

# Container Shipping Market Overview & Outlook

Supply to outpace demand in both 2024 and 2025

Q4 2023

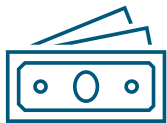
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## Highlights



### Demand



The IMF forecasts that the **global economy will grow by 2.9% in 2024 and 3.2% in 2025** both 2023 and 2024. The US and China are expected to slow down significantly vs. 2023.



Global conditions for manufacturing remain weak. The **global manufacturing PMI has been below 50.0 for past eight months**, indicating slowing activity.



Retail sales in the EU and US have remained stable. In the US, **excess savings amassed during COVID are almost spent**, potentially hurting retail sales in 2024.

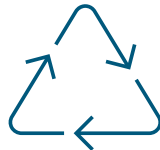


In the US, the inventory to sales ratio for most sectors are back to 2019 levels, **indicating that inventory adjustments may have come to an end**.

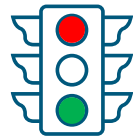
### Supply



Contracting of new ships continues at a faster than normal pace and the order book remains near the record high. **Capacity delivered during 2024 and 2025 will reach 5.0 million TEU.**



Recycling of ships remains low. It is expected to gather momentum during 2024 and **720,000 TEU is forecast to be recycled during 2024 and 2025 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, container ships have on average sailed 3.8% slower than in 2022. **In 2024, supply is forecast to grow 2 pp slower than fleet due to further speed reductions.**

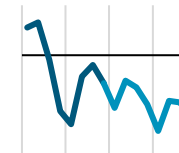
### Supply/demand



The fleet is expected to grow 8.8% in 2024 and 6.4% in 2025. Due to lower congestion and slower sailing speed, **supply is forecast to grow 6.8% in 2024 and 6.4% in 2025.**



Growth in head-haul and regional trade volumes will recover. **We expect demand growth between 3% and 4% in 2024 and between 3.5% and 4.5% in 2025.**



**The supply/demand balance will continue to weaken and freight rates, time charter rates, and second-hand prices will come under further pressure.**

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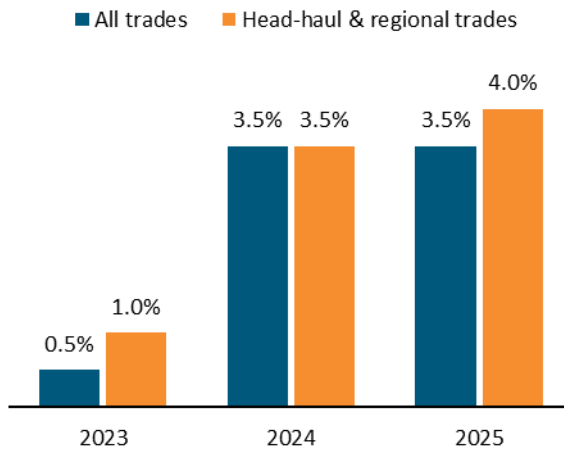
## Supply to outpace demand in both 2024 and 2025



### Demand

We forecast that global container volumes will grow between 0% and 1% in 2023, and between 3% and 4% in both 2024 and 2025.

**Container volume growth forecast**



Source: BIMCO

Combined head-haul and regional trade volumes are expected to grow 0.5 percentage points faster than the total volumes in both 2023 and 2025 but in line with total volumes in 2024.

In 2023, third quarter volumes performed better than we previously predicted. In particular, back-haul and regional trades performed better, so we have lifted our expectations for the fourth quarter as a consequence of this. Our forecast for total full year volumes has therefore risen by 0.5 percentage points.

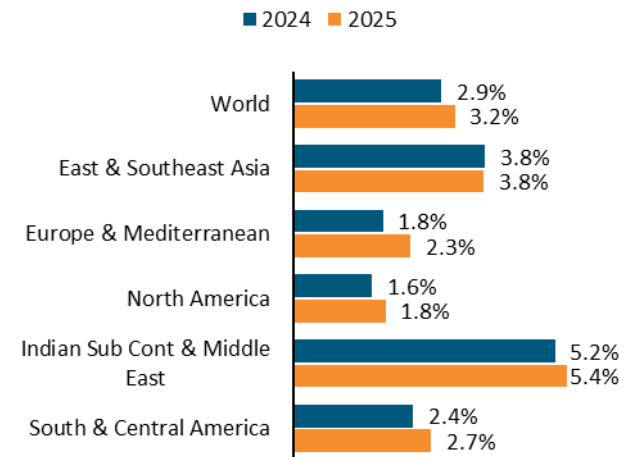
While our growth forecast for all trades in 2024 remains unchanged at between 3% and 4%, we have lowered our forecast for head-haul and regional trades by 0.5 percentage points to between 3% and 4%.

