2023 Shipping Industry Trends and Future of Shipping in 2024

Guiding our exploration for the Shipping Industry Landscape

Welcome to the second annual edition of Container xChange's Trends and Impacts report. In this report, we uncover the key insights that have influenced the shipping industry this year and offer predictions for potential developments in 2024. We aim to provide valuable insights that can help your business prepare for the upcoming year through in-depth analysis and forecasting.

Methodology

Our predictions are grounded in data, thorough polls, and expert insights, reflecting our dedication to precision and accuracy. Join us as we explore the ever-evolving world of shipping and its critical influencing factors.

We began by extensively researching the shipping industry, analyzing current trends and challenges. This involved desk research, surveys sent to industry stakeholders, qualitative interviews with experts and customers, and thematic analysis of interview data. We then synthesized our findings into the "2023 Shipping Industry Trends and Future of Shipping in 2024" report, which includes insights on potential scenarios related to these trends. It serves as a valuable resource for industry stakeholders and decision-makers.

Shipping industry trends 2023	Impact and potential scenarios 2024
Moderate growth in container demand in 2023 and beyond	Profit levels will further decrease
Deliveries increasing to 2.95 million TEUs	Blank sailings will continue to be prevalent
Geopolitical uncertainties leading to shift in trade routes	Schedule reliability on the rise, yet challenges persist
China plus one diversification to become more evident	Container availability to remain highly imbalanced

Source: Container xChange Analysis

Looking into 2024

In the shipping industry, four key trends are shaping the landscape for 2024. Consumer spending caution, influenced by factors like inflation, interest rates, and shifting preferences, is expected to persist, affecting container demand. Oversupply risks loom as deliveries surge, potentially leading to intense competition and diminished profitability. Geopolitical uncertainties, such as conflicts in Ukraine, Taiwan, and Israel, are impacting trade routes, while the expansion of BRICS countries introduces new dynamics. Additionally, companies are diversifying away from China, driven by ongoing trade tensions, rising labor costs, and concerns about supply chain resilience.

In 2024, the shipping industry will grapple with reduced demand and oversupply, potentially leading to fierce competition, reduced profits, and possible mergers and acquisitions. Although container schedule reliability is improving, persistent challenges remain. Blank sailings are expected to rise in response to market volatility, while imbalanced container availability, driven by economic crises, may continue in certain regions.

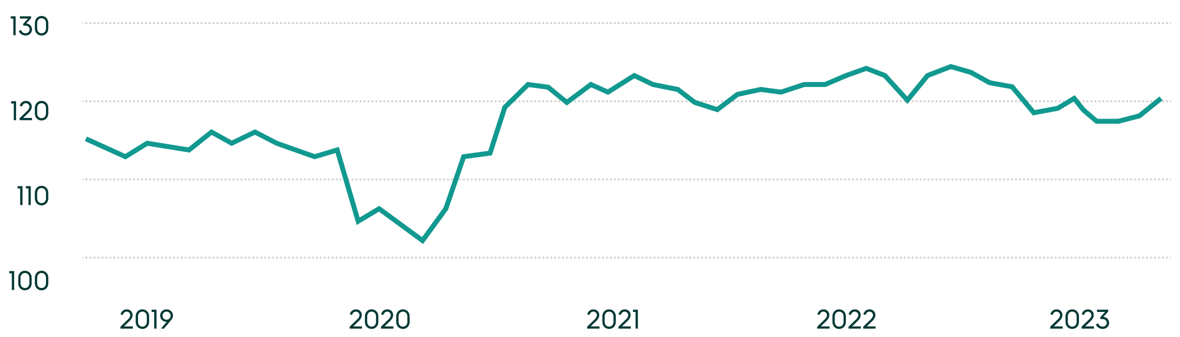
Shipping industry trends in 2023

Shipping industry trends in 2023

1. Due to cautious consumer spending, low growth in container demand is in 2023 and beyond

Due to longer-term factors such as inflation, increased interest rates, and a structural shift of consumer spending patterns from goods to services, cautious consumer spending in 2023 is likely to extend into 2024. Households are expected to prioritize essentials over discretionary expenses, impacting demand for imported manufactured products. Based on PYMNTS research findings, 74% of consumers have reduced their nonessential retail spending in order to manage their finances, and this is expected to exert a substantial influence on the demand for containers by retailers. This trend is likely to challenge the container market for an extended period and we don't expect a rebound in demand within the next 12-18 months.

