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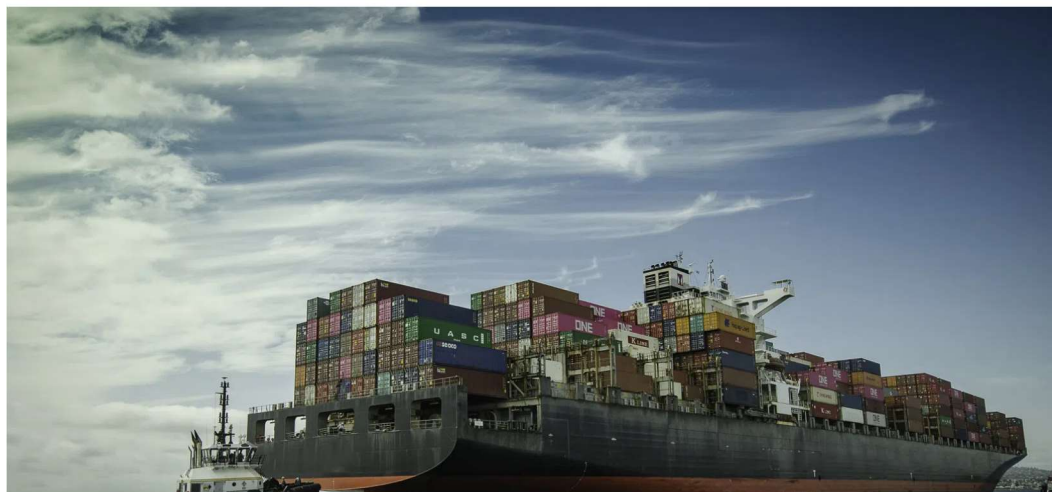
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A potential economic recession and the supply chain bullwhip are colliding

Freight carriers across all modes should brace for weaker conditions in the coming months.



Craig Fuller, CEO at FreightWaves • Tuesday, June 21, 2022 5 minutes read



A lack of Chinese imports coming into the Port of Los Angeles is driving weakness in U.S. imports (Photo: Jim Allen/FreightWaves)

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Subtext: Supply chains are experiencing a massive bullwhip from the COVID economy and have built up massive inventory levels. A slowdown in consumer spending caused by inflation and a potential recession will have a massive impact on freight demand and prolong an inventory drawdown.

As we look at the pandemic through the rearview mirror, the economy is shifting to a new phase. While the United States is currently experiencing full

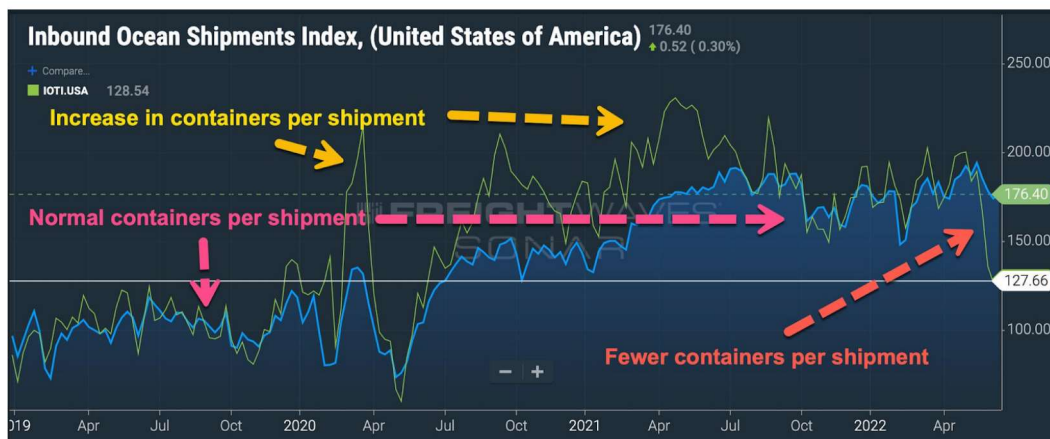
employment, American consumers are incredibly stressed about the state of the economy and personal financial security. Inflation, crashing stock markets, higher interest rates, and economic uncertainty are sapping any confidence that full employment should offer.

