Boating Industry Primed for a Strong 2018

Key developments in major recreational boat markets

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The leisure boating industry is on a firm growth trajectory in line with the strengthening global economy. After global GDP growth of 3% last year, analysts are forecasting 3% expansion again for 2018 and 2.9% in 2019 – supported by low inflation, low interest rates, strong equity markets and increasing employment.

These factors have helped buoy confidence and sustain economic growth in the US and Europe where the industry finds its largest customer base and biggest producers. The best news for the boating industry is that the widespread growth across its traditional markets has been underpinned by a return of consumer confidence and willingness to spend on discretionary items.

Another important outcome of renewed demand has been a return to financial health for many of the industry's leading companies in 2017, which in turn is boosting shareholder returns, supporting investment in innovation, and restoring jobs. The downsizing and restructuring prevalent throughout the industry during the financial crisis has now transitioned into strategic acquisition activity with the strongest players consolidating their core sectors, branching into new ones and enhancing their competitive positions.

In addition to these broader economic dynamics, mature boating markets of America and Italy, France, Germany and the UK are witnessing a number of common trends concerning demographic shifts and consumer preferences, presenting both challenges and opportunities for industry manufacturers and suppliers, including:

- An aging, declining customer base with fewer young people taking up boating
- A shift to boating experiences vs. boat ownership
- A shift in boat use patterns from long holidays to shorter weekend outings and day trips
- Changing demographic and social preferences for: staying connected; sustainable 'green' products; instant results; easy-access casual activities; and less commitment to owning boats, belonging to clubs, getting formal training or qualifications for 'complicated' sports
- High demand for smart, connected, easy to operate boats, engines, and equipment – leading to product advances such as joysticks, integrated digital displays for one-touch monitoring and control of all boat systems, automatic sail trim and control systems, on-board comfort and entertainment, etc.
- The ever-increasing presence of the Internet and its unavoidable impact on sales channels, marketing methods, information delivery, social media influence, price transparency, product personalisation, and innovative services such as peer-to-peer rentals
- The decline of bricks and mortar retail business models
- A deepening involvement of boat manufacturers in the full customer experience including worldwide service networks, parts and accessories distribution, consumer and inventory finance, marina development and operation
- The decline of inboard and sterndrive propulsion in small-to-midsize boats, replaced by soaring demand for larger outboard engines
- A growing interest in hybrid/electric engines (in the context of broader global shifts in the auto market towards electric/ battery powered cars and away from diesel engines)
- The exploration of innovative hull and foil designs, as well as lighter weight materials to reduce drag on the boat hull, which lowers power and fuel requirements, while providing higher speeds and more stability
- Consolidation of equipment companies offering integrated 'plug and play' system solutions together with extensive distribution, parts replacement and service networks
- Increased demand from OEMs for component customization and bespoke solutions
- Increased pace of new product launches, requiring higher R&D and investment levels which favours larger, better-financed companies and industrial scale (one of the drivers behind ongoing industry consolidation)

