

Improved financial performance but risks to outlook increase

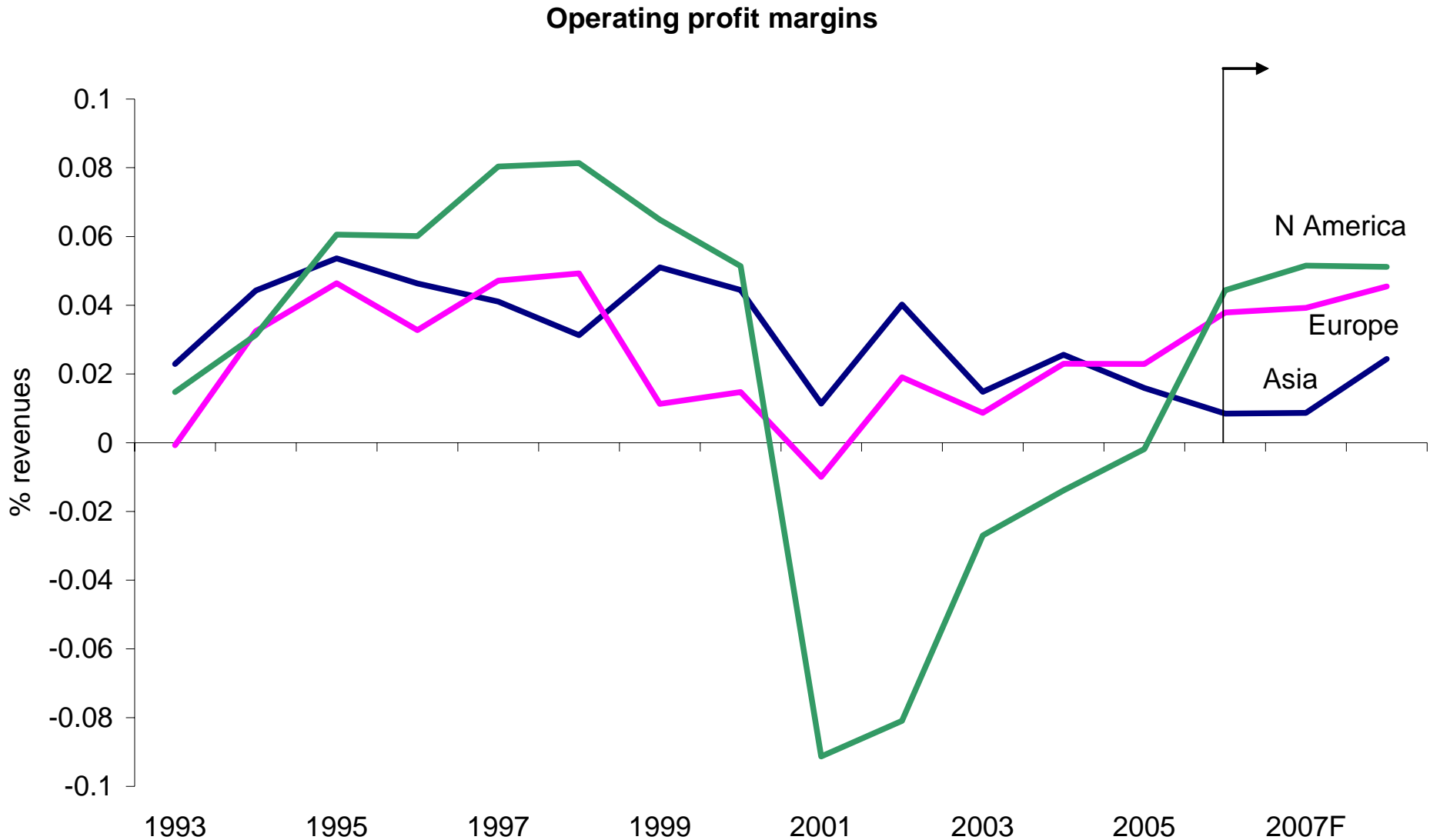
Brian Pearce
Chief Economist

www.iata.org/economics

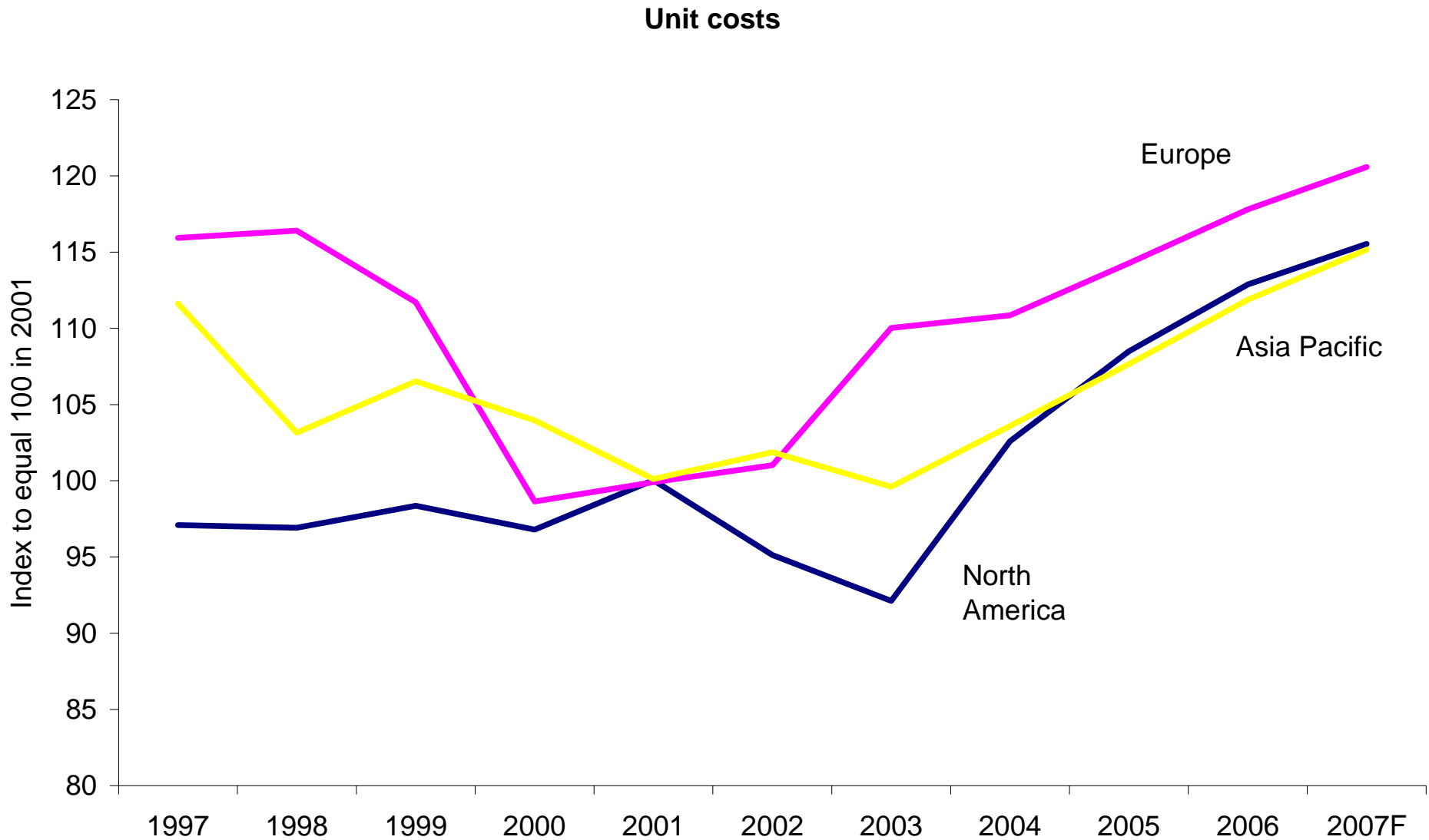
September 2007



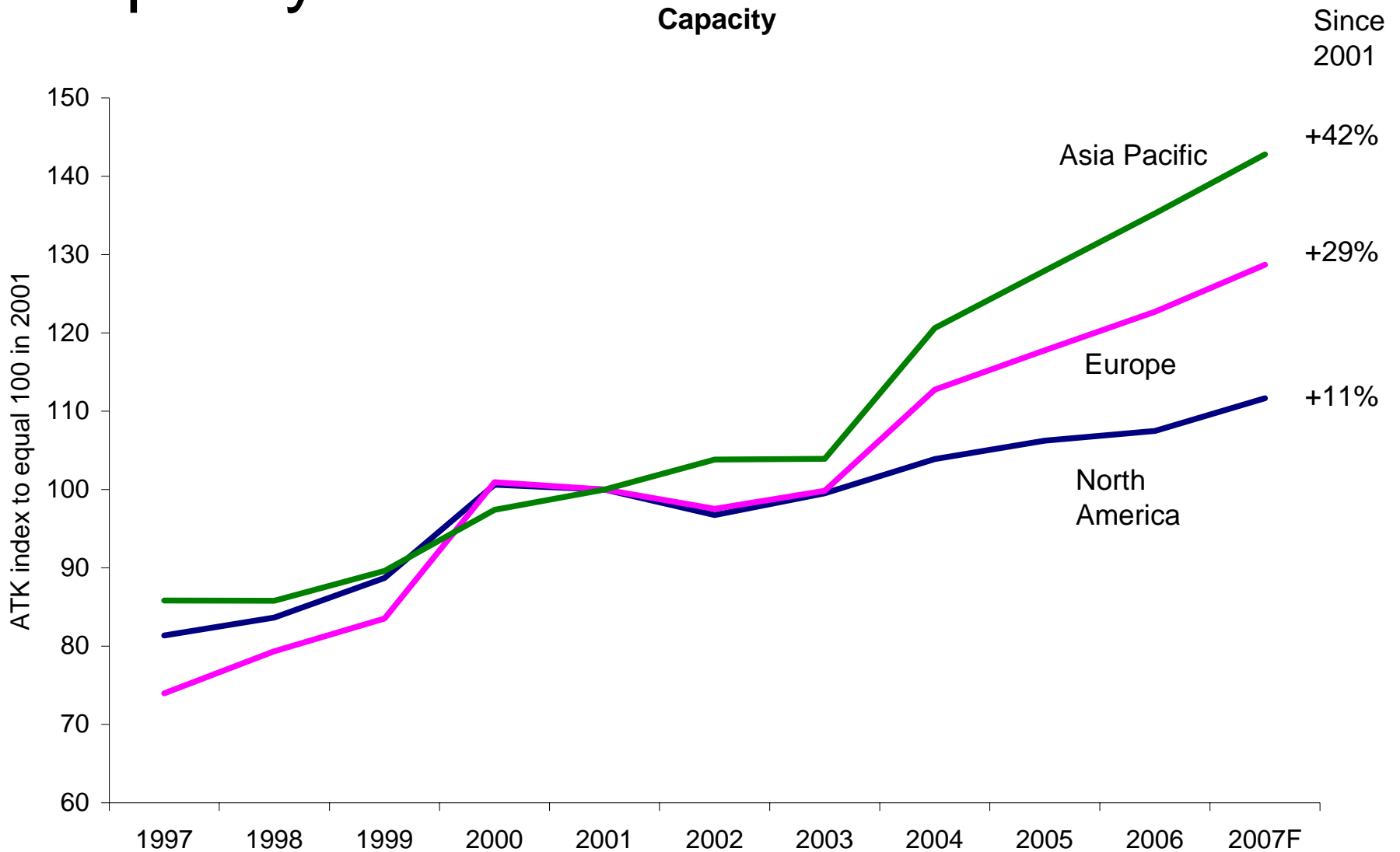
Airline profitability has risen significantly



