

# Container Shipping Market Overview & Outlook

Disruption remains the key demand driver

September 2024

A decorative graphic at the bottom of the slide, consisting of several overlapping, wavy shapes in various shades of blue, creating a modern, abstract look.

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## Supply/demand



Ship supply is expected to grow on average **10.3% in 2024 and 6.3% in 2025**. After increasing in 2024, sailing speeds are expected to reduce in 2025.



Rerouting via the Cape of Good Hope is expected to impact all of 2024. We forecast that **ship demand will increase 15.5% in 2024 and fall 5.5% in 2025** if ships return to the Suez Canal.

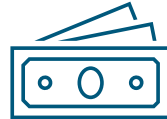


On average, **the supply/demand balance will be stronger in 2024 than in 2023**. Weakening during 2<sup>nd</sup> half of 2024 has begun and will gather speed if ships return to the Suez Canal.

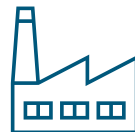


**Significant uncertainty remains** as it is unknown when ships can return to the Red Sea. If they cannot return during 2025, supply/demand will be stronger than in our base scenario.

## Demand



According to the IMF, **the world economy will grow 3.2% and 3.3%** in 2024 and 2025 respectively. Of the world's five largest economies, only the EU will grow faster than in 2023.



**Global manufacturing PMI continues to indicate stability** as it hovers around 50. In China, PMI for new export orders has dipped below 50 during the past 4 months.



**Retail sales in the US are down slightly while up slightly in the EU**. EU consumers are reporting higher confidence while US consumers' confidence has slipped backwards.

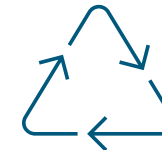


Attacks on ships in the Red Sea have forced 90-90% of container ships to sail around the Cape of Good Hope, **adding 10% to average sailing distances and ship demand**.

## Supply



Ship deliveries will hit a new record high in 2024, beating the record set in 2023. **The fleet is expected to grow 14.5%** between end 2023 and end 2025.



**Recycling is expected to remain low in 2024** as the Red Sea situation increases demand for ships. Recycling could increase in 2025.



**Congestion remains low in most ports**. Failure to renew longshoremen contract for US East and Gulf Coast could cause disruptions.



The long sailing distances around the Cape of Good Hope have led to a slight increase in sailing speeds. **We expect average sailing speed to remain elevated during 2024 but fall in 2025**.

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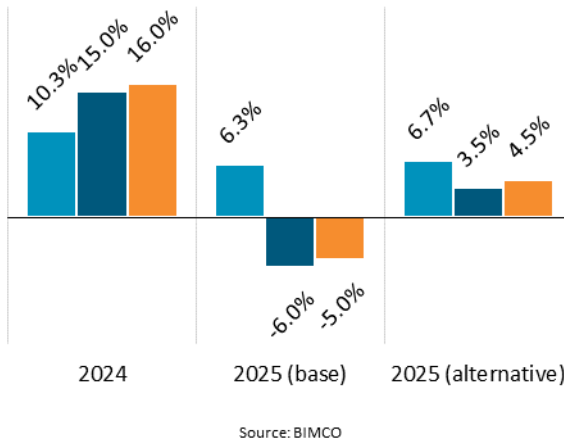
## Disruption remains the key demand driver



### Supply/demand balance

Ship supply and demand growth

■ Supply ■ Demand min. ■ Demand max.



The **disruption caused by ships being rerouted** via the Cape of Good Hope remains the key ship demand driver. As a result, ship demand is forecast to grow three times faster than cargo volumes in 2024. Without it, ship supply would have grown faster than ship demand but instead we expect that the supply/demand

balance will on average be tighter during 2024 than during 2023.

During the **second half of 2024, we expect ship demand growth to weaken** due to weaker cargo volume growth. On the other hand, supply will increase as the fleet continues to grow and so the supply/demand balance during the fourth quarter could approach the levels seen during 2023.

