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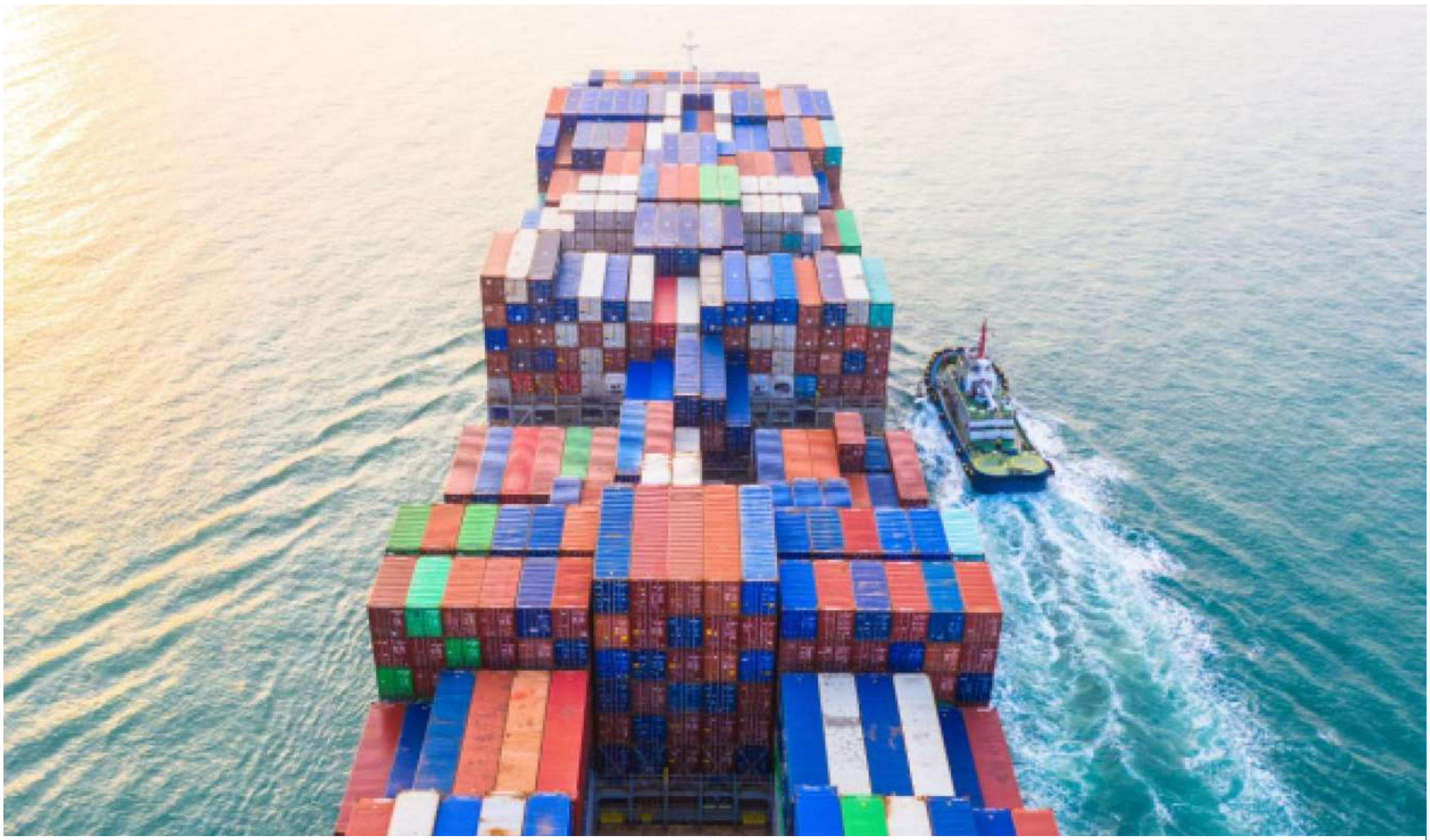
Shipper savings to rocket in 2023 at expense of carrier profits: analysts



Ocean carriers will be profitable this year, but nowhere near the elevated levels of the last two years. Photo credit: Avigator Fortuner / Shutterstock.com.

Greg Knowler, Senior Editor Europe | Apr 3, 2023, 10:33 AM EDT

Sharply correcting container shipping markets will result in plunging profitability for carriers this year, but massive savings in transport costs for importers and exporters in major markets, according to analysts.

A rate collapse on major trades out of Asia during the last half of 2022 was not enough to stop global container carriers from reporting a collective $220 billion in before-tax earnings for the year, Sea-Intelligence Maritime Analysis noted in its latest Sunday Spotlight newsletter. But it also marked the beginning of an aggressive market correction that John McCown, founder of Blue Alpha Capital, estimates will cut industry net profit for 2023 by 80 percent year over year to $43.2 billion.

"The second quarter 2022 results were the peak in terms of earnings … there will be further declines from the fourth quarter of 2022 in the quarters to come," McCown wrote in a quarterly container shipping outlook published Monday.

By the start of April, spot rates on the trans-Pacific and Asia-Europe trade lanes were down by up to 90 percent compared with the same time last year, according to various rate indices tracked by the *Journal of Commerce*.

Contract rates on both trades have also fallen sharply, with data from rate benchmarking platform Xeneta showing Asia-North Europe long-term rates of 90 days or longer are down 45 percent year over year, while Asia-US West Coast rates are down 80 percent from this time last year.

But the falling rates will see shippers on the two major lanes out of Asia enjoying their largest year-over-year reduction in shipping costs in at least the last seven years, according to Philip Damas, managing director and head of supply chain advisors at Drewry.

"As many beneficial cargo owners [BCOs] conclude their annual tender negotiations for new trans-Pacific contracts commencing May 1, it is becoming clear that contracts rates this year in the trans-Pacific and Asia-Europe will give exporters and importers a cut in shipping costs of 55 to 85 percent in most cases when compared with 2022 costs," Damas noted in a logistics briefing Monday.

He said the rapid decline in rate levels had seen some of Drewry's shipper customers booking savings of between $10 million and $200 million in contracted ocean freight costs compared with 2022. Competition between carriers and non-vessel-operating common carriers (NVOs) was particularly fierce on the trans-Pacific.

Better service at lower cost

While shippers are saving money on transport costs, they are also enjoying improving service levels. Schedule reliability of 30.2 percent on the trans-Pacific in February was up from 13 percent last February, while Asia-North Europe on-time performance of 53 percent was up from 15.4 percent, according to Sea-Intelligence.

Drewry data shows transit times on the east-west trades are twice as fast as a year ago with congestion at major ports reduced by 50 percent in North America and 60 percent in Europe.

Carriers are currently riding high on record profitability, with the pandemic-driven disruption changing supply and demand dynamics over the past three years and allowing the industry to turn its fortunes around and improve dismal profit margins.

McCown wrote in his quarterly container shipping outlook that in the four years from 2016, carriers took a cumulative loss of $8.5 billion on revenue of $681.2 billion, for a negative 1.3 percent margin of net income to revenue. In 2020, 2021, and 2022, the container shipping industry achieved actual net income to revenue margins of 8.1 percent, 36.8 percent, and 42.1 percent, respectively.

Although industry margins were now decelerating “in a pronounced way,” McCown said 2023 would be another profitable year for the carriers.

“The large majority of containers move under contracts that are renewed throughout the year and have a one-year term,” he said. “This simple fact means that the results will have a long tail even as supply-demand conditions change.”

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