For 2025, we predict overall volume growth of between 3% and 4% while we expect growth of between 3.5% and 4.5% for head-haul and regional trades.

According to the International Monetary Fund (IMF), growth in the global economy is expected to slow to 3.0% in 2023 from 3.5% in 2022. The growth forecasts for 2024 and 2025 are 2.9% and 3.2% respectively.

A reduction in growth from 2.9% in 2022 to an estimated 1.6% in 2023 in the Europe & Mediterranean region is the key driver of the lower global growth in 2023. The German economy in particular has struggled and is expected to end the year with negative growth of 0.5%.

**GDP growth forecast**



Source: IMF

The main reason for growth in 2024 and 2025 being forecast lower than in 2023 is that weaker growth than in 2023 is forecast for both China and the US. On the other hand, the

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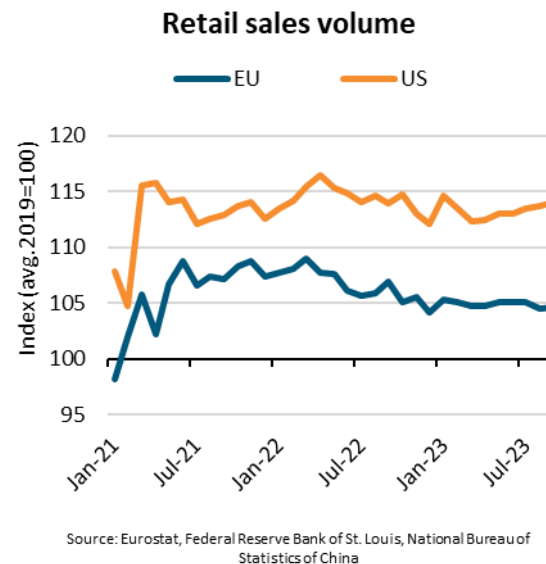
Europe & Mediterranean region is expected to recover and return to growth above 2% in 2025.

Import volumes to North America are expected to fall by between 5% and 6% in 2023 as head-haul volumes during the first half continued the low levels seen in the second half of 2022. The fact that imports are returning to growth in the second half of 2023 is only because of the very low 2022 volumes.

It is mainly due to the low first half volumes in 2023 that we forecast between 2.5% and 3.5% growth in North American import volumes during 2024. However, there is a risk that growth will be lower, as consumer spending may not be sustainable at current levels.

The latest data from the US Bureau of Economic Analysis reveal that, adjusted for inflation, US consumers are spending 11% more on goods and services than in 2019. However, disposable income has increased only 1% and it is the excess savings amassed during COVID that allow consumers to continue to spend at

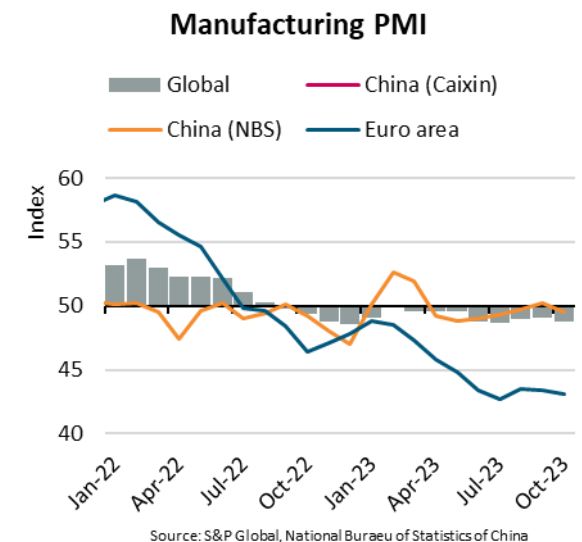
their current levels. According to the latest estimates, these excess savings may run out during the first half of 2024, which could in turn result in a drop in consumer spending.



