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Delta Chokes China Air Freight, Puts Vietnam in Lockdown Limbo

By Glenn Taylor

China Eastern Airlines is one of two airlines, along with China Cargo Airlines, that have suspended passenger belly freighters until the end of August. CREDIT: Larry MacDougal via Associated Press

Another outbreak of the Delta variant in China has significantly hampered both air freight and cargo pickup and delivery throughout the country, with two major Chinese airports and the country's second-biggest port all temporarily suspending operations to start August. And in Vietnam, the outbreak has forced authorities in Ho Chi Minh City to extend curfew and workplace regulations yet again, with 64 percent of the country's daily caseload concentrated in the city.

On July 31, authorities suspended all flights to and from Nanjing Lukou International Airport (NKG) and Yangzhou Taizhou International Airport (YTY) to combat the spread of the Delta variant. NKG reopened on Wednesday, while YTY remains closed.

While most airports in China have remained open, they are now under heavy flight disruptions, according to an Everstream Analytics report. On Aug. 6, Beijing Airport (PEK) was operating at 43 percent after 531 flight cancellations, and five days later accumulated more than 30 unit load device cargoes.

Shanghai Airport (PVG) operated at 33 percent with 408 flight cancellations, accruing approximately 100 unit load device cargoes at the terminal, and 67 more awaiting disinfection work at the import warehouse as of Wednesday. Xiamen Airport (XIN) appears to be in the best shape, at 66 percent capacity with 349 flight cancellations. At Haikou Airport (HAK), cargo flights are suspended, while passenger flights remain in operation.

Changchun Airport (CGQ) stopped accepting imported cargo, while Shenyang Airport (SHE) is only accepting imported cargo arriving by direct flight, which requires 24 hours for quarantine and disinfection. Domestic transportation isn't currently conveying imported cargo.

The outbreak is significantly impacting the airlines as well. Furthermore, due to several crew members testing positive for Covid-19 and thereby impacting labor availability, China Cargo Airlines and China Eastern Airlines have suspended passenger belly freighters until the end of August.

Everstream Analytics indicates that customers can expect continued disruptions to manufacturing and transportation activities throughout China as authorities in Beijing impose further restrictions to control the outbreak. Due to China's zero-tolerance policy around Covid-19 outbreaks, all lockdown measures, flight and train cancellations, and associated disruptions are expected to continue as the country continues to report rising infections.

As of Tuesday, Chinese health authorities reported 143 new coronavirus cases, out of which 108 were locally transmitted. This is the highest number of cases in China since January. The recent outbreak appears to have been traced to nine airport cleaners at Nanjing airport, who tested positive for Covid-19 on July 20.

To prevent a re-emergence of the virus, authorities in Beijing have imposed local lockdowns, mass testing, and travel restrictions.

Meanwhile, in Vietnam, authorities in Ho Chi Minh City have extended the end date of various movement control measures, including nightly curfews, and epidemic control regulations at workplaces until Sunday. This is the second time the restrictions, which began on July 9, have been extended in 19 southern localities, including Ho Chi Minh City. In Hanoi, social distancing measures are in effect until Aug. 22.

According to the Vietnam Textile and Apparel Association, up to 90 percent of the industry's supply chain has been significantly impacted, with up to 80 percent of garment and textile companies in the southern provinces completely halting production. In the north, around 20 to 30 percent of the textile and apparel suppliers have halted production.

Manufacturing plants shutter due to local lockdowns

While there has been no word if any textile manufacturers have been hit yet in China, Honda Motor announced the temporary suspension of all three of its joint-venture assembly plants, a combined annual capacity of 720,000 vehicles, in Wuhan from Aug. 4.

The suspension occurred after many factory workers were unable to commute to work due to lockdowns in surrounding areas, according to Everstream data The resumption date is unknown at the time of writing. This is the second time the Japanese car manufacturer halted production in Wuhan, after the city underwent 76 days of lockdown in 2020 as the pandemic's established epicenter.

Additionally, a number of Taiwanese companies, including industrial paper producer Yongfengyu Zaozhi, have halted operations in Yangzhou for at least a week due to a Covid-19 outbreak and subsequent stay-at-home orders.

Lockdowns impact transportation, pickup and delivery

The tightest restrictions in China remain in effect in Nanjing and Yangzhou city, an epicenter of the latest outbreak. Transportation capacity in Nanjing and Taizhou has reportedly been reduced by one-third due to the restrictions, and with drivers being reluctant to go to areas with medium or high risks. If restrictions continue, labor shortages may become acute and lead to further production halts, Everstream says.

Since July 31, authorities have designated 30 areas in China as medium-risk for Covid-19 and one as high-risk and have undertaken a 10-day overall disinfection effort at Nanjing.

Trains and long-haul buses that come to and from Covid-19 risk zones are included in the travel restrictions indefinitely, further impacting the supply chain throughout.

Further tighter control measures can be expected in the coming weeks as precedents indicate that road closures and inter-city travel bans on short-notice are likely in affected areas, according to Everstream.

Therefore, cargo pickup and delivery services have been halted in select districts across China including Caidan and Hongshan in Wuhan; Chuansha and Pudong in Shanghai; partial areas of Qingyang and Shuangliu in Chengdu; and Jinghu and Jiujiang districts in Wuhu, among many others.

