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Ex Works WatchDog

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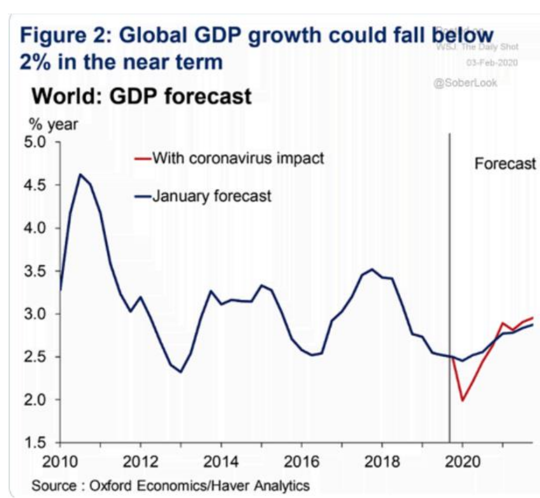
*Coronavirus is in the daily headlines. Its impact on the world's supply chains will be severe – and the full extent, and timing, of that impact is unknown, and likely will be for some time. But we believe that it isn't too early to at least try to anticipate what the fallout might be for the particular trucking companies that forwarders depend on in the U.S.*

## Coronavirus: A snapshot of what is known at this time

- **Manufacturing** Most manufacturing in China has been shut down for weeks, and is only slowly starting to rebuild.
- **Domestic ground transportation within China** Because of driver quarantine rules, domestic trucking within China is extremely disrupted – so even when goods are ready for export, it is difficult to get them to the ports. And imports, especially perishables (which are a large share of US exports) are building up at Chinese ports, without access to vehicles and drivers to deliver them inland.
- **Shipping Lines** Over 50 trans-Pacific sailings have been cancelled – and the sailings that haven't been cancelled arrive with just a fraction – as low as 10% -- of cargo capacity filled. Further, the cancelled sailings mean that a container backlog is building in China – and U.S. exporters are struggling in many areas to locate containers to move their wares. The impact on the shipping lines is dramatic: one estimate shows shipping lines losing over $300 million every week as a result of Coronavirus.
- **Airlines** Freighter frequency has been cut back because of the factory shutdowns. And airlines have cancelled all or most passenger flights (about 45% of air freight capacity) for the next 4-6 weeks – and they are updating and extending those cancellations almost daily.

## What is coming next

Demand for cargo is expected to be what some have described as a huge "V" – a sharp decline, followed by a bottoming out and then a dramatic increase in demand. Where are we now? Somewhere in the decline – but of course we don't know where. No one can anticipate how long the downward trend will continue – it could be weeks or it could be months. **The one thing we can be sure of is that after it bottoms out and factories and carriers start to return to normal capacity, there will be an extreme backlog of demand that will far exceed the ability to move cargo, by air and especially by sea – and ultimately from the ports to clients in the US.**



## What this means for your LTL and cartage truckers

LTL carriers are largely supported by the domestic US economy – the import downturn will hurt them, but the impact will be limited. Cartage companies will be hit a bit harder – but airport truckers at every airport serve both domestic freight, and imports and exports to and from every country in the world. Volumes will inevitably be down at all airports, and especially west coast airports. But we don't anticipate that the impact on these truckers will be overly dramatic.

## What this means for drayage truckers

**The situation is different for drayage carriers, especially those on the West Coast** – and predominantly Los Angeles/Long Beach. It's very simple: cargo from China is a very high percentage of the activity on west coast-based drayage carriers.

What will it mean? Until we reach the bottom of the "V", many drayage companies will be under extreme financial pressure. The unexpected drop in demand will mean fewer moves, and inevitably lower revenue per box as they compete with each other for fewer opportunities. If what used to be a steady flow of freight from China remains a mere drip for months, it is possible that some drayage providers may not have the financial resources to continue.

But once the faucet is turned back on, the expectation is that there will be delays at the ports, and demand will exceed the supply of equipment and drivers: in short a second, and potentially more intense, peak season – with the inevitable impact on cost and service quality.

## What this means for forwarders

The whipsaw of demand, measured against a relatively stable supply of capacity, will make for an interesting year – and test forwarder skills in managing ground transportation relationships.

A temptation might be to leverage the dearth of cargo to strong-arm drayage truckers into lower and lower rates in the coming weeks. But whenever the situation hits bottom – and it will – the truckers will hold the cards. Gaining access to drayage capacity will likely be critical to meeting the demands of desperate importers – so forwarders might be well-served to strengthen their relationships with critical drayage providers today to ensure access when the inevitable crunch comes. Which, to repeat, it will.

### Takeaways

1. Be alert to potential bankruptcies, especially among vulnerable drayage carriers
2. Warn your importers that they should anticipate service issues, not just with shipping lines, but also with trucking within China and within the US.
3. Consider using the temporary shortfall of freight today to secure better access to capacity when the floodgates open.

*Ex Works WatchDog is published periodically to provide air and sea forwarder management with information and insights related to ground transportation. Ex Works is the leader in connecting air and sea forwarders with their trucking networks.*