

# Research Briefing | Global Industry

## Global logistics challenges more than just port bottlenecks

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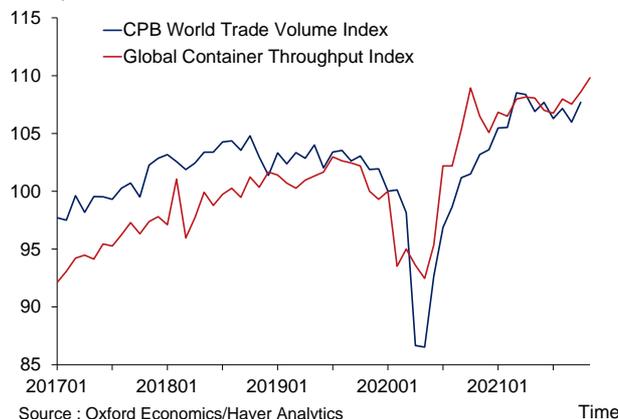
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- We expect transportation bottlenecks to persist well into 2022 with problems existing throughout the supply chain—spanning from port and ship capacity to the ability of logistics networks to deliver goods to their final destination.
- Container shipping rates are currently around nine times their level relative to June 2020, the lowest value since the start of the pandemic, highlighting coordination problems. Even as ports increase operating hours to ease congestion, absenteeism related to renewed increases in Covid-19 infections may scupper hopes of these pressures abating in the near term.
- Truck drivers are also in short supply across many countries, so increasing throughput at ports simply overwhelms transport networks further inland. Key to addressing this problem is increasing wages and improving working conditions to attract more job applicants.
- Warehouses are bursting at the seams across many countries in the wake of the sudden shift to online purchases, but new construction is robust. Demand-side pressures for warehousing facilities are likely to persist in the near-term, but as consumer spending continues to rotate away from goods to services, these pressures will ease. However, the [Omicron Covid-19 variant](#) risks pushing this spending rotation further into the future.
- Water transport in the US is set to regain its pre-pandemic level in H2 2023. However, a stronger performance at the port of Rotterdam means we see a recovery in ocean transport in the Netherlands over the second quarter in 2022.
- As a result of the transport and logistics challenges, sequential momentum in industrial activity will remain muted, but a pickup later in the year will boost 2023 prospects.

**Figure 1: World goods trade volumes lose momentum as transportation bottlenecks persist**

### World : Trade indices

Index, Jan 2020=100



After an initial post-pandemic bounce back, world trade in goods has been more restrained, highlighting capacity constraints throughout global transport and logistics networks. However, there is cause for optimism with container throughput showing signs of improving.

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## A test of resilience

The pandemic has tested the adaptability and resilience of transport and logistics companies. With consumers focussing their spending on goods rather than on services during lockdowns, global container throughput regained its pre-pandemic level of activity relatively quickly (**Figure 1**). However, shortages across numerous dimensions—namely in labour, warehouse space, and truck trailers—have meant supply has struggled to keep pace with firm consumer demand.

## Far from smooth sailing at ports...

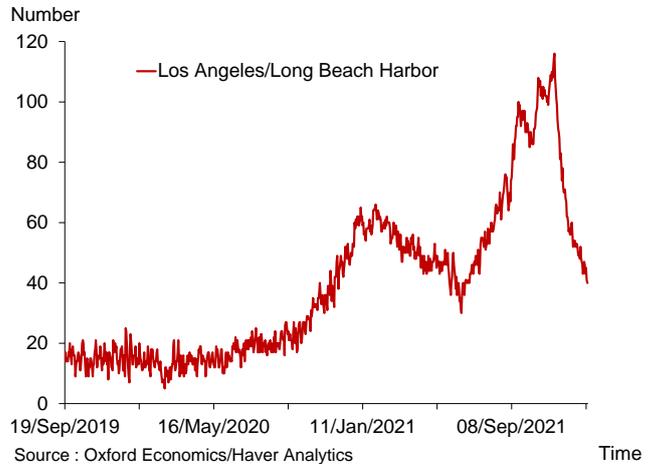
With about 80% of goods traded over water, shipping bottlenecks remain a serious problem to global supply chains, with [world goods trade growth](#) moderating since March 2021 (**Figure 1**). Ports around the world have been suffering from shipping disruptions. In the US, the ports of Los Angeles and Long Beach have been most affected, with the logjam of ships reaching record highs. Although the number of ships at the ports seems to have declined sharply since mid-November (**Figure 2**), the total number of ships awaiting unloading has not materially decreased. This is because [the new queuing system](#) has forced the ships to anchor further out to sea and outside the official counting area.

