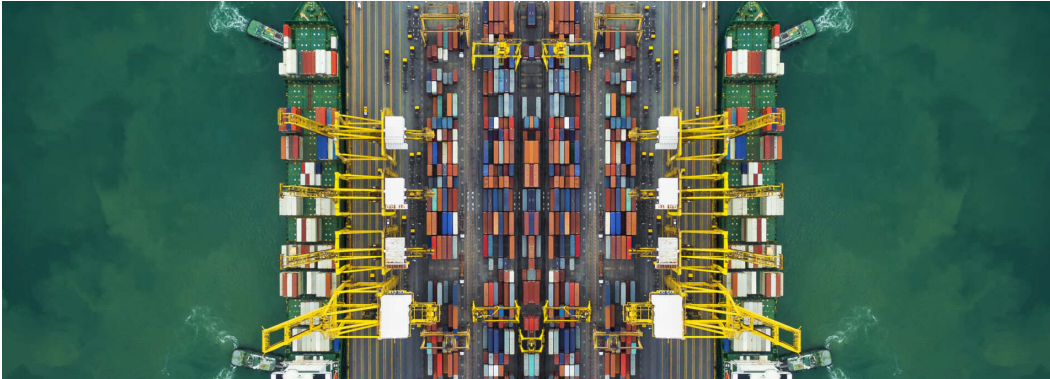


## Transportation

Post-pandemic "normalizing" after highly turbulent years

January 9, 2024

This report does not constitute a rating action.



### What's changed?

**Downside economic risks persist.** Weaker volumes continue for freight transportation due to sluggish demand. But air travel demand has recovered well, in line with expectations.

**Fuel costs remain high.** Oil prices have become even more volatile since the wars in Ukraine and the Middle East, and we expect prices to remain elevated.

**Real interest rates will remain higher for longer.** There will be a marked rise in finance costs, particularly for lower-rated companies facing looming debt refinancing requirements.

### What are the key assumptions for 2024?

**Most economies should avoid recession, although growth will be weak.** Consumers will keep prioritizing services, such as spending on travel, over goods.

**Tight labor markets support demand for travel.** Low unemployment rates give some support to consumer demand but amplifies wage pressures and labor supply issues.

**Container shipping will remain under pressure from much lower freight rates.** Container liners will struggle to avoid losses in 2024 as a widening supply and demand imbalance weighs on rates.

### What are the key risks around the baseline?

**A recession could materialize.** We assume economic growth will slow in most regions in 2024, but unexpected weakness could squeeze demand, pricing, and cash flows.

**Geopolitical events risk escalates.** Escalation of ongoing conflicts could lead to further inflation, a spike in oil prices, global trade disruption, and weakening demand for travel.

**Mobility transition and decarbonization further add to costs.** The transportation sector is under increasing scrutiny to reduce greenhouse gas emissions and carbon costs are stepping up.

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# Ratings Trends: Transportation

