

Industry Top Trends Update

Transportation

2022 started strong but recession risks cloud the outlook

What's changed?

Russia/Ukraine conflict drove up oil prices. Airlines are most exposed, as few hedge and fuel is a large expense item. Most freight transportation companies are better positioned, with fuel surcharges in contracts with corporate customers.

Full planes and high fares. Easing COVID restrictions and pent-up demand are combining to fill airline seats, enabling fare hikes that are offsetting much higher fuel prices. As a result, the financial outlook for 2022 remains encouraging.

Freight transportation demand, and supply chain problems, remain. Most freight transportation providers, particularly package express and trucking, are seeing healthy demand. But supply chain bottlenecks have not eased as much as hoped.

What to look out for?

Air travel demand could soften after Labor Day. Bookings so far remain solid, but a weaker economy could sap demand after the summer surge. Airlines' forward guidance on 2Q earnings calls should be interesting.

When will high prices erode demand? Transportation companies are watching for increasing sensitivity to elevated prices, whether for air travel or goods they move.

Labor cost inflation is beginning to bite. Trucking companies have been dealing with higher costs for a while, and the trend is spreading to more unionized sectors like airlines and railroads, whose contract talks take more time.

What if there's a recession?

The return of travel could run into headwinds. Demand may not fall as much as in a typical recession, given momentum from lifting of COVID restrictions. But airline pricing power and revenues will inevitably come under pressure.

What happens to oil prices? Oil prices normally slump in a recession, but tight supply and effects of the Russia/Ukraine conflict could complicate the picture. Still, we would expect some pullback in prices.

A silver lining in easing of supply chain woes? Cooling demand for goods could give time for stretched transportation networks--ports, warehouses, and freight transporters--to clear container and shipment backlogs and hire needed labor.

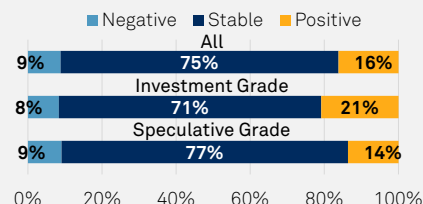
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