

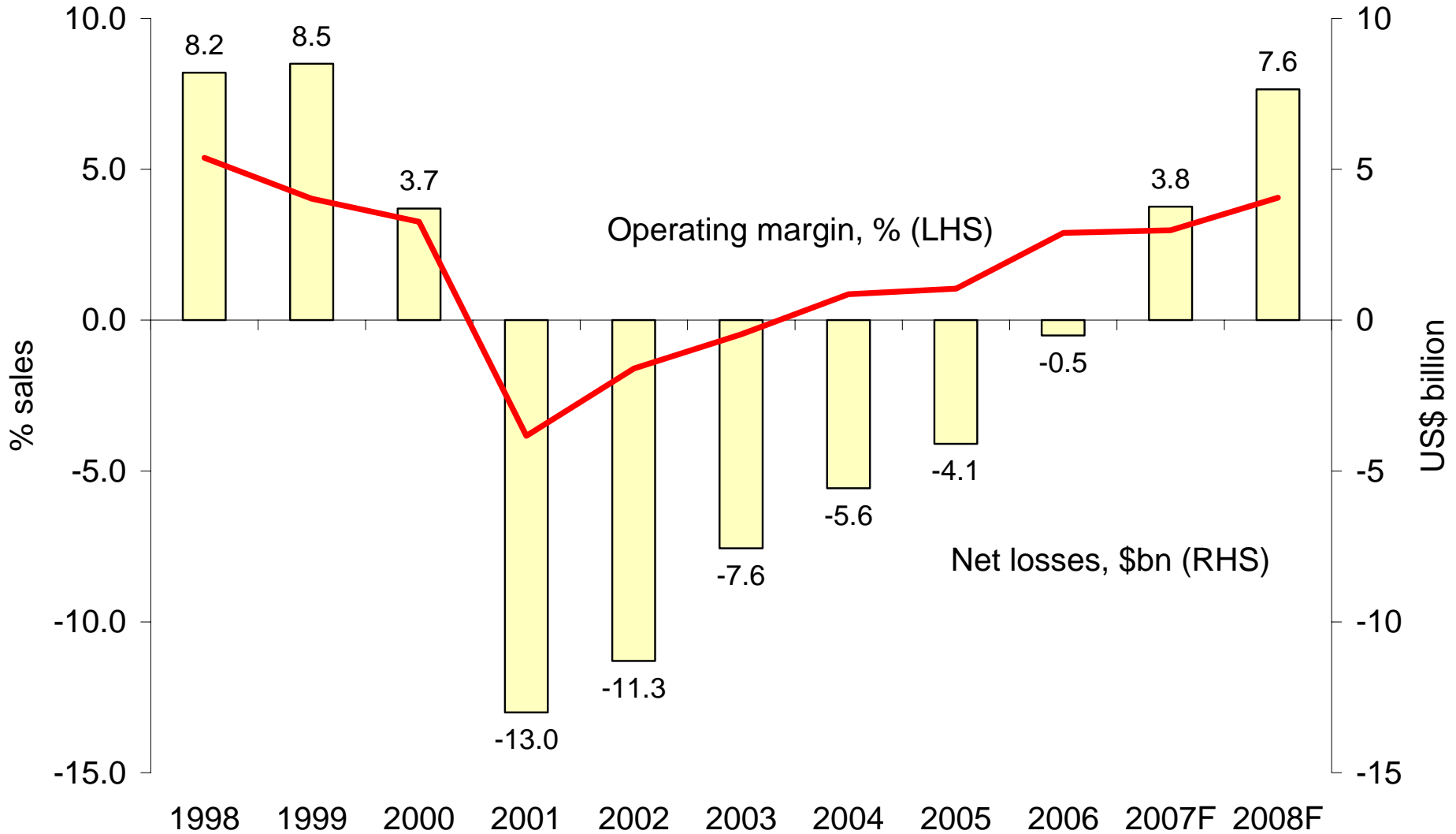
The outlook is positive but many risks to financial stability remain

