

Where do ocean supply chains head from here?

Presentation to American Home Furnishings Alliance 2022 Logistics Conference: “Seeking Calmer Waters”

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Moody's : Global shipping outlook remains negative

Shipping industry outlook changed to 'negative' as coronavirus threatens earnings – Moody's

🕒 July 10, 2020

SHIPPING

Threat of another 'Hanjin' grows

Liner bankruptcy potential spreads in step with the coronavirus

MPC Container Ships voices bankruptcy fears as it plots \$15 million cash-raising to fight corona impact

Transport firms 'face bankruptcy if pandemic worsens'

Study: Container carriers' bankruptcy risk rises in 'perilous' situation

High debt levels leave container lines exposed

CMA CGM ratings cut highlights industry's high debts

Shipping industry in choppy waters as coronavirus evokes 2016 slump and Hanjin bankruptcy

Container Shipping Earnings Now Rival Apple. It's Not a Good Look

Container shipping rates between U.S. and China exceed \$20,000, hitting a record

Container shipping Q3 profits surpass tech giants

China's shipping-container costs hit all-time highs, and shortage will further push up prices in coming months

Container shipping profits in 2021-2022 to hit \$300 billion: Drewry

Liner shipping profits tipped to hit \$200bn this year

High prices give Maersk largest-ever profit for a Danish company

HMM rides rate hike wave to land record 2021 result

Container line profits could hit \$100bn in 2021

Shipping companies are having a bumper year, racking up profits while they can

Global shipping snarls mean headaches for businesses – but big profits for ocean freight companies.

Shipping container lines on track make a record-breaking \$150 billion this year from the supply chain breakdown

China's container giant forecasts massive surge in profits

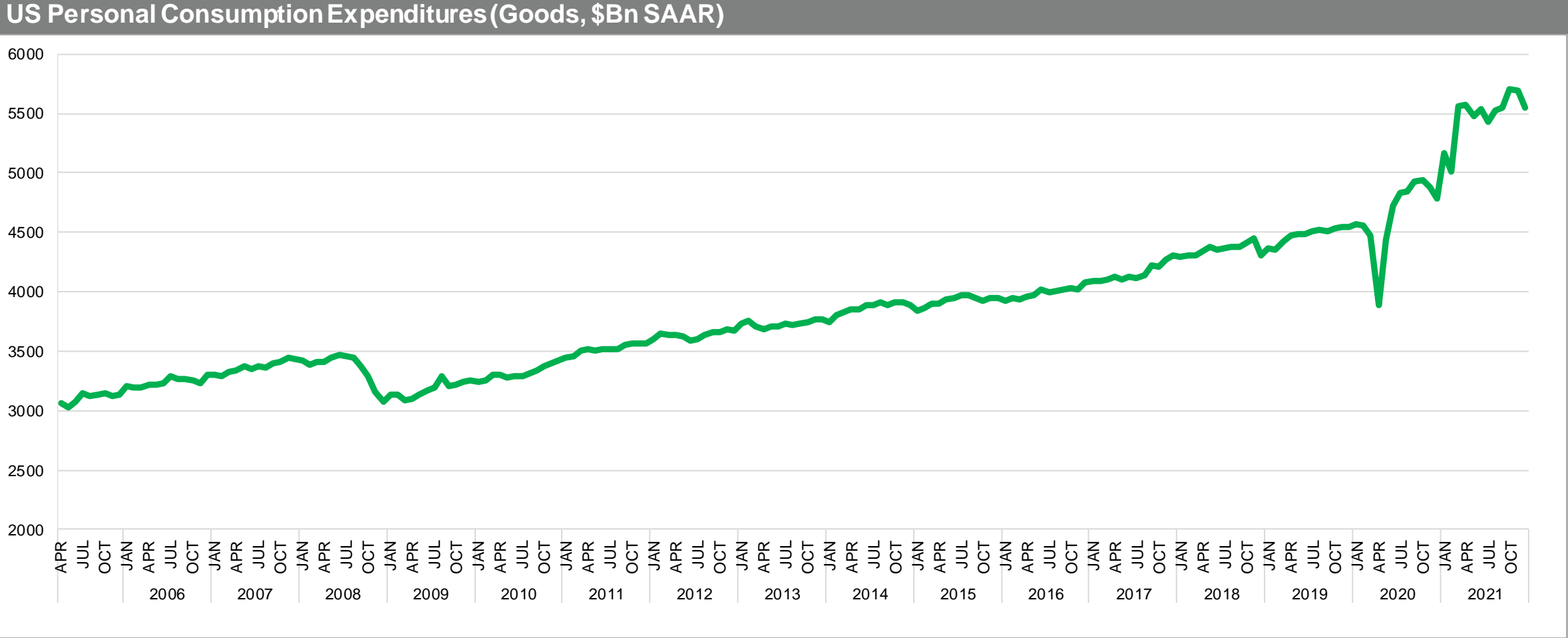
Shipping line profits at full steam as trade chaos shows little sign of abating