For supply chains, the consumer pullback couldn't come at a worse time. The bullwhip effect has created a massive overstock of inventories and wreaked havoc on global supply chains as companies try to recover from the pandemic economy.

The bullwhip effect

The 'bullwhip effect' is a term used in supply chain circles to describe a scenario in which temporary surges in retail demand are magnified and exaggerated by upstream manufacturers and suppliers, who rapidly increase production well beyond the level that can be supported by consumers. Eventually, retailers find themselves with more inventory than they can sell, and what started as a goods shortage ends up as a goods surplus.

If there is a single chart that shows the supply chain bullwhip effect, it is this one:



Source: SONAR IOSI.USA (blue) IOTI.USA (green)

The chart displays an index of import shipments based on the number of bills of lading in blue and the corresponding container volumes in twenty-foot equivalent units (TEUs) in green. The two indices show how the ratio of containers to shipments has evolved during COVID.

Before COVID, the ratio of containers per shipment was fairly static and the two indices moved in tandem. Beginning in the summer of 2020, the container-to-shipment ratio exploded as Big Box retailers used their leverage to move more containers into their scheduled shipments. Smaller importers kept their container-to-shipment ratios more static, finding it harder to secure additional capacity on container vessels.

This continued until the fourth quarter of 2021, when Big Box retailers reverted to previous ratios, likely believing they had ample inventory on hand to handle demand.

At that point, had consumer demand levels remained stable, the bullwhip effect would have played itself out gradually, as retailers burned off higher levels of inventories over time.

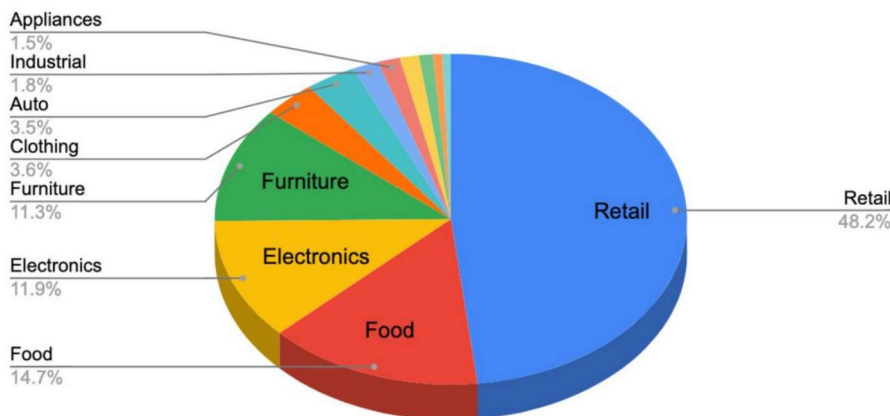
But on February 24, 2022, the world completely changed. Russia invaded Ukraine. Energy and food prices surged in response, setting off inflation rates that the Western world had not seen since the early 1980s.

As inflation continued to accelerate into the spring, consumers pulled back spending on the very items they had previously consumed in excess. Retailers found themselves with even larger levels of inventories than previously forecasted and were forced to come clean in earnings reports and subsequent public announcements.

After results from the first quarter of 2022 and the subsequent announcements of excess inventories and slowing consumer sentiment, the Big Box retailers pulled back on the quantity of containers per shipment. After all, why would you continue to order more if you had more than enough in stock?

A full 77% of U.S. container imports come from industries that have reported massive supply gluts (retail, electronics, furniture, clothing, and appliances). FreightWaves anticipates continued weakness until inventories are worked back down to normal levels.

