North American Transportation Infrastructure Outlook 2024

Softer Economic Conditions Drive Subdued Performance in 2024

Fitch's Sector Outlook: Neutral

The sector outlook for 2024 is neutral with expectations for overall stable credit conditions and a limited range of volatility in volume activities. Risks to financial positions related to capex borrowings are a leading concern, along with the combined effects of a slowdown and inflation pressures throughout 2024.

Absent any major economic shocks, the broader operating environment for transportation should be less volatile than in the past couple of years. U.S. and Canadian airports have largely reached pre-pandemic passenger levels and mild additional growth is expected under Fitch Ratings' base case scenarios. Port volumes also should also see more stable operations following a couple of years of outsized volatility. Toll road projects have had a more steadier growth profile in recent years, and Fitch believes this trend should continue in 2024.

With several new mandates, public-private partnerships for the transportation sector remain highly relevant for project delivery and risk sharing . While projects in operating phases are performing well, Fitch notes that construction period risks are areas of concern. Some projects with material delays in completion dates, or taking on upward cost adjustments, have resulted in challenges with grantors to resolve differences and could result in negative rating actions.

Rating Outlook Distribution — Stable Across Airports, Toll Roads and Ports

The portion of Stable Outlooks across the transportation sectors is very high and compares closely with 2022 as well as with the time frame shortly before the pandemic created greater Rating Outlook movements. Fitch views the Outlooks to be more reflective of the stabilized operating environment where credits are well positioned to maintain operating and financial profiles consistent with the current rating levels.

What to Watch

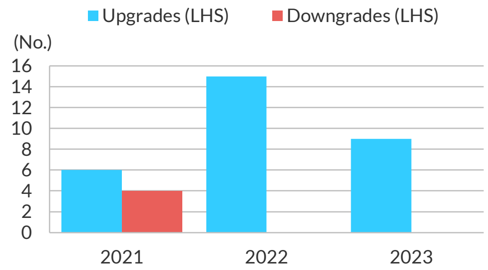
- Longer than expected economic slowdown, leading to revenue and volume underperformance, could result in a deteriorating sector outlook due to weaker coverage or leverage indices.
- Inflation that drives higher operating costs, and either weaker operating income or further pressures pricing to end users, could drive a negative sector outlook.
- Capacity expansion and/or redevelopment could further increase debt borrowings and increase leverage profiles on sustained bases and lead to a negative sector outlook.
- Delays in construction schedules as well as unplanned budget increases could limit embedded flexibility in project delivery.

Seth Lehman, Senior Director

"Airports, toll roads and ports remained remarkedly resilient in the face of a more volatile economy in the last few years and are in a better fiscal position overall heading into 2024 as the operating environment stabilizes."

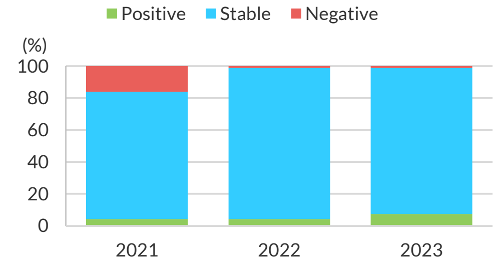
North American Transportation Infrastructure — Rating Changes

As of Nov. 22, 2023



Source: Fitch Ratings

North American Transportation Infrastrtucture — Rating Outlooks



Source: Fitch Ratings

Core Credit Drivers: North America Transportation Infrastructure

	Volume			Price	Costs		Financial		
Subsectors	Economic Environment	End-User Affordability	Industry Growth Prospects	Regulatory and Political Environment	Operating Costs	Capital Input Costs	Leverage	Cost of Debt	Financial Reserves and Liquidity
Airports	↘	↔	↔	↔	↘	↘	↔	↘	↗
Toll Roads	↘	↔	↔	↔	↘	↘	↔	↘	↔
Ports	↘	↔	↔	↔	↘	↘	↔	↘	↔

N.A. – Not a material driver of credit quality in sector. ↑ Improving – High relevance. ↗ Improving – Moderate relevance. ↔ Neutral. ↘ Deteriorating – Moderate relevance. ↓ Deteriorating – High relevance.
Source: Fitch Ratings

Airports — Sector Outlook: Neutral

Core Assumption

The 2024 sector outlook for North American airports is neutral based on our expectation that volume activity will continue with mild positive increases. While consumer spending for travel still remains healthy, the general economic pressures may diminish the demand.

