Container Shipping Market Overview & Outlook

Red Sea attacks temporarily increase demand for ships

March 2024
Supply/demand

Ship supply is expected to grow on average 9.1% in 2024 and 4.1% in 2025. Sailing speeds are expected to reduce in 2025 whereas congestion is assumed to remain stable.

Rerouting via Cape of Good Hope is assumed to impact the first half of 2024. Ship demand increases an estimated 9.5% in 2024 and falls 0.5% in 2025.

The supply/demand balance is expected to tighten in the first half of 2024 but then weaken when ships can return to the Suez Canal routing.

Demand

According to the IMF, the world economy will grow slightly faster in 2024 and 2025 than in 2023 even though economies in the US, China, Japan and India will grow slower.

Global manufacturing PMI continues to indicate stability as it hovers around 50. In the eurozone, the PMI has remained below 50 for 1.5 years pointing to continued contraction.

Retail sales in the US and EU remains stable. US consumers continue to spend more and save less than before the pandemic. That could eventually change and hurt retail sales.

Attacks on ships in the Red Sea have forced nearly all 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 14.9% between end 2023 and end 2025.

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

Despite some local strikes, global congestion is not elevated. Failure to renew longshoremen contract for US east and gulf coast could cause disruptions.

The long sailing distances around the Cape of Good Hope has led to a slight increase in sailing speeds. We expect average sailing speed to remain stable in 2024 but fall in 2025.
Supply/demand balance

Cargo volumes are expected to grow more slowly than the fleet, at 3-4% in both 2024 and 2025 vs. fleet growth of 9.5% in 2024 and 4.9% in 2025. However, the ship supply/demand balance is still expected to strengthen in 2024 as Houthi attacks on ships in the Red Sea drive ships to take longer routes via the Cape of Good Hope. We have assumed that this will impact the market during the first half of 2024, with routings returning to normal via the Suez Canal after that.

The tightening of the supply/demand balance has immediately led to an increase in freight rates, time charter rates and time charter fixture periods.

As this temporary increase in demand for ships is not related to cargo volume growth, it follows that ship demand will fall in 2025.

Despite a slight fall after the Chinese New Year, average freight rates for containers loading in China are currently 52% higher than they were in December 2023. We doubt whether freight rates will increase in line with cargo volumes.
Container Shipping Market Overview & Outlook

Red Sea attacks temporarily increase demand for ships

strengthening in the second quarter, as the fleet is growing faster. Once the Red Sea crisis has been resolved, freight rates should begin to fall in line with the weakening of the supply/demand balance.

**Time charter rates** have increased 41% since December 2023 and average fixture periods have increased by 3 months. The rates could stay high for a while as liner operators look to secure sufficient tonnage to maintain services despite the longer sailing distances.

So far, **second-hand prices** have only increased marginally despite an increase in time charter rates normally being reflected in those prices. We believe that this will continue to be the case, as liner operators can look forward to significant excess capacity once the crisis in the Red Sea has been resolved. That is because they prefer to cover increased demand by taking on time charter tonnage rather than buying second-hand tonnage.

**Macro environment**

According to the International Monetary Fund’s (IMF) estimates, the global economy should grow 3.1% in 2024 and 3.2% in 2025, slightly higher than the 3.0% estimated for 2023.

<table>
<thead>
<tr>
<th>Region</th>
<th>2024</th>
<th>2025</th>
</tr>
</thead>
<tbody>
<tr>
<td>World</td>
<td>3.1%</td>
<td>3.2%</td>
</tr>
<tr>
<td>East &amp; Southeast Asia</td>
<td>4.0%</td>
<td>3.8%</td>
</tr>
<tr>
<td>Europe &amp; Mediterranean</td>
<td>1.9%</td>
<td>2.2%</td>
</tr>
<tr>
<td>North America</td>
<td>2.1%</td>
<td>1.7%</td>
</tr>
<tr>
<td>Indian Subcontinent &amp; Middle East</td>
<td>5.2%</td>
<td>5.6%</td>
</tr>
<tr>
<td>South &amp; Central America</td>
<td>2.4%</td>
<td>2.7%</td>
</tr>
</tbody>
</table>

*Source: IMF*

**China** is forecast to continue to suffer from its ongoing real estate sector crisis, seeing growth slow from 5.2% in 2023 to 4.6% in 2024 and to 4.1% in 2025. This will also drag growth in the entire East & Southeast Asia region below the 2023 level in both 2024 and 2025.

