

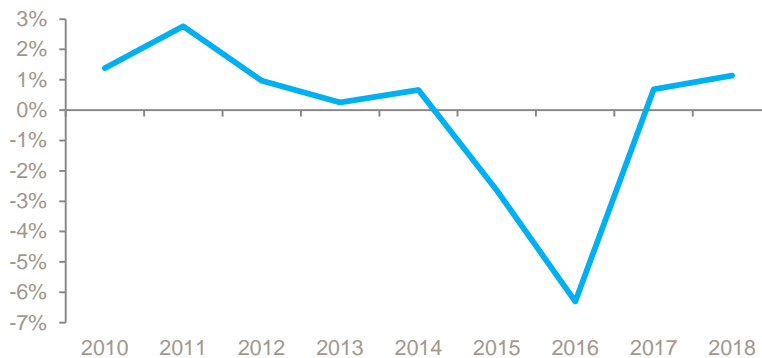
Ship operating costs reach inflection point as inflation returns

London, UK, 22 November 2018 – Average vessel operating costs rose modestly for the second year in succession following two years of marked declines, but cost inflation is set to accelerate on higher insurance premiums, according to the latest *Ship Operating Costs Annual Review and Forecast 2018/19* report published by global shipping consultancy Drewry.

Typical ship operating costs accelerated moderately in 2018 as the uncertain recovery in freight markets across most cargo sectors gained momentum. Opex costs are heavily linked to developments in the wider shipping market as some costs, such as insurance, are connected to asset values and others impacted by the ability of shipowners to pay.

Drewry estimates that average daily operating cost across the 46 different ship types and sizes covered in the report rose 1.1% in 2018, succeeding the previous year's rise of 0.7%. This followed a period in which opex spending contracted over two consecutive years by almost 9% in 2015-16 (see graph).

Drewry ship operating cost index (annual % change)



Source: Drewry's *Ship Operating Costs Annual Review and Forecast 2018/19* (www.drewry.co.uk)

Cost inflation was broad-based across all cost heads. Indeed, the year marked the first time in a decade that expenditure rose across all five main opex cost heads, marking an inflection point for the future direction of ship operating costs.

Earlier years witnessed sharp reductions in opex as the depressed state of shipping markets forced operators to slash costs as a means for survival. But as freight markets started to recover in 2017 so the pressure to reduce expenditure lifted.

"This trend continued into 2018, with a modest acceleration in cost inflation," said Drewry's director of research products Martin Dixon. "Manning costs rose having previously stagnated, while



insurance spend increased for the first time in six years on recovering asset values and insurance market hardening. Similarly, expenditure on stores and spares rose as earlier cost cutting opportunities waned, and repair & maintenance costs climbed as regular spend resumed on recovering freight markets.”

The rise in costs was broad-based across all the main cargo carrying sectors with every segment experiencing some cost inflation. The latest assessments include vessels in the container, chemical, dry bulk, oil tanker, LNG, LPG, general cargo, ro-ro and reefer sectors, as well as the recently introduced car carriers segment. Indeed, 2018 represented the first time in seven years that all vessel sectors recorded rising average operating costs.

However, continued overcapacity in certain sectors and an uncertain trade outlook will still make market conditions challenging for most shipowners over the coming years, so Drewry expects the pressure on costs to continue. This will be particularly so in areas of the budget where operators have greatest control, such as manning, stores, spares, repairs & maintenance and management & administration. But other cost elements influenced by wider market factors will prove harder to control, such as insurance, where we expect spending to rise as the marine insurance market hardens.

“Financial losses can only be sustained for so long and given higher claims in related sectors as well as the withdrawal of some insurance providers from the maritime space, it is clear that a market correction is underway which will lead to higher premiums, particularly over the near-term,” concluded Dixon.

However, given the more benign outlook for the remaining cost heads, overall vessel operating costs are expected to rise below the level of general price inflation over the next few years and so represent cost stagnation in real terms.

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“**Ship Operating Costs Annual Review and Forecast 2018/19**” is an annual report published by Drewry Maritime Research and is priced at \$1,950 for a single issue.

The report is available from the Drewry website www.drewry.co.uk.

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About Drewry

Drewry is a leading international provider of research and consulting services to the maritime and shipping industry. From its origins in 1970 London to a 21st century maritime and shipping consultancy, Drewry has established itself as one of the most widely used and respected sources of impartial market insight, industry analysis and advice. Offering a unique combination of sector knowledge, rich market insight and commercial awareness Drewry is able to consistently deliver the performance, profitability and competitive advantage its clients seek.

Drewry serves its clients through four business units: Drewry Maritime Research, publishing market-leading research on every key maritime sector; Drewry Maritime Advisors, supporting the needs of shipping and financial institutions; Drewry Supply Chain Advisors, providing seafreight procurement support to retailers and manufacturers; and Drewry Maritime Equity Research, delivering an Investment Research Service on listed companies operating in the industry.

Drewry has a truly global perspective of the maritime sectors and areas of expertise it covers and employs over 100 professionals across an international network of offices in London, Delhi, Singapore and Shanghai.

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