Large-hub airports dominate the overall traffic activity and the range of expected traffic growth in 2024 ranges widely as those airports that are still lagging in recovery from pre-pandemic levels anticipate additional "catch-up" growth. Higher international travel or airline service expansion at these facilities would be leading sources to drive such growth.

What to Watch — Unexpected Reversal to Traffic Recovery

Mild positive traffic growth is expected for U.S. airports. However, underperformance could be driven by weaker economic conditions affecting demand or increased airline industry disruptions. Strength in both business and international travel would be a positive for the sector.

Canada's passenger traffic recovery has been slower than the U.S. due to prolonged travel restrictions, but is now close to a parity full recovery level. YTD 2023 traffic is about 92% recovered relative to the same period pre-pandemic following mid-90% levels throughout the summer months. Continued growth into 2024 is expected but likely at a more moderate pace due to the continuation of higher inflation and economic pressures. A full national recovery is still expected no later than 2025.

What to Watch — Greater Capital Spending with Debt Poses Risks

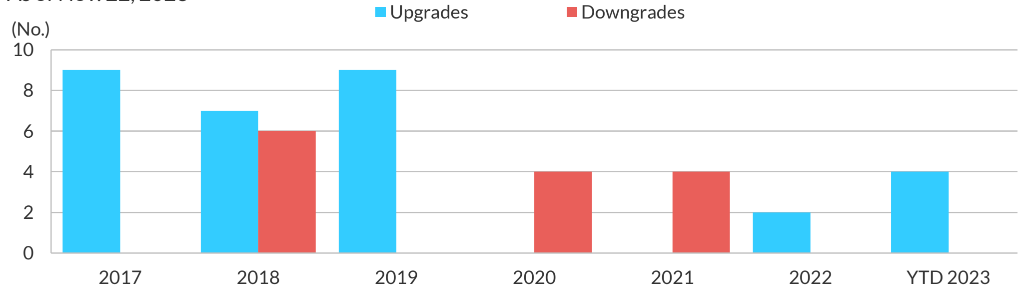
Growing capital budgets are a key source of sector pressure for airports, particularly if leverage metrics rise in 2024 and beyond. Airports with greater timing flexibility to undergo capex programs and those with access to significant amounts of federal grants and other nondebt funding sources can offset these sector pressures. Still, increased project execution risk across elevated capex activities can create heightened risks for the sector.

What to Watch — Financial Metrics Remaining Firm

Airline use and lease agreements are increasingly being renewed with provisions that include high levels of cost recovery, which allow airports to retain or even build higher cash reserves. In turn, Fitch expects sector financial metrics to remain stable even with more anticipated borrowings. The airport sector could come under stress if flexible contractual terms are adjusted such that operating cash flows does not keep up with higher than expected costs or material reductions in traffic.

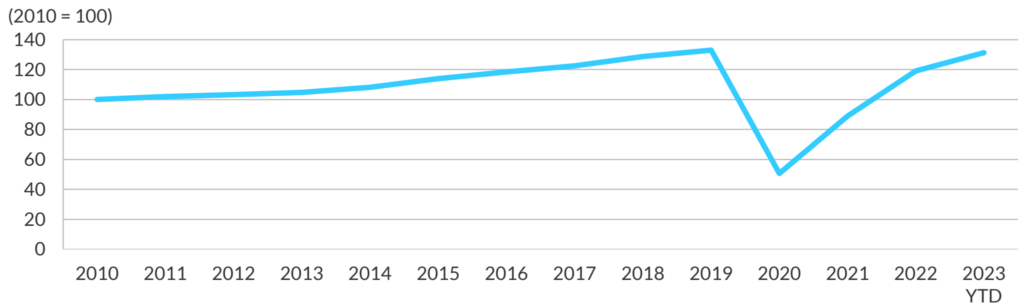
North America Airlines — Rating Changes

As of Nov. 22, 2023



Source: Fitch Ratings

U.S. Airport Traffic Index



Source: Bureau of Transportation Statistics T-100 Market Data

Toll Roads — Sector Outlook: Neutral

Core Assumption

The toll road sector outlook is neutral for 2024 based on Fitch's expectations of modest traffic growth and toll rate increases broadly in line with inflation. Telecommuting remains a drag on passenger recovery and declines in remote work would be positive for the sector. An economic recession would reduce commercial traffic growth. Gas prices remain above pre-pandemic levels but have stabilized below $4/gallon. If the current trend continues, we expect a minimal effect on traffic growth.

