



The Business of the Contract Furnishings Industry

Shipping to Europe still Expensive for Manufacturers

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by Rob Kirkbride

With the global economy still in the dumps, it would be logical to assume shipping rates have come down. And for imports to the U.S. from Asia, they have, in some cases by more than 50 percent.



But office furniture makers and dealers shipping product to Europe or the Middle East are finding prices staying firm, and in some cases, going up. How can that be?

Easy, says Stewart Brown of Independent Freight International, an overseas shipping company that specializes in customers in the office furniture industry. Think of it like the airline industry: As fewer people chose to fly, carriers took flights and airplanes offline. That's why airplanes are so full and fares nearly as high as they were when the economy was strong.

The same is true for international shipping. As containers and the ships that carry them were losing customers, the shipping companies took the ships and containers out of service. That has kept freight prices for exports relatively high. Add to that a series of GRIs -- general rate increases -- and you have the ingredients for higher international shipping costs. GRIs have been implemented by most major shipping companies to recoup losses they are suffering because of the economy.

It is a far different shipping environment than exporters were facing at the same time last year before the global economic collapse. Just a year ago, the industry was facing a dire shortage of containers. Many manufacturers and distributors had products to ship, but couldn't find a way to ship them. Now, many container ships are idle and lined up in places like Singapore harbor with no freight to carry.

"If you remember this time last year, the whole question of getting containers was a huge issue," Brown said. "At that time, getting capacity and movement was more important than the pricing. In October, the international economy went into a free fall."

Freight rates for imports from Asia have dropped considerably since then. Until just recently, containers from Asia bound for the U.S. were available for as low as \$150, just enough to keep the ships filled with fuel and terminals operating.

While prices on shipping exports to Europe and the Middle East didn't increase, they didn't drop either. Base freight rates have virtually held steady. That's because shipping companies have spent the year trying to stabilize the market. Major shipping companies are facing huge profitability and cash flow problems. The GRIs are designed to slow the bleeding, Brown said.

"I liken the GRIs to highway robbery," he said. "They are going to slap everyone with a surcharge because they are not making money. And they do it because they know they can and no

The GRIs have been put in place over the last two to three weeks. The charge is between \$300 and \$600 a container, depending on the route and carrier. Pacific imports are being hit with a GRI or \$300 to \$600.

The added surcharges are making shipping a little trickier than it used to be. "There are so many more variables," Brown said. "You have to work a little harder for your money. If you are not familiar with logistics, it has become a little bit harder." Despite shipping challenges, it is a great time to get into the international office furniture business, Brown said. "The international office furniture market is getting better," he said. "The Middle Eastern markets are starting to grow, starting to release capital and they have some natural goodwill to the USA. U.S. furniture is perceived to be a quality product and they are willing to spend the extra money on it. Every manufacturer needs to develop its markets overseas. They will do well. There are great products being marketed in the U.S. that the rest of the world doesn't know about."

And why not look to international markets, especially since the U.S. market continues to struggle (though it is showing some signs of improving)? According to The Wall Street Journal, Europe's two biggest economies escaped from recession surprisingly quickly, with Germany and France returning to growth in the second quarter thanks in part to government stimulus efforts and consumer spending.

Germany, Europe's biggest economy, grew at an annualized pace of 1.3 percent in the second quarter, while France, the region's second-biggest economy, expanded at an annualized rate of 1.4 percent. Both countries posted deep contractions for the previous four quarters but have bounced back earlier than other advanced economies including the U.S. and U.K.

According to the Journal, the news that Europe's economic engine is rebounding suggests the region is joining the recovery under way in China and increasingly elsewhere in Asia, exemplified by India's announcement on Wednesday that industrial production in that country in June was nearly 8 percent higher than a year earlier.

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