Relative performance not due to unit costs

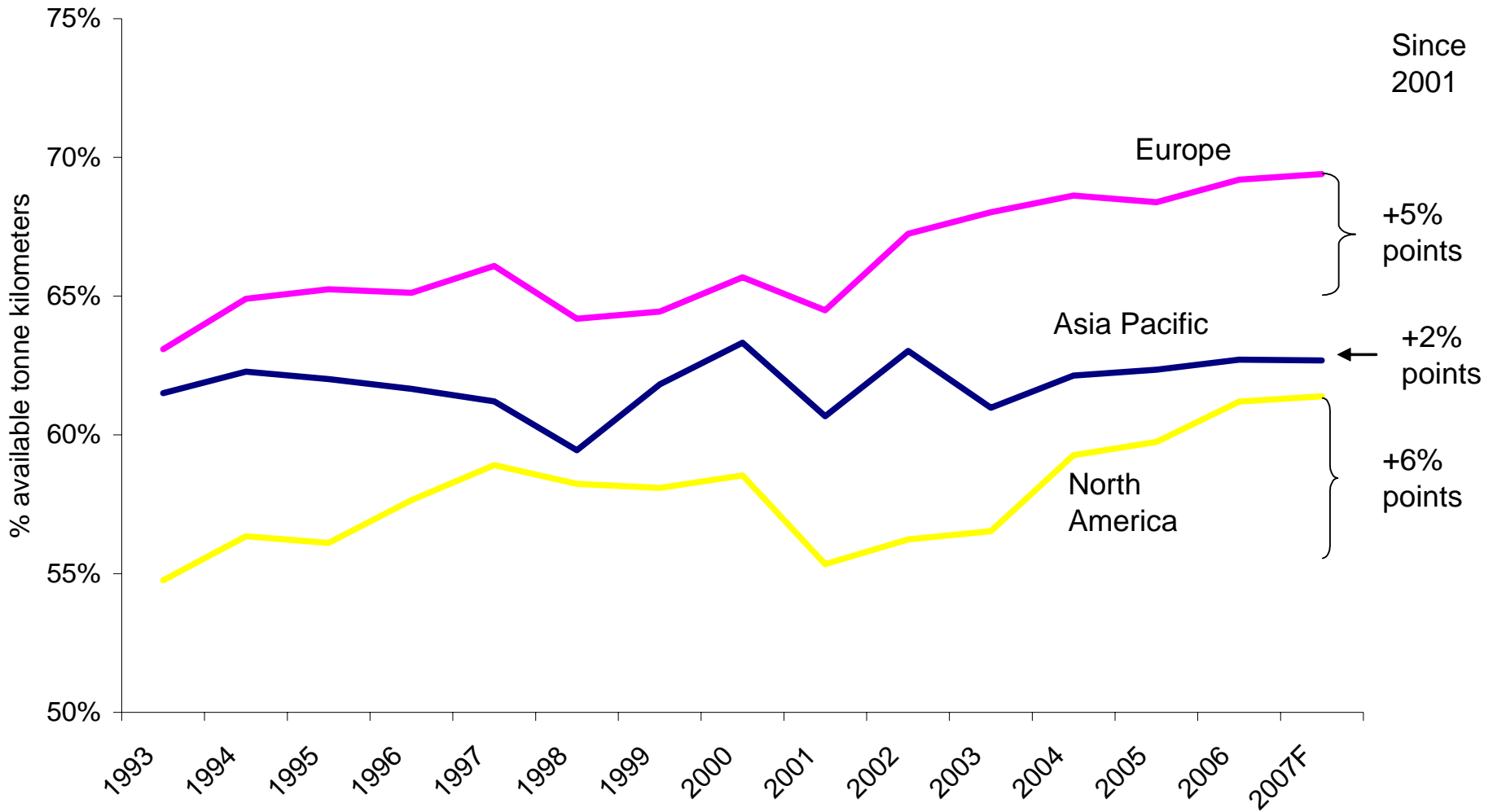


But N American airlines have added least capacity



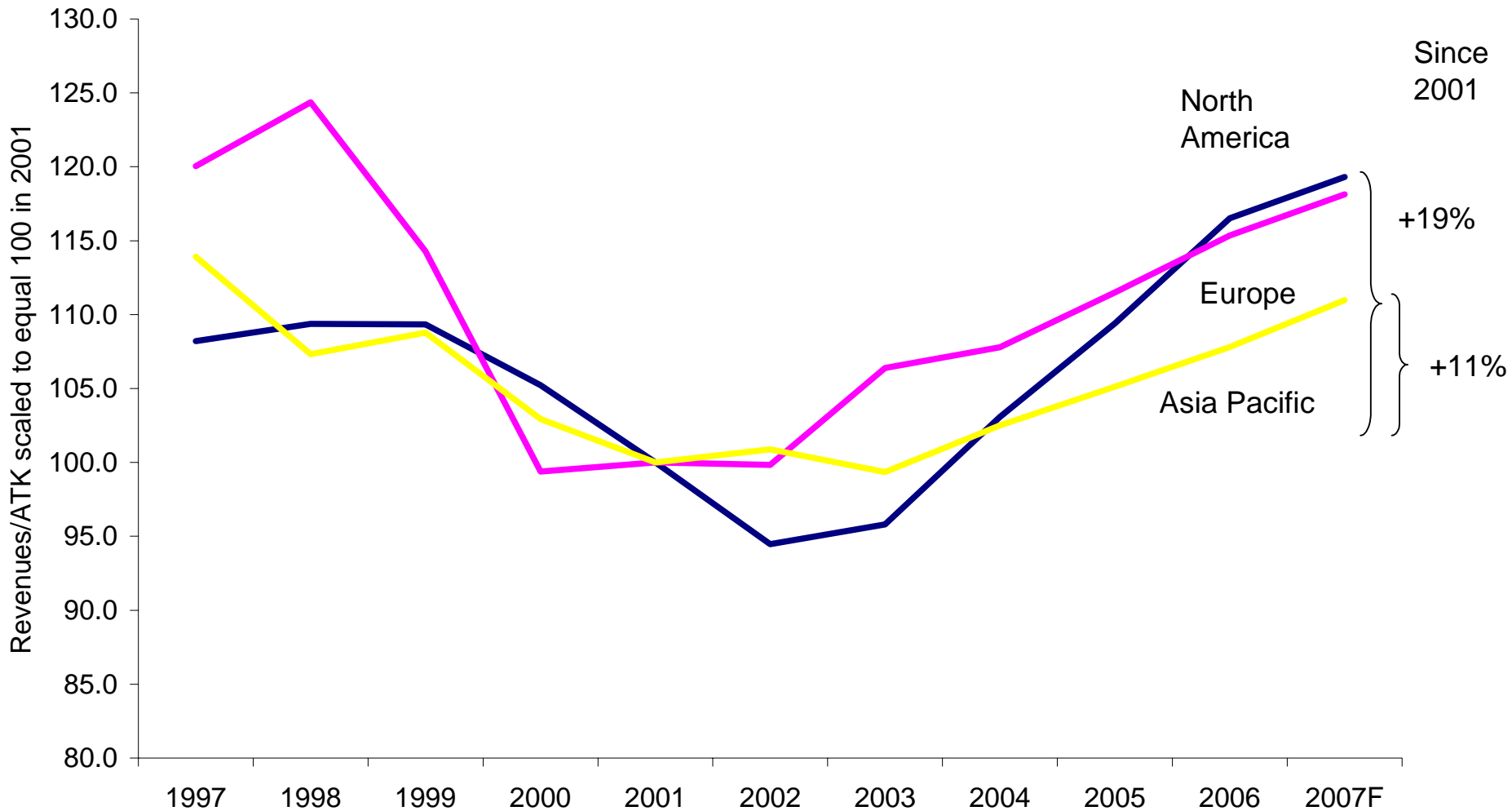
Sharply improving load factors

Weight load factors



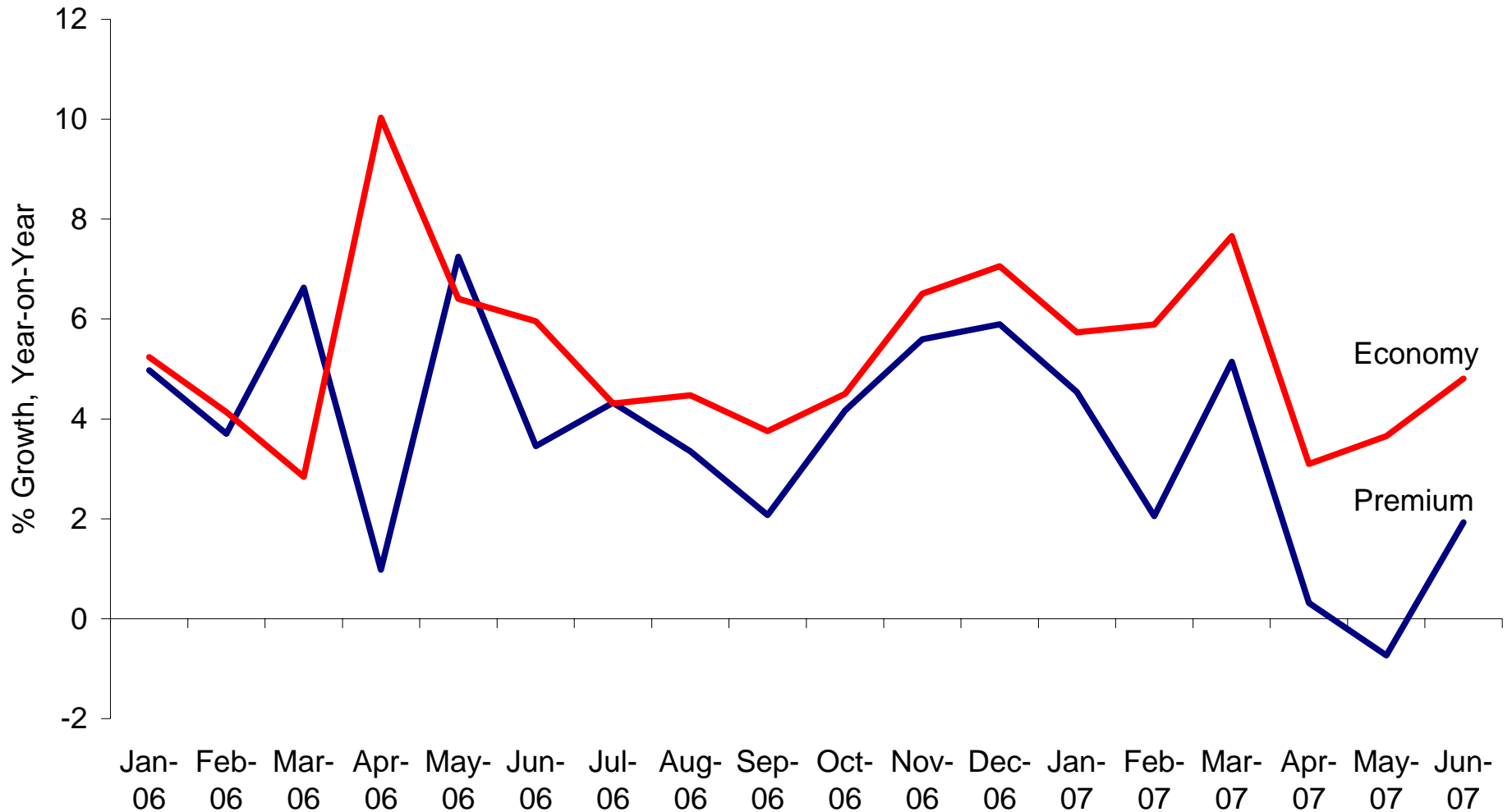
And significantly improving yields

Regional yields



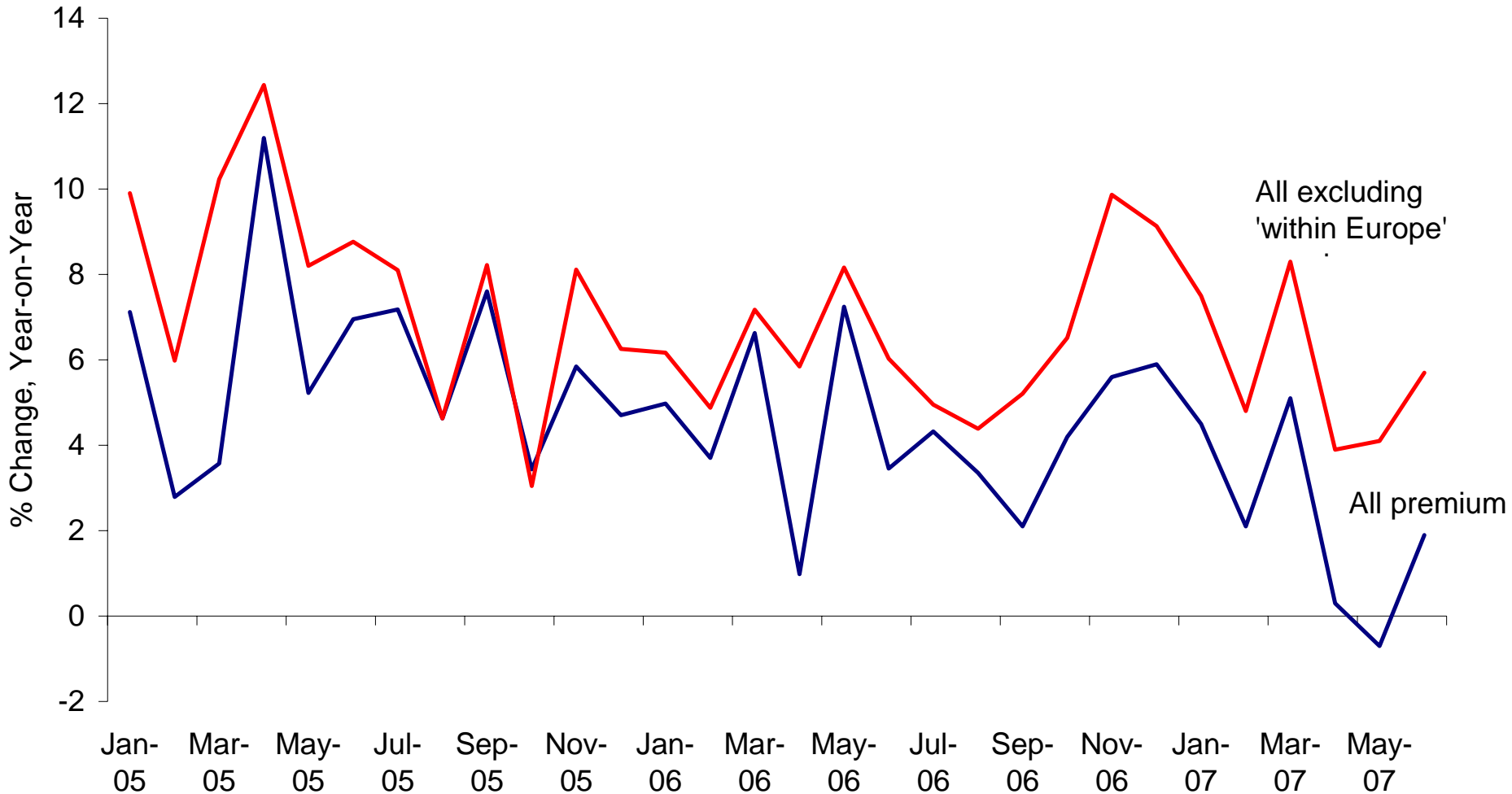
Air travel picked up after Q2 weakness

Passenger Traffic Growth by Ticket Type



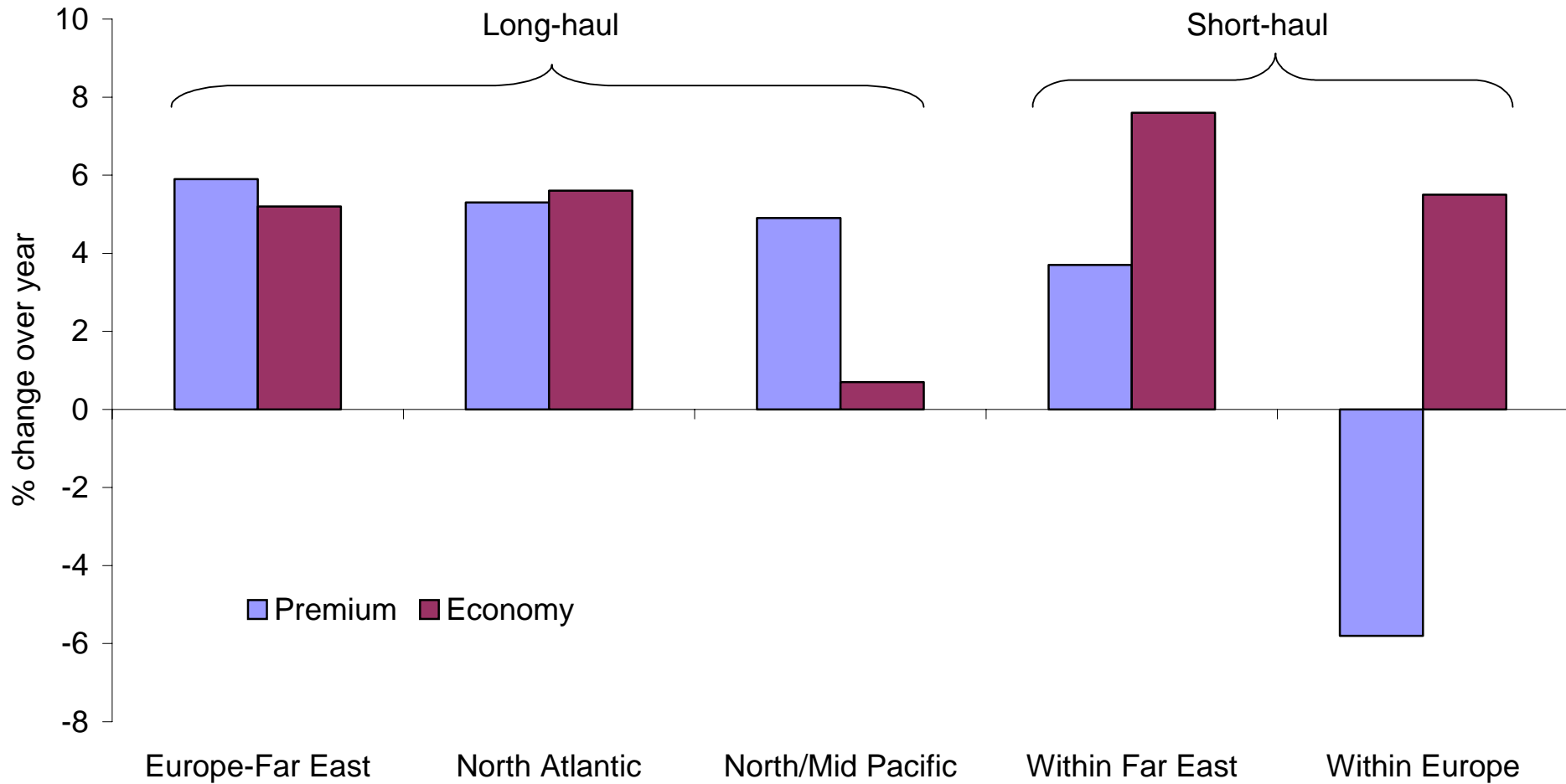
Business travel remained strong outside Europe