A recovery in growth in the **eurozone** from 0.5% in 2023 to 0.9% in 2024 and 1.7% in 2025 is forecast to help lift growth in the Europe & Mediterranean region higher than 2023 in both 2024 and 2025.

Growth in the **US** is predicted to fall from 2.5% in 2023 to 2.1% in 2024 and 1.7% in 2025. Mexico is also forecast to see weaker growth, and faster growth in Canada will not be sufficient to avoid growth in North America coming in lower than it did in 2023 in both 2024 and 2025.

Although **India** is still expected to be the fastest growing major economy, growth is still expected to fall from 6.7% in 2023 to 6.5% in both 2024 and 2025. Still, the Indian Subcontinent & Middle East region will see faster growth in 2024 and 2025 than in 2023, as Saudi Arabia is expected to rebound from its 2023 recession caused by lower oil production.
Container Shipping Market Overview & Outlook
Red Sea attacks temporarily increase demand for ships

Despite growth in Brazil being expected to weaken compared to 2023, the South & Central American region is still forecast to grow faster in 2024 and 2025 as Argentina emerges from recession.

Elsewhere, faster growth is expected in Sub-Saharan Africa, whereas growth is forecast to slow in Oceania in 2024 but rebound in 2025.

The OECD’s Composite Leading Indicator (CLI) meanwhile points to future growth higher than the long-term trend for both China and for G20 countries. Though growth conditions appear to have been improving for the major four European economies as well as the North American economies, the CLI indicator remains below 100 and indicates growth slower than the long-term trend – also in the near-term.

Consumer confidence in the EU and US has meanwhile continued to improve and support retail sales, although it remains below pre-pandemic 2019 levels.

The Purchasing Managers’ Index (PMI) for manufacturing meanwhile remains stable at around 50 for the world and for China, indicating neither positive nor negative growth. In addition, the PMI for new export orders in
China hovers around the 50 mark. However, the PMI in the eurozone has remained below 50 since September 2022, which points to continuing contraction of the sector.

Currently, the attacks on merchant ships in the Red Sea resulting in ships choosing routes via the Cape of Good Hope instead of the Suez Canal, are much more significant than trade and economic developments.

Because almost all container ships have stopped using the Suez Canal, demand for ships has increased by about 10%. As we cannot predict how long this situation will last, we have decided to work on an assumption that this impact will be limited to the first half of 2024.

We forecast that container volumes will grow 3-4% in both 2024 and 2025 and thus slightly faster than the global economy. We expect head-haul and regional trades to grow marginally faster than the total. As volumes during the first half of 2023 were relatively weaker than normal, we expect the 2024
Container Shipping Market Overview & Outlook
Red Sea attacks temporarily increase demand for ships

market to grow faster in the first half of the year.

We forecast that import volumes in East & Southeast Asia, Europe & Mediterranean and North America will see average annual growth during 2024 and 2025 of 2.6%, 2.8%, and 3.5% respectively. Import volumes in the Indian Subcontinent & Middle East, Sub-Saharan Africa and Central & South America are meanwhile expected to grow faster than average.

As head-haul and regional trade lanes into the Indian Subcontinent & Middle East, Sub-Saharan Africa and Central & South America are longer than the average, ship demand will grow 0.5 percentage points faster than volumes in 2024.