Chart 1  
Ratings distribution by region

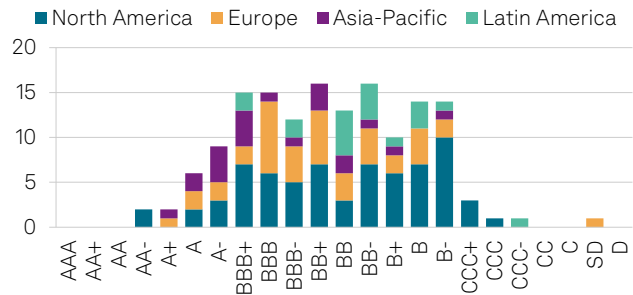


Chart 2  
Ratings distribution by subsector

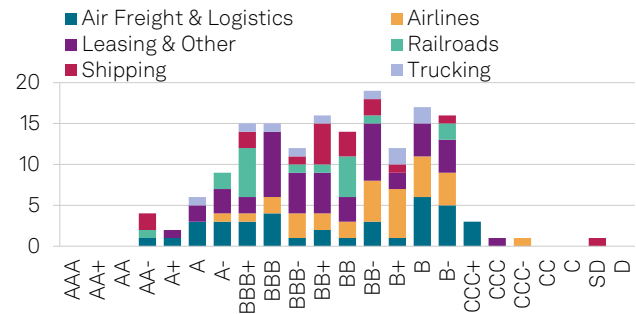


Chart 3  
Ratings outlooks by region

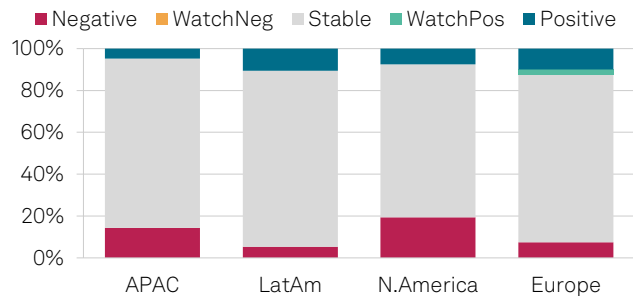


Chart 4  
Ratings outlooks by subsector

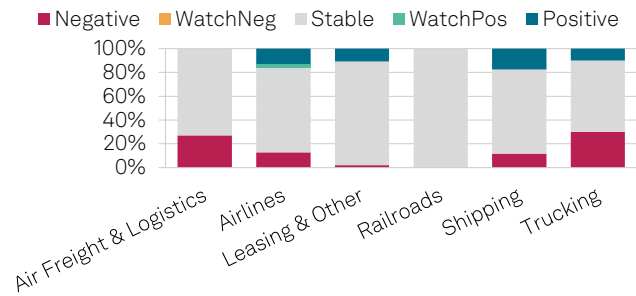


Chart 5  
Ratings outlook net bias by region

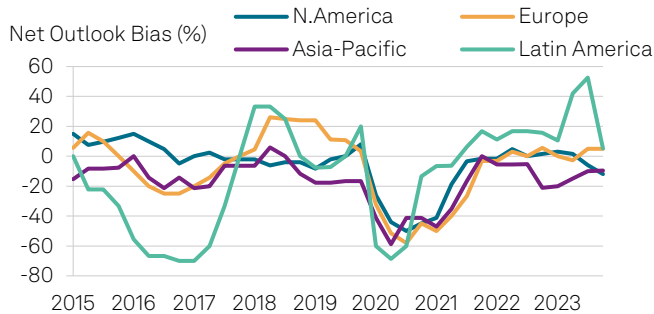


Chart 6  
Ratings net outlook bias by subsector

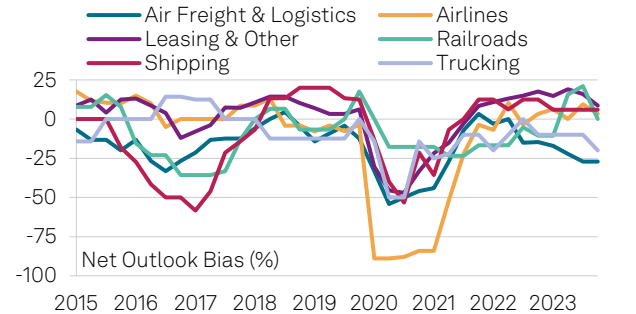


Chart 7  
Ratings outlooks

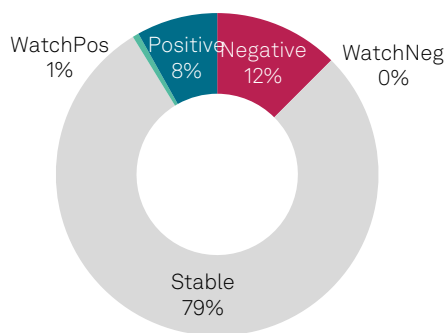
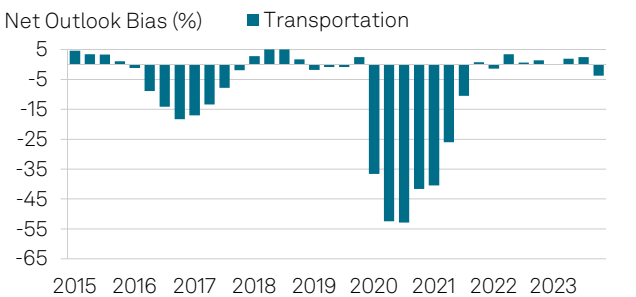


Chart 8  
Ratings net outlook bias



Source: S&P Global Ratings. Ratings data measured at quarter-end.

# Industry Outlook: Airlines

## Ratings trends and outlook

**Fewer upgrades in 2024.** Sharply higher passenger volumes and fares are boosting airline finances--especially for larger, financially stronger airlines. This should allow them to continue to handle elevated costs, such as for jet fuel and labor. We upgraded several carriers in 2023, and most ratings are now close to pre-pandemic levels. We think passenger volumes and fares will remain robust in 2024, supported by strong demand--so far largely resilient to increased cost of living and interest rates--and constrained capacity.

**However, the pace of global air passenger traffic growth is expected to slow.** Subdued capacity expansion could reduce the ability for some airlines, particularly those with limited revenue diversification, to further mitigate the impact of industry cost headwinds on profitability, given the high operating leverage attributable to the sector. Moreover, we assume a slightly slower pace of macroeconomic growth globally next year.

## Main assumptions about 2024 and beyond

### 1. Sales growth slows, but capacity remains tight.

Global passenger traffic will grow at a reduced rate as the post-pandemic recovery plateaus. Tight capacity remains due to restricted aircraft supply, delays in new aircraft deliveries, parts/maintenance constraints, and heightened engine reliability issues.

### 2. Fuel costs to remain high.

Jet fuel cost estimates are in line with our oil price assumptions of \$85 (Brent) and \$80 (West Texas Intermediate) per barrel in 2024 and 2025. The difference between jet fuel cost and oil--the crack spread--was typically below \$20 per barrel historically, but this has grown since the Russia-Ukraine war (at times even spiking above \$60 per barrel versus Brent).

### 3. Large capital expenditure (capex) plans for new fuel-efficient aircraft.

We see industry capex settling above pre-pandemic levels due to necessary fleet upgrades and some capacity expansion. Higher investment in new fuel-efficient aircraft will drive operating costs and carbon dioxide emissions per passenger down over time but weigh on cash flows. This could make it more difficult for many airlines to reduce debt to pre-pandemic levels.

**Low revenue visibility and disposable income pressure leads to cautious assumptions.** Our base-case forecast sees demand remain robust as consumers prioritize spending on travel over goods. We think demand for short-haul leisure travel--with overproportionate growth in the premium segment--will continue to drive passenger volumes. While a key driver of capacity growth last year in some markets, international travel has not fully recovered, and business traffic is now structurally lower (if slowly improving) as remote working becomes more normalized in certain sectors.