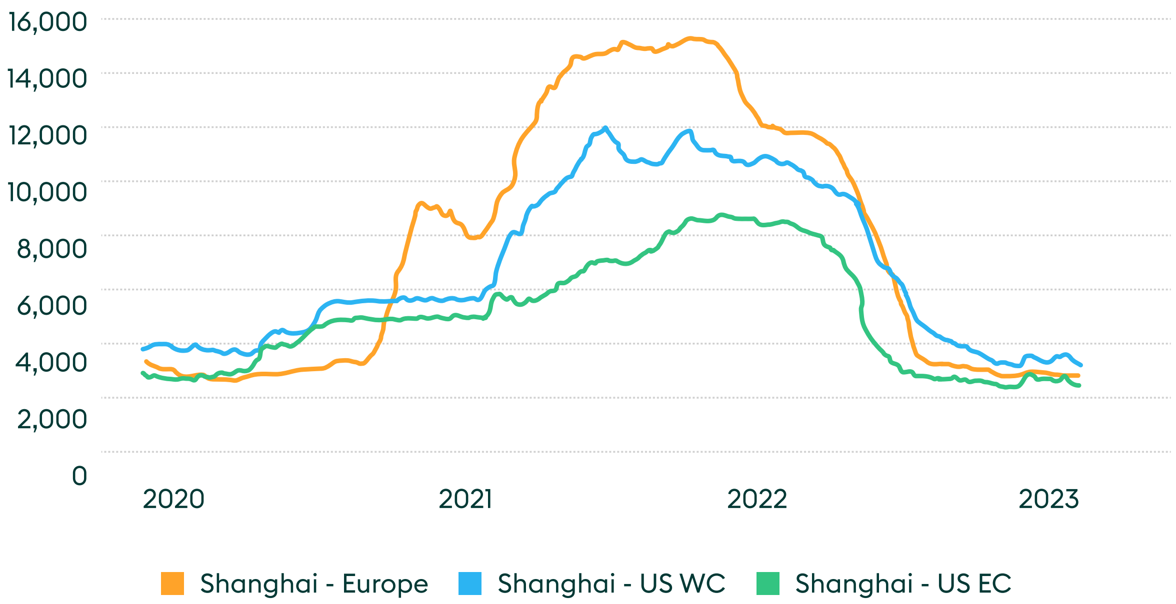
Global container demand struggles to grow after pandemic surge



Source: RWI/ISL, ING Research

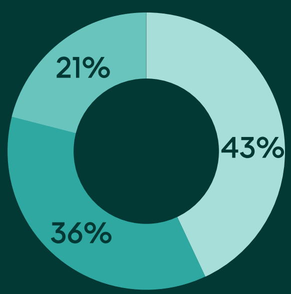
The container shipping industry, known for its cyclical nature, witnessed an extraordinary peak in 2021 and H1 2022, marked by record rates and robust profits for shipping companies. However, a significant shift occurred in 2023 as consumers curtail their spending on high-value goods, coinciding with a global economy grappling with inflationary shocks and rapid rate hikes. This has resulted in a sharp decline in demand, leading to a swift drop in spot rates on major trade routes.

Container spot rates on major trades have dropped below pre-pandemic levels



Source: Clarksons, ING Research

Survey by Container xChange



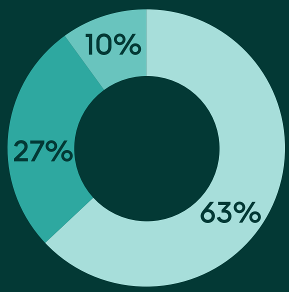
Do you expect low profit freight rates to continue into 2024?

- Yes (43%)
- No (36%)
- Uncertain (21%)

> *Container prices took center stage in 2023, emerging as a significant issue in the shipping industry. The quality of the credit related to the trade and lease of shipping containers experienced a sharp decline, causing concern among stakeholders. Furthermore, it is expected that demand for both brand-new and used containers will dwindle as the Chinese New Year approaches, impacting the container market*
>
> **Andrea Monti**
> **CEO, Sogese**

In 2023, container trade contracted due to deteriorating market conditions. The surge in empty container stockpiles during end of 2022 was an early indicator of the decline, driven by advanced ordering to secure timely deliveries. A combination of more rational consumption patterns and destocking practices contributed to diminishing cargo volumes. Moreover, European ports faced setbacks due to sanctions imposed on Russia. Prominent European container hubs such as Rotterdam, Antwerp-Bruges, and Hamburg, which serve as transshipment points to Russia, witnessed a decline in container volumes and figures since the first half of 2023.

Survey by Container xChange



Container depots are struggling with the oversupply of containers. What do you think the situation will look like in 2024?

- Continued to be congested (63%)
- Start congested eases later (27%)
- No congestion (10%)

Regarding port pairs, we continue to observe areas with a shortage of containers. Customers are requesting extended container stays, which is affecting the number of voyages we can carry out with our equipment. We anticipate a stable demand for 2024 and a more balanced market supply, primarily driven by evolving environmental regulations that will influence the availability of services, as most companies will be adjusting to the new policies

