Shipping capacity crunch is hindering economic recovery prospects

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For immediate release

A 'maxed-out' container shipping industry is setting limits on what international trade can contribute to post-Pandemic recovery

The shortage of vessels and equipment in global container shipping markets is hindering the pace of economic recovery in countries emerging from pandemic restrictions, says the latest Container Shipping Market Quarterly Review issued by the Global Shippers Forum and MDS Transmodal.

The Review reports on eight performance indicators of the global container shipping market using publicly available data for the first quarter of 2021. These data are unaffected by the closure of the Suez Canal on 23 March for six days, but the effects of this on trade and shipping in the second Quarter of this year will be captured in the next Review to be issued on 1 August 2021.

Commenting on the findings, James Hookham, Secretary General of Global Shippers Forum, said:

> *"Shippers around the world are in a state of shock at the collapse of service performance and the remorseless rise in shipping rates. The latest data confirms the anecdotal experiences of shippers struggling to book container slots on a fleet that has hardly grown and needing to absorb the relentless rise in rates that is eroding their own profit margins.*
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> *"What the data don't show is the cargo left behind on the dock. The fact that industrial output continued to rise over the first three months of the year, but the number of containers carried actually fell slightly shows this is an industry that has 'maxed out'. This is already causing shortages of products and materials essential to the recovery of economies after the traumas of the Coronavirus pandemic.*
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> *"Shipping lines continue to pump up their prices with further General Rate Increases announced in most trades by most carriers. These are blamed on shippers bidding up prices to secure slots and equipment. Let's be clear the reason shipping rates are going up is because shipping lines keep increasing them. If shippers were responsible, then the market would have found its own level.*
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> *"World governments urgently need to realise that the prospects of a rapid economic recovery are dependent on a resumption of international trade at predictable costs and levels of service. Right now, the double whammy of inflation pressures and chronic shortages of essential products could disrupt the hoped-for resumption of business as normal.*

Mike Garratt, Chairman of MDS Transmodal, said:

> *"Supply and demand conditions in Q1 2021 were similar to Q4 2020 in that while demand fell by 1% and scheduled deployment of global shipping capacity grew by 2% a continuing decline in service reliability and port calls probably cancelled out any marginal benefit to that balance. Mean freight rates have*

continued to accelerate; gross freight revenues per TEU have grown by around 40% over 6 months while spot rates have grown even faster.

"The lines have argued such rates are a consequence of demand exceeding supply. Given supply is effectively fixed, rising freight rates must imply frustrated demand. Spot rates on the Far East to Europe trade lane are now approximately 10% of the mean value of the goods in a typical loaded container, as compared with around 3% less than a year ago. It is reasonable to assume there will be wider impacts on both economies and there is a risk of stoking inflation.

"Such levels of demand were predictable. By our estimation, over the period Q4 2010 (after the effects of the financial crisis had been played out) to Q4 2017 the mean compound growth rate on global container demand was 3.9% p.a. while the sub total of global deployed capacity grew by 4.1% p.a.. It was reasonable to assume the lines would continue to invest in capacity, ordering ships that would be available by 2020 Q4. However, while 2020 Q4 was the busiest quarter ever experienced, the growth rate from 2017 Q4 had actually fallen to 3.4% while total deployed capacity grew at only 2.3% p.a.. The impact of the pandemic is not to blame for creating exceptional levels of demand, albeit that the dip in demand in early 2020 may have made it difficult to anticipate."

Notes for Editors:

1. *James Hookham, Secretary General of GSF, is available for interview. Please contact: +44 (0) 7818 450440; secretariat@globalshippersforum.com*

2. *Mike Garratt, Chairman of MDS Transmodal, is available for interview. Please contact +44 (0) 1244 348301*

3. ***The Container Shipping Market Quarterly Review for Quarter 3 2020*** may be downloaded from: GSF/MDST Global Container Shipping Market Review (globalshippersforum.com)

4. The ***Container Shipping Market Quarterly Review*** is produced every three months and reports, interprets and comments on trends and developments in the container shipping market as experienced and understood by shippers – the importers and exporting businesses that own the cargo carried on container ships. Shippers are the customers of the container shipping industry.

5. The Review collates and reports outputs from MDST's established and respected Container Business Modal and other tools that are relied upon by governments and international agencies around the world. Working with GSF, MDST has generated eight new indicators showing how the market is performing in terns that are relevant and applicable to shippers as users and customers of these services.

6. MDS Transmodal (MDST, www.mdst.co.uk) is a UK firm of transport economists which specialises in maritime and all other modes of freight transport. MDST works with senior management in the public and private sectors to provide strategic advice based on quantitative analysis, modelling and sectoral expertise.

7. Global Shippers Forum (www.globalshippersforum.com) is the global business organisation speaking up for exporters and importers as cargo owners in international supply chains and trade procedures. Its members are national and regional shippers' associations representing hundreds of manufacturing, wholesaling, and retailing businesses in over 20 countries across five continents. GSF works for safe, competitively efficient, and environmentally sustainable global trade and logistics.

MDS Transmodal / Global Shippers Forum

Container Shipping Market Quarterly Review for Q1 2021

Reporting data published during May 2021

Summary of Findings

1. **Trade volumes**
The number of containers carried globally actually declined slightly over the Quarter but was still up 13% on the same period last year, which saw the beginning of the global health pandemic. Whether this reflects the annual dip in volumes due to the Chinese New Year holidays or a peaking of demand generally the flattening of volumes in the first three months of this year contrasts with the narrative of shipping lines of uninterrupted growth.

2. **Shipping Capacity**
The number of container vessels and the aggregate capacity available to convey this 13% growth in trade grew by just 2% over the year and most of this was in the first quarter of 2021.

3. **Utilization Rates**
Most of the increase in trade has been absorbed by operating existing ships and near-maximum capacity. Global utilization rates fell slightly during Q1 2021 but vessels on East-West trades passing through the Suez Canal remained effectively full.

4. **Carrier costs and revenues**
The GSF/MDST Review reports unit costs and earnings by carriers as an indicator of the profitability of trades. Globally the total costs of moving a container rose slightly over the quarter due to higher charter rates, reflecting the shortage of vessels. But this only returned costs to the same level as at the end of 2019, with significant reductions seen in 2020 due to the collapse in oil prices. With vessels operating at close to capacity and continuing increases in spot shipping rates the earnings per container rose again in Q1 2021. Carriers are now earning on average 1.5 times more per container than they were this time last year for virtually the same the costs.

5. **Market competition**
The dominance of the three Alliances formed by the 10 largest container shipping lines increased over the past year at the expense of non-Alliance members.

6. **Port Connectivity**
Asian ports have regained their pre-Pandemic levels of connectivity, helped by the larger vessels introduced on Far East trades in the past year.

7. **Service Performance**
The performance of shipping services against the times and frequency of their expected port calls slumped further in Q1 2021 and follows a trend that first emerged in 2019. This is creating further uncertainty to inventory managers and distribution functions as the availability of stock is delayed by short-notice changes to port calls and continuing delays at congested ports.

8. **Carbon Dioxide Emissions**
The calculated emissions of carbon dioxide from each container moved in the Quarter showed a slight increase over the previous period, either reflecting the reduced number of containers for the same fuel burn, or possibly due to higher vessel speeds being ordered to maintain schedules and the higher fuel burn being offset by higher earning per container.

Ends