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Economic Research

Economic Briefing

Maritime congestion drives inflation

Delays and congestion on the world's oceans are on the rise again: One in twelve containers worldwide is stuck in a traffic jam. Freight rates on container ships have also quadrupled within six months due to China's growing exports. This is also likely to lead to higher consumer prices in the eurozone.

Disruptions are emerging again on the world's oceans. After maritime transport recovered last year from the massive congestion and extreme freight rates of the pandemic years, transportation costs are now rising again. This is particularly evident in the freight rates per container on the route from China to Europe. Freight rates initially rose last December when the attacks by the Houthi rebels in the Red Sea forced shipping companies to circumnavigate Africa. Freight rates have now been rising again for two months. The so-called spot rates, the costs for short-term auctioned transport slots on container ships, are now around USD 7,000 (Chart 1); before the pandemic, freight rates had fluctuated between USD 1,000 and USD 2,000.

27 June 2024

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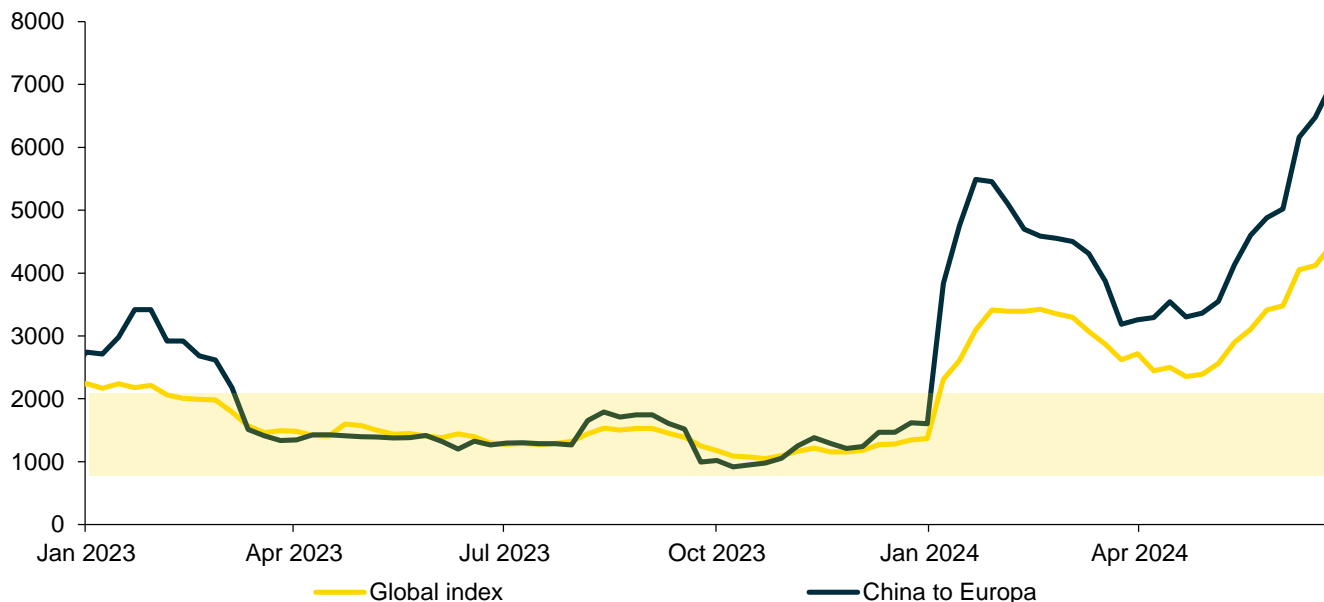
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Chart 1 - Freight rates have risen rapidly for two months

Freight rates (spot prices), indices in US Dollar; shaded area in yellow shows the usual range of the China-Europe index before the pandemic



Source: Freightos, Bloomberg, Commerzbank-Research

The longer freight rates remain high, the more likely it is that the long-term contract rates that large importers negotiate directly with shipping companies will also increase. In this way, high transportation costs are locked in for a period of around one year. This in turn increases the prices of consumer goods and the prices of companies' intermediate products. The shock on the world's oceans will therefore not have an immediate effect, but will unfold over several months. In a [study](#), the International Monetary Fund assumes that the effect of high freight rates on inflation will only peak after 12 months. If disruptions persist at this level, the rise in transportation costs suggests an increase in consumer prices of around 0.25 percentage points for the eurozone's core inflation (excl. energy and food). Also because wage costs are currently still rising sharply in the euro area and are driving up prices for labor-intensive services, we expect the core rate to settle at 3.0% in the coming year rather than the ECB's target of 2.0%.

