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The Impact of COVID-19 on Transportation:

Where We've Been, Where We Are, and Where We're Going

By: Harold Hermanson, *Account Analyst at enVista*

Introduction

In response to COVID-19, enVista's proactive analytics team has focused on producing regular content that helps shippers across all industries and fulfillment channels navigate the challenges that the crisis presents. This article provides a comprehensive overview of how the novel Coronavirus has impacted and will continue to impact global supply chains, specifically in the area of transportation. In this three phased approach, we explore a timeline of events from the start of the outbreak to current, discuss the global impact of the virus to date, and summarize recent breaking events with an eye toward what we expect to happen next. During the coming months, the partnerships that enVista has developed and maintained will be critical as we continue our mission to provide excellent service and information to our customers. Our team is working hard every day to monitor the market and provide updates to you, as staying informed in an ever-changing transportation landscape is critical now more than ever to making educated decisions for your business. To that end – we want to begin a three phase set of updates detailing as much as we know about COVID-19, future forecasting, considerations to your supply chain, and provide analysis/insights where applicable.

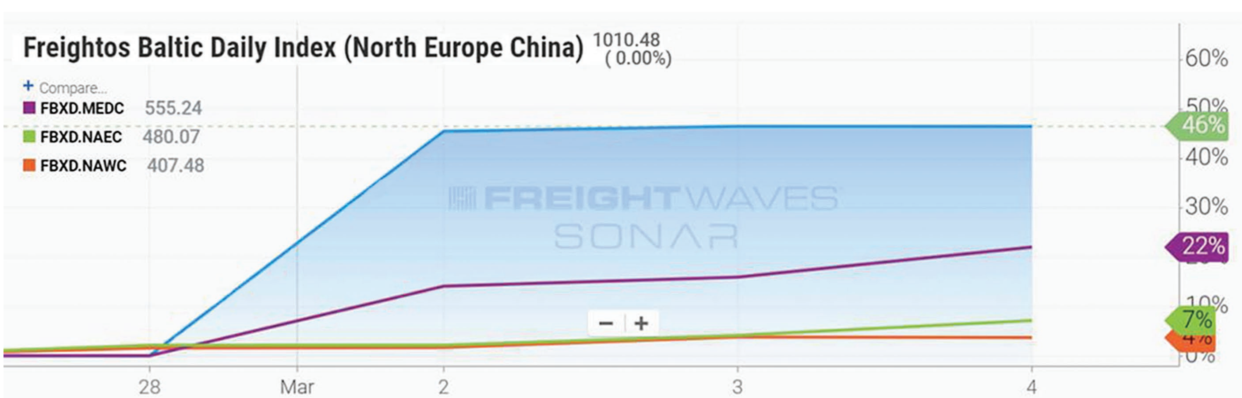
PHASE ONE: Current State

The Start/Spread of the Coronavirus – a Timeline

At the end of 2019 the coronavirus surfaced in a seafood and poultry market in Wuhan, China. The first dozen cases were treated for pneumonia with an unknown cause and took less than two weeks to see the first fatal case. This would fall on the doorstep of one of China's biggest holidays – the Chinese New Year. By January 20, there were confirmed cases of the coronavirus in Japan, South Korea, and Thailand, with the first confirmed case in the US coming the next day. Shortly afterwards, China began to shut down, canceling planes, trains, buses, subways, and ferries, and restricted all movement – effectively shutting down all production in China. The speed with which this virus spread caused the World Health Organization (W.H.O.) to declare a global emergency, and the US restricted all travel from China. In early February, the first death occurred outside of China, and by February 10 the death toll in China alone had surpassed the global number of people who died from the SARS epidemic in 2002-3. On February 14, France announced the first coronavirus death in Europe. One week later, Iran had several fatal cases, and the outbreak saw a major surge in Italy prompting officials to lock down complete towns. On February 26, Latin America saw its first confirmed case from a man who had recently returned from a business trip to Italy, with Africa reporting its first case with a similar root cause soon after. On February 29, the United States confirmed its first death from the coronavirus, adding to travel restrictions and warning citizens not to travel. At the beginning of March, the virus had spread in two short months to a total of 90,000 cases around the globe, and killed an approximated 3,000 people. On March 11, as the situation worsened in several European countries, the US imposed a travel ban from Europe, and two days later declared a national emergency as the number of cases began to increase exponentially.

