



Mid-June 2023 North American Freight Market Outlook

Top News

Bank of Canada Increases Overnight Lending Rate in June

Canadian citizens and businesses have been closely monitoring interest rates both domestically and internationally. In a surprising move, the Bank of Canada has recently raised the overnight lending rate from 4.5% to 4.75%, marking the first increase since January 2023. This decision caught economists and investors off guard, as predictions suggested only a 31% chance of a 25-basis point rate hike.

The trajectory of rising interest rates appears to be ongoing, leading many households and businesses to anticipate the possibility of another 25-basis point increase in the upcoming July meeting, scheduled for July 12. These interest rate hikes continue to impact Canadian consumers, making it more challenging to afford non-essential purchases, as mortgage payments, lines of credit, and credit card loans become increasingly burdensome.

Furthermore, this trend of rising interest rates is not unique to Canada. Similar increases are being witnessed globally, resulting in weakened global trade and reduced demand for consumer goods. The ripple effects of these interest rate

adjustments are expected to continue shaping the economic landscape both within Canada and worldwide.

Interest Rates and their Effect on Freight

Interest rates serve as a vital tool in the government's monetary policy toolkit, enabling them to guide the nation's economy in the desired direction. Low interest rates empower both consumers and businesses by providing them with increased buying power, as borrowing costs remain manageable. This often leads to a surge in the freight industry, as companies must acquire more products to meet the rising demand generated by the favorable borrowing conditions. In this economic environment freight rates tend to rise due to the increased volume flooding the market.

On the other hand, when interest rates are high, both consumers and businesses tend to curtail their spending, as borrowing becomes more expensive. This dynamic creates an economic environment where consumers have less disposable income available to allocate towards purchasing consumer goods. Instead, their financial resources become increasingly allocated to expenses such as mortgage payments, credit card debts, and lines of credit. As consumer spending declines, companies experience a reduction in their customer base, which subsequently hampers their ability to place new orders with overseas suppliers. This decrease in demand leads to a reduction in freight rates.

In summary, fluctuations in interest rates have a substantial impact on consumer behavior, business spending, and subsequently, the freight industry. Understanding these dynamics allows us to navigate the complexities of the market more effectively and anticipate how changes in interest rates may influence supply and demand dynamics in the transportation sector.

Canadian Customs Update

Hazardous Waste and Hazardous Recyclable Material Changes

India has recently implemented revised wastepaper contamination limits for various grades of paper, paperboard, and paper products imported for recycling purposes. The Indian government has issued a notice outlining new import compliance guidelines and waste management requirements.

Under the updated regulations, it is now mandatory to conduct a reliable pre-shipment inspection based on the bale-break report. This inspection aims to ensure compliance with the maximum allowable contamination level of 5% for non-paper materials in wastepaper consignments.

However, the following contaminants have a zero tolerance and are prohibited:

Putrefiable organic matter;

Biomedical waste;

Municipal solid waste; and

Post consumer domestic waste.

Please be aware that although India has raised their non-paper content limits, it's important to note that different countries may still enforce lower or even zero limits on such materials. It is the responsibility of the importer to thoroughly understand and comply with all the required importation regulations and prohibitions of the destination country.

In the event that shipments exceed the non-paper content limits, or include prohibited or hazardous materials, the shipment may be detained by the authorities of the final destination country. In such cases, the authorities may request the re-exportation of the container or impose enforcement measures to address the non-compliance. It is crucial for importers to remain informed and ensure compliance with the specific import requirements of each country to avoid potential complications or delays in the importation process.

North America Freight Update

Ocean Freight

Canada West Coast Port Delays

The Vancouver and Prince Rupert ports are experiencing ongoing delays due to terminal congestion in Canada.

- The **Vancouver Port** is currently experiencing an average delay of **7 days**.
- The **Prince Rupert Port** is currently experiencing an average delay of **4 days**.

United States Port Delays

Currently the United States is experiencing port delays, the delays are as follows:

- **Houston** is currently not experiencing any delays.
- **Los Angeles/ Long Beach** is experiencing an average delay of **4 days**.
- **Oakland** is experiencing an average delay of **4 day**.
- **New York/ New Jersey** is experiencing an average delay of **1 day**.

