Drewry

Liner markets: the pandemic; where are we now?

BIPC 2022

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Maritime Advisors

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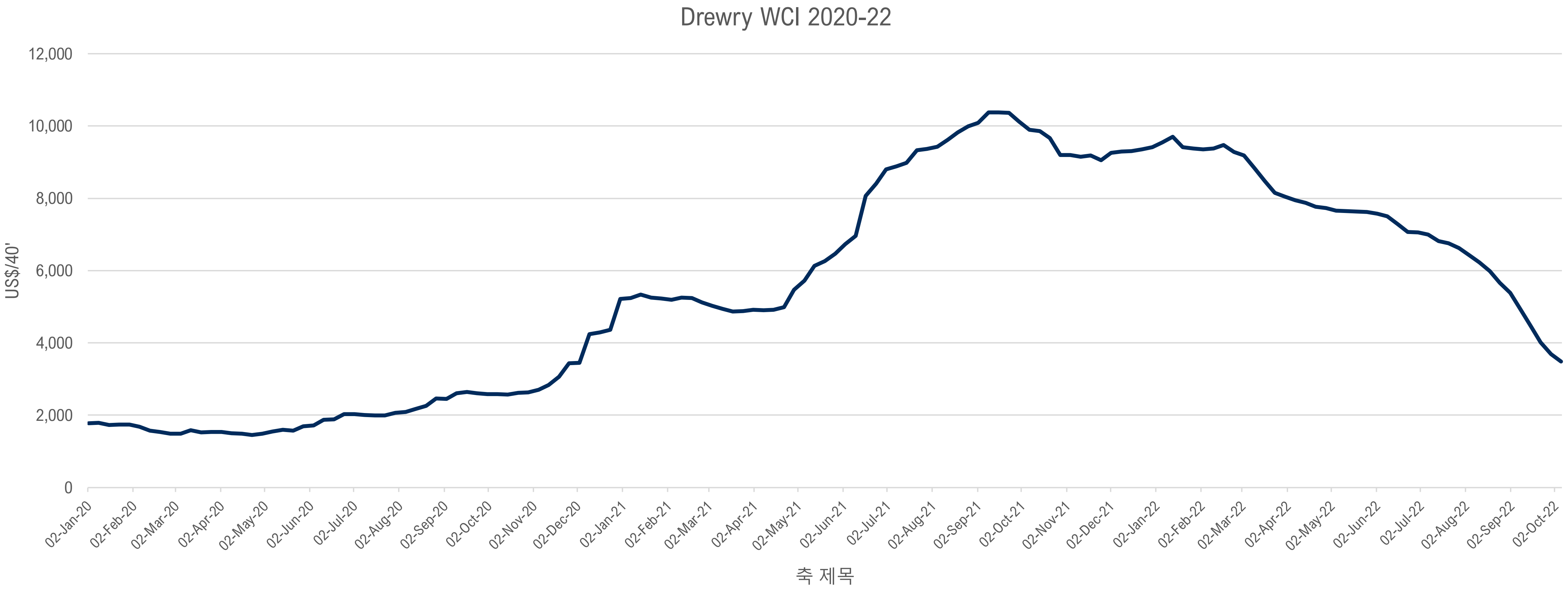
Lower Text Information

Container freight rates 2020-22

Lines avoided a collapse of rates by active capacity management in the first half of 2020. From the second half, demand surged as consumer spending switched from goods to services, and rates soared, buoyed by capacity shortages. Rates are now falling continuously.