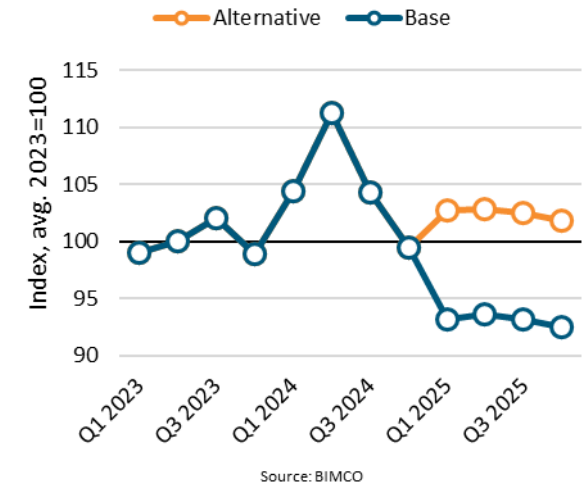
However, **ship demand could end higher than projected** during late 2024 and early 2025 due to disruptions caused by the redeployment of carrier alliances' services, particularly if negotiations between the International Longshoremen's Association (ILA) and the United States Maritime Alliance (USMX) are unsuccessful and lead to dockworker strikes in all US East and Gulf Coast ports starting on 1 October.

For 2025, we present two scenarios. In our base scenario we assume that ships could return safely to Red Sea and Suez Canal routings throughout 2025, whereas in our

alternative scenario we assume no changes to the current rerouting pattern.

In both scenarios, the **supply/demand balance would weaken compared to 2024**, however it would remain stronger than in 2023 in the alternative scenario.

Ship demand/supply index



At present, we cannot judge which scenario is the more likely but as the Israel/Gaza conflict has expanded to include Hezbollah in Lebanon,

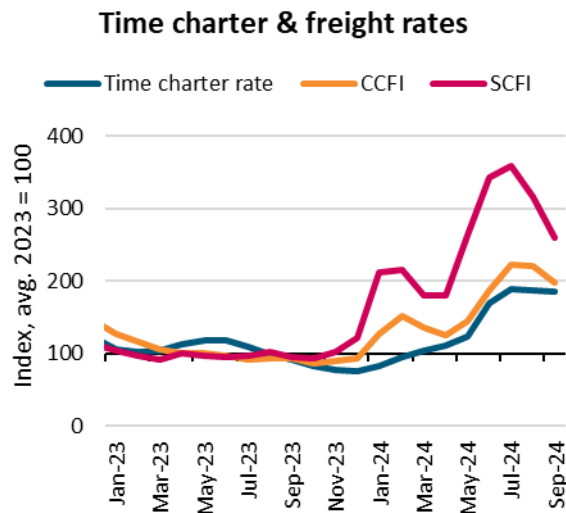
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it does appear increasingly likely that rerouting may partly impact 2025.

Spot freight rates from Shanghai (SCFI) peaked in early July but have since declined more than 30% due to lower cargo volumes and an increase in capacity deployed in some trade lanes.



Source: Clarksons Research, Shanghai Shipping Exchange

Average export freight rates from China (CCFI) peaked slightly later in July and have decreased

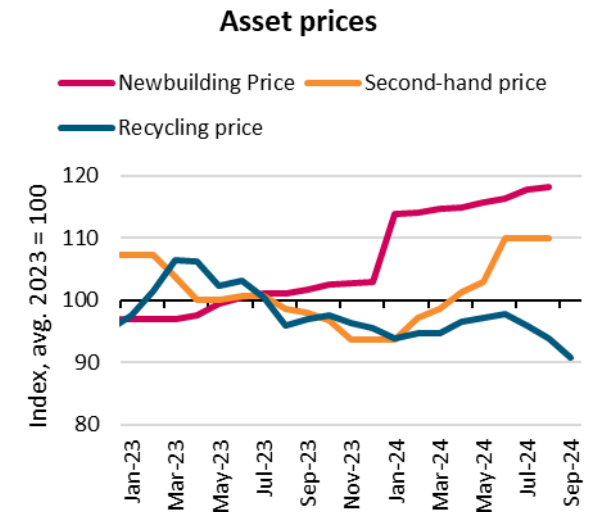
only 15% since then. Despite time charter rates and the CCFI normally being very closely correlated, time charter rates have yet to react significantly to freight rate decreases because ship availability remains low and most continue to be renewed or find new time charter contracts.

