Container Shipping Market Overview & Outlook

Record high influx of capacity burdens market

Q3 2023

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Highlights

Demand

The IMF forecasts that the **global economy will grow by 3.0% in both 2023 and 2024**, significantly slower than the 3.7% average growth rate in the 2010s.

Global conditions for manufacturing are challenging. The **global manufacturing PMI has been below 50.0 for nine of the last ten months**, indicating slowing activity.

Retail sales in the EU and US are only slightly down from the COVID peak. In the US, **excess savings amassed during COVID are almost spent**, potentially hurting future retail sales.

In the US, the inventory to sales ratio remains above COVID level for manufacturing and wholesale sectors, **indicating possible need to still shed inventory.**

Supply

Contracting of new ships continues at a faster than normal pace and the order book remains near the record high. **Capacity delivered during 2023 and 2024 will reach 5.0 million TEU.**

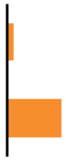
Recycling of ships remains low. It is expected to gather momentum during 2024 and **725,000 TEU is forecast to be recycled during 2023 and 2024 combined.**

Supply will grow 6 pp faster than the fleet in 2023 due to lower congestion than in 2022. Panama Canal restrictions have so far not delayed container ships much.

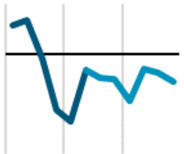
Year to date 2023, container ships have on average sailed 3.5% slower than in 2022. **Supply is expected to grow 3 and 5 pp slower than the fleet in 2023 and 2024.**

Supply/demand

The fleet is expected to grow 7.9% in 2023 and 7.8% in 2024. Due to lower congestion and slower sailing speed, **supply is forecast to grow 10.9% in 2023 and 2.8% in 2024.**



Recovery of growth in head-haul and regional trade volumes has been slow in 2023. **We expect demand growth between 0% and 1% in 2023 and between 3.5% and 4.5% in 2024.**



Despite a slight improvement in 2024, **the supply/demand balance will remain weak and freight rates, time charter rates, and second-hand ship prices will remain under pressure.**

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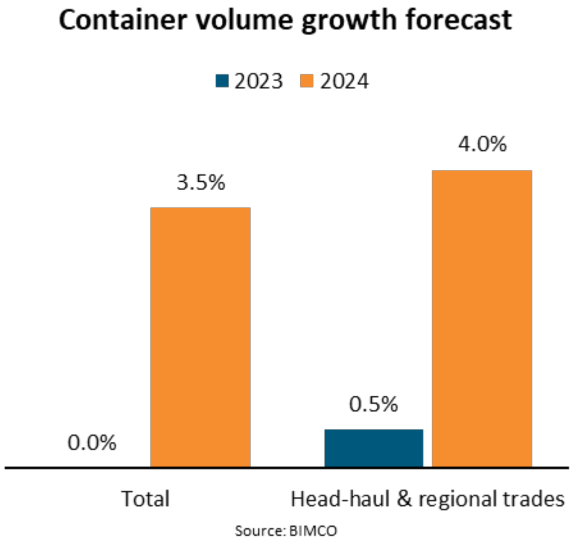
Demand

We forecast that global container volumes will grow by between -0.5% and 0.5% in 2023, and by between 3.0% and 4.0% in 2024.



Combined, head-haul and regional trade volumes are faring slightly better. We predict growth of between 0.0% and 1.0% in 2023 and between 3.5% and 4.5% in 2024.

