

Recession Continuing

Shipbuilding

The Japanese shipbuilding industry may have touched bottom in its continuing recession in 1988. New shipbuilding orders won by Japanese companies are estimated to finish the year at 4.5 million gross tons, up 2.5% from the previous year, although still falling short of the 5 million-ton mark for the third successive year.

The factors behind the structural recession remain largely unchanged: a long-term downturn in seaborne cargo volume caused by structural changes in the world economy following the international oil crises of the 1970s, a consequent decline in ship demand, and the rise of South Korea and other powerful new shipbuilding states armed with low-cost labor. By the end of March 1988 Japanese shipyards had cut their shipbuilding capacity by a full 23%.

Yet there is some glimmer of light in the darkness. The South Korean won has risen against the U.S. dollar since 1987, increasing labor and materials costs. The cost gap between Korean and Japanese yards has narrowed fast, and some shipbuilding orders previously placed with South Korea are starting to swing back to Japan. Shipbuilding prices are also at the lowest possible level, and can only go back up. Japan, South Korea and the EC have begun consulting on ways to improve shipbuilding prices, and are poised to take joint action to hold the line on accepting orders at rock-bottom prices.

Progress has also been made in getting Japanese shipbuilders back into shape. The yards are now integrated into eight groups instead of 21 groups as before, and some medium-sized firms have withdrawn from the business entirely. Nonetheless, analysts estimate it could take three to five years before Japanese yards can start winning fully remunerative orders for ships, centering on replacements for the world's aging fleet of very large crude carriers (VLCCs—crude oil tankers). In 1989 the orders won by Japanese yards will again probably fall short of 5 million tons.

Shipping

The Japanese shipping industry is also suffering from the severest recession since the integration of shipping enterprises in 1964. The difficulties stem from sluggish trends in world trade volume, the sustained doldrums in prices stemming from excess tonnage, and an erosion of freight revenues due to the yen's rise against the U.S. dollar.

The six major ocean shipping companies ended fiscal 1987 in the red despite some improvement in their liner, tramp and tanker divisions. Five paid no dividends for the year.

Excessive competition continued on transpacific liner routes in 1988. One of the six top Japanese firms withdrew from the service, while two other companies spun off their liner divisions into separate firms. Stepped-up imports from the Unit-



The recession afflicting Japan's shipbuilding and shipping industries may have finally hit bottom in 1988.

ed States drove up U.S.-Far East freight rates, but Far East-U.S. freight rates remained low. The liner businesses of major shipping companies are expected to remain heavily in the red for some time to come.

Tramper divisions, supported by concentrated Soviet purchases of U.S. grain and active steel production worldwide, have fared well. Breakups have slowed, however, amid the continued tonnage surplus of more than 20%, making it difficult to sustain the increase in tramper freight rates.

Tanker freight rates have been subject to wide short-term fluctuations. Rates in 1988 were generally stabler than in 1987, however, reflecting moderately brisk U.S. imports of crude oil amid a continuation of low crude oil prices. Nonetheless, there will likely be no full recovery in tanker rates, since breakups have slowed despite a surplus in tonnage running at some 30%.

Under the circumstances, Japanese shipping companies are understandably working to pare costs further. Tramper and tanker divisions can be expected to improve somewhat in 1989, but liner divisions will remain heavily in the red. Their car carrier business will also deteriorate further as exports of finished cars and trucks fall. Overall, 1989 will be another harsh year for Japanese shipping companies, which will be obliged to continue full-speed ahead with their rationalization efforts.

(Seiichi Inoue, economist)

Shipbuilding

(1,000 gross tons)

	FY 1985	FY 1986	FY 1987	FY 1988 (estimate)	FY 1989 (forecast)
Ships ordered	6,451	4,832	4,389	4,550	4,700
Ships completed	8,295	8,005	4,367	4,100	4,600

Source: "Ships ordered" statistics based on shipbuilding permits granted by the Transport Ministry

Freight Market

	CY 1985	CY 1986	CY 1987	CY 1988 (Jan.-June)
Tramper freight	167.0	156.6	174.3	198.9
Tanker freight (VLCC, ULCC)	31.7	33.0	41.8	35.2

Notes: 1. Tramper freight index: July 1965–June 1966=100

2. Tanker freight: VLCC (very large crude carriers) and ULCC (ultralarge crude carriers)=150,000 dwt or larger

3. World scale=100

Source: Shipping News International