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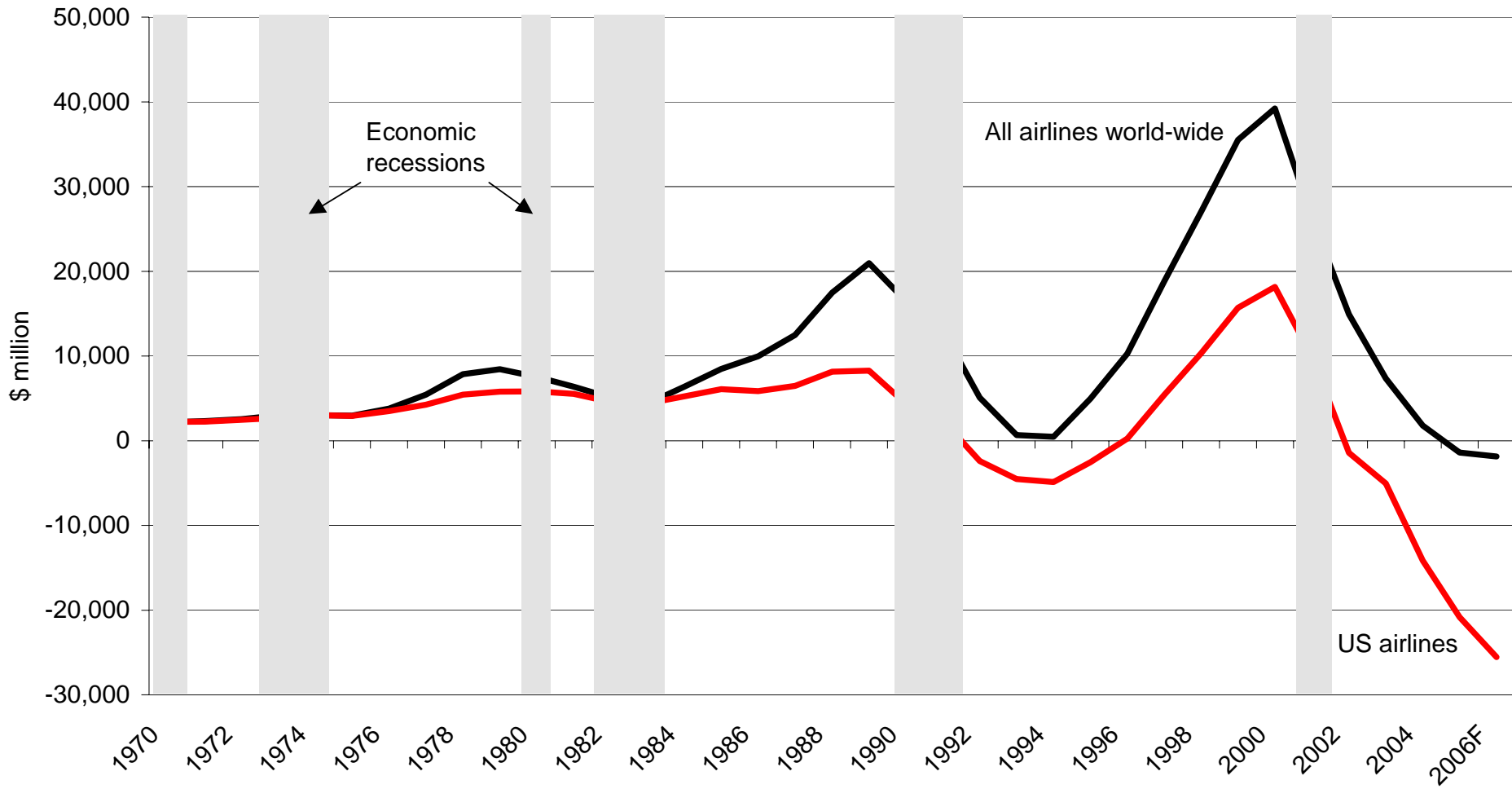


