

## **The recovery continues, but cost increases could hurt the freight sector**

- **May 2021 records the fastest growth in the Ctrack Freight and Transport Index of 22.7%.**
- **Most sub-sectors in the Ctrack Freight and Transport Index are moving from a recovery phase to a growth phase.**
- **A big concern is the price increases in both Sea Freight Rates, up by 85%, and container rates, increasing by 400% (Harper Index & Contex Container indices).**
- **Due to restrictions & delays freight and transportation prices are on the increase which makes cost containment in the supply chain critical.**

The month of May saw the Ctrack Freight Transport Index record year on year growth of 22,7%, the fastest rate of growth ever recorded. However, one must remember that in May last year, total lockdown was in force, which meant airlines and sea freight were interrupted due to closed borders and passenger flights were completely cancelled.

Similarly Air Freight transport grew by 77,1%, but from the same low base. The low base means that this year-on-year improvement represents recovery as opposed to growth.

“It is incredible to see that despite the continuous hurdles experienced in doing business in the last 18 months, that most of the sub-sectors measured by the Ctrack Freight Transport Index have bounced back nicely and are on the verge of moving from a recovery phase to a growth phase,” comments Hein Jordt, Managing Director of Ctrack SA.

This is evident in the fact that the May 2021 Ctrack Freight Index is still 2% lower than what it was in May 2019, even though it grew 22,7% compared to May 2020.

This indicates that the overall logistics sector is still in recovery mode and will remain as such until it surpasses the peak of January 2018 or at least gets closer to that 113,2 level.

At a level of 109,3 index points, the recovery is almost over and if the trend continues, we will soon enter a growth phase.

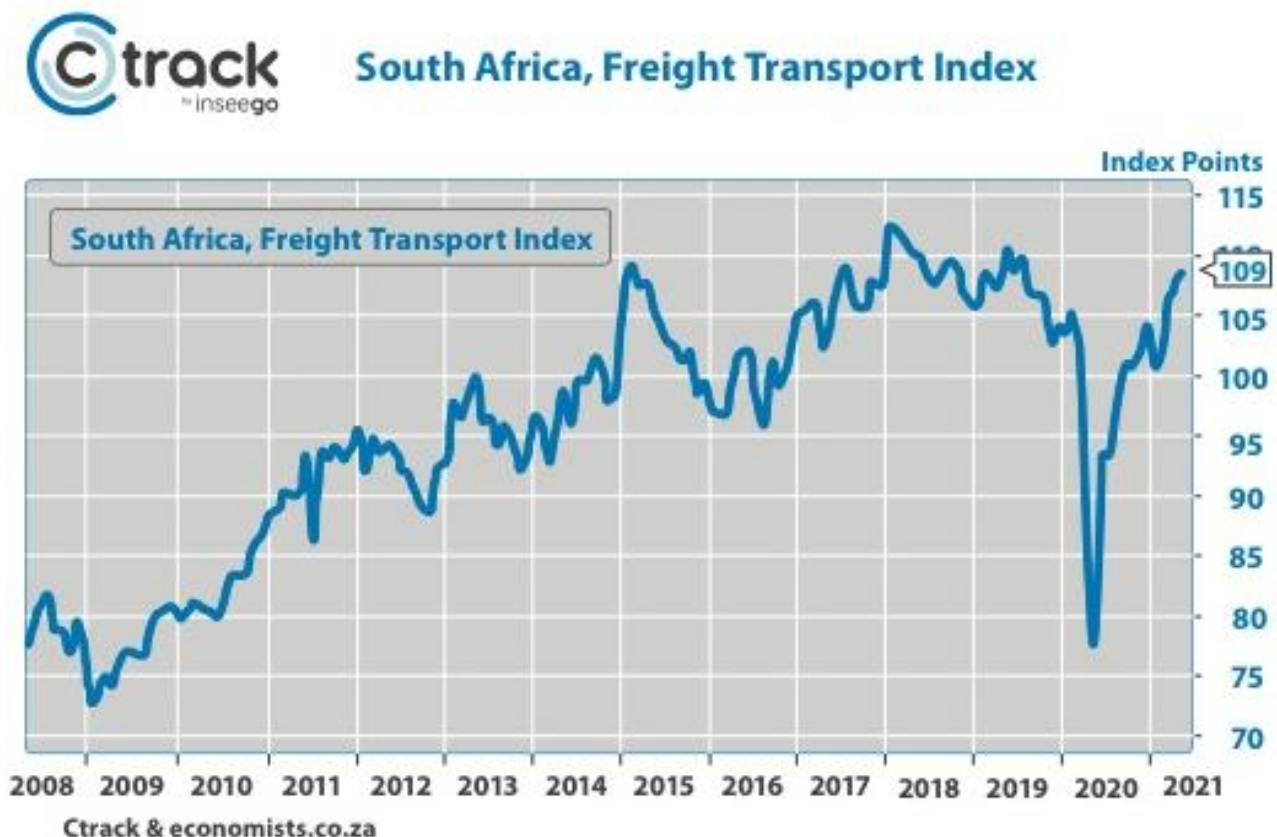
The only sub sector that has surpassed previous highs is Road Freight and it has done so for the last two months. This incredible achievement is mainly due to the failing rail network and the inability of Rail Freight to carry its weight.