Premium Ticket Volume Growth



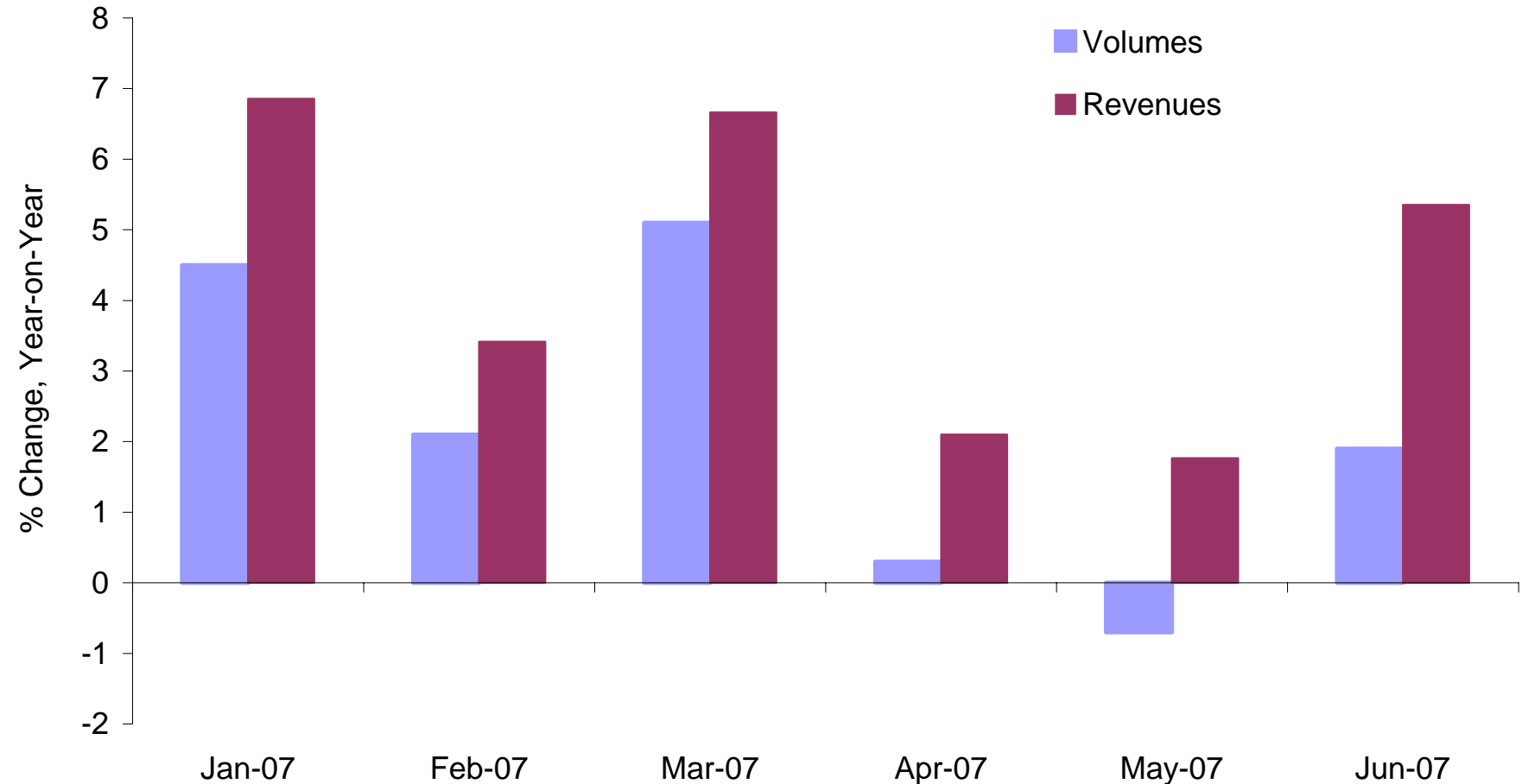
Particularly on key long-haul markets

Traffic class by major route area - Jan-Jun 2007



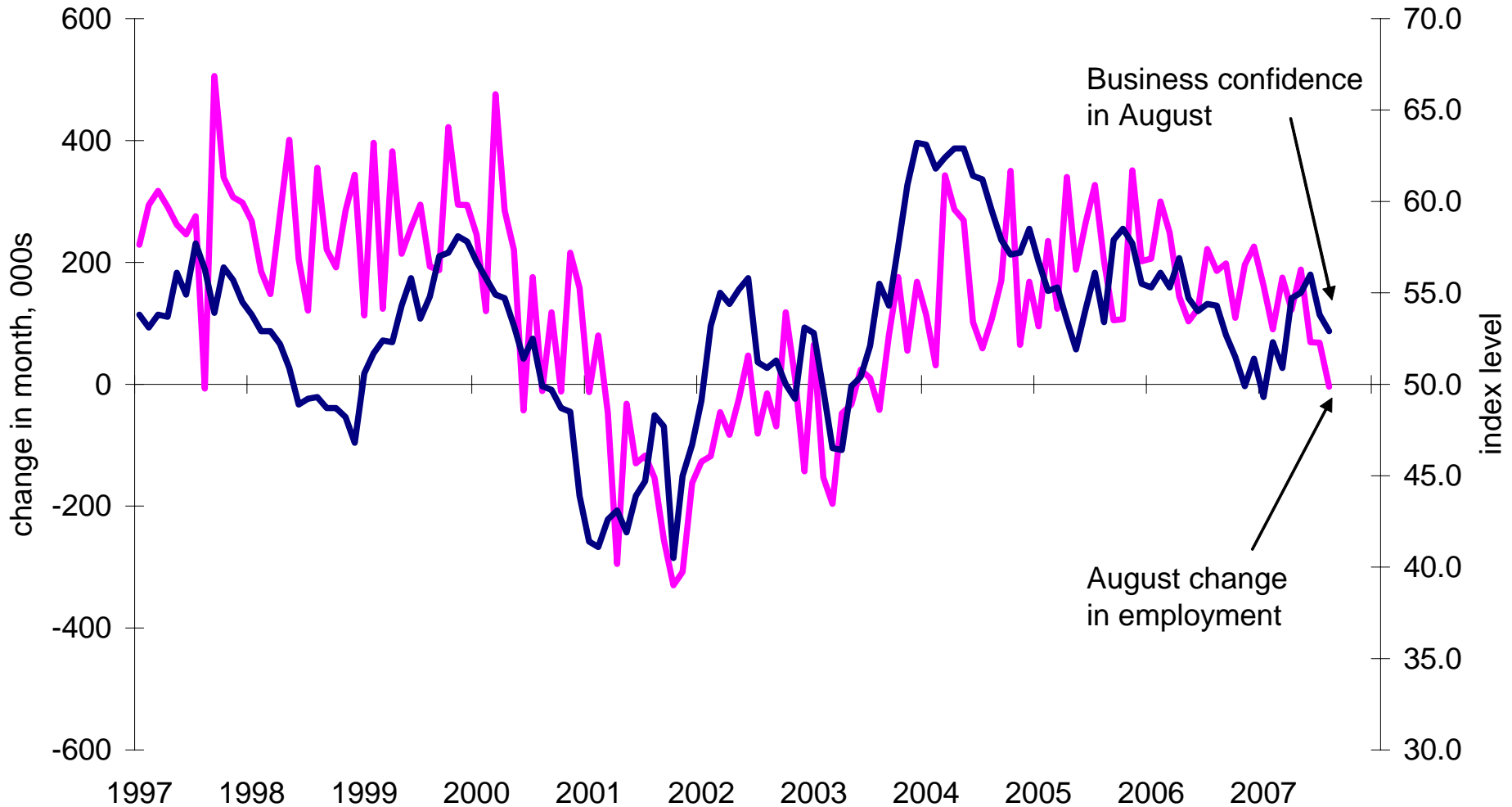
Resulting in stronger growth of revenues