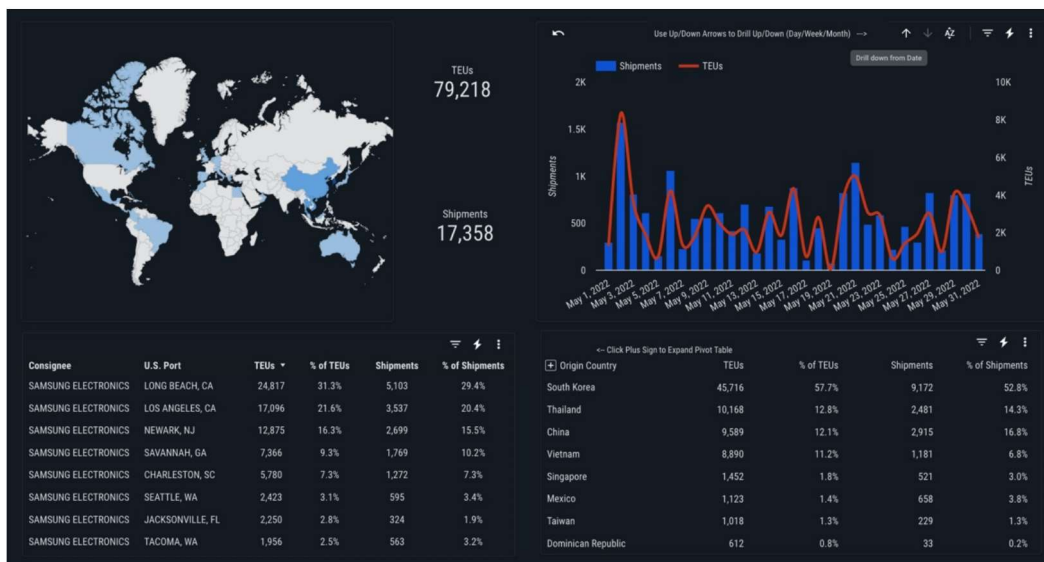
Container Imports by Sector 2021 (TEUs)



77% of container TEUs come from industries which currently are experiencing inventory gluts caused by the bullwhip effect (as of June 15, 2022): Retail, electronics, furniture, clothing, and appliances.
Source: SONAR Container Atlas, FreightWaves

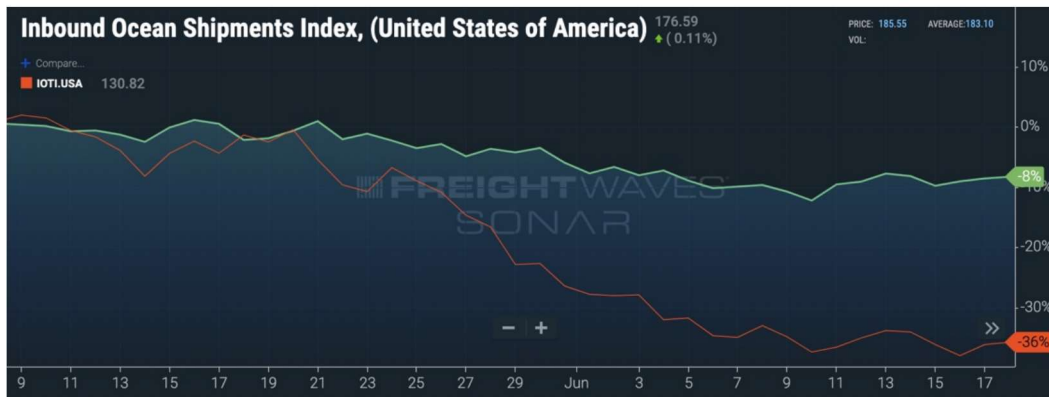
Walmart was the first major Big Box retailer to report having too much inventory. Target was the second. The two Big Box retailers also happen to be the two biggest importers of containerized freight into the United States. Between them, they imported nearly 1.7 million TEUs in 2021, representing nearly 7% of all U.S. container imports.

This past week, Nikkei Asia [reported](#) that Samsung was facing its own bullwhip effect of too much inventory and asked upstream suppliers to cut back production by as much as half in the month of July. Samsung was the seventh-largest importer into the United States in 2021. According to SONAR [Container Atlas](#), Samsung imported 79,000 TEUs last month.



Source: SONAR Container Atlas

According to SONAR's Container Atlas, on May 20th, the ratio of containers started to diverge again, this time dropping below pre-COVID norms. Since then, global shipment counts have dropped by 8% (green), while container bookings have dropped 36% (orange).

