

Container Shipping Market Overview & Outlook

Weakened supply/demand balance challenges liner operators

Q2 2023

A decorative graphic at the bottom of the slide consists of several overlapping, semi-transparent blue shapes that create a wave-like effect, extending across the entire width of the page.

Container Shipping Market Overview & Outlook

Q2 2023 Highlights



Demand



The IMF forecasts that the **global economy will grow by an average of 3.0% during 2023-2024**, 2.8% in 2023 and 3.0% in 2024. Risks remain tilted to the downside.



Global conditions for manufacturing are challenging. The **global manufacturing PMI remains below 50.0**, indicating slowing activity.



Retail sales remain near COVID-19 levels in both the US and EU. However, **retail sales have been experiencing a slow but steady decline**.



Despite low Transpacific Eastbound volumes since 2nd half 2022, **US retail inventories to sales ratio has not fallen and remains at 1.21**, matching the pre-COVID-19 level.

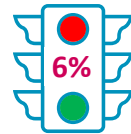
Supply



The order book has reduced slightly but we still expect **4.9 million TEU to be delivered from 2023 to 2024**.



Ship recycling activity has not yet increased as previously expected but we still expect **recycling could reach 0.9 million TEU during 2023-2024**.

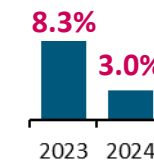


Congestion tied up as much as 14% of the fleet during 2021-2022. Now, it has dissipated and compared to 2022 will **increase supply by 6% in 2023**.

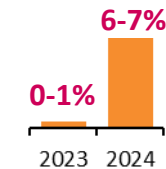


Average sailing speed could fall by as much as 10% due to EEXI/CII. **We estimate sailing speed will fall 5% in both 2022 and 2023**.

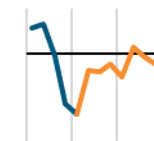
Supply/demand



In total, **supply is forecasted to grow 11.5% from 2022 to 2024**. If sailing speeds do not reduce as forecasted, supply growth could be higher.



In total, **demand is forecasted to grow 6-8% from 2022 to 2024**. Risks in the global economic could drive growth lower.



The supply/demand balance will weaken significantly. In 2024, supply/demand balance may improve but not enough to counter adverse development in 2023.

Container Shipping Market Overview & Outlook

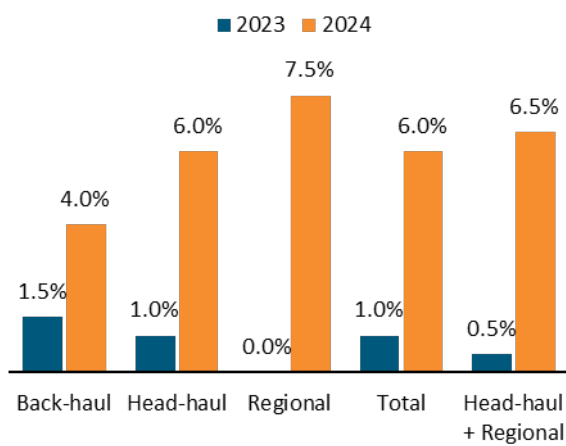
Weakened supply/demand balance challenges liner operators



Demand

In our base case scenario, we predict that global container volumes will grow by between 0.5% and 1.5% in 2023, and by between 5.5% and 6.5% in 2024. They will thus reach approximately 185 million TEU in 2024.