Premium Ticket Volume and Revenue Growth

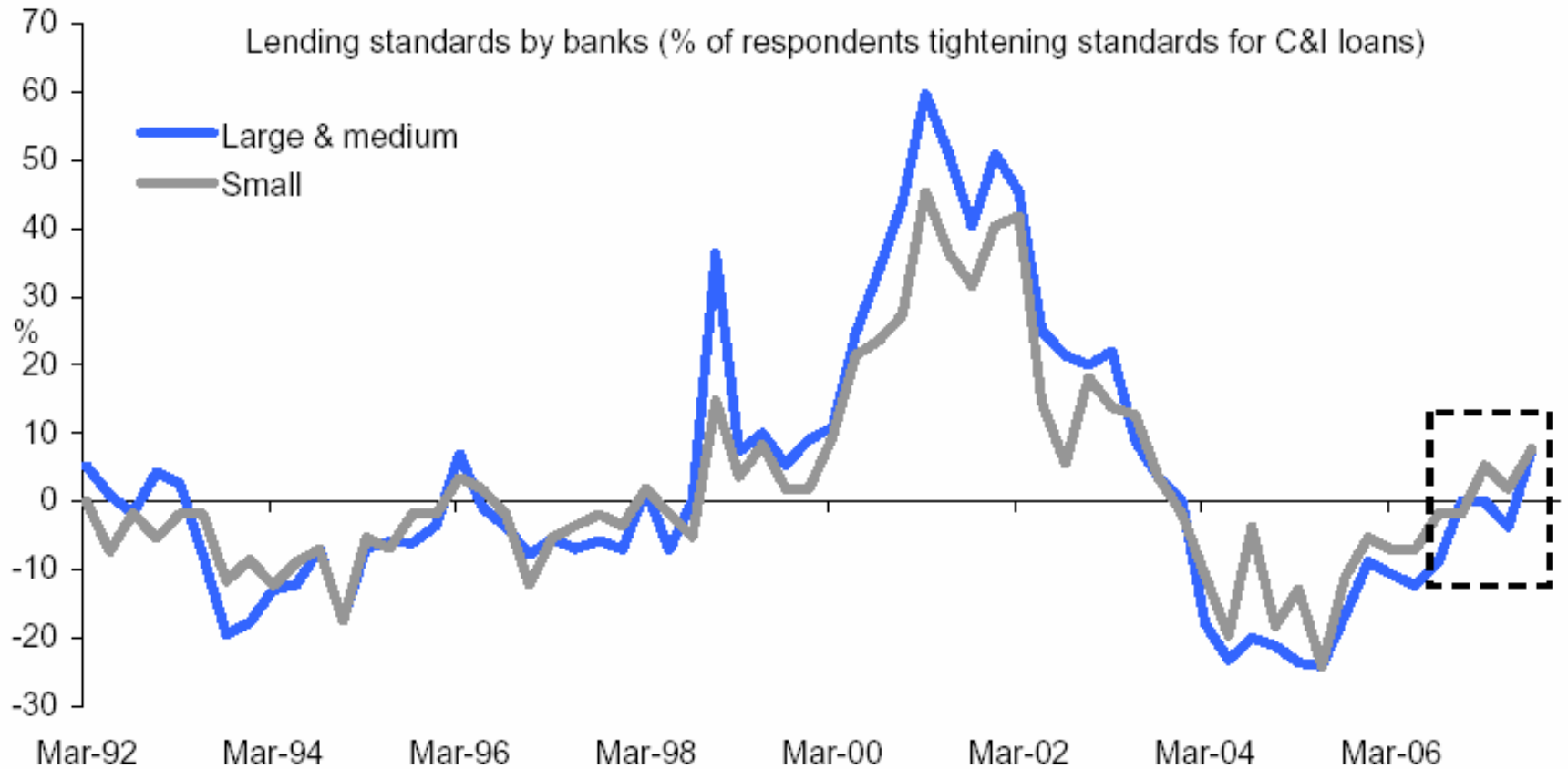


US jobs fall reflects earlier business gloom

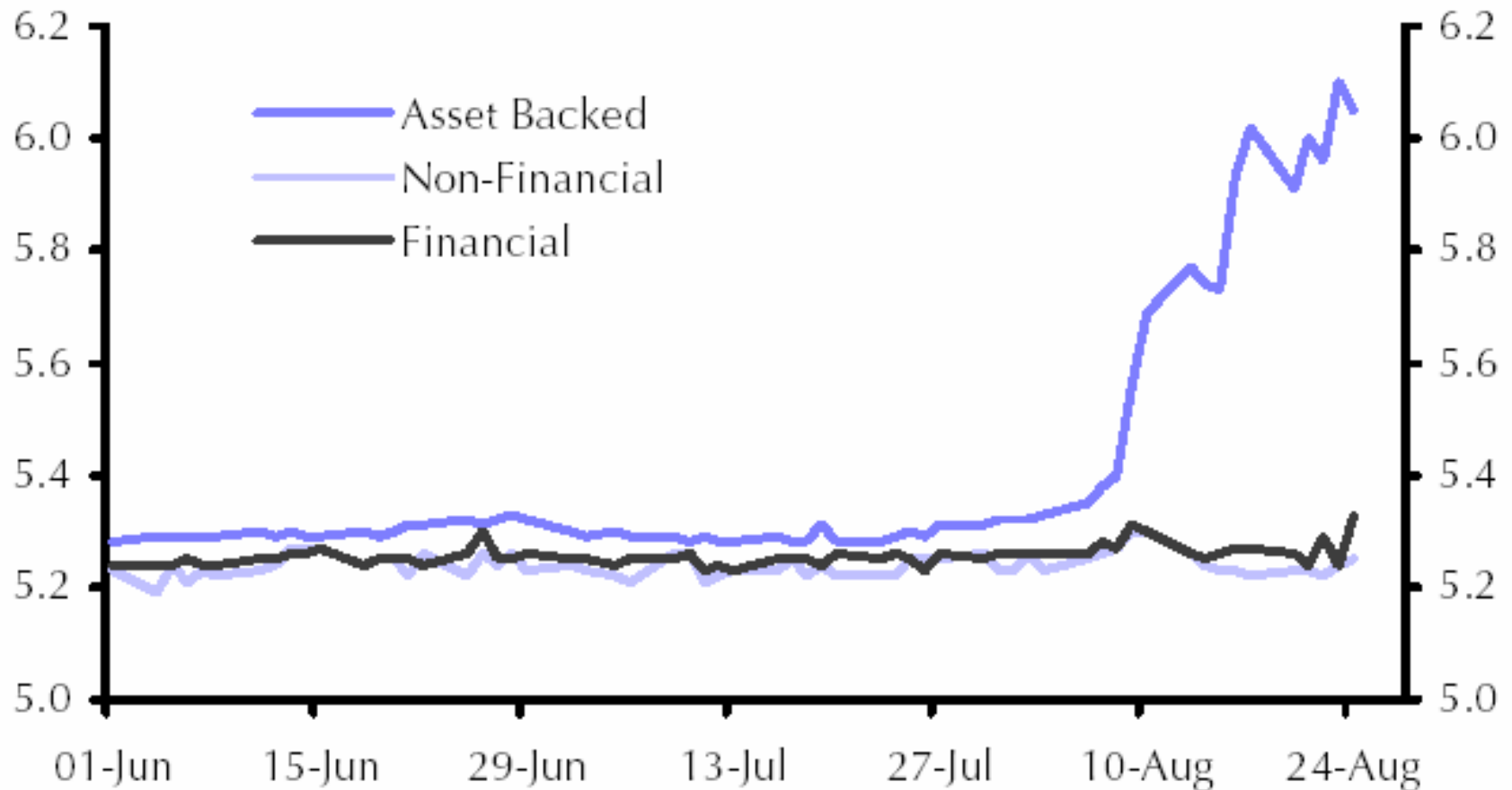
US payrolls and business confidence



Credit crunch threatens outlook

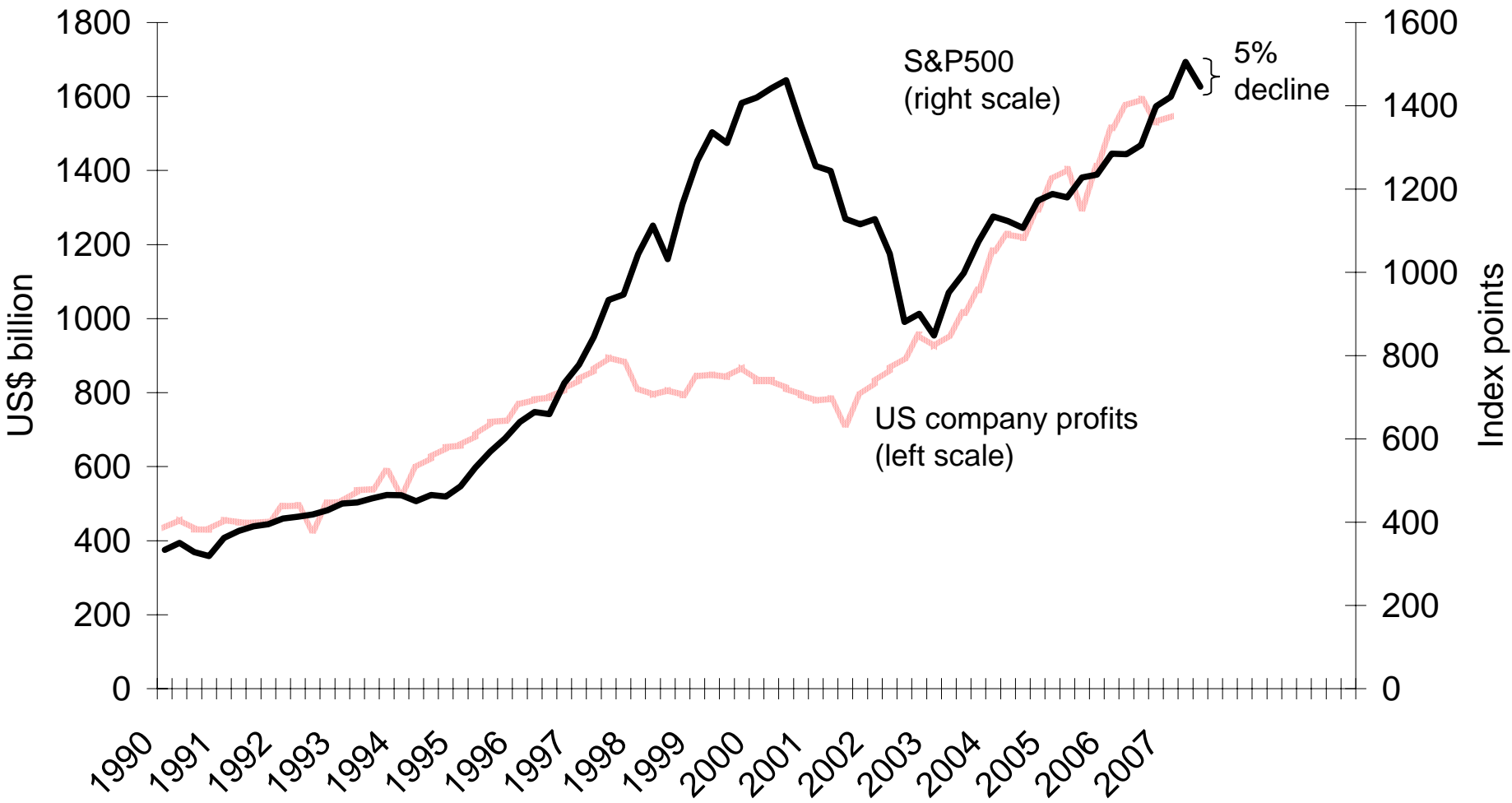


The cost of credit has risen sharply