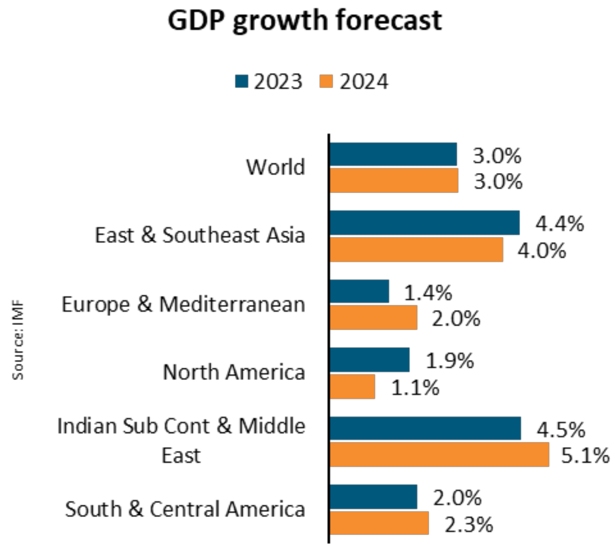
During the first half of 2023, the back-haul and regional trade lanes have performed slightly worse than we previously predicted. However, head-haul trades have performed slightly better and total volumes did in fact match our last forecast in May.

Unfortunately, we believe that the rest of the year will follow the same slightly worse pattern. Compared to our previous base case, our total volume growth forecast for 2023 has been lowered 0.5 percentage points whereas the growth forecast for combined head-haul and regional trade volumes remains unchanged.

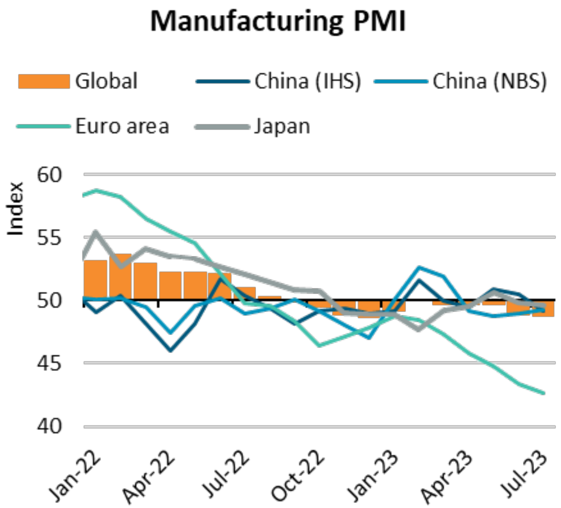
For 2024, we have lowered our growth forecast for both total volumes and combined head-haul and regional trade volumes by 2.5 percentage points compared to our previous base case scenario.

Like our low case scenario from our Q2 2023 report, we now believe that the volume recovery in many key trades will be delayed until 2024 due to tight financial conditions for businesses and consumers.

In its July 2023 report, the International Monetary Fund (IMF) slightly increased its estimate for GDP growth for 2023 to 3.0% while maintaining it at 3.0% for 2024. The increase in 2023 mostly impacts the Europe & Mediterranean, North America, and South & Central America areas.

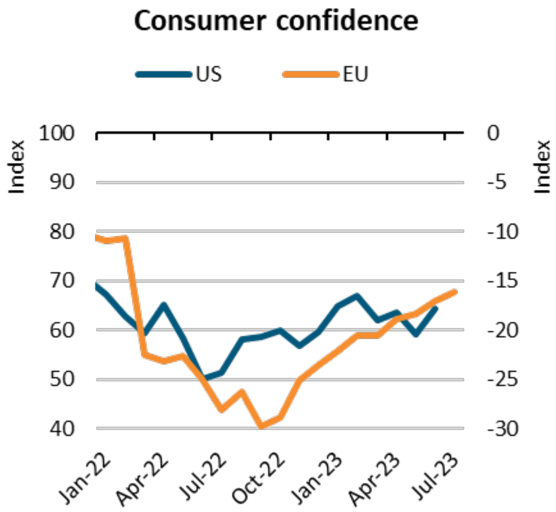


If the IMF's forecast is accurate, the global economy's average annual growth rate during the five-year period between 2020 and 2024 will end well below trend at 2.5%, significantly lower than the average annual growth rate between 2010 and 2019 which was 3.7%.



Source: S&P Global, National Buraeu of Statistics of China

The manufacturing sector is also experiencing weaker than normal conditions. The global Manufacturing Purchasing Managers Index (PMI), measuring manufacturing activity, has been in contraction territory (below 50) for ten out of the last eleven months. The manufacturing PMI reading for the Euro Area has been particularly weak whereas readings for China and Japan have been hovering around 50, sometimes slightly above but mostly slightly below. At the same time, China's New Export Orders PMI has stayed below 50 for most months.