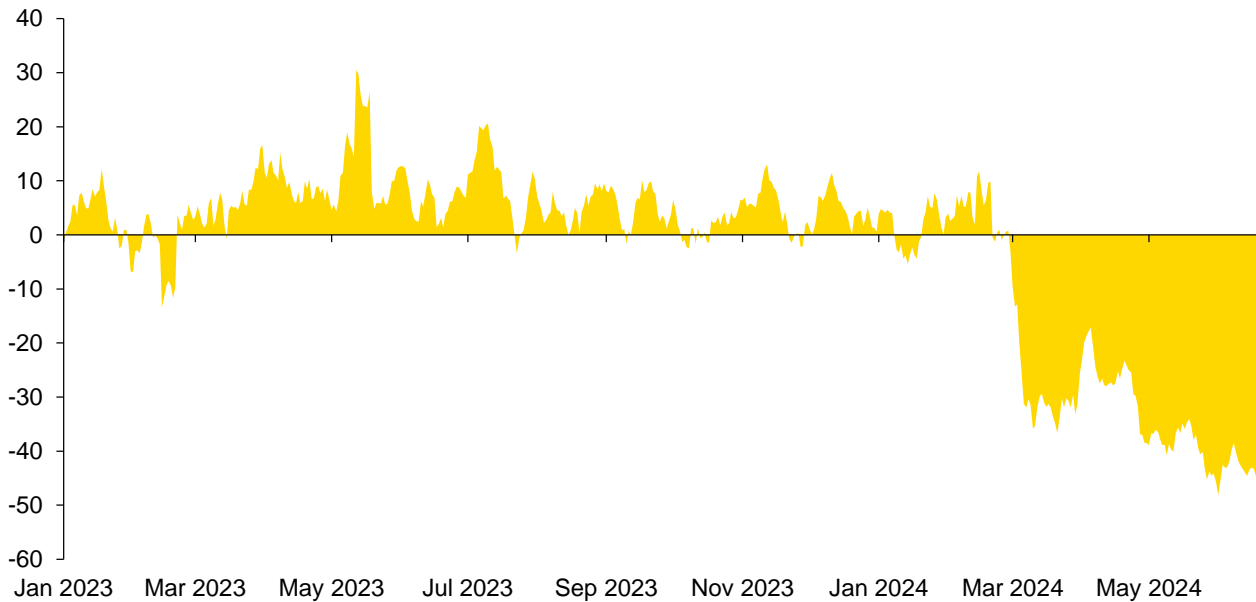
Delays of container ships lead to congestion at ports

One reason for the high transportation costs follows from the after-effects of the Houthi attacks in the Red Sea. Shipping companies largely route their cargo ships around the Cape of Good Hope on the routes between East Asia and Europe. This extends the travel time on a route by around 10 - 12 days. Initially, the container ship network was able to cope well with the strain due to the large number of newly built ships. Now, however, the delays of the ocean giants on the return journey to Asia are leading to traffic jams and waiting times of several days at ports such as Singapore, where a particularly large number of containers are being transhipped. The disruptions near Singapore and rerouting effects are so severe that 40% fewer ships are currently passing through the particularly important Strait of Malacca in the north-west of the metropolis (Chart 2).



