North American Transportation Infrastructure Outlook 2025

Economic Conditions Should Drive Forward Momentum but Policy Shifts Could Lead to Volatility in 2025

Fitch's Sector Outlook: Neutral

The sector outlook for 2025 is 'neutral', with expectations for overall stable credit conditions and continued momentum in volume activities for airports, ports and toll roads. Transportation credits should not face significant financial risks under a continued normal operating environment, as seen in 2024, although capital expenditure (capex) borrowings remain an ongoing concern. The new Administration and Congress could elevate pressure on performance throughout 2025 with increased protectionist policies.

Airports have fully recovered to pre-pandemic levels, supported by a greater than 5% uplift in passenger traffic in 2024. Fitch anticipates a lower growth rate in 2025. Toll road traffic should continue to grow steadily, particularly in markets with population and job growth. Toll hikes tied to inflation or capital investments may limit volume growth. Ports should benefit from consumer spending, but global maritime trade may see volatility based on geopolitical developments, especially if higher tariff levels and other trade restrictions increase.

Fitch expects only limited new mandates for public-private partnerships in the transportation sector in 2025. Several existing projects with a history of construction-related setbacks, particularly in rail, have seen developments between the grantor and key project parties to support continued project delivery. Additionally, projects in their respective operating phases are performing well.

Rating Outlook Distribution

The proportion of Stable Rating Outlooks across the transportation sectors is very high and reflects an operating environment where credits are well positioned to maintain operating and financial profiles with current rating levels. Upgrades to specific credits would likely be driven by volume outperformance that improves leverage or coverage metrics. Downgrades are expected to be limited to circumstances driven by capital program execution and costs.

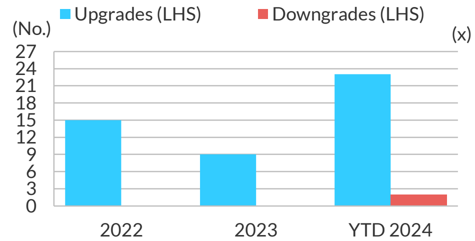
What to Watch

- Persistent volume-related underperformance or heightened volatility due to changes in macroeconomic factors that result in revenue pressures.
- Cost pressures measurably above expected inflationary levels without equivalent revenue growth, which result in lower net cashflows.
- Political decisions that create obstacles to performance in-line with expectations.
- Capex that exceeds expectations, which increases the need to borrow to fund costs.

Seth Lehman, Senior Director

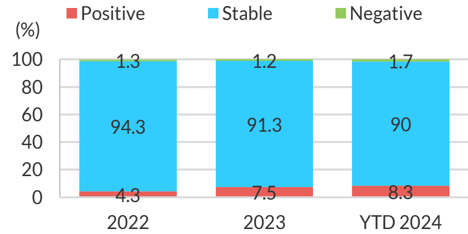
"North American airports, toll roads and ports have settled into a new normal headed into 2025, though Fitch Ratings observes in its 2025 transportation infrastructure outlook that the coming year will not be without some potential disruptions."

North America Transportation Infrastructure - Rating Changes
(YTD as of November 22, 2024)



YTD – Year-to-date.
Source: Fitch Ratings

North American Transportation Infrastrtucture – Rating Outlooks
(YTD as of November 22, 2024)



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	↔	↔	↔	↔	↔	↔	↔	↗	↗

Note: ↑ Improving – High relevance. ↗ Improving – Moderate relevance. ↔ Neutral. ↘ Deteriorating – Moderate relevance. ↓ Deteriorating – High relevance.
Source: Fitch Ratings

Airports — Sector Outlook: Neutral

Core Assumption

The 2025 sector outlook for North American airports is 'neutral' based on Fitch's expectation that volume activity will continue with mild positive increases as the sector reverts toward its historical correlation with GDP. Consumer spending for travel remains largely healthy, however general economic pressures may diminish the demand.

Large-hub airports, which dominate overall traffic, have mostly recovered to pre-pandemic levels. This recovery will likely reduce the dispersion in traffic growth rates across airports. However, airports with ongoing service expansion, a growing business and international segment, or those in cities with strong population and job growth, could continue to see outsized growth.

Volume Growth Converging

Fitch expects mild positive traffic growth for U.S. airports, with more even growth as most airports near or exceed pre-pandemic traffic levels. Weaker economic conditions or increased airline industry disruptions could drive underperformance. Strength in both business and international travel would positively impact the sector.

