No economic “green shoots” in world trade and transport

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On June 24, the World Trade Organization announced an upwardly revised estimation of how much world trade will contract in 2009. The organization’s March estimate predicted a record contraction of 9 percent by volume. The current estimate is negative 10 percent or greater. Announcing the revision as a “huge drop,” WTO Director-General Pascal Lamy told Reuters TV, “I’m afraid I can’t read any good news in my trade numbers.”

This massive contraction in trade is shown in the falling revenues and increasing layoffs of global transport companies. Across the world, ships, airplanes, trucks, and railroad equipment with no cargo to carry are being stored or scrapped.

Plummeting global trade is partly a result of protectionist measures various nations have placed on trade—but more centrally it is the direct outcome of falling production and idled factories. Any uptick in demand and production would be quickly shown through increased transport volumes, which are strikingly absent amid the claims of emerging “green shoots” of economic recovery.

International Shipping

In the first quarter, revenue of the world’s largest ocean container carriers was off 35 percent compared to 2008. *The Journal of Commerce* states 2009 is “shaping up to be the worst year in modern liner shipping history.”

The container shipping industry had $5 billion in profits in 2008. For 2009, London-based Drewry Shipping Consultants estimates combined losses of $20 billion before taxes and interest. Three months ago the consultancy firm estimated world ocean container volume would shrink by 5.7 percent in 2009; now the estimate is a contraction of 10.3 percent.

Major ocean carriers faced both a 20 percent drop in revenue and a 15 percent reduction in rates in the first quarter. The world’s largest ocean carrier, Maersk Line, had the best performance, with revenue down 28 percent. In the last 18 months it has laid off 24 percent of its workforce, cutting employment to 17,500 from 23,000. CEO Eivind Kolding told *Bloomberg News*, “we have some further opportunity for rationalization.” With freight rates at record lows, he stated, “Getting lower down from this point will actually mean you have to pay the customer to take his business. There is a floor and we are quite close to that now.”

Container industry forecaster Neil Dekker of Drewry Shipping Consultants told the *New York Times*, “the cost of shipping a 40-foot steel container full of merchandise from southern China to northern Europe tumbled from $1,400 plus fuel charges a year ago to as little as $150 early this year, before rebounding to around $300, which is still below the cost of providing the service.”

River traffic has fallen by levels similar to ocean-going traffic. On Europe’s river ways, the European Barge Union states there is a crisis “of an unprecedented intensity and of an unknown duration.” Compared to 2008, container traffic in the first five months of 2009 was 30 percent lower on the Rhine River, the busiest commercial waterway in Europe. The carriage of chemical products—a key index of industrial production—fell by an astonishing 54 percent in the same period.

The Port of Los Angeles—the busiest port in the United States, handling enormous volumes of containerized traffic from Asia—saw imported containers decline by 18 percent in May, and exports fall by 7.1 percent. Through May both exports and imports were sharply reduced compared to 2008: imports by 17.7 percent to roughly 1.4 million containers, and exports, by 15.5 percent. The second busiest port in America, Long Beach (California) had container imports tumble by 22 percent and exports fall 23.8 percent in May. For the year, both imports and exports to Long Beach were off nearly 30 percent from 2008.

Hundreds if not thousands of dock and warehouse workers have lost their jobs as a result of the fall in traffic at the Ports of Los Angeles and Long Beach. The nearby Inland Empire region has an unemployment rate of 12.6 percent, the second worst urban unemployment after metro Detroit’s 14 percent.

Europe’s largest container ports have also seen a dramatic fall in traffic. The top container port, Rotterdam, was off 16 percent in the first quarter, while second ranked Hamburg saw traffic plummet by 24 percent. Traffic at third ranked Antwerp fell by 16.3 percent.

Declines in consumer spending have created a glut of goods awaiting sale. Some ports in the United States have partly become new car storage lots—the Port of San Diego had about 17,000 stored cars in early June, and is expected to receive 100,000 less cars than in 2008. The Port of Baltimore, Maryland even acquired 14.6 more acres of land in anticipation of thousands more stored cars. In February, the *Baltimore Sun* reported 57,000 import and export vehicles were stored at the port. In March, enormous PCTC ships that carry 4,000-6,000 vehicles were anchored for weeks outside the port awaiting cargo.

Over the last several years, commercial shipbuilding had boomed in response to rising containerized trade, particularly from southeast Asia to Europe and America. Ships have grown ever larger and larger, culminating in the *Emma Maersk,* a 1,300-foot long behemoth capable of carrying the equivalent of 11,000 TEUs (20-foot containers equivalents).

