

Sceptical expectations for the economy: high energy costs and global procurement problems slow down the industry

The rail industry is in a state of emergency caused by the Covid-19 pandemic and Russia's war on Ukraine. Supply chains are no longer functioning, raw material prices are reaching record levels, there are supply bottlenecks, trade routes are overpriced and transport routes are interrupted. Steel products and wheel sets, which are important for the railway industry, are currently also in short supply due to the Russian war on Ukraine*. The SCI RAIL BUSINESS INDEX - a regular survey of top managers in the global rail industry by the consultancy SCI Verkehr shows: the survey values of the second quarter of 2022 fall to the level of the first quarter of 2021.

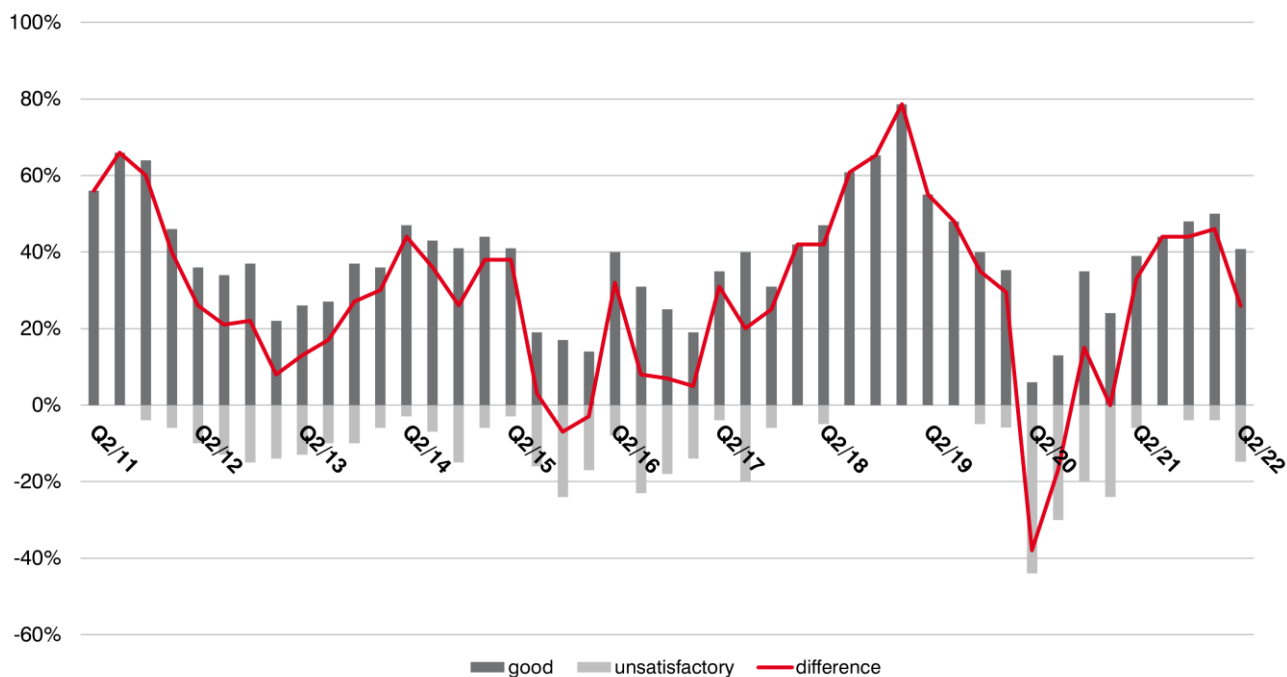
SCI Rail Business Index