Airline profitability is improving

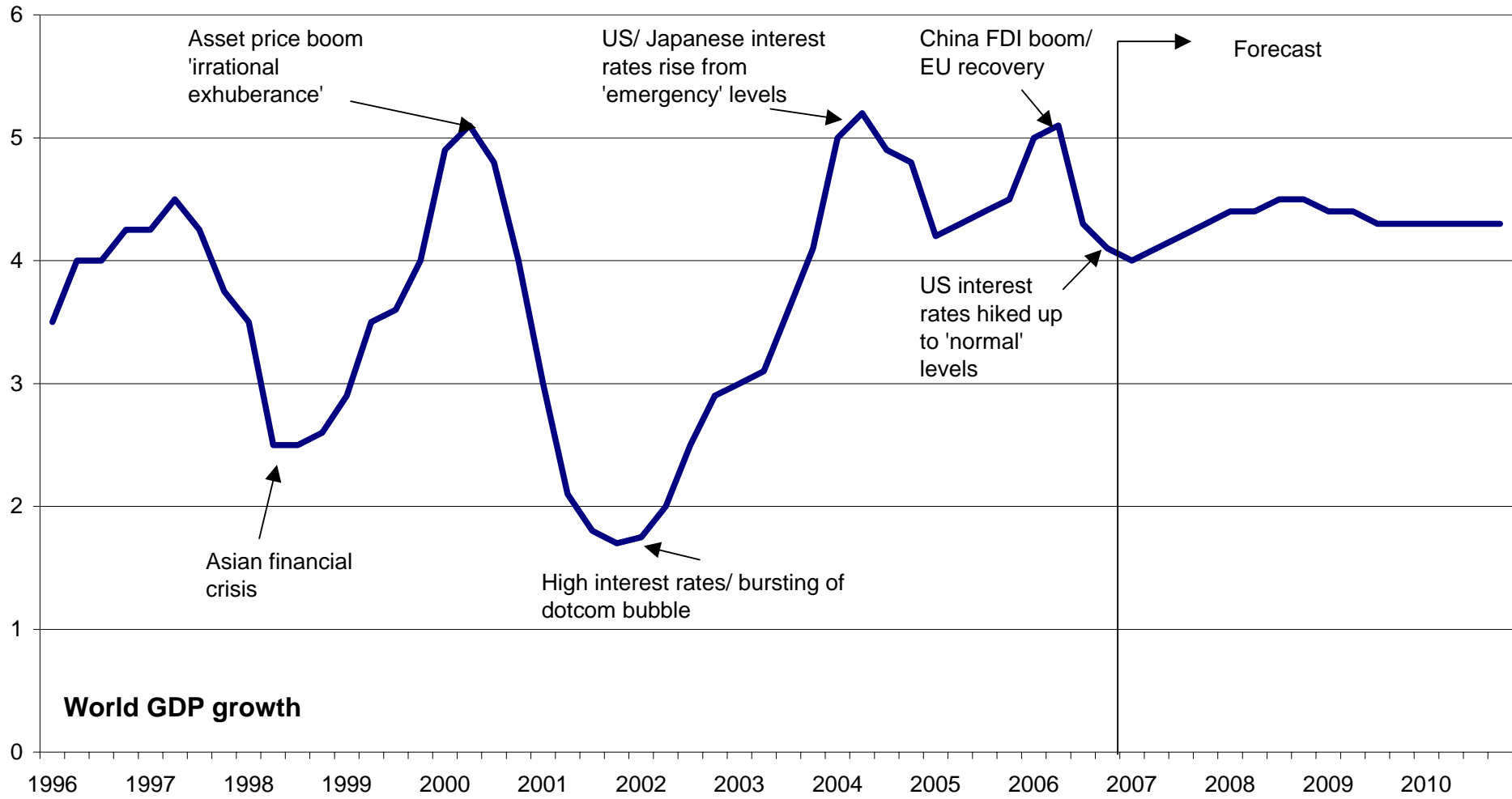


But weak balance sheets leave the industry vulnerable to shocks

Cumulated net profits