Strong import demand in the US has made it more profitable for shipping companies to transport cargo from Asia to North America than the other way around. With companies rushing to exploit the most lucrative routes, empty outbound containers have been relatively higher on average at the port of LA since the onset of the pandemic as shipping companies skip the loading process, weighing on US exports (**Figure 3**). However, the recently approved [Ocean Shipping Reform Act of 2021](#) is expected to support the country's outbound trade in goods by stopping ocean carrier companies from refusing to load US goods for export to Asia.

Inbound loaded containers fell sharply in November with smaller vessels being used by retailers to restock inventories over the holiday season. The volume of empty outbound containers at the port has also continued to decline in recent months. With smaller ships being more inefficient for ports to handle compared to larger vessels, and there being a greater backlog of empty containers, we expect there to be further gridlock. In the second half of the year, water transport is forecast to accelerate, with activity anticipated to recover to pre-pandemic levels in H2 2023.

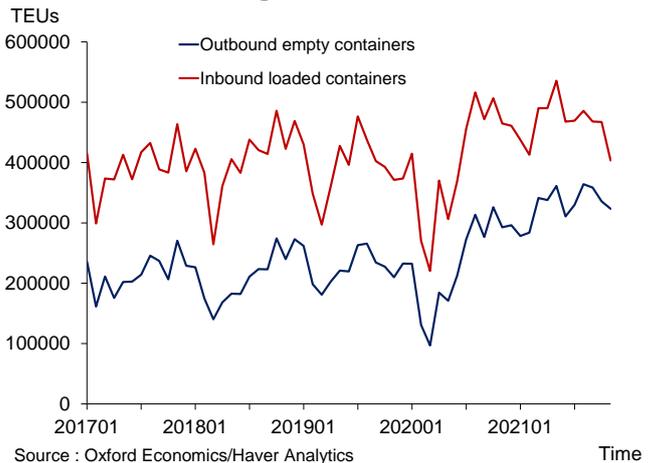
**Figure 2: US: LA/Long Beach port congestion**

### US: Container Vessels In Port



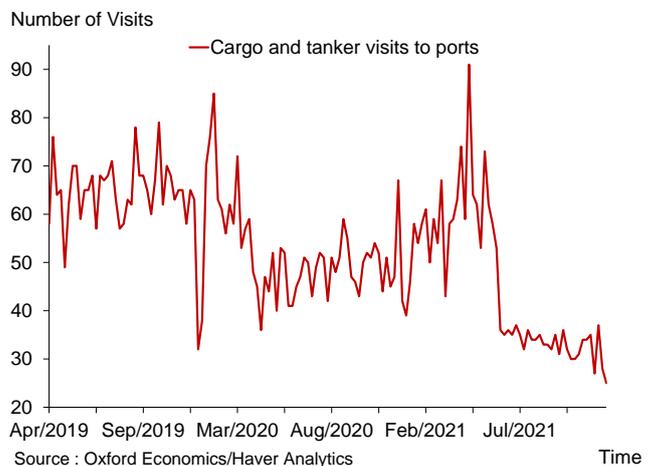
**Figure 3: US: Container throughput at the port of Los Angeles**

### US: Port of Los Angeles



**Figure 4: UK: Vessels re-route away from the port of Felixstowe**

### UK: Port of Felixstowe



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Similar problems are apparent across the Atlantic. Among the worst affected ports is Felixstowe, the UK's largest container port, which has seen the number of visits by ships to the port halve in number since June (Figure 4), due to container congestion and port delays.

In sharp contrast, port flows in Rotterdam and Antwerp, Europe's largest and second-largest seaports respectively, have risen above their Q4 2019 values in recent quarters. Whereas port flows in Europe's third busiest port, Hamburg, have taken a greater hit (Figure 5) likely due to weaker port performance. The rapid improvement in port flows in the Netherlands means we forecast value-added output in ocean transport services to regain its pre-pandemic value over the second quarter in 2022.

