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Shipping confidence reaches highest level for two and a half years

Overall confidence levels in the shipping industry rose to their highest level for two and a half years in the three months ended May 2013, according to the latest Shipping Confidence Survey from international accountant and shipping adviser Moore Stephens. The survey produced evidence of increased enthusiasm for new investment, although doubts persisted about the availability of bank finance. Fuelled by ongoing concern about a surfeit of tonnage on the market, freight rates in the dry bulk sector in particular were expected to come under more pressure over the next twelve months, although the outlook for the tanker markets looked more encouraging.

In May 2013, the average confidence level expressed by respondents in the markets in which they operate was 5.9 on a scale of 1 (low) to 10 (high), compared to the figure of 5.8 recorded in the previous survey in February 2013. This is the highest figure since the 6.0 recorded in November 2010. The survey was launched in May 2008 with a confidence rating of 6.8. The confidence rating for owners was unchanged at 5.7, while that for brokers was up from 5.6 to 5.9, the highest figure since November 2010. Confidence on the part of managers and charterers, however, was down to 6.0 and 5.5 respectively, from 6.2 and 6.0 in February 2013. Geographically, confidence in Asia was up (from 5.6 to 5.8), unchanged in Europe at 5.8, and down in North America from 6.1 to 6.0

A number of respondents felt that there were positive signs that a recovery was under way. One said, “The shipping market is dynamic in nature, and we are starting to see signs of exponential growth,” while another predicted with great confidence, “The shipping markets will continue growing over the next fifteen years!” Elsewhere the predictions were less expansive, ranging from, “The market will recover in 2014,” to, “Overall, we believe that 2013 will end up better than last year, and 2014 will show further improvement, even if some niche markets may not be able to maintain their current rate of growth.” Other respondents, meanwhile, continued to express concern about a surfeit of tonnage in the market. One said, “As soon as there is any hint of a sector with positive potential, owners run to the yards and start ordering” while another noted, “New orders need to be halted for two years in order to correct the over-supply situation.”

Elsewhere it was noted, “There are still too many owners ordering new vessels which will hit the water in the next two years. If we are to believe estimates that the world’s shipyards turned out five times as much tonnage in 2012 as they did in 2005, it is clear that the problems are far from being solved.” Another respondent commented, “Newbuildings from China are still being delivered, and that will doubtless continue because the yards are major employers of local labour and huge consumers of indigenous steel and other raw materials." And it was not just China which was referenced in this context, with one respondent pointing out, "There are competitive prices on offer for newbuilding orders, even from Japanese shipyards." Another respondent predicted a continuing over-supply of tonnage in all sectors except those below 20,000 dwt, adding, "Too many larger ships continue to be ordered and delivered due to perceived low newbuilding costs, but these deals do not come close to making sense based on current market returns."

Despite significant increases in scrapping levels in the past eighteen months, a number of respondents felt that much more still needed to be done. "The level of new ordering is alarming," said one, "particularly as some reports suggest that rates of scrapping may now be slowing down again. At current levels the fleet will continue expanding into 2014 and 2015." Another respondent said, "The industry faces significant increased costs in terms of meeting new regulations over the next few years and, given the lack of available finance, this may accelerate the scrapping of older vessels, particularly those coming up for their fourth survey, but this is unlikely to be sufficient to get the industry out of the over-supply hole it finds itself in."

One respondent said, "We are increasingly pessimistic about the ability of smaller, privately owned European-based shipowners to compete in the main non-niche markets due to lack of scale and financial muscle, as well as evidence of protectionist practices which render certain trades inaccessible." Elsewhere it was noted, "We have some way to go before we can expect to see any improvement in freight rates, especially if a new wave of cheap, fuel-efficient ships is ordered for 2015 onwards."

Regulatory demands featured in the responses from a number of respondents, with one commenting, "The increasing burden of regulation, and the desire on the part of Brussels to be more proactive in its control of what is a global business, is likely to lead to a large number of marginal players exiting the market completely. Whether this will be sufficient to accelerate a return to a better supply/demand balance remains to be seen."

The cost and availability of bank finance was uppermost in the minds of a number of respondents. "If the banks do not improve their funding resources," said one, "shipping will remain depressed for years to come." Another commented, "The banks are not willing to invest in older ships." This was a view echoed by the respondent who remarked, "We have looked at several secondhand ship purchase deals which appear to be good enough to replace older tonnage, but our main lending bank is still not willing to finance them, even with high un-mortgaged equity values within our business able to back the loans." Elsewhere it was noted, "The banks are behaving illogically, and their lack of support frustrates the shipping industry."

Generally speaking, respondents were more positive than for some time with regard to the state of global and national economies. One said, "The US economy is slowly starting to recover, which will impact positively on demand and on freight rates, plus the likelihood of interest rates remaining unchanged for a few more years will serve to stimulate the market."