Source: Eurostat, Federal Reserve Bank of St. Louis

Despite some improvement in consumer confidence in the EU and US and an end to COVID restrictions in China, retail sales have not fared much better. In the EU and US, retail sales have so far remained below 2022 levels. And in China, the expected recovery has been much weaker than expected.

Source: Eurostat, Federal Reserve Bank of St. Louis, National Bureau of Statistics of China

Development in personal savings in the US highlights how high interest rates and inflation still challenge consumers. During COVID, US consumers amassed USD 2.1 trillion of excess savings. However, the personal saving rate has remained lower than the pre-COVID level since early 2022 and nearly all the excess savings have now been spent.

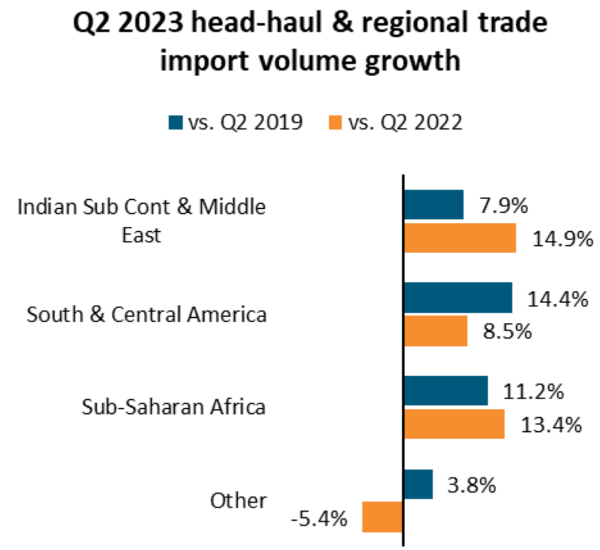
By most accounts, the excess savings is what has allowed US consumers to continue spending at a higher level than expected. The lack of excess savings may therefore also negatively impact consumer spending going forward. Continued high employment may help limit the impact though.

Developments of inventories remains a risk to future container volumes into the US. After a period of expansion, the value of business inventories appears to have plateaued. Relative to sales, the inventories appear to be back at the pre-COVID level. However, for the two sectors that carry the highest share of total business inventories (manufacturing and wholesale), the inventory to sales ratio remains above pre-COVID levels, indicating that inventory adjustments may still be needed.

On a more positive note, the Organisation for Economic Co-operation and Development's (OECD) Composite Leading Indicator (CLI) for the Group of 20 countries (G20) has been rising since January 2023, indicating a shift from slowing to increasing economic activity. However, so far, the CLI still indicates economic growth lower than trend as it remains below 100. Normally, the CLI predicts economic growth six to nine month ahead of time The G20 countries account for around 80% of global GDP and 75% of international trade.

Head-haul and regional trade volumes into East & Southeast Asia, Europe & Mediterranean, and North America regions, accounting for 75% of the total, have disappointed. During the second quarter of 2023 were 5.4% lower than a year earlier and only 4.3% higher than the pre-COVID volumes during the second quarter of 2019. Volume growth into the Oceania region is even lower.

The Indian Subcontinent & Middle East, South & Central America, and Sub-Saharan Africa regions have meantime seen solid growth numbers. Those regions' economies will be among the fastest growing in the coming years and import volumes could also continue to grow faster than average. The head-haul and regional trades into the regions are, on average, longer than into other regions and require more sailing days. Ship demand could therefore grow marginally faster than head-haul and regional trade container volumes.



On the other hand, current low water levels in the Panama Canal could encourage shippers and liner operators to shift cargo away from the US East Coast to the US West Coast, reducing the number of ships needed to carry the same number of containers.

