SURVEY Industry Watch

The growth story continues

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The economic outlook for the next year is mixed again, as world trade is likely to suffer from the suspension of trade agreements and major political conflicts have not been resolved. We asked our panel of industry executives about their expectations for business in 2017.

Although global growth rates are continuing to slow, the railway supply industry remains relatively bullish when considering its prospects for the coming 12 months.

The latest global forecast from Oxford Economics envisages that economic growth in the world's key rail markets during 2017 will be slightly lower than the levels that it projected for 2016 a year earlier. As Fig 1 shows, only the forecasts for Brazil and Russia are more positive than last year, as both countries are likely to emerge from recession. Lower growth rates are expected in all other countries, with the result that global GDP is predicted to grow by 2·5% in 2017 compared with the 2·7% forecast a year earlier. The International Monetary Fund is slightly more optimistic, although it also adjusted its 2017 forecast downwards by 0·1% in October to 3·4%. Both forecasters envisage that global GDP will continue to grow, albeit at a slightly lower rate.

Given this global context, our panel of senior executives remains relatively optimistic about the prospects for the rail industry. No less than 78% of respondents anticipate that order income will remain constant or increase in 2017. Nevertheless, they have become more conservative than they were a year ago. As many people are expecting flat order volumes as anticipate growth, whereas last year the proportion expecting growth was 17 percentage points ahead. Among the more pessimistic respondents, the proportion expecting declining order incomes but stable revenues has fallen by half, whereas the proportion forecasting a decline in both income and revenues more than doubled to 11%.

One possible reason for this negative view is the decreasing accessibility of several key markets for international suppliers, as identified in the latest World Rail Market Study (RG 9.16 p121). European rail supply companies consider that only about one-third of the Asia-Pacific rolling stock and infrastructure markets is accessible, with concerns over their ability to bid for work in China, Japan and South Korea, amongst others.

This somewhat less optimistic but in general still positive view is consistent with our expectations for market development. According to the project database used for the World Rail Market Study, 2017 should be another good year for the rail supply industry. There will be many large orders across different continents and market segments.

RAIL SUPPLY INDUSTRY WATCH

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For example, the industry is still hopeful that London Underground will select a preferred bidder for its New Tube for London programme in the autumn, with the prospect of a framework contract for up to 3 300 metro cars. New York's Metropolitan Transportation Authority is tendering for 1 025 new subway cars with a total value of almost US$3bn. There will be various smaller orders for metro cars from several Chinese cities, including Beijing and Shanghai.

In Australia, the state of Victoria has already shortlisted two consortia to deliver up to US$748m worth of signalling and communications systems as part of the Melbourne Metro Rail project, with a contract expected to be awarded later this year.

In the main line sector, larger projects in the pipeline include an order from Israel Railways for 60 double-deck EMUs totalling 330 cars, including maintenance. Indian Railways is expected to place contracts for 5 000 EMU cars during 2017, to be manufactured at a new plant in Kanchrapara by a joint venture in which IR will hold a 26% stake. In South Africa, where both Prasa and Transnet have placed large contracts in recent years, Gautrain is expected to order 12 more four-car EMUs for its commuter network in late 2017.

The project pipeline is also filled well for the next few years. And looking at the longer term, the well-known megatrends of population growth, urbanisation, increased environmental awareness and market liberalisation can be expected to drive significant investment in rail transport.

According to Unife Director General Philippe Citroën, 'the results of this survey suggest that the European rail industry remains cautiously optimistic. The good news is that current megatrends, will continue to boost the demand for rail products and services. On a less positive note, competition in some markets is becoming increasingly fierce and in many cases unfair. In 2017 Unife will continue its fight to re-establish a level playing field across the world-wide rail market.' ■

Fig 1. GDP growth expectations 2017 in comparison to 2016.

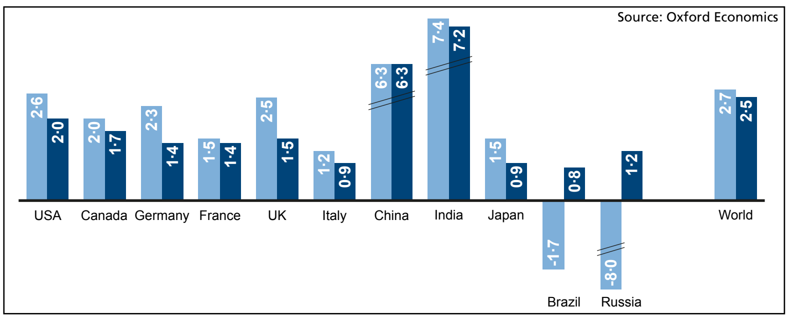

Fig 2. Business expectations for 2017 are slightly more pessimistic than those recorded in our survey for 2016.