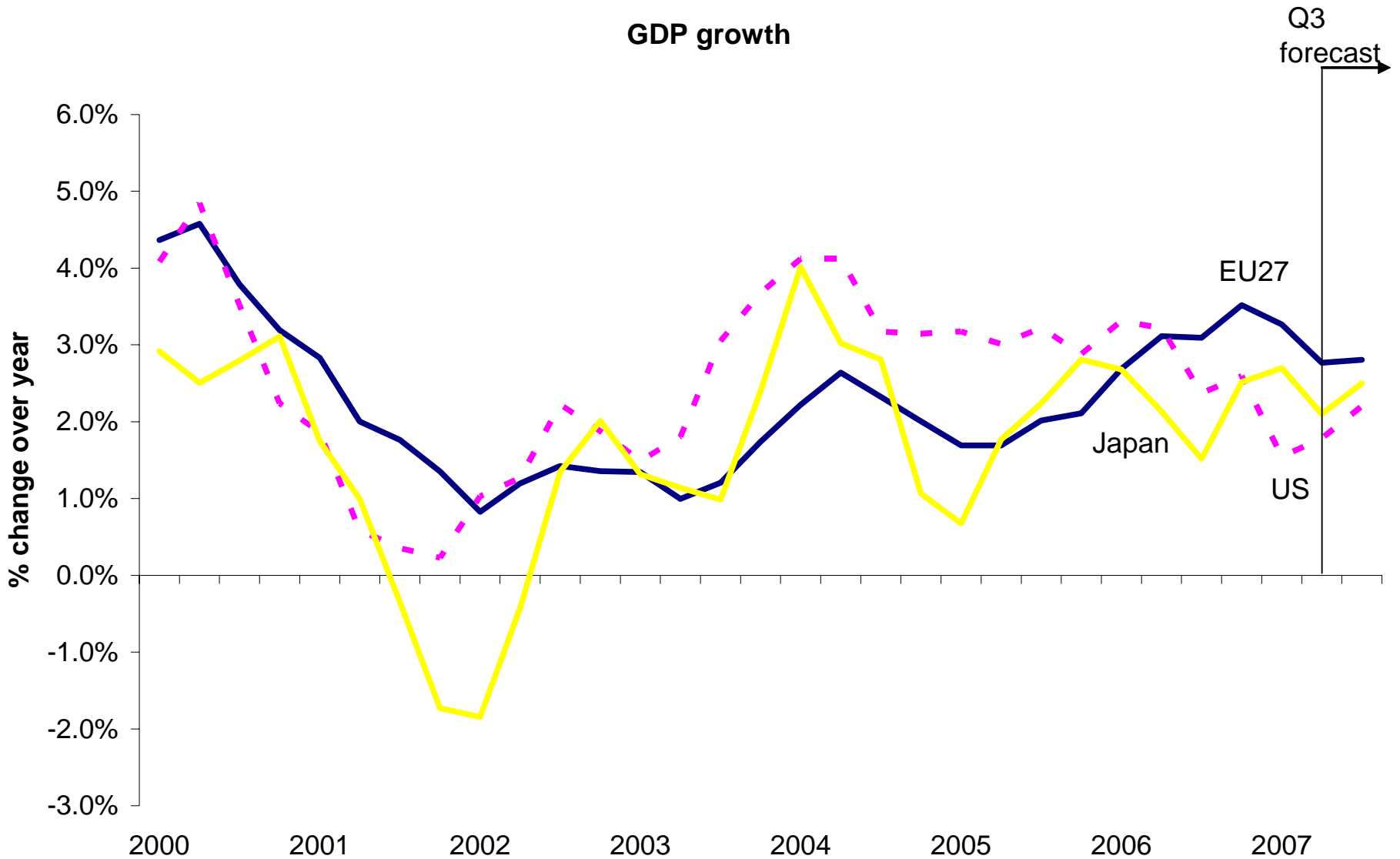


But profits have supported equity values

US company profits and equity markets

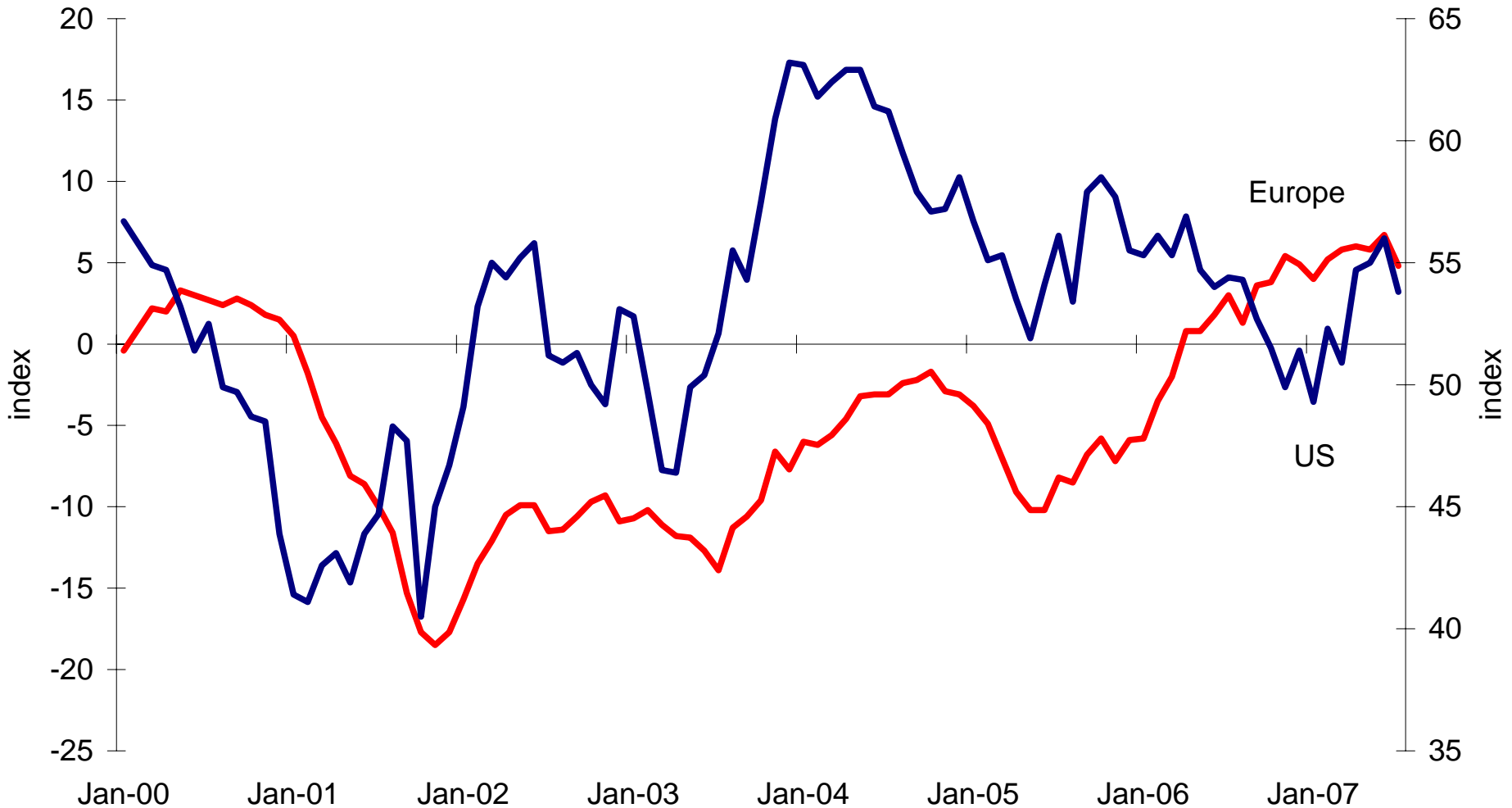


And economic growth robust at start of Q3

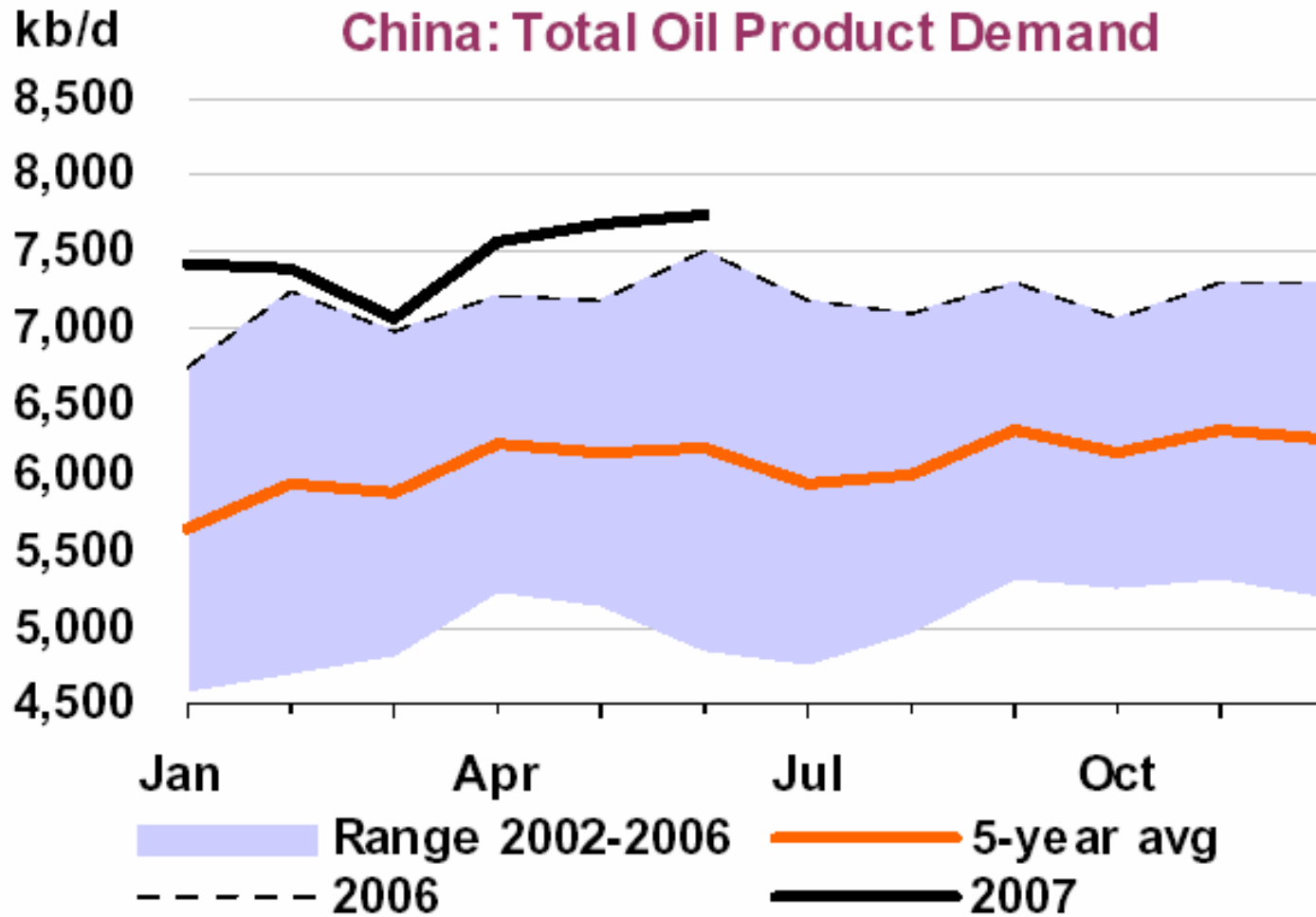


Business was getting more confident

