

Deadly Baltimore Bridge Collapse Is Latest Shipping Snafu That Could Push Up Inflation

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When the nearly 1,000-foot-long cargo ship Dali slammed into Baltimore's Francis Scott Key Bridge early Tuesday, it not only caused the critically important bridge to collapse and killed six people, it also became the latest shock to the nation's supply chain.



The Port of Baltimore (<https://www.bisnow.com/tags/port-of-baltimore>) has been indefinitely closed to vessel traffic, and the bridge — which carried Interstate 695, a major East Coast trucking route — must be rebuilt. Those factors will likely have an impact on the U.S. supply chain but are unlikely to derail the economy, economists and logistics experts told *Bisnow*.

But the tragedy is the latest in a series of supply chain stresses (<https://tengco.com/Home/Page/blog?p=global-shipping-faces-turmoil-amidst-red-sea-and-panama-canal-disruptions>) that, in the aggregate, risks driving up inflation and throwing up a caution flag to the Federal Reserve (<https://www.bisnow.com/tags/the-federal-reserve>) right before it is expected to begin cutting interest rates.

“These types of events, which keep occurring at increased frequency, are definitely contributing to inflation in the past few years,” said Mark Russo, vice president of industrial research for Savills (<https://www.bisnow.com/tags/savills>). “The reality is this is an ongoing game of whack-a-mole. Now we've got this. We don't know where the next event is going to happen, but it keeps coming up.”

During a Wednesday evening press conference, Maryland Gov. Wes Moore (<https://www.bisnow.com/tags/gov.-wes-moore>) said the state submitted a request to the Biden administration for emergency relief funds to assist in the recovery.

“The collapse of the Key Bridge (<https://www.bisnow.com/tags/key-bridge>) is not just a Maryland crisis. The collapse of the Key Bridge is a global crisis,” Moore said, adding that last year, the Port of Baltimore handled \$80B in foreign cargo. “The national economy and the world's economy depends on the Port of Baltimore.”

Moore said that operations have shifted from search and rescue to search and recovery. Divers recovered the bodies of two construction workers from a submerged red pickup truck Wednesday morning, Maryland State Police Col. Roland Butler said during the press conference. Officials said divers will be unable to get to other vehicles that were encased in the collapsed bridge superstructure and concrete debris until the wreckage is removed.

The wreckage from the collapse has blocked ship traffic through the canal and left various industries — especially the automotive industry, as the port of Baltimore is the largest for the imports of automobiles, light trucks, construction and farm machinery — scrambling to bring goods into the

country. Many are using alternative ports, including those in New York, New Jersey and even as far south as the Ports of Savannah and Brunswick in Georgia.

“The auto industry is very dependent on the Port of Baltimore and over 850,000 vehicles were shipped in and out of the Port of Baltimore,” Patrick Penfield, a professor of supply chain management and director of the Syracuse University (<https://www.bisnow.com/tags/syracuse-university>) Whitman School of Management, said in an email. “Automobile companies will now need to reroute ships to other East Coast ports in the future which will cause supply chain delays.”

On Tuesday, executives with Ford and GM said they were diverting shipments (https://www.bloomberg.com/news/articles/2024-03-26/auto-supply-chains-face-delays-from-baltimore-bridge-collapse?cmpid=BBD032624_TRADE&utm_medium=email&utm_source=newsletter&utm_checkout=true) from Baltimore to other ports. Stellantis, which owns Chrysler, Dodge, Jeep and Ram, said in a statement it was working on “contingency plans to ensure an uninterrupted flow of vehicles.”

The Port of Baltimore is also a critical delivery point for imported gypsum, sugar and other agricultural ingredients.

An executive with Pompeian, which produces olive oil, said the company is enacting emergency plans and diverting ships to other ports. ASR Group, which owns Baltimore mainstay Domino Sugar (<https://www.bisnow.com/tags/domino-sugar>), said the port closure should have no short-term impact on its local processing operations because it received a shipment the day before the collapse, a spokesperson told the Baltimore Business Journal (<https://www.bizjournals.com/baltimore/news/2024/03/26/key-bridge-affects-port-baltimore-local-economy.html>).

“The Port of Baltimore is a key economic hub in numerous cargo segments, especially with hundreds of thousands of automobile imports and exports, and although we anticipate some delays, the US supply chain is flexible and resilient, capable of responding to disruptions,” American Association of Port Authorities CEO Cary Davis said in a statement.

But the impact goes beyond the ships taking the Patapsco River (<https://www.bisnow.com/tags/patapsco-river>) from the Chesapeake Bay (<https://www.bisnow.com/tags/chesapeake-bay>) into Baltimore. The only other highways that cross Baltimore's harbors do so via tunnels, meaning hazardous materials and many oversized trucks have lost their only high-speed route through the city.



