

CRUISE SHIPPING FACES CONTINUED WEAK MARKET CONDITIONS OVER NEXT 2-3 YEARS

As the industry looks towards the implications of the expected Carnival takeover of P&O Princess Cruises, a new analytical Report suggests that the poor market conditions currently facing the world's cruise lines are set to continue for some time, based on only slowly recovering demand and a high volume of new tonnage entering service.

In a 195-page detailed report - entitled '*CRUISE SHIPPING to 2015: A Realistic Appraisal of Prospects*' – the UK-based independent research company *Ocean Shipping Consultants Ltd* forecasts increasing difficulties in market conditions over the near-term for cruise ship lines, based on the massive current orderbook and the delayed recovery of demand growth. In the absence of any significant market withdrawal of older tonnage, the outlook is for continued oversupply in the world cruise sector until the second half of the decade. In the longer-term however, with a healthy underlying demand profile, the cruise sector will continue to offer opportunities for profitable tonnage expansion.

A summary of some of the findings of this major new study, which analyses in detail the expected developments in all aspects of the international cruise industry, is provided hereunder:-

Cruise Ship Fleet

- The world cruise ship fleet has continued to expand at a rapid pace in recent years, with the total number of vessels offering multi-day cruise accommodation to 50+ passengers increasing from 286 at the beginning of 1993 to 333 at the start of 1998, and to 389 in 2002. This represents growth of around 17% in vessel numbers since 1998.

- Whilst all size sectors of the fleet have experienced growth, there exist large differentials between different size classes, with generally greater proportional increases for the larger size classes.
- The main focus of expansion has therefore been in passenger capacity - the overall volume of lower berth capacity has risen from approximately 148,000 in 1993 to 217,000 in 1999 and 272,000 in 2002 - growth of over 25% since 1999 alone.
- The trend to larger vessels is highly apparent in the current world cruise ship orderbook - capacity on order represents no less than 23% of all existing capacity in the 1,000-2,000 berth range, with the figure for larger vessels approximating 69%. For fleet capacity overall, the current orderbook represents 29% of the total number of berths in existence.
- Excluding any further orders and fleet withdrawals in the interim, the overall fleet is set to increase from the 271,600 berth total of 2002 to over 350,000 by 2006. This represents an increase of approximately 29%.

Cruise Ship Demand

- For the forward study period, cruise demand will continue, as in the past, to be partly supply-driven, with the introduction of new ships, new itineraries, and new themes promoting customer interest and sales. Long-term trends will continue to be subject to short-term factors – as witnessed with the reaction to the September 11th 2001 attacks.
- For the North American cruise market, the longer-term trends are expected to reflect underlying growth, moderated by the recent economic slowdown and negative public feeling to air travel and the terrorist threat. From the 2001 level of just over 7m passengers therefore, the North America total is forecast to approximate 8.2m by 2005, rising to 10.3m in 2010 and 12.3m in 2015. Total forward expansion thus approximates 78% - equivalent to an annual average expansion rate of approximately 4.3%.
- The European cruise industry has witnessed a variety of different national development profiles in recent years, in line with differing economic conditions and specific cruise factors. This disparate composition is set to continue to characterise the European aggregate through the forward period.
- The largest individual cruise market in Europe is the UK, with current passenger volumes approximating 0.78m in 2001 (less than 0.20m a decade ago). Annual growth is expected to average approximately 7% over the near-term, slowing in subsequent years. In absolute volume terms, the annual total is forecast to increase to over 1.0m by 2005, almost 1.4m by 2010, and over 1.7m by 2015.
- For the significant German market, one of the key features for the near-term will be the introduction of tonnage specifically targeted at German passengers. Average expansion is thought likely to recover to

approximately 10% p.a. by mid-decade, with overall passenger volumes expected to climb from just under 0.4m in 2001 to over 0.8m by 2010 and over 1.25m by 2015.

- For Europe as a whole, the cruise passenger total is forecast to increase from the approximate 2.0m of 2001 to almost 2.6m in 2005, over 3.5m in 2010 and 4.6m in 2015. This translates to overall forward growth of 133% - equivalent to around 6.25% p.a..
- The overall Japanese market is forecast to increase from the approximate 200,000 passenger level of 2001 to 0.23m by 2005, 0.28m by 2010 and 0.32m by the end of the study period.
- Elsewhere in S/E Asia, cruises continue to increase in popularity, although despite recent significant expansion, the overall volume is still relatively small and there exist several key problems to any large-scale activities being achieved - including the fragmented structure of the market, the need for tonnage geared specifically to the market, and the limited availability of cruise port facilities and necessary infrastructure. In terms of overall volumes, the S/E Asian total is forecast to expand from the estimated 0.63m of 2001 to 0.82m by 2005, with high East Asian expansion helping to fund growth to over 1.2m by 2010 and 1.5m by 2015.
- For total world cruise passenger volumes, after expanding from below 4.4m to 5.9m in 1995 and then to 9.8m passengers in 2001, the aggregate is expected to approximate 11.9m passengers by 2005, 15.5m by 2010, and almost 19m by 2015.

Cruise Ship Demand/Supply

- After demand growth of approximately 22,000 extra berths in 2000, overall world demand expansion translated to less than 4,000 berths in 2001, with an expected level of below 6,000 in 2002. Continued demand recovery should see the annual extra berth requirement rise to just under 10,000 in 2003 and 12,000 in the following year, before rejoining a longer-term average annual expansion of around 14,000 berths.
- The profile of demand growth exceeding supply growth as witnessed at the end of the 1990s and start of the current decade, is set to be reversed over the 2001-05 period.
- Given the extent of the current orderbook, the volume of new tonnage entering the market will be more than that required by traffic growth throughout 2002-2004, with only a small deficit set for 2005 – even with no new orders being placed in the interim.
- In the absence of any new orders, there is likely to be a surplus of over 50,000 berths (almost 15% of the existing fleet) by 2005, with this changing

to a small deficit of 11,000 berths by 2008, rising to a shortage of 57,000 berths by 2010 and over 175,000 berths by the end of the study period.

- Whilst current (late-2002) market conditions are difficult for the leading cruise lines, the outlook is for increasing difficulties over the near-term, based on the massive current orderbook and the delayed recovery of demand growth. In the absence of any significant market withdrawal of older tonnage, the outlook is for continued oversupply in the world cruise sector until the second half of the decade.
- In the longer-term however, with a healthy underlying demand profile the cruise sector will continue to offer opportunities for profitable tonnage expansion. With the changes expected throughout the industry in terms of fleet development, operator consolidation, and individual market development, the gearing of tonnage to specific market sectors is likely to become even more crucial for market survival in the future, as too the ability of individual operators to stay ahead of general market developments in the evolution of their fleets.
- Annual newbuilding requirement levels are projected at around 23,000 berths by 2010 - higher than those witnessed in 2000 & 2001. This highlights the long-term health of the cruise shipping sector – set against a near-term prospect of deepening difficulties for operators in the face of massive expansion of the fleet and relatively modest demand expansion.

In 195 pages, the highly detailed and extensive new report contains analysis of all aspects of the world cruise shipping industry. With detailed forecasts of developments over the period to 2015, the Report is essential reading for all parties with an interest in the future development of any aspect of the cruise sector.

'CRUISE SHIPPING to 2015: A Realistic Appraisal of Prospects'

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