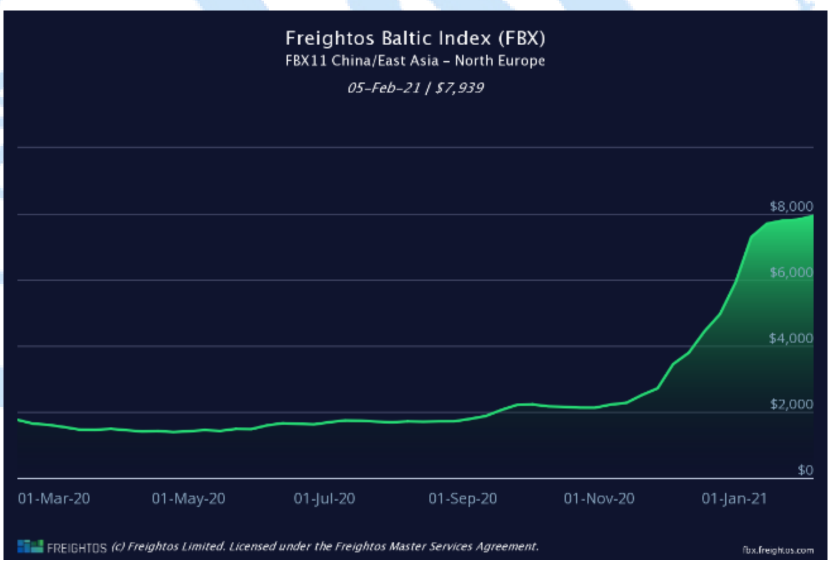
The problem is not new. What is new though is that an already declining global trade environment was exacerbated by the Covid-19 pandemic.

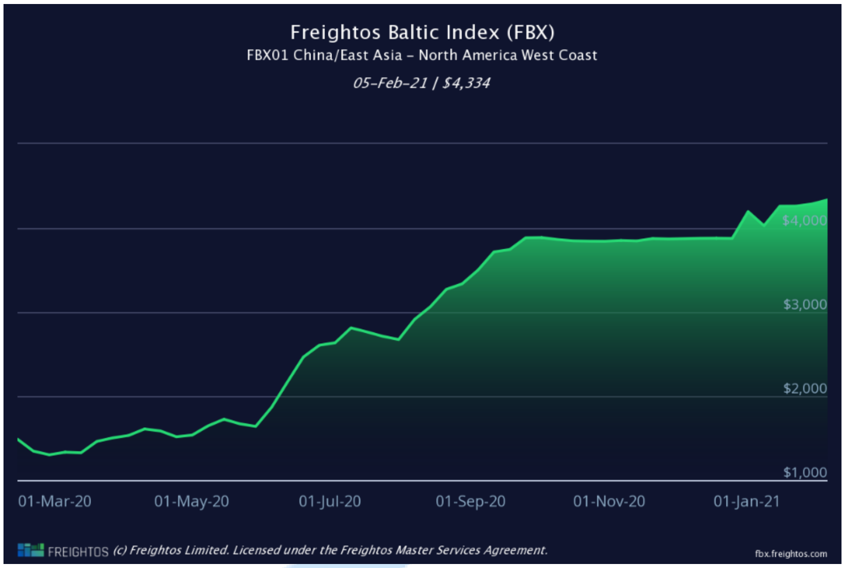
In April 2020, the Organization for Economic Co-operation and Development (OECD) published a brief that reported a dramatic decline in global container trade volumes, especially from China where the government, in a move to curb the spread of the virus, strictly enforced lockdowns and factory closings. The unforeseen drop in business forced shipping companies to reduce capacity to reduce costs.

By November 2020, Chinese factories were back in business reopening the doors for exports. China's early response efforts paid off (NBC News, November 7, 2020 article). This quick economic rebound created a surge in container demand causing the shipping industry to swiftly unwind its previous decision to reduce capacity.

The unexpected export decline/surge situation, happening within months of each other, only exacerbated what was already a problematic container imbalance.

The shipping industry responded to this imbalance in a number of ways. In particular, they raised freight rates from Asia (See Chart Below), which created ripple effects around the world.





As container shipping prices from Asia escalated, shipping lines started to refuse bookings for exports from American and European companies preferring instead to quickly reposition empty containers for reuse in Asia. This culminated in investigations by the Federal Maritime Commission into the practices of the shipping lines. (February 3, 2021 article in Freightwaves). The International Association of Movers (IAM) supports this investigation and is seeking relief on behalf of its members and clients, so they are neither assessed detention and demurrage charges or freight surcharges connected to congestion, trucking, or equipment shortages.

Effect on Shipping Rates

The end of 2020 would see spot rates for 40' Containers (FEU) going as high as US$10,000 from China to US East Coast port. Spot rates are said to now hover above US$12,000 per FEU from Singapore to Felixstowe, UK. (Source: Freightwaves, December 21, 2020). A Bloomberg.com article dated January 13, 2021, reports that container rates that were once US$2000 across the Pacific are now as high as $13,000., with no sign in sight that the astronomical rates will improve in 2021.