Canada's passenger traffic recovery lagged behind the U.S., but seven of Canada's eight largest airports now report monthly traffic levels that exceed those of 2019. Strong performance in transborder (U.S.) and international (non-U.S.) passengers aids this improvement, and it has surpassed domestic recovery.

Capital Spending on the Rise

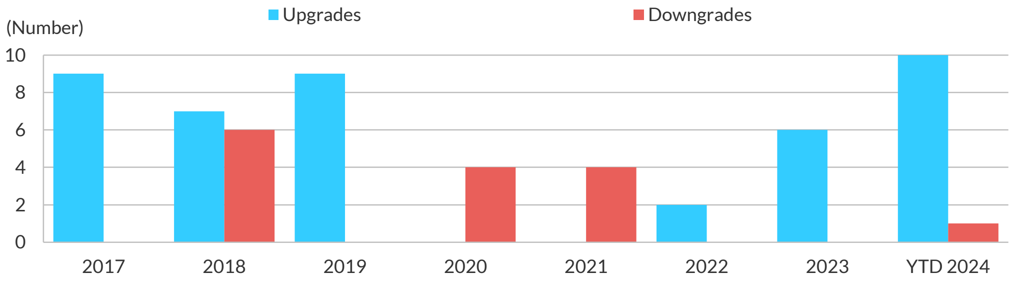
Growing capital budgets may pressure the sector, particularly if leverage metrics rise. Airports with more flexibility in capex timing and significant non-debt funding sources can offset these pressures. However, heightened project execution risk remains from increased capex activities.

Financial Frameworks Support Ratings

Airline agreements are increasingly being renewed with enhanced cost recovery, which allows airports to retain or build larger cash reserves. Financial metrics may therefore remain stable even with additional debt borrowings. Conversely, contractual terms that do not permit operating cash flows to keep up with higher than expected costs or material reductions in traffic could stress metrics.

North America Airports – Rating Changes

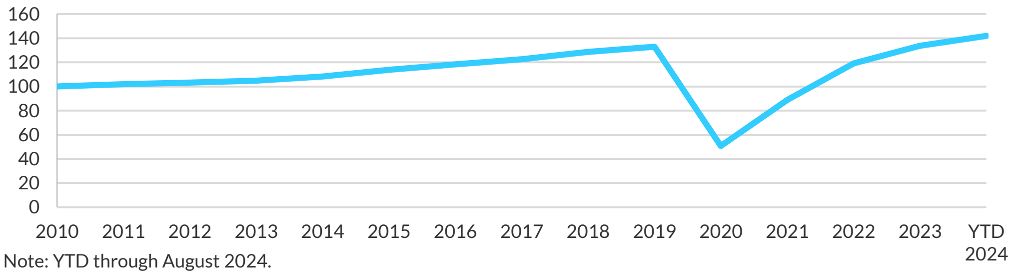
(YTD as of November 22, 2024)



Source: Fitch Ratings

U.S. Airport Traffic Index

(2010 = 100)



Note: YTD through August 2024.
Source: Fitch Ratings, Bureau of Transportation Statistics T-100 Market Data.

What to Watch

- Airline's growth strategies and the effects of lingering aircraft delivery issues on traffic.
- Higher capital budgets without capex timing flexibility and non-debt funding sources.
- Enhanced cost recovery and improved balance sheet liquidity that boost financial metrics.

Toll Roads — Sector Outlook: Neutral

Core Assumption

The toll road sector outlook for 2025 is 'neutral' based on Fitch's expectations of modest traffic growth and toll rate increases broadly in line with inflation. Telecommuting has shifted traffic patterns, with more dispersion across commuting hours. A continued decline in remote work would be positively impact the sector. An economic recession would reduce commercial traffic growth. Although that is not in Fitch's current expectations for 2025. Gas prices remain above pre-pandemic levels but have stabilized below $4 per gallon, which should minimally affect traffic growth.

Adapting Traffic Volumes

Vehicle miles traveled now surpass pre-pandemic levels. Traffic volumes have adapted to changes in transportation trends, with many roads showing steady or increased volumes despite shifts in commuter behavior. The Sun Belt states, particularly Texas and Georgia, have experienced significant traffic growth due to population increases and economic expansion, and should see positive momentum in 2025 as well. Fitch expects commercial traffic growth to be driven by GDP growth, while passenger traffic growth will remain in the low single digits.

