ANZ Research

NZ Insight: Freight challenges

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Contact

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Container chaos: the impact on NZ primary producers

Key points

- Exporting and importing goods is extremely challenging at present due to freight delays and elevated freight costs.
- It is not clear when the congestion in the global shipping industry will ease, but the situation is likely to continue well into 2022.
- Skyrocketing shipping costs mean a lower proportion of value is being returned to New Zealand primary producers.

Disruption

Exporting and importing goods has become increasingly challenging and expensive due to congestion in the global shipping industry.

Over the past couple of decades supply chains have become increasingly reliant on having goods delivered just-in-time, effectively reducing the cost of holding inventory. But for this to work, global freight networks need to be operating in a reliable and efficient manner, which is not the case today.

Global shipping networks were disrupted by the arrival of COVID-19, which resulted in ports and freight distribution systems being compromised due to the health risks to workers. This initially resulted in many of China's port operations being significantly hampered early in 2020, with trouble then spreading to ports (and boats) elsewhere as COVID-19 made its way around the world.

Many global ports were shut down temporarily or operated at below capacity for a period of time, which directly impacted the loading and unloading of ships. But as ports have started operating at full capacity again, there's been a huge backlog to clear, as well as strong demand that they've not been able to catch up. This has left businesses facing massive shipping delays at ports throughout the world.

Disruptions have continued to plague the global shipping industry. In late May the port of Yantian in Shenzhen province, southern China, was closed for several days due to a COVID-19 outbreak, and then operated below capacity for nearly a month. Yantian is the world's third busiest port, behind Shanghai and Singapore, and while its operating capacity was compromised it's estimated that nearly 300 ships, carrying approximately 3 million 20 foot container equivalents (TEU's), simply sailed on to other ports. This in turn put additional pressure on nearby ports. While the Yantian port is now back operating at full capacity, it is estimated it will take another 80 days to clear the backlog of approximately 700,000 TEUs waiting to be unloaded.

This level of disruption is similar to that caused by the Ever Given blocking the Suez Canal for six days in late March. And this kind of thing just keeps happening, generating further increases in the cost of shipping goods around the world.

Strong demand meets constrained supply

Demand for goods has been extremely high throughout the pandemic, meaning there has been no-let up in demand for freight to be shipped. Consumers faced with movement restrictions have diverted spending from services to goods – such as replacing a holiday with a new lounge suite.

Global trade is forecast to lift by 8% in 2021 and a further 6% in 2022,[1] suggesting there will be no let-up in demand for shipping any time soon.

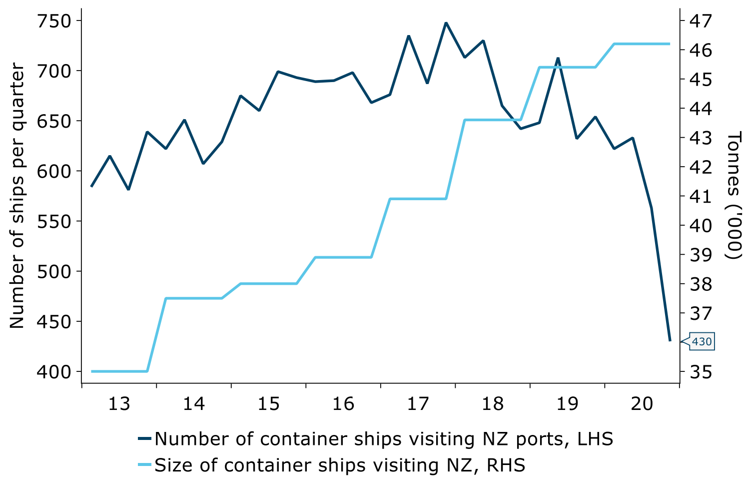
The delays ships are facing at ports are equivalent to reducing the global shipping fleet. Shipping companies faced with strong demand and limited supply have reacted by hiking their freight costs and charging clients additional fees if they want cargo offloaded at ports with long wait times. The seven largest container shipping lines account for nearly 70%[2] of all containers shipped globally. These large shipping companies have also formed three major alliances. These powerful alliances mean individual companies and ports have limited influence on shipping routes and schedules.

The size of the ships that calling at our ports have gradually increased. The proportion of containers transported into New Zealand on ships larger than 4,000 TEU was 2% in the first quarter of 2012. By the first quarter of 2021 this had increased to 63%, mirroring the global trend of increasing ship sizes.

