MARKET SECTOR INSIGHTS – MARCH 2021

Marine Market

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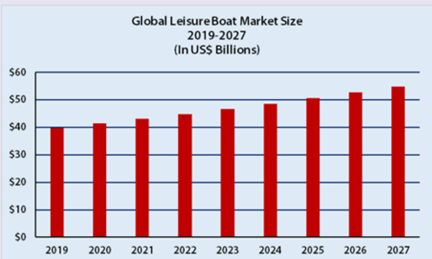

Figure 1: Global Leisure Boat Market Size

Overview

The marine industry encompasses numerous sectors including marine transportation, marine leisure, marine port and services and marine equipment. All of the sectors within the marine industry have different trends and challenges, with the factors affecting them also varying.

Shifts in global demographics and population growth rates, coupled with long-term economic growth in developing markets will have implications for the marine industry over the course of the next decade. A notable consequence for the industry is a rise in consumer spending in developing markets which will generate long-term growth opportunities for stakeholders in this industry.

Global Leisure Boat Market

According to a report from Grand View Research, the global leisure boat market size was valued at $39.8 billion in 2019 and is expected to expand at a compound annual growth rate (CAGR) of 4.1% from 2020 to 2027, reaching to $54.8 billion in 2027. The rising disposable income of citizens and flourishing tourism sector in emerging economies, such as Brazil and China, are some of the key factors escalating the market growth. Furthermore, the growing participation of people in recreational and competitive boating activities worldwide is estimated to provide an upthrust to market growth. Besides, advancements in technologies leading to the introduction and adoption of connected boats are projected to fuel market growth over the forecast period.

Marine Deck Machinery Market

The global marine deck machinery market is dependent on the performance of the global shipbuilding industry, as marine deck machineries are essential for water-borne vehicles such as boats, cruises, merchant and passenger ships, tankers, and bulk carriers to move on water. Increased demand for building new ships leads to higher demand for marine deck machineries.

The worldwide market for Marine Deck Machinery is expected to grow at a CAGR of roughly 5.2% over the next few years, reaching to $4,810 million in 2024, from $3,550 million in 2019, according to a GIR (Global Info Research) study.

Global Sailcloth Market

The global sailcloth market was valued at $390 million in 2017 and is expected to reach $520 million by the end of 2025, growing at a CAGR of 3.7% during the forecast period of 2018-2025, according to a report by Questale.

The report adds that the market competition in the sailcloth sector is constantly growing with the rise in technological innovation and M&A activities. Moreover, many local and regional vendors are offering specific application products for varied end-users. This is expected to continue in the foreseeable future, leading to significant upheaval in the sailcloth sector.

The sailcloth industry is relatively concentrated and is affected by both economic and governmental policy issues. Rising environmental standards and economic growth, particularly in less developed countries, are expected to result in the increased demand for sailcloth in the coming years.

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…new and used boat sales account for 78% of the industry's exports, while exports to Europe account for 74% of the total and stand at a value of more than £1 billion.

UK Marine Industry

According to figures from British Marine, the marine sector's export growth had outpaced the national average (3.5% according to the Office for National Statistics), hitting the £1.5 billion mark in 2018/19.

The key performance indicators for the leisure, superyacht & small commercial marine industry report show that new and used boat sales account for 78% of the industry's exports, while exports to Europe account for 74% of the total and stand at a value of more than £1 billion.

"We are delighted to see the marine industry continuing to prosper – providing a significant number of jobs to the UK economy," said Lesley Robinson, CEO of British Marine. "In particular, it is encouraging to see the growth of the boat manufacturing sector, which now accounts for one in four jobs in the entire sector."

Long Term Demographic Shifts

Shifts in global demographics and population growth rates coupled with long-term economic growth in developing markets, will continue to have implications for the marine industry over the course of the next decade. The middle class is growing in the emerging economies of Asia, Africa and Latin America. As disposable incomes increase, demand also rises for various products related to the marine industry.

Also, as the requirements for more technologically advanced systems increase, the global marine industry faces a serious challenge of managing an ageing workforce, a problem that is specifically acute in the Asia Pacific region.

Commodity Prices

Prices for coal, iron ore and crude oil are all likely to remain volatile for the next few years. For most stakeholders in the marine industry, the global volatility in commodity prices might translate into unexpected upheavals. Although lower prices will spur more oil consumption in the short term, the link between economic growth and oil demand will weaken as the world adopts alternatives to hydrocarbon fuels and enhances fuel efficiency. This is expected to bring positive changes to the marine industry in the long term.

UK Economic Climate

The International Monetary Fund has downgraded forecasts for the UK's recovery this year while the expansion of the global economy, aided by accelerating vaccine rollouts, is expected to gather pace. Illustrating the severe impact of the pandemic on the UK economy, the IMF said in its latest forecast that the UK's national income, or GDP, would expand by 4.5% this year, down 1.4 percentage points from the 5.9% growth forecast made last October.

This follows a contraction in UK GDP of 9.9% in 2020, the biggest fall for any G7 country. The UK's acceleration of its vaccination program is not expected to give an extra boost to UK growth until 2022, when its growth rate is upgraded by 1.8 percentage points to 5%.

Deloitte's growth forecast for the UK predicts a contraction in the first quarter of 2021 owing to the impact on activity of restrictions needed to contain the new COVID-19 variant. Deloitte expects the downturn in GDP to be smaller than in the first half of 2020, given increased business preparedness and continued fiscal and monetary support. In the second quarter the rollout of the vaccine and warmer weather might allow for a modest easing of

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restrictions, followed by a strong bounce in the third quarter as vaccine coverage exceeds 50% of the population.

