



By: Tomorrow's Affairs Staff

Little hope for the recovery of container traffic industry this season



The container shipping industry is anxiously awaiting the peak of the annual season, as there are still few indicators that the sector will recover.

The vast majority of carriers are optimistic that the industry will begin to recover from the significant decline in the past year, but few are prepared to estimate when this recovery will happen.

Peak shipping season starts soon, in mid-August, and lasts for several months, until November or December.

This is an opportunity that container carriers do not want to miss, given that demand is highest during that period, so those few months usually serve to increase performance if the previous period was not profitable.

This is precisely what is happening on the container market. The past year was very unfavourable, and the decline in the work volume and the price of services was significant.

The lowest point has already been reached

Peak shipping season is a period of increased demand in the largest markets. Retailers are looking for a way to clear out their inventories after the summer season. There is also the back-to-school shopping season and wholesalers' preparations for the winter holiday season.

However, container carriers have little reason to hope the seasonal peak will get them out of trouble this year.

The optimists among them say that the lowest point has already been reached and that the coming months could only mean an upward turn.

The price of container transport in the past year has dropped by an average of about 80% on all the most frequent cargo routes.

For a 40 feet container, freight charges from Chinese ports to ports in Western Europe and the US, dropped to an average of \$1,500 from last year's c.\$10,000.

At the same time, container transport prices are far below the ten year average. On some routes they are between 30 and 40%.

Rising costs are changing the image of the industry

It is comforting for carriers that this price level of their services is close to, and even slightly higher (8% on average) than before the pandemic in 2019.

The business environment today is no longer the same as it was four years ago. In the meantime, fuel costs and wages have increased.

Spot rates are at a level that in the long run "are not sustainable, with costs up by 25% to 30% since 2019. In some cases, certain voyages don't make sense because you simply lose too much money", said Rolf Habben Jansen, CEO of Germany's Hapag-Lloyd.

Container carriers are still paying the price for

their expectations during the Covid-19 pandemic, of which they were one of the biggest winners in the business world.

A period of soaring demand for goods has coincided with problems in supply chains, causing container shipping costs to skyrocket. It cost a huge \$20,000 to transport one container on some routes during the pandemic.

Peak season - the moment of truth

With the lifting of the lockdown and the normalisation of traffic and trade, the demand in the largest markets has also decreased, and thus the demand in the container business.

The industry has been experiencing a steep decline since last year's peak season, followed by high inflation and large inventories at retailers.

It turned out that with all these factors, large consumers of goods extended the period for their supply, thus extending the seasonal peak to a longer period during the year.

This year's peak will be a moment of truth for many container carriers. Was last year's slow season just an incident? Will it be repeated this year, or will it become the rule?

Optimism without much coverage

A June survey of the industry (Container xChange) has shown that more than two-thirds of executives believe that demand will be renewed this year, but only 18% believe that growth will occur in the next month to three months, in the period of the usual season peak.

Even more worrying is that half of the respondents from 406 container companies do not know in which period growth could occur, although they certainly expect it.

The optimism of carriers was based on the assessment that lifting the lockdown in China would increase the loading volume and higher demand. This did not happen because transport prices from China and Southeast Asia have been steadily decreasing.

Simply put, there are many ships on the oceans competing to take on cargo, with the cost of their services and occupancy decreasing.

"There are enough and more reasons to be pessimistic. With the peak season coming, the industry sentiment is negative", said Christian Roeloffs, CEO and co-founder of Container xChange.

The largest markets in Western Europe and the US have been experiencing turbulence. Inflation is high, which makes consumers cautious and economical while stocks are still high. Altogether, it does not give much hope for the recovery of the container shipping industry.

"Since the pent-up demand observed in late 2021, the industry is waiting for a demand comeback, which seems less likely in the coming peak season", said Roeloffs.