Europe awash with excess inventory as demand slows

Greg Knowler, Senior Europe Editor (/users/greg-knowler) | Aug 30, 2022 11:44AM EDT

Inflation in the European Union reached 9.8 percent in July, a 25-year high and up from 9.6 percent in June. Photo credit: Shutterstock.com.

European shippers are delaying or canceling import orders as full warehouses across the continent and deteriorating consumer demand leave cargo owners with a growing number of stores loaded with unwanted inventory.

A steep drop in demand across Europe's manufacturing sector has seen a build-up in unsold goods as firms find it difficult to shift finished products to their markets, according to the Eurozone purchasing manager's index for August from S&P Global, the parent company of JOC.com.

"Manufacturing remained mired in contraction in August, seeing another record accumulation of stocks of finished goods as firms were unable to shift products in a falling demand environment," Andrew Harker, economics director at S&P Global Market Intelligence, said in his analysis of the survey data.

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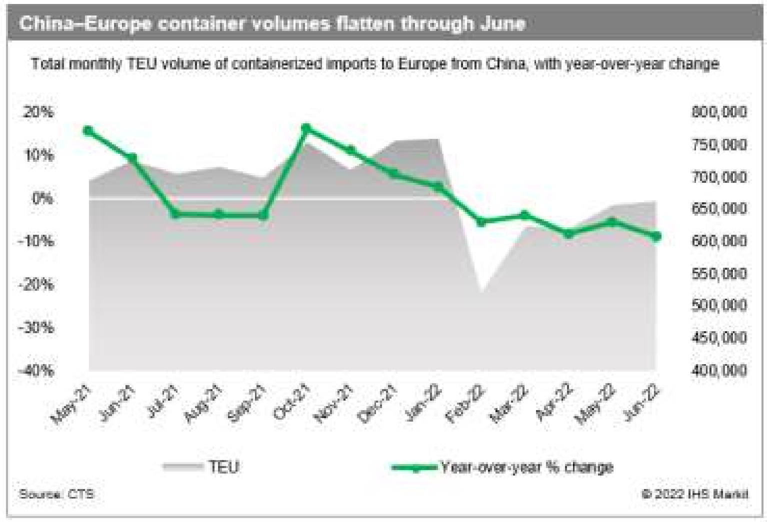
Post-production inventories in Europe increased at the sharpest pace in more than 25 years of data collection in August, with the rate of accumulation hitting a record high for the second month in a row.

"This glut of inventories suggests little prospect of an improvement in manufacturing production any time soon," Harker said.

Markus Panhauser, head of ocean freight in Europe for DHL Global Forwarding, explained that the high stock levels were a result of shippers placing orders earlier than usual over the past year to offset port congestion, shortages in raw materials, and growing bottlenecks in inland logistics.



But when the cargo began to arrive in European ports, it quickly filled all available storage space and coincided with declining consumer demand amid a deepening cost-of-living crisis and runaway inflation.

“These full warehouses have triggered quite significant order shifts on the customer side --orders have been delayed or even cancelled, and some customers are even facing cash flow issues due to the high level of stocks,” Panhauser told JOC.com.

Falling demand is one of the main issues facing European importers as they struggle to pare down the glut in inventory that affects both sales and the ability to meet minimum quantity commitments (MQCs) agreed with carriers.

“When I look at inventories [in Europe], we are seeing that there is a lot of inventory in the system and there are many companies that will have to move a lot of that inventory,” Carlos Alberini, CEO of fashion retailer Guess, told analysts in a second quarter earnings call Wednesday.

Europe facing runaway inflation

There is no good news on the European economic front. Inflation in the European Union reached 9.8 percent in July, a 25-year high and up from 9.6 percent in June.

McKinsey’s latest European Consumer Pulse Survey, carried out in June, found that consumers were buying smaller quantities or delaying purchases, with basic needs such as food, transport, and energy accounting for a higher share of household budgets. Spending on discretionary items has been cut, as has money put toward savings.

The slowing demand can be seen in both containerized imports from China — Europe’s largest trading partner — through the first half of the year, and in rate levels on the Asia-North Europe trade that have tumbled since Jan. 1.

Europe’s import volume from China in the first half of 3.84 million TEU was down almost 5 percent compared with the first six months of 2021, with January 2022 the last month a year over year increase was reported, according to the latest available data from Container Trades Statistics (CTS).

Average spot market rates from China to North Europe valid for 30 days or less have fallen 38 percent since Jan. 1, and at $5,030/TEU have now fallen below the long-term contract rate level that is at $5,054/TEU, according to rate benchmarking platform Xeneta.

Sea-Intelligence Maritime Analysis noted in its Sunday Spotlight newsletter this week that spot rates historically increase in August. However, the spot rate decline this August, atypical as it was, was also the second-largest rate drop during that month since 2012. The analyst's rate projection for September shows a 28 percent decline in Asia-North Europe spot rates compared with last September.

For context, even with the significant decline in average China-North Europe rates since the beginning of the year, the spot market price is still five times that of August 2019, and the long-term contract rate level is almost six times higher than pre-pandemic.

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