While Road Freight is roaring ahead, preliminary indications suggest that mining exports have not been performing optimally in the last month due to the global commodity boom. As

most of the export commodities are moved by rail, this is negatively affecting the performance of the struggling Rail Freight sub-sector even further.

As can be seen in the table below, the most recent month on month performance indicates a sluggish recovery due to global supply chain disruptions and the cost impact thereof. One does not normally experience price increases during a recovery phase, as previous capacity is not fully utilised. However, current delays and restrictions are driving up prices.

**Chart 1:** The Ctrack Freight Transport index level



### **It is not just a commodity price boom but also a freight cost shock**

Another big concern is that Sea Freight rates for dry bulk have increased by about 85%, making some SA exports a lot less attractive. Container rates have increased by over 400%, according to both the Harper Index and the Contex container indices.

Air Freight rates in the northern hemisphere have increased every week of 2021 but have settled in the single and low double-digit rates. Air Freight from China has seen near triple-digit increases for the last two years.

Indications suggest that the increases in international Air Freight rates are a worldwide inflation indicator. In comparison, locally, our concern is not regarding the price but rather the impact that these price increases could have on freight volumes.

Air Freight price indices are also tracking higher than normal, especially for routes between China, North America and Europe.

These price increases and the global supply chain delays are the main reason for the month on month decline in the Air and Sea Freight sectors.

Along with an expected decline in South African economic activity due to the onslaught of the third wave of COVID-19, we predict that these international sectors will slow even further.

Increasing Road Freight labour rates and fuel prices may also force higher-single digit increases in this sub-sector. With Rail Freight often reverting to diesel locomotives due to cable theft, the cost pressures on land freight will also become evident soon. Border crossings between the landlocked countries of the SADC are currently as long as four days.

If it was not for these factors and delays, Road Freight may have increased a few percentage points more. The significance of both the cost of delays as well as the shorter rack life on the retail floor will also hurt.

### **Costs are rising and keeping them in check will be necessary for survival**

What we are witnessing is that freight transportation prices are increasing even before the sector has fully recovered. This is partly due to restrictions and delays in freight between countries as well as the extra COVID-19 tests required, when crossing borders for example. Freight companies have also reported that additional paperwork is very often required, which causes further delays. All these factors have an effect on the bottom line of both transporters and their clients.

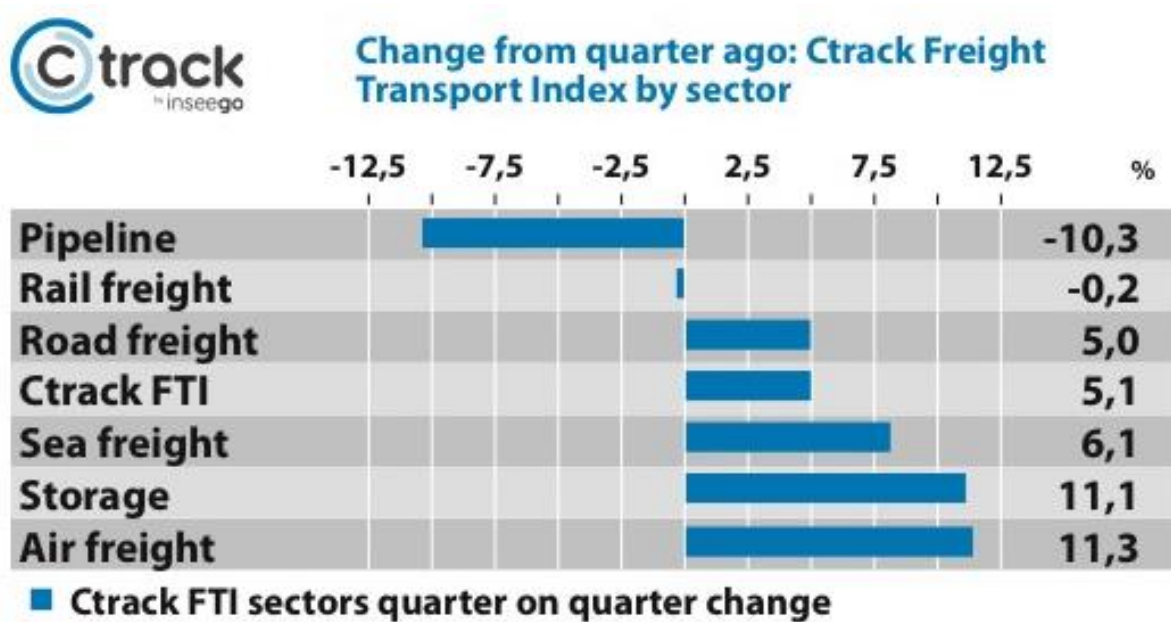
It is well known that time is money, so the delays are sure to increase freight costs and cost containment is going to be critical for survival of businesses in the transport sector. This is true for all Freight sectors, but especially Road, Air and Sea, with the many competitors in play, the containment of costs and reducing delays will mean the difference as the supply chain disruption plays itself out.