America's Boating Market Faces New Threat

Highlights

- A new government analysis was released in February indicating that Americans spend $646 billion annually on outdoor recreation, with one-fifth of that spending – approximately $130 million – attributed to boating and fishing. The recreational boating industry also supports 650,000 direct and indirect American jobs and nearly 35,000 small businesses.
- According to the National Marine Manufacturers Association, direct spending on boats, marine products and services totalled $36 billion in 2016 and is expected to achieve 3% growth in 2017, rising to $37 billion.
- Preliminary figures indicate sales of new powerboats grew 6% in 2017 and will exceed 260,000 units for the year, with further sales growth of 5-6% possible again this year.
- The forecast is based on US economic indicators which remain favourable to the recreational boating market including record high consumer confidence, a healthy housing market, rising disposable income, historically low interest rates, and robust consumer spending.
- In the past six weeks, however, two major regulatory threats to America's boating industry have emerged. In February, the US Commerce Department initiated an anti-dumping trade case against China for imports of common alloy aluminium sheet which could result in countervailing duties running anywhere from 57% to 100%, and lead to supply shortages. The resulting higher costs of metal imports would negatively impact US aluminium boatbuilders who produce some of America's most popular boats, including aluminium fishing boats and pontoons.
- Pontoon boats have become an increasingly versatile and attractive choice for families and younger newcomers to boating, supporting a wide variety of affordable activities, and spurring record sales growth across this segment since the financial crisis (including estimated gains of 7-8% in 2017).
- The anti-dumping case was followed by a second action from the Trump administration in early March announcing a 25% tariff on all imported steel and 10% tariff on imported aluminium.
- The anti-dumping case together with the tariffs on imported steel and aluminium threaten to increase the cost of downstream products using these materials – including boats – with a potential loss of jobs and interruption of economic growth in some sectors.
- The tariffs have also sparked fears of a trade war between the US and its major trading partners, including the EU, which has already suggested US boats may be among the products incurring a retaliatory tariff.
- In 2017, US boat and engine exports were up over 9%, with Western Europe ranking as America's second biggest export market (valued at $366m in 2016).
- Most recreational boats sold in the US are largely American-made (95%) but international boat builders have found strong US demand for larger sailboats and motorboat imports.
- A 10% depreciation in the value of the dollar over the past year dampened demand for imported boats somewhat in 2017 but the appeal of international boats – primarily European and Australian – persists.
- In 2017, Azimut was the leading imported brand of motorboats 30 feet above, selling approximately 80 boats there last year. In the sailboat segment, popular imported brands include the Bénéteau, Jenneau and Lagoon family of boats, Hanse, Bavaria, Fountaine Pajot, Dufour, X-Yachts, etc.

Other Key Trends

- Outboard engine sales were up more than 6% in 2017, reaching a post-recession high of 270,300 units, with the increased demand for higher-power engines driving sales. Sales of outboards with 300hp or greater led all other segments in growth with a 21% increase over 2016. Engines with 100hp and higher now account for more than 50% of all US engines sales.
- The tremendous demand for outboard powered craft has led many builders – which previously only offered sterndrive and inboard boats – to introduce outboard models for the first time. Among these are Formula, Cobalt, Regal, Sea Ray and even Azimut, which launched a 40-foot outboard-powered weekender last year – produced in Brazil for import to the US and making its way to Europe soon. The impact of the outboard engine's dominance is also evident in other recent developments including Brunswick Corporation's decision to sell Sea Ray, and Volvo Penta's new shareholding in outboard engine manufacturer Seven Marine.
- Another significant shift in the American boating market is the exponential growth of boat clubs, rentals and fractional-use companies meeting the demand from new boaters to get on the water without having to own a boat. Companies like Boatsetter, Freedom Boat Club, SailTime and Carefree Boat Club are growing, merging, and partnering with boatbuilders and dealers to help beginners find new ways to go boating.

Italy's Recovery Gains Momentum

Highlights

- After the United States, Italy represents the second largest motorboat builder in terms of value and is the world leader in superyacht production and export of inboard motoryachts.
- Even with solid exports, the return of Italian buyers to the boating market in 2016 and 2017 has been particularly welcome news for local manufacturers who have been dependent on external demand since the global crisis.
- Renewed domestic demand is underpinned by the longest stretch of economic growth in Italy since the early 1990s and is a long-awaited development in Europe's fourth largest consumer market.
- For 2017, real GDP growth reached 1.5% in Italy, the highest reading in seven years but softer than overall growth in Europe.
- According to industry federation UCINA, turnover for Italy's combined boat, engine and equipment sectors grew a strong 18% to €3.4 billion in 2016 – the same value achieved in 2011 but still down 45% from the industry's peak in 2007.
- Nearly 90% of Italy's boat production was exported in 2016 and this trend will be similar in 2017 although domestic buyers will account for an increasing proportion of local producer sales going forward.
- Preliminary figures from Eurostat show Italian boat exports in 2017 of approximately 7,500 units at a total value of €1.6 billion, with a big jump in motorboats and sailboats under 12m, and larger inflatables.
- Leading Italian equipment manufacturers are reporting revenue gains of 10% and greater for 2017, noting the strong revival in demand from Italian builders, particularly in mid-sized boats, as well as global OEM demand.
- Equipment sales make up approximately 25% of industry turnover and will reach about €800m for 2017.
- As another indicator of domestic market growth, UCINA says yacht leasing in Italy recorded a 72% rise in value for 2017 with a 26% rise in contracts compared to the previous year.