This has limited the number of ports these ships are able to call at, as many of our ports are not equipped to handle the larger vessels. Tauranga is best equipped for larger vessels and has increased its share of container traffic in and out of NZ. In 2020, 42% of containers went through the Port of Tauranga, whereas a decade ago this port accounted for just a quarter of the volume. Tauranga is the only port in New Zealand being serviced by ships that can carry over 6,000 containers (TEU basis).

At the same time, we have seen a decrease in container movements through the Port of Auckland, Centreport (Wellington), and the Port of Otago.

Figure 1: Container ships visiting NZ ports



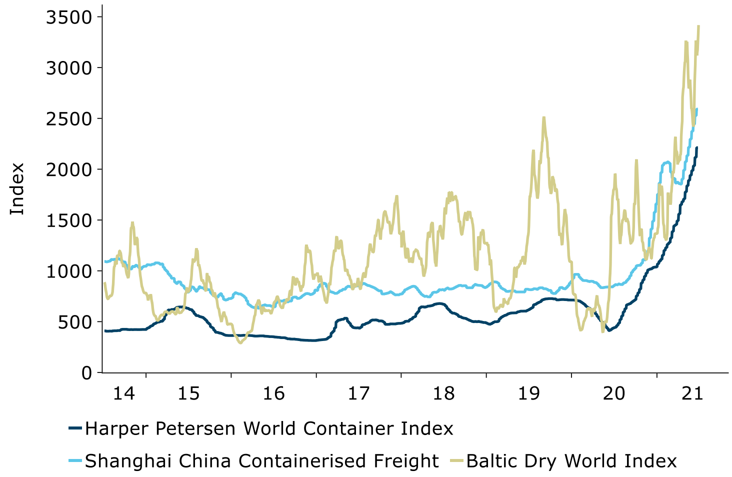
Source: NZ Ministry of Transport, Macrobond, ANZ Research

The increase in the size of the ships visiting New Zealand has not compensated for the sharp drop in the number of ships servicing our ports. In Q4 2020 just 430 container ships visited our ports, 34% fewer than the same time the previous year.

[1] IMF forecasts
[2] Deloitte "Industry Insight: New Zealand Ports and Freight Yearbook 2021"

Shipping costs have lifted substantially since the pandemic took hold, as shown by freight indexes (figure 2). The Baltic Dry Index, a measure of dry goods shipped in bulk format, is a well-known lead indicator of global trade. The Harper Peterson and the Shanghai indices focus on container rates. The former measures the cost of chartering container ships on a global basis, and has increased five-fold in the past year. Meanwhile the Shanghai Index, which looks at the cost of containers being moved in and out of China, has increased three-fold.

Figure 2. Global shipping costs



Source: Harper Petersen & Co, Shanghai Shipping Exchange, Baltic Exchange, Bloomberg, Macrobond, ANZ Research

There has generally been a larger increase in the cost of shipping goods from New Zealand to Europe, than to Asia. Delays in getting goods to and from Europe are now significant. Several shipping companies recently advised they would be doubling the cost of freighting containers from New Zealand to Europe.

These higher shipping costs are reflected in the costs exporters and importers are facing. And these costs are generally being passed onto consumers, although usually with a lag. Pricing intentions in our Business Outlook survey are at record highs by quite some margin. Exporters have less ability to set prices than importers do, so producers are now receiving a smaller portion of the value of the export goods as a larger amount gets allocated to freight costs.

Aside from increasing prices, shipping companies have also moved their ships onto the most profitable routes, and have dropped some routes completely or are by-passing certain ports. Ports being missed are often those that are heavily congested, or those that have smaller volumes of freight going through them. Not stopping at these ports allows the shipping companies to have a better chance of maintaining their schedules.

The other way shipping companies have attempted to keep on schedule is to avoid back-loading low-value freight, which reduces the time spent in port. It also means that empty containers are not being moved back to where they are most needed. This, in turn, is reducing the supply of containers where they are needed, and clogging up ports where they are not required.

Impact on New Zealand exporters

The impact of the freight disruptions is being felt acutely by our export sector. This is particularly the case for chilled products with limited shelf lives, and low-volume exporters who rely on being able to access space on commercial ships for a few containers at a time.

Our larger export companies are generally experiencing fewer issues due to having long-term contracts with freight companies and having sufficient volumes to make it worthwhile for ships to call at ports to collect their produce. Fonterra is part of the Kotahi partnership, which works closely with Maersk – the world's largest shipping company. The value of this partnership has come to the fore since the pandemic hit, but even large companies like Fonterra still face significant logistical challenges.

