



COVID19 Supply “Pain” News

A Condensed Update for American Shippers

These certainly are challenging times for all of us. During this unprecedented pandemic, we have compiled a condensed update of supply chain conditions. The below is the status of events as of **June 10, 2020**.

Please note: Moving forward, we will be switching to bi-weekly publications of our CSPN newsletter; the next issue will be released on Wednesday, June 24.

Quote of the Week:

“Every time we choose courage, we make everyone around us a little better and the world a little braver. And our world could stand to be a little kinder and braver.”

– Brené Brown

Financial Update: The Yearly View vs. May’s Momentum

ShapLight, Fact of the Week: The World Bank estimates that advanced economies will shrink by 7% in 2020, with global GDP set to shrink at least 6%

- US gasoline demand was off 22.8% vs. 2019 for the week ending May 22, representing steady growth in demand after a low of 48.3% down on April 3
- After seeing a 15% decline year-over-year for the last week in May, US retailers have reported growth momentum, which is a marked improvement over the 30% and 42% declines for the two weeks prior
- COVID-19 is forcing Americans to make shrewd changes to their spending and financial behaviors; according to a survey, recent trends include:
 - **Saving more money:** 34% of survey respondents indicate they have upped their savings rate since March
 - **Reducing spending:** 59% of Americans have cut their spending budgets
 - **Re-evaluating top priorities:** 48% of those surveyed indicate they are prioritizing living expenses, while 30% of respondents indicate their top priority is consumables, including food and drink
- The National Bureau of Economic Research reported the US economy fell into recession in February, weeks before the significance of the coronavirus pandemic became evident, which forced a halt to business as usual

Transpacific Ocean Import Rates Spike in June

ShapLight, Fact of the Week: Rates from Base Ports in China to Los Angeles/Long Beach rose 31.8% from the end of May to June 1; rate levels are 48% higher than June 1, 2019

- Claiming a lack of forecasting visibility from US retailers, steamships have somewhat stubbornly kept blank sailings in place despite an obvious spike in demand
- Vessel utilizations are at 100% to LA/Long Beach and averaging over 96% for all US trade lanes
- OCEAN Alliance carriers have announced a \$700 per FEU GRI effective June 15; industry pundits are skeptical about these levels, but increases are coming
- While some pent-up Chinese New Year demand was addressed in March's return to labor in China, there is clearly a demand "whiplash" as importers look to re-stock
- BAF levels are set to decline significantly on July 1, representing between 2-10% of total ocean costs for importers, depending on the steamship line
- The number of major steamship lines has been cut in half since 2013, decreasing from 20 to 10; here are some signs that the alliance system is working:
 - Despite questionable demand and a long list of COVID uncertainties, the carriers achieved annual contract pricing in 2020 that equaled or bettered 2019
 - Average spot rate GRIs are up 30% in 2018-20 vs. the three years prior
 - The vast majority of carriers are reporting increased revenue per TEU, a sure sign of alliance-driven efficiencies
 - Capacity control discipline, in the form of extra loaders and blank sailings, is now smoothly coordinated and integrated among alliance members
 - Overall volatility in the spot market is 200-300% lower in the last two years, a tribute to carrier supply controls working no matter the demand environment

US Roads, Rails and Ports

ShapLight, Fact of the Week: Year over year imports sunk by 18.5% in May, marking the worst month for US Ports in 2020

- Longshoremen and their port employers in the US Maritime Alliance conducted peaceful protests across the nation on Tuesday
- The US average weekly diesel price, which is the basis for fuel surcharges for trucking and rail transport, was \$2.386 per gallon on June 1, down 24% from a year ago
- As many retailers are trying to rebound from COVID-19, Monday's Port Tracker is predicting US containerized imports from Asia to have year-over-year declines in the coming months; current forecasts indicate:
 - **July:** 17.4% decline
 - **August:** 12.9% decline
 - **September:** 11.3% decline
 - **October:** 7.9% decline

- The Federal Motor Carrier Safety Administration (FMCSA) has extended the national emergency exception for hours of service (HOS) to July 14 for the following:
 - Livestock and livestock feed
 - Medical supplies and equipment related to the testing, diagnosis, and treatment of COVID-19
 - Supplies and equipment necessary for community safety, sanitation, and prevention of community transmission of COVID-19, which include masks, gloves, hand sanitizer, soap, and disinfectants
- Overall, US trucking rates are down 9% since March, though industry insiders point to fuel decreases as the main root cause
- The truck driver unemployment rate continues to show a month over month decrease as sectors that utilize trucking – such as construction, manufacturing and retail – begin showing signs of improvement
- The Association of American Railroads reported a 25% spike in the number of railcars in storage for the month of May
- The warehouse management market is expected to reach \$19.06 billion by 2025 as the demand for goods-to-person (GTP) technology increases and drives future growth

The Government Corner: Hints of US Tension with Hong Kong

ShapLight, Fact of the Week: CBP officers in Philadelphia seized 10,000 unapproved N-95 masks last Thursday

