

Shipping confidence survey

September 2015

Confidence in the shipping industry reached its highest level since August 2014.

"Everything seems to be operating on the two-steps-forward-and-one-back principle, alternating with the one-step-forward-and-two-back principle!"

"In a cyclical business, timing is of the essence."

"Today's shipping market is really competitive and we need to be more careful in choosing good and reputable principals."

In August 2015, 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). This compares to the 5.3 recorded in May 2015, which equalled the lowest figure recorded in the life of the survey, launched in May 2008 with a confidence rating of 6.8.

All main categories of respondent recorded an increase in confidence this time, most notably charterers (up from 4.2 to 6.5) and owners (up from 5.1 to 5.8). The confidence of brokers, meanwhile, was up from 4.8 to 5.2, and that of managers from 6.1 to 6.4.

Geographically, confidence was up in Asia, from 4.9 to 5.8, in Europe from 5.3 to 5.9, and in North America from 6.0 to 6.3.

While some respondents were confident that the shipping markets would improve in line with economic developments, others were more cautious. One said, "The shipping markets have been over-stocked, and there has been far too much interest from non-traditional shipping sources with no real clue how these intricate markets work. Once built, the ships are there! The low oil cost means the drive for alternative fuels and cheaper propulsion is not being followed as diligently as one might have expected."



A number of respondents echoed the concern about the potentially harmful effect of the entry into the market of non-traditional shipping sources, while there was the usual level of concern about too many ships and too little scrapping. Increased regulation was another recurring topic, with one respondent complaining, "Regulations are going to kill us!"

Another respondent emphasised, "Current market conditions realistically reflect tonnage oversupply in all sectors. Until this corrects itself, global trade patterns will skew supply over demand. Shipping decisions are very often made on sentiment, but current confidence cannot be based on this." Another still said, "Expect a static trend for the next few years. It might require a major conflagration to kick-start the industry. That may sound unpleasant, but without it we are in for a lengthy stay in the doldrums."

Business performance factors



Competition, demand trends and finance costs were the three factors deemed most likely to influence performance significantly over the coming 12 months.

Future investment

The likelihood of respondents making a major investment or significant development over the next 12 months was up on the previous survey, on a scale of 1 to 10, from 5.0 to 5.3, equalling the highest figure over the past year. All main categories of respondent were more confident in this regard than they were three months ago, most notably charterers (up from 4.5 to 6.1).

“Although we look for a stable long-term charter, it is unlikely that charterers could commit themselves to a term longer than three years. We are trying to decrease our exposure to shipping assets. There is concern about over-investment in tonnage in the wet trades by private equity houses, which has the potential to create a significant drop in rates and a further long run of below-opex returns for owners.”

Finance costs

The number of respondents who expected finance costs to increase over the next 12 months was up by eight percentage points, from 40% to 48%. The shift in sentiment in this regard was most notable in the case of owners (up from 35% to 53%) and charterers (up from 33% to 50%).

“The global economic slowdown is a major cause for concern, especially in developing countries.”

Business performance factors

Competition, demand trends and finance costs featured as the top three factors cited by respondents as those likely to influence performance most significantly over the coming 12 months. The numbers for competition were up 5 percentage points on last time to 25%. There was a one percentage-point drop (to 23%) in the numbers citing demand trends in this regard, and an increase of 4 percentage points (to 18%) in respect of finance costs. Operating costs, unchanged at 11%, featured in fourth place, ahead of tonnage supply, down 8 percentage points to 7%. Fuel costs, crew supply, regulation and port congestion occupied the remaining places.

“Many small competitors are entering the market without observing the necessary business ethics.”

Freight markets

There was a fall in the number of respondents anticipating higher rates in the tanker and container ship sectors, but expectations of improved rates in the dry bulk trades were up on the figures for May 2015.

	Net Sentiment
<p>“We expect the tanker market to remain on a steady path over the next 12 months.”</p>	Tanker +12
<p>“There remain significant concerns about continued oversupply in the dry bulk sector.”</p>	Dry bulk +21
<p>“Less ordering in the container sector, as a result of mixed/weak results, will help to balance supply/demand going forward.”</p>	Container ship +3

* ‘Net’ figures are the balance of ‘higher’ and ‘Lower’ responses. Positive ‘Net’ figures imply more ‘Higher’ responses than ‘Lower’ and negative figures imply the opposite.



