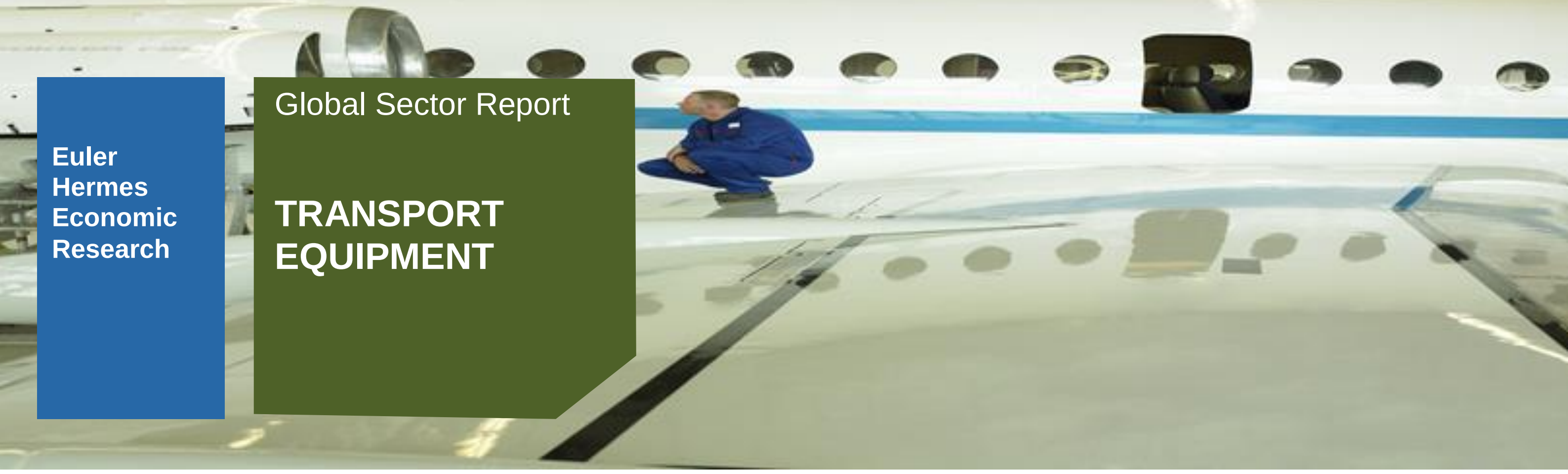
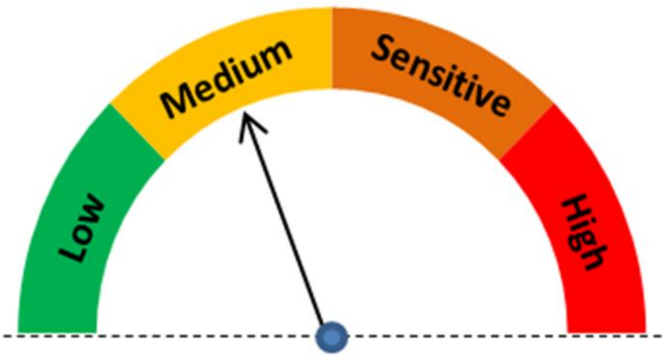