Now that traffic has plummeted, so too has shipbuilding. Japan—one of the top shipbuilding nations, along with South Korea and China—received orders in May that amount to 89.8 percent less than May 2008. December saw orders off by 91.1 percent, the eighth straight month of plummeting orders after a fall of 79.7 percent in October.

The chairman of Evergreen Line, Chang Yung-fa, recently called the excess of capacity in the container ship industry "gruesome." In response the carrier is withdrawing from service or scrapping 31 vessels. Overall, 300,000 TEUs of container ship capacity are set to be scrapped in 2009. According to consultancy firm Alphaliner, this is the highest level of scrapping ever recorded, and ten times greater than the historical average.

Hundreds more large ships are in storage around the world. Singapore's coast was home to 735 vessels in early May, according to the AIS Live ship tracking service. The ships weigh a total of 41 million tons, which is almost equal to the entire merchant marine fleet at the close of World War I. Officials fear collisions in the congested waterways of hulking idle ships.

Rail

After years of steady growth, rail traffic in North America has fallen of a cliff. The first quarter of 2009 saw 20.6 percent fall in traffic compared to 2008, and 22.7 compared to 2007. Current week-by-week data shows similar numbers, rather than improvement. Most startling are figures for particular commodities. Reflecting the turmoil in the auto industry, shipments of finished autos last week crashed to just 41.3 percent of 2007 levels, and metals were 51.4 percent lower compared to the same period in 2008. For the quarter, shipments of lumber and other building products are 36.2 percent less than in 2007, before the housing market collapsed.

No recovery is apparent in US rail labor statistics: May jobs cuts in the rail sector were the worst of the year, amounting to 2,712 layoffs. Since mid-May of 2008, major US railroads have eliminated nearly 14,000 workers, with many thousands more cut from smaller railroads and suppliers.

Rail traffic in Europe has suffered remarkably similar trends. Germany's Deutsche Bahn, the largest freight railway in Europe, reported traffic fell by 24 percent in the first five months of 2009 compared to 2008. In response, the company has instituted short time work for 5,000 of its employees and stored an incredible 35,000 of 120,000 DB rail freight cars.

The second largest rail freight operator in Europe, France's SNCF, reported tonnage in May fell 30 percent below the previous year. Coal, auto, and steel traffic have halved; in the UK, steel shipped by rail has also fallen by half. All of the UK's four rail freight companies have instituted layoffs and idled equipment in the last few months.

Facing a profound reduction in traffic, the North American rail carriers, much like ocean carriers, have an enormous oversupply of equipment. Across the US nearly every available empty railroad track has been plugged with surplus rail cars. Abandoned rail lines that haven't seen trains in years are now home to strings of stored cars that are miles long, sitting indefinitely until traffic improves. Union Pacific, the continent's largest railroad, has 70,000 rail cars stored; overall, hundreds of thousands of rail cars have been laid up.

Major railroads have also put thousands of locomotives in storage, varying from 10-25 percent of their fleets. Ordinarily locomotives nearing the end of the average 20-30 year service life are put into storage. Currently hundreds of modern engines are idled, some of which are only 6 years old.

Air and trucking

On June 25, the International Air Transport Association reported that airfreight traffic declined 17.4 percent compared to May of 2008—a slight improvement over a 21.7 percent year-on-year fall for April. Only the Middle Eastern market had significantly better results, with a decline of just 3.7 percent. Latin America, Africa, Asia, Europe, and North America all faced declines near or above 20 percent.

A stark demonstration of falling airfreight was German-based DHL Express removing itself from domestic American deliveries in early 2009. Since its restructuring announcement in May 2008, DHL has eliminated 16,000 jobs in the US. The central hub of DHL's domestic operations, Wilmington, Ohio—population 12,000—has faced a devastating 3,500 DHL layoffs.

Japan's only airfreight company, Nippon Cargo Airlines, has completely eliminated a bold expansion plan, which involved tripling its fleet of Boeing 747s from eight to 24 aircraft by 2013. In response to falling traffic—the Asian airfreight market suffered an 18.6 percent year-over-year decline in May—the airline will now hold to its current fleet size until March 2012.

Trucking in the United States saw slight improvement in May, with a year-on-year fall in tonnage of 11 percent compared to April's 13.2 percent drop. Trucking layoffs in May amounting 8,100, roughly half that of April. More than 67,000 trucking jobs have been eliminated in the first five months of the year, nearly five times greater than losses in the same period of 2008.

As in other sectors of the economy, trucking companies are using all methods to reduce labor costs, not just layoffs. Yellow Truck Lines, the largest US less-than-truckload carrier, is entering into talks with the Teamsters demanding further concessions from workers. Just six months ago the trucking company gained a 10 percent wage cut from its 50,000 unionized workers.