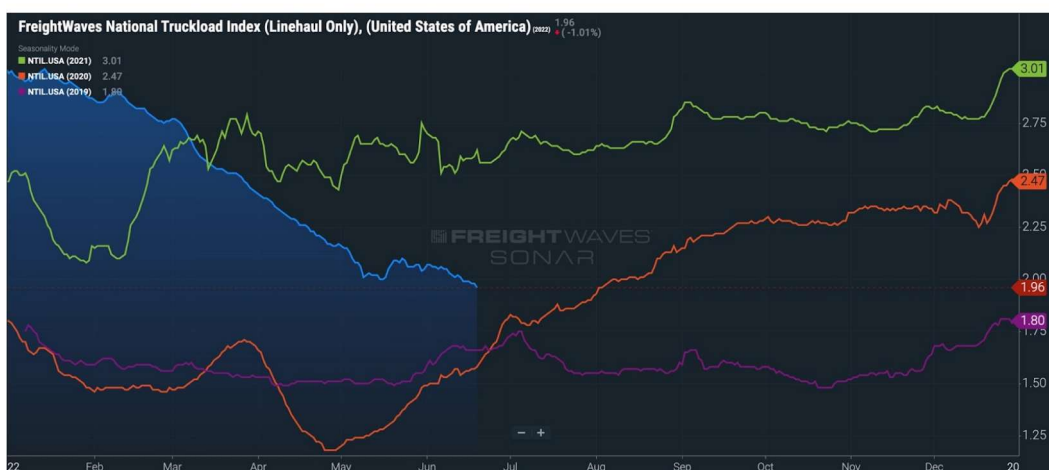


Source: SONAR IOSI.USA (green) IOTI.USA (blue)

Big Box retailers have responsive supply chains and can cancel orders quickly. Small importers tend to be slower to do so. They may not have the supply chain networks to respond to inventory issues as fast as the Big Boxes, but they also lack the leverage over their supplier networks to painlessly adjust orders up and down.

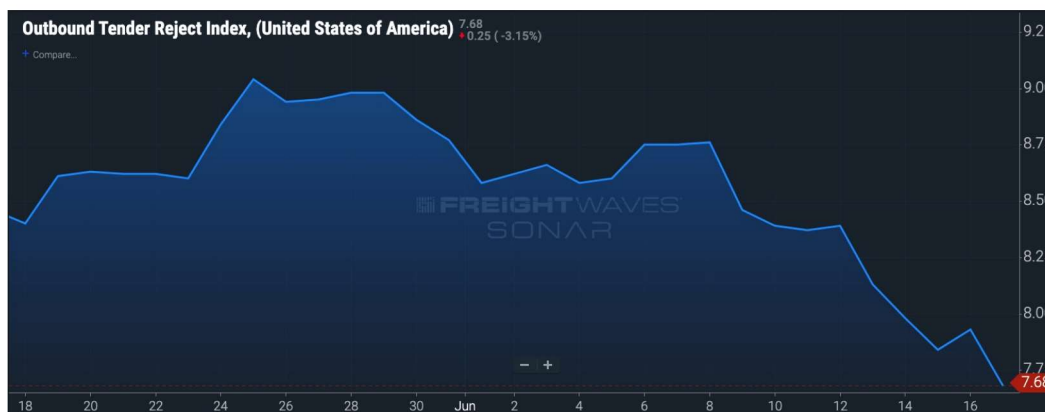
This softness in container markets will have a big impact on trucking in July, as the container slowdown hits North American ports.

At this point in time, the trucking market continues to weaken. This is very concerning for mid-June (normally one of the hottest months in freight). The national spot index 7-day rolling average dropped from \$2.07/mile on June 1 to \$1.96/mile on June 20th.



Source: [SONAR NTIL.USA](#)

Tender rejections have dropped in the past week, hitting a new cycle low of 7.68%. Tender rejections are an indicator of trucking capacity conditions. Declining numbers indicate carriers are losing pricing power, while increasing numbers indicate carriers are gaining pricing power.



Source: [SONAR OTRI.USA](#)

Channel checks are now telling us that less-than-truckload (LTL) carriers (including the top-performing ones) are starting to see a slowdown. LTL is usually the last part of the market to feel a slowdown and the first to feel a recovery. LTL carriers handle smaller shipments from a wider portfolio of customers than truckload carriers, so they have more flexibility in maintaining shipment volumes and asset utilization through the cycle.

LTL is also more exposed to the industrial sector than truckload. We are also hearing that shippers (manufacturers, retailers, CPG, wholesalers) are seeing an acceleration in order cancellations and requests from customers to postpone deliveries.

