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THE SOURCE

Trans-Pacific spot market enters winter lull

Bill Mongelluzzo, Senior Editor | Dec 09, 2016 2:47PM EST

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Trans-Pacific Spot Market enters Winter Lull

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The lull in the trans-Pacific spot market has also been reflected in lower vessel utilization rates.

Spot rates in the eastbound Pacific edged lower this week, as expected, because most of the holiday merchandise has already been delivered to US shores. But another modest spike in freight rates is anticipated later this month when factories in Asia ramp up production for their annual pre-Chinese New Year push.

The spot rate for shipping a 40-foot-equivalent unit from Shanghai to the West Coast was $1,382, down 5.08 percent from $1,456 last week. The spot rate to the East Coast was $2,340 per FEU, down 3.07 percent from $2,414 last week, according to the Shanghai Containerized Freight Index of the Shanghai Shipping Exchange as displayed on JOC.com's Market Data Hub.

The peak-shipping season this year peaked later than usual, with the spot rate in the first week of November topping out at $2,034 to the West Coast and $2,836 to the East Coast. Vessel utilization rates to both coasts were in the high 90-percent range. Importers reported some "rolling" of shipments to subsequent voyages unless they agreed to pay a premium to secure vessel space.

Capacity utilization rates have been weakening since then. By the week of Nov. 20, utilization rates to Los Angeles-Long Beach had dropped to 95.1 percent, while those to the to the Pacific Northwest fell to 95.4 percent. Utilization to the East Coast via the Panama Canal decreased to 96 percent and via the Suez Canal fell to 96.7 percent, according to the Transpacific Stabilization Agreement, a discussion and research group representing most of the major carriers in the trade.

Spot rates have been gradually eroding since early November, and this is likely to continue for the next few weeks. However, imports from Asia remain relatively strong, and spot rates are noticeably higher than they were last year at this time. This week's rate to the West Coast was 69.36 percent higher than in the same week last year, and 55.38 percent higher to the East Coast, according to the Shanghai Containerized Freight Index.

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Containerized imports from Asia are projected to remain stronger year-over-year into early 2017, according to the Global Port Tracker that is published each month by the National Retail Federation and Hackett Associates. That report projects that merchandise imports in December will be 3.2 percent higher than in the same month last year. January 2017 is projected to be 3.2 percent higher than January 2016, February is projected to be down 3.5 percent, March up 4.4 percent, and April up 6.4 percent year-over-year.

Shipments in January and February are affected each year by where Chinese New Year falls on the calendar. Factories in Asia close for a week or two for the celebrations, and lunar New Year will be somewhat early, falling on Jan. 28, 2017. Therefore, US containerized imports should begin to pick up in late December, reaching a peak in late January. Imports will drop noticeably in February because factories will be closed, and it takes a week or two for production to ramp up again.

Earlier this year, the pre-lunar New Year rush kicked in during February, but the post-Chinese New Year impact lasted into March. Therefore, by comparison, US imports in February 2017 will be down year-over-year, but in March imports will be higher. This phenomenon will be reflected in spot rates.

March also signals the beginning of service contract negotiations each year for the larger retailers and beneficial cargo owners, with many of the BCOs completing their negotiations with carriers before the May 1 effective date. The annual service contracts will run through April 30, 2018.

This past year, service contract rates hit record lows because there is significantly more capacity in the trans-Pacific than there is demand for space. Capacity growth in 2017 probably once again will exceed growth in imports, but the gap should close somewhat. Furthermore, container lines are reaching a desperation mentality after six years of declining profits. BCOs and ocean carriers interviewed in recent weeks told JOC.com the carriers' target rate to the West Coast for the 2017-18 service contract negotiations is about $1,500 per FEU.

Overcapacity is expected to plague carriers for some years to come.

Despite a recent surge of ocean carrier mergers and acquisitions, the merger of the three Japanese lines, and the Hanjin Shipping bankruptcy, it will take some years for the industry to fully absorb the many large container ships that have entered service the past few years, said Ronald D. Widdows, executive chairman, American Intermodal Management and former CEO of APL, at JOC's Port Performance North America conference on Tuesday

"If you are a shipper, what can you expect? Rates will reflect intense competition. This is an industry where sustainability doesn't happen," he said.

