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Greg Knowler, Senior Europe Editor | Sep 01, 2022 2:46PM EDT

The container ships currently on order comprise almost 30 percent of the total existing global fleet capacity. Photo credit: Shutterstock.com.

Container shipping is entering a down cycle driven by overcapacity and falling demand that will drive carrier profits down by more than 80 percent over the next two years, global bank HSBC said Thursday.

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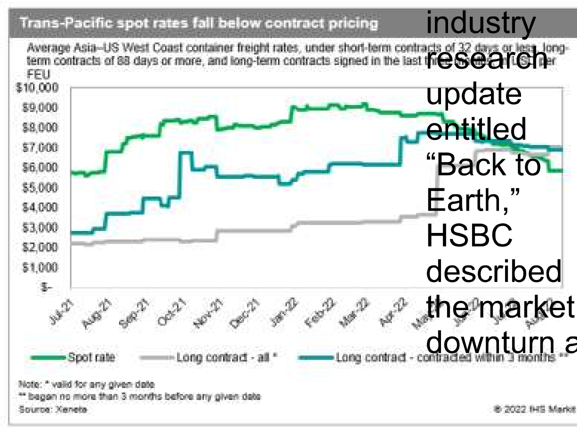

In an industry research update entitled "Back to Earth," HSBC described the market downturn as "unavoidable," with the bottom likely to be reached in 2024. But rate levels have been elevated to such an extent that the industry would nonetheless remain profitable compared with pre-pandemic times.

"Profits are set to fall more than 80 percent from their 2022 peak, but are still better than in the past," HSBC said. "There are signs that spot rates could fall to pre-pandemic levels swiftly on the widening demand-supply gap, but we maintain that contract rates should settle above their pre-pandemic levels and that capacity discipline will keep spot rates from lingering at trough levels. Overall, we expect the sector to remain profitable vs. losses pre-pandemic."

The container shipping industry is enjoying its highest-ever profitability after carriers banked record first-half earnings. Drewry has forecast container shipping industry profits for 2021 and 2022 will hit $300 billion. But since the start of the year, the spot market rates have gone into a steep decline from the record levels achieved in 2021.

Average spot market rates from China to North Europe valid for 30 days or less have fallen 39 percent since Jan. 1, with the most recent rate of $4,964/TEU below the long-term contract level of $5,057/TEU, according to rate benchmarking platform Xeneta.

On the trans-Pacific, the spot market has been below the contract rate since early June. Current spot rates of $5,165/FEU are down 34 percent from Jan. 1, which is $1,651 below the current contract rate of $6,816/FEU.

Vessel orderbook at 13-year high

HSBC projects global container volumes will decline 2 percent in 2022 and 3 percent in 2023 before recovering by 2.5 percent in 2024. The bank expects active capacity to grow 6.2 percent in 2022, 6.5 percent in 2023, and 8 percent in 2024 when it predicts carrier profits will bottom out.

The container shipping orderbook as of the end of June stood at almost 27 percent of the total global fleet, the highest level since 2009, with 6.6 million TEU of capacity on order. Most of the vessels will be delivered over the next two years even as the major western markets face significant economic uncertainty.

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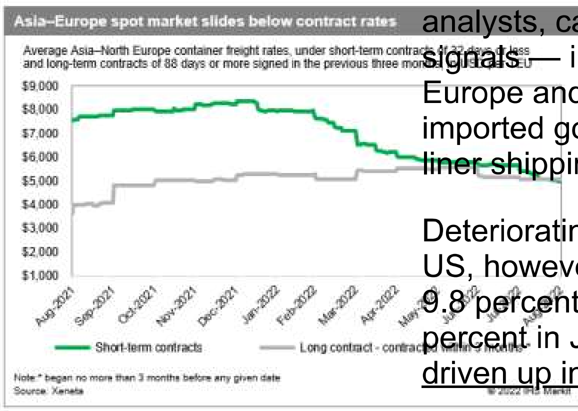

In their second-quarter earnings calls with analysts, carriers all pointed to an array of conflicting signals — including inflation and rising interest rates in Europe and the US, versus steady US demand for imported goods — that were clouding the outlook for liner shipping.

Deteriorating demand in Europe is clearer than in the US, however. Inflation in the European Union reached 9.8 percent in July, a 25-year high and up from 9.6 percent in June, while a drop in consumer spending has driven up inventory holdings across the continent.

The slowing demand can be seen in containerized imports from China — Europe's largest trading partner — through the first half of the year. Europe's H1 import volume from China of 3.84 million TEU was down almost 5 percent compared with the first six months of 2021, with January 2022 the last month a year-over-year increase was reported, according to the latest available data from Container Trades Statistics (CTS).

Contact Greg Knowler at greg.knowler@ihsmarkit.com and follow him on Twitter: @greg_knowler.

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