Overseas shipping problems remain largely under consumers' radar

6-9 months from now, inflation from Red Sea conflict will hit consumers

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Maritime problems continue, but it has yet to hit the radar for consumers. (Photo: Jim Allen/FreightWaves)

The challenges facing the world of trade have unfortunately become white noise. Seafarers have been taken hostage, some have lost their lives in vessel attacks, and ships have sunk to the bottom of the ocean. Yet the threat to the freedom of navigation and the ramifications of these Red Sea attacks have become part of the doom-and-gloom background noise in the world of news. Everyday consumers have no idea what's going on unless they read trade news. The waves of uncertainty and the hairballs of

congestion as a result of the Red Sea diversions are growing. Egypt continues to lose millions and is embroiled in high inflation. What is happening now can add to geopolitical instability and eventually hit pocketbooks.

Data released earlier this week for May shows that revenues of the Suez Canal dropped by 64.3% to approximately $337.8 million. In May 2023, $648 million was recorded. Vessels traversing the canal in May also dropped to 1,111, vastly fewer than the 2,396 that crossed during a similar period last year. Cargo volume passing through the Suez Canal dropped by 68.5% last month to approximately 44.9 million tons. In May 2023, total cargo tonnage was 142.9 million tons. Egypt is a key ally for peace in the Middle East. You'd think the economic ramifications of this would be a bigger story. It is not.

Only when the transitory inflation hits consumers between six and nine months from now will people raise an eyebrow — OR if we see a 20K handle on container rates.

Unlike the pandemic, during which consumers around the world gave their credit cards a workout with historic spending, the dynamics of this freight rate frenzy is driven by the increase in miles and the delays it is creating in arrivals and container turnovers. The hairballs of congestion as a result of Red Sea diversions have companies like Freightos calling the ocean freight rate rise climbing "Mount Everest." DHL is warning in its latest Red Sea Alert that the growing scarcity of containers at Asian export hubs has led to a "Container Price Bubble."

Ocean freight rates will continue to go up. Ocean carriers avoiding the Red Sea attacks are not going back through the Suez anytime soon. The Houthi attacks on the freedom of navigation are not stopping. DHL told CNBC that ocean freight rate inflation might not ease up before Chinese New Year in

early 2025, with some forecasts seeing rates reaching between $20,000 and a COVID-era peak of $30,000.

According to CNBC's recent Supply Chain Heat Map, which uses SONAR and Xeneta data, freight orders are going down while prices continue to soar. Fundamentals have been thrown out the window. HLS' recent note to clients echoes the data: "As far as we can see, the bookings for some categories have started to recede; mostly for low-value cargo like Furniture, Craft and Art, and Toys, shippers like to hold booking and wait for the market to calm down. But for other categories like high-tech products and Auto parts especially for vehicle batteries and tires, which could be impacted by the new tariff, the high demand is continuing."

Sea-Intelligence's latest note reaffirms CNBC's findings on ocean freight rates. Alan Murphy, CEO of Sea-Intelligence, broke out data to see if it's in ocean carriers' best interest to be less aggressive with rate increases when the market goes up. Will they retain more customers once the market goes down?

Their research says no.

Maersk, which had a more measured increase in rate increases during COVID versus Zim, which raised rates faster, had a potential loss in revenue of $15.7 billion in 2020-2023. Zim gained revenue of $4.2 billion.