Container shortages at some ports and severe congestion at others has led to meteoric rises in the cost of shipping—though they have softened, albeit still hovering at very high levels (Figure 6). A lack of ships, due to greater numbers being caught up in delays, has also contributed to the increase in freight costs.

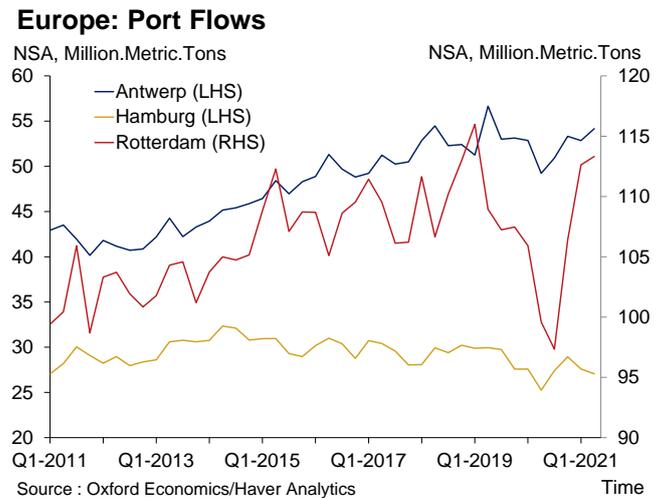
The upcoming Chinese New Year in February means shipping costs could decline further as factories briefly halt production and ships remain stationary at the ports, potentially easing congestion and reducing cost pressures for businesses. However, tighter restrictions on movement to curb infection rates of the new Omicron Covid-19 variant could temporarily reverse the pivot back towards more consumer spending on goods rather than on services, adding to these cost pressures and congestion levels.

## ... or moving goods to customers

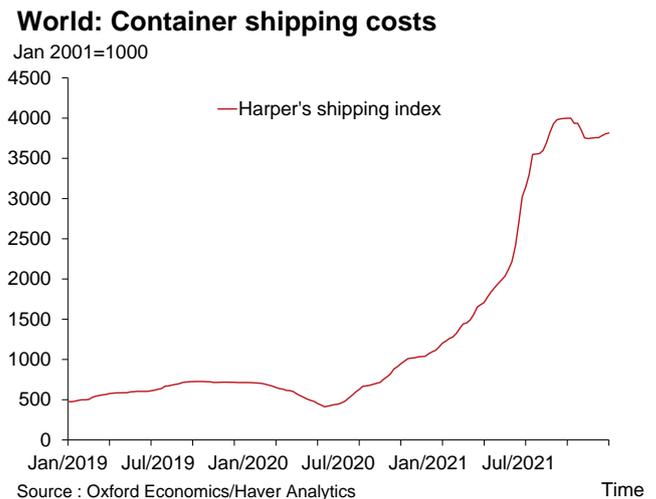
But even if more containers are unloaded to ports, they still need to be transported inland (usually via truck) to distribution centres, and the trucking industry faces shortages of its own. Indeed, one of the reasons large container ships have been diverting their vessels away from the port of Felixstowe to European hubs, such as Rotterdam and Antwerp, is because of the acute shortage of truck drivers in the UK (Figure 7). This prompted the UK government to introduce temporary visas in September 2021, which will, however, provide little relief in the longer term without further reforms.

The shortage of truck drivers in Europe is evident in the sharp increase in job postings which continued to rise into the latter half of 2021, though at a milder pace (Figure 8).

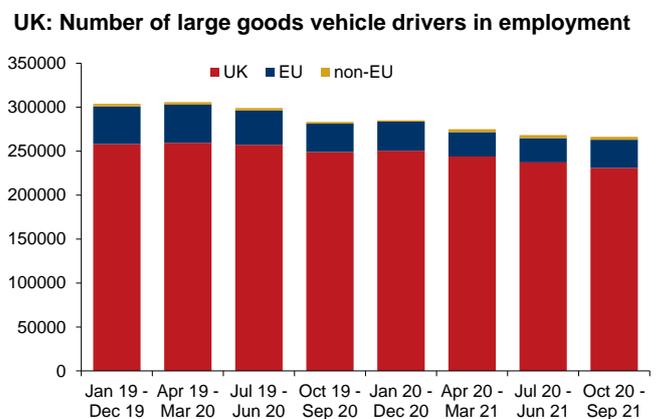
**Figure 5: Europe: Port flows across key European hubs**



