Container Shipping Market Overview & Outlook

Market strength remains predicated on Red Sea reroutings

June 2024
Supply/demand

**Supply**

Ship supply is expected to grow on average 10.3% in 2024 and 5.3% in 2025. After increasing in 2024, sailing speeds are expected to reduce in 2025.

Rerouting via Cape of Good Hope could impact all of 2024. **Ship demand increases an estimated 15.0% in 2024 and falls 5.0% in 2025** if ships return to the Suez Canal.

The supply/demand balance is expected to remain tight throughout 2024. Weakening could begin during 2nd half of 2024 and will gather speed if ships return to the Suez Canal.

**Demand**

According to the IMF, **the world economy will grow 3.2% in 2024 and 2025**. 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 have only broken 50 twice in the last 14 months.

Retail sales in the US and EU remains stable. US consumers continue to spend more and save less than before the pandemic. Expected lowering of interest rates could help consumers.

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 15.6% 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.

During past months, congestion has increased in some transhipment hubs. 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 elevated during 2024 but fall in 2025.**
Supply/demand balance

We have revised our assumption regarding when ships might return to normal Red Sea and Suez Canal routings. In our previous report, we assumed that reroutings will only impact the first half of 2024. Since there are no signs of a resolution, we now work with a scenario assuming that all of 2024 will be impacted and normal routings will resume starting in 2025.

Combined with estimated global volume growth of 5.0-6.0% and growth in head-haul and regional trades of 5.5-6.5%, demand for ships is growing very fast in 2024, whereas volume growth in 2025 will not be enough to counter the drop in ship demand caused by the assumed return to normal routings.

Though growing slower than demand, supply will also grow fast in 2024 as deliveries of new ships are expected to hit a new record high of 2.8m TEU. Faster sailing speed due to the reroutings via the Cape of Good Hope also adds to supply growth while increasing congestion in several transshipment hubs tempers growth slightly.

Overall, 2024 will therefore see a much stronger supply/demand balance than in 2023. However, due to the relatively weaker 1st half of 2023, demand growth is estimated to be higher during the first half of 2024 and lower in the second half. At the same time, we estimate that some volumes from the normal peak this year will move in the 2nd rather than the 3rd quarter. As a result, we expect the supply/demand balance to begin to weaken during the 2nd half of the year but remain stronger than during 2023 throughout the year.

If ships can sail normally via the Red Sea and Suez Canal throughout 2025, we forecast that the supply/demand balance will weaken significantly compared to 2024 and could potentially be even weaker than during 2023.

Market indicators confirm the strength of the market during the 1st half of 2024. Time charter rates in June are up 113% compared to the end of 2023 as liner operators have attempted to find the ships needed to accommodate the longer distances via the Cape of Good Hope. The Chinese Containerized Freight Index (CCFI) that measures average freight rates for Chinese exports is 90% higher in June than at the end of 2023.

Asset prices have also climbed upwards but not to the same degree. In May, second-hand prices were 10% higher than at the end of
2023. Considering the strong market, sales and purchase activity has remained relatively low as it has increased only marginally compared to the first half of 2023. It likely reflects that liner operators are fully aware of the looming excess capacity once routings can return to normal and therefore focus on time charters to increase capacity rather than buying tonnage.

Newbuilding prices have still continued to increase and year-to-date have increased 12%.

Looking ahead, we expect freight rates and time charter rates to follow the predicted supply/balance development, ie begin to weaken during the 2nd half of 2024 and weaken further during 2025. Secondhand prices should follow a similar pattern whereas newbuilding prices will largely be depending on contracting activity in other sectors.

Risks to our demand forecast remain. Escalation of trade disputes between the EU, US and China are a potential cause for concern. If inflation and interest rates in US and EU do not come down as expected, it is likely that consumers and businesses will suffer, resulting in lower volumes. On the other hand, 2024 could end stronger than we forecast if the 3rd quarter peak remains as strong as normal.
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Macro environment

Houthis have continued to attack ships in the Red Sea and the Gulf of Aden. At the time of writing, 62 ships have been attacked and the ship capacity transiting the Suez Canal is 90% lower than last year. The combined volume via the Suez Canal and the Cape of Good Hope is, however, on par with last year.

