

# Unsettled Outlook

## Shipping

The outlook for Japan's shipping industry remains unsettled although it has managed to extricate itself from the protracted recession which continued up to 1987. This is due to changes in the business situation in Japan and the U.S. and the addition of large numbers of newly built ships to world fleets since 1990.

In the liner sector, profits increased in fiscal 1991 compared with the previous year, as the end of the Gulf crisis and ensuing war brought about a sharp decline in bunker prices and removal of other detrimental factors. The recovery was also due to an improved profit situation in the North American trade and increased earnings on the European route.

As to the tramp sector, the freight market is showing continuing signs of a downward trend as movement of steel cargo has slowed down. Another factor has been an easing in the supply-demand situation for ships resulting from completion of large numbers of newly built bottoms. Compared with fiscal 1990, a reduction in the black ink figure is believed inevitable. In the tanker sector, movement of crude oil became active and the number of ships chartered by major oil firms and oil-producing countries increased, resulting in a bullish tanker market and a rise in profits. As a result, business in the shipping industry as a whole has improved compared with fiscal 1990, and shipping firms are enjoying an increase in profits.

Prior to the adoption by the International Maritime Organization (IMO) of measures to strengthen structural restric-

tions for tankers, negotiations for orders for very large crude carriers (VLCCs) were also active in 1991. However, increased building costs, caused by the tight situation in shipbuilding facilities, have caused such negotiations to slow down since the summer. As there are still strong moves for replacement of VLCCs and since shipbuilding costs are expected to rise still further in the future, the biggest problem facing the shipping firms now is how to absorb the increased prices in their shipping rates.

The environment surrounding the shipping market in and after 1992 will depend on economic trends in Japan and the U.S. Cargo movement on the North American route is expected to remain flat and a drop in seaborne transportation of steel and other dry cargo is believed inevitable. If the completion of large numbers of newly built ships since 1990 is also taken into account, the supply-demand situation for bottoms is expected to ease. Accordingly, no increase in profits can be expected in either the liner or tramp sectors and a decline in profits is likely in the industry as a whole.

## Shipbuilding

Japan's shipbuilders continued to enjoy brisk orders for ships in 1991, as was the case in the previous year. By the summer of 1991, shipbuilders were confronted with a rush in orders for single-hull tankers prior to the enforcement of the IMO tightened structural restrictions. Many orders were received, in particular for VLCCs. Since then, however, negotiations for orders have slackened due to the

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rise in building costs and the unclear outlook in the shipping market. As a result, the volume of orders received in fiscal 1991 is believed to be lower than that for 1990 on a shipbuilding permit basis.

Nevertheless, the backlog of orders is expected to remain at a level exceeding annual shipbuilding capacity, maintaining the 7 million-ton level. The various shipbuilding firms already have enough orders to keep them busy until the end of 1993 and are becoming very selective in accepting new orders. Coupled with the drastic rise in shipbuilding costs, this has meant that the groundswell of a steady increase in earnings and profits is being maintained for fiscal 1991.

The environment for shipbuilding orders in and after 1992 is expected to differ from that up to 1990, when the order flow was strong. This is because of the softening of the shipping market and cost increases. Even so, the shipbuilders expect to maintain a volume of orders equal to their annual building capacity.

Their biggest concern is when the next period for mass replacement of VLCCs will come. They have already begun studying ways to cope with a further replacement boom after the mid-1990s. While Japanese shipbuilders thus seem assured of increased earnings and profits in fiscal 1992, a sharp rise in the profit rate is not expected because higher prices for materials and parts are already being gradually felt.

(Seichi Inoue, senior economist)

## Freight Market

	(index)				
	1987	1988	1989	1990	1991 (Jan.-Aug.)
Tramper freight	174.3	194.7	204.3	197.8	204.3
Tanker freight (VLCC, ULCC)	41.8	43.8	50.9	63.2	72.6

## Shipbuilding

	(1,000 gross tons)					
	FY 1987	FY 1988	FY 1989	FY 1990	FY 1991 (estimate)	FY 1992 (forecast)
Ships ordered	4,389	4,849	8,632	10,702	7,000	6,500
Ships completed	4,367	4,325	5,663	6,367	6,700	6,800

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