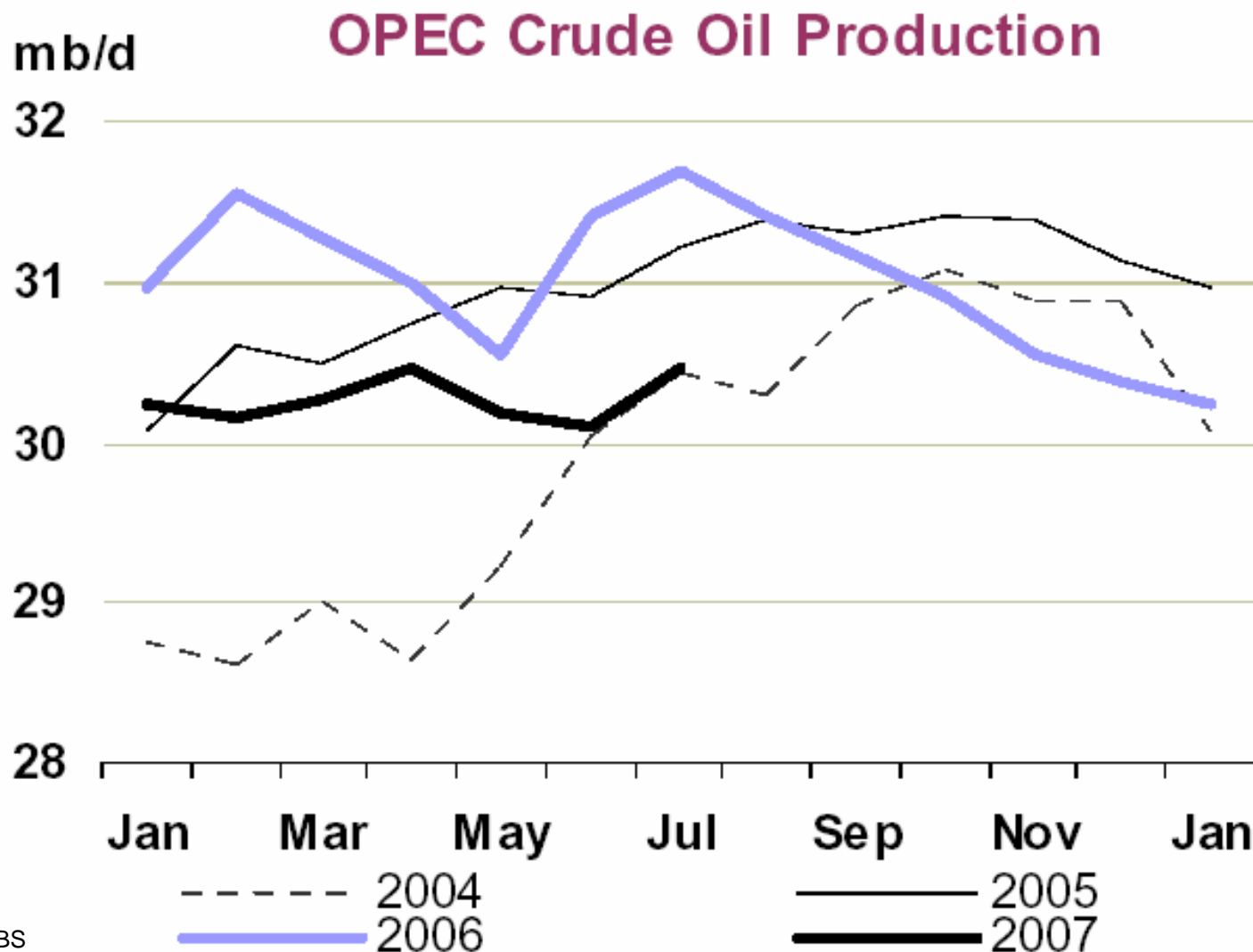
Business confidence surveys



Surging oil demand from China

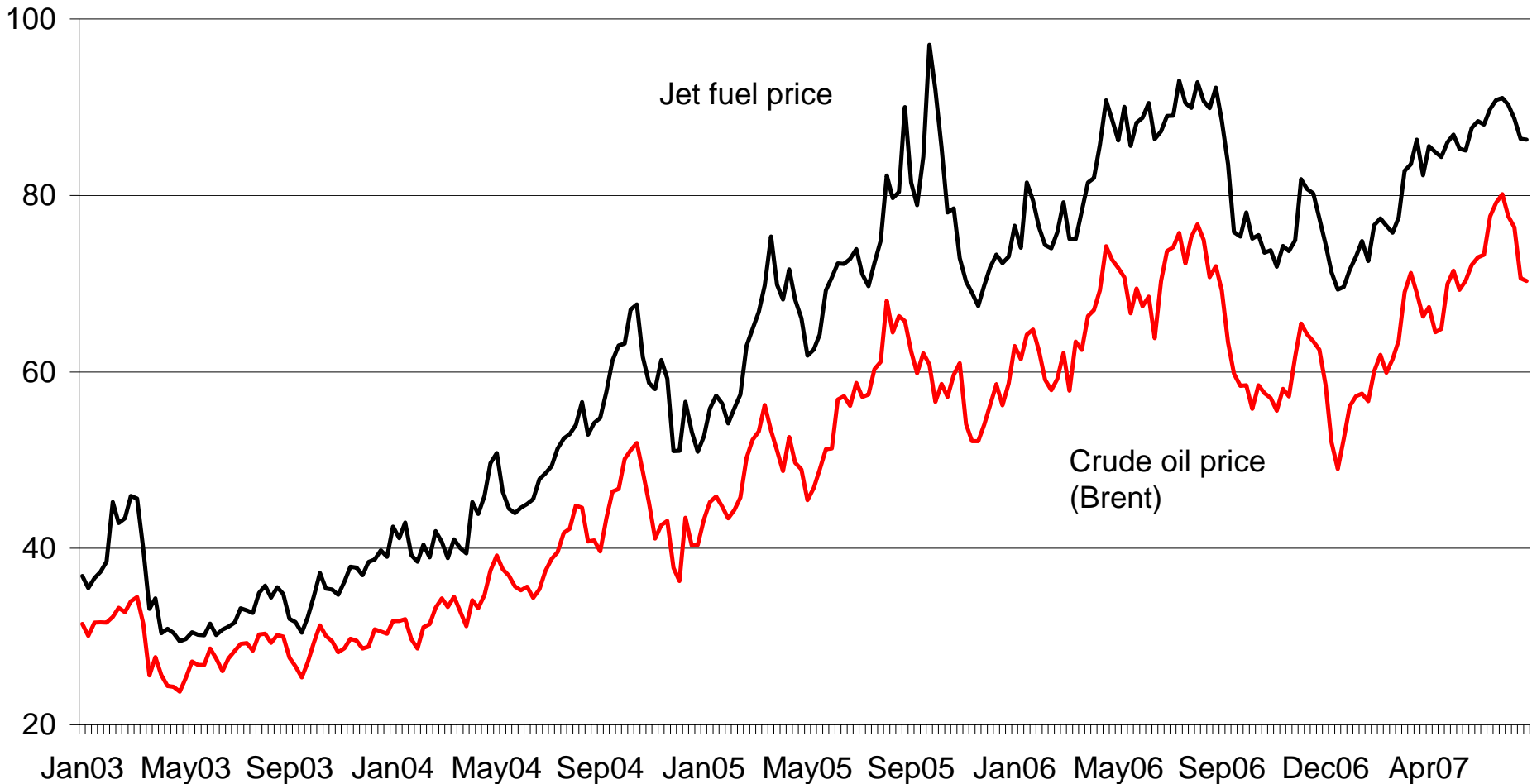


Coupled with OPEC reducing oil supply



Pushed oil and jet fuel prices higher again

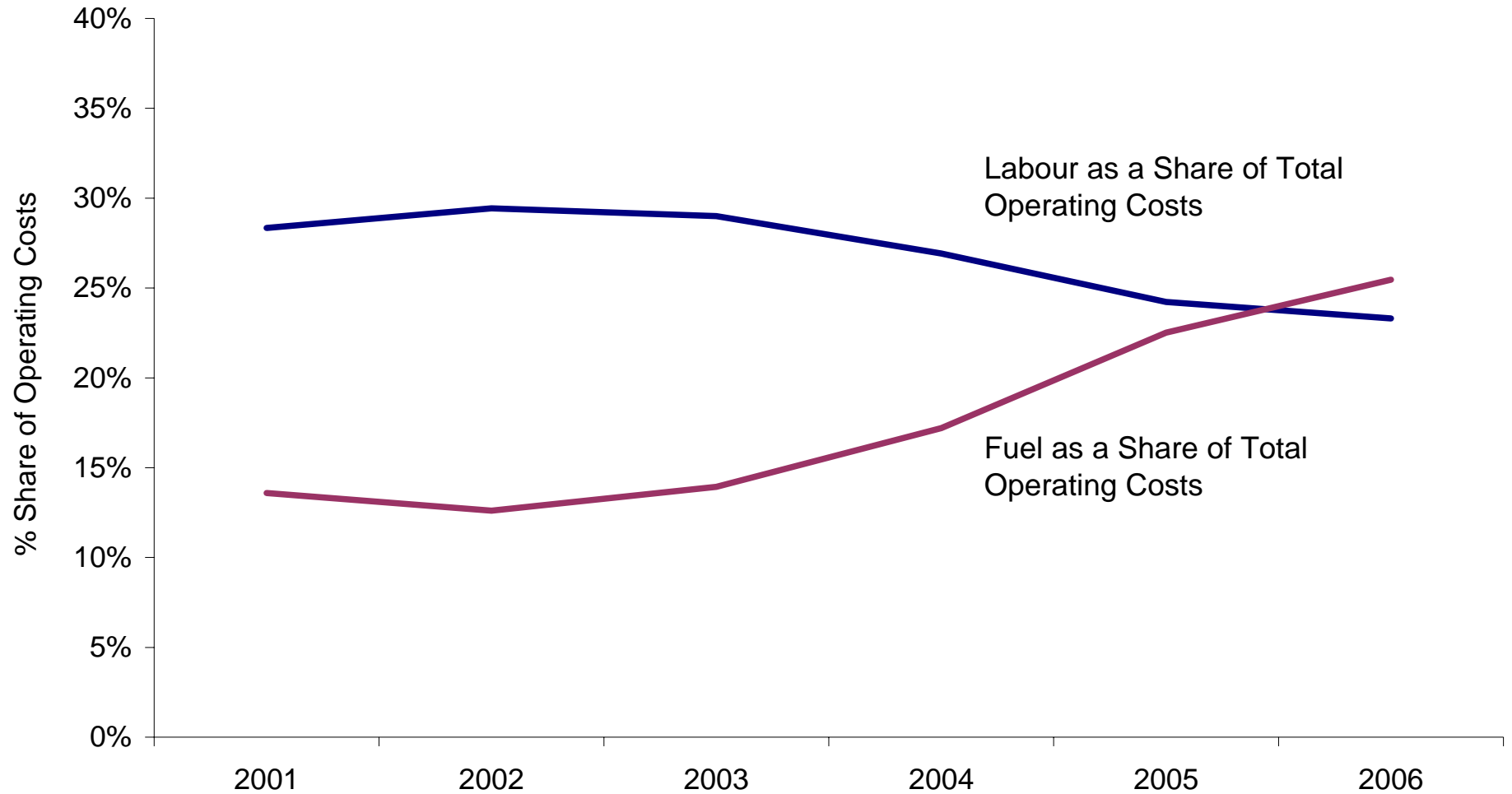
Jet Fuel and Crude Oil Price (\$/barrel)



