Tips for navigating the coming capacity correction

Baltimore bridge collapse accelerates emerging US port congestion

Contributed Content

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There are strategies for dealing with a shifting market susceptible to black swan events. (Photo: Jim Allen/FreightWaves)

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The catastrophic Francis Scott Key Bridge collapse was a tremendous loss for the city of Baltimore, which is left grieving the tragic loss of life and bracing for massive disruption.

This is also a global event, and many shippers are now on uncertain ground — phones are lighting up as they try to navigate the rapidly shifting environment. What we're sharing with them: Indications of a national capacity correction are emerging, and the bridge collapse will likely accelerate this trend in the region.

With domestic freight volumes dead and rates still falling, most shippers aren't seeing a capacity crunch today. But a convergence of forces is primed to disrupt supply chains, drive capacity out of the market and push up freight rates — across the U.S.

Despite recent news events, don't be lulled into complacency amid the current shipper-friendly freight market. A shift is coming, and if you start planning now, you can get ahead of the trends and mitigate the impacts on your business.

A perfect storm is already brewing

Domestic and global factors are expected to drive a capacity correction and rebalance freight rates in just six months' time, and the bridge collapse will certainly accelerate that timetable in Baltimore — and perhaps beyond.

Rising ocean container volumes

Pre-COVID volume patterns are returning. FreightWaves reported "clear growth" for maritime imports in comparison with pre-pandemic years — and the early evidence is already materializing at our West Coast ports.

According to Allison Dane Camden, deputy assistant secretary for multimodal freight infrastructure and policy at the U.S. Department of Transportation, "We're starting to see a little bit [of an uptick]" in containers

going to the West Coast, based on data from DOT's Freight Logistics Optimization Works initiative.

Panama Canal and Suez disruptions

Climate and geopolitical conditions continue to disrupt global trade routes. Drought in Central America is expected to persist at least through April, resulting in fewer Panama Canal crossings, longer wait times and higher tolls.

Likewise, conflict on the Red Sea is creating delays and rising costs as container ships wait for naval escorts to the Suez Canal or reroute around the Cape of Good Hope.

Summer fuel price surge

The summer driving season is just around the corner and, with it, historically the return of higher fuel prices.

The impact is twofold: First, these costs will be passed on to shippers in the spot freight market. Second, carriers locked into unsustainable, rock-bottom contract rates and without sufficient cash reserves will be forced out of the market when that cash dries up — tightening capacity and further driving up costs.

Labor stoppages

The threat of labor stoppages at our East Coast and Gulf Coast ports is looming. We expect labor negotiations to dominate the domestic transportation and logistics press this summer and early fall, and if a deal is reached, it will go down to the wire. If ports do shut down, things would get ugly for shippers, fast.

We're already seeing early congestion issues pop up at our West Coast ports as more volume is pushed in that direction. Recently, we had drivers

waiting for six hours to pull containers. It’s not a problem every time or at every terminal, but we have seen it often enough at a few of the larger Los Angeles container terminals to raise eyebrows.

Similar constraints at Baltimore-adjacent ports are likely to follow this pattern.

While the Port of Baltimore managed just 2.4% of U.S. twenty-foot equivalent unit imports this year, we expect to see significant disruption within the regional port apparatus through the spring. Cargo will likely be redirected to Philadelphia, New York and Norfolk, Virginia — bringing freight volumes back into equilibrium, accelerating an impending capacity crunch and pushing up drayage prices in the region. Meanwhile, we may not see containers coming into Baltimore until May/June. Carriers that rely on the Port of Baltimore and don’t have the cash flow to sustain their businesses through the spring will be forced out, reducing available capacity.

These converging conditions will likely mean shipping delays and upward pricing pressure.

Strategic approaches to minimize capacity correction impact

We may be months out from a national market shift, but the time to start planning for it is now.

Shippers who plan to bring containers into the Port of Baltimore must take immediate action to mitigate business repercussions.

If you engage in overseas production or rely on business-critical overseas suppliers and you bring your containers into East Coast ports, we recommend a few approaches:

- **Reroute your containers to West Coast ports.** Following COVID, many large shippers tried to balance out their deliveries to both coasts for added resilience, but this summer and early fall, you'd be wise to push your freight to the West Coast if you can.
- **Bring your shipments into the U.S. early.** Redirecting cargo to the West Coast isn't a workable option for everyone, especially small-to-medium-size businesses. The good news: Plenty of warehousing capacity is available at the moment. By importing your cargo into the country in advance of Europe's August holidays, you can mitigate the risk of labor stoppages at our East Coast ports this fall. (Of course, this activity could mean tightening warehouse and carrier capacity in the summer when we typically wouldn't expect it.)

We also urge you to reevaluate your transportation and logistics partners. Black swan events are creating increasingly challenging financial conditions in the freight and logistics industry, and financially unsustainable partners represent a risk to your business. Some carriers and 3PLs will shutter, as they always do, and the last thing you want is a suddenly out-of-work driver walking away from a truck and your container when a business runs out of cash.

Our recommendations:

- **Re-vet all of your partners with an eye toward financial viability.** We constantly check our partners for fiduciary signals, like debt-credit scores, payment history, outstanding debts, types of credit and credit utilization. Referring to Dun & Bradstreet also provides insights: Businesses with Paydex scores under 50 represent a high risk of late payment.
- **Confirm that your partners are using market-leading vetting tech.** Not only does tech, like Highway, enable your partners to

evaluate a business's legitimacy amid rising fraud, but it also signals that they have the financial resources necessary to invest in your freight and data security.

Lastly, consider broadening your partner base to boost your resilience. Should one of your existing partners go under, this approach will give you the added flexibility you need to minimize business impact. After all, when capacity tightens, brokers and carriers will take care of their existing customers first, and you want to be among them.

Reading the tea leaves

The signs are there: We'll likely be looking at a balancing freight market and tightening capacity by fall and winter of 2024.

As the market corrects, some will thrive and others will sadly disappear. Considering your go-forward approach now will help ensure you're on the sustainable side of that equation.