**High fuel prices and tight capacity will support yields above 2019 levels.** Airlines have demonstrated historically that they can usually recover fuel cost increases via higher ticket prices--this was certainly the case in 2023 as yields and revenue soared. However, this could become more challenging in 2024 if, for example, unemployment rises beyond our forecasts, putting further pressure on consumer spending.

**Capacity remains tight due to supply chain issues and fleet downsizing.** Europe's key low-cost carriers lead short-haul leisure flight capacity growth while many large network airlines still operate below pre-pandemic levels. Capacities in the Asia-Pacific (APAC) region are down about 10% (as per the International Air Transport Association), despite strong growth in key large domestic markets such as China and India. The U.S. network carriers are now primarily focusing on improving asset utilization and optimizing existing capacity rather than expanding, with modest incremental growth assumed for 2024. Latin America's (Latam) domestic capacities have recovered to pre-pandemic levels, but international travel is lagging a little. We expect carriers to largely close this gap during 2024.

**Per-passenger cost will be flat or up slightly as inflation eases and volumes increase.** Modest capacity growth, consistently high load factors, and expanding gauge (seats per aircraft), will help fixed cost absorption. However, global labor costs, notably in the U.S. following a significant pilot wage increase, are on the rise. While Latam airlines have faced high inflation rates since 2022, strong yields and capacity growth led to significant profit margin improvements during 2023.

**Air traffic recovery in APAC is rapidly catching up with other markets.** Domestic travel surged in 2023, but international travel is still lagging--particularly in China. However, recovery should continue through 2024 as post-pandemic demand for international travel increases steadily. Pandemic-induced airline restructurings have deferred debt paydown, giving rise to increased refinancing needs.

**Restructuring of the largest Latam airlines is nearing an end.** Latam was the only region that mostly did not receive direct government support throughout the pandemic. Brazilian airlines Azul and Gol built up financial and operating liabilities during this time, pursuing debt exchanges and lessor renegotiations during 2023. Except for Gol, Latam carriers have adjusted their finances to ensure sustainability in capital and cash flow for 2024 and beyond.

**Air freight rates are normalizing.** This is given softening demand and expansion in international belly cargo capacity, particularly as air traffic picks up in APAC. The challenging economic outlook is affecting global trade volumes, leading to lower demand for goods, as consumers continue to prioritize spending on services. As with the container shipping segment, the air cargo market is normalizing.

## Credit metrics and financial policy

Most rated airlines improved their credit metrics in 2023 thanks to the strong recovery of air passenger demand in a very high yield environment--a key factor in driving more upgrades than we anticipated. Many airlines used free operating cash flows (FOCF) to pay back debt, but most still have more debt than before 2020. The focus on debt reduction will ease in 2024, and absolute debt levels will increase for some airlines given higher capex related to new aircraft.

Liquidity positions remain mostly improved, and we expect management teams to maintain more cautious long-term targets post-pandemic. However, as real interest rates remain higher for longer, there will be a rise in average finance costs across the sector, offsetting interest earned on higher cash balances. Most airlines predominantly hold fixed-rate debt, but lower-rated carriers facing debt refinancing requirements will be subject to sharply higher interest costs.

Dividends and share buybacks will return to modest levels for the top players, though likely after leverage targets are achieved and deemed sustainable. In the U.S., merger and acquisition (M&A) activity is expected to be subdued in part due to regulatory scrutiny, with Alaska Air Group Inc.'s planned takeover of Hawaiian Holdings Inc. as the only notable recently proposed deal.

## Key risks or opportunities around the baseline

### 1. Economic pressures could weigh on spending.

Sustained inflationary pressures and unexpected increases in unemployment are notable risks. Tight labor markets are currently supporting strong demand--with employed consumers more likely to book a holiday--while adding to labor constraints along the aviation supply chain.

### 2. Geopolitical risks remain elevated; fuel prices volatile.

As the wars in Ukraine and the Middle East continue, fuel prices are likely to remain high as OPEC+ constrains supply, although fuel hedging helps buffer against volatile oil prices. Most European and APAC carriers hedge fuel, which can give a short-term advantage versus global peers (notably in the U.S.).

### 3. Mobility transition and decarbonization targets drive increased costs.

The aviation sector is under increasing pressure to reduce greenhouse gas emissions and use sustainable aviation fuels. Not all airlines will be equally affected--Europe's regulations are stricter and more expensive, meaning that airlines operating in the region will pay more.

**The global airline sector is volatile, highly cyclical, and subject to regular disruptions.** High jet fuel prices, increased interest rates, and supply-chain issues have added pressures to the sector, but disruptions are common in the volatile operating environment for airlines, and recovery is typically fairly quick. Business models particularly at larger airlines have evolved, with technology improvements and expansion of premium travel options the focus.

**Environmental regulations are becoming much more costly.** The EU's "Fit for 55" package includes the end of free carbon allowances by 2026 (starting in 2024). This could pressure the credit quality of weaker European airlines. Elsewhere, the U.N.-sponsored International Civil Aviation Organization's (ICAO) Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA), covers international routes globally, but we think these costs will be low or otherwise manageable. While sustainability efforts within APAC lag, the abundance in feedstock and developments in biofuel refineries in the region should facilitate adoption and reduce costs.

# Industry Outlook: Container Shipping

## Ratings trends and outlook

Record-high freight and charter rates in 2021 and late 2022 boosted profits and free cash flow for container shipping companies, improving their financial health. This resulted in multiple upgrades and positive outlook revisions in 2021-2022, followed by one further upgrade and one positive outlook revision on tonnage providers in 2023. Some companies used the extra cash for M&A and shareholder returns while others cut debt and ended 2023 with ample liquidity. This will help companies navigate a challenging industry and address growing fleet investment requirements due to more stringent environmental regulations.