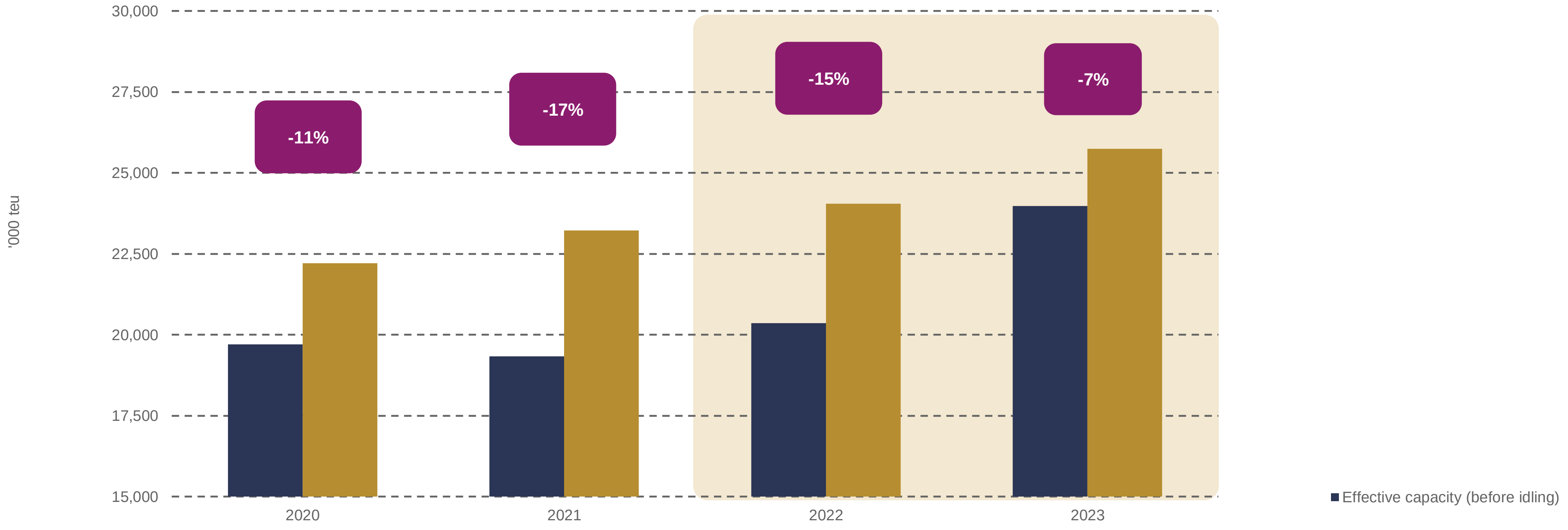
Liner fundamentals recap

Rate development during COVID pandemic is a logical result of liner industry fundamentals

Factor	Effect	Comments
Economies of scale	Structural overcapacity	Lines always build bigger vessels to exploit economies of scale. This has led to overcapacity
Perishability	Push for short-run contribution – rate erosion	Unused capacity cannot be stored. Lines cut rates in order to boost utilisation
High operational gearing	Push for short-run contribution – rate erosion	Lines’ networks represent a high fixed cost burden. The logical response is to maximise utilisation
Commoditised service offering	Limited differentiation of product; price competition	Price is the principal competitive weapon in a normal market, but market demand is inelastic to price
Moderately concentrated industry	Improved coordination of capacity development	Consolidation at company and alliance level help to balance supply and demand
Inelastic demand curve	Falling rates have a limited effect on demand	Seafreight is a negligible element in the landed cost of manufactured goods and makes no difference to end market demand

The effect of port congestion

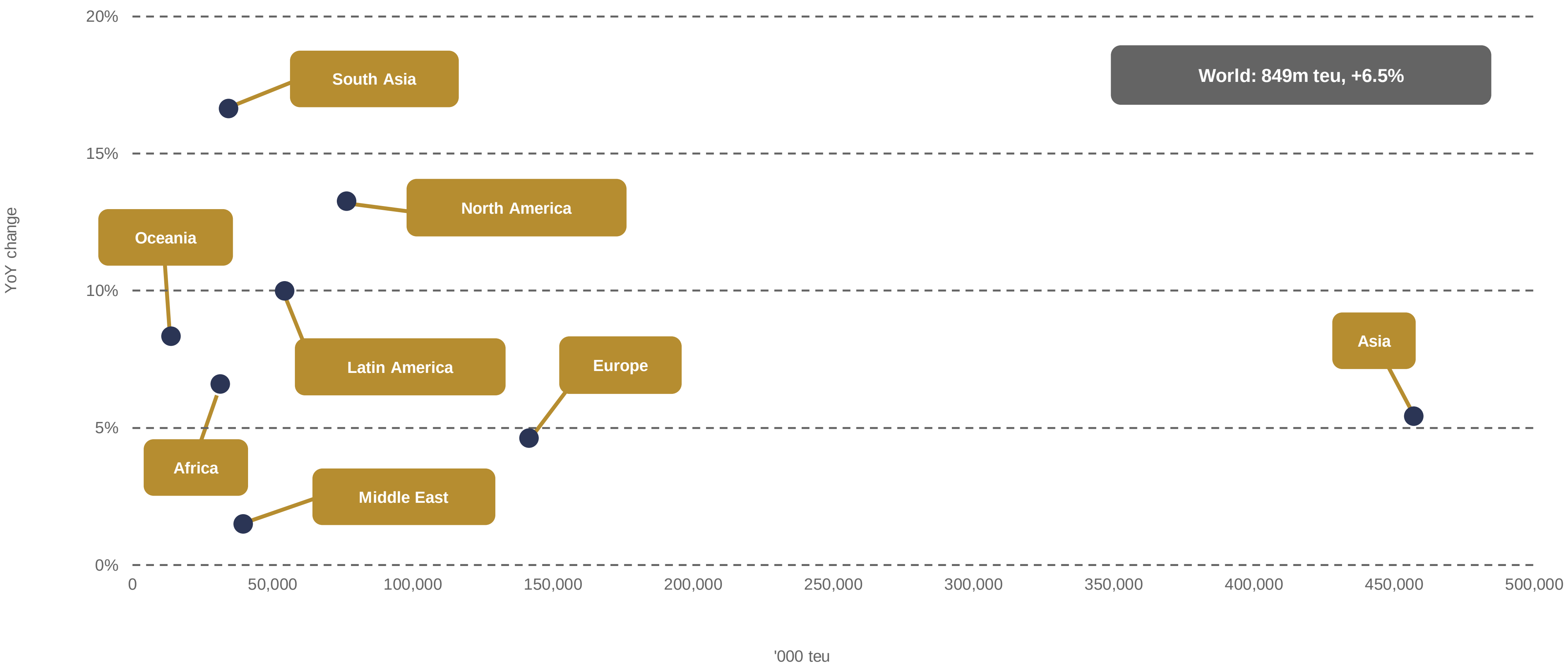
Port congestion squeezed available capacity, leading to record freight rates.