**Figure 6: World: Container shipping costs stabilise at a high level**



**Figure 7: UK: Employment in HGV drivers**



# Global logistics challenges more than just port bottlenecks

Haulage companies across the UK (Figure 9) and in Europe have also raised pay to attract more applicants. However, in the UK, the number of cargo and tanker visits to the port of Felixstowe has remained relatively subdued. Given the time lag to get new lorry drivers trained and on the road, material improvements in haulage capacity are unlikely until the middle of the year.

Similarly, in the US, the retention problem amid truck drivers due to poor working conditions and high turnover rates (estimated at between 80% and 90% according to industry experts) has been exacerbating supply chain disruptions. Employment in trucking regained its March 2020 level in November 2021 (Figure 10), but truck tonnage remains well below its pre-pandemic value. This strongly suggests that other factors, including a shortfall in trailers and warehousing capacity, are constraining trucking activity.

## Insufficient storage space

Shortages of warehousing space are a problem across many developed economies. [Research](#) undertaken by Savills, a global real estate services provider, on the European logistics market suggests 47% of warehouse occupiers expect to increase their warehouse footprint over the next three years. Robust port flows at the port of Rotterdam means we forecast value-added output in other transport and storage services, including warehousing and postal activities, in the Netherlands to expand by 9.5% in 2022. In the US, [vacancy rates reached record lows](#) in Q3 2021. Supply chain pressures and strong consumer demand have meant demand for warehouse space has remained robust, according to global commercial real estate company CBRE.

We expect investment in, and construction of warehousing space to increase over the medium term to address the shortfall in storage space near ports and to accommodate the rise in e-commerce. The US has already seen construction of warehousing space rising solidly over the pandemic (Figure 11). However, given warehouses can generally take [three to six months to build](#), the relief is expected to be gradual.

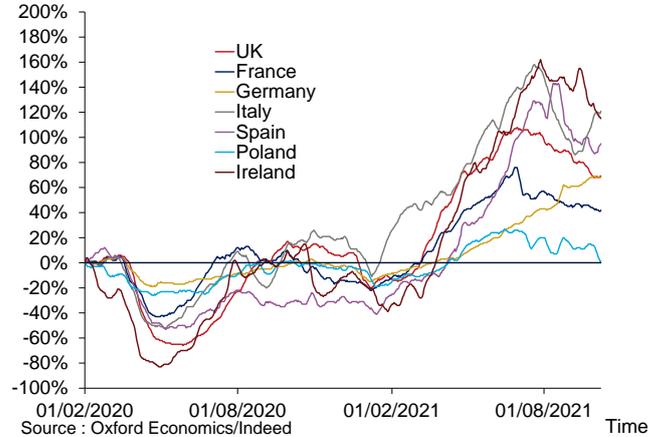
## Unravelling the bottlenecks

With shipping accounting for only a part of the global transportation bottlenecks, world trade volumes are unlikely to improve substantially until transportation and logistics constraints further inland are cleared.