For the Europe & Mediterranean region, we forecast that import volumes will grow between 2% and 3% in 2023 after falling 8.0% in 2022. Growth in 2024 is expected to end at between 2% and 3%, and between 2.5% and 3.5% in 2025. Despite forecasting growth for three years in a row, our forecast for 2025 is

nevertheless lower than the actual volumes were in 2019.

As in the US, consumer confidence in the EU has improved but remains low. However, retail sales have remained stable. Relative to 2019, retail sales in 2023 are up 5% in the EU compared to nearly 15% in the US.



In the meantime, the manufacturing sector in the EU suffered and the manufacturing PMI for

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the euro area has remained below 50 since July 2022.

For both the North America and Europe & Mediterranean regions, our volume forecasts are lower than would normally be expected given the forecasts for their economies. Both areas have struggled with high inflation and high interest rates. Should inflation come under control and interest rates begin to fall as a result, the growth potential in 2025 could end higher than in our forecast.

Following a fall of 2.6% in 2022, we predict that volumes into East and Southeast Asia will show moderate negative growth of between -0.5% and -1.5% in 2023. Our forecast predicts positive growth of between 2% and 3% in both 2024 and 2025.

Despite an uneven recovery, the IMF still forecasts that GDP growth in China will hit the official Chinese target of 5.0% in 2023 but slow to 4.2% and 4.1% in 2024 and 2025 respectively. The property sector crisis remains a key challenge but recent measures and a

stronger than expected Q3 2023 could lift growth to 5.4% in 2023 and to 4.6% in 2024.

So far, the manufacturing PMIs measured by both Caixin and the National Bureau of Statistics of China have hovered around 50 throughout 2023; sometimes above but frequently below. The most recent reading saw both PMIs slip to 49.5, indicating contraction.

It is, however, worthwhile mentioning that the OECD's Composite Leading Indicator for China breached the 100 mark in April 2023 and has shown consistent improvement. This points to future improvements in Chinese industrial output which could drive further improvements in imports as well as exports.

Despite only contributing about 23% of global import volumes, the current growth drivers in the container market are the Indian Subcontinent & Middle East, South & Central America and Sub-Saharan Africa regions. In 2023, growth to the three regions was nearly double the total volume growth and the

regions are forecasted to contribute 40% of growth in 2024 and 2025.

All three regions are expected to see more than 20% growth in import volumes from 2022 to 2025; a strong recovery after not showing any growth between 2019 and 2022. With growth of between 8% and 9% in 2024 and between 9% and 10% in 2025, we forecast that the South & Central America region will see the fastest growth in the coming years.

As the head-haul and regional trades into these regions are longer than the average, we estimate that ship demand has grown faster than volumes in the head-haul and regional trades. We estimate growth in ship demand of between 2.5% and 3.5% in 2023 vs. the estimated growth in volume of between 0.5% and 1.5%. Ship demand will also grow marginally faster than head-haul and regional trade volumes in the coming years.

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## Supply to outpace demand in both 2024 and 2025



### Supply

Our forecast for fleet growth in 2023 has been adjusted downwards as it appears that more ships planned for delivery in 2023 than expected have been delayed until 2024. In addition, recycling has progressed more slowly than we expected.

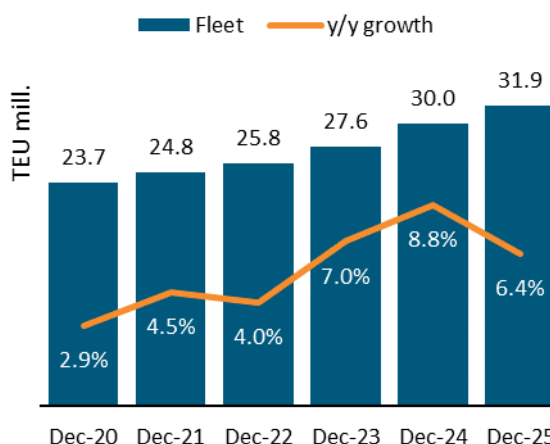
We now forecast fleet growth of 7.0% in 2023. On the other hand, we have raised our fleet growth forecast for 2024 to 8.8% and estimate 6.4% in 2025.

Should slippage of deliveries from one year to the next develop differently to what we anticipate, then fleet growth in a specific year may naturally be impacted, however, it should not materially impact overall fleet growth across the whole forecasting period.

