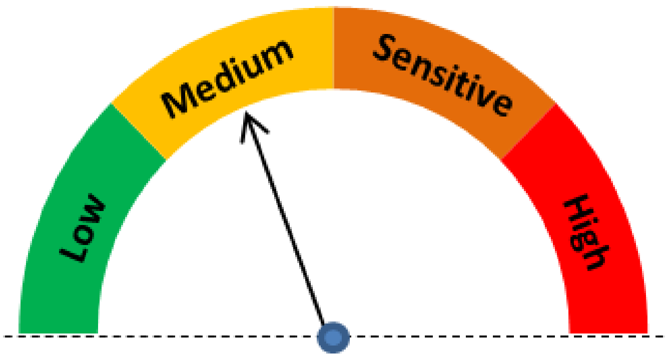
Euler Hermes Economic Research

Global Sector Report

TRANSPORTATION

Sector Risk Rating



What to Watch?

- Global economic growth and trends in trade flows impacting the sector's revenues
- The ability to benefit from low oil prices is dependent to a large extent on clients (companies or consumers)
- Increasing environmental constraints calling the need for higher investments and thus weighing on firms' margins
- Development of service-related activities to improve profitability levels

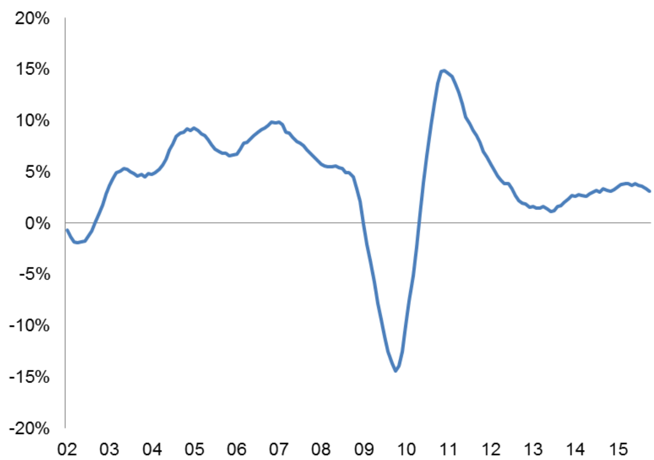
Transportation and low oil prices: Which sub sectors benefit?

World trade is the main driver for transportation of goods across oceans, roads, and more marginally for air transportation. World trade has now slowed to approximately +3% against +8/9% before the financial crisis of 2008-2009. At that period, companies massively invested in increasing capacities in order to cope with increasing demand.

But the *new normal* has incurred a dramatic fall in freight rates. The Baltic dry index, for example, fell by -50% over the last 12 months. This situation heavily weighs on firms' margins and their ability to generate cash, and despite lower oil prices, puts risk on finances.

Apart from trade, another important driver is the increasing mobility of people, especially through air travel. This business is expanding at an annual rate of +6% thanks to higher demand for business travel and tourism. Transport companies around the world are taking advantage of this trend and with the slump in oil prices, net profits could double between 2014 and 2016. This should take place mainly in the United States, although European competition remains fierce.

World Trade Evolution,
(rolling 12-months average change in %)



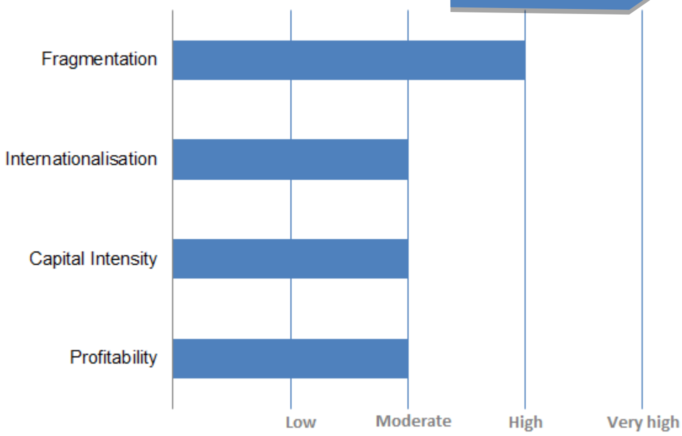
Sources: CPB, Euler Hermes

Key Players

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

ID Card

Sector Value:
2,503bn
USD



Strengths

- Steady increase in business and tourism travel leading to a structural rise in demand for air travel
- Completed and successful restructuring of US air transportation industry

Weaknesses

- Substantial overcapacities due to crisis in maritime transportation
- On-going restructuring in the European air transportation industry
- Highly competitive market

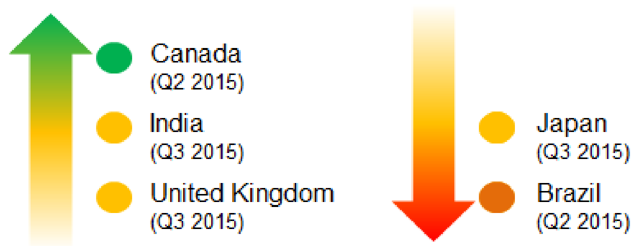
Subsectors Insights

Road transportation: Numerous, small players with weak pricing power.

Maritime transportation: Overcapacities and low freight rate undermine activity.

Air transportation: The biggest beneficiary of the low oil price. Good fundamentals (except in Europe and South America) but strong competition from Gulf-based companies.

Recent Sector Risk Changes



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