There's also a scramble for temporary warehouse space. Existing inventory isn't selling at the expected prices, forcing companies to find incremental square footage to house newly arriving inventory. Shippers have slowed down moving containers out of the ports, causing container dwell times to lengthen.

Container spot rates continue to drop and should soon drop into negative year-over-year territory. The ocean carriers have far more pricing power than truckers do, but we don't expect ocean container rate surges; in fact we expect the opposite – rates to continue to fall.

The weekly average of container spot rates from China to the U.S. West Coast has dropped from \$15,551 on April 18 to \$9,177 on June 16 – a drop of 41% – according to the Freightos Baltic Index.

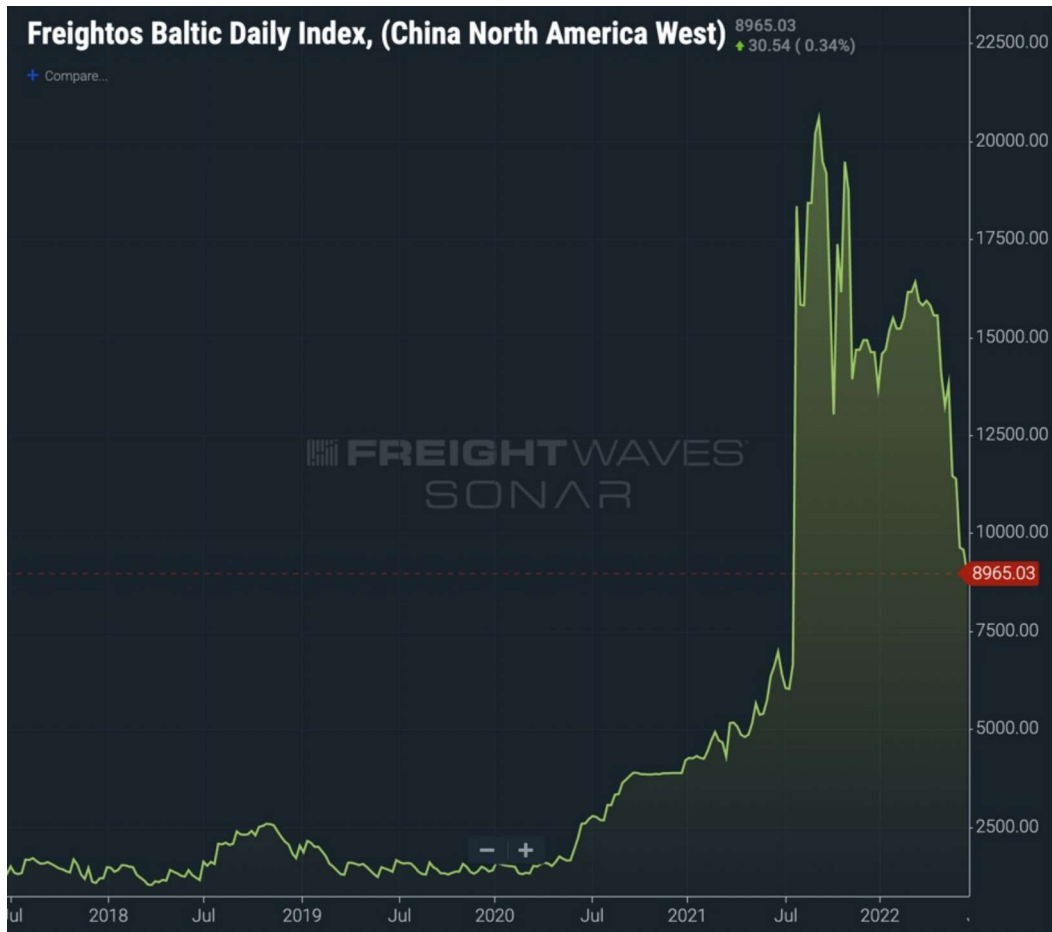
FBX REPORT		JUNE 16, 2022				
THE FREIGHTOS BALTIC INDEX (FBX) IS THE WORLD'S LEADING—AND MOST ACCURATE—INDEX OF MARKET RATES FOR 40' CONTAINERS (FEUS).						
FRIEIGHTOS BALTIC INDEX CHANNEL		04/18/22	05/02/22	05/16/22	06/02/22	06/16/22
.CNAE	(S.E. ASIA — U.S.A. EAST COAST)	\$17158	\$18079	\$15981	\$11907	\$11709
.CNAW	(S.E. ASIA — U.S.A. WEST COAST)	\$15551	\$14065	\$13806	\$9594	\$9177
.NAEE	(U.S.A. EAST COAST — EUROPE)	\$644	\$627	\$681	\$543	\$506
.ENAE	(EUROPE — U.S.A. EAST COAST)	\$7920	\$6972	\$8395	\$8395	\$7968
.GLBL	(GLOBAL INDEX)	\$9136	\$8747	\$8493	\$7204	\$7086

