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Oversupplied ocean carriers sailing into new downcycle: analysts

Spot rates have declined sharply on the major east-west trades out of Asia this year. Photo credit: Port of Felixstowe.

Greg Knowler, Senior Editor Europe | Mar 17, 2025, 10:27 AM EDT

Container shipping is plunging into another downcycle with an oversupply of capacity and weakening demand hanging over the industry, leaving little to slow the slide in rates on major trades that analysts say has declined beyond seasonal norms.

Despite reporting a highly profitable 2024 — operating profit will be near $60 billion across the industry, according to estimates from Sea-Intelligence Maritime Analysis — analysts are predicting a sharp downturn beginning this year.

“We think we are entering a multi-year period of losses as the industry grapples with overcapacity,” J.P. Morgan wrote in a market update Monday, noting that the losses will likely emerge even if capacity does not fully return to the Red Sea this year.

"Our demand-supply analysis now points to a 30% reduction in freight rates year over year in 2025 [down from the previous estimate of negative 15%]," the bank's transport analysts wrote. "This leads to ocean EBIT [earnings before interest and taxes] losses emerging during 2025 and in our view persisting into the next three years, as vessel deliveries re-accelerate in 2027."

On the trans-Pacific, North Asia-US West Coast rates are down 65% since early January, falling an additional $400 last week to $1,800 per FEU. North Asia-US East Coast rates of $2,800/FEU lost $500 in the past week and are down 58% so far this year, according to Platts, a sister company of the *Journal of Commerce* within S&P Global.

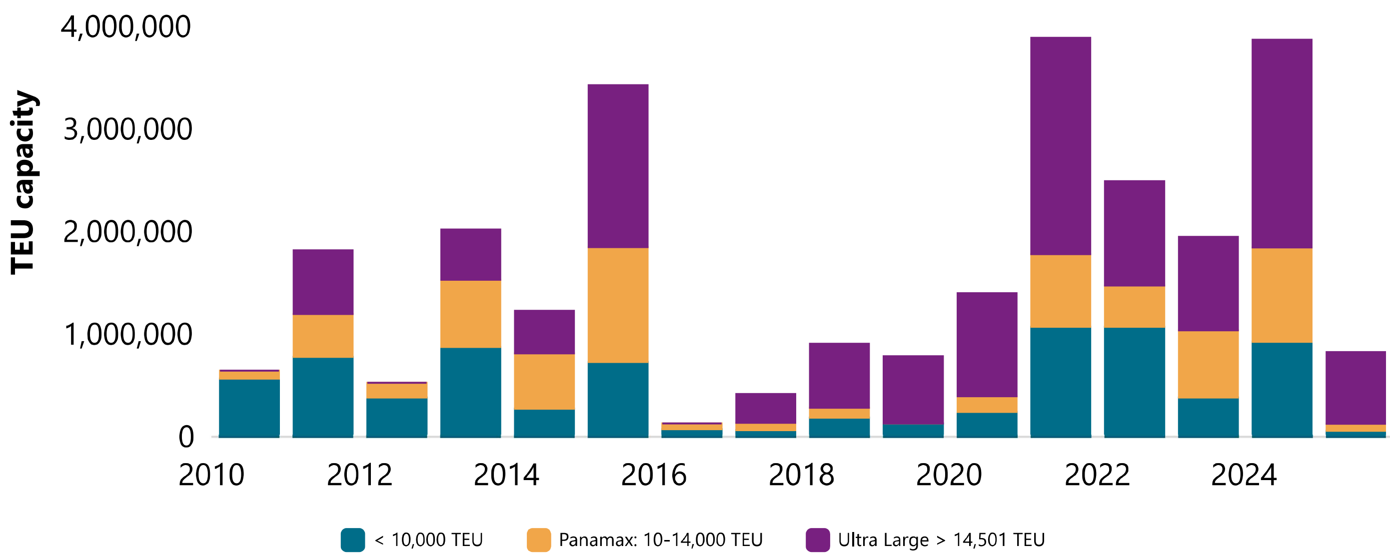
Similarly, Asia-North Europe spot rates are down 50% since the beginning of January at $2,549/FEU and are now $148/FEU below the long-term contract rate, according to rate benchmarking platform Xeneta.

Short-lived rate increases

Carriers levied freight-all-kinds (FAK) increases on Asia-North Europe on March 1, but it had little effect on the oversupplied market, according to Peter Sand, Xeneta's chief analyst.

"The short-lived uptick in spot rates at the start of March suggests a weakness in the market and demonstrates the difficulties carriers will face in capacity management during 2025," Sand said in a market update, adding that a similar weakening of rates can be seen on the Asia-to-US West and East coast trades despite a series of general rate increases (GRIs).

Ultra-large vessels comprise bulk of ocean carrier orderbook
Container vessels on order each year by ship size in TEUs



Source: Sea-web, S&P Global

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Maersk CEO Vincent Clerc said during the carrier's earnings call earlier this month that no matter how long the Red Sea disruption lasted, the fundamentals of increasing overcapacity in container shipping would "eventually" prevail and could start hitting the market as early as the third quarter.

"Even if the situation on the Red Sea was to endure for two years, three years or four years, the current orderbook would eventually be bigger than what we expect market growth to be," Clerc said.

Flurry of air strikes on Houthi positions

The container shipping order book is currently just over 7 million TEUs, representing 25% of the existing fleet, according to S&P Global's Sea-web, sister company of the *Journal of Commerce*, with the supply-demand imbalance expected to be particularly acute over the next two years.

Niels Rasmussen, chief shipping analyst at shipping association BIMCO, had forecast cargo volume growth at 3% to 4% in both 2024 and 2025, which will be easily outstripped by fleet growth that was due to top 9.5% in 2024 and is forecast for 4.9% in 2025.

An estimated 10% of global capacity has been absorbed by the longer transits around southern Africa to avoid the Red Sea. The Houthi's move last week to renew attacks on Israeli-linked ships and a flurry of air strikes from US warplanes on the militants' positions in Yemen over the weekend highlighted the ongoing volatility in the region.

"The next incremental addition in capacity will result near term from the reopening of the Red Sea, which we think will likely happen in 2026 as it will take time for the full capacity to return," J.P. Morgan noted in its update.

The bank has forecast 2% growth in global volume this year, with volume rising 5% in the first quarter before falling to 1% growth for the remaining quarters of 2025.

"We continue to see the freight backdrop as challenging and it remains subject to heightened demand risks as we enter a global trade war, given recent announcements of reciprocal tariffs with business confidence subject to downside risks," J.P. Morgan said.

John McCown, founder of private equity firm Blue Alpha Capital, agreed in his McCown Report released earlier this month.

"The year 2025 could be a return to the roller coaster volume swings that most of us had hoped were in the past," he wrote. "Whether it's the Panama Canal situation, the complex reciprocal tariffs or the initiative to tax ships with a Chinese connection each time they call on a US port, these initiatives inject chaos, uncertainty and unnecessary costs into the container supply chain."

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