As we move into **the fourth quarter and into 2025, we expect further freight rate reductions and beginning time charter rate weaknesses**, particularly if ships can return to normal routings.

The stable time charter rates have supported equally **stable prices for second-hand ships** and their development should remain aligned when the forecasted weaker supply/demand balance begins to impact time charter rates negatively.

On the strength of renewed container contracting, the global order book has increased another 5% during the last three months, leading to further **price increases for newbuilds**. The order book for bulk carriers and

crude tankers remains low relative to the size of the fleets. Unless renewed interest in adding orders for these ship types underpins further expansion of the global order book, we expect prices to begin to fall along with the size of the order book.



Source: Clarksons Research, GMS

**Recycling prices are being pressured** by cheap Chinese steel exports, and unless a pick-up in Chinese steel demand reduces those exports, we expect low prices to continue.

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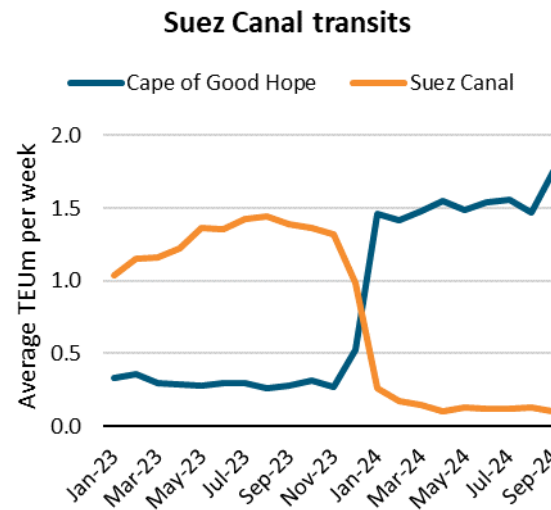
Much **uncertainty remains in our forecast**, not least because much of the demand side development is directly dependent on the current and potential future disruptions.

**Risks to economic growth** naturally also remain but at least appear less of a concern because lower inflation has allowed both the Federal Reserve and the European Central Bank to begin interest rate reductions.

The result of the **presidential election in November** will meantime dictate US economic and trade policy from 2025 onwards. Should Donald Trump win a new term, his plans to impose new high import tariffs could disrupt US imports while increasing cost of living for consumers.

### Macro environment

Houthi attacks on ships in the **Red Sea continue to severely impact trade lanes** that normally transit the Red Sea and the Suez Canal. Transits of the Suez Canal remain 90-95% lower than at the same time last year.

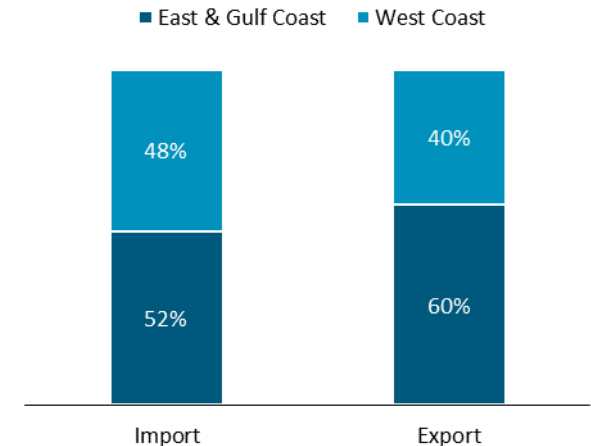


Source: Clarksons Research

Though **no resolution is in sight**, we have in our base scenario chosen to assume that ships may utilise normal routings throughout 2025.

However, we also offer an indication of the impact should ships continue to avoid the Red Sea.

