HOME ECONOMIC STUDIES TRANSPORTATION

ASIA-PACIFIC	CENTRAL & EASTERN EUROPE	LATIN AMERICA	MID-EAST & TURKEY	NORTHERN AMERICA	WESTERN EUROPE
MEDIUM	HIGH	HIGH	MEDIUM	MEDIUM	MEDIUM

STRENGTHS

- Good long-term growth prospects
- Increasing use of air transport in Asia due to emerging middle classes
- Technical progress is reducing costs, particularly for air and maritime transport

WEAKNESSES

- Highly dependent on oil price fluctuations
- Health closely tied to economic conditions
- Severely affected by environmental concerns

RISK ANALYSIS

RISK ASSESSMENT

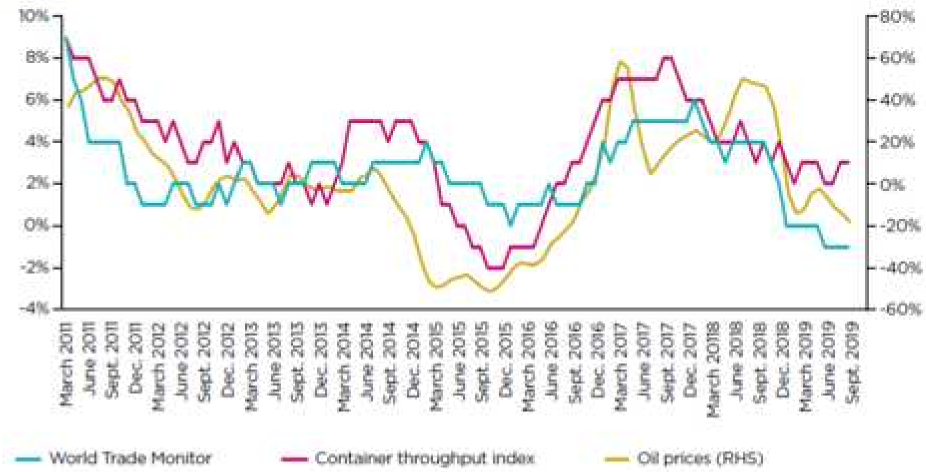
Overall, the transport sector (air, road, sea and rail) is set to be reduced by cooler economic activity and trade tensions. Further out, however, the sector should benefit from a positive outlook mainly due to the emerging middle classes in India and China, and the lower costs associated with technological progress, particularly in the air and maritime segments.

World trade is on the decline. The World Trade Monitor, which measures world trade in goods, decreased by 1.1% in the third quarter (Q3) of 2019 year-on-year. Air freight, measured in freight ton kilometres, fell for the 11th consecutive month in September (-4.5% year-on-year). Maritime freight continues to slow down as well: the container throughput index, which tracks the volume of world maritime freight, increased by 3% in Q3 2019 year-on-year compared to 3.3% a year earlier.

Air traffic continued to slow in 2019: demand for air passenger transport, measured in revenue passenger kilometres (RPK), increased by 4.5% year-on-year over the January to September 2019 period, compared to 6.7% a year earlier. The grounding of the Boeing 737 MAX airliner, for an unspecified period, following crashes in October 2018 and March 2019, is having a damaging effect on the financial health of Boeing and of many airlines, particularly US companies, which use these aircraft and which have automatically suffered a (temporary) reduction in their fleet size. Despite the difficulties, the long-term outlook for air transport is positive, according to the International Air Transport Association (IATA), which forecasts that the number of air travellers will double to 8.2 billion by 2037, mainly due to growth in the Asia-Pacific region, which is expected to account for half of the total number of passengers worldwide by that time.

Environmental concerns and measures to prevent greenhouse gas or pollutant emissions could have an adverse impact on the sector, particularly the air, maritime and road segments.

YOY GROWTH OF OIL PRICES AND MERCHANDISE TRADE INDICES



Source: CPB, RWI, Reuters

SECTOR ECONOMIC INSIGHTS

A TRANSPORT SECTOR IN TURMOIL AFTER A TURBULENT YEAR

Global economic activity continued to slow in 2019. Coface is forecasting a 2.4% economic growth in 2020 after 2.5% in 2019 and 3.2% in 2018. The slowdown is particularly noticeable in world trade in goods, of which the three-month average fell for the fourth consecutive month in September 2019, registering a 1.1% slide according to the Netherlands Bureau of Economic Policy Analysis (CPB). Maritime and air freight are automatically affected by the decline in trade. Accordingly, maritime freight transport, which represents 80% of world freight, continues to decelerate: the average value of the container throughput index increased by 2.6% between January and September 2019 year-on-year after 4.4% in the previous year. Air freight, measured in freight ton kilometres, fell by 4.5% year-on-year in September, the 11th consecutive monthly decline.

Air passenger transport seems to be continuing to perform well. According to IATA, demand, measured in revenue passenger kilometres, increased by 3.8% in September year-on-year.

