

## Carrier capacity reaction not effective

When the Covid-19 pandemic first hit in the start of 2020, the demand for container shipping collapsed, and carriers reacted swiftly, reducing liner capacity at a pace matching the drop in demand. This means that the carriers clearly had both the ability and the willingness to adjust capacity on a tactical level, in order to maintain vessel utilisation.

In September 2022 demand collapsed once again and kept dropping for the rest of 2022. The structural setup in the market at the end of 2022 was relatively unchanged compared to 2020, and as such, the carriers must be assumed to still have the same ability at the end of 2022 as they did in 2020, to reduce capacity in line with the collapse in demand.

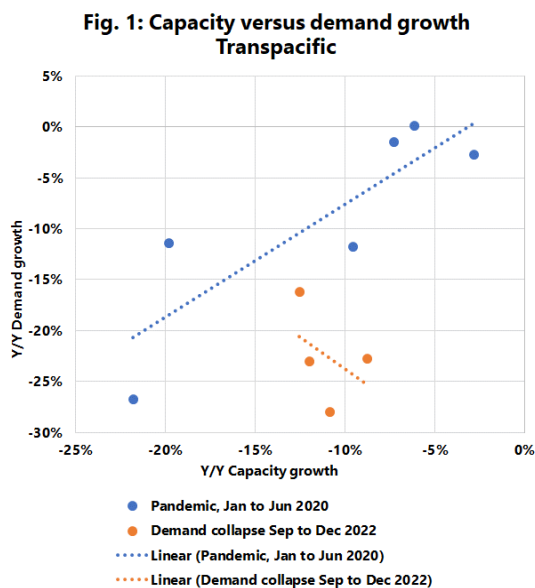


Figure 1 shows a cross-plot between Transpacific capacity and demand Y/Y contraction, for individual months in either the initial pandemic crash in early 2020 (marked with blue dots) and the current demand crash (marked with orange dots). For the current demand crash, the carriers seemingly chose not to use their ability to cut capacity in line with the drop in demand. There is no clear link between changes in demand and changes in capacity in the end of 2022, which is in stark contrast to the situation in 2020.

On Asia-Europe, we see the same pattern as for the Transpacific. During the early pandemic phase, the capacity was adjusted in a way that matches the demand decline quite well, whereas once we get to the end of 2022 the development in demand contraction diverges sharply from that of capacity contraction.

This can only be seen as a choice on the part of the carriers. A choice to allow overcapacity to persist, is also a choice to allow for low utilisation, and thus to allow for freight rates to continue to drop. This is a behaviour we know by a different word: A price war.

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