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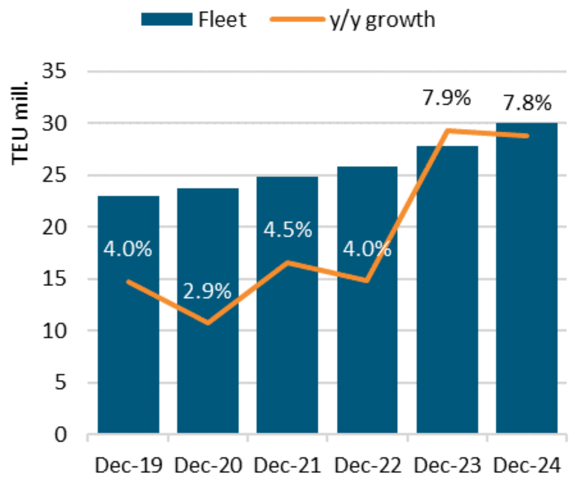
Supply

We have revised our fleet growth forecast to 7.9% in 2023 and 7.8% in 2024.

Fleet development

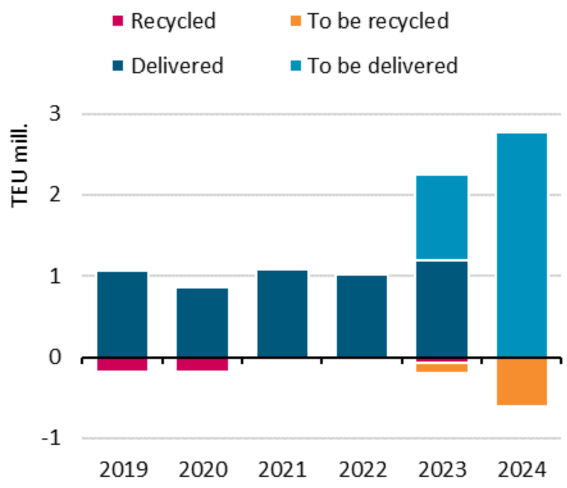


Sources: Clarksons Research, BIMCO

Year-to-date, the total TEU capacity of ships delivered from shipyards reached a record high. Shipowners have, however, continued to order new ships and the order book has remained only marginally smaller than the record 7.6 million TEU reached in March 2023.

Capacity of ship deliveries are therefore expected to reach new records in both 2023 and 2024, reaching 2.3 and 2.7 million TEU respectively.

Fleet changes

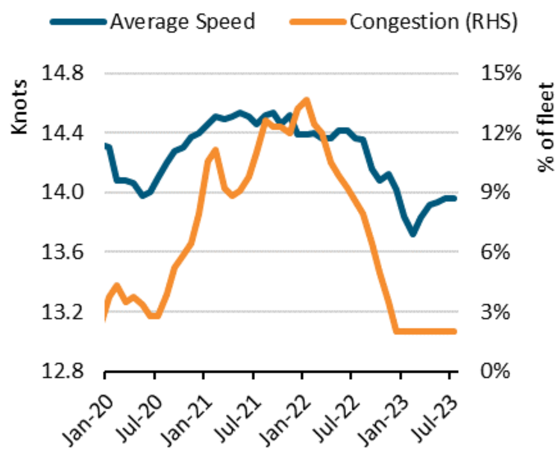


Sources: Clarksons Research, BIMCO

As recycling of ships has increased only marginally compared to last year, we have reduced our recycling estimate for 2023 to 200,000 TEU while maintaining an estimate of 600,000 TEU for 2024.

Average sailing speed has increased slightly since the first quarter but year-to-date remains 0.5 knots and 3.5% lower than during the same period in 2022. Upcoming ship deliveries may allow liner operators to reduce sailing speed more by adding ships to existing services. This should result in lower greenhouse gas emissions and better CII ratings for the ships.

Sailing speed & congestion



Source: Clarksons Research, BIMCO

As sailing speeds have so far reduced less than we expected, we have revised our estimate of the reduction's impact on supply.