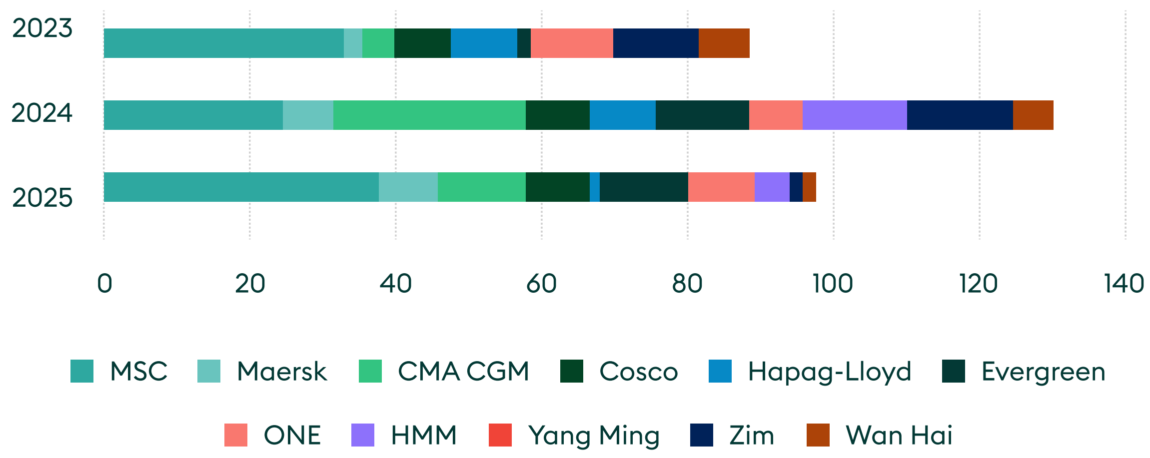
Josilene Mattos

Senior Global Account Manager, Hapag-Lloyd AG

2. Deliveries increasing to 2.95 million TEUs pose risk of oversupply in 2024

The pace of deliveries picked up this year, expected to go higher throughout 2024, and stay strong in 2025. 2.48 million TEUs was set for delivery this year, 2.95 million TEUs next year, and 2.26 million TEUs in 2025.

Top 11 carriers: Mainline newbuildings by delivery year

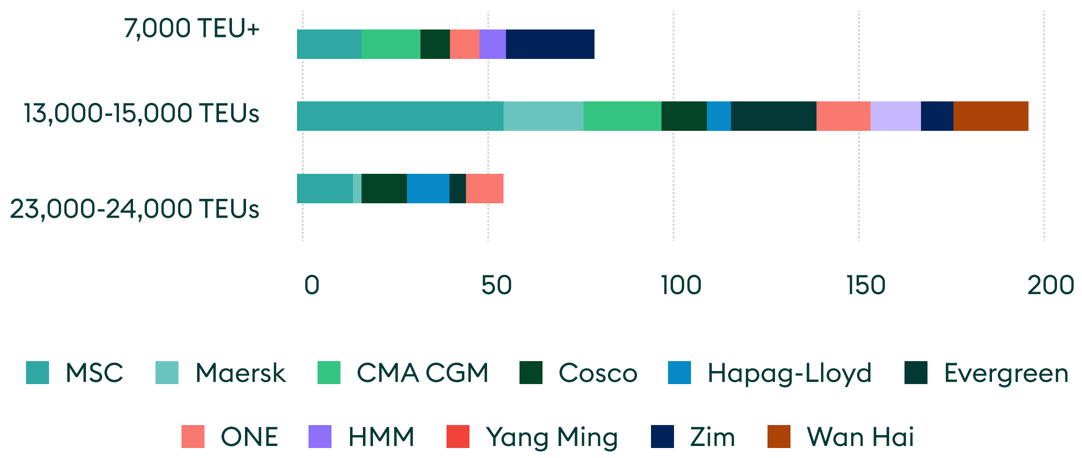


Soruce: FreightWaves based on data from Alphaliner

"Megamaxes," with capacity of 23,000-24,000 TEUs, vessels that will be deployed in the Asia-Europe trade; "Neopanamaxes," ships with capacity of 13,000-15,000 TEUs that can transit the Panama Canal; and other mainline vessels, with capacity of 7,000 TEUs-plus.

Neopanamaxes are by far the largest category, representing 60% of the total mainline newbuildings to be delivered through 2025. Megamaxes account for 23% and other mainline newbuildings 17%.

Top 11 carriers: Mainline newbuildings by size



Source: FreightWaves based on data from Alphaliner

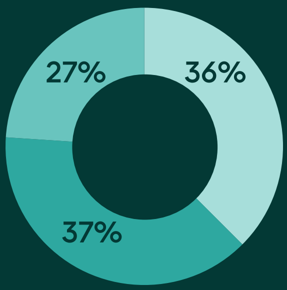
Carriers may have stumbled in over-ordering ships, resulting in an oversupply situation in the global market. This surplus could trigger intense competition among carriers, leading to price reductions that may adversely impact their long-term profitability.

> *The North American shipping sector in 2023 is navigating a precarious balance between government-driven demand from programs like the Infrastructure Investment and Jobs Act and rising interest rates aimed at curbing inflation. This has left consumers squeezed, potentially depleting their savings by early 2024, jeopardizing freight demand as capacity increases. Global ocean container companies ordering new ships during the pandemic's economic boom have created an overcapacity issue that may turn 2023's profits into 2024's losses and disrupt reliable container ship scheduling. It's projected that supply and demand equilibrium won't be restored until 2026, posing challenges for the industry's profitability in both the short and long term*

Timothy Renshaw

British Columbia-based shipping industry analyst and journalist.

Survey by Container xChange



How was the year 2023 for company's (respondent's company) business performance?

- Below average (36%)
- Average(37%)
- Above average (27%)

3. Geopolitical uncertainties leading to shift in trade routes in 2024

Geopolitical uncertainties in 2023 significantly impacted the shipping industry, and these effects are expected to persist in 2024. The Russia-Ukraine conflict led to the closure of Black Sea ports, causing congestion and delays in goods transportation. In the wake of Russia's withdrawal from the Black Sea Grain initiative in July 2023, Ukraine's exports declined, leading to price hikes. While a promising global outlook has brought some stability to prices, the global food supply remains unstable due to the war and Russia's blockade of Black Sea ports, hampering Ukraine's capacity to export grains and food products to the global market.