Among the highlights of 2019, Boeing suffered setbacks following the crashes of two Boeing 737 MAX aircraft in October 2018 and March 2019. Boeing, the world's leading aircraft manufacturer, posted a loss of nearly USD 3 billion in Q2 2019 due to the suspension of deliveries and decreased 737 MAX production. Boeing delivered 239 aircraft in the first half (H1), down 37% on H1 2018. Airbus, its main competitor, is taking advantage and delivered 28% more aircraft in H1 2019 compared to H1 2018. However, Airbus's gain will be limited as the manufacturer cannot increase its production indefinitely in the short term, and airlines do not appear to have lost all confidence in Boeing: to date, there have been very few cancellations, and Boeing received several orders at the Paris Air Show, including one for two hundred 737 MAX aircraft from International Airlines Group (IAG). Aerospace manufacturers are not the only ones affected by the crashes: since the 737 MAX has been grounded, airlines using this type of aircraft have been forced to adjust, most often by cancelling flights. North American airlines are particularly concerned: American Airlines, which owns twenty four 737 MAX aircraft, has estimated that aircraft downtime will reduce its profit by USD 400 million; Southwest Airlines has cancelled more than 200 daily flights through to March 4, 2020.

ENVIRONMENTAL CONCERNS ARE DISRUPTING THE SECTOR

In order to combat pollution and address environmental concerns, a number of measures have been taken to reduce the transport sector's environmental and health impact. IATA has set itself the goal of halving CO2 emissions by 2050 relative to the 2005 level. The European Parliament voted in early 2019 to reduce CO2 emissions from heavy goods vehicles by 25% by 2025 and 30% by 2030. And the International Maritime Organization (IMO) has set a new limit for ship sulphur oxide emissions. The new rule, called IMO 2020, which took effect on January 1, 2020, limits sulphur emissions to 0.5% (or 5 kg per tonne of fuel) compared with 3.5% previously. This measure is expected to have the greatest impact in the short term.

Ships have several options to comply with IMO 2020. First, they can use low-sulphur fuel oil (LSFO) or marine gas oil (MGO), which will be more expensive than the high-sulphur fuel oil (HSFO) used to date, due to higher production costs. They can also continue using HSFO if they install purifiers that allow no more than 0.5% sulphur oxide to be discharged, but installing these devices is time-consuming and costly; estimates of the number of ships fitted with purifiers on January 1, vary from 2,000 to 4,000 ships, while the world fleet is estimated by the United Nations Conference on Trade and Development (UNCTAD) at over 95,000. Last, they can use liquefied natural gas (LNG) but this option seems unlikely to be used in the short term, as not all ports can supply ships with LNG. The short-term option that ships are most likely to take is therefore to use LSFO or MGO.

Whatever the case may be, IMO 2020 will impact shipping companies by increasing costs. The negative effects of IMO 2020 will be magnified by the fact that the new rule is being introduced amid an economic slowdown and a deterioration in world trade.

Environmental concerns are prompting some consumers to stop flying and look for transport alternatives. This movement, known as flygskam, or “flight-shame” is spreading in Europe and the United States and could have a lasting negative impact on passenger air transport. This may in turn benefit the railway segment.

A CHALLENGING 2020 IN PROSPECT

At the global level, passenger and freight transport companies will continue to be affected by the economic slowdown.
In Europe, air transport and particularly the low-cost segment is facing major overcapacity, which is eating into margins and making firms more sensitive to economic conditions and changes in oil prices. As a result, a significant number of airlines went bankrupt last year, including WOW air and XL Airways to name just two, undermined by wide swings in oil prices and the economic slowdown. More failures are expected in the short term. However, these bankruptcies may benefit the market as a whole in the long term: by reducing overcapacity and promoting market consolidation, they will allow companies to rebuild their margins and reduce their sensitivity to economic fluctuations.
The possibility of a hard Brexit is hurting the UK sector. Large companies, including Airbus, have said that they need more certainty before continuing to invest and may be forced to leave the United Kingdom if the country takes the hard Brexit route, because of its effect on international supply chains.

The trade tensions between the United States and China have a direct impact on the transport sector by reducing trade between and within the two countries. In the United States, the sector is affected by trade tensions with China: import tariffs on steel and aluminium are pushing up manufacturers’ costs, while Chinese retaliatory measures on American goods, particularly agricultural goods, reduce freight demand. The health of domestic road freight transport, which accounts for 70% of domestic freight in the United States, did not show a clear trend in 2019 but experienced sizeable fluctuations. The economic slowdown that Coface expects in 2020 (+1.3% after 2.3% in 2019 and 2.9% in 2018) will weigh on freight demand.

In Asia, the emerging middle classes, particularly in China and India, and rising income per capita bode well for the transport of goods (as residents are consuming more) and passengers (as households are travelling more often). In China, the current economic slowdown and the trade tensions with the United States will affect demand for transport, particularly of freight. In the longer term, the sector in China as well as in neighbouring countries stands to benefit from the Belt and Road Initiative.

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