# Another Glance At the Baltic Dry Freight Index

Back in the 2003-2008 heyday of the China growth story, the Baltic Dry Freight index (BDI) was one of the more reliable coincident indicators of global economic activity. It was sort of an economist's rubber chicken: Whenever you needed a cheap laugh, the BDI came through.

This always was a little bit of an oversimplification. The BDI is an amalgam of the Panamax, Handymax and Capesize indices. The Panamax index measured tariffs for those vessels able to make it through the Panama Canal without tearing off the sideview mirrors, the Capesize index measured the cost of digging up large chunks of Australia and sending them off to China and the Handymax lay in between. The real driver was, of course, the Capesize carriers.

**Cyclical Business**

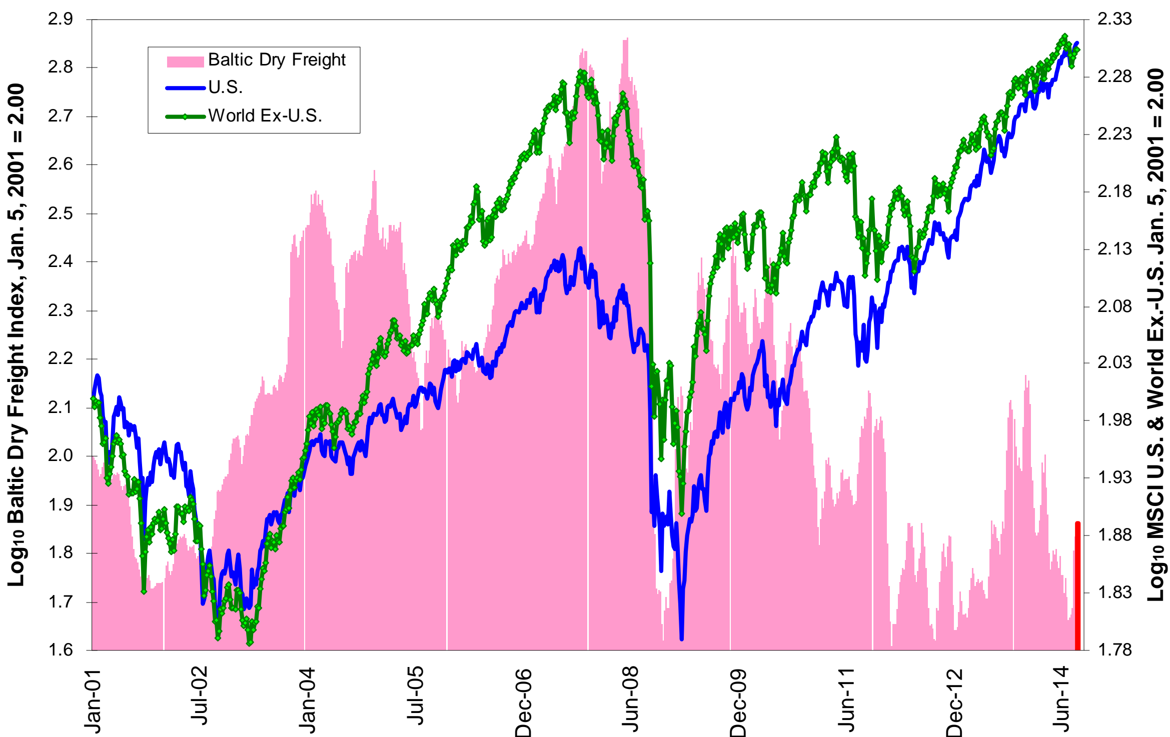
Shipping is a very cyclical business, which is a polite way of saying everyone sees the same economic signals at the same time and then engages in the self-defeating prophecy of adding capacity at the top and shedding it at the bottom. When the China trade was in full throttle and something called the commodities super-cycle supposedly reigned across the globe, the BDI moved from just under 1,000 in August 2002 to more than 11,000 by May 2008. While Godzilla was out there buying, Rodan was out there building new vessels just in time for the financial crisis and the general collapse of physical commodity prices.