What to Watch — Stabilized Post-Pandemic Traffic Patterns

Traffic patterns have settled with post-pandemic recovery a minimal component of future growth. Fitch expects commercial traffic growth will be driven by GDP growth. Passenger traffic on mature facilities will likely remain a few percentage points below pre-pandemic levels due to sustained telecommuting. Traffic in regions with high population growth, particularly in the South, has fully recovered, and Fitch expects traffic growth will continue in the low single digits. Traffic has recovered to pre-pandemic levels for most managed lane (ML) facilities. MLs that allow commercial vehicles had the highest traffic growth.

What to Watch — Political Pressures on Toll Rate Policies

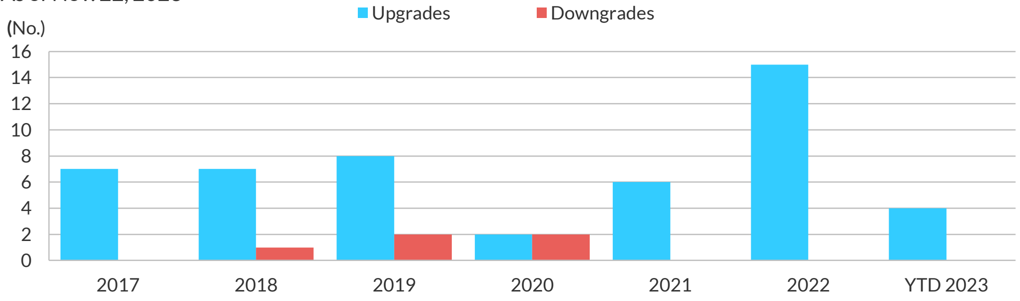
Fitch views the overall political climate as neutral with some negative pressure from political efforts to provide toll relief. Authorities that require approval by a governor are subject to political interference in rate setting. Political interference could result in lower than anticipated toll rate increases. More aggressive political intervention, such as toll rate decreases, is uncommon. Private concessions with automatic pricing mechanisms are less exposed to political interference, but rate increases are typically limited to inflation or nominal GDP per capita growth.

What to Watch — Costs Remain Elevated

Sustained high O&M and capital costs could necessitate larger debt issuances, particularly if toll rates are not increased. Some toll roads have provisions to transfer excess cash available after debt service to subsidize transit. High costs and low ridership have exacerbated transit funding deficits and increased pressure on toll roads as a funding source. Transfers limit the ability to cash-fund capital needs, increasing the debt burden and requiring higher toll rate increases.

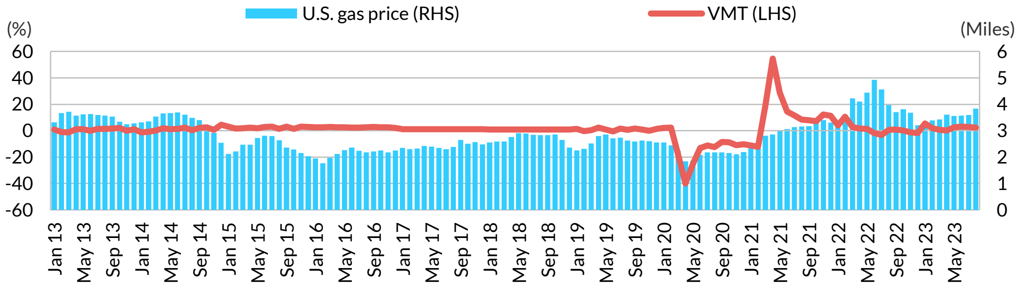
North American Toll Roads — Rating Changes

As of Nov. 22, 2023



Source: Fitch Ratings

Gas Prices and Yoy VMT Growth



VMT – Vehicle miles traveled
Source: Energy Information Administration, Federal Highway Administration

Ports — Sector Outlook: Neutral

Core Assumption

The sector outlook for North American ports is neutral for 2024, reflecting our expectation that volume activity will be stable to mildly positive as port throughput continues to return to more normalized levels. Fitch's rating outlook for North American ports is also neutral for 2024, indicating the vast majority of ratings and Outlooks in the sector are expected to remain unchanged in the coming 12 months, despite headwinds in the broader economic environment.

What to Watch — Port Throughput Stabilizing After Volatile Pandemic Period

Although a slowdown is expected in 2024, consumer sentiment is improving, which is generally supportive of stabilizing port performance after a volatile pandemic. Tempered growth expectations are driven by an unwinding of above-average increases over the last year or two, coupled with economic slowdown concerns, returning throughputs to more normalized levels. Continuation of a stabilizing growth trajectory in 2024 could contribute to an improving outlook, whereas weaker economic conditions affecting consumer demand could pose some downside risks, leading to a deteriorating outlook.