## Main assumptions about 2024 and beyond

**The sector is entering 2024 burdened by weak consumer demand.** This has persisted since the second half of 2022. Industry indicators and container liners' financial reports suggest that there will be little immediate respite, with continued softness in transported volumes expected to maintain pressure on freight rates.

**Delivery schedules for new vessels indicate that capacity growth will be lumpy.** This is due to the addition of ultra-large containerships, many of which were ordered years ago by ship owners looking for economies of scale and better environmental performance. The timing of large vessel deliveries alongside cumulative supply growth will have a significant bearing on the prospects for a rebound in rates--particularly on the Asia-Europe and Asia-U.S. lanes where mega-containerships tend to find a home.

**Average freight rates have fallen since late 2022 to levels close to historical averages.** We expect that rates will remain under pressure as overcapacity looms, but unforeseen disruptions that might boost rates are common in the sector. It's uncertain how long the most recent spike in rates will last driven by the conflict in the Red Sea, which is forcing many containerships to sail the much longer routes around the Cape of Good Hope. This is why liners will have to proactively manage capacity to protect their current robust creditworthiness.

## Credit metrics and financial policy

**Credit metrics should have remained well within rating thresholds in 2023.** This is likely to continue in 2024, but with diminishing headroom for unforeseen operational issues or discretionary spending. Our base-case scenario anticipates a decrease in earnings and cash flow for container liners, in line with declining freight rates. We remain relatively cautious in our assumptions. The uncertainty over freight rate levels reduces the predictability of credit ratio projections and increases the risk that adjusted EBITDA could underperform, or that financial leverage could overshoot what can be reasonably built into our base-case scenario.

**The global shipping industry faces a large regulatory workload.** This is reflected by increasingly stringent emissions targets, which demand lumpy capital investments, such as with new dual-fuel capable or methanol-enabled vessels. Many container shipping companies will pursue the environmental upgrades of their fleets, as reflected in large capex programs weighing on operating cash flows. M&A activity and shareholder remuneration will be cut, however.



## Key risks or opportunities around the baseline

### 1. Demand growth could be slower than expected.

A slower-than-expected recovery in global trade volumes, a key engine of shipping growth, would damage an industry that will struggle to bring supply and demand into balance.

### 2. Freight rates decline more severely without capacity cuts or positive surprises.

Slower-than-expected recovery in demand, a surge in new-build deliveries, or container liners prioritizing increasing market share ahead of profit protection would further destabilize already-fragile demand-and-supply conditions. Lasting shipping and supply chain disruptions from the conflict in the Red Sea or stringent and sustainable industrywide capacity withdrawals could help narrow the supply-demand imbalance, pushing average rates above our forecasts.

### 3. Counterparties fail to deliver on charter agreements.

Significantly longer time-charter profiles at attractive rates prompted our most recent upgrades of containership tonnage providers assuming counterparties (mainly container liners) are able and willing to honor their multiyear commitments. Unexpected amendments or nonpayment under charter agreements could materially weaken ship lessors' credit measures and liquidity.

**Macroeconomic and geopolitical risks will weigh on global trade in 2024.** Economic issues include cost inflation, interest rate hikes, and diminishing disposable incomes. Geopolitical uncertainty, previously due to the ongoing conflict in Ukraine, has increased with the Israel-Hamas war, and could exacerbate already sluggish consumer sentiment and spending.

**Our rate forecast hinges on stringent supply side measures.** That sort of response is not a given, but the industry has demonstrated it can positively react to pressure--as it did shortly after the pandemic's outbreak in 2020, when blank sailing and other measures offset a significant and abrupt decline in trade volumes. While strict excess capacity management, assuming it occurs, might provide some relief during 2024, it won't completely avert pressure on freight rates given anticipated slow demand and increased deliveries of new tonnage. This has shifted the balance of power toward shippers, setting the stage for difficult annual negotiations for container liners.

**Buoyant industry conditions in 2020-2022 pushed charter rates and durations higher.** This benefited the ship owners that prioritized gaining visibility and secure cash flows. A shift toward multiyear contracts has contributed to our positive rating actions on containership tonnage providers. Medium-to-long-term time-charter profiles comprising noncancellable and fixed-price contracts at attractive rates normally help to mitigate inherent industry volatility. This works if charterers deliver on their commitments, which we incorporated in our base-case scenarios.

**Counterparty risk rises during industry downturns and rates fall below existing contract levels.** If container liners' credit quality weakens, this increases the possibility of amendments to existing contracts, delayed payments, or nonpayment under the charter agreements. Some rated shipping companies were forced to amend charter terms or faced defaults under charters during the last cyclical downturns.

# Industry Outlook: Railroads

## Ratings trends and outlook

**Ratings on the North American Class 1 railroads are expected to remain stable.** These railroads account for about 85% of global sector revenue from companies we rate. In 2023, railroads faced a shift in consumer spending toward services (from goods) and high inflation, leading to weaker intermodal carload volumes. However, their diverse mix of shipment volumes, including bulk commodities with limited sensitivity to economic volatility, mitigated the earnings impact.

**In 2024, operating results and profitability will slightly improve.** We expect to see higher volumes due to a boost in intermodal transportation and relatively steady bulk and merchandise shipments. Improving service levels should also enhance railroad competitiveness, with trucks and support pricing that we assume will continue to exceed rail inflation. We believe that Class 1 railroads will stick to financial policies that support the current ratings and could slow debt issuance to buy back shares if it helps keep their credit measures stable.