A potential China-Taiwan conflict in the near future could have significant repercussions for global trade, impacting trading in 2024 and beyond. The Taiwan Strait, a vital passageway for vessels traveling between China and the West, as well as from Japan, South Korea to Europe, may face closure. According to reports from Bloomberg, this crucial waterway saw nearly half of the world's container fleet and 88% of the largest ships by tonnage passing through it in the current year. Should this region become inaccessible, it would necessitate the utilization of less efficient alternative routes, resulting in increased operational costs and various challenges, such as vulnerability to typhoons.

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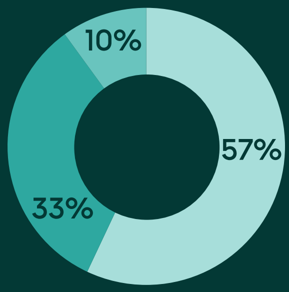
The Israel-Palestine conflict has also affected the maritime industry, with international companies issuing advisories and adjusting their operations. The conflict poses risks to key shipping routes, including the Suez Canal and the Strait of Hormuz. The extent of its impact in 2024 depends on the conflict's scope and duration, adding further uncertainty to the shipping industry.

The expansion of BRICS, now including Saudi Arabia, Iran, Ethiopia, Egypt, Argentina, and the United Arab Emirates, is set to diversify trade routes, introduce alternative payment systems, and boost infrastructure development. Energy cooperation and resource competition may reshape shipping dynamics. The outcome hinges on how BRICS leverages its expanded influence in the evolving global context, offering both opportunities and challenges for the shipping sector.

Survey by Container xChange



Will carriers struggle with post-pandemic demand recovery in 2024?

- Yes (57%)
- No(33%)
- Uncertain (10%)

4. China plus one diversification to become more evident in 2024

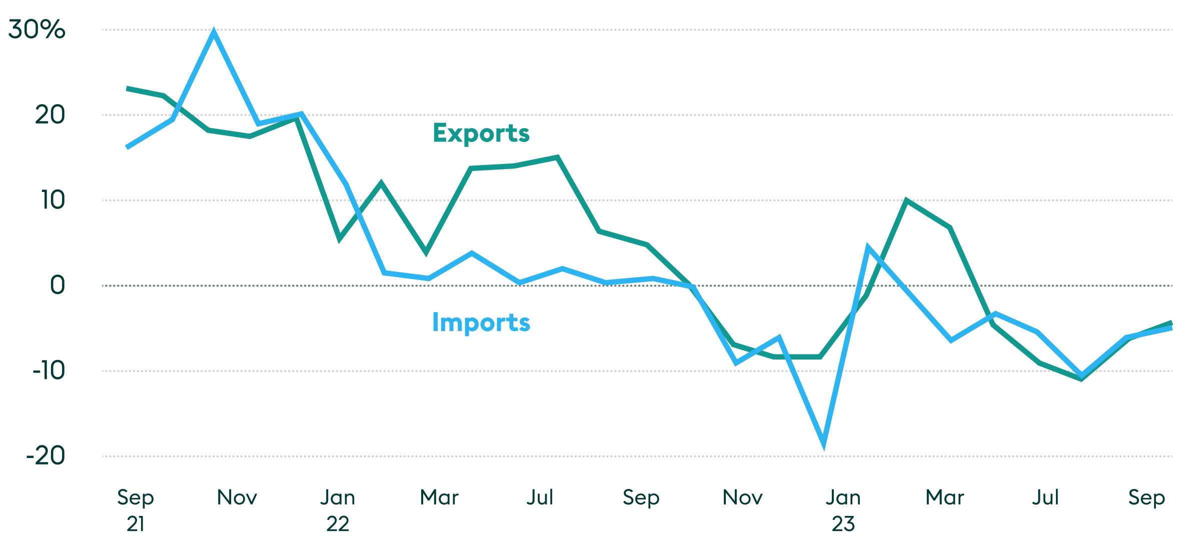
Many factors are driving companies to diversify their global operations, shifting their focus away from China. Prominent among these factors are the ongoing trade tensions between the United States and China, rising labor costs, and concerns about potential future manufacturing disruptions, similar to those experienced during the peak of the COVID-19 pandemic.

Completely disengaging from China is a challenging task, given the extensive electronic supply chains that China has meticulously developed over the past two to three decades. However, an increasing number of companies are making strategic moves to relocate their final manufacturing and assembly processes outside of China, while still relying on Chinese suppliers for essential raw materials.

Not out of the woods yet

The contraction in China's exports and imports slowed down in September as both schrank by 6.2% from a year earlier

Change in dollar-denominated exports and impports (Y/Y)



Source: LSEG Datastream, Reuters

> *As it is difficult for manufacturers to move their entire value chain away from China, we expect an increase in cargo volumes, specifically of semi-finished goods, within Asia. This increase in trade is expected between China and Southeast Asia, India, and other similar destinations, before finished goods are transported to the "consuming" countries. Ultimately this will benefit strong niche carriers and the smaller vessel sectors*

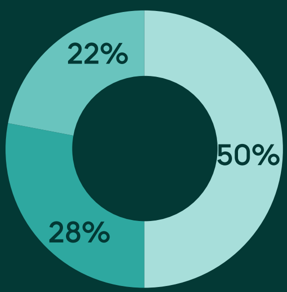
Christian Roeloffs

Cofounder and CEO, Container xChange

It's important to note that establishing a manufacturing presence in a new country is not an instantaneous process; typically, it is more than around two years. Anticipated growth in production in these alternative regions is poised to accelerate in 2024, with the most significant transitions occurring after 2025.