Willingness to Adjust Toll Rates

Fitch expects most authorities, where legal or regulatory limitations do not exist, to remain proactive in their willingness to increase toll rates as necessary to support ongoing operations, maintenance, and capital plans. While political pressures can occasionally influence rate-setting, the overall trend indicates a strong commitment to financial sustainability. Fitch anticipates that resistance to toll rate increases will lessen as inflation moderates. Fitch forecasts an inflation rate of 2.4% in 2025, an annualized rate lower than in the past several years.

Strong Demand for Congestion Relievers

Managed lanes are a growth area within the sector due to higher traffic volumes in urban areas. These lanes offer an alternative to congested general-purpose lanes, which allows commuters to experience faster and more predictable travel times. Investments in managed lanes are expected to grow, particularly in the Sun Belt states.

What to Watch

- Traffic stabilizes as vehicle miles travelled begin to surpass pre-pandemic levels.
- Political interference could result in lower-than-anticipated toll rate increases.
- Sustained high operations and management (O&M) as well as capital costs could require larger debt issuances.

North America Transportation Infrastructure - Rating Changes
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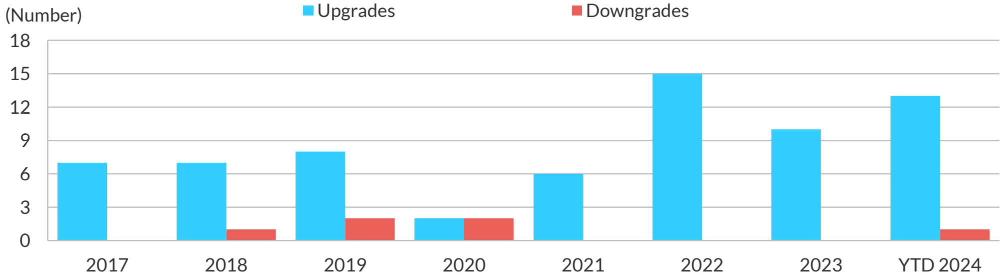
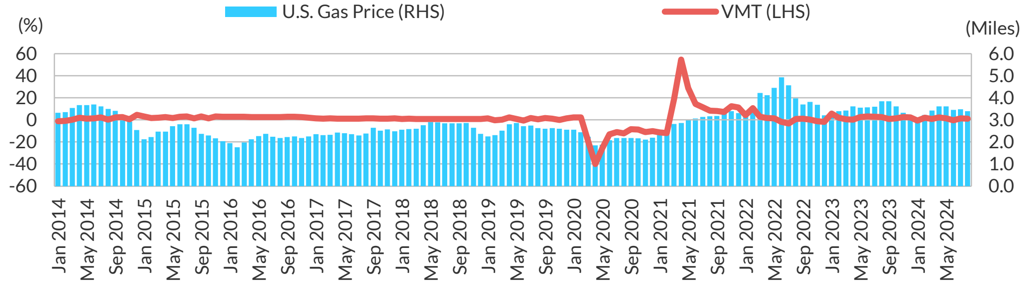


Source: Fitch Ratings

Gas Prices and Year-on-Year VMT Growth



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

Ports — Sector Outlook: Neutral

Core Assumption

The sector outlook for North American ports for 2025 is 'neutral' based on Fitch's expectation that volume activity will be stable to mildly positive as port throughput continues to stabilize despite residual headwinds in the broader economic environment. Policies from a new administration and Congress can disrupt global trade, with the potential imposition of new tariffs, higher rates, or restrictions with major global trading partners such as China.

Softening Port Throughput Levels

A slowdown in consumer spending and economic activity in 2025 could lead to underperformance in cargo volumes and cruise activity. The reversal of above-average increases seen in recent years will temper with growth expectations and return throughput to more normalized levels. A stable growth trajectory in 2025 could improve the outlook. However, weaker economic conditions that affect consumer demand may pose downside risks and potentially lead to a 'deteriorating' outlook.

Uncertainty in Supply Chain Planning Could Affect Cargo Balance

Fitch expects shippers to adjust their supply chain plans in response to operational hurdles that create uncertainty in shipping times. Factors that disrupt the labor environment include the uncertainty surrounding ongoing labor negotiations at U.S. East and Gulf Coast ports, as well as at the Ports of Montreal and Vancouver in Canada.

