Inflation & Ongoing Shipping Industry Challenges Update

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Information published by the U.S. Bureau of Labor Statistics confirms that inflation is real and impacting people every day. With daily reports in media outlets about inflation and supply chain issues, many wonder how these problems will impact the household goods shipping industry. It is no secret that supply chain issues linger. About a year ago, Aires began to notify customers of these challenges and ways to prepare for them. Some of these supply chain issues have worsened, resulting in more delays and unplanned expenses, and the issues are compounded by inflation.

So, how exactly are inflation and supply chain issues impacting household goods shipping and costs domestically and internationally?

- **Fuel:** Rising fuel costs are absorbed when temporary cost increases occur, but prolonged high prices force trucking companies and carriers to increase costs or add surcharges to offset long-term increases.

- **Packing materials:** The cost of paper has substantially increased, as has the price for lumber used for everything from crating individual fragile items to building larger shipment crates (such as lift vans for storage/international shipping and the palettes used to move those crates).

- **Labor:** There has been a long-standing driver shortage in the U.S., currently estimated around 80,000 (note: shortages are not unique to the U.S.). The lack of labor is driving up pay, and rising employer costs for labor can only be absorbed for so long. The COVID precautions required (that all businesses are facing) mean that labor costs continue to rise along with the cost of packing goods.

Thanks to negotiated rates with shipping partners, some costs have been controllable so far. Contracts between relocation management companies and U.S. domestic van lines are typically in place; similar agreements are often in place with moving companies for international origin and destination services (terms used to describe the international packing/loading and delivery/unpacking). Those rates are typically negotiated and put into place each April. Due to the issues described above, we expect those rates (many of which have been held constant for years) to increase an average of 5-10%.

There are also additional factors unique to international shipping:

- **Ocean Freight:** Have you seen pictures of the 50 or more ships on any given day anchored off the port of Long Beach, CA? Or heard about the incredible imbalance of available shipping containers in parts of the world? Recent counts put the number of ships delayed or waiting to berth at Port of Long Beach higher than 100, meaning delays up to eight weeks. While the delays wreak havoc on businesses that are waiting for the goods in containers, there are also personal shipments on board causing extended temporary living stays and additional cash allowances to offset delayed deliveries. Additionally, surcharges have led to increased costs. Some believe there will be stabilization of container inventory and rates around Q3 2022, but at this point, this is only speculation. (A recent article published in Freightos cites just how high some of the cost increases are.)

Aires is a long-standing member of Overseas Shipping Association (OSA), which negotiates contracted rates specifically for household goods shippers. Our membership provides protection from exorbitant increases. The rates negotiated by OSA, and any subsequent increases, are typically less than those for other industries (e.g., commercial goods, commodities, etc.). Additionally, we have instituted a 12-week rolling forecast with OSA for upcoming shipment bookings. OSA supplies that data to the steamship lines, proactively securing space on upcoming vessels.

- **Air Shipments:** Airlines are also backlogged for shipping personal effects as cargo. Some companies have increased their air shipments to avoid surface shipments.

- **Protests and Looting:** While not typically associated with moving, the recent events in Ottawa, Canada (large demonstrations that have halted trucking activity and left store shelves empty) create additional chaos and expenses. There are also reports that looters are stealing valuable consumer goods from ports and rail yards.

You may be wondering whether it is worth shipping someone's goods currently. Should you skip the shipment and just give your employee money to buy new goods? These are not easy questions to answer. Some companies already pay cash allowances for cost-saving measures and budget reasons, but doing so also has downsides.

People have belongings, and if you want them to move, they likely have many things they want to keep and take with them. Shipping only meaningful and necessary items is a way to keep costs down, but the quality of the shipping processes should not be sacrificed. To continue to ensure quality, it is critical to support leading, successful, proven suppliers in each market and continue to hold them to high standards and push them to focus on efficient processes, technology, and industry innovations. Aires continually communicates with shipping partners in all locations where our clients move people to prepare for industry changes and ensure proper negotiations when the market stabilizes so that we can contain costs and remain competitive for our customers.

The Long-term Impact of Inflation

While it has many unique challenges, the shipping industry isn't solely impacted by inflation; every business is impacted to some degree. Goods such as furniture (which commonly faces backorder of 6 months or greater), appliances, kitchen items, and housewares are all subject to inflation. Giving someone money to buy new household goods in the current economic environment could be likened to offering someone a mortgage at 8% APR; they will pay more for less. If they have to move again a few years later, continuing to offer reduced household goods benefits means they go through the process of eliminating goods in the origin and buying new goods in the destination all over again. Most companies would rather continue shipping items and managing through temporary negative conditions than abandon traditional support.

Like most economic situations, the current problems facing the global shipping industry are expected to ease over time. At some point in the future, the stress on supply chains should be relieved, and the balance of supply and demand will be normalized. It is hard to predict exactly when that will happen, just as it is hard to determine what the overall average cost increase has been or what the costs were at the height of the shipping industry crisis. There are many different carriers and operators in the shipping industry, and each region of the world is faced with specific challenges (and even regions of individual countries, such as the East and West Coasts of the U.S.). Aires will continue to work diligently on behalf of our clients to ensure we continue to offer the most competitive, high-quality services available while finding cost-effective solutions to shipping delays.