Even the loss of Hanjin, which had accounted for about 6 percent 7 percent of the total capacity in the Pacific, had only a fleeting impact on freight rates this fall. Other carriers immediately entered additional capacity into the trade, "picking the bones of the guy who just died," Widdows said.

2 articles: LTL carriers are optimistic about business prospects in 2017

(links to stories below must be copied and pasted into search engine)

Betting on growth, LTL carriers expand terminal networks

William B. Cassidy, Senior Editor | Nov 29, 2016 2:27PM EST

http://www.joc.com/trucking-logistics/ltl-shipping/estes-express-lines/betting-growth-ltl-carriers-expand-terminal-networks_20161129.html

LTL truckers ride into new era and challenges

William B. Cassidy, Senior Editor | Dec 11, 2016 6:00AM EST

http://www.joc.com/trucking-logistics/ltl-shipping/ltl-truckers-ride-new-era-and-challenges_20161211.html

TRANSPORTATION TRIVIA QUESTIONS

1) **The first balloon trip transported:**

A) two French brothers B) an American circus family C) a duck, a sheep, and a rooster

2) The first bicycles were powered by:

A) using foot pedals B) using a steel bar like an oar C) pushing the feet against the ground

3) The first elevator was made in: A) 1889 B) 1853 C) 230 B.C.

4) **The first subway system was built in:** A) New York B) London C) Paris

5) In 1927, when Charles Lindbergh became the first person to fly across the Atlantic, the journey took him:

A) 7 1/2 hours B) 22 1/2 hours C) 33 1/2 hours

6) The first wheels were made of: A) Stone B) Wood C) Metal

Answers Later In The Newsletter

12/12/2016 2:15:00 AM

Diesel Tops Year-Ago Price for First Time Since 2014

The great slide in diesel prices has ended. After 124 consecutive weeks of diesel falling compared with its year-ago level, the U.S. retail average price is higher than it was 52 weeks ago for the first time since July 2014.

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HOS Update Enacted After Obama Signs Short-Term Funding Bill

The clarification of an hours-of-service rule for truckers in a short-term funding bill was signed by President Obama shortly after the Senate cleared the bill Dec. 9 and a shutdown of the federal government was averted. The bill's enactment solidified a win for trucking executives critical of hours-of-service policy. The so-called fix to the Federal Motor Carrier Safety Administration's HOS rule was sought successfully by American Trucking Associations President Chris Spear and his team on Capitol Hill. "Thanks to hard work by congressional leaders of both parties and in both chambers, we are one step closer to having an hours-of-service restart rule that makes sense and puts safety first," Spear said after the Senate vote. Opponents of the HOS provision argued the bill would potentially result in a greater number of fatigued truckers on highways. Responding to critics, Spear said: "This issue has been out there. To suggest that this is any way a partisan issue — it's been well-vetted." Specifically, the trucking-centric provision requires the U.S. Department of Transportation to proceed with the existing 34-hour restart provision in the hours-of-service rule to "ensure continuity in federal rest regulations, should the report on the rule [mandated in prior acts] not meet the criteria set by Congress," the House Appropriations Committee, which produced the legislation, explained. A 2015 funding law had suspended the 2013 restart provision in the hours-of-service (HOS) rule update, pending a DOT report being prepared by Virginia Tech Transportation Institute. Those rules included a 34-hour restart and two consecutive 1 a.m.-to -5 a.m. rest periods. If the pending report finds the HOS rules adopted July 1, 2013, successfully address fatigue, the rules would go back into effect. During the rule's suspension, truck drivers have followed pre-July 2013 HOS regulations.

"These rules, put forward based on a very limited laboratory sleep study, could have had serious negative safety impacts," Spear said. "The restart is an important tool for drivers, not to maximize driving time, but to have the flexibility to maximize off-duty time and time at home, and we are pleased that drivers will continue to have unrestricted access to it." "The changes to the restart could have been devastating to my fleet and thousands of other trucking companies across the country," said ATA Chairman Kevin Burch, president of Jet Express Inc., of Dayton, Ohio. "By including this language, Congress has done a tremendous service for highway safety, the trucking industry, its millions of professional drivers and Congress should be thanked." The funding bill would keep transportation programs funded at fiscal 2016 levels, which would be $2.4 billion less than the authorized levels in the five-year highway law, the FAST Act, enacted in 2015.