Going into the crisis, a different carrier industry

- Container shipping industry was much better positioned going into the pandemic crisis
- Industry consolidation proved its worth in a newfound resolve led by exceptional capacity discipline that had been building up
- Demand destruction in 2020 was relatively short lived, recovery was swift and exceeded expectations amid consumer demand shifts (Goods over Services)
- Industry's pricing power, which has long been elusive, came back ferociously once demand started recovering and has not yet been lost
- Ongoing supply chain distress accentuated by congestion, land-side restrictions, equipment imbalances
- Significant active capacity shortage in the face of a extremely strong ongoing demand
- Is the tide turning?

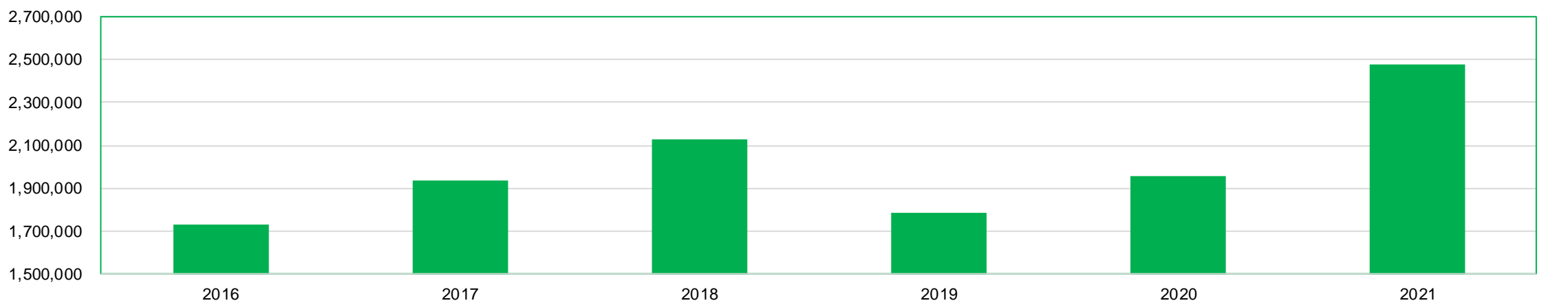


Years of demand growth packed into a very short period; Both ocean and landside infrastructure were unprepared for explosion in demand