As it is uncertain when the situation will normalise and we cannot predict it, we have decided to assume that ships will continue to be rerouted throughout 2024 but return to normal routings in 2025.

The labour agreement for US East and Gulf Coast ports expires on 30 September 2024. Negotiations for a new agreement have come to a halt as the International Longshoremen’s Association (ILA) has withdrawn from talks with the employers represented by the United States Maritime Alliance (USMX).

US East and Gulf Coast ports handle more than 50% of US container imports and exports. Should negotiations be unsuccessful and end in conflict, it could lead to significantly increased port congestion.

For now, we assume that negotiations will be completed and no major disruption to ship operations will be seen. However, a widespread conflict does have the potential to increase the strain on already strained service networks and further tighten the supply/demand balance.

Increasing water levels in the Gatun Lake and the Panama Canal’s increase of daily transits and the gradual return to normal draught restrictions could in the meantime offer some relief.

As draught restrictions are relaxed, ships transitting the canal can carry more cargo and supply thus increases. Eventually it could allow liner operators to withdraw some capacity from those trade lanes and deploy it elsewhere.
According to the International Monetary Fund (IMF), the global economy grew 3.2% in 2023 and is forecast to grow at the same pace during both 2024 and 2025.

However, key economies such as the US, China, Japan and India are all forecast to grow slower on average during 2024-2025 than they did in 2023. Of the world’s five largest economies, it is only the European Union that is expected to grow faster than in 2023.

On a regional basis, the Europe & Mediterranean, South & West Asia, Sub-Saharan Africa, and South & Central America regions are forecast to grow faster during 2024-2025 than they did in 2023.

The OECD’s Composite Leading Indicator points to accelerating growth in many areas 6-9 months from now.

Since bottoming out during 2022, the index has improved and is once again above 100 for the G20 countries, North America, five major Asian economies, four major European economies and Brazil (indicating GDP growth faster than the long-term trend).

On the other hand, retail sales in both the EU and US have remained mostly static despite improving consumer confidence readings.
the US and 2.6% in the EU, which has already prompted the European Central Bank to lower interest rates, with further reductions expected later in the year. In the US, the Federal Reserve Board is widely expected to begin easing interest rates later in the year.

**China’s Purchasing Managers’ Index**

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**Key indicators for the manufacturing sector have not developed very favourably** either. The global manufacturing PMI has managed to break into expansion territory for five months straight, but the last reading of 50.9 does not point to significant expansion.

In China, the Caixin manufacturing PMI that measures small to medium-sized private companies has been stable above 50 since November 2023. However, the manufacturing PMI that measures state-owned companies has only managed to break the 50-mark twice in the past 14 months. Perhaps more worryingly, the PMI measuring new export orders in China has similarly only been above 50 twice in the last 14 months.

The **developing trade disputes** between the EU and US on one side and China on the other could impact the future development of the container market.

The increased import tariffs that the EU and US have decided to apply to specific Chinese products are not immediately a major concern but a further escalation of the disputes could be. So far, China has not reacted by increasing its import tariffs but is studying possible increased tariffs on pork imports from the EU which could hurt reefer volumes.

In addition, if Donald Trump wins the US Presidential Election in November, he has announced plans to impose 10% tariffs on all US imports and specifically apply a 60% tariff on imports from China. This could hurt US import volumes by both increasing costs for the average consumer as well as shifting production from China to the US and Mexico. On the other hand, some volumes could also shift towards Southeast and South Asia increasing sailing distances and increasing demand for ships.
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Demand
So far this year, container volume growth has developed more favourably than we predicted in our last report and we have also upped our growth forecast for the full year. We now forecast that container volumes will grow 5.0-6.0% in 2024 and 3.0-4.0% in 2025. Head-haul and regional trades are expected to grow faster than back-haul trades and we estimate that they combined will grow 5.5-6.5% in 2024 and 3.5-4.5% in 2025.