* Basis same port productivity as 2019.
Note: Figures above bars are % reduction.

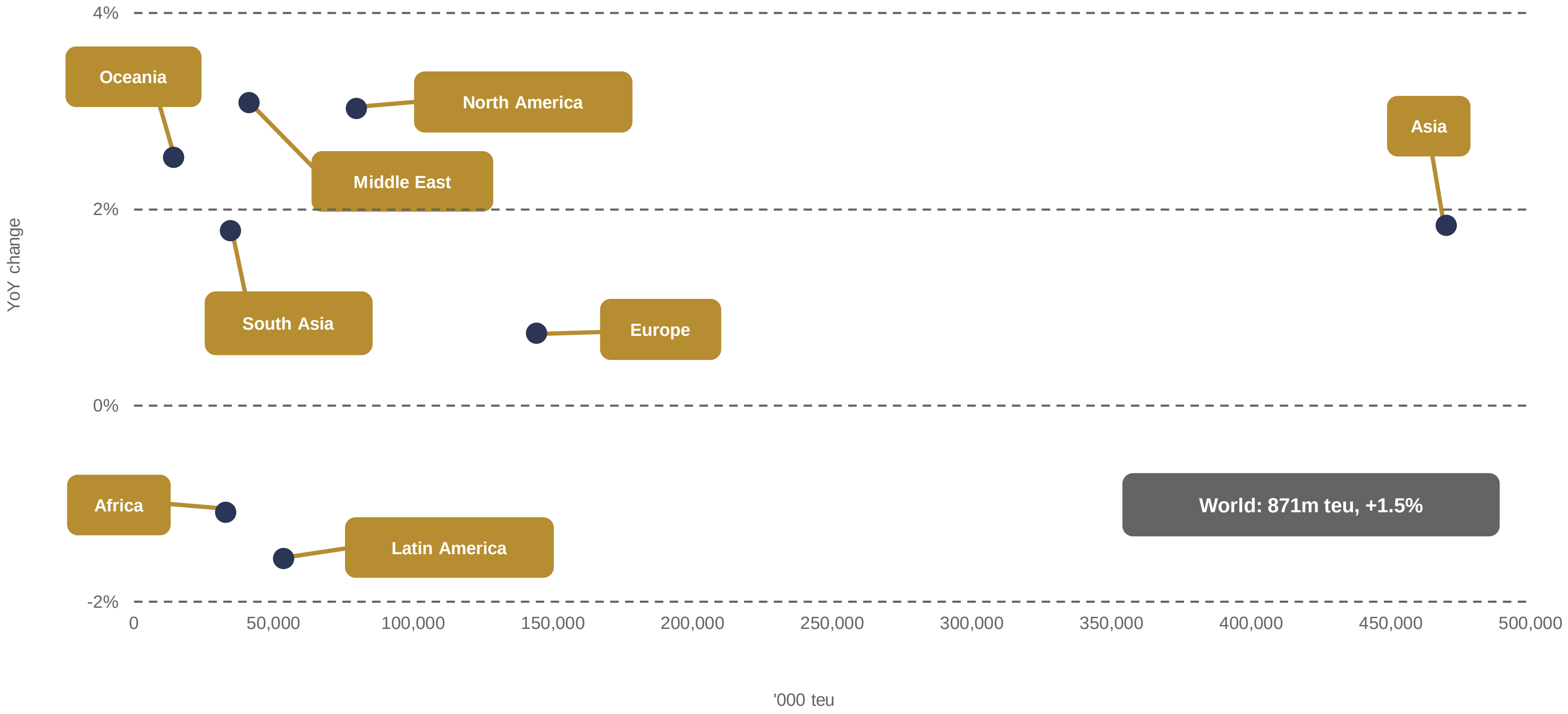
Volume growth in 2021

2021 saw a recovery in volume with 6.5% overall. North America and S. Asia saw particularly rapid growth.