**Figure 8: Europe: New job postings for HGV drivers show signs of tempering**

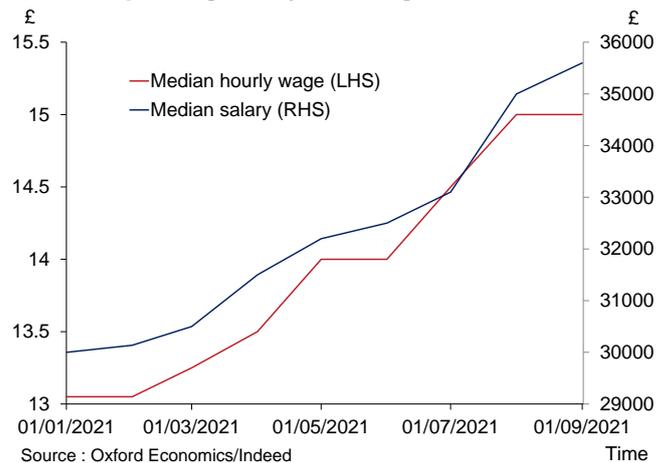
### Europe: HGV driver job postings

% change in job postings since 1 February 2020



**Figure 9: UK: Rise in median hourly wages and salaries for HGV drivers**

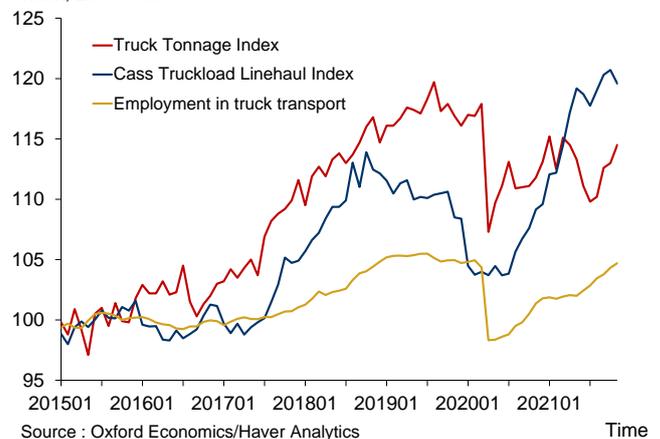
### UK: Job posting salary and wages for HGV drivers



**Figure 10: US: Employment in trucking returns to pre-pandemic levels**

### US: Truck tonnage, pricing and employment

Index, 2015=100



# Global logistics challenges more than just port bottlenecks

Greater risk management from transport and logistics companies means we expect business models to adjust away from just-in-time delivery to just-in-case inventory. We anticipate increased warehouse investment will help reduce port congestion and boost supply chain resilience. Warehouse automation, robotics, and the use of smart technologies, such as blockchain, are also expected to help drive growth and productivity in the sector over the long term.

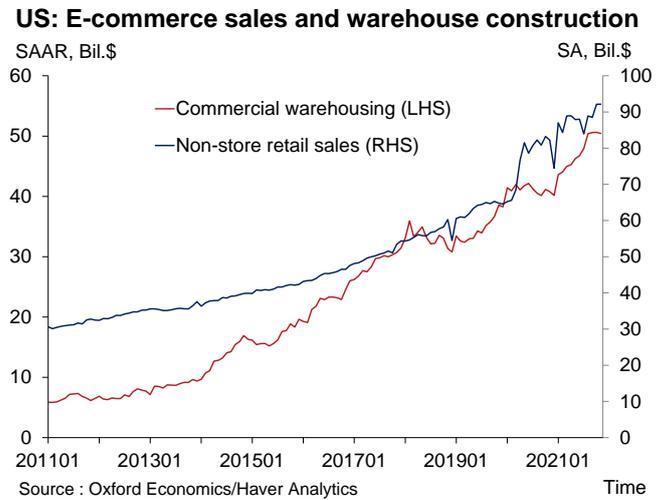
Bottlenecks will likely ease further with higher wages and better working conditions for heavy goods vehicle drivers. An increase in wages means we would expect workers entering the industry to continue rising over time in H1 2022, where labour shortages exist, speeding up the pace at which containers are transported to and away from ports. Improved working conditions are also anticipated to address the retention problem among truck drivers globally.

Although some have pointed to a strong pipeline of container ship orders, with these vessels taking several years to build, more immediate relief will need to come further down the supply chain. Container ship operators who have ordered new ships (**Figure 12**) will support the transportation and logistics industry over the medium term.

Our central forecast assumes that global shipping bottlenecks begin to show meaningful signs of improvement by the second half of 2022 meaning that we expect to see an acceleration in industrial activity later in the year as production benefits from easier access to components and materials, especially in automotive and machinery.

However, further disruptions due to the Omicron variant are increasingly possible. The closure of factories will likely restrain manufacturing activity, reducing the supply of goods to be shipped. While this could help the transport bottleneck, it will not be much comfort for those further down the supply chain. Moreover, port closures —particularly in China where a zero-Covid strategy is still in place—could potentially mean transport and logistics headaches may be with us for longer.

**Figure 11: US: Construction in commercial warehousing remains relatively robust**



**Figure 12: New shipbuilding orders from leading container ship operators**