The likelihood of respondents making a major investment or significant development over the next twelve months was up marginally on the previous survey, on a scale of 1 to 10, from 5.5 to 5.6 – the highest level since the 5.7 recorded in February 2011. Owners (down two points to 5.7) were the only category of main respondent to show a fall-off in expectation in this regard. Both charterers and managers, meanwhile, recorded an increased expectation (each from 5.7 to 6.0) of making new investments over the coming year, a view shared also by brokers (up from 4.8 to 5.2).

The percentage of owners who assessed the likelihood of their making an investment at 7.0 out of 10.0 or higher was up by one percentage point to 45 per cent, while the number of charterers who thought likewise was also up by the same margin, from 46 per cent to 47 per cent. Meanwhile, 45 per cent of managers rated the likelihood of their making a new investment over the next twelve months at 7.0 out of 10.0, or higher. Geographically, expectation levels of major investments were up in all the main geographical areas covered by the survey – in Asia, from 5.4 to 5.5, in Europe from 5.5 to 5.6 (their highest level since February 2011), and in North America from 4.9 to 5.9. One respondent noted, "Regulatory demands on shipping are such that the industry cannot cope with large investments in a financially tight market. Trust in shipping in general is low, given the market sentiment.

Demand trends, competition and finance costs once again featured as the top three factors cited by respondents overall as those likely to influence performance most significantly over the coming twelve months. The overall numbers for demand trends were down one percentage point to 22 per cent, static for competition at 20 per cent, and unchanged also in the case of finance costs at 16 per cent. Tonnage supply (down one percentage point to 12 per cent) featured in fourth place, ahead of operating costs (up two percentage points to 11 per cent), and fuel costs, which were one percentage point down on last time at 10 per cent.

Demand trends remained the number one performance-affecting factor for owners, although down by one percentage point to 21 per cent. Competition featured in second place at 18 per cent (up from 15 per cent last time), followed by finance costs, up one percentage point to 17 per cent. Tonnage supply, having featured in second place in terms of owners' priorities last time, was down by two percentage points to 16 per cent. For managers, meanwhile, competition, although down from 20 per cent to 18 per cent, still featured in equal first place with demand trends (down one percentage point to 18 per cent), followed by finance costs, down from 17 per cent to 16 per cent. For charterers, demand trends, while down by five percentage points to 24 per cent, took over first place from competition, which was down from 31 per cent to 17 per cent. Finance costs featured in third place, with 16 per cent.

Geographically, demand trends were the most significant factor for respondents in both Asia and Europe (up by three percentage points in Asia to 23 per cent but down in Europe from 24 per cent to 22 per cent.) Competition and finance costs, in that order, made up the top three performance-affecting factors in both Asia and Europe. In North America, meanwhile, competition featured in first place (up eight percentage points to 28 per cent), followed by demand trends, where there was a fall from 38 per cent to 26 per cent, and operating costs, at 11 per cent. Operating costs were referenced by a number of respondents. One said, “Owners who are in a position to control fuel costs by operating very efficient vessels, with highly skilled crews, will be at a clear advantage,” while another expected “further shortages of well-qualified and experienced crew, and an increase in their salary demands.”

There was a three percentage-point fall (from 40 per cent to 37 per cent) in the number of respondents overall who expected finance costs to increase over the next twelve months. This is the lowest figure in the life of the survey to date. The number of respondents expecting finance costs to come down, meanwhile, reached its highest figure (11 per cent) since November 2010. Owners were the only main category to record a fall in the numbers of respondents expecting an increase in finance costs (down from 37 per cent to 32 per cent). The figure for charterers was unchanged at 50 per cent, while for managers and brokers it was up 3 and 6 percentage points respectively, to 44 per cent and 38 per cent. The number of respondents in Asia anticipating an increase in finance costs was up by 2 percentage points to 40 per cent compared to last time, but the corresponding figure for Europe was down from 39 per cent to 32 per cent. In North America, meanwhile, 52 per cent of respondents thought that finance costs were likely to rise, compared to 42 per cent previously.

While the majority of respondents bemoaned the lack of available, affordable finance, one respondent noted, “Shipowners appear to be resorting more frequently to bond financing, and it seems that these investors are looking through rose-tinted spectacles when it comes to assessing the future and are prepared to support owners in this respect.”

Turning to freight rates, it was the tanker markets this time which generated the most positive comments. The number of respondents overall who expressed an increased expectation of higher rates in the tanker sector over the next twelve months was up by two percentage points to 37 per cent – just one percentage point below the figure recorded when the survey was launched in May 2008, but some way short of the survey high of 50 per cent posted in May 2010. Owners (up five percentage points to 41 per cent) led the way in terms of increased expectations of better rates, while charterers unsurprisingly set their sights much lower, at an unchanged 29 per cent. The number of managers expecting improved rates was meanwhile down by one percentage point to 31 per cent. Geographically, the prospects for increased tanker rates were deemed lower this time by respondents in Asia (down from 33 per cent to 31 per cent) and in North America (down by 23 percentage points to 24 per cent), but higher in Europe, up from 36 per cent to 40 per cent.