We know that these shipping costs have a huge effect on what we ultimately pay for consumer goods. But what of its impacts on moving consumers? International moving companies typically quote door-to-door rates that include ocean freight with a validity period of 30-to-60-days. While shipping rates expectedly fluctuate during such validity periods, the industry has never had to deal with increases of 20% to 50%. There is little choice but to pass on these underlying rate increases to moving consumers who are already suspicious of the slightest increases, regardless of what explanation they are given.

For corporate and government clients as well as for Global Relocation Companies, international moving companies typically file contracted rates for door-to-door service that have a validity period of 6 months to two years. Factoring in underlying cost fluctuations while remaining competitive has always been a challenge for the moving industry but in the current environment, absorbing ocean freight increases is simply not possible. As a result, international moving companies are faced with only two choices; either walk away from business or struggle with severe cash flow impacts.

For everyone involved, the impact is severe.

Port Congestion Issues

Along with steamship containers, ports, inland drayage, and container handling equipment like container chassis are part of the seamless, interconnected infrastructure of international transport and commerce. The world's leading container ports struggled to respond to the fall in container volume only to be faced with an unprecedented spike causing similarly unprecedented port congestion issues.

A back-up of over 35 ships waiting to berth at Los Angeles and Long Beach is cited in a Supply Chain Dive article dated January 14, 2021. The surge in import volumes coupled with labor shortages due to the pandemic are to blame. Inter-terminal truckers who move containers from the port to customer locations are likewise heavily impacted as they are unable to obtain appointments to pick up containers.

A shortage of chassis availability worsens the problem. Without the chassis (wheels) required to haul the containers, the containers are stuck in terminals while the clock ticks away and the time allotment for unloading containers runs out. This delay in container movement adds to the container shortage issue.

For moving consumers, it is hard to accept delays in their shipment schedules and harder even to agree to shoulder the additional charges incurred due to such delays.

Pandemic Related Shortages

Another pandemic related effect is now emerging which is threatening to further disrupt the supply chain. According to the latest Digital Commerce 360 analysis, US consumers spent $861 billion shopping online in 2020 which is up 44% over 2019. Those individual packages require 2 to 3 times as much packaging protection as goods shipped for retail distribution consuming cardboard, packing materials and timber at an unprecedented pace. Packing materials suppliers are ratcheting up prices and advising movers to brace for increases of up to 30%. An even worse scenario is playing out for the moving industry where materials supplies are being diverted to higher volume, higher paying retail giants. Pandemic induced stockpiling cleared the shelves of toilet paper last year. Suppliers joke that cardboard cartons will become the toilet paper of 2021.

CONCLUSION

In January of 2021, transportation experts predicted that container shortages and price hikes would ease after Chinese New Year in February. That has not come to pass, and no one can accurately predict how this supply chain crisis will play out. As the global moving industry does its best to prepare for a potential surge in moving demand in the summer peak season, the transportation industry will begin preparations for the 2021 Christmas rush. New challenges like materials shortages are causing the supply chain crisis to mutate in unanticipated ways and even produce regional variants mimicking the COVID-19 virus which gave it birth.

In the near term, the crisis is impacting most every aspect of the international economy especially in the small niche of the shipping industry related to international moving services. The plight of moving consumers may not make the news but that in no way diminishes the very real problems that they are facing.

One reality is clear. We are in this together and we will only get through this together by sharing information, encouraging patience, and fostering understanding.

References

China Controls Pandemic – CBS News – November 7, 2020

How To Solve Empty Container Repositioning – Transmetrics – September 18, 2020

War Of Words Escalates – Freightwaves – February 3, 2021

Container Shipping 2021:Hangover Or Party On? – Freightwaves – December 21, 2020

Surging Shipping Rates Pose New Headwind – Bloomberg – January 13, 2021

Congestion Could Clog California Ports Into February – Supply Chain Dive – January 14, 2021

Shipping Crisis – BBC News - January 22, 2021

A Perfect Storm – Asian Tigers Group – January 26, 2021

An Aggressive Fight Over Containers – CNBC - January 24, 2021

California Boxship Queue Sets New Records – Splash247.com – February 3, 2021

Freightos Baltic Index: Global Container Freight Index

Digital Commerce 360

About the International Association of Movers

The International Association of Movers (IAM) is the moving and forwarding industry's largest global trade association. With more than 2,000 members, it comprises companies that provide moving, forwarding, shipping, logistics, and related services in more than 170 countries. Since 1962, IAM has been promoting the growth and success of its members by offering programs, resources, membership protections, and unparalleled networking opportunities to enhance their businesses and their brands.

www.iamovers.org

E-mail: info@iamovers.org