Global Impact

As the global community has been locked down for quite some time already – we know that your supply chain has already been affected in many ways. Most shippers had prepared for a lull in products being moved out of China because of the Chinese New Year, however the timing of the virus has only compounded the impact. All products were stuck in Chinese ports as laborers were ordered to stay at home and transportation was grounded. The biggest impact felt by this halt is suggested to be on the consumer electronics and automobile industries. The manufacturing for these products is highly labor intensive, and businesses in markets similar should be likewise affected as parts upstream in the supply chain are showing shortages which will negatively impact production in Q2 2020. Additionally, these sorts of luxury goods will take a backseat to commodity goods as this pandemic plays out in the coming months. The main issue of the first two months of the year was clearly getting any sort of goods to moving in, or out, of China. But as March has played out, another critical issue has emerged: the scarcity of empty containers. As boxes laid in wait at ports and sailings were canceled, the normal flow of empties was likewise stalled, leaving those containers stranded in the wrong places. As shipping resumes and companies are looking to get their products moving – getting containers to fill is the next hurdle to overcome. As March began, one forwarder expressed concern that the shortage is already hitting exports out of Europe, as well as expecting imports are going to be seriously affected in the next four weeks, predicting volumes would be down up to 70% year over year. With inventory levels declining around the world, this lack of availability to move products via ocean will likely result in many retailers and manufacturers fighting for space in the air cargo sector. With inventory levels declining around the world, this lack of availability to move products via ocean will likely result in many retailers and manufacturers fighting for space in the air



Source: Freightwaves

cargo sector. This lack of empties also impacts shipping in additional ways – less empty containers means carriers are increasing rates for the backhaul back to China as capacity gets tighter. Between February 28 and March 4, rates on the North Europe-China route have risen 46%; rates on the Mediterranean-China route are up 22%; rates on the North America East Coast-China route have increased 7%; and rates from North America's West Coast to China are up 4%.

US Impact

With Chinese ports shut down, cargo volumes being imported at US ports could be down as much as 20% from 2019 levels in Q1 of 2020. With most Chinese factories back up and running at the beginning of March, products will begin to move again. However, with the lag time seaborne trade takes to cross the Pacific, the US is likely still weeks away from getting levels back up to where they would be normally. Increased spread of the virus throughout the US will also make for an incredibly unpredictable market in the coming weeks and months, as we've seen complete states lock down in an effort to 'flatten the curve'. Conversely, with panic taking hold of consumers, trucking volumes have spiked in order to meet the demands of moving essential goods to grocery stores. The national Outbound Tender Volume Index (OTVI) increased 9.3% during the first week of March, hitting levels normally seen only around holiday peak seasons. The increase in volume has left capacity for TL and LTL carriers tightened, resulting in an increase in tendered loads being rejected. Trucks are simply not available to pick up all of a shipper's freight. Increased consumption from consumers, and the lack of import volume coming from China, has shippers moving inventory from regional warehouses and distribution centers to storefronts to meet the needs. Loads that move less than 450 miles increased over 13% during the first week of March, leaving shippers waiting to replenish those warehouses on import volumes to pick back up. The question on everybody's mind then, is when will that happen? Since it takes 2-4 weeks for freight to hit the U.S. ports from Asia, and another several weeks before that freight is offloaded from the ship and de-containerized in a distribution center, inventory levels may fall at a faster than expected rates. With the spread of the virus expanding daily, the impact on imports is now expected to be larger and longer than previously anticipated, and companies should be in constant contact with their suppliers and transportation providers to find alternative paths to minimize disruptions.