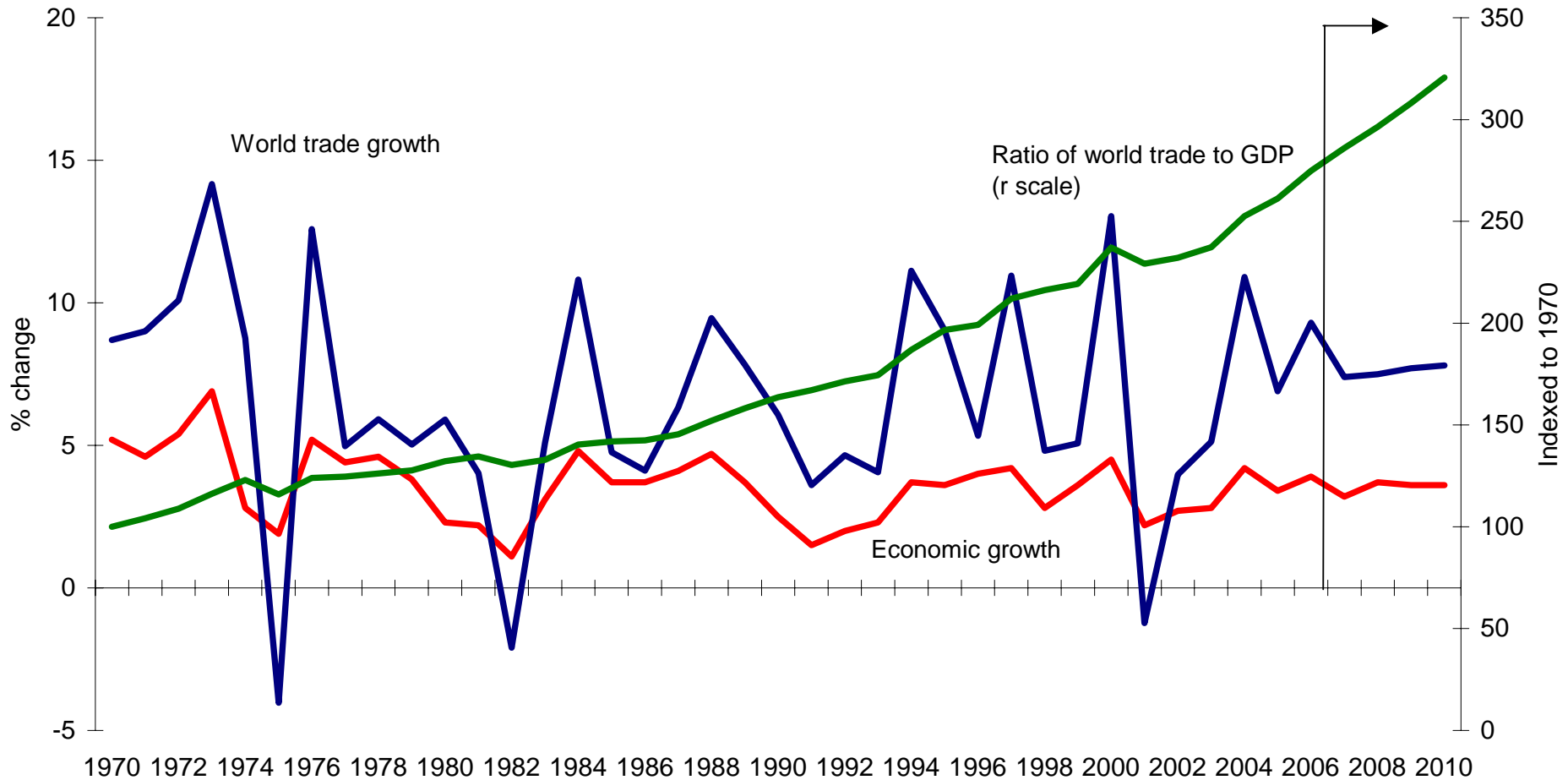


Continued strong economic growth forecast



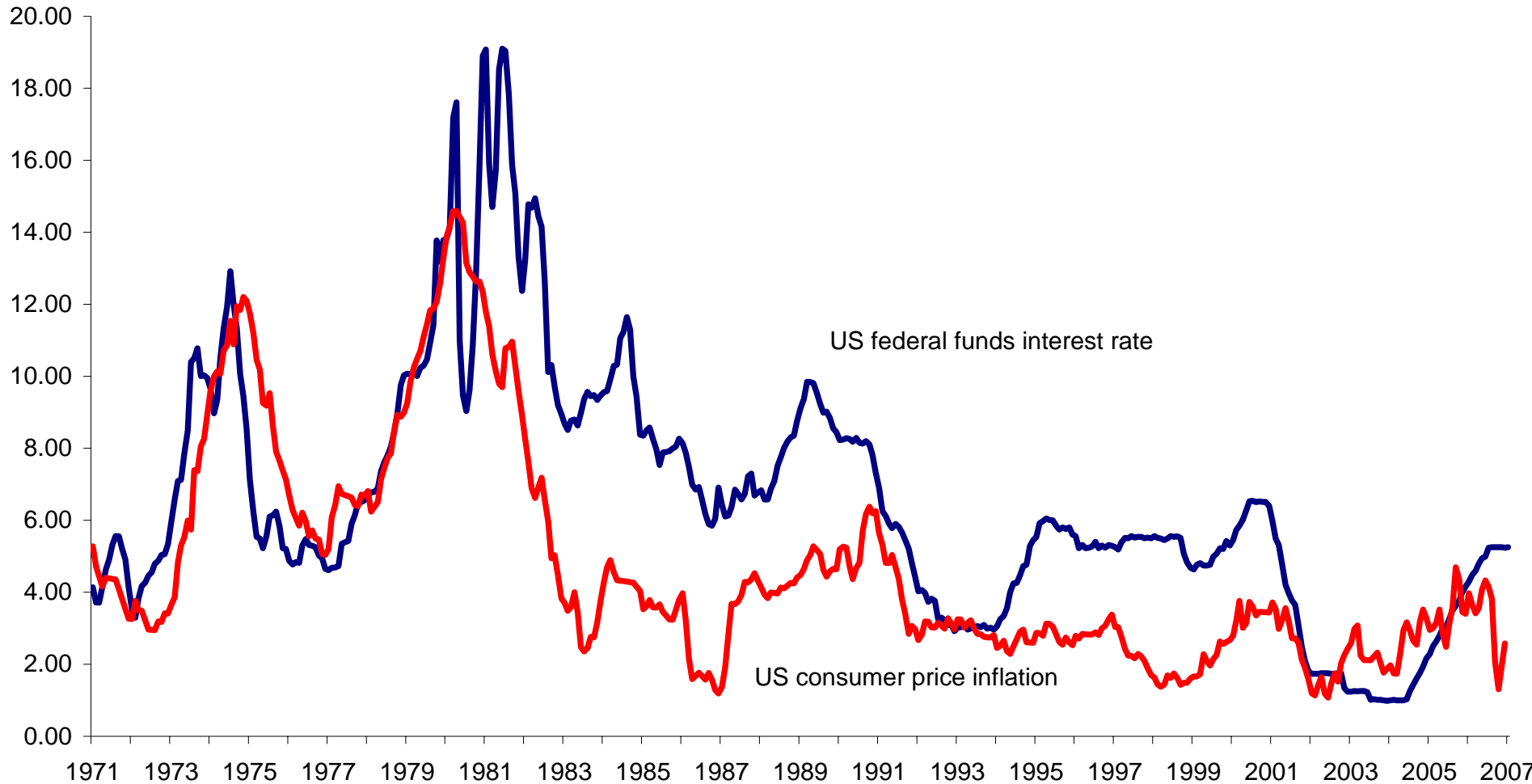
And a further expansion of globalisation