> *Importers in the USA have diversified their sources to include Southeast Asia, India, and Pakistan. This strategic move has proven to be a successful business practice and should be sustained in the years to come. Relying solely on a single source is not advisable, as it allows for the growth of other countries in the production of various products*
>
> **Josilene Mattos**
> ***Senior Global Account Manager, Hapag-Lloyd AG***

Survey by Container xChange



Do you think China plus one strategy will emerge in 2024?

- Yes (50%)
- No(28%)
- Uncertain (22%)

The China Plus One strategy, where companies diversify their sourcing to countries other than China, is expected to emerge in 2024. Many companies are planning to provide themselves with additional containers by January or February 2024, indicating their intent to diversify their supply chains. Companies in Dubai, owned by individuals from India or Pakistan, offering services in the Middle East, are considered strong candidates for implementing the China+1 strategy

Andrea Monti,
CEO, Sogese

Impact and potential scenarios in 2024

Impact and potential scenarios in 2024

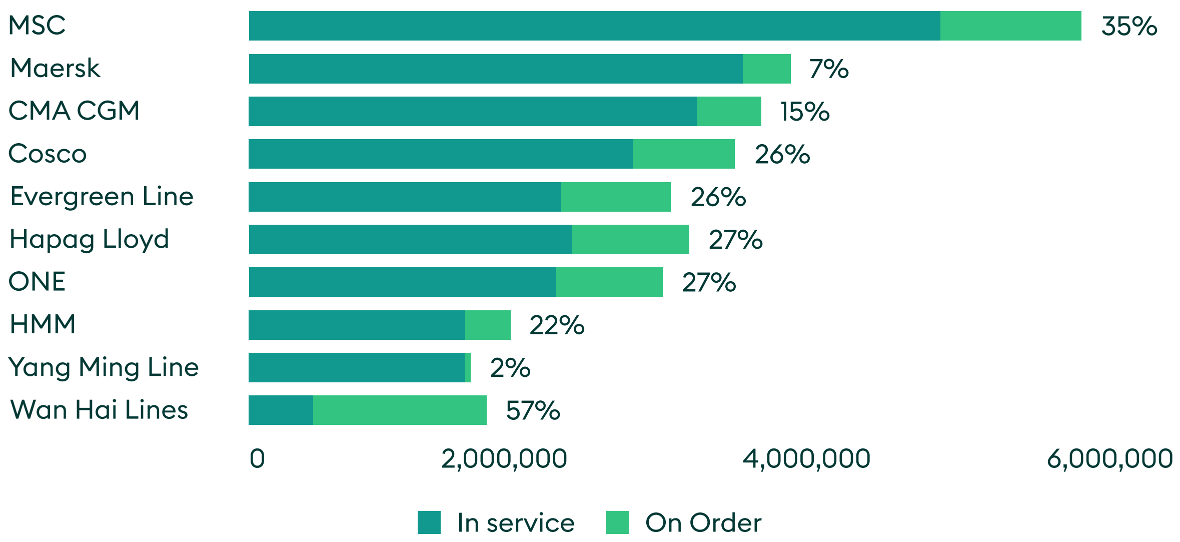
1. Reduced demand and oversupply intensify competition, leading to lower profits in 2024

Competition in the shipping industry has long been a key factor affecting profitability; the break of alliances can have significant impacts on the market dynamics. In 2023, Maersk and MSC announced that their longstanding 2M alliance, set to expire in 2025, would not be renewed, marking a significant shift in the maritime industry. The repercussions of this decision are expected to have a lasting impact throughout 2023 and 2024. This stems from the primary drivers of less demand and oversupply, ultimately leading to heightened competitive pressures and, consequently, lower profits.

MSC, in particular, has been making strategic moves, acquiring 271 secondhand vessels with a combined capacity of over 1 million TEUs since August 2020. This remarkable growth has propelled MSC to the top position in the industry, surpassing Maersk.

MSC's order book dwarves those of other top carriers

Continer fleet capacity of top 10 global operators, in TEU, with percentage of on-order to in-service capacity, as of January 2023



Source: S&P Global

This shift in the industry dynamics opens the door to several potential scenarios. One possible outcome is that the maritime sector, especially as it enters a phase of potential overcapacity, could witness a fierce competition for market share among carriers. This competition might drive down profits, potentially necessitating further rounds of mergers and acquisitions (M&A), particularly if regulatory bodies take action against carrier alliances.

Once MSC completes its vessel acquisitions currently on order, it is expected to be 30 to 35% larger than Maersk in terms of capacity. The repercussions of this strategic shift are likely to reverberate throughout 2023 and 2024, shaping the future of the maritime industry.

2. Container line schedule reliability on the rise, yet challenges persist

Container line schedule reliability is continuing to improve returning to pre-pandemic levels. The current situation is better than a year ago when 79% of ships arrived with an average of 7.9 days delay. But compared to normal market conditions, there is still room for improvement.

