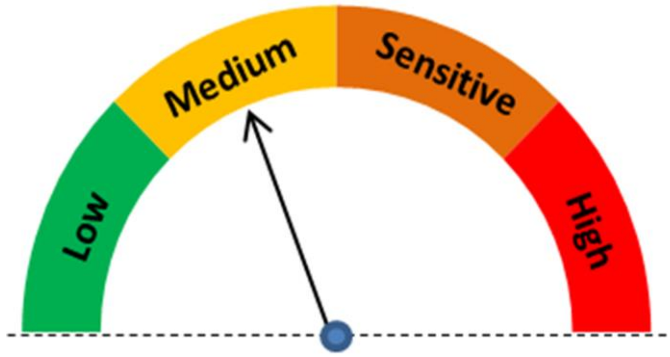
Euler Hermes Economic Research

Global Sector Report

TRANSPORTATION

Sector Risk Rating



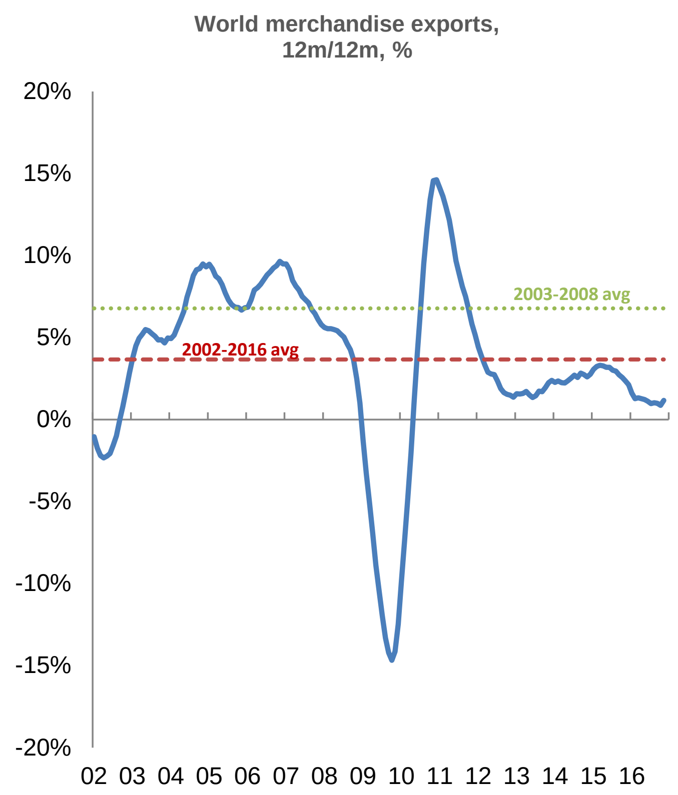
What to Watch?

- Global growth evolution and trade flows
- Ability to transfer the rising oil price to clients
- Growing number of environmental constraints pushing up operating costs
- Development of service-related activities to improve profitability levels

Gearing up for the rise in oil prices

World trade is the main driver for transportation of goods across oceans, roads, and - more marginally - for air transportation. However, world trade has lost momentum since the crisis and even slowed to a lowest at +1.2% in 2016 compared with +6.8% for the 2003-2008 average. During that period, companies massively invested to increase capacities in order to cope with increasing world demand, but the persistent weaknesses in demand continue to weigh on prices.
The rebound in the maritime Baltic Dry Index in November 2016 brought it to more than 1200, on the back of the Chinese stockpiling of iron ore from Brazil and Australia, but the index started to decline in December 2016 and fell back to around 850 by the end of January 2017 (well below the 2,230 peak at the end of 2013).

Another driver is the increasing movement of people, especially through air travel. The robust annual rate growth (+6%) relies on higher demand for business travel and tourism. Transport companies around the world are taking advantage of this trend and the still-low oil price. Net profits, driven by the US, have doubled between 2014 and 2016. For 2017, we forecast an oil price of about 54$/b (compared to 45$/b in 2016). This can prompt a slight decline in net profit at 7.9% of turnover (down from 8.2%).



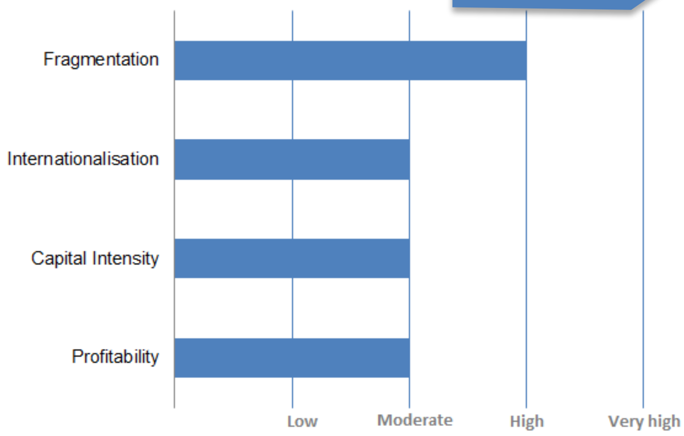
Sources: CPB, Euler Hermes

Key Players

Country	Role	Sector Risk
United States	#1 producer	
Japan	#2 producer	
Germany	#3 producer	

ID Card

Sector Value:
2,781bn
USD



Strengths

- Air transportation, essential for business and tourism, continues to expand
- Airlines in the United States have finished restructuring and has recovered to strong levels of margin

Weaknesses

- Substantial overcapacity since the crisis in maritime transportation exacerbated by the slowdown in world trade
- On-going restructuring in the European air transportation industry
- A huge number of SMEs in road transportation with a low pricing power

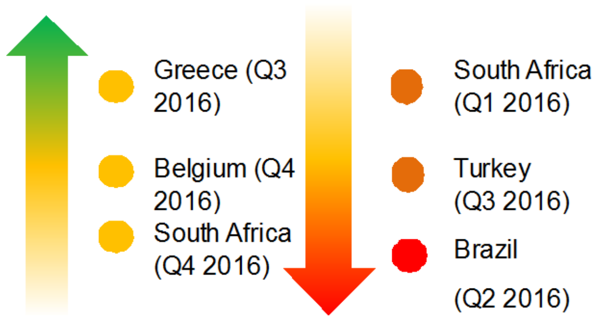
Subsectors Insight

Road transportation: high competition, mainly in Europe due to a major wage gap between Western Europe (up to 1400€/ m) and Eastern Europe (down to 200€/ m)

Maritime transportation: Overcapacity and low freight rate undermine activity and profit.

Air transportation: Solid fundamentals except in Europe and Latin America, but strong competition among companies in the Gulf

Recent Sector Risk Changes



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