### US import & export 2023



Source: US Port Authorities

**Further disruption could occur** if ILA and USMX fail to agree on a new contract before the current one expires on 30 September. If no agreement is reached, work stoppages could occur in all US East and Gulf Coast ports starting on 1 October. Though President Biden has the authority to intervene in labour

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conflicts that threaten national security, he has never done so, nor does he currently plan to do so to solve the potential dockworker strike.

More than half of all US container imports and export moves through US East and Gulf Coast ports and even **short-term work stoppages could cause severe delays** to ships and containers. Maersk has estimated that a one-week shutdown could take between four and six weeks to recover from.

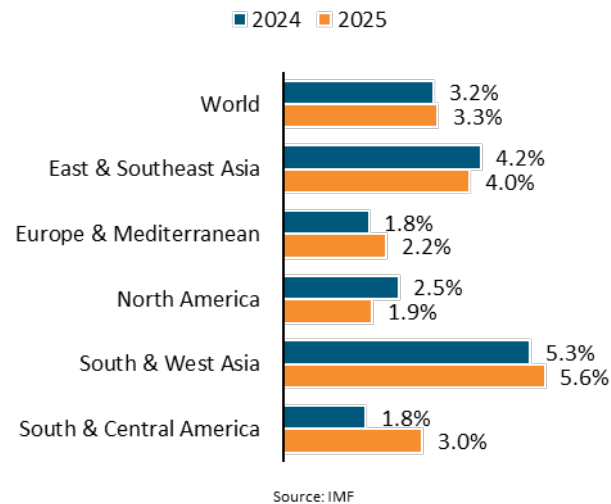
**Disruption could even occur in US West Coast ports** if more ships and cargo are diverted to those ports during a shutdown. Congestion could build up and cause delays to ships and cargo moving through the West Coast.

Should a potential conflict be resolved quickly, the impact on the US economy will likely be minimal though a **longer conflict could possibly lead to an increase in unemployment and inflation.**

In its World Economic Outlook Update from July, the International Monetary Fund forecasts

that the world economy will grow by 3.2% in 2024 and 3.3% in 2025.

GDP growth forecast



The **growth forecast for 2024 is only marginally lower than the 3.3% growth achieved in 2023**, and regional growth forecasts are also in line with 2023. Despite only a small uptick in the global growth forecast, 2025 is meantime forecast to reveal larger shifts in regional growth patterns.

Growth in the **Chinese economy is expected to slow further in 2025** as the population ages and productivity growth slows, and thereby contribute to lower growth in the East & Southeast Asia region. Excluding the COVID years, 2025 is predicted to be the first year in a very long time that the region will contribute less than 40% of global growth.

In the **Europe & Mediterranean region**, growth in **2025 is forecast to finally show some upward momentum.** Germany is normally a key driver of growth in the region but has experienced very weak growth during both 2023 and 2024, not least due to challenges in the manufacturing sector. Along with other major EU economies, improvements are expected in 2025.

In the **US**, **2025 is forecast to show weaker growth** as the labour market is expected to cool and consumption moderate which will drive growth in the North America region lower. A so-called “soft landing” is still forecast, and the recent interest rate reduction should contribute to this.

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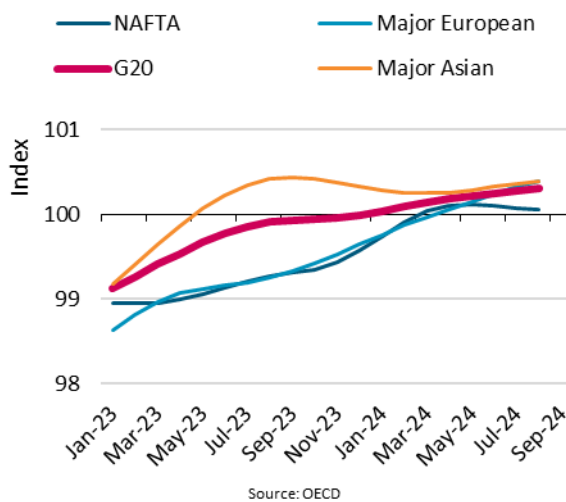


**Other regions** are expected to see faster economic growth in 2025 than in 2024 and combined they are forecast to **contribute one third of global economic growth** in 2025.

