Rodney's Take

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The Armada Headed to America

It's been a long time since an armada traveled the open seas toward the United States, but we should expect one by the end of the summer. It won't come from Russia or any other military adversary. Instead, it will be made up of container ships arriving from China. The boats won't carry weapons or soldiers, but they will wreak havoc on our nation. We're about to test the supply chain again, just after pushing small trucking firms past the breaking point.

When the Chinese government shut down Shanghai and other regions with its zero-COVID policy, it laid low many forms of commerce. Ports still operated, with crews required to stay on the premises, but truckers couldn't pick up goods from the ports or deliver goods to them. The policy starved factories and manufacturing firms further inland of raw materials and components and kept finished goods from reaching the docks. There was nowhere to take imports and no way to deliver exports. The disruption rippled across the Pacific, leaving hundreds of ships laid up off the coast of China, waiting to unload or load.

The reprieve from the furious pace of trade during the pandemic gave ports in other nations a chance to catch up and drove down the price of shipping goods. The Drewry World Container Index, which measures the average price of sending a shipping container along major trade routes via ship, fell 26% from the peak last fall to the bottom this month. The price of moving a container from Shanghai to Los Angeles fell 31%. But the bottom might be in.

Sending a container from Shanghai to L.A. got a bit more expensive over the last week, up 1.6%. That's not much, but it's a start.

As the Chinese lift their COVID restrictions, manufacturers and delivery companies will try to make up for lost time. They will need to get raw materials and other supplies offloaded and moved inland while trying to get finished goods loaded and exported. It will take a while to sort out, but they could be running full steam again by mid to late summer. That's great for China, the global economy, and trade partners, but it could be bittersweet for American trucking companies.

While the large trucking firms are just fine, the smaller operators have been dealing with whiplash. First, they saw loads all but disappear in the first days of the pandemic and then saw loads soar as Americans went shopping online. The rebound and increased business left many truckers scrambling for personnel and equipment. There weren't enough trucks and truckers to go around. Operators large and small first were forced to pay more for trucks and pay higher wages for employees, and then had to deal with rising fuel costs. Things got worse at the start of this year, as trucking volumes fell and operating costs continued to mount. The Chinese COVID lockdowns and subsequent drop in shipping just added to the misery. As volume fell, so did the price per load. With operating costs high and revenue falling, some of these companies are reaching the breaking point. They likely won't be able to hold on until the rush of Chinese products again reaches our ports.

Let's hope this plays out quickly. If it takes too long, then Chinese companies trying in a rush to catch up on delayed shipments will run headlong into U.S. companies trying to restock for the holiday season. Those orders begin midsummer, with shipments arriving in August and September. The result will be a snarled supply chain with fewer truckers available to make deliveries. Chances are, trucking companies that recently got burned will be reluctant to jump back into the fire.

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