



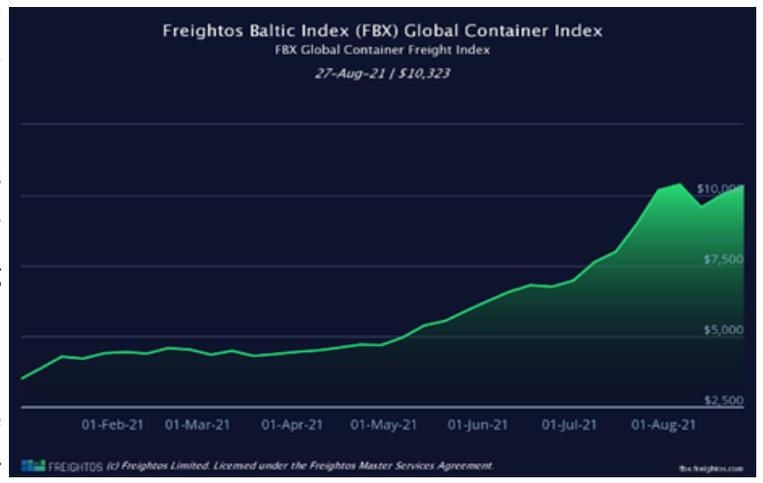
Global Shipping Cost May Continue to Skyrocket as Holiday Season Approaches

As the world emerges from the pandemic-induced recession, surging demand and supply chain bottlenecks have resulted in a sharp increase in inflation in most countries, including Jamaica. As a result, many people, including business leaders, asset managers, and central bankers, are worried. Locally, one major manufacturer recently warned about future price increases, and the Bank of Jamaica's Monetary Policy Committee has indicated that they are willing to consider raising the policy rate at the next policy meeting in September to combat what is expected to be transitory inflation.

Certainly, one of the main drivers of the rising global inflation has been the sharp increase in shipping costs. The Baltic Exchange Dry Index (BDI), the most widely used measure of the cost of shipping nonliquid bulk commodities, reached 4,195 on Thursday, August 26, 2021, the highest level since May 2010. This increase, which began in the 2nd half of 2020 (2H20), appears to have accelerated since May 2021, with the BDI increasing by more than 130% in the four months. The trend is almost identical when compared to containerized shipments, with the Freightos Baltic Index (FBX): Global Container Freight Index showing a 139% increase in freight cost since May of this year.

According to Fitch Ratings, the main drivers of the increased freight rates have been a combination of rebounding demand for goods in 2H20, supply chain disruptions such as container box shortages, port congestion and more strategic capacity management. They also stated that the increased demand was due to a shift in consumer spending, that is ordering more manufactured goods because many services were unavailable at hotels and restaurants.

However, the recent spike most likely reflected the impact of China's lockdown of two major ports until May 2021, at a time when Chinese exports were at record highs due to rising global demand. Noteworthy, China is the world's largest merchandise exporter, accounting for 13% of total global exports in 2020 (up from 12% in 2019), totaling US\$ 2.3 trillion. China's lockdowns were implemented in response to COVID-19 outbreaks, as they adopted a "zero-tolerance" policy to combat even the smallest COVID-19 occurrence. Inevitably, as companies attempted to shift transport logistics elsewhere, it led to a cataclysm at other ports, such as that of Shanghai, one of the world's busiest. The most recent port to close was reopened on August 25, bringing the two-week suspension to an end.



Source: WTO-UNCTAD estimates.

Where do shipping costs go from here? It's anyone's guess. Although prices have risen significantly, they remain far below the peak during the Global Financial Crisis¹. Given that manufacturers and retailers usually begin their Christmas preparations in the summer, shipping costs may continue to rise in the short term, especially since vaccinations programmes are still being rolled out globally. Our view is that shipping prices will likely remain elevated until the bottlenecks are ironed out.

On the other hand, since vaccination rates are low in most developing countries, COVID-19 outbreaks are still possible, which could lead to a significant reduction in demand if strict restrictions are imposed for a long period. However, this is not a local issue only, as a population that is significantly not vaccinated, could be the source of significant mutations, which could impact countries with higher levels of vaccination, leading to further lockdowns. Ultimately, in a worst-case scenario, this could put downward pressure on shipping costs. As such, an outbreak could ease the growth of demand in developed markets especially if it has a negative impact on employment.

¹Source: Trading Economics – Baltic dry Index as of May 1, 2008, was at 11,440.

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