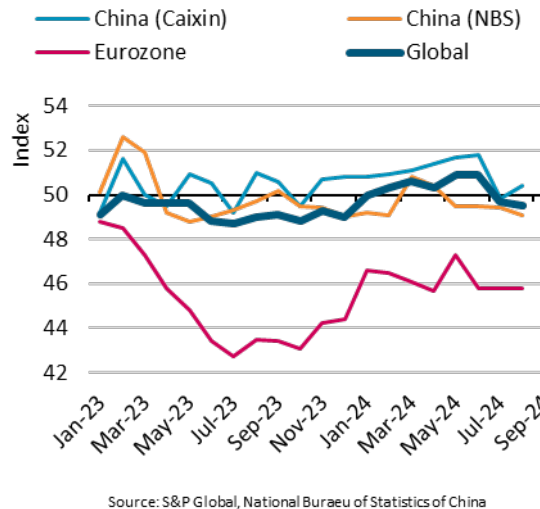
It is meanwhile worth mentioning that the CLI for both the **UK and Brazil** is currently above 102 and thus **indicates the largest increase in future growth** of the countries measured.

In the eurozone, however, manufacturing PMI is significantly below 50 indicating continuing contraction in the sector. The PMI has remained below 50 since mid-2022.

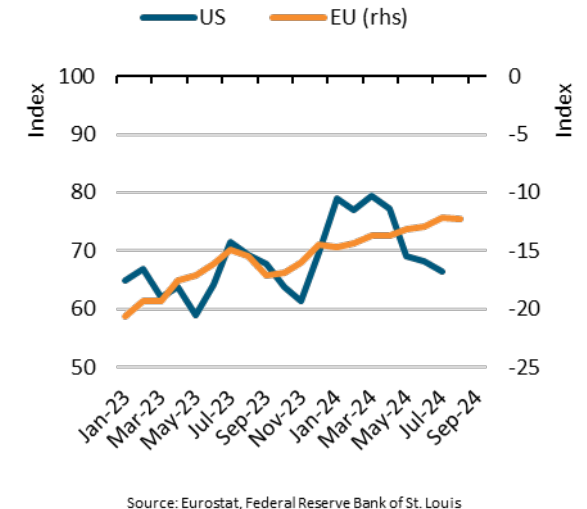
Composite Leading Indicator



Manufacturing PMI



Consumer confidence



The OECD's Composite Leading Indicator (CLI) also points to relative growth stability in most regions. For nearly all countries and regions measured, the indicator hovers around 100.

Despite weakness in the eurozone, **global manufacturing activity appears stable** as the global Purchasing Managers' Index (PMI) remains within a very narrow band around 50.

In China, slight weakness has recently been indicated as the manufacturing PMI from NBS (measuring large-scale state-owned companies) as well as the PMI for new export orders has dipped below 50 during the past four months.

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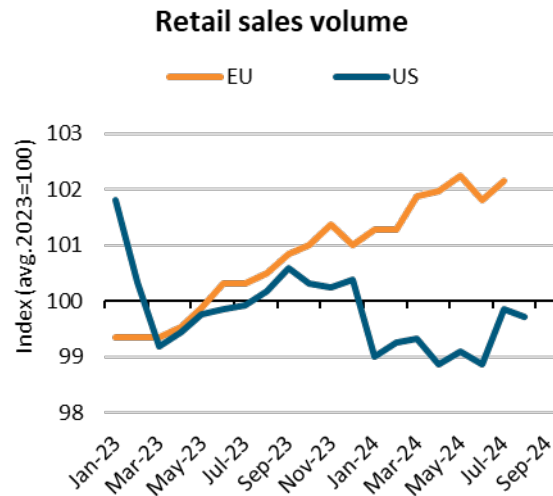


EU consumer confidence has, however, continued to improve, although it remains significantly below pre-COVID levels. In the US, an increase in consumer confidence in early 2024 has since been reversed.

the retail sector in the US has suffered a small decline in sales volumes.