## Main assumptions about 2024 and beyond

### 1. Improved service quality from better staffing.

Hiring more train and engine staff in the last year has resulted in a smoother network, as evidenced by faster trains and improved dwell times. Making services more efficient allows railroads to compete for new business and regain post-pandemic freight picked up by trucks.

### 2. Growing intermodal volumes.

We expect more goods to be transported in 2024, following a decline over the past year as consumer spending shifted from goods to services. The destocking of high inventories leads us to expect a more normalized freight transportation environment in 2024.

### 3. Pricing above rail inflation to continue.

We forecast that they will maintain a strong, competitive position with a diverse mix of shipments and contracts. Rail is a comparatively more cost-efficient means of transporting long-haul shipments, and there are limited alternatives to move certain commodities. With service levels improving, we believe the railroads are well positioned to continue to pass through higher expense.

**After an atypical 2023, we expect freight movement in 2024 will improve.** High inventory levels contributed to the reduced amount of freight movement over the past year. The impact was most apparent in intermodal traffic, which materially declined across the sector. For 2024, we expect inventory ordering by retailers to be more aligned with broader consumer demand based on our view that the "destocking" trend has largely been completed.

**In 2024, total carloads are expected to increase 2%-4%.** This is a change from last year's low-single digit decline. Our assumptions for 2024 are modestly ahead of S&P Global Ratings' forecasts for 1.8% growth in consumer spending--1.5% growth in real GDP (in the U.S.). We expect an increase in imports and exports relative to 2023. In tandem with estimated pricing growth of 2%-4% (excluding fuel surcharges), we believe Class 1 revenue will grow 3%-5% in 2024 compared with an expected decline of 2%-4% in 2023.

**Service metrics are improving.** Railroad job cuts during the pandemic limited their capacity to handle the rebound in volumes that followed. Subsequently, some carloads were diverted to



trucking due to poor rail service. We believe that after investing heavily in staff, railroads are well-prepared for increased volumes ahead. Train speed and dwell time have improved, enabling rails to win back some business lost to trucks. On certain routes, mostly short haul, it could take time to see reliability and efficiency improvements before companies secure new business. The future of excess trucking capacity and impact on truck rates is undetermined.

**Material M&A activity is unlikely.** Canadian Pacific completed its acquisition of Kansas City Southern in 2023--the first Class 1 merger in decades. We do not expect railroad transactions due to the strong market position of Class 1 railroads and potential regulatory hurdles (namely from the Surface Transportation Board [STB] in the U.S.). Smaller transactions, including non-rail, are possible. Strong cash flow generation allows flexibility to invest in non-organic opportunities while preserving financial measures.

**Trucking remains a viable alternative to rail, notably in the U.S.** The oversupply of truck capacity and resulting trough-level spot rates have persisted. Low prices have increased the competitiveness of trucks for certain loads previously moved by rail. This remains a near-term headwind mostly on short-haul routes. However, we expect trucking capacity will exit the market due to unsustainable low prices. In addition, new operators taking advantage of soaring volumes of the pandemic are now unprofitable.

**Railroad competitive positioning should improve.** As trucking capacity eventually exits the market, their current pricing advantage on certain routes should dissipate. We believe rising trucking rates, in tandem with improving rail service levels, should improve the railroads' ability to recoup a portion of business previously lost to trucks.

## Credit metrics and financial policy

**Credit metrics are expected to remain relatively stable in 2024.** This includes modest improvement from issuers that faced weaker operating results last year. FFO to debt is estimated to remain commensurate with current rating thresholds. This mainly reflects our assumption for earnings growth across the sector, with no significant increases in debt. The railroads will maintain a high degree of flexibility to manage their capital allocation due to significant free cash flow generation that we expect to persist.

**In periods of stress, railroads can reduce share repurchases to preserve credit metrics.** This was demonstrated during the 2008-2009 U.S. recession and the pandemic. Furthermore, debt maturities are evenly staggered, which affords repayment in any given year as debt comes due. We expect issuers to continue to evaluate their capital allocation based on earnings potential and manage leverage-related metrics to the mid-range of their current financial risk profiles.

**Railroad liquidity remains robust.** We expect most railroads to continue generating strong FOCF, typically above \$2 billion (and well above this level for Union Pacific) while maintaining large cash balances (about \$1 billion to \$2 billion). Cash flow will easily cover annual dividends, which we expect will increase 1%-3%. Large share buybacks tend to result in deficits funded with debt, notably during periods of earnings growth.

**Historically, discretionary cash use has had minimal impact on leverage and coverage ratios.** During periods of lower-than-expected earnings or higher capex, we expect railroads will manage share repurchases accordingly to minimize ratings risk. While we downgraded Canadian National Railway in 2023 due to an aggressive financial policy, we do not expect any further departures from leverage targets that could jeopardize ratings.

## Key risks or opportunities around the baseline

### 1. Further improvement in rail service could stall.

Higher staffing levels amid slowing intermodal volumes contributed to improved service levels for most railroads in 2023. The added headcount will be key in providing consistent service, though service could be disrupted as network fluidity become tested with more carloads expected to enter the network in 2024.

### 2. Regulatory and political uncertainty remains.

We expect the STB will continue to evaluate whether to mandate reciprocal switching in areas of limited rail competition. In addition, safety considerations have been at the forefront of the industry throughout 2023 following the East Palestine, Ohio derailment (in February 2023).