Air Canada Expands its U.S. 2017 Schedule with Six New Routes to Toronto, Vancouver and Montreal

By: AJOT | Dec 09 2016 at 08:06 AM |

New non-stop services include:

- San Antonio, Memphis and Savannah to Toronto
- Denver and Phoenix to Vancouver
- Dallas-Fort Worth to Montreal

MONTREAL - Air Canada announced today it will launch six new non-stop U.S. services to Canada beginning Spring 2017. The new services include flights from San Antonio, Memphis and Savannah to Toronto, from Dallas-Fort Worth to Montreal, and from Denver to Vancouver. Existing winter-only service from Phoenix to Vancouver is expanded to now operate year-round.

"Air Canada is the leader in the Canada-U.S. transborder market and the foreign carrier flying the most to the U.S. Already, Canada is a top destination for American travelers so we are pleased to offer a greater choice of non-stop flights for the growing number of American visitors. And, along with providing convenient access to Canada's largest cities from major U.S. centers, these new services will also present customers attractive options to travel onward on our extensive domestic and international network by connecting easily through our major airport hubs," said Benjamin Smith, President, Passenger Airlines, at Air Canada.

The new non-stop services will be operated by Air Canada Express starting in May 2017 and continue year-round, except for Toronto-Savannah, which will operate on a summer seasonal basis. All routes will be operated with regional jet aircraft with flights timed to conveniently connect with Air Canada's domestic and international schedule. All flights provide for Star Alliance reciprocal benefits, Aeroplan accumulation and redemption and, for eligible customers, priority check-in, Maple Leaf Lounge access at our hubs, priority boarding and other benefits.

US truck driver pay rising, in steps, as market improves

William B. Cassidy, Senior Editor | Dec 08, 2016 11:25AM EST

As US economic activity and freight demand begin to rise more steadily, truck driver pay is increasing, too, not in leaps and bounds perhaps, but in increments.

Motor carriers were fairly quiet about pay increases for most of 2016, largely because freight demand was low. As the US economy picks up its pace, expanding 3.2 percent in the third quarter, according to the latest estimate, driver pay is starting to rise again. Crete Carrier and Shaffer Trucking, truckload companies owned by Nebraska-based Crete Carrier Corp., this week said they would hike their pay per practical mile by 1 cent, effective Jan. 1. Arkansas-based USA Truck said it would boost performance bonuses by as much as 5 cents per mile and also increase detention and short-haul pay.

These aren't the double-digit increases of 2014, but they'll be welcomed by many drivers as heralding better pay and wages in 2017. Crete said the pay raise reflects higher demand from shippers. During the past four months, miles logged by its drivers have been increasing month-to-month and year-over-year.

"This pay increase is just one way we are investing in our most valuable resource," says Tonn Ostergard, president and CEO of Crete Carrier. "Our drivers are our most valuable resource. They work hard every day safely serving our customers, and that dedication is appreciated."

Driver pay rose substantially in 2014 and 2015, as higher freight demand tightened available capacity, pushing up truckload rates and exacerbating a long-term driver shortage blamed in part on low pay. Many large truckload carriers, including Swift Transportation and US Xpress Enterprises, raised driver pay by double-digits as trucking doubled down on hiring.

Those substantial truckload pay hikes did push up trucking pay overall, though not by double-digits. US Bureau of Labor Statistics data show the average annual truck driver wage rose 2.4 percent in 2014, compared with a 1.7 percent increase in the overall average US wage. That was the first time trucking wages rose faster on average than US wages since 2005.

In 2016, pay hikes more often targeted at specific types of drivers companies want to hire — such as solo long-haul drivers or owner-operators or hazardous materials drivers — or rewarded drivers for maintaining an accident-free record. Now carriers seem to be rounding out other parts of the "pay package," such as pay for time spent waiting to load or unload.

Answers to Trivia

Maersk eyes FedEx, UPS style future

Bruce Barnard, Special Correspondent | Dec 13, 2016 3:19PM EST

The Maersk Group's plans to integrate its liner, terminal, and forwarding units will allow it to transform itself into a "pure play," global, container logistics group operating like FedEx and UPS, the Danish group's CEO said. Maersk "will be like one company" offering container shipping, logistics, and port services through Maersk Line, Damco, and APM Terminals, Soren Skou said at the Danish group's Capital Markets Day.