World trade and economic growth



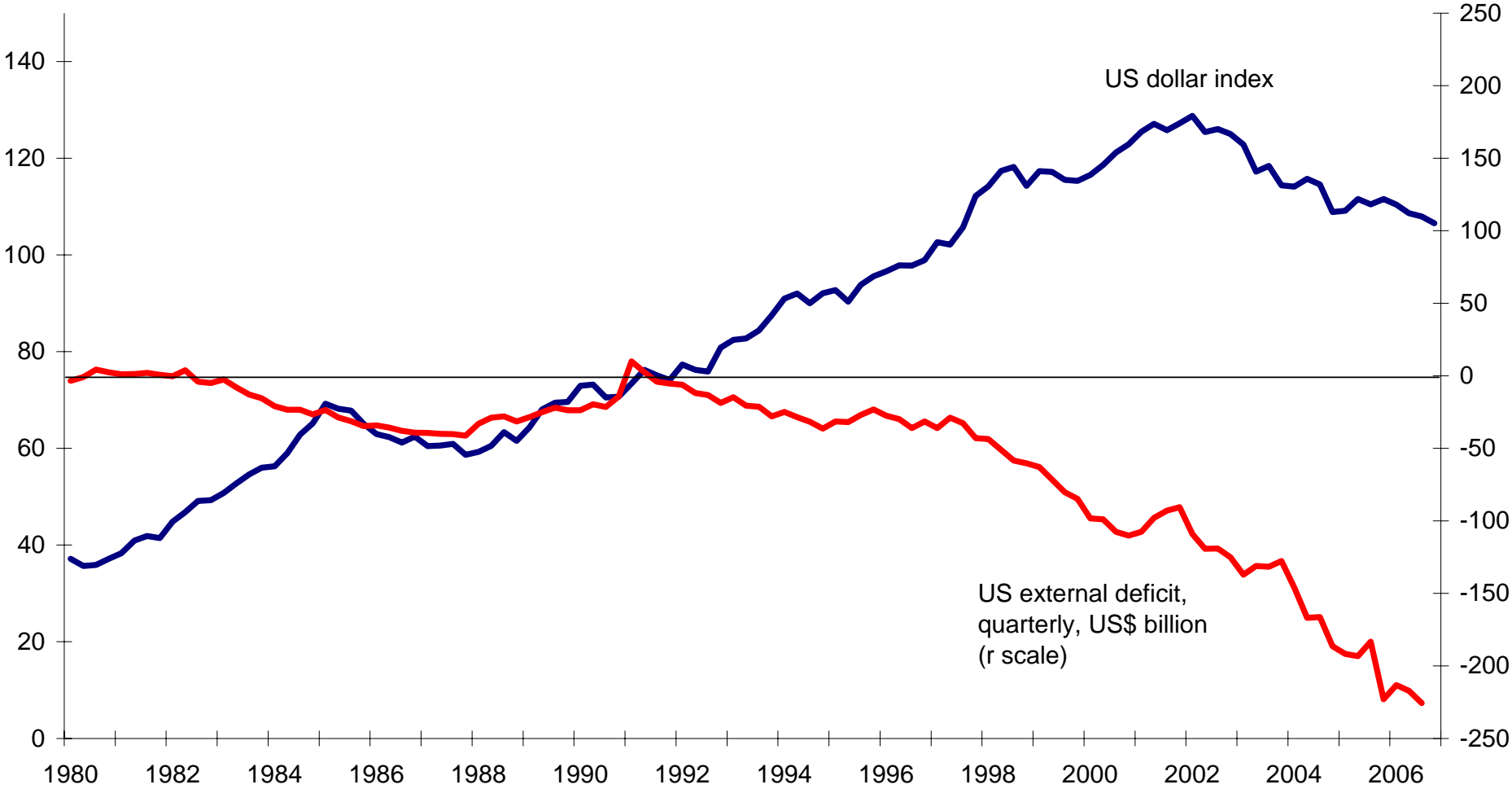
Inflation is under control in spite of oil price

