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Confidence on the rebound

MARKET Business confidence in the rail sector is surprisingly optimistic, according to a new global industry survey. Major firms are expecting an upswing in both the level of activity and prices over the next six months.



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SCI's first global survey of confidence in the rail industry has revealed a surprisingly bright business climate. According to the companies surveyed during the second quarter of 2010, the current situation no longer reflects the recent economic crisis, but mirrors the early signs of a return to positive growth in many countries.

Future expectations are even more buoyant: 30% of the companies expect business activity in the rail sector to increase over the next six months, with prices for products and services also expected to rise. Companies active in the infrastructure and passenger transport sectors have been able to benefit from government stimulus packages, generating large orders to tide them through the recession, but freight-related companies are still awaiting a global economic recovery. But it is still too early to cite a general upward trend, which would require an increase in confidence for three quarters in succession.

Launched in the second quarter of 2010, SCI's Global Rail Index is based on responses from approximately 100 companies active in the rail sector around the world (below). It has been developed from our earlier rail business confidence survey, which looked at companies headquartered in Germany over the past six years.

About the survey

METHODOLOGY: The SCI Global Rail Index is based on survey responses from approximately 100 companies active in the rail industry. Of these, approximately 15% are train operators or infrastructure managers, and the remaining 85% are suppliers of products and services for the rail sector. Amongst the suppliers, 45% specialise in the rolling stock market, 40% in infrastructure and systems technology, and 15% are active in both markets.

The firms were asked to give their assessment of the current business situation (good, satisfactory or poor) and their expectations for the next six months (more favourable, unchanged or less favourable).

The balance value for the current business situation is the difference between the percentages of 'good' and 'poor' responses; and that for expectations is the difference between the 'more favourable' and 'less favourable' responses. The final index is calculated from the mean of these two balance values. ☞

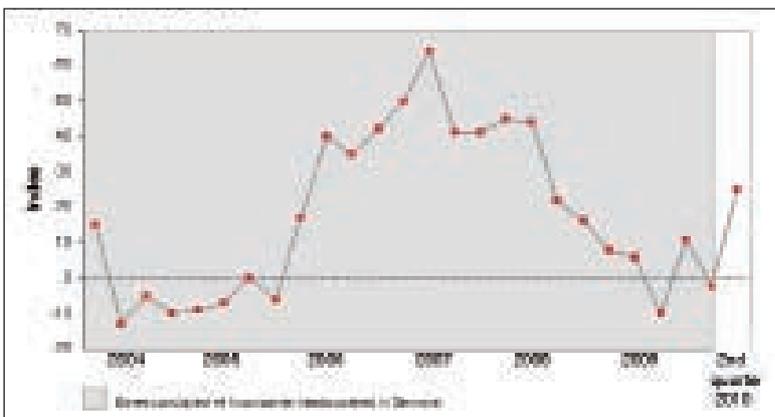


Fig 1. SCI Rail Business Index.

Source: SCI Verkehr

The firms surveyed in Q2 were generally very satisfied with their current business situation, which has improved considerably compared to the trends seen in the German Rail Business Index over previous quarters. Only 4% of the participants described business conditions as poor. In the German Rail Index for Q1, around 25% of respondents described their current business situation as poor.

A large proportion of participants reported increased demand for their products or services over the past six months: 30% saw increased demand, against 20% reporting a decline. Whilst it might be expected that the delayed effects of the economic and financial crisis would now be felt in the rail industry, as orders booked earlier were now exhausted and no new large orders had been placed during the downturn. But in fact almost 30% of companies reported a good order book position against only 10% indicating a poor situation.

Similarly, 29% of companies reported an increase in the number of employees, whereas 26% had reduced their headcount over the past six months. In general, the rail industry offers a more secure workplace than other sectors, where large numbers were laid off during the crisis. Almost 80% of the firms surveyed expect the number of employees to remain constant over the next six months.

The global survey found that general business expectations for the next six months were more favourable

than the earlier German survey had found in previous quarters. The global rail industry was much less affected by the economic crisis than other sectors, thanks to some long-term contracts and large orders placed in the years before the recession, which proved something of a boom. And a large proportion of the companies surveyed now believe that the light at the end of the tunnel is in sight.

This also applies to price development. Spurred by the world's general economic recovery, the rail industry expects prices to emerge from their cyclical trough. More companies believe that prices will increase than decrease over the next six months. Looking back, the decline in new orders during 2009 did put pressure on prices, although the long-term contracts meant that overcapacity did not have as great an impact on the rail industry as in other business sectors. This decline in prices had an impact on a large proportion of the companies surveyed, with 34% reporting a high impact and 45% a medium impact.

Many small and medium sized companies also reported problems with cash flow. As the industry is characterised by long-term contracts, manufacturers often have to pay for materials before receiving any payment from customers. This may mean relying on bank loans to finance materials, raising the risk that a lack of access to financing during the recession could lead to insolvency, regardless of full order books. ☞