As already mentioned, we are further estimating that ship demand during the first half of 2024 will grow by an additional 10% due to the Houthi attacks on ships in the Red Sea. Should the situation not be resolved by the end of the first half of 2024, ship demand will remain higher than our forecast for as long as the situation persists.

Risks to economic growth have subsided both because inflation is falling faster than previously expected and because growth remains steady. However, container volume demand risks remain.

US consumers continue to spend more and save less than they did before the pandemic. It must be expected that personal savings rates will eventually return to pre-pandemic levels, which could hurt spending on goods. It is, however, possible that consumers could maintain spending and still increase savings if interest rates begin to fall.

US elections could also have a negative impact on trade. If re-elected, Trump has vowed to increase tariffs on Chinese imports, which will impact trade between China and the US. Unless replaced by trade from other Asian countries, this would hurt overall demand in Transpacific trade.

The contract for longshoremen in US east and Gulf coast ports expires in late September 2024. To protect against the risk of strikes there, some shippers could decide to send more containers via west coast ports. As the average sailing distance to the US west coast is shorter, this would result in lower demand for ships. A complete breakdown in negotiations seems unlikely, but should it happen, it could wreak havoc on supply chains.
Container Shipping Market Overview & Outlook

Red Sea attacks temporarily increase demand for ships

The water level in the Gatun Lake that supplies the Panama Canal locks is still projected to fall further. However, the Panama Canal Authority has just increased the number of daily transits as both current and projected water level is higher than previously expected. Container ships continue to use the canal without significant challenges other than the draught restrictions which reduce the cargo intake on ships. Nevertheless, a worsening of conditions could still force rerouting of ships and cargo.

Supply

The container ship fleet is forecast to grow 9.5% during 2024 and 4.9% during 2025, equal to 14.9% growth over the two years combined.

The largest ships with capacities of 12,000 TEU or more, of which there are around 800, will contribute 75% of the total capacity growth as the order book remains large and no recycling is forecast for the segments. At the end of 2025, these ships will contribute more than 40% of total capacity.

Recycling is still estimated at 720,000 TEU for the two years. However, we have reduced the forecast for recycling in 2024 while increasing it for 2025. Due to the attacks in the Red Sea, demand for ships will be higher in 2024 than previously expected and is likely to delay some recycling of ships to 2025.
Deliveries are estimated to hit a new record in 2024, exceeding the one just set in 2023, but slow down slightly in 2025 as the order book is depleted.

We assume that the situation will be resolved and that ships will slow down in the second half of the year to end with similar average sailing speed as in 2023. We therefore also estimate that average sailing speed will be lower in 2025, however, should the resolution of the Red Sea crisis be delayed the slowing down of ships will also be delayed. We therefore forecast that supply will grow on average 9.1% in 2024 but only 4.1% in 2025.

The Red Sea situation is also impacting average sailing speeds. It mainly impacts main liner ships and the capacity weighted average speed has so far increased 4% compared to last year at the same time.
Container Shipping Market Overview & Outlook
Red Sea attacks temporarily increase demand for ships

About BIMCO

BIMCO is the world's largest international shipping association, with over 2,000 members in more than 130 countries, representing 62% of the world's tonnage. Our global membership includes shipowners, operators, managers, brokers, and agents. BIMCO is a non-profit organisation.

About Shipping Market Overview & Outlook

BIMCO publishes Shipping Market Overview & Outlook reports towards the end of each month as follows:

Dry bulk: January, April, July, and October
Tanker: February, May, August, and November
Container: March, June, September, and December

The information contained in this report is for general information purposes only. The information is provided by BIMCO as guidance only and whilst we endeavour to keep the information up-to-date and correct, we make no representations or warranties of any kind, express or implied, about the completeness, accuracy, reliability, suitability or availability with respect to the report or the information contained therein. Any reliance you place on such information is therefore strictly at your own risk.

In no event will we be liable for any loss or damage including without limitation, indirect or consequential loss or damage, or any loss or damage whatsoever arising from loss of profits arising out of or in connection with the use of this report. © BIMCO 2024.