Talking shop
The Red Sea and implications for UK retail

'Black Swan' events are meant to be idiosyncratic by nature, but learning to expect the unexpected has become ingrained into consumer-facing businesses. The Red Sea disruption is the latest of these, which has seen freight rates increase significantly since the turn of the year. Whilst memories of Covid are not long in the rear view mirror, and wounds have yet to fully heal, we do view this event in a different light. We should be mindful of the key differences between the difficulties now and those experienced through Covid.

Covid supply chain crisis

- Global supply chains and logistics networks were heavily burdened with mass distribution of Personal Protective Equipment (PPE), ventilators and eventually, thankfully, vaccines. This was across sea, air and rail.
- Many consumers were in peak product spend mode, with cash in the bank and few ways to spend it due to Covid related restrictions, resulting in demand far surpassing supply.
- Zero-Covid legislation in certain jurisdictions saw port closures, factory shutdowns, and other logistics disruption creating significant bottlenecks.
- Strikes impacted many of the world's major ports causing backlogs.
- Job vacancies noticeably opened across many aspects of the supply chain with people leaving the labour force, choosing to retire early and or pursue alternate careers.
- The Suez Canal closed for 6 days when a container ship became wedged and blocked passage.

Red Sea crisis

- The threat of piracy and attack through the Bab el-Mandeb Strait has increased exponentially.
- This has had a direct correlation between the dramatic decrease in sailings through the Suez Canal and increase in sailings via The Cape of Good Hope.
- Insurance premiums have consequently increased for sailings through the Bab el-Mandeb Strait.
- Sailing costs have increased to compensate for the additional voyage time/length via the alternate southern hemisphere route.
- The additional voyage time has resulted in delays, with containers and ships being in the wrong place potentially compounding delays and increased costs.

Key differences

- Supply and container ship capacity is still outweighing demand.
- Air freight capacity has normalised following Covid travel restrictions limiting planes in the sky.
- Consumers are spending more equally between product and services.
- Zero-Covid legislation has been demised.
- Strike action has dramatically reduced.
- Global inflationary pressures have come off significantly.
- Management teams to a degree have become accustomed to crisis management and are all the stronger for the past four years.

Closing thoughts:

What does all this mean? i) Freight rates will not reach their Covid peak. ii) We've hopefully experienced peak freight rates for this 'Black Swan' event (February 2024). iii) It will take several months for the current supply chain disruption to unwind, even if the conflict in The Middle East is resolved peacefully and soon. iv) Freight rates will remain elevated throughout 2024.

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