Boatbuilding

- Boatbuilding represents more than two-thirds of Italy's total industry turnover at nearly €1.9 billion in 2016, with 13% growth predicted for 2017 according to a study prepared by Deloitte in cooperation with Italy's second trade group, Nautica Italiana.
- In 2017, Italian yards had 353 superyacht projects in build, representing 46% of the total global order book for yachts 24m and above, with delivery of 47 yachts above 30m.
- The country's three largest motoryacht builders – Azimut-Benetti, the Ferretti Group and Sanlorenzo, are all boasting robust orders, increased revenues and a return to profitability in 2017.
- Azimut reported sales revenues up 18% in 2017 to €710m, with yachts over 24m as the main driver. its biggest gains came in Europe last year (34% of sales), noting a return of Russian buyers as well.
- Ferretti said its 2017 revenues will surpass €600m, with a net profit of €20m. Europe accounted for 57% of the builder's sales in 2017, with particularly good results in Germany, the Netherlands and Switzerland.
- Sanlorenzo reported 2017 revenues of €320m on production of 45 yachts and is emphasising development of a new hybrid and diesel-electric range of yachts, including electric yacht tenders. The builder also has a strategic partnership with Tesla for battery development.
- Beyond superyachts, a resurgence of the mid-size boat market provided much needed volume to Italian equipment makers last year.
- Italy's Seatec, a B2B exhibition and conference focused on technology and innovation in the marine sector, will include sessions on hybrid propulsion and 3D printing of a GRP hull without a mould this year.

Outlook

- Italian GDP is forecast to grow at a slightly slower pace of 1.4% in 2018 with private consumption and fixed investment continuing as the main drivers.
- The year has started well, with strong export demand, bulging order books and capacity constraints – boosting business and consumer confidence over recent months, and providing a big upswing in hiring.
- Other indicators of robust domestic spending include a 7.9% increase in new car sales in 2017 and a 10% rise in Italy's recreational vehicle/caravan market.
- Against the backdrop of largely positive news is the fragmented outcome from Italy's general election in early March, which is likely to result in a short-lived, unstable coalition which may weigh on confidence.
- In terms of the boating sector, UCINA has been working with the government to simplify the new Italian Nautical Code (Codice della Nautica) released last November, create VAT exemptions for commercial shipping, and coordinate on rules concerning a 10% VAT rate on yachts that dock in Italian waters for up to one year.

