OUTSOURCE FREIGHT

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INSIDE THIS

SPECIAL POINTS OF INTEREST

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EAST AND WEST

In May, the Port of Long Beach posted its busiest month since October, 2007, before the recession hit the economy hard. This is the strongest indicator yet that cargo volumes are returning to pre-recession levels and that the worst effects of the labor disruptions throughout much of 2014 are over.

Officials at Long Beach, the second busiest port in the U.S., second only to the Port of Los Angeles, said that import traffic is increasing due in part to a stronger retail market. Also, as carriers rework their schedules for the summer-fall peak shipping season in preparation for the holidays, Long Beach is attracting some new services.

The number of TEU's the port has been seeing since the labor dispute was settled in February compare favorably to the container volumes that were handled each month in 2006 and 2007, the peak years in Southern California before the Great Recession. The spike in volume could be a sign that the West Coast ports are regaining their import market share, some of which they lost to East and Gulf Coast ports during the lengthy labor negotiations. Another good sign is that the number of empty containers returned to Asia recently are also in line with the monthly volumes handled in 2006 and 2007. Typically empty containers build up at U.S. ports during peak shipping season and pre-Chinese New Year, and then the empties are returned to Asia in the spring as production in Asia ramps up for the upcoming peak season.

While the picture may look rosy now for the Port of Long Beach, East Coast ports could benefit from up to a 10% shift of cargo volume moving from East Asia to the U.S. after the Panama Canal expansion is completed next year, according to a new report titled ***Wide Open: How the Panama Canal is Redrawing the Logistics Map*** *(click to link)*, co-authored by The Boston Consulting Group and C.H. Robinson Worldwide, Inc. The report found that West Coast ports will lose market share, and truck and rail investment may need to shift to accommodate new domestic routes.

The new expanded Panama Canal "promises to reorient the landscape of the logistics industry and alter the decision-making calculus of the shippers that the canal serves," the report said. West Coast ports, which currently handle roughly two-thirds of cargo containers from East Asia (defined as China, Japan, South Korea and Hong Kong), will see that fraction get smaller, although the West Coast is expected to hold onto the majority of trade from East Asia.

"For shipping to many destinations, using West Coast ports will still be the fastest option—but it won't necessarily be the cheapest," because transport inland from the West Coast adds significant extra cost. Many companies will overlook the higher costs in order to get their goods delivered to

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EAST AND WEST

Photo courtesy of Port of Long Beach

them without delay. Clothing and shoe companies, for example, need to have current styles stocked as quickly as possible to avoid obsolescence, and the cost of transit typically makes up a relatively small percentage of the cost of goods, so their savings by shipping to East Coast ports would not be significant enough to trump the time advantage of shipping to West Coast ports. But for price-sensitive cargo that is relatively expensive to move, such as parts and durable goods, for which transportation makes up a higher percentage of their cost and for which maintaining higher inventory levels is not problematic and may actually be desirable, routing shipments through East Coast ports to inland destinations will become more cost competitive and increasingly attractive.

In 2014, about 35% of container traffic from East Asia to the U.S. arrived at East Coast ports. Current growth trends would push that share to 40% by 2020; but, factoring in the canal's expansion, the East Coast share could actually reach as much as 50%, a projected increase of 10% directly attributable to the canal.

"With the Panama Canal's expansion, shippers will have more options and carriers will compete to provide those options," said Peter Ulrich, a BCG partner and leader of the firm's transportation and logistics topic area in North America. "Rail, truck, and ocean carriers will all have to reconsider their routing and investment decisions. And shippers will need to make fundamental choices, such as where to locate distribution centers and how to segregate their cargo heading for the heartland", a region that accounts for about 15% of U.S. GDP.

There are, of course, factors that can affect the projected 10% East Coast gain arrived at in this report. Vagaries in fuel prices, including the use of liquefied natural gas as bunker fuel, the continued robust growth in or the weakening of the U. S. economic recovery, manufacturing shifts, and overbuilding are just a few scenarios cited that can all come into play and modify the projections made. How efficiently a port is able to unload and move cargo can also influence a shipper's decision, as can overall shipping time, flexibility, and reliability.

Other potential less predictable developments might also have an impact—the proposed Nicaraguan canal, alteration of ocean and rail schedules in terms of time and cost of shipping lanes, disruptions in labor relations, driver shortage effect on cost and reliability of trucking routes, the impact of foreign exchange movements and macroeconomic policy on the cost of carrying inventory and the choice of manufacturing locations, to name a few. Overall, while the report does not discount these influences, it does not think that any will significantly tilt the playing field and change their projections in the near term.

SOURCE: Port of Long Beach website news release—6/17/15; Journal of Commerce Long Beach Volume Returns to Pre-Recession Levels—6/17/15; The Boston Consulting Group website Wide Open: How the Panama Canal is Redrawing the Logistics Map– 6/16/15.

WHAT'S THE BUZZ? BEE HAULERS GET A BREAK

In a rare display of compassion, magnanimity, and common sense, the FMCSA has granted bee haulers a two-year exemption from the agency's 30-minute rest break mandate. The exemption was requested by the California Farm Bureau Federation.

The bee hauler exemption was approved "for the health and welfare" of bees. "Because of the reduced number of colonies available, bees are transported long distances to provide crop pollination," said the FMCSA. "CFBF said that honey bees require cool, fresh air to maintain healthful temperatures in the hives when being moved on trucks."