### 3. Weak consumer spending and demand continue to pressure intermodal volumes.

Weaker-than-expected consumer spending and container imports, as well as elevated retail inventory levels, would most likely contribute to lower demand for goods that railroads transport via intermodal shipments. Truck pricing could take longer to normalize, prolonging their competitive advantage on certain routes.

**The current railroad workers contract expires at the end of 2024.** Congress imposed the current contract in December 2022 after months of contentious bargaining. While not necessarily a risk for 2024, some worker issues remain unresolved (including leave of absence and paid sick days). Given what could be considered successful negotiations in 2023 by the UAW, Teamsters, and other trade unions across the U.S., the various railroad workers unions could push for more in the next round of negotiations. Another Congress-mandated contract might be enacted to avoid a strike.

**U.S. railroad regulator continues to evaluate changes in reciprocal switching.** On Sept. 7, 2023, the STB unanimously voted for a proposal for a reciprocal switching agreement, which would occur when service fails to meet any of three performance standards (service reliability, service consistency, and inadequate local service). Given the potential for challenges to the proposed rule arising, the timing is unclear as to when, and if, any implementation will occur.

# Industry Outlook: Transportation Equipment Leasing

## Ratings trends and outlook

**Sector rating activity was relatively subdued in 2023, continuing into 2024.** In our view, the relative stability of this sector reflects a large share (about 40%) of issuers that are rated investment grade. In addition, the staggered nature of lease contracts over several years affords favorable cash flow visibility. Higher interest rates have emerged as a near-term risk because debt accounts for most of the funding of assets to be leased or rented--which include aircraft, trucks, cars, railcars, and marine cargo containers--and need to be periodically refinanced.

**Aircraft lessors can expect increased lease rates and portfolio growth in 2024.** Aircraft lessors make up about one-third of ratings within this sector globally, and in the past year, we assigned new ratings on two. We anticipate steady growth in this subsector due to robust plane demand and persistent industry supply constraints. In contrast, we assume steady or potentially weaker operating results from lessors sensitive to slowing economic conditions such as car renters and marine cargo container lessors.

## Main assumptions about 2024 and beyond

### 1. Strong demand for leased aircraft will persist.

This is supported by order backlogs and ongoing manufacturing capacity constraints. The strong market backdrop should translate into higher lease rates on new and maturing contracts. Lessors account for about 50% of the global aircraft fleet and will remain a key component of aircraft financing for airlines.

### 2. Car and truck lessor pricing will ease while remaining favorable.

Vehicle shortages have eased, but we expect demand to remain steady. Car renters should continue to generate solid revenue led by consumer demand for services (including travel). However, rental prices have begun to abate as earlier supply constraints ease.

### 3. Higher financing costs will pressure interest coverage.

Transportation equipment lessors will continue to access debt capital markets to refinance maturities and fund portfolio growth. However, many lessors raised significant debt at record low rates in 2020-2021, making their average cost of capital relatively low with well-laddered debt maturities.

## Credit metrics and financial policy

**Transportation equipment lessors are diverse.** They include aircraft, railcars, trucks, marine cargo containers, and short-term renters such as cars and portable storage units. Lessors serving the freight sector experienced record use and pricing from mid-2020 through mid-2022 due to well-known supply chain issues and high demand for goods, as opposed to services. The steep decline in passenger air travel during the pandemic resulted in many aircraft lessors having to restructure aircraft leases, defer payments, and repossess aircraft from airline customers.

**Trends began to reverse in second-half 2022.** Global air passenger traffic has almost returned to pre-pandemic levels as airlines seek newer aircraft to modernize and expand their fleets. Of the recorded large impairment charges on aircraft stranded in Russia, some companies have since received insurance proceeds.

**For aircraft operating lessors, 2024 will see relatively stable credit measures.** This is in line with stated financial policies. Revenue is expected to increase, led by new leases signed that benefit from the supply-demand imbalance and higher interest costs, as well as higher lease rates signed on lease extensions. However, higher interest expense will limit growth in earnings and cash flow. While this sector is capital intensive, credit metrics will benefit from lower-than-expected capital spending due to the supply constraints that results in lower debt requirements and related interest expense.

**For other operating lessors, credit measures will weaken.** The effects of a more subdued demand environment and added supply (notably for car renters and truck lessors) are likely to temper pricing and volume growth, as well as returns on asset sales. Hence, there will be less capacity to offset interest rate pressures. At the same time, most lessors have the flexibility to reduce capital spending to meet weaker demand, a trend that we have seen for the marine cargo container lessors. This should help maintain credit metrics in periods of slower growth.

## Key risks or opportunities around the baseline

### 1. Higher-than-expected interest rates and credit spreads.

We assume operating lessors can absorb much higher interest costs in 2024, particularly investment-grade issuers. However, a further unexpected and sustained increase could lead to interest and cash flow coverage ratios below our downside rating thresholds. The risk is most acute for lower-rated issuers with floating rate exposure or looming debt maturities.

### 2. Weaker-than-anticipated economic conditions.

Unexpected weakness in 2024 could add pressure to demand, asset use, pricing, and cash flow. While most issuers can respond to this scenario, there would be less capacity to mitigate the impact of weaker-than-expected demand on earnings and liquidity.

### 3. Protracted aircraft supply constraints.

Aircraft lessors are well positioned to benefit from currently tight supply-demand fundamentals for aircraft. However, supply constraints of new and used aircraft capacity amid strong travel demand could support higher-than-expected lease rates on new and old aircraft.