In the dry bulk sector, meanwhile, there was a 10 percentage-point fall, from the highest figure in the life of the survey three months ago to 40 per cent this time, in the overall numbers of those anticipating rate increases. All the indicators were down – in the case of owners from 50 per cent to 43 per cent, managers (52 per cent to 36 per cent), charterers (60 per cent to 48 per cent), and brokers (44 per cent to 32 per cent). It was the same story from a geographical perspective. In Asia, expectations of higher dry bulk rates fell from 52 per cent to 33 per cent, in Europe from 51 per cent to 44 per cent, and in North America from 65 per cent to 35 per cent. One respondent said, “The dry bulk market is in crisis and will remain so in the small-tomedium size sectors for at least two more years due to overbuilding.” Another noted, “The dry bulk market is structurally unhealthy due to the massive overbuilding of vessels.” Others were more optimistic however, with one claiming to be hopeful that dry bulk rates will soon improve due to an improved balance between supply and demand.

In the container ship market, there was an eight percentage-point fall, to 26 per cent, in the overall numbers expecting rates to go up. Indeed, expectation levels in relation to rate increases were down across all categories of respondent, most notably in the case of brokers (by 25 percentage points to 19 per cent). Meanwhile, 26 per cent of owners (compared to 36 per cent last time), 28 per cent of managers (down 5 percentage points on last time), and 38 per cent of charterers (down from 47 per cent last time) expected container ship rates to rise in the next twelve months.

Geographically, expectations of improved container ship rates were unchanged in Asia at 24 per cent, just one percentage point up on the numbers in that part of the world who are expecting container ship rates to go down over the next twelve months. The numbers anticipating higher rates were also down in Europe, from 38 per cent to 29 per cent. In North America, meanwhile, the 39 per cent of respondents expecting container ships rates to fall over the coming year was more than double the number (17 per cent) who though they would increase.

One respondent said, “In the container ship sector, the long-haul market sentiment is very bleak, with continued deliveries of mega tonnage and ongoing weak demand in the main western trades.” Another claimed, “The container ship fleet will grow by eleven per cent this year. Everybody seems to think that ever bigger ships are beautiful.”

Moore Stephens shipping partner, Richard Greiner, says, “For the third successive quarter, we have seen a small increase in confidence. This encourages the belief that we are witnessing the start of a sustainable recovery, although some difficult issues remain to be resolved.

“Despite increased scrapping, it is clear that there are still too many ships on the market. For as long as that situation persists, the freight markets will struggle to bounce back. Although the tanker market is looking healthier than it has for some time, the dry bulk trades in particular seem to be suffering from an over-supply of tonnage.

“Owners’ appetite for new vessels has not, it seems, been terminally affected by five very difficult years for the shipping industry. Some reports suggest that current newbuilding business is almost one thousand per cent up on last year, with Greek owners alone having reportedly ordered almost twice as many ships in the first four months of 2013 as they did in the corresponding period last year. This is not a complete surprise. Our survey revealed evidence of an increased enthusiasm for investment, and the history of shipping confirms that it is an industry which is not reluctant to spend money.

"Increased newbuilding activity is also somewhat inevitable, not least because of the strong state support which governments in the Far East are providing to their strategically important shipbuilding industries. Neither is it a bad thing. Every industry needs new investment to survive, and if that is coupled with regulatory and environmental compliance – for example, in the shape of eco-friendly ships – then so much the better.

"If pulling the plug on newbuilding activity is not the way to resolve shipping's problems, the answer must lie with addressing the issues which seem to militate against solutions built on new investment. We need more scrapping, for example, and fewer proposals such as the one currently before the European Parliament to ban the beaching of vessels for demolition. We need a more innovative approach to securing finance, embracing everything from bond financing to leasing, as well as the ability to convince potential investors of the credibility of business plans. We need a more concerted focus on risk management, which is not as well developed in shipping as it is in many other industries. And we need early identification of the need for restructuring, and awareness of the options available in that connection.

"Shipping is in reasonably good shape, given the problems it is facing. Indeed, it is difficult to think of another industry which is so capital-intensive in nature, so reliant on skilled personnel, and so heavily impacted by competition, politics, risk, protectionism, and regulation, yet able to remain optimistic in the teeth of a global financial downturn. Three months is a long time in shipping, but it is to be hoped that our next survey will complete a full twelve months of improving confidence. Shipping is an industry in which long-term investments have tended to bring long-term rewards. As such, it is worthy of a long-term outlook."

- The Moore Stephens Shipping Confidence Survey includes responses from key players worldwide in the international shipping industry to a targeted, web-based survey by the Moore Stephens Shipping Industry Group. Responses were received from owners, charterers, brokers, advisers, managers and others. Editors can apply for a copy of the survey by emailing chris@merlinco.com

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For more information:
Richard Greiner
Moore Stephens LLP
Tel: +44 (0)20 7334 9191
richard.greiner@moorestephens.com

Issued by:
Chris Hewer
Merlin Corporate Communications
Tel: +44 1903 50 20 50
chris@merlinco.com