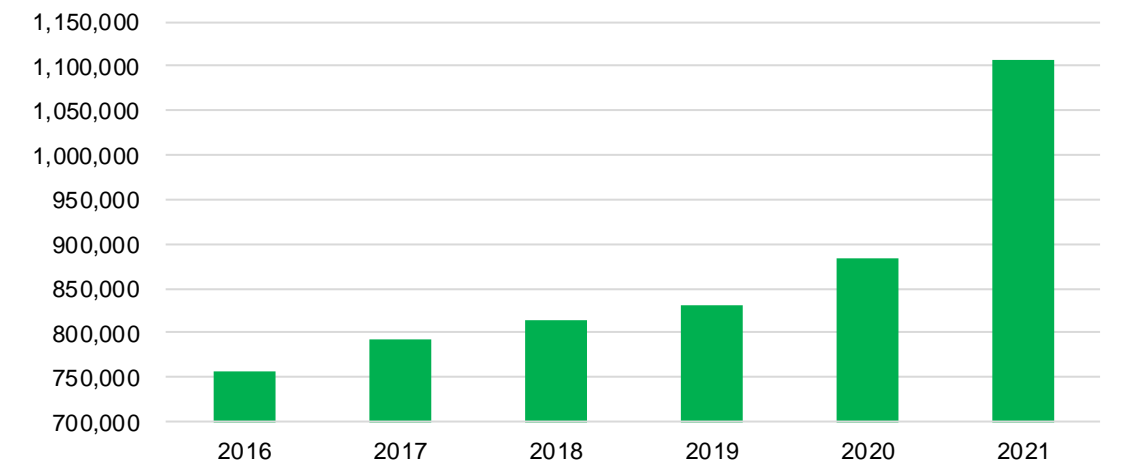


Asia-US demand surge was led by stay-at home goods at the expense of services spend

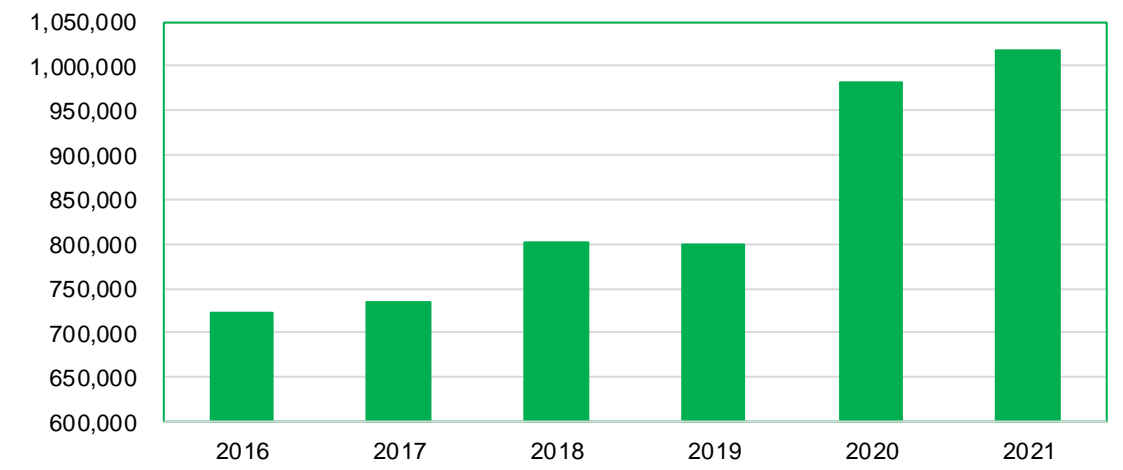
US container imports Ex China (TEU) – Furniture, Home Furnishings, Beddings etc.