“Many tractor trailers, especially ones that carry Hazardous Material, can only use the Francis Scott Key Bridge to transport materials through that area and will now have to come up with alternative routes which may include going through the city of Baltimore,” Penfield said.

Railway giant CSX said in a statement to *Bisnow* that customers should expect shipment delays as a result of the collapse, and it is working with international customers to find alternative shipping routes to and from Baltimore. The firm also intends to keep its Curtis Bay Coal Pier facility open.

“From a logistics point of view, disrupted routes, increased travel times, and potential oversize load restrictions will add to operation costs for trucking companies,” Nationwide United Auto Transport CEO Chris Estrada said in an email. “As for supply chain and commercial impacts, expect to see delays in inventory replenishment and in some cases, a rise in commodity prices due to shortfalls. In the property realm, warehouses and storage facilities might face short-term overload due to delayed transport movements.”

DHL Supply Chain (<https://www.bisnow.com/tags/dhl-supply-chain>) President Jim Monkmeyer told Bloomberg on Wednesday (<https://www.bloomberg.com/news/articles/2024-03-27/port-of-baltimore-may-reopen-in-six-weeks-dhl-executive-says?embedded-checkout=true>) that he is “hearing May” regarding when the port might reopen.

There are 40 ships stuck inside the port that need the passage clear to sail out again, Bloomberg reported. It is unclear when ship traffic will return to Baltimore.

Officials have yet to indicate a timeline for when the bridge will be rebuilt, nor are they talking specifics regarding the cost to do so.

U.S. Sens. Ben Cardin and Chris Van Hollen (<https://www.bisnow.com/tags/chris-van-hollen>) of Maryland said during Wednesday's press conference they would work to secure recovery funding from Congress. Van Hollen said President Joe Biden (<https://www.bisnow.com/tags/president-joe-biden>) ordered the Army Corps of Engineers (<https://www.bisnow.com/tags/army-corps-of-engineers>) "to do everything necessary to clear the channel," with the federal government picking up the estimated \$40M to \$50M tab.

"Make no mistake about it, our top priority is to get the shipping lane open," Cardin said. "We recognize that every day it's closed, the impact it has not just on Baltimore, in our economy, in the state economy, but in our country, and it affects the global supply chain. We recognize that we have to move with dispatch in regards to opening the channel."

In the long term, the collapse could shift ship traffic away from the Port of Baltimore if the delays drag on and shipping patterns change.

"The danger is that once alternative routes or ports are evaluated and implemented, the volume may stay in the other ports," said Peter Kroner, an industrial and supply chain intelligence director with Avison Young (<https://www.bisnow.com/tags/avison-young>).

There is already an early sign of recovery. Tradepoint Atlantic (<https://www.bisnow.com/tags/tradepoint-atlantic>), a massive distribution hub at Sparrows Point, just before the Key Bridge on the route into Baltimore, announced Wednesday that it received the first ship at its facility since the collision and collapse. The Wolfsburg, a regularly scheduled hauler for Volkswagen, dropped its cargo off on schedule.

In a press release, Tradepoint Atlantic officials said they are in talks with shipping companies to accept additional vessels.

"Yesterday's events were tragic and will forever change the landscape of the Baltimore region. Tradepoint Atlantic is committed to being an active partner during the recovery, clean up, and rebuilding process," Tradepoint

Atlantic Managing Director Kerry Doyle said in a statement. “Our primary focus is providing the facilities needed to expedite channel clearing efforts so that the Port of Baltimore can resume normal commercial activities.”

The collapse also comes as major retailers are in negotiations with shipping companies for their annual overseas cargo shipping contracts, said Robert Khachatryan, the CEO of Freight Right Global Logistics, a California-based global freight forwarding firm.

Retailers have already seen cost increases due to attacks from Houthi groups (<https://www.bisnow.com/national/news/retail/attacks-on-red-sea-shipping-disrupting-retail-supply-chain-122322>) in the Red Sea. The port closure could give shippers more leverage in price negotiations, Khachatryan said.

“Anytime there’s a disruption, that creates leverage for ocean carriers to negotiate higher rates,” he said. “So the timing of this accident is very unfortunate as far as ocean pricing is concerned.”



Economists and shipping experts told *Bisnow* that most of the impact will be felt on a regional level rather than globally, although shipping costs are likely to rise in the short term. Towson University (<https://www.bisnow.com/tags/towson-university>) Vice President Daraius Irani told The Daily Record that the Port of Baltimore closure could result (<https://thedailyrecord.com/2024/03/26/bridge-collapse-likely-to-have->

profound-impact-on-port-of-baltimore-operations/) in a \$15M-per-day loss in economic activity, including \$1.5M a day in lost state and local taxes.