Source: SCI Verkehr GmbH

Figure 1: SCI Rail Business Index

Development of current business situation

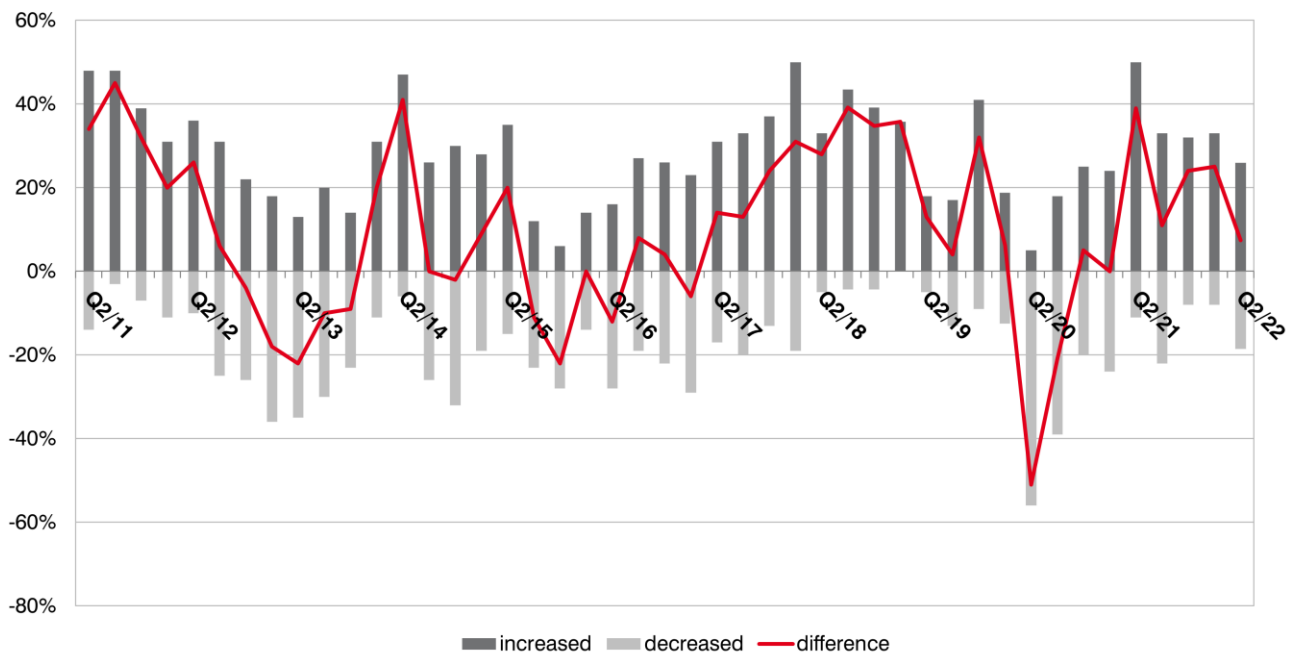


Source: SCI Verkehr GmbH

Figure 2: Development of current business situation

In the second quarter of 2022, top managers assess their current business situation somewhat more negatively than in the previous quarter. Only 41% of respondents now rate the current business situation as good - in the first quarter of 2022 it was still around 50%. The voice of survey participants who rated their situation as unsatisfactory is also getting louder: 15% of participants now say they have a currently unsatisfactory business situation - in the previous quarter it was only 4%. The number of companies that described the current order backlog as "relatively large" in the first quarter has fallen from 50% to 44%.