US container imports Ex China (TEU) – Toys, Games & Sports Equip

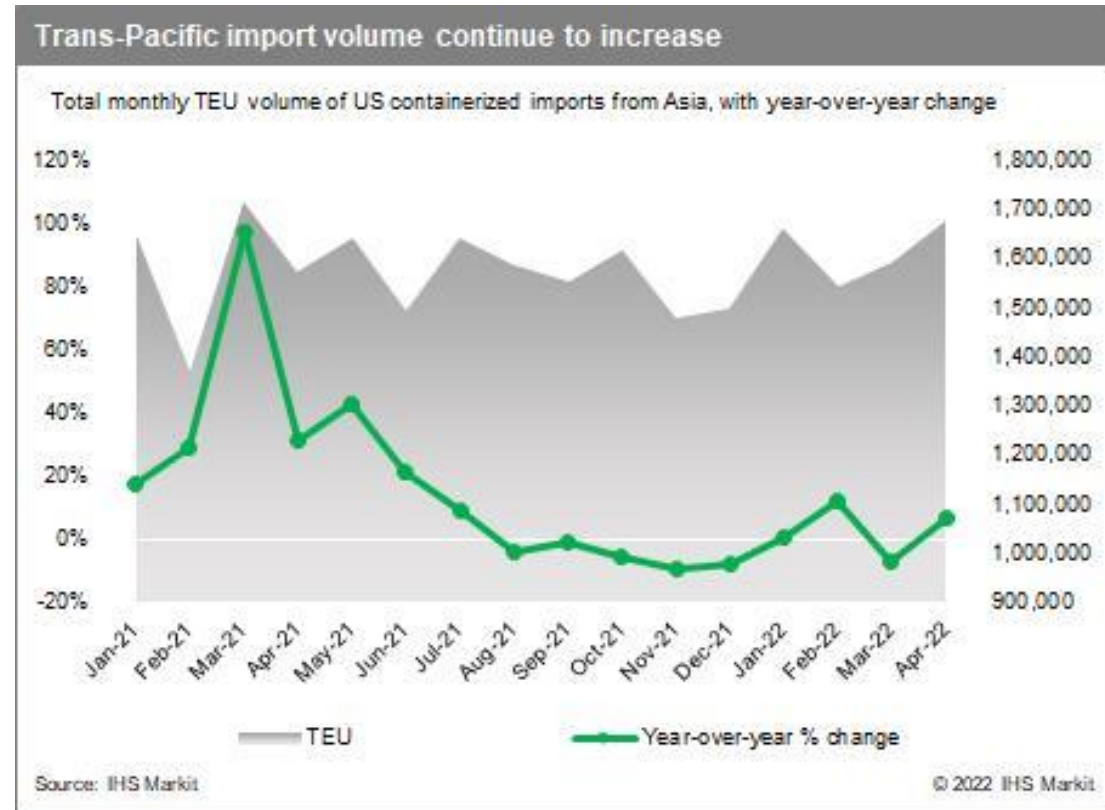


US monthly container imports Ex China (TEU) – Electric, TV, Sound Eq



Overall picture is one of growing near-term supply chain concerns.
In other words, things will get worse before they get better

- YTD 2022 inventory buildup is causing significant delays as these goods move through the supply chain
- Sharp early year inventory buildup is impacting the downstream supply chain as the peak holiday season gets under way
 - Target +43%
 - Walmart +32%
 - Dick's Sporting Goods +40%
 - Container Store +47%
- NRF: imports in 1H 2022 will up 5.3% vs. 2021.
- Jan-April US containerized imports from Asia up 31% versus Jan.-April 2019



Backups getting worse into the 2022 summer/peak season due to inventory buildup

- **Key point:** before there can be any relief in the supply chain the volumes have to work their way through the system and that process is only just beginning.
- Worries for the next few months are see in:
 - Higher on-port dwells
 - Longer street dwells
 - Absorption of limited chassis supply
 - Ships being sent to anchor
- Despite an influx of newly built properties, the national industrial vacancy rate fell for the sixth consecutive quarter in Q1 to 3.4%-JLL