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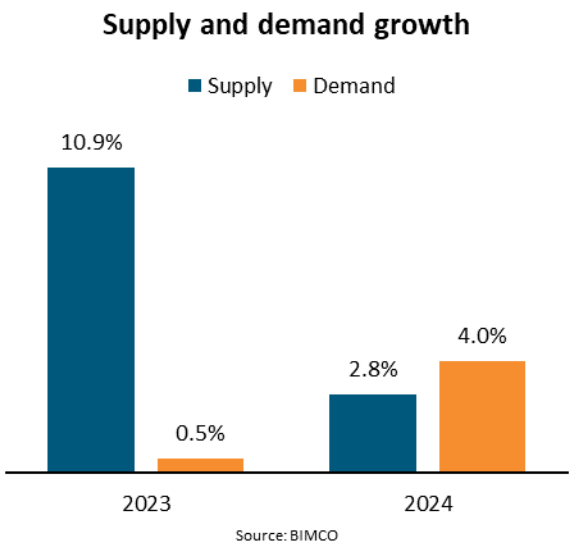
We now estimate that the reductions will lower supply growth by 3 percentage points in 2023 but we stick to our estimate of 5 percentage points for 2024.

Low water levels in the Panama Canal are reducing fleet efficiency by reducing cargo intake through the canal, particularly on the Transpacific trade to and from the US East Coast.

Container ships have meantime so far avoided any major delays when transitting the Panama Canal. There is naturally stlil a risk that delays and local congestion could build up but it is difficult to imagine that it could influence global fleet efficiency greatly.

Supply/demand balance

Head-haul and regional trade volumes fell 4.9% y/y during the first half of 2023, 8.0% in the first quarter and 2% in the second. We forecast volume growth of 6.1% y/y during the second half as we do not expect that the markets will see the same unseasonably strong decline as in 2022. Full year volumes are forecast to grow between 0.0% and 1.0% y/y.



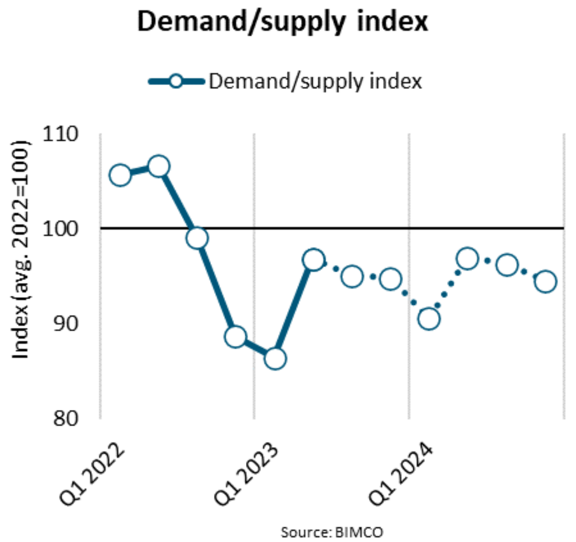
Conditions for volume growth should be more favourable in 2024 and we forecast combined growth in the head-haul and regional trades of between 3.5% and 4.5% y/y.

Supply is expected to grow by 10.9% in 2023 and 2.8% in 2024. Lower sailing speeds will lower supply growth compared to fleet growth in both years. However, lower congestion than in 2022 adds to supply growth in 2023.

The worsened supply/demand balance has already taken its toll on both freight and time charter rates as well as second-hand ship prices.

Container Trades Statistics' (CTS) global price index shows that average freight rates in June 2023 had fallen 61% y/y. Freight rates for exports from Asia have been particularly hurt but freight rates in all trade lanes have fallen.

In August 2023, average time charter rates were 75% lower than a year earlier, and the average fixture period has been cut in half. Prices for second-hand ships have followed the time charter rates downwards and are down 47% y/y.



Given our projections for supply and demand growth, we believe that the time charter and second-hand markets will remain under pressure. Seasonal demand fluctuations may temporarily support rate and price increases but not change the overall direction of the markets.

Even though we forecast demand to grow faster than supply in 2024, the markets will still be under pressure from the significant excess capacity that will continue to plague the market.

The freight rate markets could fare better if liner operators manage to better align the capacity, they offer to market demand. However, we believe that the liner operators will find this difficult given the influx of new ships and since most liner operators currently remain profitable.