The BDI ceased to be a demand-driven indicator alone and now reflected the effects of excess supply and improvements in port facilities in both China and Australia. As a result, I put it on the shelf as an indicator by early 2011 and kept it there until a reporter asked me last week whether "a jump" in the BDI confirmed a surge in global economic growth.

**Notes, Boats and Stocks**

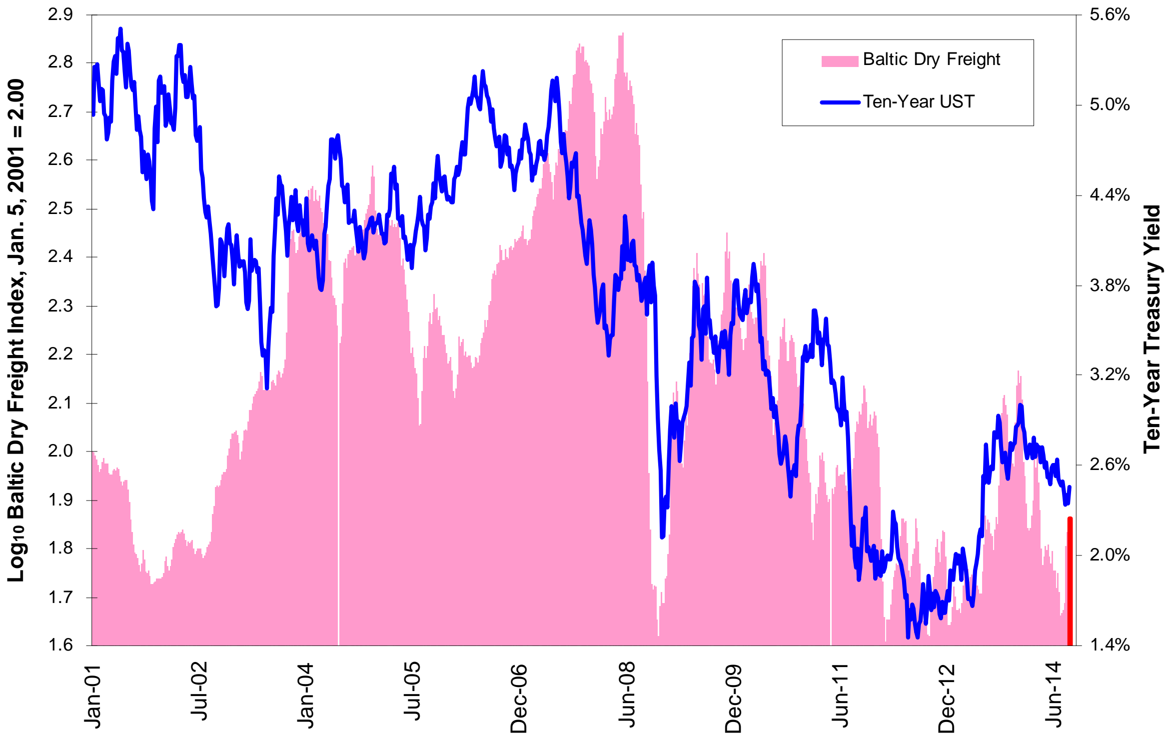
That jump was a large percentage increase from a low base, something that would have been dismissed as statistical noise a decade ago. I highlight it in the charts below by displaying the BDI and equity total return indices on a logarithmic scale.

**Stocks Fly, Ships Sink**



Two things stand out in the chart. First, prior to the financial crisis, the BDI marched along with both the U.S. market and it especially marched along with the World Ex-U.S. market. Second, after 2010, stocks continued to march higher while the supply-besotted BDI languished.

Now let's replace the stock indices with ten-year Treasury yields. Here the correlation pattern is almost the opposite. Prior to the financial crisis, the BDI and yields diverged frequently while after the crisis the two act as if there is an actual relationship. This is spurious correlation at its finest, which is really saying something. We would have to believe the same factors that have driven yields lower, such as QE, regulatory factors and risk-aversion, also contributed to an earlier shipbuilding boom.




If the BDI was still a robust coincident indicator, it should be rising along with equities and moving inversely to Treasury yields. It is not. I think I will keep this on the shelf for another few years and see if we somehow go back to the future again.