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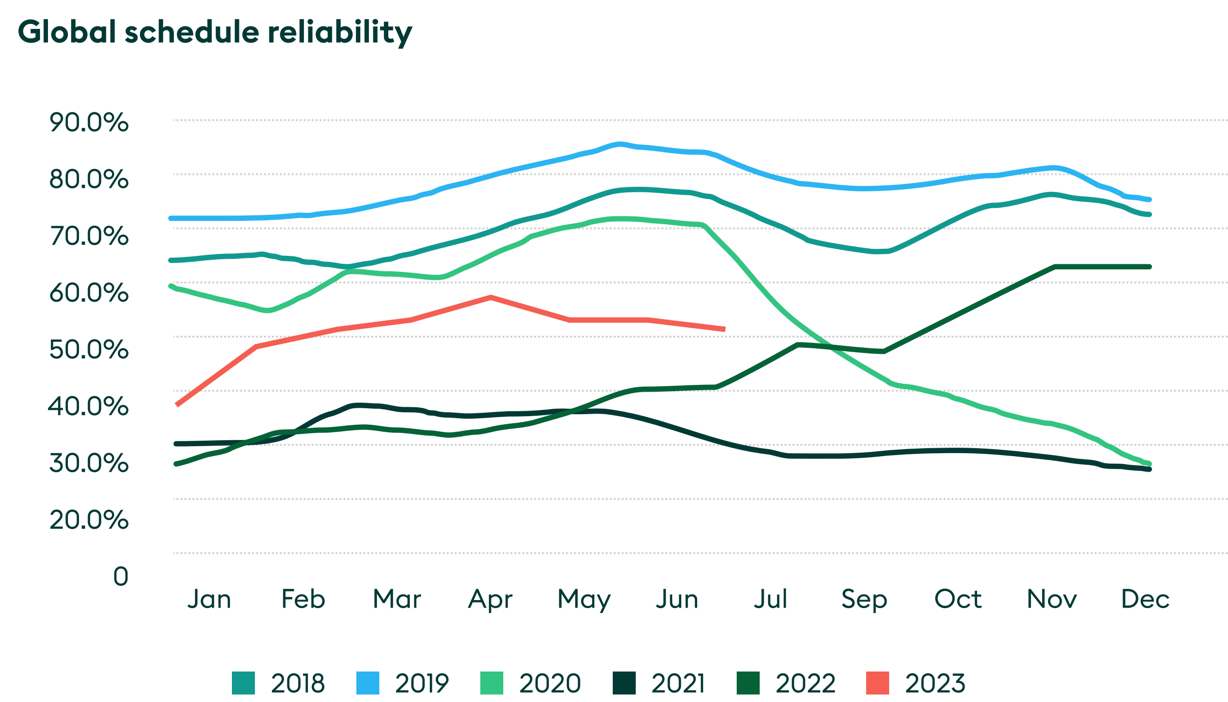
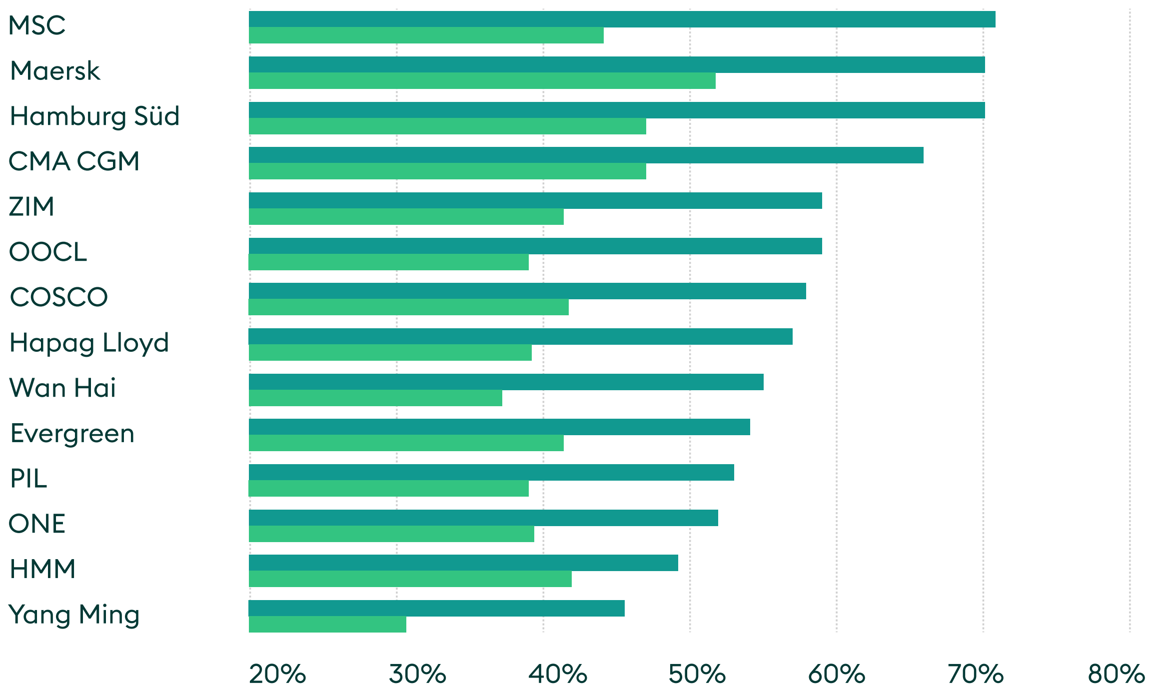


Source: Sea Intelligence, GLP report issue 145

Global schedule reliability declined by -0.9 M/M in August 2023 to 63.2%. Barring the increase in May, schedule reliability has been ranging within 2 percentage points since March 2023. On a Y/Y level, schedule reliability was 17.0 percentage points higher.