### Demand

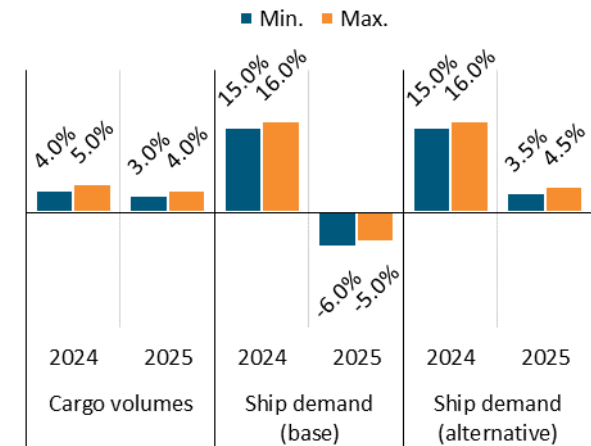
We forecast that **cargo volumes will grow 4-5% in 2024 and 3-4% in 2025**. Volumes in head-haul trades are expected to grow slightly faster than the average.



Source: Eurostat, Federal Reserve Bank of St. Louis

The shift in consumer confidence has had a direct impact on retail sales volumes in both regions. Whereas the EU has seen a slight increase in year-to-date retail sales volumes,

### Demand forecast



Source: BIMCO

We have lowered our cargo volume growth forecast for 2024 by 1 percentage point as second quarter volumes for some back-haul trades disappointed compared to our forecast,



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and because recent freight rate reductions indicate a faster weakening of head-haul trades than we had previously forecast.

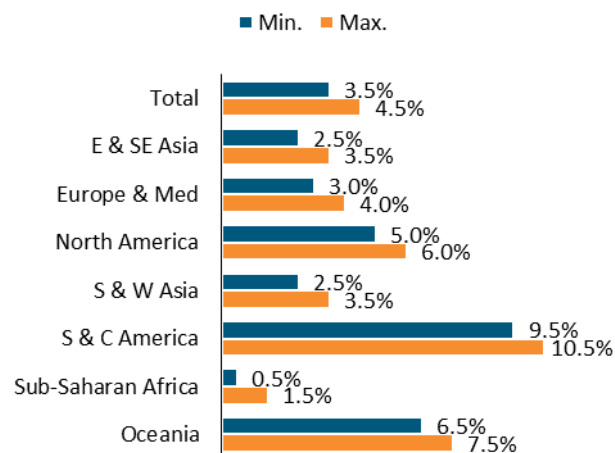
On the other hand, we have raised our **ship demand growth forecast for 2024** by 0.5 percentage points **to 15-16%**. Trade lanes impacted by the rerouting away from the Red Sea and Suez Canal have been stronger than previously expected, increasing sailing distances and lifting ship demand growth.

For 2025, we have included a forecast for both our base scenario and an alternative scenario. Our base scenario assumes that ships may return to normal Red Sea and Suez Canal routings throughout 2025, whereas our alternative scenario assumes no change compared to 2024.

**Should ships be able to return to normal routings, we forecast a 5-6% reduction** in ship demand in 2025 whereas we forecast that **ship demand should grow 3.5-4.5% if ships continue to be rerouted** via the Cape of Good Hope.

East & Southeast Asia is forecast to contribute 28% of import volume growth during 2024-2025, and North America 25%.

Import volume growth - CAGR 24-25



Source: BIMCO

However, it is the South & Central America region that is forecast to post the fastest growth rate. In fact, despite expected disappointing growth into Sub-Saharan Africa during 2024, **regions in the southern hemisphere are forecast to post average annual volume growth of 5.5-6.5%** during

2024-2025. Regions in the northern hemisphere are forecast to see lower average annual volume growth of 3-4% but should still drive nearly 80% of volume growth as they import 6-7 times more cargo than the regions in the southern hemisphere.

During the first half of 2024, cargo volumes into North America from East & Southeast Asia have grown particularly fast (14.7% y/y), partly due to a relatively weak first half of 2023 and partly because of **peak season cargoes being shipped earlier than normal**. The looming strikes in East and Gulf Coast ports along with longer transit times in some trade lanes have encouraged shippers to ship early.