## Related Research

- [Container Shipping: Overcapacity Will Test Discipline In 2024](#), Dec. 8, 2023
- [Asia-Pacific Aviation Is On A Recovery Runway](#), Nov. 2, 2023
- [European Air Travel Defies Economic Pressures On Robust Demand](#), June 7, 2023
- [The Big 3 U.S. Airlines Are Poised For Credit Recovery Amid Looming U.S. Recession](#), April 6, 2023
- [Europe's Airlines To Bear Highest Carbon Costs](#), April 3, 2023

# Industry Forecasts: Transportation

Chart 9

## Revenue growth (local currency)

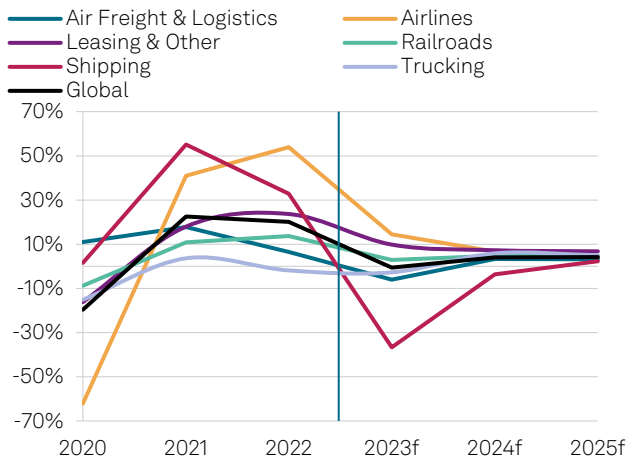


Chart 10

## EBITDA margin (adjusted)

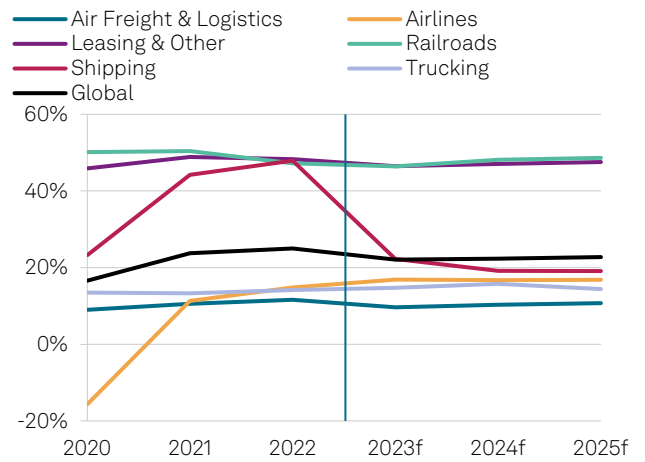


Chart 11

## Debt / EBITDA (median, adjusted)

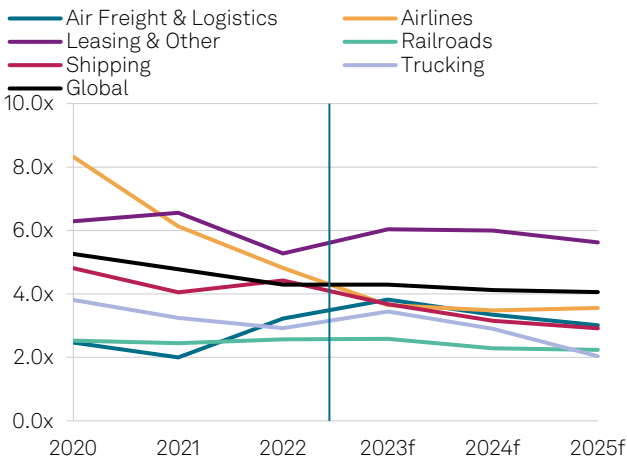
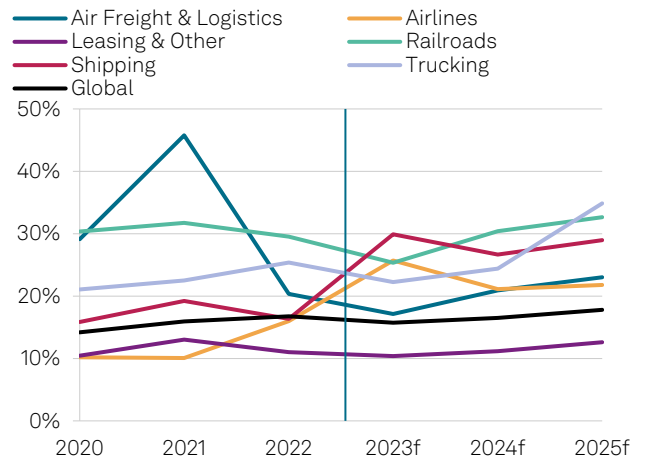


Chart 12

## FFO / Debt (median, adjusted)



Source: S&P Global Ratings. f = Forecast.

Revenue growth shows local currency growth weighted by prior-year common-currency revenue share. All other figures are converted into U.S. dollars using historic exchange rates. Forecasts are converted at the last financial year-end spot rate. FFO—Funds from operations.