Carrier scores for August 2023

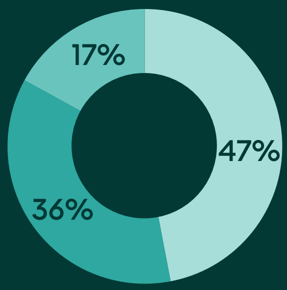
(Compared with August 2023)



Source: Sea Intelligence

With 70.9% schedule reliability in August 2023, MSC was the most reliable top-14 carrier, followed closely by Maersk and Hamburg Süd with 70.0%. CMA CGM was the only carrier with schedule reliability of 60%-70%. 8 of the remaining carriers had schedule reliability of 50%-60%, with HMM and Yang Ming under 50%; the latter the least reliable at 47.3%. Only 3 of the top-14 carriers recorded a M/M increase in August 2023, with OOCL recording the largest increase of 2.8 percentage points. On a Y/Y level, all 14 carriers recorded double-digit improvements, with MSC recording the largest improvement of 26.8 percentage points.

Survey by Container xChange



What do you think about container line schedule reliability in 2024?

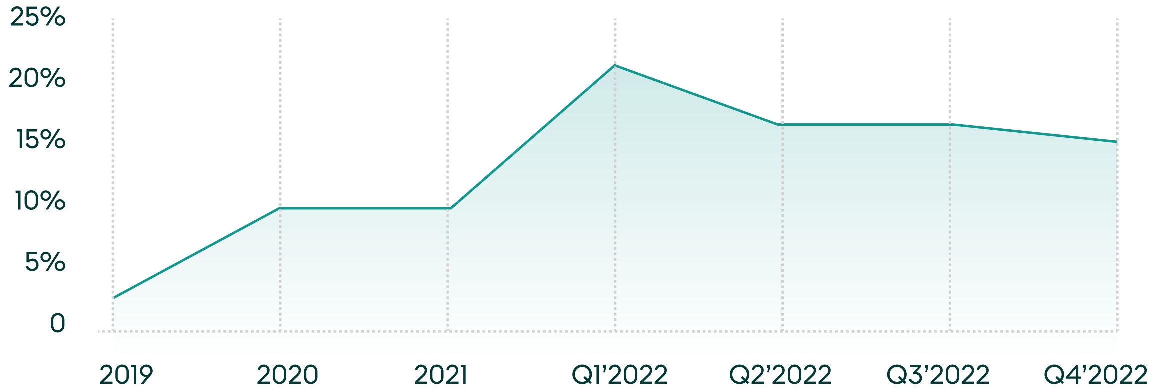
- Improve (47%)
- Same(36%)
- Deteriorate (17%)

3. Blank sailings to increase in 2024 as market volatility persists

In 2021-2022, carriers added extra voyages to meet rising demand, but supply chain issues caused ships to get stuck in port queues, resulting in numerous cancellations despite increased capacity. The continuous expansion of shipping capacity, driven by the introduction of new mega-vessels, is outstripping the existing demand, leading to considerable strain on already oversupplied trade lanes.

Completely disengaging from China is a challenging task, given the extensive electronic supply chains that China has meticulously developed over the past two to three decades. However, an increasing number of companies are making strategic moves to relocate their final manufacturing and assembly processes outside of China, while still relying on Chinese suppliers for essential raw materials.

Blank sailing (yearly average)



Source: Secondary research, xChange analysis

Although they were more organized in 2023 than last year's sporadic cancellations, blank sailings are still used to stabilize market rates and exert upward pressure on specific trade routes, fueled by surging market demand and carrier actions.

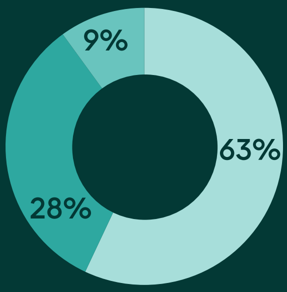
Blank sailing trend 2023

	Week					
2023	2-6	8-16	14-18	25-29	36-40	44-48
Scheduled sailing	707	710	675	680	665	660
Blank sailing	12%	10%	9%	4%	7%	9%

Source: Drewry Cancelled Sailings Tracker

In 2023, there have been significant fluctuations in blank sailings across major shipping routes, reflecting the dynamic global shipping industry influenced by factors such as market conditions, disruptions, and demand patterns. Blank sailings peaked at 21% early in the year but dropped to 10% in weeks 8 to 12, indicating industry stabilization. Throughout the year, blank sailings remained low, reaching 4% in weeks 25 to 29, signifying a more consistent schedule.

Survey by Container xChange



With increasing global shipping capacity, how will blank sailing percentage change in 2024 in comparison to 2023?