However, it appears that **second half volumes will suffer**. Highlighting the unusual development, spot freight rates from Shanghai to the US have dropped by more than 30% between early July and mid-September. In the 2010s, before COVID, the spot freight rate fell a maximum of 10% during the same period but regularly saw a slight increase in rates.

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Except for Durban, South Korea, West Japan and Oceania, spot freight rates from Shanghai to all other destinations have similarly developed much worse than was generally the case during the 2010s. In fact, the overall Shanghai Containerized Freight Index has also fallen more than 30% whereas it would normally fall a maximum of 5-10%.

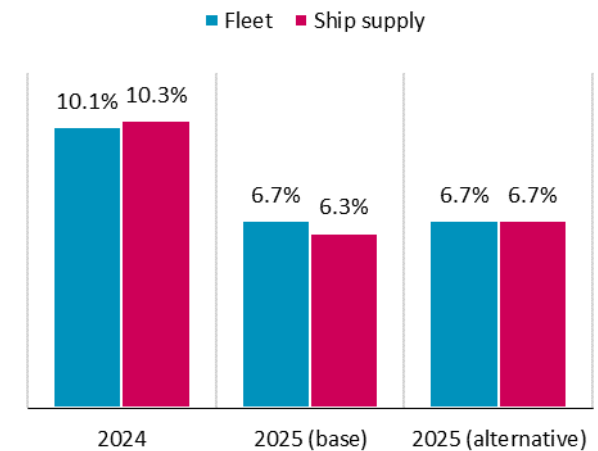
An increase in the capacity deployed may partly explain the adverse development in some trade lanes but we expect that this is mainly being caused by weaker volumes. Combined with a relatively stronger second half of 2023, we therefore forecast a **lower annual growth rate during the second half of 2024** than during the first half.

Ship demand growth may end higher than average during late 2024 and early 2025. MSC and members of Gemini Alliance and the Premier Alliance **may temporarily require additional ships to transition** from the service patterns offered together with their current partner(s) to those planned with their new partner(s).

Similarly, if ILA and USMX cannot agree terms before 1 October, extensive port strikes in ports on the US East and Gulf Coast could temporarily lift ship demand.

## Supply

### Supply forecast



Source: BIMCO, ClarksonsResearch

We forecast that the **average monthly fleet will grow 10.1% in 2024 and another 6.7% in 2025**. Due to the longer sailing distances around the Cape of Good Hope, average sailing speeds have increased during 2024, and **ship supply is therefore growing faster** than the fleet.

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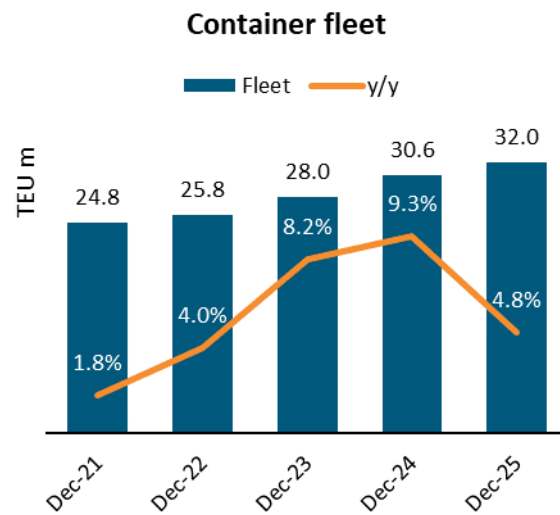
In 2025, our base scenario assumes a return to normal Red Sea routings, and we therefore assume that sailing speeds will reduce back to 2023 levels and cause ship supply to grow slower than the fleet.

By the end of 2024, the **fleet is expected to have grown to 30.6m TEU**, an increase of 9.3% compared to the end of 2023. Another 4.8% growth is forecast to be added by the end of 2025 and the fleet will then hit 32.0m TEU.