## Cash, Debt, And Returns: Transportation

Chart 13

### Cash flow and primary uses

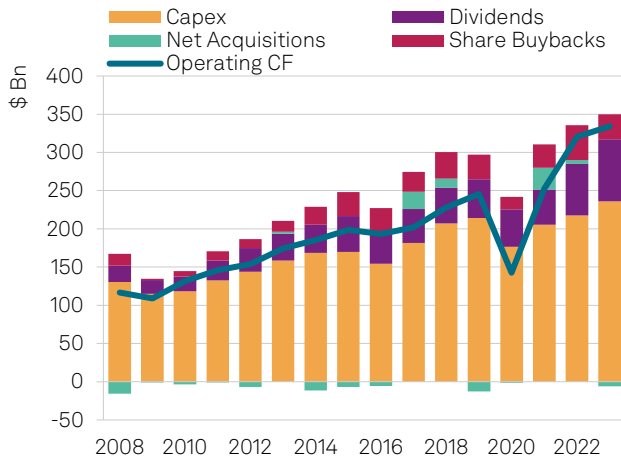


Chart 14

### Return on capital employed

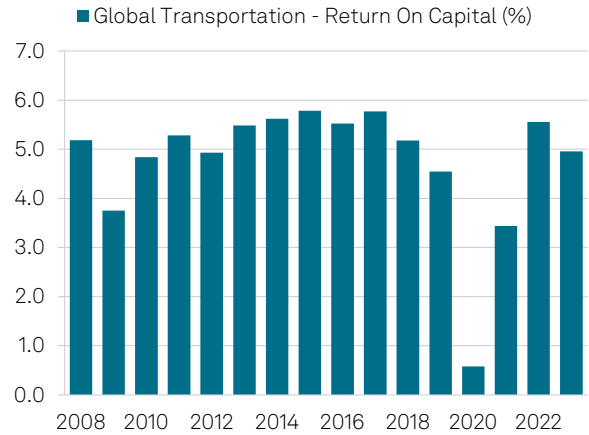


Chart 15

### Fixed- versus variable-rate exposure

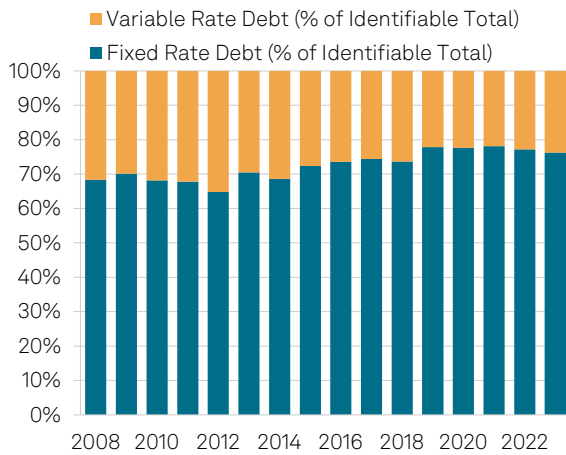


Chart 16

### Long-term debt term structure

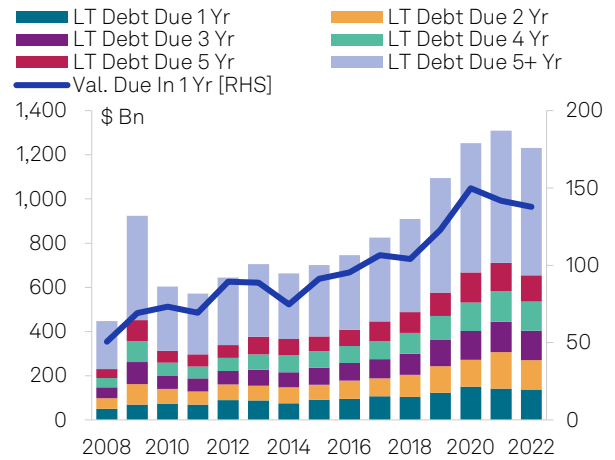


Chart 17

### Cash and equivalents / Total assets

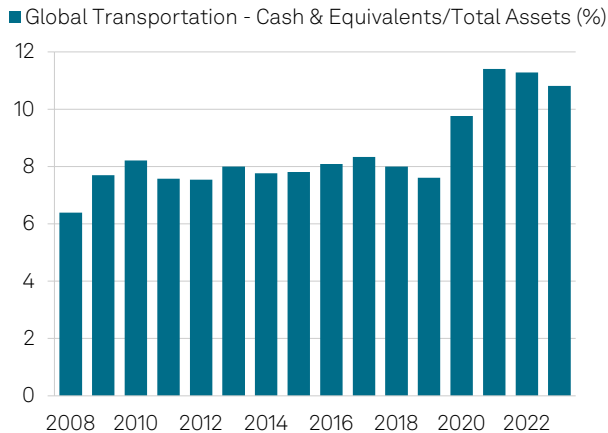
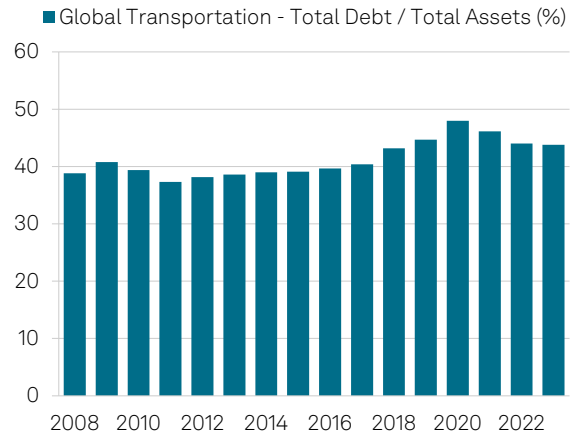


Chart 18

### Total debt / Total assets



Source: S&P Capital IQ, S&P Global Ratings calculations. Most recent (2023) figures use the last 12 months' data.

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