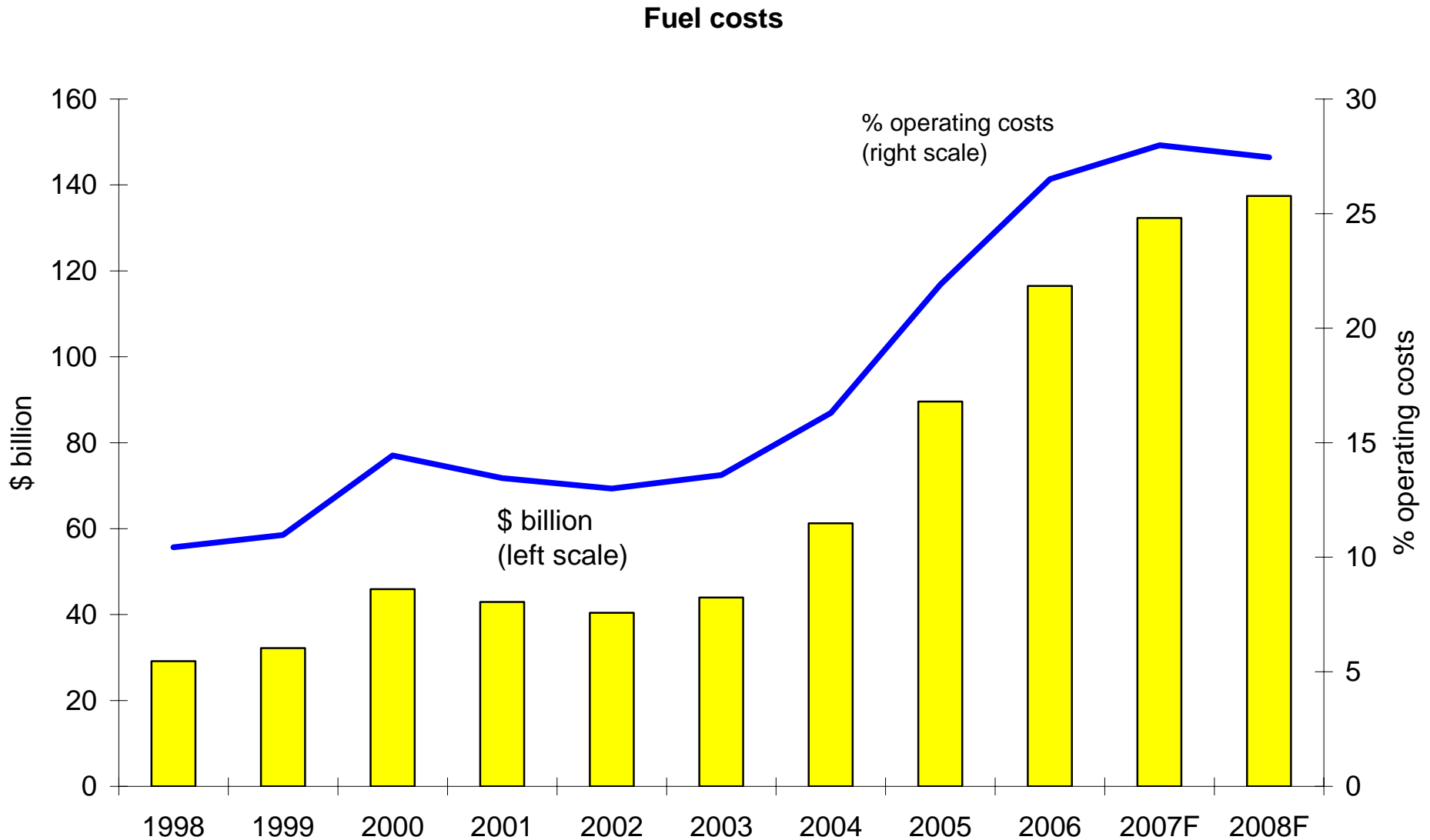
Source: Platts, RBS

Raising fuel to the largest airline cost item

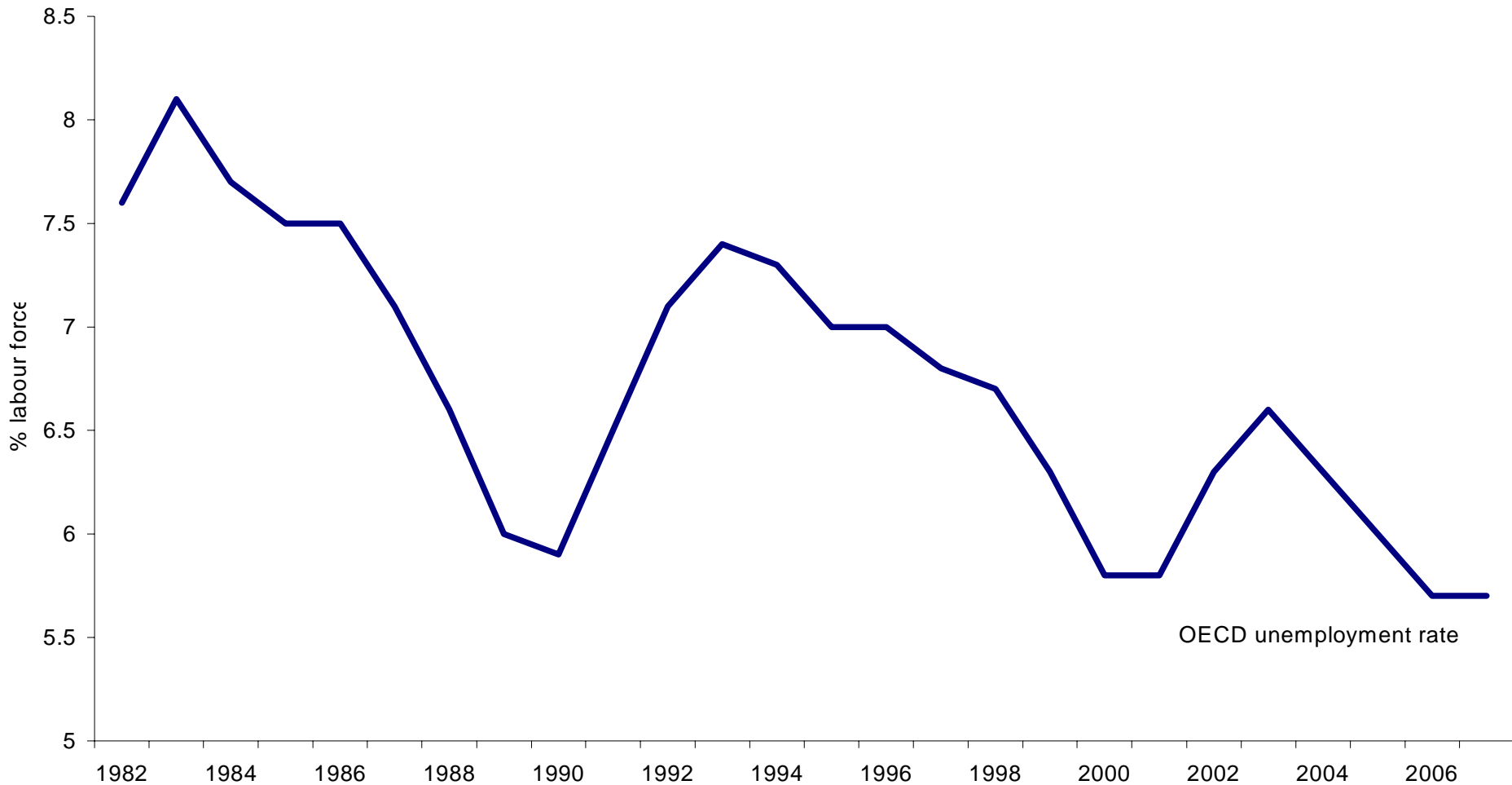
All Major Airlines



Fuel costs are likely to remain high

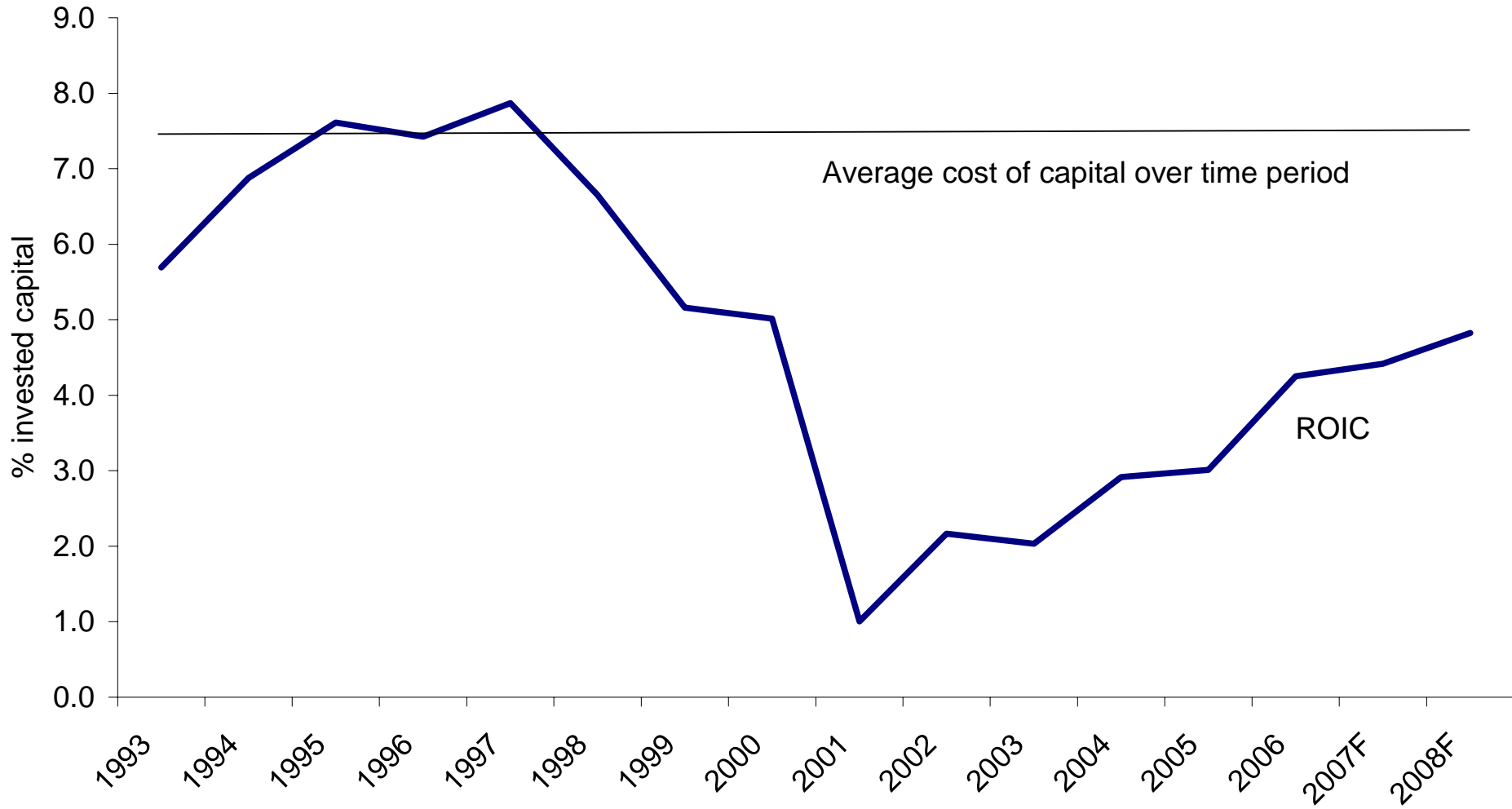


Cost pressures are also rising due to shortages of key inputs



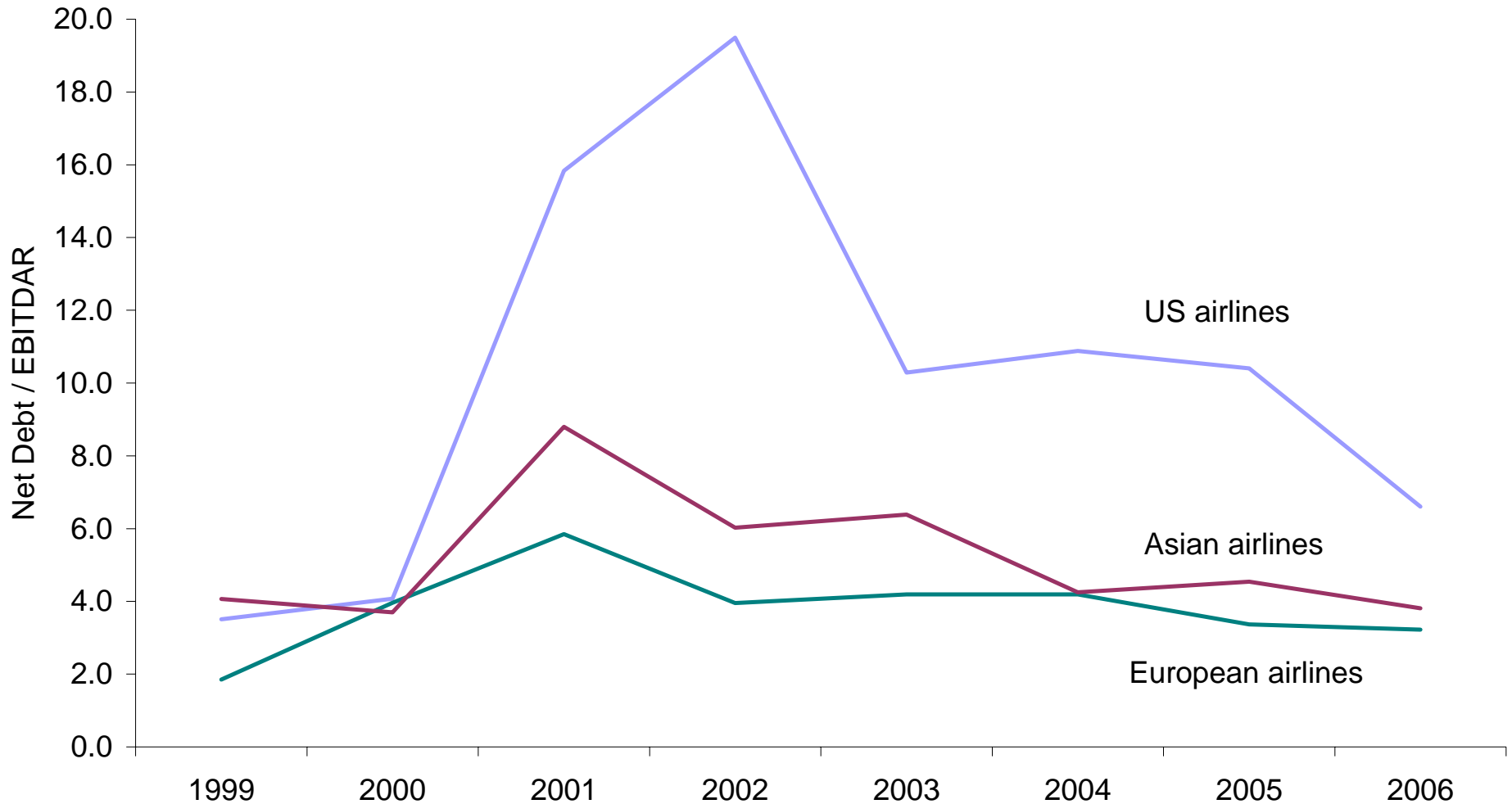
While returns are still below cost of capital