Base case volume growth

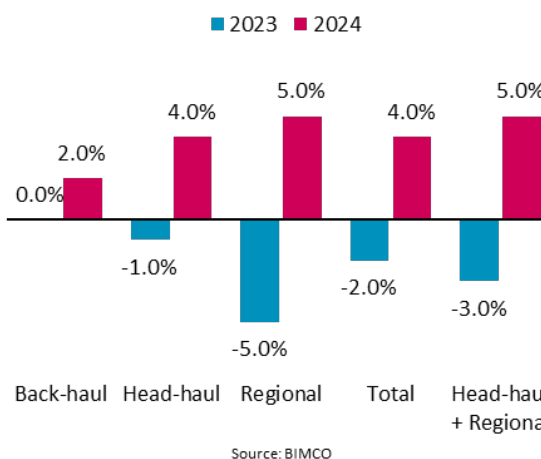


Volumes in the first half of 2023 will show negative growth as head-haul and regional trade lanes have not yet recovered from the slowdown that began in the second half of

2022. We predict that the recovery in volumes and growth rates will begin during the second half of 2023.

We expect that combined volumes for the all-important head-haul and regional trade lanes will end 2024 approximately 7% higher than in 2022. Back-haul trade lanes have experienced negative growth for three consecutive years, but we believe that growth will return in 2023 and 2024 and that volumes in 2024 will end approximately 5.5% higher than in 2022.

Low case volume growth



However, much uncertainty about the timing of the market recovery still exists, so we have also developed a low case scenario. In this scenario, we assume that the market downturn will last throughout 2023 and that recovery will only begin in 2024.

In this low case scenario, global container volumes will end 2024 about 3.5% lower than in the base case scenario. Volumes in head-haul and regional trade lanes will end 2024 nearly 5% lower than in the base case scenario.

Economic growth remains a key driver of demand in the container market. The International Monetary Fund (IMF) predicts global economic growth of only 2.8% in 2023 and 3.0% in 2024.

However, risks remain firmly tilted towards the downside, with the IMF also presenting a low case scenario where tighter financial conditions could reduce growth to 2.5% and 2.8% in 2023 and 2024 respectively. The advanced economies are likely to suffer a greater negative impact and specifically the US, the European Union and Japan are

Container Shipping Market Overview & Outlook

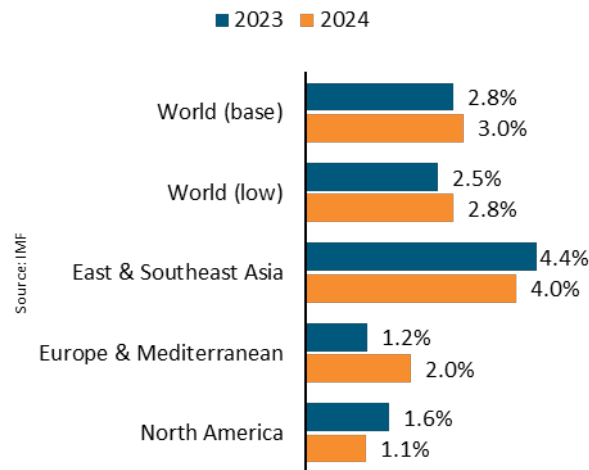
Weakened supply/demand balance challenges liner operators



predicted to see growth 0.4 percentage points lower in 2023 than in the base case.

Economies with close ties to the US such as the Mexican and the Canadian are at greater risk of suffering a slowdown than economies with looser ties to the US.

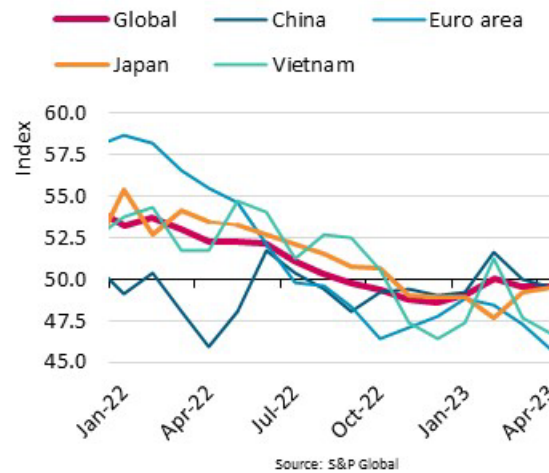
Global economic growth



The weaker than normal conditions are also apparent within the manufacturing sector. The global manufacturing PMI (purchasing managers' index) has only hit 50.0 once since September 2022 but has otherwise been lower, indicating falling activity. The situation has been similar in China and although a

manufacturing PMI reading of 51.6 in February 2023 offered some hopes of recovery, it slipped below 50 again in April.