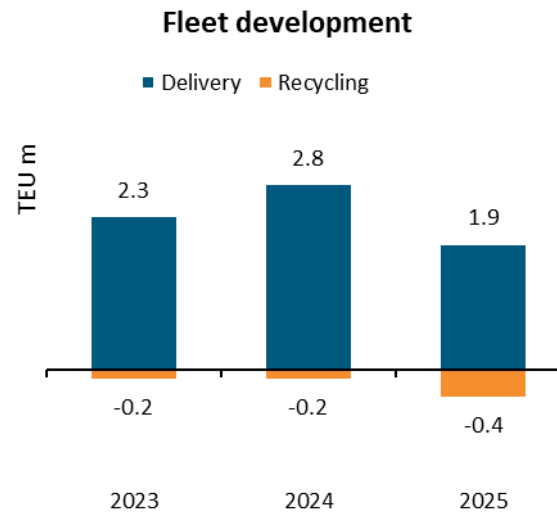
This year is expected to see **deliveries hit a new record high** of 2.8m TEU whereas they should begin to slow down as early as 2025.

The increased demand for ships due to longer sailing distances has meant that **ship recycling has remained very low**. In both our scenarios for 2025, we expect that the supply/demand balance will weaken, and we therefore forecast that recycling activity will rebound.

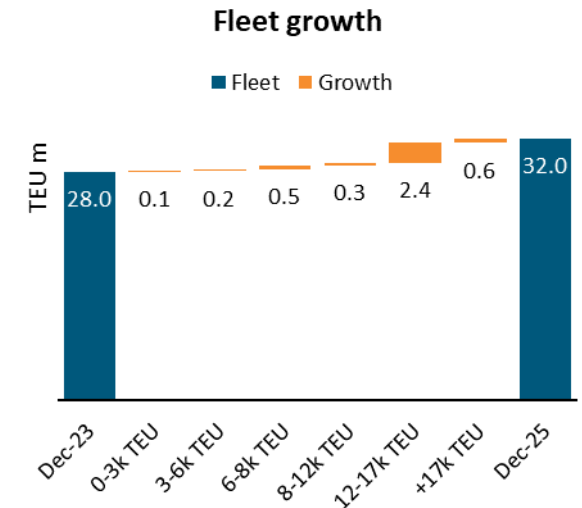
Ships in the **12-17k TEU size segment have continued to dominate** new contracting during 2024, and they also make up nearly 50% of the capacity in the order book. Therefore, they are forecast to drive nearly 60% of the fleet growth between the end of 2023 and end 2025.



Source: Clarksons Research, BIMCO



Source: Clarksons Research, BIMCO



Sources: Clarksons Research, BIMCO

**Sailing speed has remained higher**, as conditions in the Red Sea have stayed unchanged. The increased average speed is

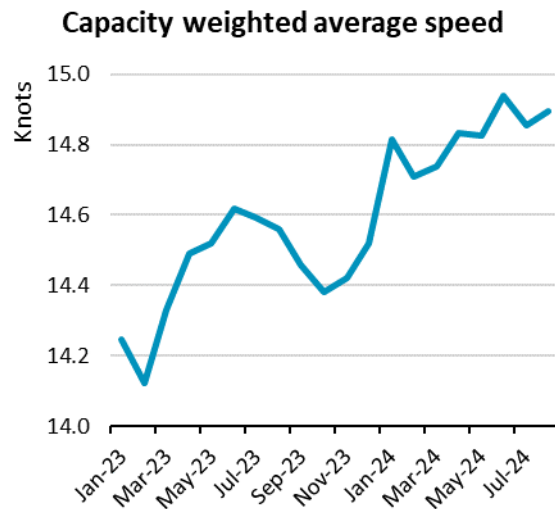
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driven by ships larger than 6,000 TEU which now regularly sail faster than 15 knots on average, whereas their average speed had dipped below 15 knots during 2023.

to achieve 90% schedule reliability, which may cause them to slow ships down and increase buffers available to make up for delays.



Source: ClarksonsResearch

As mentioned, if the **crisis is resolved we expect average speed to slow** back down to 14.4 knots in 2025. Average speed could go even lower in 2025 as the Gemini Alliance aims

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