French Boat Buyers Resurface

Highlights

- With more than nine million participants and a million registered boats in use, France is Europe's largest consumer boating market, the world's largest producer of sailboats, and fourth largest producer of motorboats.
- The French boating industry generated a combined turnover of €4.6 billion over the 2015-16 nautical year, an increase of 4.3% over the previous period, and is expecting even stronger results for 2017.
- Overall boat production turnover has been on an upward trend for four years up to €945.5 million in 2016 – a 12% increase and the highest level since 2007.
- By segment, sailboat production grew 4% to 3,400 units and nearly 10% in value to €563 million – due primarily to a notable rise in multihull sales, while motorboat production increased 56% in volume to 10,580 units, and generated turnover growth of nearly 20% up to €368 million.
- The majority of French-made boats – 75% of production value – is destined for export markets. Boat shipments to America accounted for 40% of France's production last year, with 35% going to Europe.
- Preliminary export figures for 2017 show another increase in French boat exports of inboard motorboats, outboards, sailboats and larger RIBS to nearly 10,000 units.
- But the most important development for the industry was the revival of domestic demand in 2016 which yielded double digit growth in sales of both motorboats and sailboats to French buyers and grew again in 2017 by 13%. According to France's marine federation FIN, nearly 10,000 new boats were sold during the 2016-17 nautical year.
- Growth of the domestic market is also indicated by preliminary 2017 trade figures showing a 10% rise in boat imports to approximately 9,500 units.
- New boat registrations in France also began to steady in 2016 after eight years of decline, with signs of recovery in new sailboat registrations (+5%) and midsize motorboats (+8%).

Boatbuilding

- The results of French boatbuilders are further evidence of the strong turnaround in France's boating sector.
- Global market leader Groupe Bénéteau reported strong gains for its 2017 financial year with increased exports both in and outside of the EU. Bénéteau's boat turnover grew 12% reaching €1.025 billion with worldwide production of more than 9,200 units.
- Motorboat sales grew 7% during the year and represent an increasing proportion of the group's sales (49%), while sailboat sales posted 27% growth, with particular strength in the multihull segment.
- France accounted for 15% of Beneteau's boat revenues in 2017, with 51% of sales generated in the rest of Europe and 33% in North America.
- Other French yards also reported booming order books and turnover gains last year, including Fountaine-Pagot (€79 million, up 12%), the Poncin Group (€43 million, up 26%) and Dufour (topping €40 million).
- Sailboat and catamaran builders (in France and elsewhere) had an added bump in demand due to fleet replacement of boats suffering hurricane damage in America and the Caribbean in late 2017.
- Production turnover in France's equipment sector was €540 million in 2016 and manufacturers are reporting good gains for 2017 in step with increased OEM demand from the boatbuilders, as well as the improving domestic market.

Outlook

- France's economic outlook is at its brightest level in years, with buoyant domestic growth and export demand bringing unemployment down, lifting wages, supporting strong confidence and a willingness to spend.
- Pent-up demand led to 5% growth in new car sales and a 6% gain in new recreational vehicle/caravan sales to 28,500 units last year in France and both sectors are anticipating the positive trends to continue this year.
- President Macron's planned economic reforms are expected to move forward, offering a promising outlook for 2018 with forecasters predicting 2% growth this year.

Growth Across Nearly all Boating Sectors in Germany

Highlights

- The boating market in Europe's largest economy posted another year of growth in 2017 with marine goods and services expected to set a new record of more than €2 billion in sales.

- Results of a year-end survey conducted by the German Association of the Watersports Industry (BVWW) saw 85.7% of respondent companies rate the current state of business as equal to or better than the previous year – the best result since the global financial crisis.
- The strength of the boating industry mirrors Germany's robust economy which recorded real GDP growth of 2.5% in 2017, the best result since 2011. Private consumption was the main driver of growth during the year, supported by record low unemployment, increasing wages, low interest rates and high consumer confidence.
- Nearly all of the major sectors of the boating market reported increases in 2017, with service and maintenance providers giving the highest ratings for the year based on an ongoing trend among boat owners to rely on specialists for repairs and upkeep, rather than DIY.
- High demand has also created challenges for the sector, with many companies working at full capacity while facing a shortage of experienced technical staff – leading to concerns about potential bottlenecks during the peak boating season.
- Companies in the equipment and accessories sector assessed the market as about even with last year's strong results, except for marine clothing which reported a decline. High price competition particularly with online sales channels is putting pressure on equipment profits.
- On the positive side, the equipment market is benefitting from older boat owners who tend to spend more time on their boats and desire a high standard of comfort, therefore investing in and upgrading their boats with the latest technology and on-board convenience products. Boaters are also keeping their boats for longer periods, opting to modernise existing boats rather than buy new.
- The diving sector has been impacted by negative political circumstances in Egypt and Turkey – two of the most popular diving destinations.
- Germany's boat charter sector remains strong and is benefitting from younger customers who prefer hiring to owning their own boats. Sales are forecast to increase between 6% and 8% for both domestic and international destinations which were mostly stable in 2017, with the major exceptions of Turkey (due to political tensions) and the Caribbean (due to hurricane damage last season).
- The 'sharing economy' is introducing more flexibility to the traditional boat charter/hire market with various fractional ownership business models and clubs – and with growing involvement of major boat manufacturers and dealers supporting the supply and maintenance of rental fleets.
- Sales to charter fleets are also a growing segment of business for aftermarket equipment and accessory suppliers, but stiff price competition for this business results in lower margins.
- An estimated 16,000 used boats change hands every year in Germany, but good used boats are in short supply as newcomers tend to try this route first. They seek the most recent second-hand models but today the average age of boats on the German market is more than 25 years old. Estimates put the number of newcomers to boating at about 6,000 each year, so retaining the interest of this group is key to future growth.