General Rate Increase (GRI)

On June 1, steamship lines made the decision to implement a controversial general rate increase for the transpacific tradeline, despite the ongoing stagnant demand. The purpose of this increase is to maintain rates at a sustainable level, as steamship lines have expressed concerns about the unsustainability of their business if rates continue to decline. After 15 days of the general rate increase being implemented it was proven to not be sustainable as freight volume dropped prompting steamship lines to decrease rates.

It's important to note that freight rates are subject to constant changes, as steamship lines establish new rates every 15 days. This occurs both at the beginning and halfway through each month. Consequently, the timing of the cargos ready date can influence the initial quotation, resulting in either higher or lower costs.

Importation to the United States Remains Stagnant

Importation in the United States has remained soft, primarily driven by the decline in consumer spending. The increasing interest rates have prompted consumers to limit their spending, thereby impacting the demand for imported goods. Notably, the major industries affected by this shift include home improvement goods, electronics, retail, and furniture.

Another factor influencing importation is the inventory levels of many importers who stocked up on goods during the pandemic to mitigate potential supply chain disruptions. As a result, these importers are focusing on selling their existing inventory before placing new orders, leading to a temporary slowdown in import activities.

However, there is anticipation of a slight increase in demand as seasonal importers begin to make bookings. This category of importers typically deals with seasonal goods such as outdoor furniture, which experience higher demand during specific times of the year.

Overall, the import landscape in the United States is currently experiencing a soft phase, influenced by multiple factors including consumer behavior, inventory levels, and interest rates. By closely monitoring these dynamics, importers can adapt their strategies and effectively navigate the evolving market conditions.

Air Freight

Air Freight Demand Increases Gradually

Air freight demand has been gradually increasing since mid-March, and this trend has continued into April due to the growing need for products by e-commerce companies. It is expected that demand will continue to rise slowly throughout May and the rest of the second quarter.

Land Freight

Canadian West Coast Rail Dwell Times

The most utilized ocean ports in Canada are based in the western provinces, more specifically British Columbia as it is on the transpacific trade route which allows trade with many Asian countries.

The two ports in British Columbia are the Vancouver and Prince Rupert Port, due to the high volume they receive. This volume creates rail dwell times that can cause delays of moving cargo onto the rail. These delays do still play a factor but have improved since 2023 and are expected to improve continuously throughout the year.

The current rail dwell times are as follows:

- The **Vancouver Port** is currently experiencing an average dwell time of **6 days**.
- The **Prince Rupert Port** is currently experiencing an average dwell time of **7 days**.

CN Train Reservation Penalties, Item 2500

The CN provides reservation services to secure space on the train. This will allow shipment prioritization when the reservation service is used. Reserving a spot is free but modifications and cancelations will incur penalty charges. The charges are as follows:

Units in International Services Excluding Reefer

Cancelations and modifications can be made without a fee until 7:00am local time of the original terminal on the same day as your reserved train service. If

cancelations or modifications are made after this time a **\$50** charge will be posted. If a reservation expires a **\$100** charge will be posted to the party that made the reservation.

Reefer Units in International Service

Cancelations and modifications can be made without a fee until 12:00pm local time of the original terminal on the Monday of the week of your reserved train service. If cancelations or modifications are made after this time a **\$150** charge will be posted. If a reservation expires a **\$200** charge will be posted to the party that made the reservation.

Units in Domestic Service

Cancelations and modifications can be made without a fee until 10:00am local time of the original terminal on the same day of your reserved train service. If cancelations or modifications are made after this time a **\$50** charge will be posted. If a reservation expires a **\$100** charge will be posted to the party that made the reservation

CN and CP Congestion Improves in Q2 2023

In 2022, Canadian terminals experienced heavy congestion, which prevented trucking companies from returning empty containers to the CN and CP. However, the situation continues to improve going into the second quarter of 2023 as shipment demand has dropped, allowing terminals to catch up on the backlog on containers.

As terminal congestion continues to improve, congestion will not be resolved instantaneously. Fortunately, drivers will no longer have to wait for 4-5 hours to drop off a container. The average wait time for drivers is expected to decrease to 2-3 hours.

The decrease in terminal congestion will also help prevent detention charges, as drivers will be able to return containers before the free time expires.