Additionally, changes to shipping alliances in 2025 may drive throughput volatility for ports. Shipping and terminal counterparties would adjust their call schedules and service levels to reflect new strategies. Persistent cargo shifts for exposed gateways could negatively affect the sector.

International Trade Shifts Due to Geopolitical, Policy Changes

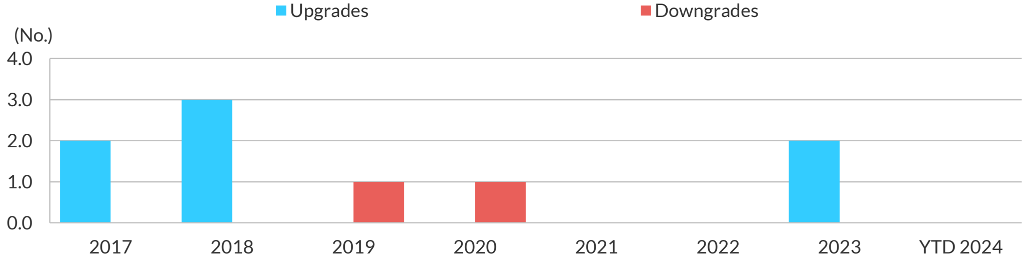
The balance and volume of port trade may fluctuate due to heightened geopolitical tensions, as shippers adjust their routes to avoid conflict areas. Supply chains may shift to offset higher costs from increased protectionist measures such as material tariff adjustments under a Trump administration and Republican-led Congress in 2025 and beyond. These changes will impact where ships call and the overall volumes that move through U.S. and Canadian ports. Increased trade protectionism that raises the risk of trade wars could significantly reduce cargo volumes.

Persistent Elevated Costs Could Pressure Port Financial Profiles

Ports will advance capital projects to handle larger vessels, enhance supply chain resiliency, and support zero-emission port technology and infrastructure. If sustained cost pressures or higher capital costs are not offset by government and third-party funding, ports may delay the execution of capital programs or face higher than expected borrowing needs, both of which could pressure their financial profiles.

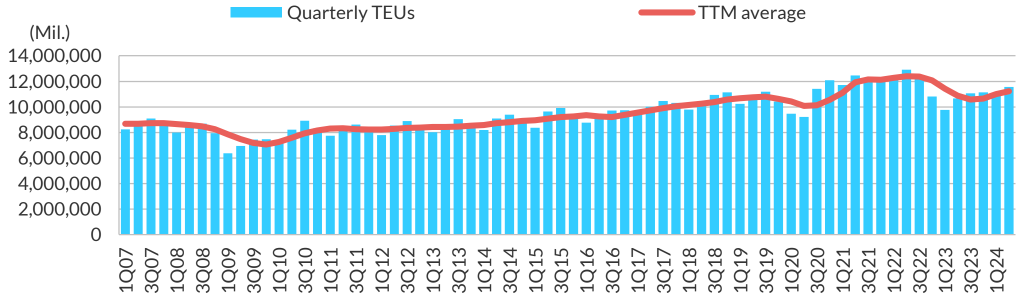
North American Ports — Rating Changes

(YTD as of November 22, 2024)



Note: Public international scale ratings.
Source: Fitch Ratings

Twenty-Foot Equivalent Units



TEU – 20-foot equivalent units. TTM – Trailing 12 months.
Source: Fitch Ratings, U.S. ports' websites

What to Watch

- Softened consumer demand and economic activity that lead to underperformance in cargo volumes and cruise activity.
- Persistent supply chain and other operational disruptions that result in shifts in cargo balance and throughput.
- Geopolitical tensions or changes in trade policy that cause shifts in international shipping
- Sustained cost pressures or capital investments that require higher than expected borrowing needs, which could pressure port financial profiles.

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

2025 Outlooks
Global Economic Outlook – September 2024 (September 2024)
US Airports and Toll Roads Maintain Strong Momentum in 1H2024 (November 2024)
Peer Review of U.S. Airports (January 2024)
U.S. Toll Roads – Peer Review (January 2024)
Peer Review of U.S. Managed Lanes (November 2023)
U.S. and Canadian Ports – Peer Review (October 2024)

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