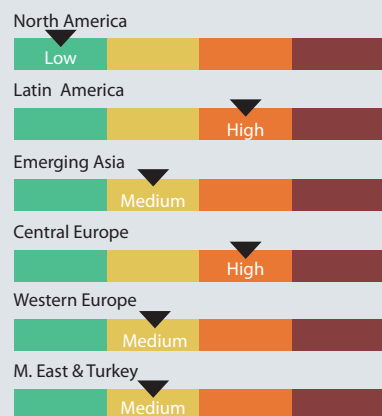




## TRANSPORT

### COFACE REGIONAL SECTOR RISK ASSESSMENT



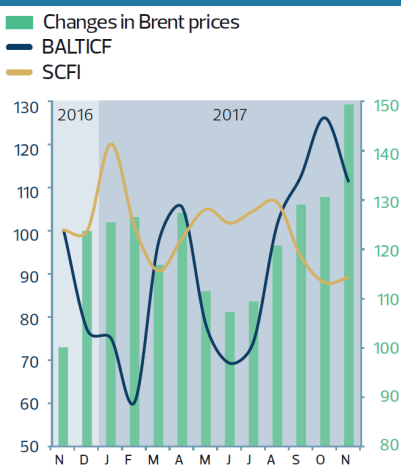
#### + STRENGTHS

- The increasing use of air transport in Asia, thanks to the emergence of middle classes
- The continued global economic recovery, generating business

#### - WEAKNESSES

- Road sector: unequal demand
- Maritime cargo sector: overcapacity of the actors
- Air sector: highly competitive

### CHANGES IN OIL PRICES, AND CHANGES OF PRICE INDEXES (BOTH BULK AND CONTAINER) (BDI and SCFI indexes - Basis 100 11/2016)



Sources: EIA, Thomas Reuters/ SCFI; Shanghai Shipping Freight Index

## RISK ASSESSMENT

Just like Rickmers which declared bankruptcy on 1 June 2017 following the halving of Baltic Panama Index (BPI) prices between December 2016 and June 2017, small players have similarly suffered from the sustained drop in prices this year. The Baltic Dry Index (BALTICF) reached historically low levels in February 2016 thereby drastically reducing vessel hire costs. In addition, continuing low oil prices for most of 2017 has turned out to be a pitfall for shipping companies, which having made savings maintained shipping lines for a longer period of time and consequently boosted the transport offering. Major players have benefited from alliances and the consolidation of their offerings. Although the BALTICF index was still very volatile in 2017, it has seen an upward trend since early 2017 (see chart), in particular because of the rise in oil prices. In 2018, oil prices should remain at levels similar to those reached at the end of 2017 (according to Coface between USD 55 and USD 60 in 2018), which could help maintain overcapacity.

Global air traffic continued to increase in 2017, up 6% on 2016, which was already a record year. It reached 4.1 billion passengers. The strong demand for air transport contributes positively to global growth.

### DEMAND

The continued growth in global activity in 2018 (3% according to Coface projections) should boost demand in the maritime, rail and road transport sectors. After doubling over the last twelve years, the number of air passengers should again double by 2036 according to IATA. The sector continues to benefit from lower ticket costs, which have halved in 20 years (in real terms).

Western European road transport companies benefited from a rebound in traffic volumes in 2017 thanks to 2% growth in the euro zone. In France economic growth in 2018, which Coface expects to be 1.8% (vs. 1.6% in 2017), will be pushed up by household consumption and investment growth. The road transport activities should benefit from this rebound. In Latin America, growth should double (2% vs. 1% in 2017) and help road transport. However, transport infrastructure is still underdeveloped in this region, greatly increasing the cost of freight and mechanically reducing demand.

With regard to air transport, UK airlines could experience a sharp decline in the number of passengers ahead of the current uncertainties in the Brexit negotiations, according to a Reuters study. Post-Brexit, the study mentions an 11.5% decline in numbers in the long-term in the United Kingdom. In the United States, growth in the US economy, which Coface expects to be 2.3% in both 2017 and 2018, should benefit from the resilience in household consumption, even if the latter is likely to slow in 2018. In fact the consequent higher cost of credit will mainly affect the poorest households and will impact their consumption. However, the country's geography and air travel patterns are not expected to negatively impact the demand for air travel.

Latin American airlines are expected to continue to recover in 2018. They should see a net profit of USD 0.9 billion next year according to IATA, with passenger demand expected to increase by 8%. They should benefit from the continued economic recovery in Brazil. In Asia, the emergence of the middle classes is favourable for the aeronautical sector. In China for example, the number of households earning over USD 35,000 a year is expected to triple by 2022 and drive growth in the sector. In Asia-Pacific, airline performance is very mixed. The average profit per passenger in 2017 is estimated at USD 4.96, with higher fuel costs partly offset by improved freight markets, which is particularly important in this manufacturing region.

### SUPPLY

Overcapacity in the maritime transport sector, which carries 80% of world trade, could continue to have a negative impact on small players in the sector in 2018. Airlines will continue to benefit from still low oil prices (even though these rose in late 2017). After generating record profits over the past three years, airlines will be more exposed to increases in labour and maintenance costs in 2018.

European airlines are benefiting from a sharp rebound in economic conditions on domestic markets, including in Russia. Added to this is a recovery in traffic after a slowdown in 2016 following the series of terrorist attacks and continued restructuring. The region has the highest passenger numbers in the world, in 2017 estimated at 84%. Net income is expected to reach USD 11.5 billion, up from 9.8 in 2017.

In 2018, North American airlines are expected to keep the title of world net-after-tax profits champions, projected at USD 15.6 billion in 2018 - generating more than half of the industry's global profits. This is due to market conditions that should continue to be very good with capacities up 3.4%.

Asian airlines should benefit from airport infrastructure investments, which between 2016 and 2020 will probably be the highest in the world. The aforementioned investments average levels are expected to be four times higher than in Europe. According to IATA, profits are expected to be USD 9 billion in 2018, supported in particular by an increase in cargo activity.

In 2018 road transport sector companies in Western Europe are expected to benefit from relatively weak fuel costs in relation to historic levels. In France, the introduction of a derogation in the agreement between the government and sector professionals in October 2017 (in line with the government's labour market reforms) aims to make the sector more competitive. According to the agreement, remuneration for night work, public holidays and Sundays will be an integral part of the hierarchical minimum wages, which cannot be negotiated through company agreements.

The shipping company Maersk Line and its partner Damco operated their first train between China and Europe in November 2017. The journey through seven countries was 20 days faster than by sea and reduced carbon dioxide emissions by 36% compared to a container ship.