SURVEY Industry Watch

Expecting growth in difficult times

At a time of contrasting economic fortunes and mixed prospects, we asked our panel of senior executives about their expectation for business in 2016.

ANDREAS SCHWILLING and
LUDWIG PELZER
Roland Berger Strategy Consultants

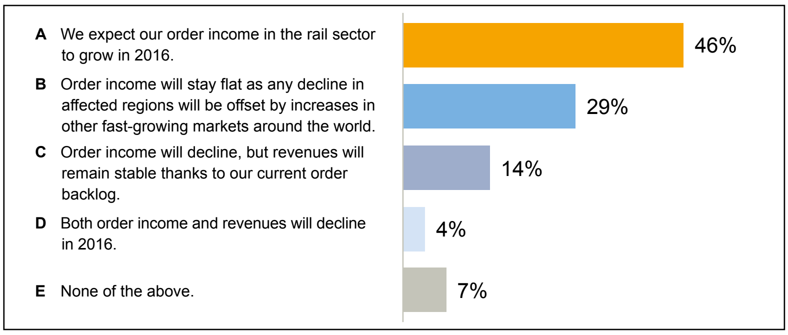
What is 2016 going to bring for the rail sector? There have recently been some very mixed forecasts for economic development in key markets. In its latest *World Economic Outlook* update, the International Monetary Fund presented a positive perspective for growth in the global economy over the next 12 months, but it also highlighted a number of downward risks which may hamper those prospects.

Two factors in particular may impact on the rail industry. Continuing concern over high levels of public sector debt in western economies has led to funding shortages and cuts to investment in several countries. Meanwhile, a steep decline in raw material prices is hurting those countries that rely on commodity exports, many of which have been seen as emerging rail markets.

In its most recent forecast, Oxford Economics predicted year-on-year growth of 2·7% for the global economy during 2016. This is slightly more cautious than the 2·8% predicted for 2015 at the same time in 2014 (RG 1.15 p52). Accordingly, the institute's expectations for the most important rail markets vary significantly. Key European economies are expected to achieve a higher GDP growth in 2016 than predicted for 2015, along with India (Fig 1). By contrast, lower growth rates are anticipated for the USA, Canada, the UK, and China. Brazil and Russia are forecast to experience recession, with significant falls in GDP.

Nevertheless, our panel of senior executives remains relatively optimistic about the prospects for the rail supply industry in 2016. No fewer than 75% of respondents anticipate that order incomes will remain constant, or increase compared to 2015. The largest proportion, at 46%, expects some growth in orders, while a further 30% foresee declines in some regions being offset by increased business elsewhere. A further 14% of respondents anticipate that income will decline, but revenues will remain stable thanks to substantial order backlogs. Only a small minority of 4% expect both income and revenues to fall.

To find out more about the survey and apply to join our panel, visit the RSIW website at: **www.railsupplyindustrywatch.com**



RAIL SUPPLY INDUSTRY WATCH

Compared to the results of our poll at the end of 2014, the survey respondents have shifted to a slightly more conservative stance while remaining relatively confident. Last year 63% of respondents expected order incomes to increase, while this time the figure has dropped to 46%. This drop of 17 percentage points year-on-year is partially balanced by a 12 point increase in the number of participants anticipating a flatter income level. However, the proportion of respondents forecasting declining order incomes but stable revenues has doubled from 7% to 14%. In both years the number of participants expecting a decline in both income and revenues remained well below 10%.

Given the broader setting of mixed expectations for overall economic development, it is perhaps a healthy sign that three out of four respondents remain by and large optimistic about the outlook for the rail sector in the next 12 months. There have been a number of developments in the railway supply market over recent weeks which send positive signals for the industry. A large number of projects are starting to move forward, even in markets where the general economic outlook is less positive.

We have seen the awarding of two major locomotive contracts in India, and the first deliveries under similar agreements in South Africa. The metro sector remains strong, particularly in the Middle East where work is forging ahead in Doha and Riyadh and Kuwait will soon be moving into the procurement phase. In the high speed sector, civil engineering work is getting underway in California, while Turkey is expected to call tenders for up to 80 more trains. Approval of a five year infrastructure investment programme in Austria should also see some significant orders placed in the coming months.

According to Unife Director-General Philippe Citroën, the association 'has long asserted that more rail investment would be beneficial for both the economy and the environment. This was highlighted by the commitment of world governments to reduce carbon emissions in the COP21 talks last month. The survey results confirm the general feeling of confidence in the rail sector that business will grow in the near future. Now it is up to the rail industry, with the support of governments and institutions such as the European Union, to turn this into reality by promoting and implementing more railway projects.' ■

Fig 1. Oxford Economics' GDP growth expectations 2016 in comparison to 2015.