Chart 2 - Congestion disrupts traffic in the Malacca straight

Recorded number of cargo ships in the Malacca strait, 7-days moving average, year-over-year changes in percent



Source: IMF PortWatch, Commerzbank-Research

But other factors have also hampered freight traffic. Fog at Chinese ports, heavy rainfall in South East Asia and the drought in Panama and the associated restrictions on the Panama Canal have increased the risk of congestion worldwide. Congestion in the Western Mediterranean has also increased because the ports there are confronted with many diverted containers. Data from the Kiel Institute suggests that 8% of transported goods are at a standstill. This means that every twelfth container worldwide is stuck in a traffic jam. Experience in recent years has shown that these traffic jams only ease slowly

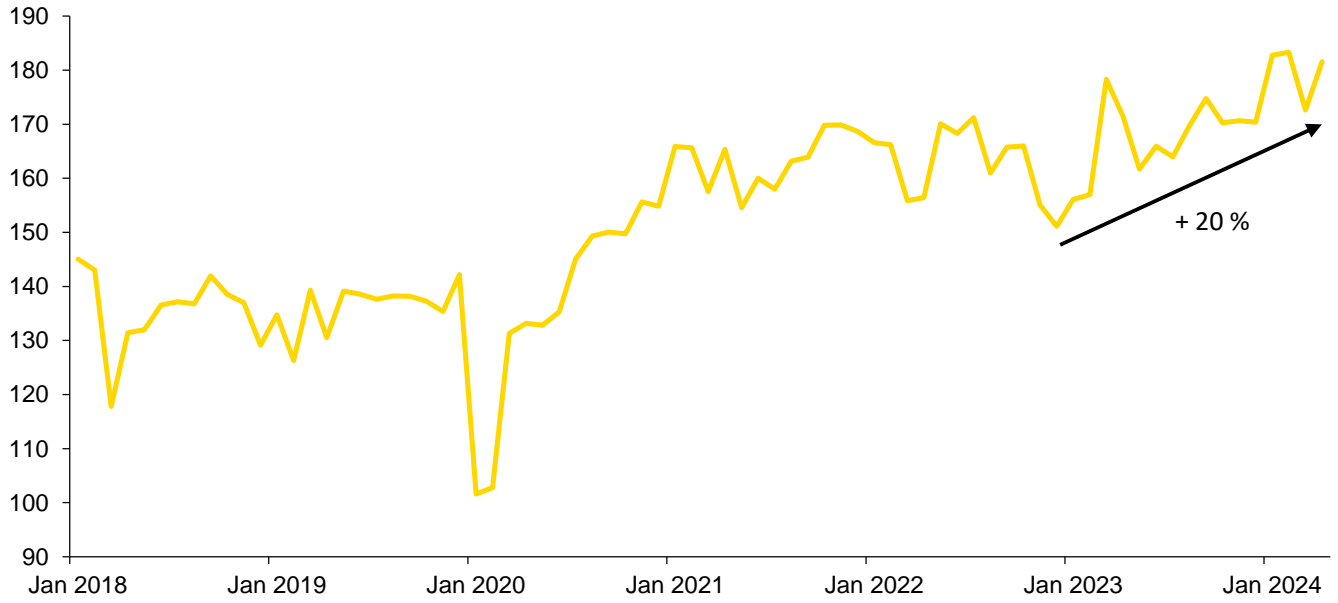
Chinese exports put the transport network to the test

This bottleneck in the handling of freight is being met by increased demand for container transportation. This is because China is exporting significantly more goods again. Adjusted for price effects, China’s exports have risen by around 20% since a temporary low in spring 2023 (Chart 3). As China exports more than any other country via the container ship network by a wide margin, freight rates also react sensitively to fluctuations in China’s trade. Here, too, there are no immediate signs of easing. This is because the moderate economic growth in the eurozone, which is likely to be accompanied by falling key interest rates from the ECB in the second half of the year, speaks in favor of more European imports from China. Overall, there are therefore no signs of a rapid recovery in the coming months.



Chart 3 - China's exports rise again

Exports by China in Bn. US Dollar, price adjusted (in 2010 prices)



Source: CPB Netherlands, Commerzbank-Research



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In accordance with ESMA MAR requirements this report was completed 27/6/2024 09:57 CEST and disseminated 27/6/2024 09:57 CEST.

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