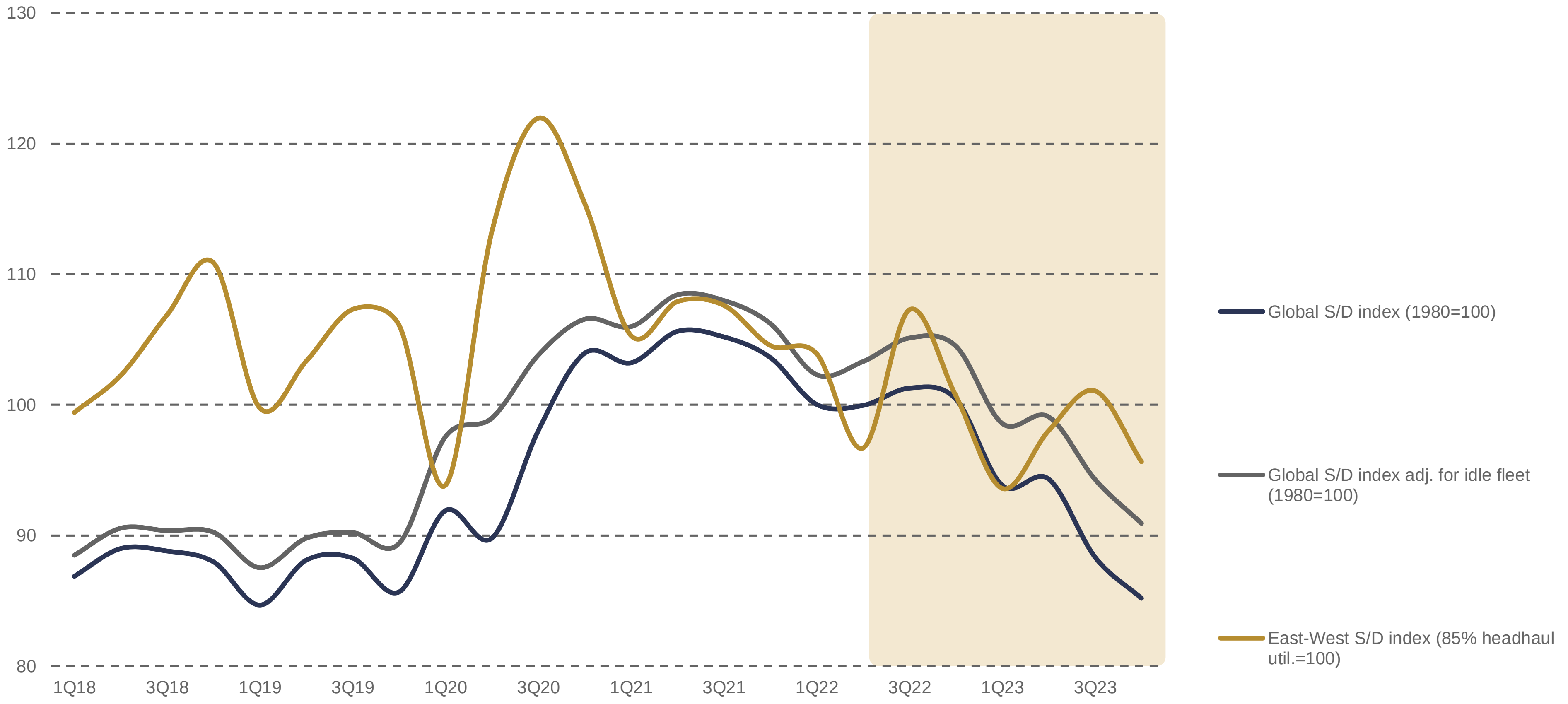
Volume growth in 2022

Volume growth has slowed dramatically in 2022; sharp slowdowns in N. America and Europe.



Drewry Supply-Demand Index

As COVID recedes, supply chain disruptions and port congestion are reducing. We expect that effective capacity will be reduced by only 7% in 2023. At the same time deliveries of new vessels ordered in 2020 will push up capacity, leading to a decline in the S/D index. The market environment will be challenging in 2023-24.



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