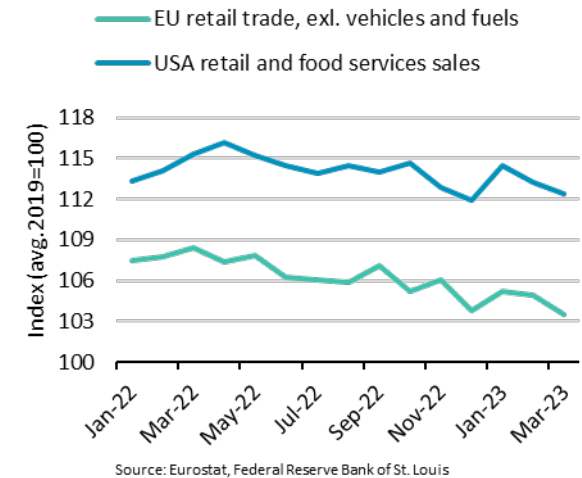
Manufacturing PMI



Consumers on the other hand appear to be faring better. Unemployment rates in both the US and the European Union are low in comparison to pre-COVID-19 levels. Retail sales volumes in both the EU and the US have stayed mostly stable, and the most recent sales figures are only 5% and 3% lower than the peak sales levels seen in 2021 respectively. However, the trend has been a

slow but steady decline and consumer sentiment in both areas also remains very low.

US and EU retail sales volume



Despite North America import volumes falling 21% y/y in Q1 2023, the inventory/sales ratio for all business sectors has been climbing back towards pre-COVID-19 levels, indicating that inventories have grown faster than sales. In many countries, high inflation, rising interest rates and tightening financial conditions remain a challenge for both consumers and businesses. In the US in

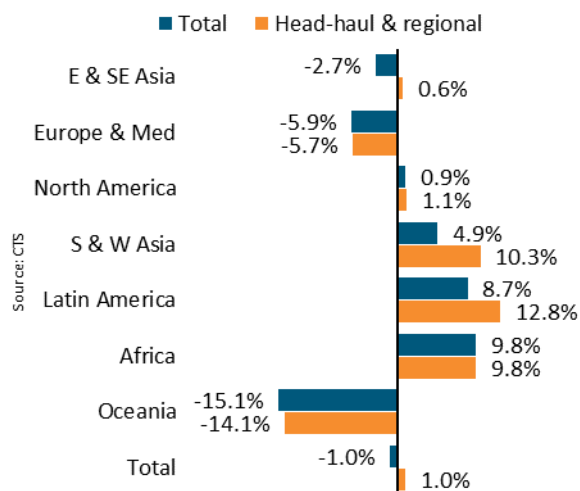
Container Shipping Market Overview & Outlook

Weakened supply/demand balance challenges liner operators



particular, there is a concern that the Federal Reserve will increase interest rates so much that the economy will suffer a “hard landing”. Should that occur, it will also negatively impact other countries and regions.

Q1 2023 vs. Q1 2019 import volume



It is therefore too soon to conclude that import volumes into North America will recover in the second half of the year, though that remains our base case assumption. The same applies to European imports. So far, Q1 2023 volumes fell so much year-on-year that total volumes were lower than in Q1 2019 and

head-haul and regional volumes were only marginally higher.