* NUMBERS EXPRESSED IN USD.

American Shipper

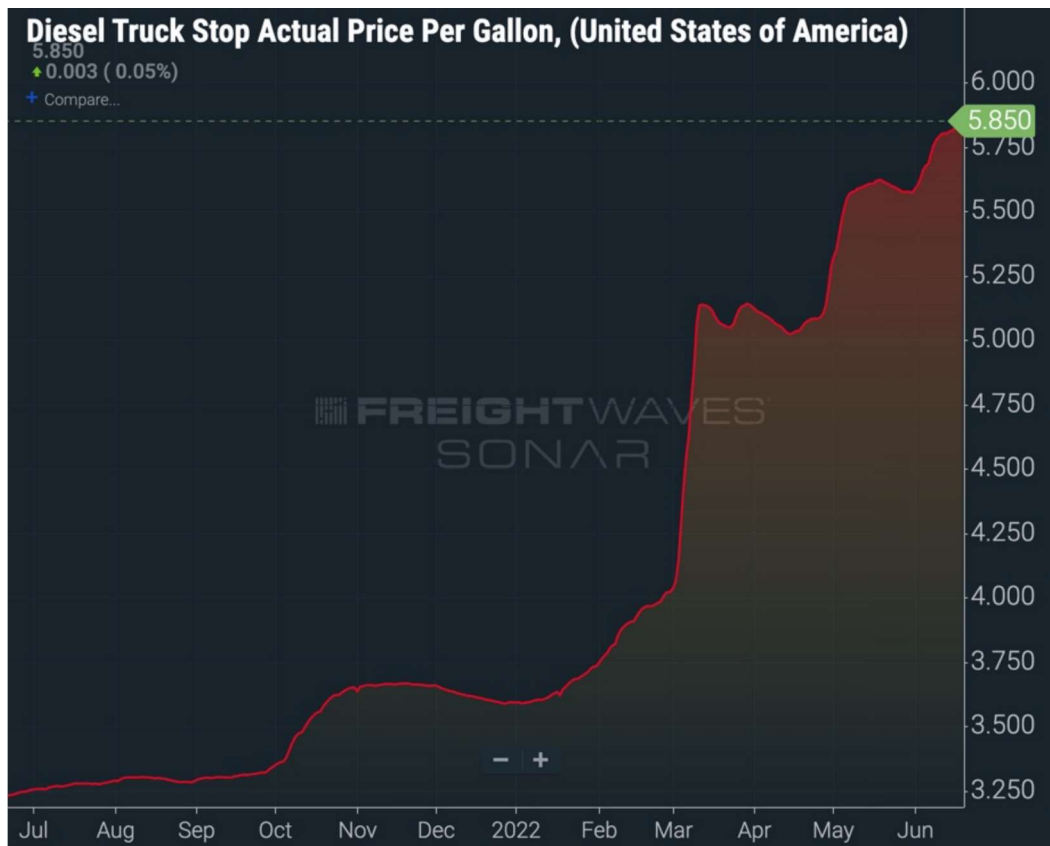
WANT MORE? SONAR users get exclusive access to the detailed breakdown and insights. [Learn more at SONAR.FreightWaves.com.](https://www.sonar.freightwaves.com)

The daily price updates, which are available to [SONAR subscribers](#), shows that container rates fell from the last weekly update on June 16. The updated overnight spot rate on the China to North America West Coast trade lane on June 20 is \$8,965.



Source: [SONAR FBXD.CNAW](#)

Fuel is still a major factor for anyone involved in freight movement. Diesel continues to surge higher and is within spitting distance of \$6.00 on a national level (\$5.85/gallon).