Baker Logistics Consulting Services principal Lauren Pittelli (<https://www.bisnow.com/tags/lauren-pittelli>) said she expects a near-term impact on vehicle deliveries to dealerships but sees the economic impact mainly localized to the Baltimore area.

“It’s a tragedy for the people involved, and it will be a traffic nightmare for the people in Baltimore,” Pittelli said. “I’m not sure what can be done to reroute the traffic. But I can’t see this as being more than a localized impact. This isn’t like the Suez Canal (<https://www.bisnow.com/tags/suez-canal>) or Panama Canal (<https://www.bisnow.com/tags/panama-canal>).”

That is largely because companies have been rejiggering their logistical operations since the onset of the pandemic, beefing up their warehousing and product storage in light of the crisis seen in the early days of the coronavirus, logistics players said.

Oxford Economics (<https://www.bisnow.com/tags/oxford-economics>) Chief U.S. Economist Ryan Sweet also said the collapse is unlikely to have a macroeconomic impact.

“I don’t see any short or long-term inflation implications that will give the Fed pause. The issues in the Suez and Panama canals caused shipping rates to jump, but it hasn’t shown up in the US inflation data yet,” Sweet wrote in an email. “The collapsing of the Key Bridge, though tragic, won’t have the same impact on shipping rates or supply-chain disruptions.”

Rajeev Dhawan (<https://www.bisnow.com/tags/rajeev-dhawan>), the director of the Economic Forecasting Center at the Robinson College of Business at Georgia State University, also dismissed concerns that the Key Bridge collapse and port closure will lead to an increase in inflation. Dhawan said he still expects the Fed to cut its benchmark interest rate by this summer and perhaps cut more aggressively in 2025 despite the disruption caused by the bridge collapse.

“This is not the Port of Savannah (<https://www.bisnow.com/tags/port-of-savannah>) or the Port of Long Beach (<https://www.bisnow.com/tags/port-of-long-beach>) that’s getting disrupted,” Dhawan said. “It’s a minor disruption, but it’s not going to lead to inflation.”

But the Key Bridge collapse isn't the only factor weighing on global shipping.

In February, PNC (<https://www.bisnow.com/tags/pnc>) Asset Management Group Chief Investment Strategist Marc Dizard warned in a report (<https://www.pnc.com/insights/corporate-institutional/gain-market-insight/choppy-waters-ahead-for-inflation.html#:~:text=Impact%20on%20inflation%20contained%2C%20for%20on>) that the potential for an escalation in the conflict in the Red Sea, especially a “significant escalation” such as a blockade of the Suez Canal, could have a “material impact on inflation.”

There is also a major drought affecting water levels in the Panama Canal, which has led to a 50% drop in traffic. Apollo Global Management (<https://www.bisnow.com/tags/apollo-global-management>) Chief Economist Torsten Sløk warned in January (<https://www.businessinsider.com/inflation-fed-rate-cuts-red-sea-attacks-panama-canal-shipping-2024-1>) about those combined factors pushing inflation up again.

Fed officials at their regular meeting last week still predicted three rate cuts in the second half of 2024. Fed Chairman Jerome Powell (<https://www.bisnow.com/tags/jerome-powell>) hasn't been shy about rate cuts only coming (<https://www.usatoday.com/story/money/2024/03/12/cpi-report-march-2024-inflation-data/72934243007/>) when more evidence suggests inflation has been tamed. Some economists are already projecting that inflation may force the Fed to implement only (<https://www.usatoday.com/story/money/2024/03/18/federal-reserve-fewer-rate-cuts/72978526007/>) two rate cuts this year.

If inflation does heat up, that would be bad news for commercial real estate borrowers, who are on the hook for a record amount of loan maturities coming due (<https://www.trepp.com/trepptalk/cre-mortgage-maturities-debt-oustanding-2.81-trillion-coming-due-by-2028>) through 2028. It could weigh on the banks that hold those loans, pushing institutions to set aside more loss reserves for underwater loans (<https://www.bloomberg.com/news/articles/2024-03-26/us-regional-banks-challenged-by-commercial-property-s-p-says>).

“The worst thing that can happen for the Fed, the worst thing that can happen for the economy, are these kinds of supply-side shocks because what they do is they reduce the productive capacity of the U.S. economy [and] boost inflation at the same time,” Citigroup (<https://www.bisnow.com/tags/citigroup>) Chief U.S. Economist Andrew