Containers sitting idle for longer on the docks

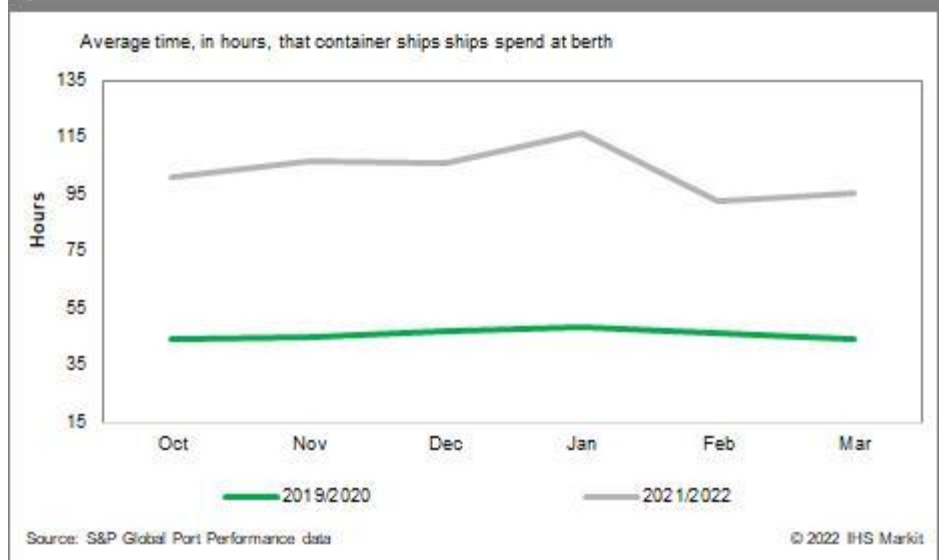
- Chart refers to on-terminal container dwell times at LA-Long Beach
- Numbers remain slightly down versus late 2021 but still highly elevated versus pre-pandemic
- This is a reflection of:
 - Higher volumes: Import containers from Asia up 31% in the first four months of 2022 versus the same period in 2019
 - Early year 2022 inventory buildup; goods not needed until later in the year
 - Distribution space fully occupied



Elevated berthing hours reflects higher on-dock container dwelling

- This is the core problem at the heart of the container supply chain disruption
- Marine terminals filled up, slows vessel loading and unloading, absorbing berth capacity and forcing ships to wait at anchor
- At Savannah as of May 23 there were 27,728 import containers on the terminal, versus 11,834 average in 2019
- At Charleston, there were 24,000 import containers on the terminal grounds as of May 23, versus 15,000 at the end of last October
- One carrier said that over the past month the average number of days its containers are out on the street on a national basis has risen by more than 50 percent, from eight days to over 12 days.
- .

Average West Coast container ship berth hours remain elevated versus pre-pandemic