- President Trump released a statement that his administration is beginning a process to review and [likely revoke Hong Kong's differential treatment](#) from China; this would include the territory's more lenient export controls on dual-use technologies
- Agricultural Marketing Services (AMS) will be a mandatory filing requirement in ACE beginning September 2, 2020; AMS will apply to Section 8e of the Agricultural Marketing Agreement Act, which covers certain fruit, vegetable, and crop imports
- The FDA tightened the rules on the cleaning and re-using of N-95 masks from China; restrictions had been relaxed during the height of the pandemic
- The CDC has warned Americans that “we are still in a pandemic” and that many Americans remain vulnerable; they stated “the pandemic will continue as long as there’s a readily transmissible virus and a population with little or no immunity to it”
- The Office of the United States Trade Representative (USTR) announced that they’re beginning Section 301 investigations into digital services taxes (DST) that have reportedly been adopted by some of the US’ closest trading partners, including the European Union, the United Kingdom, India and Brazil

Shipments of Essential Goods: Focus on US Exports

ShapLight, Fact of the Week: Despite US shortages for PPE, many of these items are still subject to Section 301 tariffs, such as medical headwear and pulse oximeters

- The USDA recently announced a new organic food trade agreement with Taiwan, which is the fifth largest market for US organic products
- China purchased \$4.65 billion in U.S. farm-related products in the first four months of 2020; this is slightly higher than \$4.3 billion in the same period last year and only 38% of the pace set by the current trade deal between the two nations
- The Port of Oakland said last week that its meat exports jumped 26% in the first quarter of 2020
- Healthcare supply chain inefficiencies and shortages have highlighted a need to reprioritize how products are procured, distributed, and stored; healthcare facilities and suppliers are adjusting to ensure a completely integrated and transparent supply chain
- Global demand for medical supplies is forecasted to begin dropping at the start of July, while demand for masks is expected to remain stable as people go back to work

Global Round-Up

ShapLight, Fact of the Week: With COVID fiscal stimulus spending moderate, China is projecting a 2020 budget deficit of 3.6% of GDP; the US's projection for 2020 is over 20% of GDP

Greater Asia and India-Pakistan

- On Monday, Vietnam ratified a landmark trade deal with the European Union; when it takes effect next month, the EU will lift 85% of its tariffs on Vietnamese goods and will gradually eliminate the rest over the next seven years, while Vietnam will remove 49% of its import duties on EU exports and will phase out the rest over the next 10 years
- China's exports contracted in May as global lockdowns continued to diminish consumer demand; international shipments fell 3.3% in May from 2019
- Indonesia plans to spend \$97 billion on several infrastructure projects over the next five years to stimulate the nation's economy and to prepare for a post COVID-19 recovery
- South Korea's jobless rate reached 4.5% in May, hitting a 10-year high

Europe

- The OECD has projected that Euro-area manufacturing output will tumble 9% in 2020
- The World Bank fears that the economies of France, UK, and Italy will shrink by at least 11% this year
- France pledged €1.5 billion to Air France for research and development of a carbon neutral plane by 2035 as part of a massive €15 billion bailout to save their aeronautics industry
- German factory output declined by almost 20% in April, marking the worst production month in over 100 years

- Italy has reopened their doors to European travelers after a 3-month lockdown in the hopes of saving the summer tourism season
- Spain is planning to reopen their doors to tourism on July 1 and will no longer require people to spend two weeks in quarantine
- The Premier League, England's top level of soccer, is planning to return to the pitch; the season is scheduled to restart (without fans present) on June 17

In a World of Bad News, a Few Silver Linings

ShapLight, Fact of the Week: Between May 17 and June 3 of this year, bookings on Airbnb topped those for the same period in 2019; this is the first increase since February

- NJ resident, Greg Daily, has been unable to operate his business since late March, but that hasn't stopped him from taking over 500 trips to the grocery store for seniors sheltering at home
- Georgia, DC and California have dismissed the national guard from their cities as the protests there have remained peaceful
- Lyft reported a 26% ride uptick in May vs. April
- While TSA passenger throughput is still down 87%, it has climbed another 2% in the last week (for the fourth time in a row)
- Napa Valley wineries began opening their tasting rooms this week to the public, after nearly three months of COVID-19 induced closures
- Despite predictions of unemployment reaching 20% in May, the Bureau of Labor Statistics reported that the number of unemployed actually fell by 2.5 million; the unemployment rate is still a somewhat grim 16.3%

Shap Fact of the Week:

When the South Korean government realized that the Navajo Nation had suffered infection rates for COVID-19 rivaling those of New York City, they shipped 10,000 masks and other PPE to reservations to honor their service in Korea seven decades ago.

The leadership and staff of Shapiro understand the personal and business anxiety each of you is experiencing. We want nothing but safety today and a return to normalcy tomorrow for you and your families. Please reach out to us if you have any questions—or if we can assist you in any way.