Euler Hermes Economic Research

Global Sector Report

TRANSPORT EQUIPMENT

Sector Risk Rating



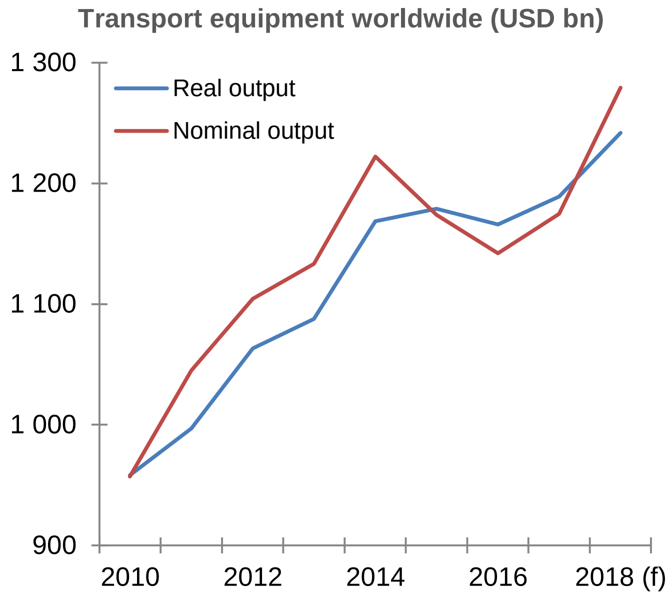
What to Watch?

- Variation in feedstock costs (i.e. metal raw materials, especially steel and aluminum)
- Soaring environmental constraints requiring extensive investments
- Level of demand of its main outlet (i.e. the downstream transportation industry)
- Share of the government spending devoted to defense (in aerospace and shipping) products

Flying on the order books

Aerospace broadly accounts for 60% of transport equipment output while shipbuilding and rolling stock do 40%. Dominated by Airbus and Boeing, the aircraft sector enjoys large order books that should keep their production lines still busy for a decade.
Shipbuilding continues to cope with excess capacity and low steel prices enabling small players to come through. It resulted in a few high-profile shipbuilding groups' restructurings aimed at cutting structuring costs, particularly across South (East) Asia.
Rolling stock equipment depends on countries' infrastructure investments. But these latter depend too on the share of public funding that less-favored regions (or states) are ready to put in.

The surge in global mobility and the demand from clients in transportation account for the growth rate of 9% for transport equipment expected in 2018. More middle-term considerations are the rising share of households for whom air, sea and rail travels are affordable and the evolution of geopolitical tensions from today's high-threat levels. The trouble is, this growing demand has been putting pressure on the upstream sector's global supply chain in terms of capability to delivering or not supplying equipment at the right time.



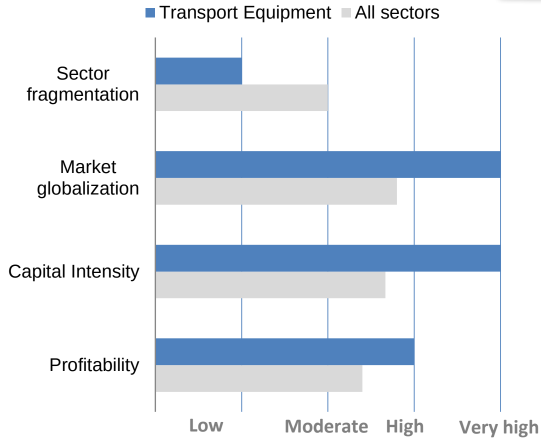
Sources: Oxford Economics, Euler Hermes

Sector Value:
1,300bn
USD

Key Players

Country	Role	Sector Risk
United States	#1 producer #1 exporter #2 importer	● (green)
China	#3 importer #2 producer #6 exporter	● (yellow)
Japan	#3 producer #5 exporter #4 importer	● (yellow)

ID Card



Strengths

- Aircraft sector enjoying a luring situation of duopoly
- Most of sector's main companies to appear to be profitable enough
- Global mobility expected as a strong trend looking ahead that the upstream transport equipment sector may shortly benefit from

Weaknesses

- Skyrocketing costs in developing new aircraft models
- New technologies in composite materials more difficult to implement into transport equipment
- Public funding of transport infrastructures to be not that easy to get nowadays

Subsector-Insights

Aircraft manufacturers: Ability to anticipate overcapacities in downstream airline industry

Shipbuilding: Dependency on variations in green taxation and in world trade growth

Rail equipment: Suffering from difficulties in public funding of infrastructure facilities

Recent Sector Risk Changes

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