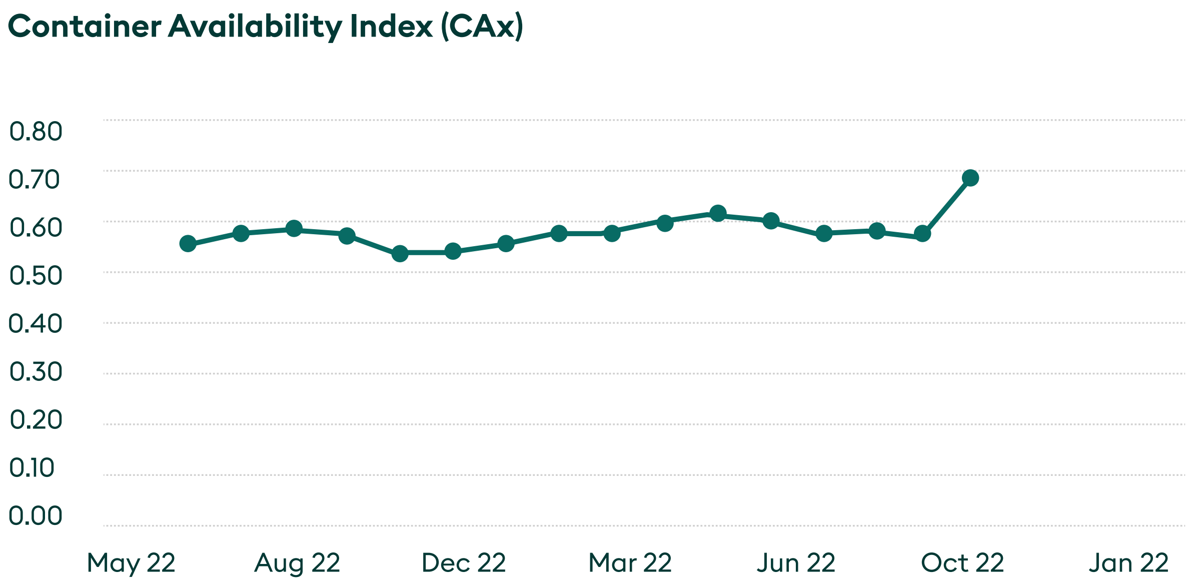
- Increase (63%)
- Same as 2023 (28%)
- Decrease (9%)

4. Container availability to remain highly imbalanced in 2024

As the Euro Zone grapples with an ongoing economic crisis, facing declining trade and subsequently, a drop in container trade, the region struggles with the challenge of surplus containers causing repositioning costs exceeding the asset cost. Industry predicts that the container lessors are more focused on long term strategies so that the cost of repositioning may result extremely diluted over the asset lifetime.

> *We have a poisonous mix of severely imbalanced container trade with high level of excess inventory in Europe, and at the same time unreliable shipping services, suddenly lacking the vessel capacity to reposition empties out which in turn makes the situation even more difficult*
>
> **Christian Roeloffs**
> ***Cofounder and CEO, Container xChange***

The excess of inbound containers this October is also evident in the Container availability Index (CAx) which measures the inbound and outbound containers at any given port. For Rotterdam, the values are at an all-time high at 0.70 this October as compared to 0.59 in October 2022. This indicates that the burden of containers is significantly higher in Rotterdam.



Source: Container xChange Analysis

> *In 2023, the Russian container-shipping market differs notably from global trends. It's characterized by a growing focus on autonomy, an expanding linear service network with new ports and routes, continued state support for exporters, local market imbalances, and high freight rates. These factors combine to set Russia's container-shipping market apart from the rest of the world*

Vladimir Tagasov
Head of Analytics, FESCO

Currently there are around 150,000 surplus containers in Russia, and everybody is looking for an opportunity to return containers back to China. All containers from Russia to China go with a pickup charge. Regarding container trading, many Chinese companies are selling containers below market price to get rid of the boxes since it doesn't make sense to send them back to China. From Moscow to Shanghai, the offline market offers around $1,500 for new containers. If cargo worthy containers are in good condition and cost less, they prefer to sell the boxes in the local market.

But this doesn't mean that the market is bad. There are still many companies exporting as many as 4,000 SOC containers from Russia to China. The transactions between China and Russia are still very significant."

A customer of Container xChange

About xChange Year-end report

This is the annual trends and forecasts report! We began by extensively researching the shipping industry, analyzing current trends and challenges. This involved desk research, surveys sent to industry stakeholders, qualitative interviews with experts and customers from the industry, and thematic analysis of interview data. We then synthesized our findings into the "2023 Shipping Industry Trends and Future of Shipping in 2024" report, which includes insights on potential scenarios resulting from the key trends that emerged in 2023. It serves as a valuable resource for industry stakeholders and decision-makers.

About Container xChange:

Container xChange is the premier online platform for container logistics, dedicated to revolutionizing the way companies manage container bookings, operations, and financial transactions. As the industry's trusted partner, Container xChange connects a diverse network of companies to streamline container logistics processes which are otherwise frustratingly manual and inefficient. Our platform bridges the gap between supply and demand, providing real-time insights into container availability, pricing, and service provider reputation. By simplifying container operations from pickup to drop-off, we empower businesses to optimize their logistics processes and enhance their competitive edge. With over 1500+ vetted container logistics companies placing their trust in us, Container xChange, allows businesses to operate with confidence, speed, and precision, resulting in increased profit margins and sustainable growth. For more information, visit https://www.container-xchange.com/

(Note: The data and insights provided in this report are based on the information available at the time of writing and are subject to change.)

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