Demand for products and services



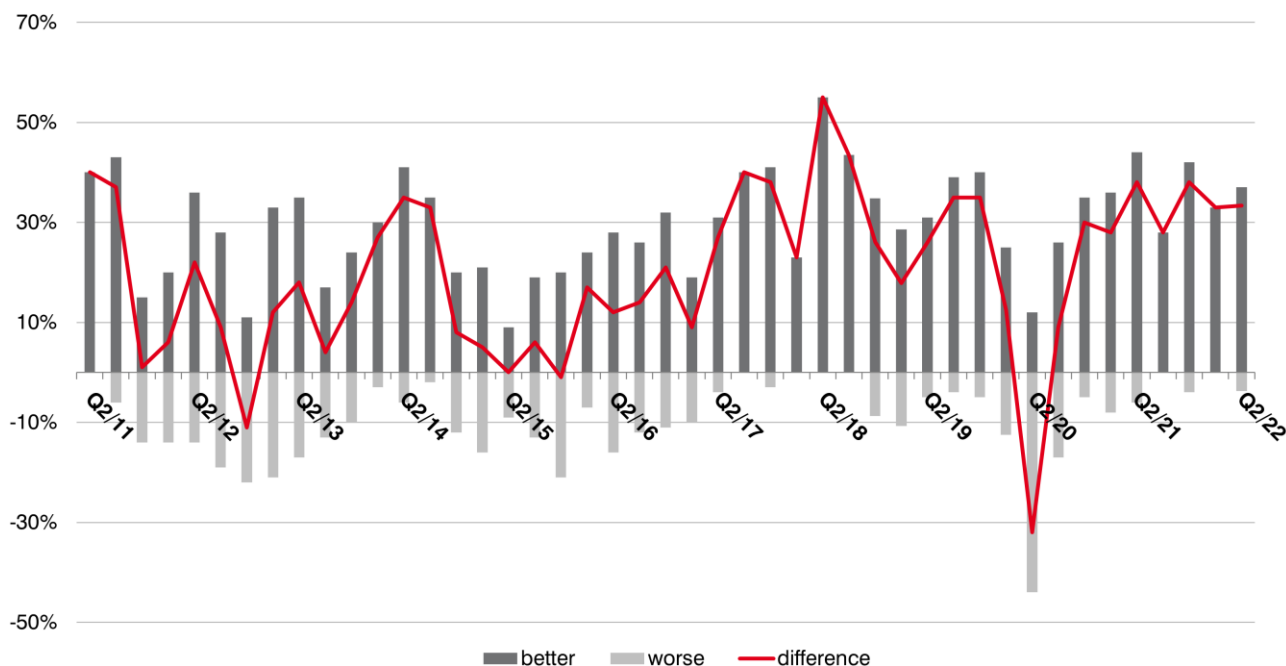
Source: SCI Verkehr GmbH

Since Q3 2020, the reference period for this question is the last quarter (previously: the last 6 months).
Until quarter 4/2009 survey only conducted for companies with headquarters in Germany

Figure 3: Demand for products and services

Demand for products and services has also declined, and the valuation level has fallen again after a slight rise in the last quarter. 26% of respondents assess the second quarter of 2022 more positively than the previous quarter. 19% of the participants feel that demand has fallen (in the previous quarter it was only 8%). However, the vast majority of participants (56%) still feel that demand for products and services is unchanged (58% in the previous quarter).

Expected business development in next quarter



Source: SCI Verkehr GmbH

Since the latest survey, the forecast period for this question is the next quarter (previously: the next 6 months); Up to Q 4/2009, only companies with headquarters in Germany surveyed.

Figure 4: Expected business development in next quarter

With regard to the expected business development in the coming quarter, the survey revealed a clear assessment: Overall, 37% of the top managers surveyed expect the situation to improve in the coming quarter and 4% expect it to deteriorate. Nevertheless, the expected business development is assessed more positively than the development of the current business situation. Overall, expectations regarding the expected business development are still at a high level and the vast majority of respondents are optimistic about the future.



Special question

At the end of May 2022, SCI Verkehr asked top managers in the global rail industry for their assessment of the current availability of products/parts/components from their own suppliers. According to survey participants, the most mentioned products with supply bottlenecks are resistors, electronics, metal parts, forged and cast iron parts, precious metals, plastics, semiconductors, monobloc wheels and axles. The steel products and wheel sets - produced in Ukraine - that are so important for the railway industry are now also in short supply because of the Russian war against Ukraine.

When asked how supplier and energy prices have changed in the last 3 months, the survey participants gave a unanimous answer: purchase prices have clearly increased, for some companies even dramatically (survey participants gave figures between 50% and 70%, some even over 100%).

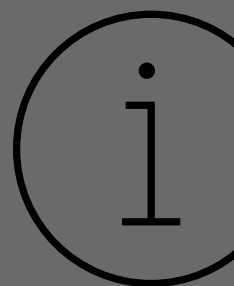
The answers to the question about their own sales prices in 2022 were also unanimous: most participants increase their prices by 5 to 10%, but a price increase of even 10 to 20% was also common in the answers. Only a small minority of top managers expect a price increase of less than 5% for 2022.

Footnote:

*According to media reports, the Ukrainian pipe and wheel manufacturer Interpipe has been gradually ramping up production again since April 2022 and has been delivering its first orders since the end of May 2022. In May, the Interpipe steel complex in Dnipro also went back into operation. The business is suffering from interrupted supply chains and the destruction of transport infrastructure due to the war. Interpipe is currently working on new supply and logistics chains. In addition, Interpipe has released its operating and financial results for the first three months of 2022. According to Interpipe, revenue from product sales increased by 19% to €229.06 million (USD 239 million) compared to Q1/2021, while EBITDA decreased by 63% to €14.38 million (USD 15 million). Steel production also declined by 16% year-on-year to 163,000t, as did rail products production by 43% to 23,000t.

SCI GLOBAL RAIL INDEX

The SCI GLOBAL RAIL INDEX is based on approximately 100 reports from representative companies in the global rail industry. The companies are regularly asked to assess their current business situation and their expectations for the coming six months. They can mark their situation as "good", "satisfactory" or "poor" and their business expectations for the coming six months as "more favourable", "stable" or "less favourable". The balance value of the current business situation is the difference between the percentages of the answers "good" and "poor", the balance value of the expectations is the difference between the percentages of the answers "more favourable" and "less favourable". The business climate is a transformed average of the balances of the business situation and expectations.



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