

Sinking Profits

Shipping

Favored by improvement in the shipping market and a weakening of the yen, most shipping companies managed to see their revenues and profits increase in fiscal 1989 and many of them resumed dividend payments. The outbreak of the Gulf crisis, however, had a serious impact on the market environment, and a downturn was evident in the profits of the shipping firms in the latter half of fiscal 1990.

In the liner sector, there was a notable slowdown in cargo movement in North America trade, centered on the sharp drop in the flow of cargo to North America from Taiwan and South Korea. As a result, the performance of shipping lines serving North America, where deficits have been trimmed since 1987, is worsening again. On other routes, also, cargo movement is tending to remain stagnant. Red ink in the liner sector, overall, is increasing.

In the tramp division, a sharp uptrend in cargo movement, recorded through 1989, has petered out. Conspicuous signs have appeared of an increase in Panamax and Cape type ships. Coupled with the sluggish scrap situation, the bottom supply-demand situation is showing signs of easing.

In the tanker sector, massive replacements of very large crude carriers (VLCCs) can be anticipated in the 1990s. Signs have already appeared since 1988 that replacement orders, and the number

of VLCCs, is increasing. The uptrend in the volume of crude oil carried by ships and the supply-demand situation for ships remains tight.

On the one hand, the price of C-grade fuel oil for ships is rising sharply as a result of the Gulf crisis. An overall rise in freightage and charterage costs, to offset the fuel price increases, is impossible. The sharp fuel cost hikes cannot be ignored by shipping firms whose business has been directly affected by the Gulf crisis.

As for the market environment in and after 1991, it will most likely be greatly influenced by how the Gulf crisis unfolds. The key factor is the duration of the crisis. For the time being, a sharp increase in cargo cannot be expected. A drop in profitability in the liner and tramp sectors, in particular, is believed to be inevitable, and shipping firms are expected to find it difficult to extricate themselves from the present declining profit undertone.

Shipbuilding

The shipbuilding industry continued to enjoy strong orders in 1990. In view of the long recession that continued through most of the 1980s, Japanese shipbuilding companies reduced their facilities by more than 23% in fiscal 1987, and cut back their work force simultaneously. In the past two years, things have begun to look up for several reasons. One was a drastic improvement in the shipping mar-



Massive replacement of VLCCs is expected in the 1990s.

Photo: Nippon Yusen K.K.

ket especially in the tramp and tanker divisions, caused by a global increase in sea-borne cargo transportation. Also, the South Korean shipbuilding industry, which at one time showed signs of approaching the Japanese in volume of orders received, began to stumble due to sharply rising costs.

Japanese shipbuilders have thus enjoyed a sharp increase in inquiries for new ship construction. A shortage of building slips and workers has resulted, and shipbuilding costs therefore rose dramatically in 1989 and 1990. Interest among shipowners to place orders for ships started to ebb in the latter half of 1990, due to the sharply rising shipbuilding costs as well as the slowdown in cargo movement and deterioration in the shipping market caused chiefly by the Gulf crisis.

In the first half of fiscal 1990, orders received topped 6 million tons for the first time since the first half of fiscal 1983, and the total volume of orders for the entire fiscal year will almost certainly top those for fiscal 1989, which saw orders for 8.63 million tons, although a decline in orders is expected in the latter half of the fiscal year. Orders are projected to decline in fiscal 1991, and a tight supply of building slips is expected to continue, but orders are expected to remain at around the annual capacity. This is because demand for construction of VLCCs and other types of ships for replacements remains firm.

Shipyards are expected to stay busy filling their backlog of orders for more than two and a half years from the end of fiscal 1990. Since the price for completed ships is rising, the shipbuilding firms are most likely to continue enjoying increases in both revenues and profits. Although some fluctuations are expected in and after 1991, orders for new ship construction, especially those for replacements, are expected to remain at a high level. Shipbuilding prices also are expected to show rigidity against any downward price trends.

(Seiichi Inoue, economist)

Shipbuilding

(1,000 gross tons)

	FY 1986	FY 1987	FY 1988	FY 1989	FY 1990 (estimate)	FY 1991 (forecast)
Ships ordered	4,832	4,389	4,849	8,632	10,500	6,500
Ships completed	8,005	4,367	4,325	5,663	6,400	6,800

Freight Market

	1986	1987	1988	1989	1990 (Jan.-Aug.)
Tramper freight	156.6	174.3	194.7	204.3	195.9
Tanker freight (VLCC, ULCC)	33.0	41.8	43.8	50.9	62.1

Notes: 1. Ships ordered and ships completed statistics based on shipbuilding permits granted by the Ministry of Transport.

2. Tramper freight index: from *Shipping News International*; July 1965-June 1966 = 100

3. Tanker freight index: from *Shipping News International*; VLCC, ULCC = 150,000 dwt or larger