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Ocean Ship Rates and Utilization Still in the Dumps, with No Real End in Sight

Prices Still Down by as Much as 80%, even as Some Add Capacity or Use Price to Gain Market Share; A Very Different Face for the Industry Soon

SCDigest Editorial Staff

The ocean carrier market may end up being the best indicator of the global economy.

The once hot sector has taken an absolute pummeling, as global trade and container volume continue their multi-year slide.

In US ports, for example, container volumes into the US fell by 22% in April – the last month for which firm numbers are available. That marked an incredible 22nd consecutive monthly drop in year-over-year container volumes. The slide in the Asia to Europe routes have been just as bad or even worse, with container import volumes down 20.6% in the first five months of 2009.

The decrease in container volumes tied to the global recession came on the heels of several boom years, as shipping lines placed orders for many new ships, including new megaships that can handle as many as 10,000 or more containers. Those ships started to come on line just as the shipping industry was tanking. Many of those ships will keep coming over the next 3-4 years, given the multi-year order-to-delivery cycle for container ships and steep cancellation penalties.

While there are some signs that container volumes have stabilized, the drop in those volumes was generally much steeper than the drop in overall economic activity, and likely will still face significant year over year declines through the rest of 2009.

Rates Down by More than 80%

Experts at a global logistics conference last week said ocean shipping prices remain in the toilet, with one observer saying that spot rates for rental of a full large container ship had dropped from perhaps $38,500 in 2005/2006 to just $5700 or so currently – a decline of more than 80%. Many carriers are thought to be taking cargo at below variable costs, or close to it.

Still, some carriers are actually using the downturn to gain market share – in some cases by adding capacity. Cosco Container, of China, for example, is executing plans to grow its fleet by 84%.

Many ships have been taken off-line, with hundreds of ships docked outside the port of Singapore, for example, waiting for a recovery some day in shipping volumes.

Needless to say, 2009 will go down as one of the worst if not the worst year ever for ocean carriers.

For example, Germany's Hapag-Lloyd, the world's seventh largest ocean carrier, is having significant financial troubles stemming from the slow down, and is now attempting to get a $1 billion cash infusion from current investors and a $1.4 billion in government-backed loans to keep itself afloat.

Rumors continue to surface that at least one of the top 10 largest ocean carriers will not survive the downturn.

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Also making a move is privately held Mediterranean Shipping Co., the second largest ocean carrier.

According to **Jan Tiedemann**, an analyst at AXS-Alphaliner speaking at the same conference last week, MCS is "using the situation to aggressively build market share, (as if saying) 'We don't care if we are making a profit right now, we are going into the markets with some new capacity, trying to extend at the expense of others.'" through cut throat pricing.

There will be more "casualties and continued unsustainable freight rates unless the industry market-share mind-set is discarded," **Niel Dekker**, editor of a container-industry newsletter for the highly respected Drewry Shipping Consultants of London wrote earlier this month.

"The reality is few, if any, of the actions carried out by the carriers to move away from the current abyss make sense," Dekker says. "Some business leaders privately agree that strategies to protect market share and volume as opposed to revenue are suicidal. Yet they question what options they have."

"We believe that consequently, the basic make-up of the industry will change as companies either go bust, amalgamate or shrink, shedding assets and personnel in the process," he adds.

Whatever the outcome, it is clear the ocean shipping industry is likely to look very different in the next two years.