SURVEY Industry Watch

A bullish view prevails

STEPHAN BUNGE and
ANDREAS SCHWILLING
Roland Berger

With global economic growth for 2018 projected at 3·7%, business sentiment in the railway supply industry has become more optimistic, despite political uncertainties in different regions.

Expectations of economic development in key rail markets during 2018 are mixed, but the railway supply industry seems confident that business will continue to grow, according to our latest poll of senior executives across the sector.

In a recent publication, the IMF offered a positive outlook for global economic growth, suggesting an overall figure of 3·7%, which is slightly higher than the growth rate predicted a year ago. However, there are many political uncertainties at the present time: irrational decisions by the American government, slow progress in the Brexit negotiations, and the difficult relationships between the Western world and countries such as Russia. Tensions continue in the Middle East, while Europe itself seems far from stable.

The IMF growth projections for the major rail markets (Fig 1) are somewhat lower than last year, except for Brazil, France, India and the USA. Nevertheless, some growth is expected for all of the major markets despite the political uncertainties. The general view is that the economic growth we have observed in many countries driven by loose monetary policy can be expected to continue.

Given this background, we asked our panel about their business expectations for the rail supply industry in 2018, and the feedback has been overwhelmingly positive. Almost half of the respondents (44%) expect their order incomes to grow, while another 52% believe they will continue at a steady rate. Only 4% of the panellists expect to see a decline in order income. This is a much more optimistic outlook compared to the results of our poll a year ago (RG 1.17 p58). At that time, slightly less than 40% of respondents expected to see order income growing or level, and about 20% anticipated that business would decline.

The more positive outlook among supply industry executives seems to be driven by a large number of important projects coming to fruition in various continents. In Asia for example, tendering is to be completed this year for the infrastructure works, electrical and mechanical systems and rolling stock to operate the Kuala Lumpur – Singapore high speed line, at an estimated cost of €12bn. Expected to be operational by the end of 2026, this 350 km link is projected to connect the two cities in around 90 min.

RAIL SUPPLY INDUSTRY WATCH

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

In Europe, Transport for London's subsidiary Docklands Light Railway Ltd has invited expressions of interest in a contract to supply and support up to 77 driverless light metro trainsets under the DLR Rolling Stock Replacement Project, with the contract expected to be awarded in mid-2018. The initial requirement is for 43 trainsets to enter service between 2022 and 2024, valued at around £500m, with the options potentially taking the total value to £850m.

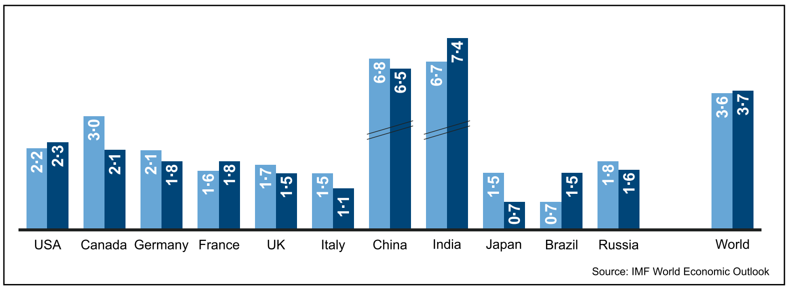
In the Americas, a PPP concession is expected to be awarded shortly for the Hurontario LRT project, with construction of the 20 km line between Port Credit GO Station in Mississauga and Gateway Terminal in southern Brampton due to get underway this year. The province of Ontario has committed C$1·4bn towards this project. Argentina's Ministry of Transport has begun tendering a contract for 169 trainsets to renew the Buenos Aires commuter rail fleet, which will see the delivery of 1 500 EMU cars over 10 years. The national government has allocated US$2bn to fund the procurement and a further US$800m for maintenance.

These are just selected examples, of course, and the business pipeline is much larger. As well as projects to build or extend railway, metro and light rail lines in many countries, there is a huge requirement for investment in the renewal or replacement of existing infrastructure, rolling stock and control systems.

Our survey results suggest that the impact of global uncertainties on the rail supply industry will be moderated by practical considerations. For example, even though the US administration announced drastic budget cuts last year, this was followed by the release of funds for investment schemes such as the US$1·3bn Caltrain electrification (RG 7.17 p11).

The rail supply industry seems confident that the stable, single-digit growth rate seen in recent years will continue. 'The European rail supply industry is more optimistic than a year ago, with many important projects on all continents driving steady growth', believes Unife Director-General Philippe Citroën. 'However, there are uncertainties and challenges linked to fierce — and in many cases unfair — competition, which makes it more important than ever to achieve a level playing field across the world railway market.' ■

Right: Fig 1. GDP growth expectations for 2018 in comparison to the previous year.



Below: Fig 2. A majority of respondents expect a positive development in the railway supply market during 2018.