Economic Impact of Coronavirus

Undoubtedly, coronavirus is a black swan event – something that happens once in a century. Its spread has left businesses around the world counting costs, with many investors fearing the spread of coronavirus will pose an insurmountable challenge to the economic growth of all major countries across the globe. Almost every industry has been affected, with governments scrambling to somehow arrest the economic decline. Central banks in more than 50 countries, including the US Federal Reserve and the Bank of England have cut interest rates to try to strengthen their economies. Furthermore, most countries have announced unprecedented stimulus packages in the hopes of reviving their economy

Manufacturing Has Been Massivley Hit

In China, where the coronavirus first appeared, industrial production, sales and investment all fell in the first two months of 2020, compared with the same period in 2019. China makes up a third of manufacturing globally and is the world's largest exporter of goods. Like China, factories in many other economic powerhouses including the US, UK and Germany were shut, resulting in a decline in manufacturing output at perhaps unprecedented levels.

Effect on Global Demand

Owing to the pandemic, in the first half of 2020, restaurants, cinemas and shops around the world emptied, while flights, road traffic and energy use also fell steeply. Now almost one year later, consumer demand is still much below pre pandemic levels.

The retail industry has been hit hard. Lockdowns in many major economies until the middle of May 2020 and then again in the end of 2020 and the beginning of 2021 with only essential shops being allowed to open has meant huge losses for retailers, leading to many retailers shutting up shop.

It is clear now that the spread of coronavirus has led to a decline in global consumer spending, the heart of global economic activity. Moreover, employee layoffs in various industries are becoming increasingly common, in many cases on a large scale. This might lead to further pullback in consumer spending, at least in the near future, exacerbating the economic impact of coronavirus.

Impact on Marine Industry

Due to the COVID-19 pandemic, entire maritime operations from shipyards to carriers of bulk commodities have been affected. Reduction in work force and declining demand has pushed freight rates lower, and additional restrictions by countries at the ports like a ban on crew changes has disrupted global supply chains. In the first half of 2020, goods in transit were delayed, rerouted, or discharged short of their final destination due to containment measures. As different countries were in various stages of lockdowns, the issue of port congestion with cargo and containers lying unattended also surfaced. Moreover, offshore drilling in many countries has also been affected due to the crisis, with related industries like fisheries and seafood suffering consequences. The industry is facing both a supply and a demand shock. Supply has been hit as exports out of Chinese ports were heavily disrupted

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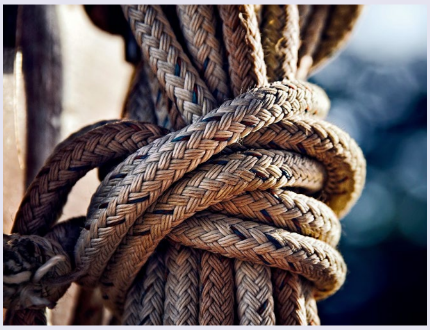

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January 2020 onwards due to production shortages in the country. The spread of the virus to other parts of world led to a radical fall in demand, badly impacting the shipping companies. The impact of the pandemic has been worse for the cruise and leisure boat industry, with a majority of sailings cancelled well into 2021.

In conclusion, the industry is facing an unprecedented challenge due to COVID-19. It has resulted in a situation whereby merchant shipping is facing serious financial crunch and the cruise business has virtually shut down. Overall, medium and long term impact will be determined by global macro-economic trends which seem to appear very grim at this stage

Decline in Optimism

After sounding a note of optimism at the end of 2020, respondents to the newest McKinsey Global Survey are greeting 2021 with high hopes for economy's prospects. Majorities of executives continue to believe that conditions in their home economies and in the global economy will improve over the next six months. Yet their positivity has moderated since the previous survey; compared with December, smaller shares of respondents now predict that economic conditions will get better.

Regionally, there are a few changes of note. In India, respondents are now nearly as positive about their own economy's future as are those in Greater China (who, since March, have been the most optimistic about economic conditions at home)—and those in India are also the most upbeat about the global economy's prospects. But in several other regions, sentiment has taken a negative turn. In Asia–Pacific and in Europe, the shares of executives expecting their home economies to improve decreased by 15 and 11 percentage points, respectively, since December. The decline in optimism is most acute in Latin America, where 30 percent of respondents now expect improvements in their home economies. In the previous survey, 56 percent of executives there said the same.

Global Economic Forecast

According to a report by the IMF, although recent vaccine approvals have raised hopes of a turnaround in the pandemic later this year, renewed waves and new variants of the virus pose concerns for the outlook. Amid exceptional uncertainty, the global economy is projected to grow 5.5 percent in 2021 and 4.2 percent in 2022. The 2021 forecast is revised up 0.3 percentage point relative to the previous forecast, reflecting expectations of a vaccine-powered strengthening of activity later in the year and additional policy support in a few large economies.

The projected growth recovery this year follows a severe collapse in 2020 that has had acute adverse impacts on women, youth, the poor, the informally employed, and those who work in contact-intensive sectors. The global growth contraction for 2020 is estimated at -3.5 percent, 0.9 percentage point higher than projected in the previous forecast (reflecting stronger-than-expected momentum in the second half of 2020).

The report further adds that the strength of the recovery is projected to vary significantly across countries, depending on access to medical interventions, effectiveness of policy support, exposure to cross-country spillovers, and structural characteristics entering the crisis. The recovery will be driven primarily by countries

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such as India and China, forecast to grow by 8.8% and 8.2%, respectively. Recovery in large services-reliant economies that have been hit hard by the outbreak, such as the UK or Italy, is expected to be slow.

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