The group "can do a better job" through cross selling between its businesses, which have "thousands and thousands of customers." Maersk in September announced it would spin off its oil-related and transportation businesses into separate divisions, with Maersk Line, Damco, and APM Terminals making up the Transport & Logistics unit. To become a global integrator Maersk needs to provide simple solutions to its customers' complex supply chain needs and digitalize a "still quite analogue" business that uses phones and e-mails, Skou said.

Maersk is in an "excellent" position of strength to realize its ambitions, with the acquisition of German carrier Hamburg Sud opening up "a significant gap between us and the number two (ocean carrier)," Skou said. The acquisition gave Maersk Line 18.8 percent of global container ship capacity including the orderbook, according to industry analyst Alphaliner. Second-placed Mediterranean Shipping Co. controls 13.6 percent of global capacity. APM Terminals is also a top five port operator with significant transshipment hubs, while Damco is a medium-sized company with freight forwarding operations and supply chain solutions.

Maersk Line has a been a customer of APM Terminals, but now the two will operate a single unit and together with Damco will sell more inland services, which Maersk Line currently offers to a small fraction of its customers.

The acquisition of Hamburg Sud will replace around 60 percent of revenue lost when Maersk spins off its energy business, Skou said. The energy division generates $9.8 billion, or a quarter of Maersk's total revenue, while the German carrier will contribute $6 billion, leaving the company a 10 percent hole to fill. "We intend to replace that lost turnover quickly through organic and inorganic growth," Skou said. The acquisition will enable Maersk to build a "very strong" dual platform in South America as it did in Africa, where Maersk Line and Safmarine have an "unmatched portfolio." It will also add significant revenue and volume to APM Terminals.

The recent rise in oil prices has been a "huge help" for the group's energy division, which has a $40 a barrel breakeven price, but it will not change Maersk's future as a container shipping, logistics, and ports company, Skou stressed. Maersk will not become a smaller company, he said.

The Maersk CEO said the consolidation wave that has removed seven of the top 20 carriers in the past year — including the demise of Hanjin Shipping — will continue as some carriers struggle over profitability, slow growth, and the improved products of the larger lines.

ILA, employers plan 'informal meetings' ahead of contract talks

Joseph Bonney, Senior Editor | Nov 29, 2016 2:37PM EST

The International Longshoremen's Association and its employers have scheduled "informal meetings" in mid-February as they prepare to negotiate a Maine-to-Texas contract to replace the one that expires Sept. 30, 2018. ILA President Harold J. Daggett invited all union locals covered by the ILA's master contract to send representatives to "informal meetings on collective bargaining issues" Feb. 13-16 in Delray Beach, Florida. "These are not Wage Scale Committee meetings and therefore not formal bargaining sessions," Daggett said in a letter to ILA locals. Daggett said ILA representatives would meet privately for two days before meeting with management representatives. David Adam, chief executive of United States Maritime Alliance, confirmed that USMX reps would attend.

News of the Florida meetings announcement follows a recent agreement by the International Longshore and Warehouse Union and the Pacific Maritime Association to resume discussions of an extension of their West Coast contract at an unspecified date.

Cargo interests are closely watching port labor developments on both coasts. In an effort to reassure shippers, Daggett in 2014 accepted Adam's invitation to open early talks on a new or extended contract. Initially, the possibility was discussed of a contract extending as far as 2025. That initiative lost momentum amid disputes over issues including ILA jurisdiction over maintenance and repair of chassis that ocean carriers have transferred to leasing companies that aren't signatories to the union's coastwide contract.

The Port of New York and New Jersey, the ILA and the New York Shipping Association are still trying to implement productivity-enhancing features of the local contract they signed in early 2013. A key unresolved issue in New York-New Jersey is implementation of "relief gangs," or second work shifts. The port's current "continuous operation" system keeps the same work gangs on the job until work on a ship is completed. This requires excess staffing and overtime pay for workers who are paid for hours-long breaks.

Coastwide issues include automation, jurisdiction, and funding levels for the union's medical plan. Automation looms as a potential flash point. In September, Daggett gave a stem-winding speech to the International Dockworkers Council, denouncing automation and saying he would insist on job protection for union members. Terminals are gradually adopting automation at ports on the US East and West Coasts. New York-New Jersey and Virginia have introduced rail-mounted gantry cranes that allow remote-controlled stacking of containers. Virginia recently placed a $217 million order for 86 RMGs as part of a major upgrade of its terminals.