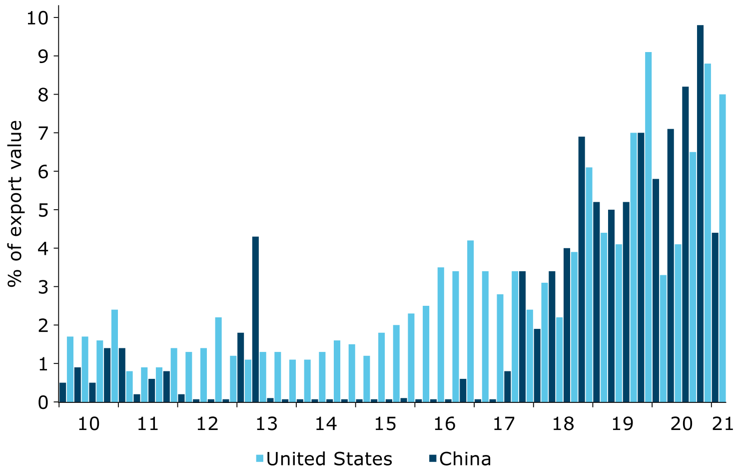
The companies that are really struggling to get their goods to market in a timely manner are our smaller exporters. These companies are frequently finding their goods are being bumped, or sailings cancelled - which in the shipping industry is known as a 'blank sailing'.

This has put pressure on cool store capacity and refrigerated containers as meat and horticultural produce wait for lengthy periods to be shipped.

The delays in getting product onto a ship in New Zealand, combined with the delays getting ships unloaded at their final destination, is making it less viable to ship chilled products with a limited shelf life. Some chilled products are arriving in market with just a few weeks shelf life left, which can mean these products then have to be discounted to ensure a quick sale.

Chilled products typically return a higher price than the equivalent product sold in frozen format, so exporters have increased the proportion of product exported in this format. However, in response to significant delays getting produce to market, where viable, some companies will look to freeze more produce in order to extend its shelf life, and accept the lower margin.

Figure 3: Portion of beef exports to main markets sold in chilled format



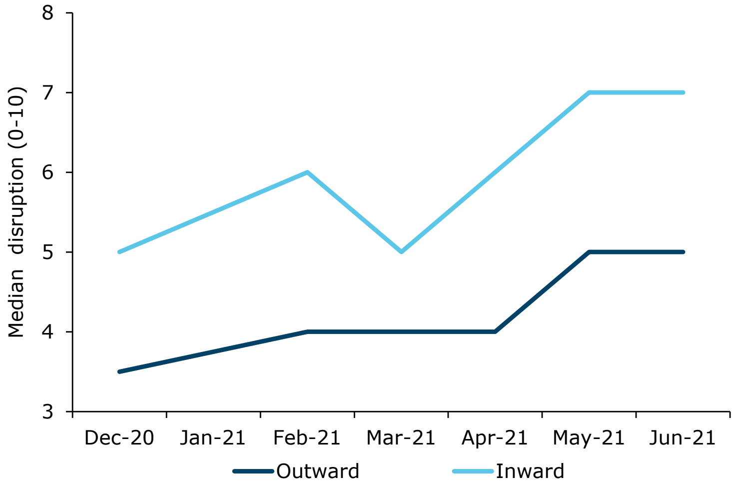
Source: StatsNZ, Macrobond, ANZ Research

The overall disruption in global shipping is also causing companies to consider holding higher inventories than they otherwise would. We have started moving to a 'just in case' mind-set from a 'just in time' mentality. This is resulting in additional demand for our export products as importers look to build the quantity of stock they have on hand. This factor is one of the reasons why we are seeing commodity prices at record levels. However, at some point we would expect to see demand for products easing as suppliers attain their desired level of stocks. When this will occur is very difficult to forecast due to the lack of transparency as to whether goods are actually being consumed or simply stored.

The outlook

Estimates of when global shipping routes and costs will return to 'normal' keep getting pushed out. Shipping companies are currently making abnormally high returns and are flat out to boot, so have no incentive to reduce their prices to gain market share.

Figure 4. ANZ Business Outlook survey: Median reported freight disruption



Source: ANZ Research

It's likely that a meaningful normalisation of shipping demand will be required as a precursor to the tangle starting to be sorted out. We also need to see ports operating more efficiently. Vaccinating all staff against COVID-19 will help eliminate some of the risk of further port shutdowns.

For shipping demand to normalise, some of the global consumer demand for goods needs to wane, either because the great substitution from holidays to things partially reverses as travel opens up again, and/or because global (particularly US) consumers feel the need to be more prudent with their spending. The latter could hit demand for our top-end exports, so exporters should cross fingers rather for the former. Importers will also be hoping things improve: as figure 4 shows, getting goods in just keep getting harder for them as well.

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