Impact on Carriers

This lull in shipments has obviously resulted in a tough financial situation for all carriers. In mid-February ex-China rates were down due to the low demand, but have since rebounded as the demand picks up during China's recovery. One source stated the shipping industry is set to lose 1.9 million+ teu in volumes due to the disease, again estimating that carriers are losing around $350 million a week in combined revenue due to the number of blanked sailings. One Singapore-based carrier Pacific International Lines (PIL) has resorted to selling ships in order to raise cash to support its remaining operations. Maersk ended up canceling more than 50 sailings in February alone. Described in several news articles as a 'V-Shaped Recovery,' carriers will be looking to capitalize now that

Chinese ports are back up and running. Many carriers will likely add a form of coronavirus surcharge, similar to a peak season surcharge. This, coupled with the newly implemented accessorials for IMO 2020, will have ocean shippers paying a premium to move their products as Q1 ends and Q2 begins. French carrier CMA CGM is set to blank 23 or more sailings from the beginning of February until June, declaring the situation a force majeure as the financial cost of the outbreak surpasses $2 billion industry-wide for container lines.

Air carriers have been equally affected, as most airlines passenger demand has dropped dramatically with travel restrictions in place. One source even gave an early estimate that the coronavirus could cost airlines as much as $30 billion this year, which might end up being low. The International Air Transport Association (IATA) requested in early February that the 80:20 rule, which calls for airlines to operate at least 80% of their allocated slots or risk losing those slots at airports the next season, be suspended until the coronavirus is no longer a factor. The IATA expressed these are extraordinary circumstances, and the collective view of the airline industry is that the application of the 80% rule during the upcoming season inappropriate. These losses will inevitably result in an increase in rates for air freight, as carriers look to again recoup some of that lost revenue.

Freight forwarders may be at even greater risk, as they saw no revenue coming in for approximately one month due to no landing of cargo from China. Medium to small freight forwarders will find it hard to maintain any cash-flow, and might be unable to settle their 3-6 month payables. With many European forwarders moving automotive parts, and that industry being hit harder than most with factories shut down in China, the forwarders are stuck. For a long time there are no containers coming in. Shipping lines are coming up with some new surcharges, like 'emergency container pickup' and peak season charges of $300-600 per dry box. If forwarders are not willing to pay, there's no equipment. Needless to say – continued issues with shutdowns will be an issue moving forward even after Chinese ports begin to open because European ports and the trans-Pacific lanes to the US are just now taking extreme measures to shut down as the virus moves to other regions of the globe.

Parcel and Express giants like UPS and FedEx are doing their best to continue business as usual, while operating in compliance with applicable government regulations to help contain the coronavirus. In the interest of social distancing practices, UPS and FedEx have temporarily adjusted certain guidelines requiring signature upon delivery. Additionally, there have been announcements surrounding an expected increase regarding time-in-transit, as well as a temporary suspension in service between select countries. To stay as up-to-date as possible, the following links can be used to access information regarding new changes to the UPS and FedEx rates/service guides.

https://www.ups.com/us/en/shipping/rates-update.page

https://www.ups.com/us/en/about/news/important-updates.page

https://www.fedex.com/en-us/shipping/current-rates.html

https://www.fedex.com/en-us/service-alerts.html *(scroll partway down to find the 'Service impact related to COVID-19 Coronavirus' section*