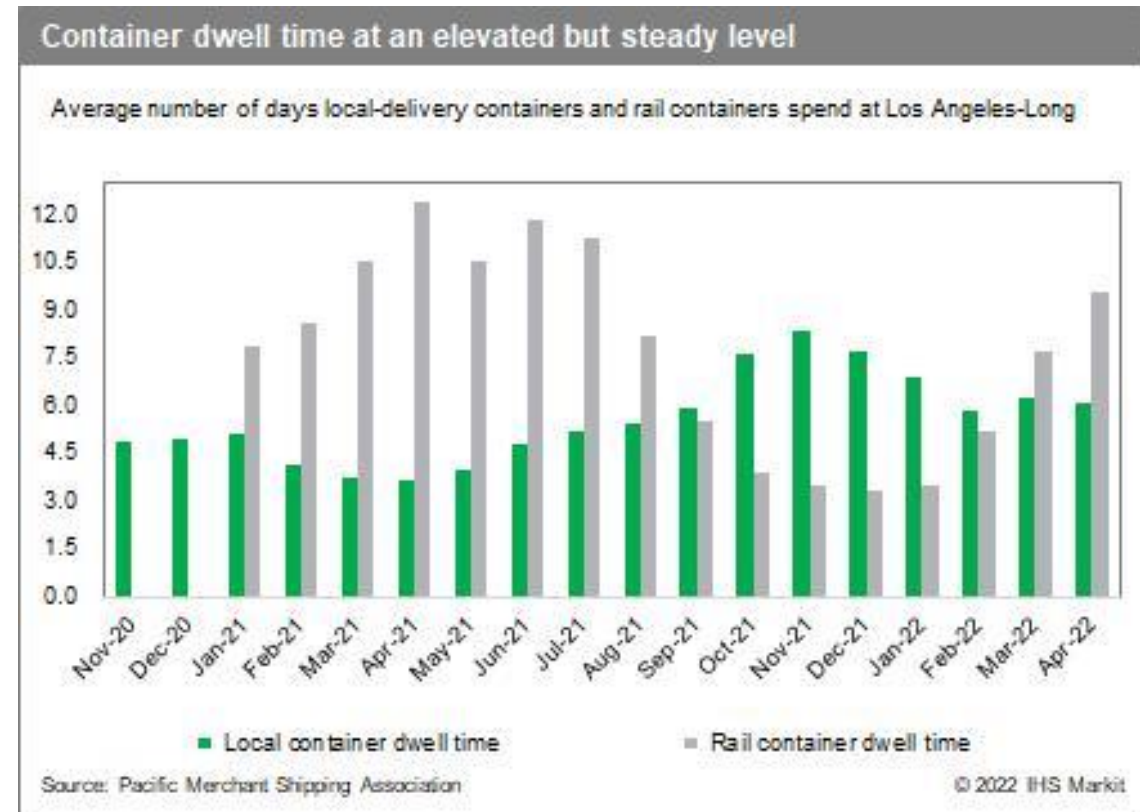


Average East Coast container ship berth hours remain elevated versus pre-pandemic



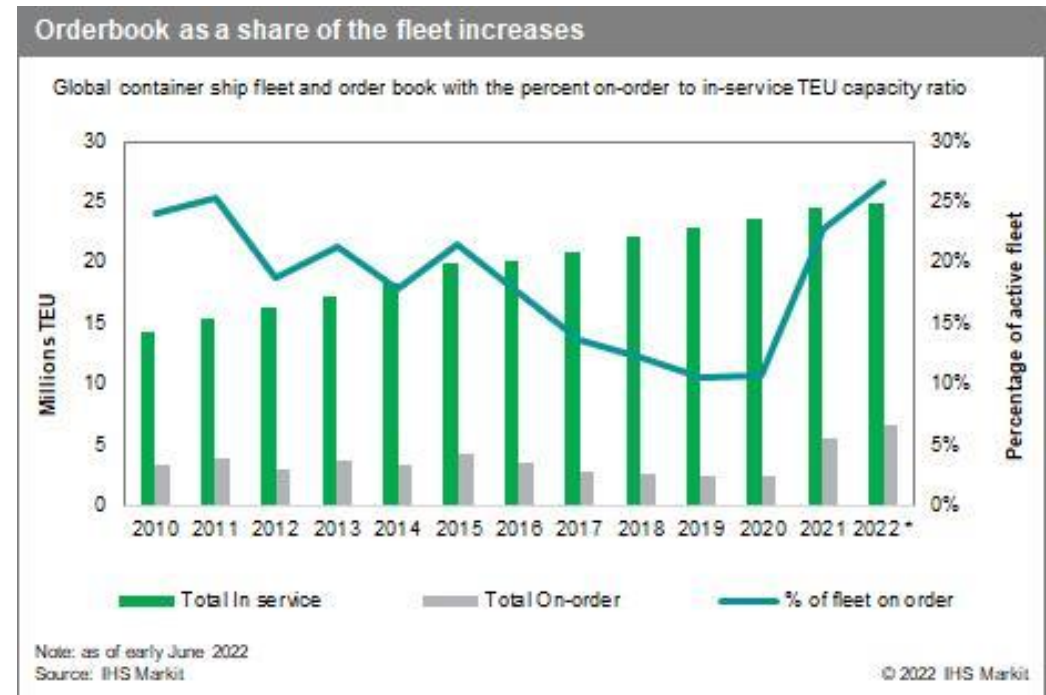
Rail problems reappearing

- Major international supply chain issue in 2021 was Union Pacific's suspending all intermodal service off the West Coast
- Rail bottlenecks are re-appearing, as seen in rail dwell and shortage of chassis
- Issues due to railroads' inability to get trains into inland locations (Memphis, Chicago, Dallas, Atlanta, KC) due to railheads being full-same situation as last year
- Same problem as everything else; inventory swelling, mismatch of inventory and consumer demand, longer usage of containers