US interest rates and consumer price inflation



US dollar remarkably stable given deficits

US external deficit and the dollar

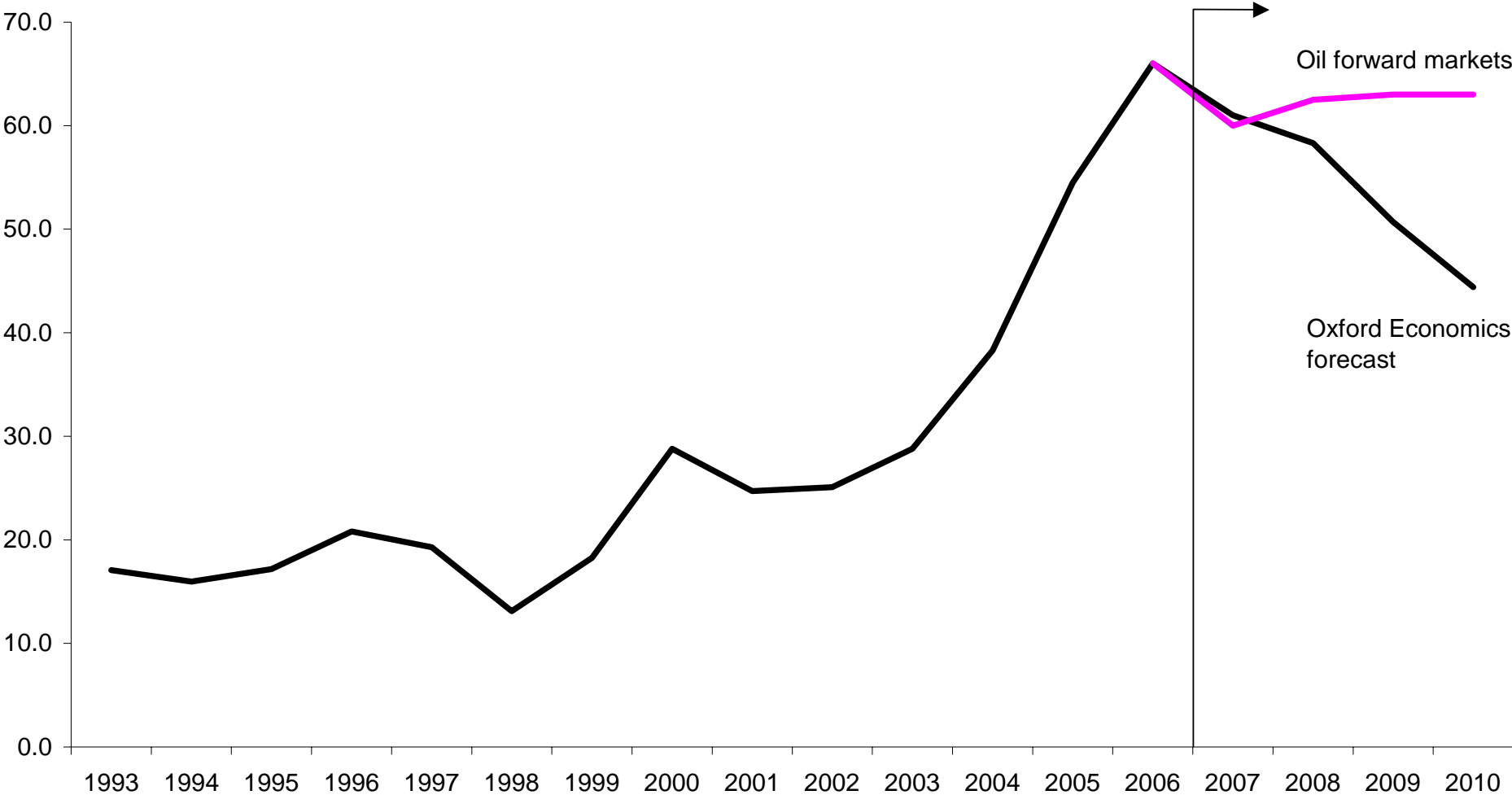