Source: [SONAR DTS.USA](#)

Diesel powers the industrial economy. Freight, farming, and construction all depend on diesel. As the price of diesel surges, it hurts the cash flow of companies across the economy and makes the Federal Reserve's job harder in tamping down inflation.

July and August are always slower markets for freight – the so-called 'summer doldrums.' The conditions we currently see suggest that carriers should brace for even weaker conditions than normal. The Atlanta Fed's high-frequency GDP tracker [indicates](#) the U.S. economy is already in a recession.

For the freight markets and supply chains, it couldn't come at a worse time.

Interested in staying on top of what's happening in the global physical economy? Check out [SONAR](#), which provides the most comprehensive high-frequency supply chain data.

[#Craig Fuller](#)

[#NTI](#)

[#recession](#)

[#Supply chain](#)

9 Comments

Tuesday, June 21, 2022 at 7:46 pm

I am making \$92 an hour working from home. i was greatly surprised at the same time as my neighbour advised me she changed into averaging \$ninety five however I see the way it works now. I experience mass freedom now that I'm my non-public boss. That is what I do.. www.profit97.com

Reply

Wednesday, June 22, 2022 at 8:28 am

Thank you, Mr. Fuller, for the excellent explanation and graphical representation of an important sector in the world economy.

Reply

Wednesday, June 22, 2022 at 6:46 pm

I get paid over \$85 per hour working from home with 2 kids at home. I never thought I'd be able to do it but my best friend earns over 12k a month doing this and she convinced me to try. The potential with this is endless.

Here what I've been doing..... Www.HugePay8.Com

Reply

Wednesday, June 22, 2022 at 1:55 pm

Your analysis of the Trucking industry and our economy is very insightful and helpful. Everything goes in cycles. As you state, this will be a very tough one!

We feel that the trucking industry needs a MAJOR Overhaul/ Changes! It's been an unwanted job for a long time (the turnover rate always at 90-100%), and its gotten worse for drivers lately. Company drivers have lost the ability to write off business expenses and a healthy per diem deduction. Truck stops (except Loves) have many Reserved spots at \$22/night!! ...75-80 hour work weeks with no overtime. When you do the math...what does it work out to...\$12-13/ hr.?

Who would want this job?!! We would like to see a switch to hourly pay, possibly two separate categories- driving and working/ not driving. And overtime (time and a half) after 40 driving hours. (We hear that Europe has eliminated pay by the mile). This would eliminate unpaid hour worked. We are thinking \$19 for driving and \$16 non driving. We think driver pay should increase by 20-25%. Those numbers may not be high enough. Please help by sending your thoughts to ...otrtruckersguild@yahoo. Unfortunately, people in Washington are hopeless Status- quo-ers. Four ideas sent to Trucking committee members a few years ago...elicited NO reply!

Reply

Wednesday, June 22, 2022 at 6:05 pm

TR Sorvlet ...Director
OTR Truckers' Guild

Reply

Thursday, June 23, 2022 at 2:05 pm

I get paid over \$85 per hour working from home with 2 kids at home. I never thought I'd be able to do it but my best friend earns over 12k a month doing this and she convinced me to try. The potential with this is endless..

Here what I've been doing.....www.Richjobz.com

Reply

Thursday, June 23, 2022 at 7:14 pm

I am creating an honest wage from home 1900 Dollars/week , that is wonderful, below a year ago i used to be unemployed during a atrocious economy. I convey God on a daily basis i used to be endowed these directions and currently it's my duty to pay it forward and share it with everybody, Here is I started.....

Copy Here→→→→→ Www.desalary.com

Reply

Thursday, June 23, 2022 at 7:14 pm

Change Your Life Right Now! Work From Comfort Of Your Home And Receive Your First Paycheck Within A Week. No Experience Needed, No Boss Over Your Shoulder. vcs... Say Goodbye To Your Old Job! Limited Number Of Spots Open... Find out how HERE.....>Www.desalary.com

Reply

Friday, June 24, 2022 at 7:08 am

I am unable to work from home but I enjoy the sometimes 2 hour commute. It gives me time to think & listen to radio. No bosses around, the freedom of the drive is so nice. I work in warehouse environment and can close my office door when needed. 😊

Reply