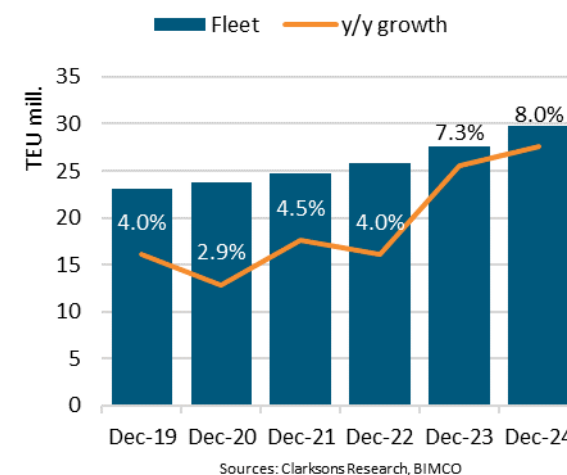
Still, volumes into South & West Asia, Latin America and Africa are cause for some optimism as combined, they were 6.9% higher in Q1 2023 than in Q1 2019 and grew 4.3% compared to Q1 2022. Unfortunately, the three regions’ volumes only make up 23% of overall volumes.

Renewed growth in the three main regions – East & Southeast Asia, Europe & Mediterranean and North America – therefore remains critical for volumes returning to growth in the second half of the year.

Supply

We have made a minor change to our fleet forecast, as ship recycling has got off to a slower than expected start in 2023. This has changed our fleet growth forecast to 7.3% and 8.0% for 2023 and 2024 respectively.

Fleet development



We expect the fleet to end 2024 with 29.8 million TEU after a total of 4.9 million TEU has been delivered during 2023 and 2024, while 0.9 million TEU has been sent to recycling.

Container Shipping Market Overview & Outlook

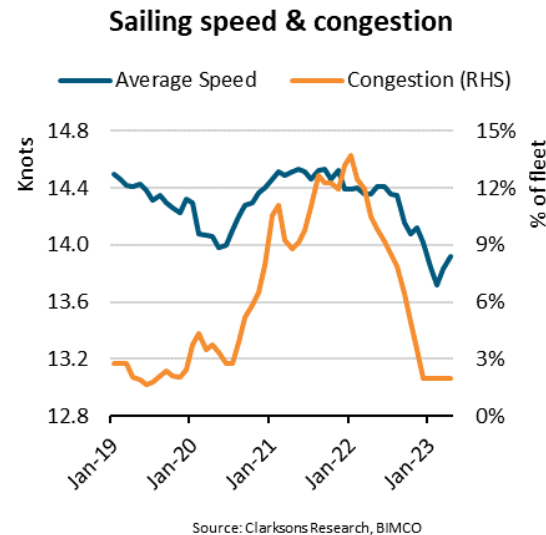
Weakened supply/demand balance challenges liner operators



Adding to supply, port congestion has returned to normal levels and as confirmed by the Federal Reserve Bank of New York's Global Supply Chain Pressure Index, global supply chain pressures have dissipated.

This has helped liner operators to reduce the sailing speed of ships. Year-to-date, the average sailing speed of all ships has fallen 0.6 knots y/y (4%), with the largest ships having reduced speed by as much as 1.0 knot y/y (7%). Recently, the 2M Alliance has been the first to take structural steps to change service scheduling based on lower sailing speeds. Starting in June, the alliance will further lower sailing speed on their Asia-Europe services by adding nine ships to its eight services. We continue to estimate that lower congestion will increase fleet efficiency by 6% in 2023, while we forecast that lower sailing speeds will decrease efficiency by 5% in 2023 and another 5% in 2024.

Therefore, our forecast is for supply to grow by 8.3% in 2023 and 3.0% in 2024.



Supply/demand balance

So far this year, the fleet and market demand has developed in line with our previous expectations.

Recently, time charter rates and freight rates for Chinese exports have, however, shown some upward momentum that we did not expect.

The Shanghai Containerized Freight Index (SCFI) covering export spot rates ex Shanghai had some upward momentum in April and remains higher than in March despite some recent setbacks. The China Containerized Freight Index (CCFI) covering average Chinese export rates saw a smaller gain, part of which has also been reversed.