Also granted an exemption were oversize/overweight trucks, whose operating hours are restricted by permit requirements, often in conflict with the break mandate. There is also less available parking for them than for regular loads, causing them to sometimes park roadside in ways that compromise safety.

SOURCE: Transport Topics news—6/18/15.

SPOT RATES HIT NEW LOWS

The spot rate to ship a 40' container from Hong Kong to Los Angeles fell to a four-year low in mid-June, continuing the downward trend since early April. Declining rates are normal at this time of year due to seasonal demand, as summer merchandise for retail stores has long been delivered and the peak season holiday rush doesn't begin until late summer. But analysts at the U.K.'s Drewry Supply Chain Advisors say that the rates are in "free fall" and likely to remain depressed by supply-demand imbalances for at least two more years. This is not good news for carriers looking to implement a general rate increase.

Rates are being affected by seasonal weak demand, low fuel prices, and overcapacity caused in part by the surge in ship deliveries, particularly the more efficient mega-ships. In fact, carriers on both the Asia-Europe and Asia-Australia trade routes are effectively operating in a negative freight environment, in which their spot rates are less than their bunker adjustment factors.

This may sound good to cargo owners, who are enjoying the benefit of lower rates, but it does threaten to reduce shippers' choices as carriers begin to adjust their sailings accordingly, with some forced to curtail their operations in order to stay afloat.

SOURCE: Journal of Commerce coverage—6/12 through 6/23/15.

COULD THE DAYS OF LOW LOGISTICS COSTS BE NUMBERED?

Tightening capacity fueled by growing demand and a shortage of drivers could soon spell the end of historically low logistics costs, according to the latest State of Logistics report out of the Council of Supply Chain Management Professionals. The cost of business—from hiring a driver to warehousing goods—rose 3.1% last year.

Rail traffic and intermodal volume were both up in 2014. And while the number of truck shipments declined, the tonnage increased 3.5%.

"This supports the anecdotal evidence that suggests loads are heavier and more trucks are moving at full or near-full capacity," said the report's author, Rosalyn Wilson.

The trucking industry expects to be about 50,000 drivers shy of what it needs in order to keep up with freight in a growing economy. Older drivers are retiring faster than young ones are taking the wheel. Employee retention is now the most pressing challenge faced in the industry. Pay for these workers has not kept pace with other blue-collar jobs in the economy, and the logistics industry will have to continue to increase wages to compete for workers.

Rates are projected to rise 3%-5% in 2015, and those numbers are expected to keep on rising for at least two years.

SOURCE: Journal of Commerce—6/23/15; The Kiplinger Letter—6/19/15.

DRIVERS BAND TO BRING MAMMOGRAM UNIT TO TRUCK SHOW

The Trucking Solutions Group has initiated a crowd-funding campaign to raise money to cover the cost of mammograms which will be offered to truck drivers attending the Great American Trucking Show in August. TSG has organized a health pavilion which will offer a variety of free health screenings to drivers and attendees; part of the effort will include, for the very first time, a mobile mammogram unit to screen women—and men—for breast cancer.

"It's a big endeavor to do this, but it can catch breast cancer early. It can save lives," said TSG's Linda Caffee. "Women truckers have little time to fit a regular mammogram into their schedules. We want to bring the opportunity to these professional drivers at the upcoming GATS in Dallas." Caffee stated that no one should walk away because they have no insurance or because they cannot afford the $300 screening.

Their goal is to raise $30,000 to pay for mammograms; they raised almost $4,700 in the first week alone. Several organizations, such as the Owner-Operator Independent Drivers Association, Make It Happen USA, and Progressive Insurance have given their financial support.

TSG says that 100% of all funds will be given to the cost of the mammograms, up to the $30,000 goal. Any funds collected above the goal will be donated to the St. Christopher Fund, a 501(c)(3) charity whose mission is to help truckers with medical problems that have led to financial hardship.

SOURCE: Landline Magazine—5/20/15; Trucking Solutions Group website.

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ABOUT US

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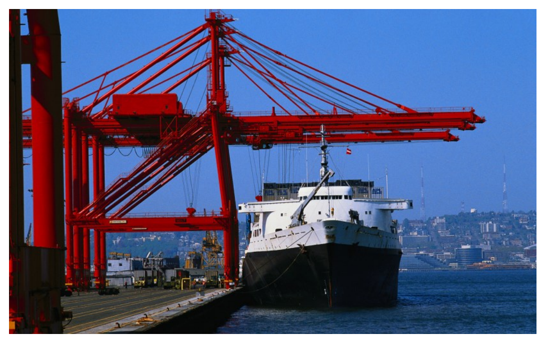

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TRIVIA!

1. Who headed the committee to draft the Declaration of Independence and was its principal author?
2. Which two signers of the Declaration of Independence later served as Presidents of the U.S. and, coincidentally, died on the same day—July 4, 1826? Bonus points if you can also name the other U.S. President who also died on the 4th of July, and the only U.S. President who was born on the 4th of July.
3. What are the opening words in the Declaration of Independence: "We hold these truths to be self-evident…"; "When in the Course of human events…"; or "Governments are instituted among men…"?
4. How many hot dogs are consumed on July 4 each year?

Click here for answers to Trivia questions.