Recycling is therefore likely to have a greater impact on fleet growth. We now estimate that recycling will reach 180,000 TEU in 2023 and double that, 360,000 TEU, in 2024 and 2025.

The total fleet is expected to hit the 30 million TEU mark in late 2024 and be 31.9 million TEU at the end of 2025.

### Fleet development

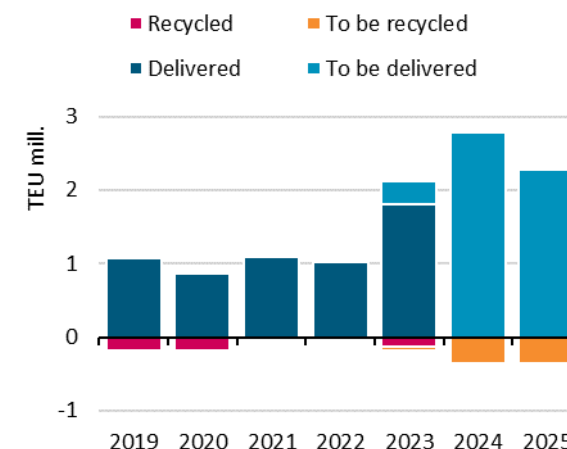


Source: Clarksons Research, BIMCO

Despite the significantly worsened market conditions, shipowners have already contracted another 1.5 million TEU so far in 2023. The order book has therefore reduced only marginally, with the order book to fleet ratio remaining high at 27% and already now including ships for delivery in 2028.

Beyond changes to the fleet, supply has also been impacted by changes in sailing speeds and congestion.

### Fleet changes



Sources: Clarksons Research, BIMCO

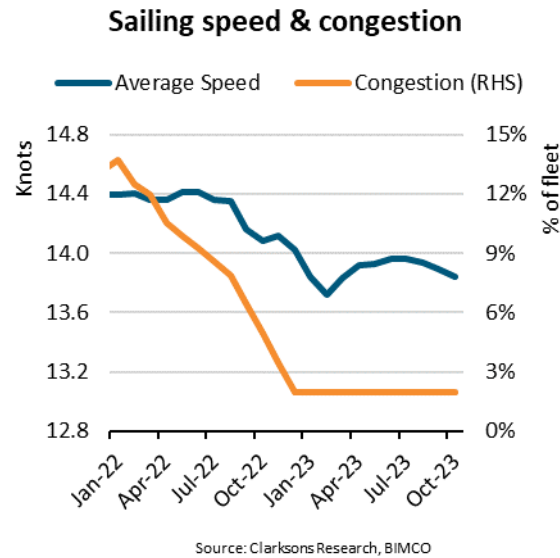
Depending on ship size, sailing speeds have reduced by between 2% and 6% so far in 2023 compared to the same period in 2022. The smallest and largest ships have reduced their speed the least whereas ships between 3,000 TEU and 12,000 TEU have slowed by 5% on average. Overall, we estimate that lower sailing speeds have reduced supply by 3% in 2023. We

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estimate that sailing speed will slow further in 2024 and reduce supply by an extra 2%.



We have previously estimated that lower sailing speed could reduce supply by 5% in both 2023 and 2024. Despite the weak market conditions, liner operators have not taken steps to reduce sailing speeds by that much and we have therefore also lowered our speed reduction estimate for 2024. However, it is still an option for liner operators to further reduce sailing speeds to take supply out of the market.

If they do, supply growth would obviously end lower.

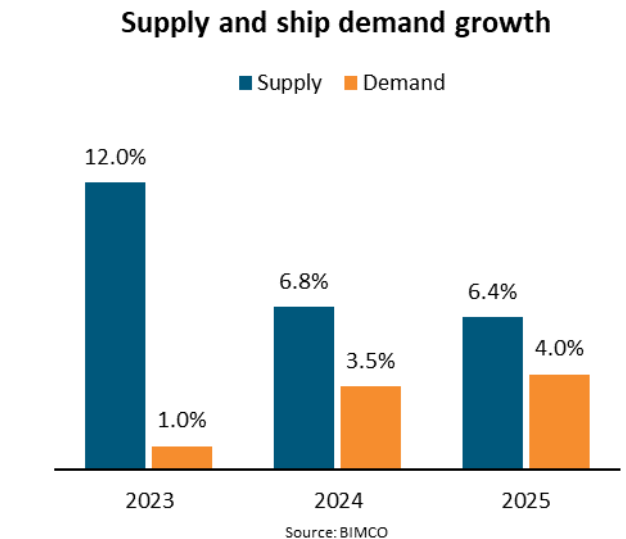
Congestion has remained in check throughout 2023, and even draft restrictions due to low water levels in the Panama Canal and the reduction in the number of transits through it have not caused congestion to increase significantly. We estimate that lower congestion has added 8% to supply compared to 2022.