Compared to historical seasonality patterns, European imports in particular appear very strong and we believe that a portion of the normal third quarter peak season volumes have been shipped earlier than normal due to the supply chain disruptions caused by the reroutings via the Cape of Good Hope. Consequently, we forecast a weaker than normal peak in head-haul trades which, combined with a relatively stronger second half of the year in 2023, will result in a lower growth rate in the second half of 2024 than in the first half.

North American imports are estimated to return to growth in 2024 after falling 5.3% YoY in 2023. During the first four months of the year, import volume growth hit 14.5% YoY and we are forecasting full year growth of 8.5-9.5%. 2024 volumes should thus end 2.5-3.5% higher than in 2022 despite the negative growth in 2023.

Combined with faster than average growth into the Indian Subcontinent & Middle East and Oceania regions, total volumes grew 8.2% YoY during the first four months of the year. Despite the high growth rate, volumes were only 6.6% ahead of the same period in 2019, equal to an average annual growth rate of 1.3% from 2019 to 2024.

Our full year forecast for 2024 is similarly 6.6% ahead of 2019 and despite estimating that volumes will grow twice as fast as global GDP growth in 2024, the average GDP multiplier for the 2019-2024 period will remain low.

The IMF estimates that the global economy will grow at an average annual rate of 2.7% between 2019 and 2024. This will place the GDP multiplier for the period at only 0.49 as we estimate that container volumes grow at an average annual rate of 1.3%.

During the preceding five-year period, 2014-2019, container volumes grew on average 3.1% per year whereas the economy grew on average 3.4% per year. The GDP multiplier was consequently 0.91 and the drop to 0.49
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 highlights the growth potential lost during the COVID pandemic years.

Due to rerouting of ships via the Cape of Good Hope, our estimate for ship demand is however significantly higher due to the additional ships required.

On the other hand, ship demand growth in 2025 will be negatively impacted by our assumption that ships can return to normal Red Sea and Suez Canal routings.

In total, we forecast that ship demand will grow 14.5-15.5% in 2024 but fall 4.5-5.5% in 2025.

Due to the very weak first half of 2023 and an assumed earlier peak in 2024, the ship demand growth will vary quite significantly between quarters.

Supply

We forecast that the fleet will have grown 9.6% YoY by the end of 2024 and another 5.5% YoY by the end of 2025.

During the three year period from 2023 to 2025, the fleet will therefore expand by 25%, the fastest rate of growth since the three years from 2011 to 2013.
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The continuing diversion away from the Red Sea is increasing demand for ships and as a result we have nearly halved estimated ship recycling volumes during both 2024 and 2025. This has contributed to a slight increase in the predicted fleet growth.

**Fleet development**

![Diagram showing fleet development](image)

**Fleet growth**

![Diagram showing fleet growth](image)

**Capacity weighted average speed**

![Diagram showing capacity weighted average speed](image)

**Contracting of new ships has slowed** further from an average of 130,000 TEU/month in 2023 to 60,000 TEU/month during the first five months of 2024.

Compared to a year ago, the **order book has reduced by 1.8m TEU** and the order book to fleet ratio is now 19.9%. Fifty per cent of the capacity on order is for ships between 12,000 and 17,000 TEU in size and this segment therefore also dominates future fleet growth.

Supply is expected to grow faster than the **fleet** during 2024 as ships are sailing faster due to the longer distances via the Cape of Good Hope. Sailing speed has increased from an average of 14.4 knots during 2023 to 14.8 knots in 2024. As we assume that ships can return to normal routings in 2025, we also forecast that sailing speeds will reduce back to 14.4 knots in 2025.
The impact of higher sailing speeds on supply is, however, somewhat tempered by an increase in congestion. Transhipment hubs are seeing increased volumes as a result of the changes that liner operators have made to service networks to cope with the Red Sea situation as well as increasing cargo volumes.

All in all, we forecast that annual supply will increase 10.9% YoY in 2024 and increase another 4.8% YoY in 2025.
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