

Airfreight rates to grind lower despite high inventories

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Airfreight rates are expected to “grind directionally lower” or remain stable compared with current levels despite figures showing high inventory levels.

Writing in his monthly column in the Baltic Exchange newsletter, senior analyst at investment bank Stifel Bruce Chan pointed to US Census Bureau figures that showed inventory levels continued to climb to record levels.

High inventory levels are typically seen as a pre-cursor to demand weakness and a following drop-off in rates.

While Chan believes that rates will decline, he expects the drop-off to be gradual. There could even be some spikes, he said.

He explained that while larger retailers had prepared early for the peak season – after last year’s supply chain bottlenecks – this is not the case across the retail sector.

Smaller retailers and industrial shippers are struggling to “normalise their inventories”, he said.

“The ‘elevated inventory’ story is not perfectly representative of the entire market,” Chan said.

“Current efforts by retailers to clear stock via discounting may pave the way for late-peak replenishment, in turn producing a corresponding spike in pricing later in the season.

“Macro factors like consumer demand, energy prices, and geopolitical developments weigh heavily on the range of outcomes, and we think many shippers are securing capacity out of an abundance of caution, which also could be helping to support pricing.

“Persistent congestion in the supply chain is another factor that’s helping to keep absolute rates stable: ongoing port bottlenecks; labor challenges in the US and Europe in ocean, rail, and trucking; continued labor scarcity; and the potential for climate and geopolitical shocks to energy prices to name a few.”

He concluded: “Rates are likely to remain stable or grind directionally lower. The spread between current rates and year-over-year pricing should continue to moderate.

“The long-term trend is reversion toward mean, with the key question being how fast and to what degree.

“But the market is by no means predictable, in our view, especially near term. There could be sudden rate shocks, which are probably more likely to the upside (for demand reasons) than the downside (given supply constraints).”