In total, we therefore forecast that supply in 2023 will grow 5% faster than the fleet, 2% slower than the fleet in 2024, and at the same speed as the fleet in 2025.

Our supply growth forecast is therefore 12.0%, 6.8%, and 6.4% for 2023, 2024, and 2025 respectively.

### Supply/demand

Though container volume growth has obviously been lower than many had hoped, it is the supply side developments that are the market's main challenges.



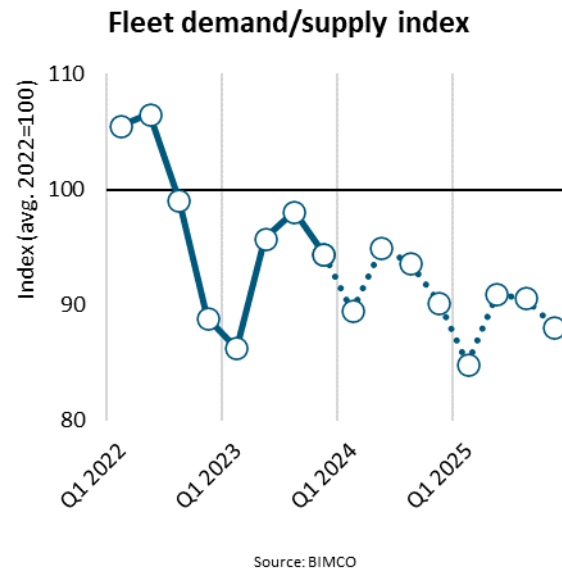
Supply is forecasted to grow at an average annual rate of 8.4% between 2023 and 2025. Even at the best of times, ship demand would not see similar growth.

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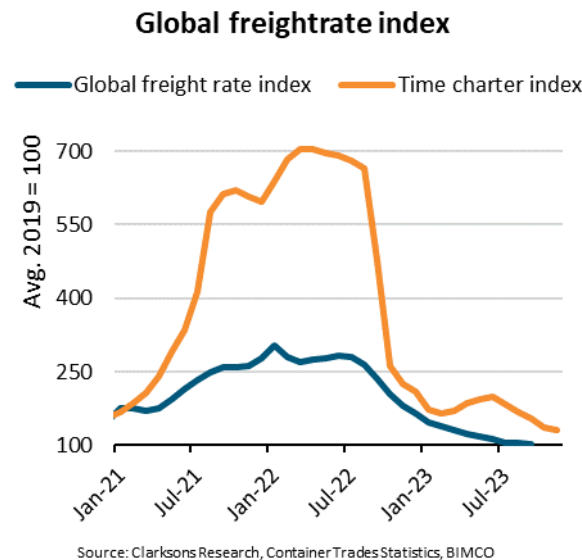


Our forecast therefore predicts that the weakening that began in 2022 and took hold in 2023 will continue also in 2024 and 2025.



During the first half of 2023, liner operators seemed mostly content to maintain their operating fleet, and freight rates tumbled whereas time charter rates have been mostly stable. However, there have recently been signs that freight rates have gone so low that liner operators are prepared to act.

Though we do not believe that liner operators will be able to significantly increase freight rates, we do believe that they will be significantly more focused on adjusting their operated fleet to actual demand.



That in turn could mean that the time charter market may bear more of the burden of the weakening market fundamentals in 2024 and 2025 than it did during 2023.

Many uncertainties remain on both the demand and supply side. Slower demand

growth could be seen in 2024 if central banks need to take interest rates even higher to control inflation. On the other hand, a lowering of interest rates starting in 2024 could result in an upside for 2025.

On the supply side, uncertainties relate mainly to recycling and sailing speed. Both variables offer opportunities for owners to improve the supply/demand balance. If recycling goes higher and sailing speed goes lower the weakening of the market conditions will be less severe, however, it appears unlikely that supply could grow less than demand.



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