Return on invested capital



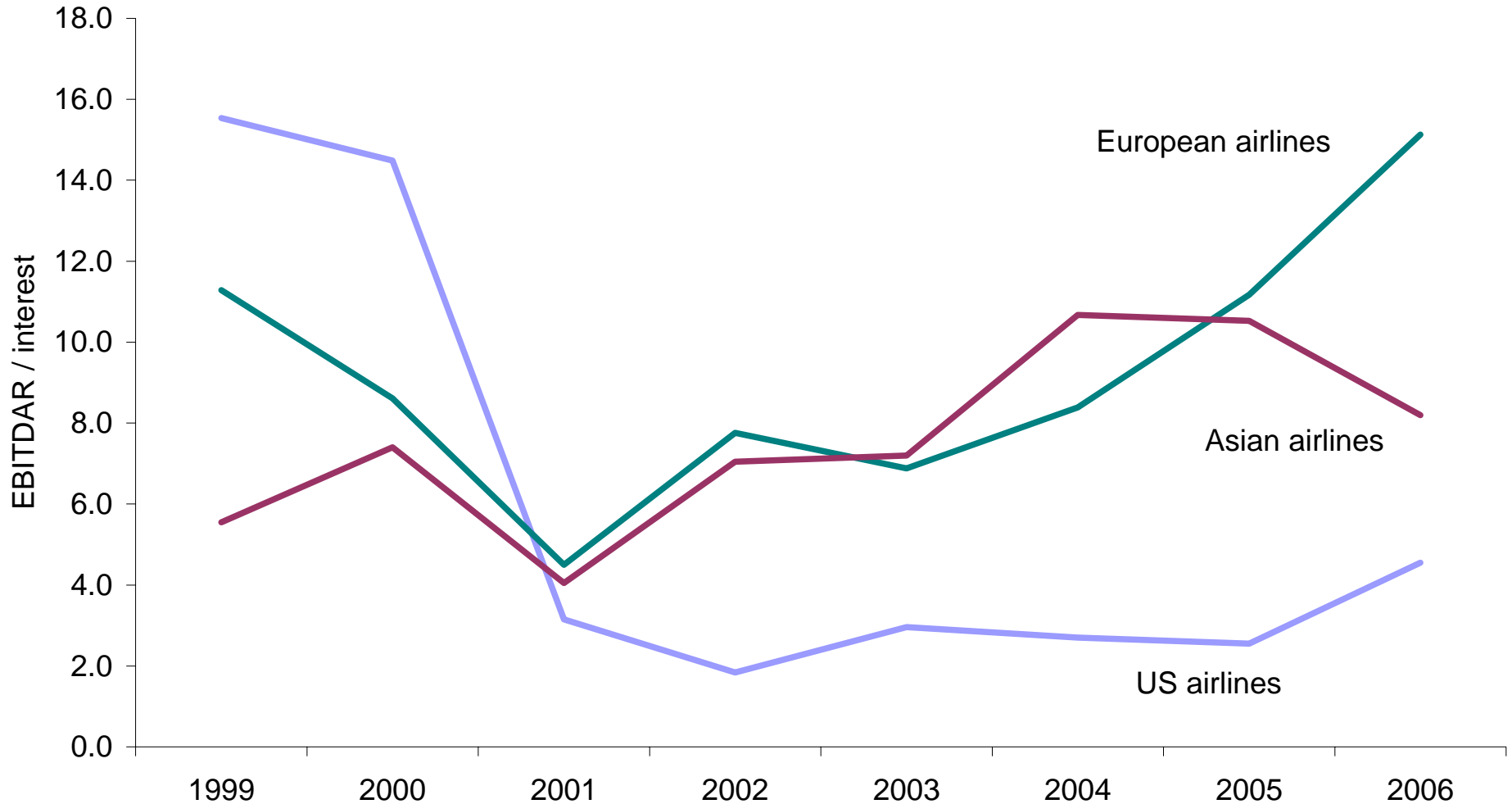
And the US debt overhang not yet gone

Net debt / EBITDAR

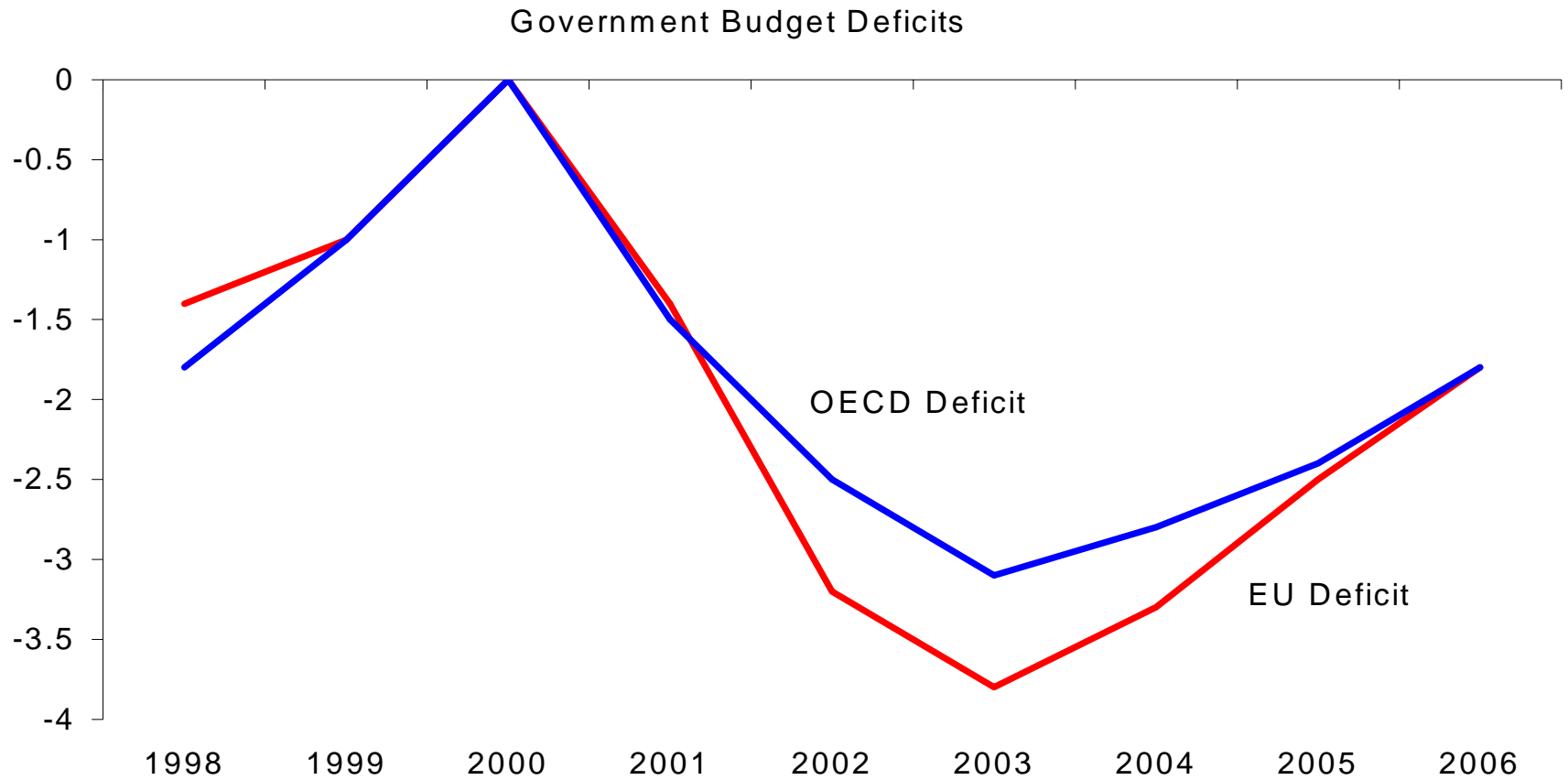


So interest coverage not recovered in US

EBITDAR / debt interest



The industry is also vulnerable to new taxes



Sustaining the improvement in profitability will require further efficiency gains