Trades into the Middle East and South America have so far been the big winners and are the only regions where the SCFI and CCFI are currently higher than at the beginning of 2023. Export rates to North America have also risen, mainly to the US West Coast, but remain lower than earlier in the year. Rates to

Container Shipping Market Overview & Outlook

Weakened supply/demand balance challenges liner operators



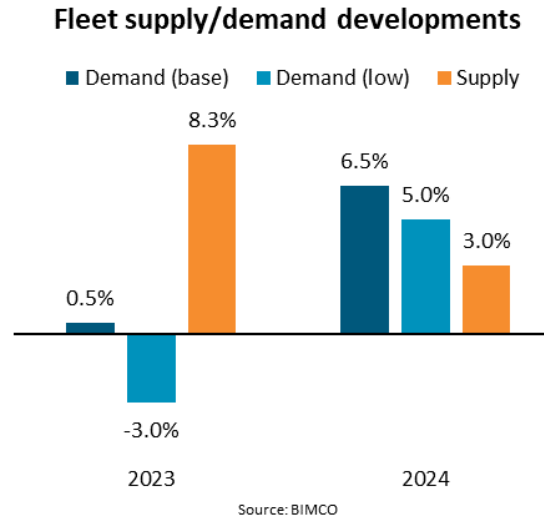
other regions have remained steady or continued to fall.

We are not yet fully convinced that the liner operators can hold onto these freight rate increases. To a large extent they depend on adjusting capacity offered in each trade lane either structurally through service adjustments or ad hoc through blanked sailings. So far, it appears that liner operators have relied mostly on blanked sailings, but structural changes may be needed if market volumes do not recover in the second half as hoped.

Even though head-haul and regional trade volumes fell 8.0% y/y in Q1 2023, and the fleet has so far grown 4.6% y/y, liner operators have continued to charter most of the open time charter tonnage. Most of the idle ships are therefore controlled by the liner operators and time charter rates have been able to increase year-to-date though remain almost 75% down y/y.

Overall, we continue to forecast a significant weakening of the fleet supply/demand balance during 2023 with some recovery in

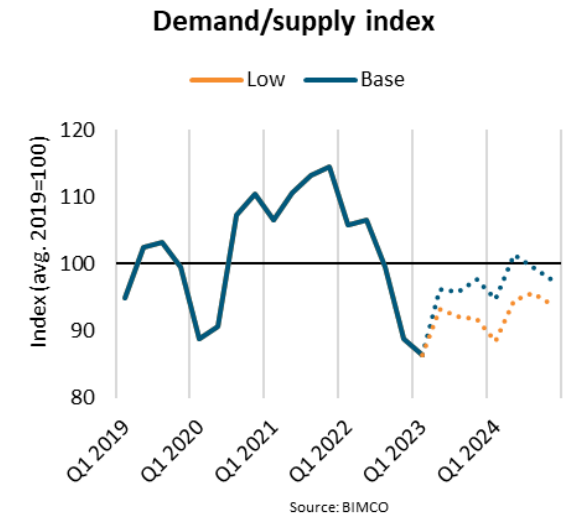
2024. Throughout the period, the balance will remain weaker than in 2019.



Liner operators can shift the oversupply challenge to non-operating owners by redelivering time charter ships. However, as they are continuing to conclude new charter agreements, this seems increasingly unlikely.

If liner operators continue to control most of the oversupply, they will have to idle ships to protect freight rates. As mentioned earlier, the idling can be done structurally by adjusting services or ad-hoc by continuing to

aggressively blank sailings.



However, given the estimated oversupply, it appears most likely that both freight and time charter rates will weaken somewhat.

About BIMCO

BIMCO is the world's largest international shipping association, with over 2,000 members in more than 130 countries, representing 60% of the world's tonnage. Our global membership includes shipowners, operators, managers, brokers, and agents. BIMCO is a non-profit organisation.

Contact

Niels Rasmussen
Chief Shipping Analyst
nr@bimco.org


Links

 [Homepage](#)

 [LinkedIn](#)

 [Facebook](#)

 [Twitter](#)

 [YouTube](#)