“It is always encouraging to see a graph moving in the right direction.”

Richard Greiner, Moore Stephens partner,
Shipping Industry Group

Conclusions

It is always encouraging to see a graph moving in the right direction. Perversely, the main reason for the improved level of confidence revealed by our latest survey may be the same as that which saw the industry’s perceived fortunes equalling a seven-year low in May of this year. Volatility works both ways.

One respondent highlighted a perceived trend towards the so-called bureaucratisation of shipping, with smaller players losing out to their bigger competitors. Few would argue that there has ever been a tougher time for the smaller operator than in today’s industry. Yet such businesses can, and do, survive. To do so, they need to identify a niche role in

the market, one in which they can add value and provide a level of service superior to that offered by their competitors. Moreover, in common with even the biggest players, they need a sound business plan.

Another observation concerned the way in which some traditional trades are in danger of disappearing as the EU increasingly becomes a destination for imports from the Far East and India, rather than a producer of goods. This is not a new phenomenon, but it does underline how important it is for shipping businesses to keep pace with and adapt to change, or even anticipate it where possible. Information, and the ability to disseminate it, together with the timely identification of risk, has never been more important.

The respondents to our survey are asked to comment on their industry expectations over the coming 12 months. Many of them, however, are also interested in the longer-term view, and the portents here are generally encouraging.

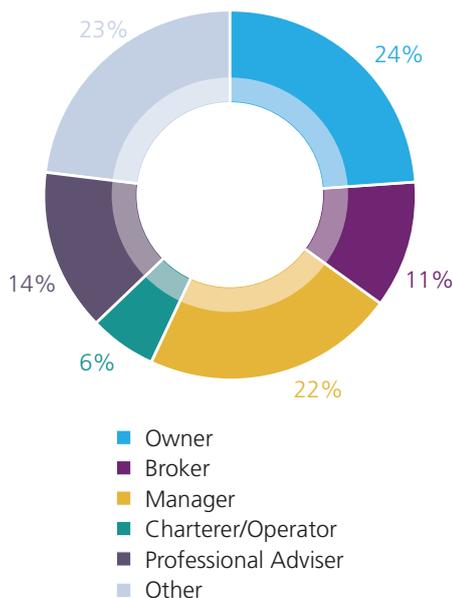
Firstly, world population is growing, and has been since the end of the Black Death. At the end of 1970, it stood at 3.7 billion. The United Nations predicts that the global population will reach between 8.3 billion and 10.9 billion by 2050. This creates and sustains demand for shipping services, and that is good news for the industry.

In 1970, according to the IMF, annual world GDP was growing at the rate of 3.7%. By 2000, the figure was 4.8%. Today, world GDP growth is put at 3.5%, but is predicted to climb to almost 4.0% by 2020. In short, the world economy is predicted to grow which, again, is good news for shipping.

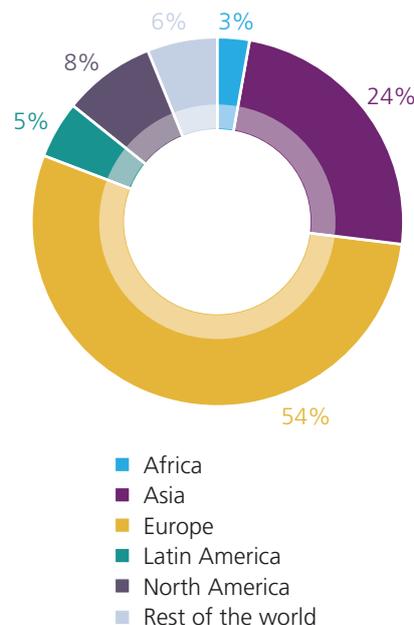
The World Trade Organisation forecasts that growth in the volume of world trade will rise from 2.8% in 2014 to 4.0% in 2016. Again, that is good news for shipping. World trade carried by sea is also on the increase and, despite the current difficult economic climate, the longer-term outlook for the industry remains positive as emerging economies continue to increase their requirements for seaborne goods and raw materials.

So the long-term outlook for shipping offers encouragement to existing and new investors alike. Those who are not attracted by the longer-term prospects, meanwhile, will doubtless exit the industry, and in the process may help solve some of its problems.

Respondents by type (%)



Respondents by location (%)



Full data tables concerning historic and current surveys can be found at www.moorestephens.co.uk/shippingconfidence

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