Port of Ningbo halts operations after outbreak

Further exacerbating the logistics problems is the recent discovery of a coronavirus case at the Meidong Container Terminal in Port of Ningbo, China's second-largest container port by handling volume after Shanghai.

As of 3:30 local time on Wednesday, port operations were suspended at the container terminal. As a result, ships have been diverted to other terminals, while vehicles face restrictions on entry and exit from the port.

Shipping lines including COSCO, CMA CGM, and Evergreen that are primarily using the terminal may face immediate disruptions. If a Covid-19 cluster is confirmed, increased restrictions in the entire port area are likely, according to Everstream.

Local authorities in Ningbo have called to increase quarantine, disinfection and contact tracing measures to combat the outbreak, with the lone Covid-19 case signaling potential shortcomings of the city's prevention and control measures.

Tan Cang Cat Lai Port imposes 'three in one spot' worker limits

And in Vietnam, Tan Cang Cat Lai Port, Ho Chi Minh's largest seaport, has a container yard that reached 100 percent of capacity due to an acute labor shortage of dockers, forklift operators, and truck drivers amid the surge of Covid-19 cases since July.

The "three in one spot" model, which requires employees to work, eat, and rest in one location, has not only limited workers' activities but also cut the workforce down to 50 percent, according to Everstream. There are only 250 workers currently operating at Cat Lai. The lockdowns have made it difficult for workers and truckers living outside the terminals to come to work amid the stringent coronavirus inspection process.

An increase in the number of imported goods has also contributed to the congestion, as many factories had to reduce production, or completely halt production, and businesses were slow to receive goods amid the lockdowns. To ease the container backlog at Cat Lai, authorities on Aug. 1 temporarily halted the handling of reefer boxes and transshipment goods from Cai Mep and Hiep Phuoc ports to Cat Lai until Monday.

Cat Lai also stopped receiving significant oversized and overweight cargoes as of Aug. 5. In the two weeks after, all inbound vessels have to notify the port in advance of the estimated volume of imports and empty containers on the vessel before arrival in order to give sufficient time for the port to handle the container volumes.

The current vessel waiting times at Cat Lai are around two to five days, as of Thursday.

North American freight, expenditures feel impact of global constraints

The situations in China and Vietnam will certainly impact the rest of the world given how much the global supply chain relies on products originating from these countries. The bottlenecks occurring throughout related to high consumer demand, overall port congestion and crunched freight capacity have only gotten worse. Such constraints have kept the North American domestic freight industry very busy.

The July 2021 Cass Transportation Index Report, which gives insights into shipping volumes and the cost of freight, indicated that freight shipments grew 15.6 percent year over year, decelerating from the 26.8 percent increase in June. The Cass Freight Index measures the number of intra-continental freight shipments across North America, for everything from raw materials to finished goods.

On a seasonally adjusted basis, the shipments index declined by 3.1 percent month-over-month in July, after a 4.2 percent month-over month drop in June. The two-year change slowed from 4.2 percent in June to 0.5 percent in July.

The short-term skid is consistent with recent slowdowns in rail and less-than-truckload (LTL) volumes, much of which is attributable to equipment and driver capacity constraints. Shipment volumes remain limited to no small extent by the capacity of the freight network, with 121 containerships anchored off North American ports as of Tuesday.

The Cass report indicated that a chassis shortage has impacted intermodal capacity; while trailer shortages have hit truckload and LTL shipments. Additionally, constraints on Class 8 tractor supply chains are impacting all of these modes, which comprise the vast majority of the Cass shipments index.

Meanwhile, the expenditures component of the Cass Freight Index measures the total dollars spent on freight transportation and includes both contract and spot market rates. This index slowed from its fastest-ever increase—after rising 56.4 percent year-over-year in June, the index slowed to 43.1 percent year-over-year growth in July.

Tougher comparisons in the coming months will naturally slow these increases further, according to Cass, but the report said the high growth rates will continue in the near-term, driven by increases in both shipment volumes and freight rates.

After a 9.4 percent month-to-month surge on a seasonally adjusted basis in June, July expenditures fell back 4.8 percent as a result of both lower volumes and rates. On a two-year basis, the Cass expenditures index was up 22.7 percent in July, almost entirely driven by higher rates.

The Cass Truckload Linehaul Index value of 147.2 in July fell 0.8 percent from 148.4 in June and decelerated to a 13.4 percent year-over-year increase versus 14.5 percent in June. This marked the second straight decline after 11 straight increases.

Overall length of haul rose again in July, while public truckload carriers saw length of haul continue to decline. This shift in freight patterns is symptomatic of the rail network stretched to capacity, which is resulting in more transloading of longer-haul import shipments from the West Coast ports to the Midwest via truck.

But although truck, trailer, and chassis production are still limited by parts and labor shortages, capacity is beginning to return as drivers respond to higher pay and parts constraints begin to ease. These will gradually change the trajectory of truckload rates, according to the Cass Index.

“Freight demand fundamentals remain strong, based on a cash-flush U.S. consumer balance sheet, tight inventories, and an industrial sector struggling to grow into record orders with fiscal stimulus likely on the way,” said Tim Denoyer, lead analyst of transportation at ACT Research and author of the report. “But the dynamics of tight supply and exceptionally strong demand which have characterized the past year or so will not last indefinitely, and several of the indicators we monitor are auguring new trajectories.”

TAGS

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