“It is imperative to keep an eye on costs and ensure that your business is running as efficiently as possible during these tricky times and Ctrack have all the tools necessary to make that possible,” added Jordt.

International trade is in a state of flux. Although it is performing far better than during the COVID-19 lockdown period, the supply chain hold-ups have increased international freight costs. The results of this are yet to be seen but it will most certainly impact consumer prices.

Storage and handling have increased compared to the last quarter and the previous few months. This is at least partly due to international supply chain concerns and here too, careful planning and demand forecasting will be necessary.

**Chart 2:** The quarter-on-quarter percentage change in the sectors of the Ctrack Freight Transport Index.



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**Chart 3:** World sea freight rates containers and dry bulk.

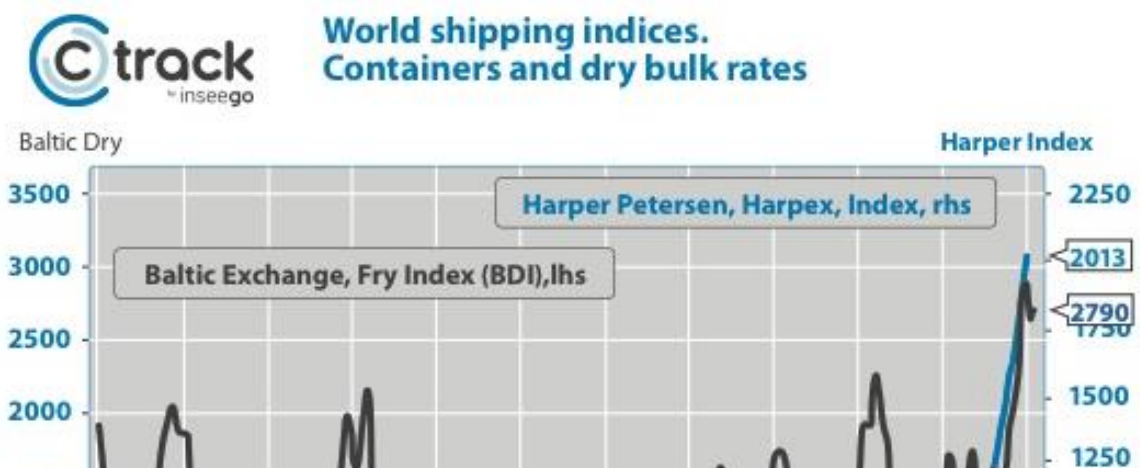


Table 1: The Ctrack Freight Transport Index.



Table 1: The Ctrack Freight Transport Index and its sub-sector changes.

#### April 2021 Tables

Percentage change between	Rail	Road	Pipeline	Sea	Air	Storage and handling	Ctrack Freight Transport Index
Quarter to May: 2021 vs 2020	-0,4%	28,5%	-5,1%	23,2%	77,1%	28,7%	22,7%
May 2021 vs Apr 2021	-2,3%	2,3%	0,4%	-5,9%	-4,7%	3,1%	0,5%
Quarter to May 2021 vs. Quarter to Feb 2021	-0,2%	5,0%	-10,3%	8,3%	11,3%	11,1%	5,1%

Note: the row highlighted in blue is the main Ctrack Transport and Freight Index values used.

#### March 2021 Tables

Percentage change between	Rail	Road	Pipeline	Sea	Air	Storage and handling	Ctrack Freight Transport Index
Quarter to April: 2021 vs 2020	17,0%	14,4%	-3,4%	14,3%	45,7%	19,1%	8,5%
Apr 2021 vs March 2021	3,1%	1,9%	-2,8%	-1,8%	-2,5%	7,0%	2,2%
Quarter to April 2021 vs. Quarter to Jan 2021	-6,4%	4,2%	-15,0%	9,7%	17,3%	6,1%	3,0%

Note: the row highlighted in blue is the main Ctrack Transport and Freight Index values used.

Source: Ctrack and economists.co.za