Boatbuilding Trends

- The new boat sector is experiencing a clear trend of growth – especially in larger sailboats, motorboats and catamarans where Germany's two largest boatbuilders, Bavaria and the Hanse Group, are active. Both builders have recently acquired French catamaran manufacturers to expand into this fast-growing sector.
- Bavaria has a three-year lead in the segment, building about 90 catamarans at its Nautitech yard in 2017 and now working on a power catamaran model.
- Overall, Bavaria says it is producing nearly 1,000 boats a year, with turnover of €112 million (last reported figures through July 2016). The builder launched a 65-foot sailboat at boot Dusseldorf – its largest model to date – confirming its intention to move into bigger, semi-custom boats.
- All new models at Bavaria are now being produced with vacuum infusion and the rest of its portfolio will be transitioned to vacuum infusion in 2018. The builder is also using modular construction, fitting interiors into the hulls as completed sections.
- The Hanse Group claims to have surpassed Bavaria in terms of revenue with €129m in turnover in 2017 (+12%) and a return to profitability for the first time in 8 years, with net income of €3.2m and total production of 590 units.
- The Group is achieving stronger growth in motoryacht sales for its Sealine and Fjord brands (which accounts for about 28% of overall sales), while the Hanse sailboat brand currently accounts for about 50% of revenue.
- New developments at Hanse include introduction of its first catamaran from the Privilege yard in France, a new electric drive for sailboats, and adaptation of the Fjord 36 with outboards for the American and Australian markets.

- Small trailerable motorboats with outboards, along with sales of higher outboard engines, are also experiencing higher demand from German buyers.
- Besides motorboats and sailboats, Germany is a world leader in superyachts, specialising in some of the largest custom yachts built to date. In 2017, German yards had 15 projects in build with an average length of 100m.

Outlook

- The outlook for Germany's economy and its boating industry both continue to be very bright going into 2018. With real GDP forecast to expand at 2.4% in 2018, private consumption is expected to be the main driver of growth again in 2018, supported by ongoing increases in employment and real income.