Equity markets wobbled but no crash

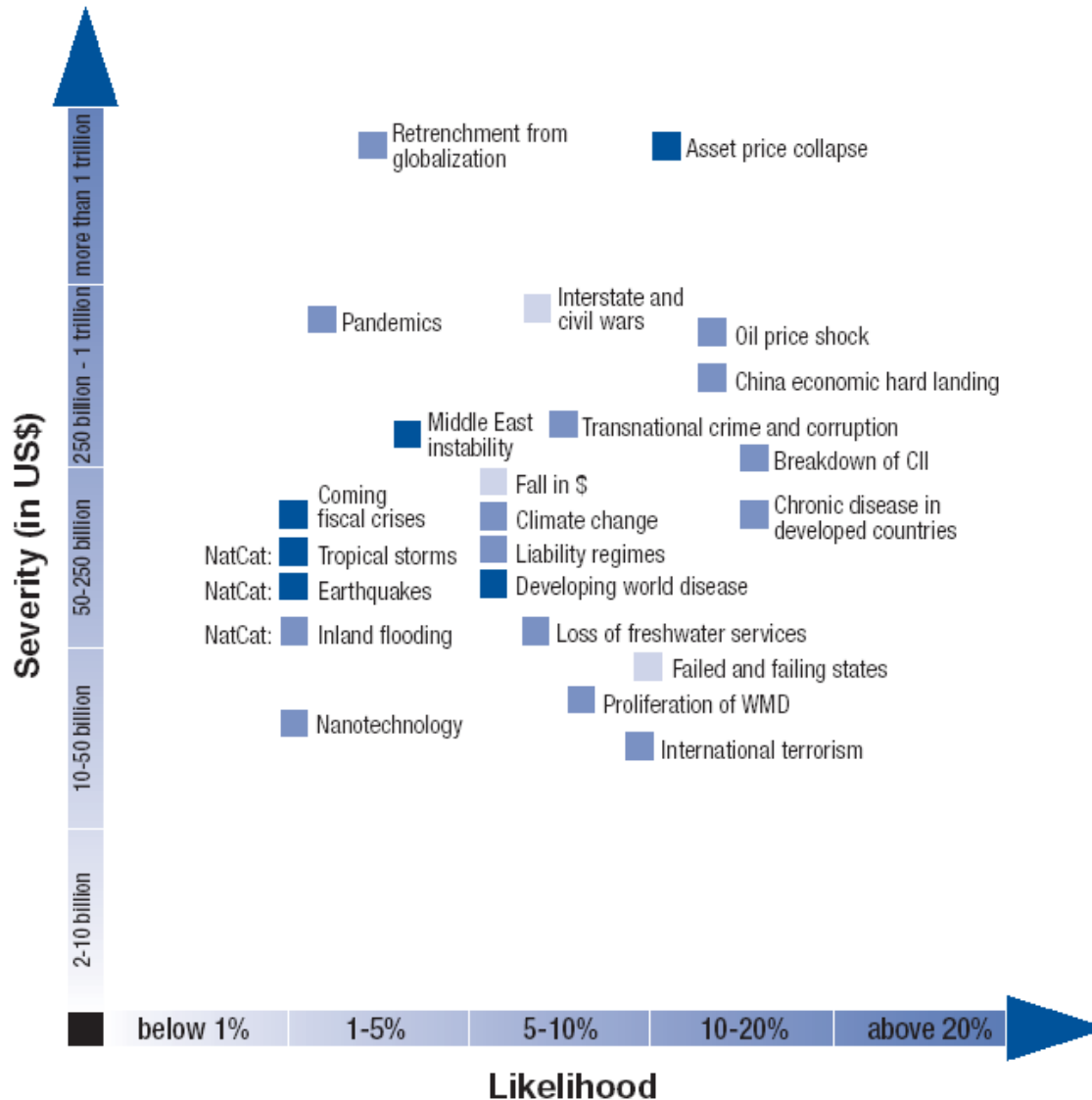


Oil prices may also be heading down

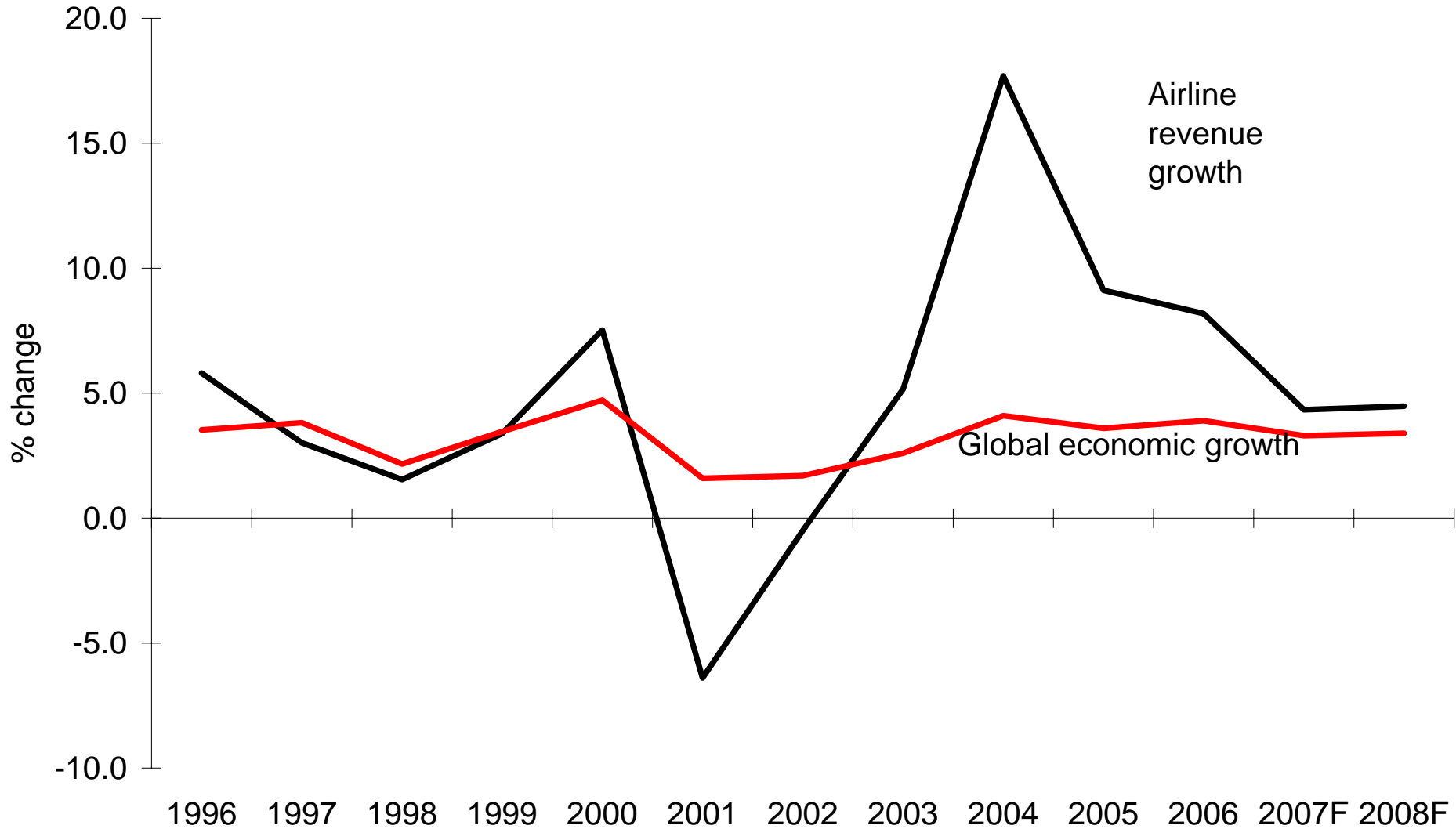
