

## Car Carriers: Not 'Letting Off The Gas' Just Yet

It's been another remarkable year for the car carrier sector, characterised by record trade volumes, a continued acceleration of the shift towards electric vehicles, exceptionally tight freight and charter markets, record newbuild contracting and continued progress in the fuelling transition. Here we take a closer look at some highlights from the upcoming *Car Carrier Trade & Transport 2023...*

### Car Trade In Top Gear

The driving force behind the car carrier sector this year has been exceptional trade growth and the shipping demand this has created. We project global 'deep sea' seaborne car trade will grow by 17% to 23.7m cars, smashing past the 'pre-Covid' record of 21.5m cars set in 2018 as Chinese exports continue to surge (>4m cars this year) and production in other key regions recovers from component shortages which held back volumes in 2021-22. Surging China-Europe volumes also mean that 'car-mile' trade is set to grow by an even firmer 19% this year. Overall, car trade volumes are on track to stand 12% above pre-Covid levels this year, and 19% above in car-miles (see graph). Other factors including strong 'high and heavy' volumes and the growing share of trade accounted for by generally larger and heavier EVs and hybrids (29% this year, up from 9% in 2019) have further 'turbocharged' vessel demand. These trade trends 'dwarf' modest fleet expansion of just ~2% since 2019.

### Markets Running Flat Out

Given this imbalance in supply and demand that has accumulated, car carrier markets remain exceptionally tight as 2023 draws to a close. Operators have generally reported strong (and in some cases, record) financial results this year, while charter rates are at record levels; our guideline 1yr TC rate for a ~6,500 ceu PCTC stood at \$115,000/day by November, up a further 10% from already record year-ago levels and more than double the previous Q2 2008 high (albeit with generally fewer fixtures concluded this year). Much of the fleet is now 'fixed forwards' and fixture periods are frequently in excess of 3-4 years.

### Eyeing Up A New Model?

With markets strong, vessel supply tight and underlying fleet renewal needs from environmental pressures, newbuild ordering in the sector has continued apace in 2023. Latest data shows that 80 vessels of 677,000 ceu have now been confirmed ordered in 2023, already a new annual record, taking the orderbook to ~37% of fleet capacity. Around 85% of capacity on order is set to be alternative fuel capable (mostly LNG, some methanol), while 28% of capacity is ammonia or methanol "ready". Operators have led newbuild ordering activity this year, while Chinese yards are set to build the vast majority (~85%) of capacity now on order.

### The Road Ahead...

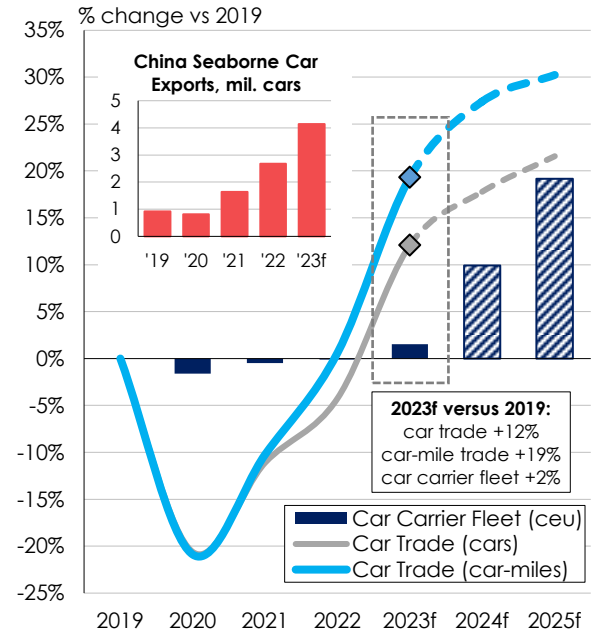
So, another remarkable year for the car carrier sector, and the short-term outlook is firm, with positive momentum looking set to continue into 2024. Further ahead, though, there is more uncertainty; fleet growth is projected to pick up to ~8% p.a. in 2024-25, while it is unclear to what extent car trade growth might 'cool off' once pent-up demand is worked through, especially given consumer pressures and downside risks (our 'base case' is for 5% growth in 2024 and 3% in 2025; see report for full discussion). A 'normalisation' in market conditions seems natural eventually, but, given today's wide supply-demand imbalance, this could well take time...

## Graph of the Week

### Car Carriers: Demand Still In The Driving Seat For Now

The graph shows car trade (in both car and car-mile terms) and car carrier fleet capacity across 2019-2025f relative to the 2019 pre-Covid 'baseline'. (Car trade basis full year totals/forecasts, fleet basis end year totals/forecasts.) The inset graph shows annual Chinese seaborne car exports; 2023 basis full year forecast. For further information on the car carrier sector, see the upcoming 2023 edition of *Car Carrier Trade & Transport* on *Shipping Intelligence Network*.

The author of this feature article is David Whittaker. Any views or opinions presented are solely those of the author and do not necessarily represent those of the Clarkson's group.



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