What to Watch — Operational Hurdles Affect Cargo Balance

Fitch expects shippers will continue to seek to balance their supply chain planning as ongoing operational hurdles introduce uncertainty into shipping times. Disrupting factors include vessel oversupply, leading to blank sailings and persistent Panama Canal draft restrictions related to ongoing drought conditions. There is also potential uncertainty surrounding the labor environment associated with the upcoming Canadian East Coast and U.S. East/Gulf Coast port labor negotiations. Persistent cargo shifts for exposed gateways could negatively affect the sector.

What to Watch — Cost Pressures Persist

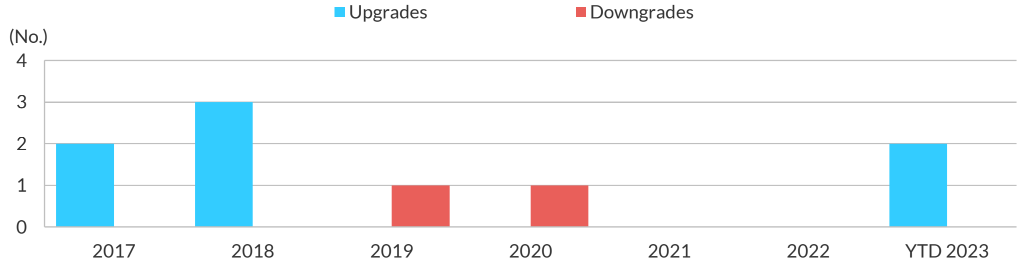
Operating, capital and financing cost pressures will continue to weigh on ports into 2024. Inflationary pressures affecting costs of materials, equipment and labor all continue to increase operating and capital costs. At the same time, persistent high interest rates affect the feasibility of some expansion projects that were economical under a lower interest rate environment. Continuation of an elevated cost environment and/or increased costs of borrowing will pressure the sector should they persist through 2024 and beyond.

What to Watch — Expansion, Optimization of Capital Projects Continue

Ports will continue to advance capital projects that facilitate handling of larger vessels and enhance resilience of supply chains, though Fitch expects that a persistent higher interest rate environment may affect project funding mix and timing. Higher capital costs, if not offset by government and third-party funding, may result in delayed execution of port capital programs, or higher than expected borrowing needs, both of which may potentially affect the outlook.

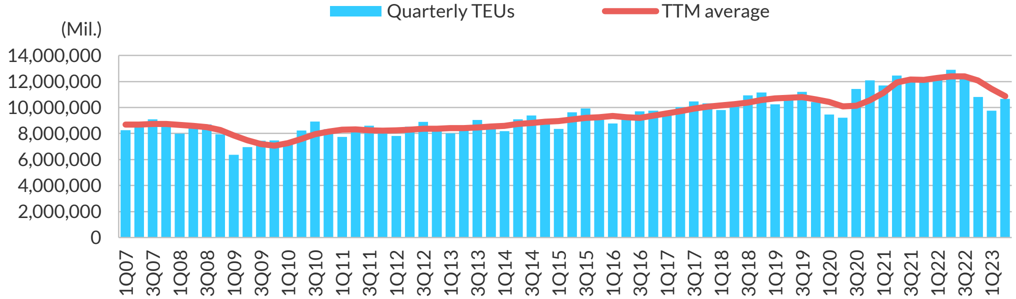
North American Ports — Rating Changes

As of Nov. 22, 2023



Note: Public international scale ratings.
Source: Fitch Ratings

Twenty-Foot Equivalent Units



TEU – 20-foot equivalent units
Source: U.S. ports' websites

Sector outlooks are a general forward-looking assessment of the underlying operational and business conditions of the sector compared to the previous calendar year. A neutral outlook is an assessment that these conditions will remain mostly unchanged. Sector outlooks are distinct from Rating Outlooks.

Outlooks and Related Research

2024 Outlooks

Global Economic Outlook (September 2023)

Peer Review of U.S. Managed Lanes (November 2023)

Major U.S. Airports Brace for Renewed Traffic Growth with Big Spending Plans (October 2023)

U.S. Public Finance Rating Actions Report and Sector Updates: Third Quarter 2023 (October 2023)

U.S. Airport and Toll Road Traffic Monitor (July 2023)

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