Recent Events

While the international community is continuing to lock down and quarantine areas where the coronavirus have been identified, the US is fast becoming the new epicenter of the virus. Several governors have issued orders of "shelter in place" and effectively banned any movement outside of homes with the exception of buying essentials to survive. This emphasis on limiting movement has caused a bit of a panic in purchasing essential goods at grocery stores, causing much strain on supply chains. Truckloads of essential products are now being prioritized at all costs, moving products with increased fervor to grocery stores around the country. The Federal Motor Carrier Safety Administration (FMCSA) waived hours of service requirements for the first time in history for shipments related to COVID-19 support/relief. Amazon, in an effort to assist with providing necessities, has also stated it will prioritize shipping essentials for the foreseeable future. Amazon has stopped accepting all products other than medical supplies and household staples to its warehouses until April 5. Retailers of luxury goods, which sell products on Amazon, should expect to see a decrease in sales through that avenue, which only makes the current economic struggles harder as several large companies close stores completely. The coronavirus is now impacting the work of Parcel/Express carriers; just in the last few days, we've seen UPS, FedEx, and DHL all suspend guaranteed service refunds. We can only assume there will be more announcements of this nature periodically moving forward, and we'll do our best to provide visibility to those as they arise.

What to Expect in the Next 3-4 Weeks

In the coming weeks here are a few things to expect/consider:

- March has seen prices soar for air freight as the market has become 'pay to play' in the words of many. The lack of raw materials for manufacturing factories in South-East Asia has the industry desperate to get capacity as options have been limited. Intra-Asia rates have hit an unprecedented high – rates between $4.50 and $5 per kg from Shanghai to destinations like Singapore, Bangkok, and Yangon. Other lanes have been affected as well, with China-Europe gaining 3% and mainland China-US up between 12% and 19% to some $3 per kg, according to Freight Investor Services and the TAC Index. Hong Kong-US rose more than 5% to $3.20.
- The raw material shortage mentioned above will only continue – as key industries like the garments sector in Bangladesh and other South-East Asian countries are reporting a hit which could last three to four months. Additionally, with the spread of the virus now impacting Europe and the US, exporting goods once manufactured will pose an additional problem as those two markets slow down.
- Additional accessorials and surcharges, service disruptions, and suspension of guaranteed service will be announced from carriers across all modes.

How enVista Can Help

enVista Transportation Solutions provides transportation spend management services to hundreds of companies across the globe. Whether you are a current enVista client, a prospective customer, or a supply chain professional seeking helpful information and strategies in a time of uncertainty, we are all in this together and enVista is here to help in any way that we can. To that end, enVista is maintaining a COVID-19 Crisis: Transportation Insights portal with current thought leadership and market updates from enVista analysts. We also welcome the opportunity to have a conversation with you about how to reduce spend and optimize operations through our suite of easy-to-implement cost-saving services: invoice audit and automation, contract negotiation and optimization, business intelligence, and network analytics and optimization.

Let's have a conversation.

Harold Hermanson is an Account Analyst with enVista Transportation Solutions. He graduated from Kalamazoo College with a bachelor's degree in Computer Science, as well as Purdue University with a master's degree in Technology. He has worked for 3 years with enVista on several teams throughout the operation as an Analyst including Client Services, and Operations. During his time at enVista, Harold has worked with global shippers like Tenneco Automotive to provide analytics, business intelligence, and network optimization support. Harold's focus as an enVista Account Analyst is to provide network analytics and help create efficiencies in the areas of transportation finance and operations.

Harold's areas of experience include:

- GL Cost Allocation
- Network optimization and analytics
- Development of KPI requirements and dashboards
- Custom transportation reporting buildouts
- Proactive transportation data monitoring and analysis
- Business intelligence platforms

Additional Resources:

https://www.cdc.gov/coronavirus/2019-ncov/index.html

https://www.cdc.gov/coronavirus/2019-ncov/faq.html

https://www.who.int/emergencies/diseases/novel-coronavirus-2019/advice-for-public

https://www.who.int/news-room/q-a-detail/q-a-coronaviruses

https://www.envistacorp.com/covid-updates/

https://www.wsj.com/livecoverage/coronavirus

https://gisanddata.maps.arcgis.com/apps/opsdashboard/index.html#bda7594740fd40299423467b48e9ecf6

Sources:

Loadstar, Freight Waves, Supply Chain 24/7, Business Insider, New York Times

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