UK Industry Posts Six Consecutive Year of Growth

Highlights

- Marine industry revenues grew 3.4% to £3.12 billion in the 2016-17 fiscal year – the highest level since onset of the financial crisis.
- A key driver in last year's growth was external demand with a weaker pound boosting exports of British-made boats and equipment by nearly 5% to £924 billion – the first uptick in industry exports in the past eight years.
- The UK Superyacht sector was a significant beneficiary of the currency dynamic, ranking fifth in the world based on 55 projects and total length of 1,700m in build (24m+). Individually, UK's Sunseeker International and Princess Yachts ranked as 8th and 9th in the top 20 superyacht builder list in 2017.
- At the same time, the devaluation of the pound has raised the cost of materials and components by 6% for builders and equipment manufacturers sourcing abroad, putting a squeeze on profit margins.
- Since the UK voted to leave the EU in June 2016, the pound has fallen 10% against the dollar and 20% against the euro.
- With the higher cost of foreign holidays, more British boaters opted to spend their holidays in British waters, making domestic boating tourism one of the UK's strongest sectors in 2017.
- A worrying undercurrent in the British marine market is the collapse of three more boat yards in the past six months. In February, Oyster Marine joined a growing list of UK builders which have run aground, along with Green Marine (a custom racing yacht and superyacht hull builder) in October, and Burgess Marine (a superyacht refit and commercial marine repairer) in December. Administrators for Oyster are evaluating potential buyers to rescue the builder and keep production and workers in the UK.
- Industry employment was largely static in 2017 with a workforce of just over 33,000 across 4,500 businesses. One in five British marine companies reported worker shortages and an increasing number of 'hard-to-fill' vacancies in 2017. Brexit is expected to create further shortages in skilled labour within the UK marine sector, leading boatbuilders to invest in apprenticeship programs to help fill workforce gaps.

Boatbuilding

- After several years of declining demand, total UK production of motorboats 12m and above has stabilised and is forecast to reach about 500 yachts in 2017.
- Sunseeker International and Princess Yachts have been shifting towards more bespoke superyachts up to 45m in length, but at the same time are introducing some smaller motorboats back into their portfolios.
- Sunseeker is projecting a gain of more than 15% in both units and revenues for 2017 and expanded its workforce to 2,500. Princess expects to increase production by 10-20% achieving a volume of 290 yachts in 2019, adding 450 employees last year for a total workforce of 2,600. Fairline also regained its footing in 2017, employing 227 workers and now producing about 75 boats annually.
- Beyond its top brands, British boat production is heavily skewed towards smaller sailing craft and dinghies, with annual production of nearly 8,000 boats – most going to export markets.
- The UK market for mid-sized and larger sailboats is dominated by imports from large-scale French and German builders, such as Bénéteau, Jeanneau, Hanse and Bavaria. However, since July 2016, the weakened pound has make it more expensive to import and buy boats from Europe.
- The UK also has a strong domestic base of manufacturing in RIBs, making approximately 820 units a year, and canal boats catering to the UK's inland boating segment, building approximately 200 'narrowboats' annually.

Boat Distribution, Equipment

- Boat retailers have reported an uplift in sales for 2017, but primarily in second-hand boats, and largely to customers in Europe.
- The large number of boats leaving the UK is creating a shortage of used boats for sale, in addition to raising concerns in the marina and aftermarket sectors about a shrinking UK boat park.
- UK marine equipment and accessories firms have reported strong sales in 2017, attributing growth to overseas demand and a heavy emphasis on innovation.
- Citing strength across new-build, refit and retail channels, some leading UK equipment suppliers are reporting sales increases of 20% or more for 2017, with exports in the range of 70-80%.

Outlook

- Despite considerable resilience in the aftermath of the Brexit vote, economic growth is forecast to weaken in 2018 as uncertainty and political in-fighting over EU negotiations begin to take their toll on confidence levels.
- After real GDP growth of 1.7% in 2017, Britain's pace of expansion is forecast to slow to 1.5% in 2018 with weaker private consumption in the fourth quarter continuing into 2018.
- Consumer confidence slipped a point in February to -10 from the previous month, now in negative territory for the past 11 months. Lower willingness to make major purchases has been evident in new car sales which declined -5.7% last year, in contrast to brisk growth in Europe's other major markets. New car sales dropped again in January and February, marking the 11th consecutive month of declines for Britain's new car market.
- The housing market is also showing weakness, with house prices forecast to be flat this year due to low wage growth, rising prices, low savings rates, and uncertainty about the timing of further interest rate increases.
- On the positive side, strong global growth should continue to support UK exports which in turn is bolstering production and employment across many sectors.

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