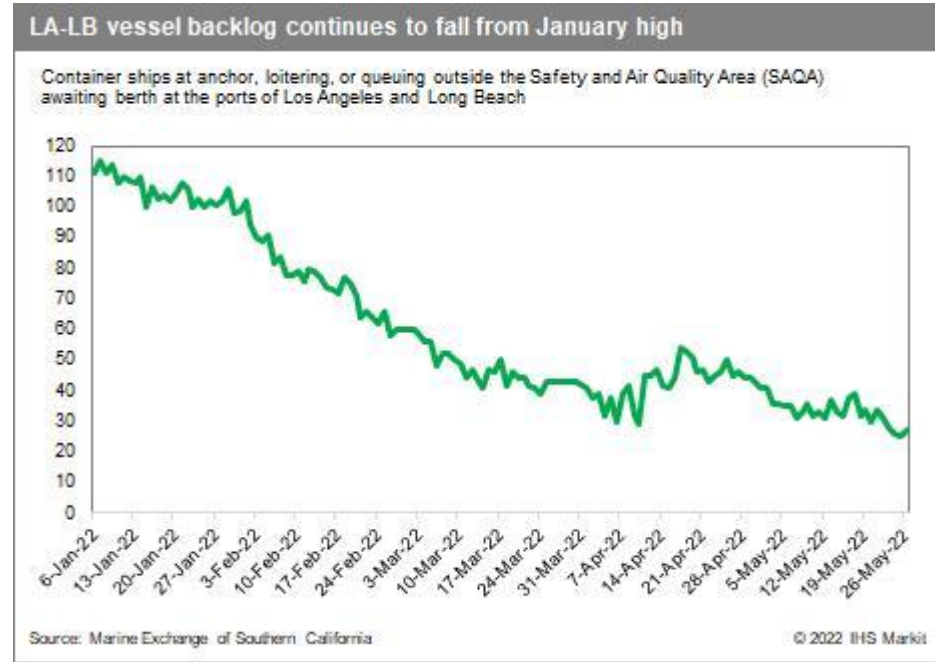
Huge influx in capacity is on the way

- Massive increase in container ship orders seen since 2020
- Over 750 container ships ordered in 2021 and 2022 versus 220 ships ordered in 2019-2020- Lars Jensen
- Shipyards filled up; other types of ships have to wait even longer to be delivered
- What does it mean? Does it portend a return to old-style overcapacity
- Or, will carrier discipline plus IMO 2023 (EEXI) compliance (slow steaming) mean that shippers can't expect a return to overcapacity



What's next?

- LA-Long Beach vessel backup has come way down
- 109 on Jan. 9 versus 20 as of June 9
- Number was zero prior to Oct. 2020
- Positive for importers using LA-LB since flow has improved and vessel space is opening up
- But the problems have only shifted to the East and Gulf coasts due to diversions; 100 total ships at anchor in total, most off US East and Gulf coasts
- Key trigger for this is ILWU negotiations ahead of the expiration of the existing contract on July 1.
- Lots of conjecture about what will happen; Key factors are political pressure, carriers' ability to fund increase in pay and benefits and automation
- Longer term, hearing of cancelled orders, first time we've heard that in a few years
- US GDP growth forecast to slow from 5.7% in 2021 to 2.5% in 2022
- Shipping Reform Act legislation will shortly be signed by Biden



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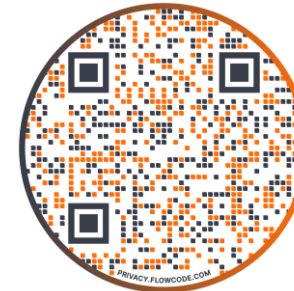
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