Brent oil price, annual average, \$/b



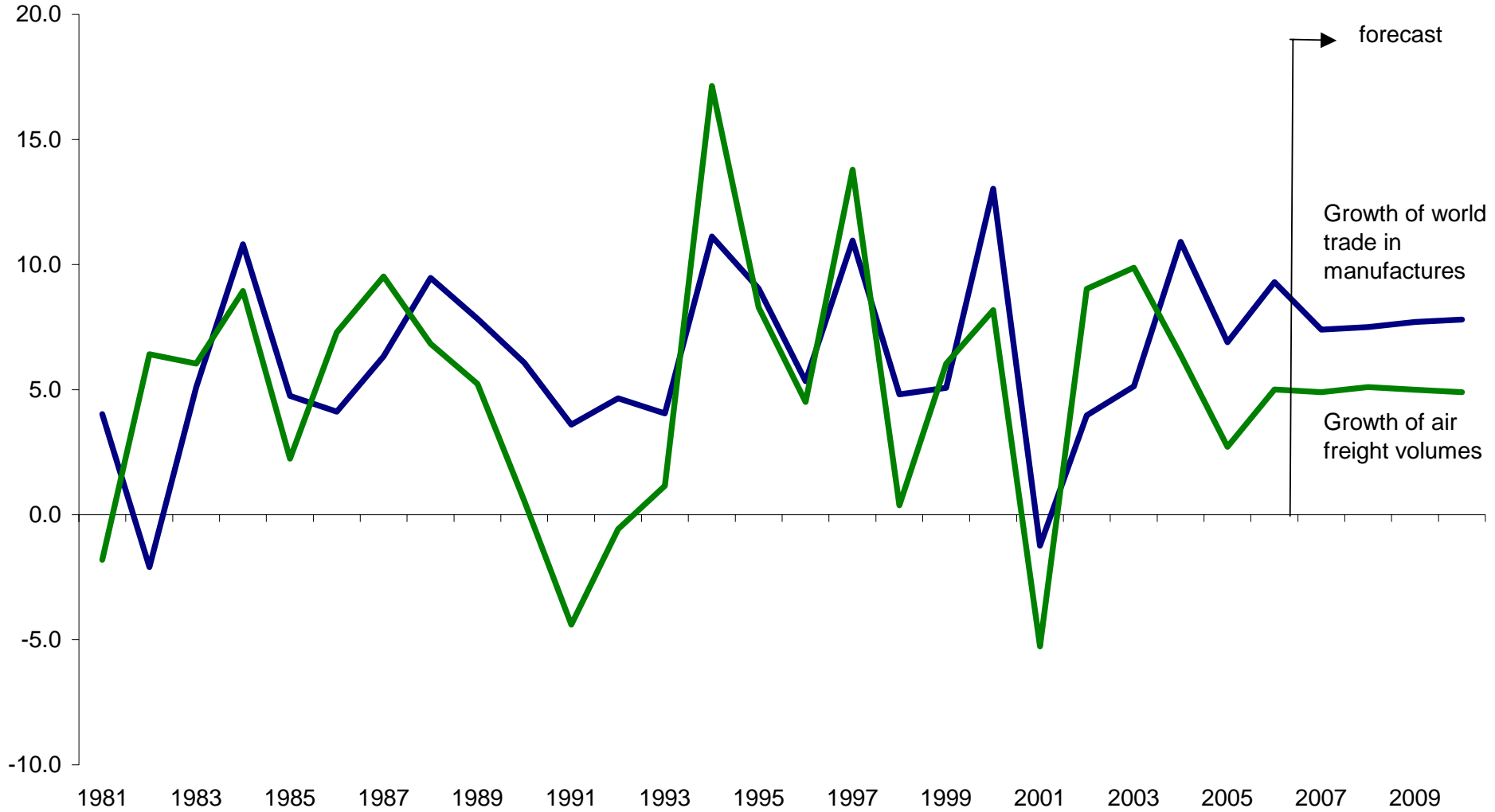
But there remain many risks



The revenue growth boom is slowing



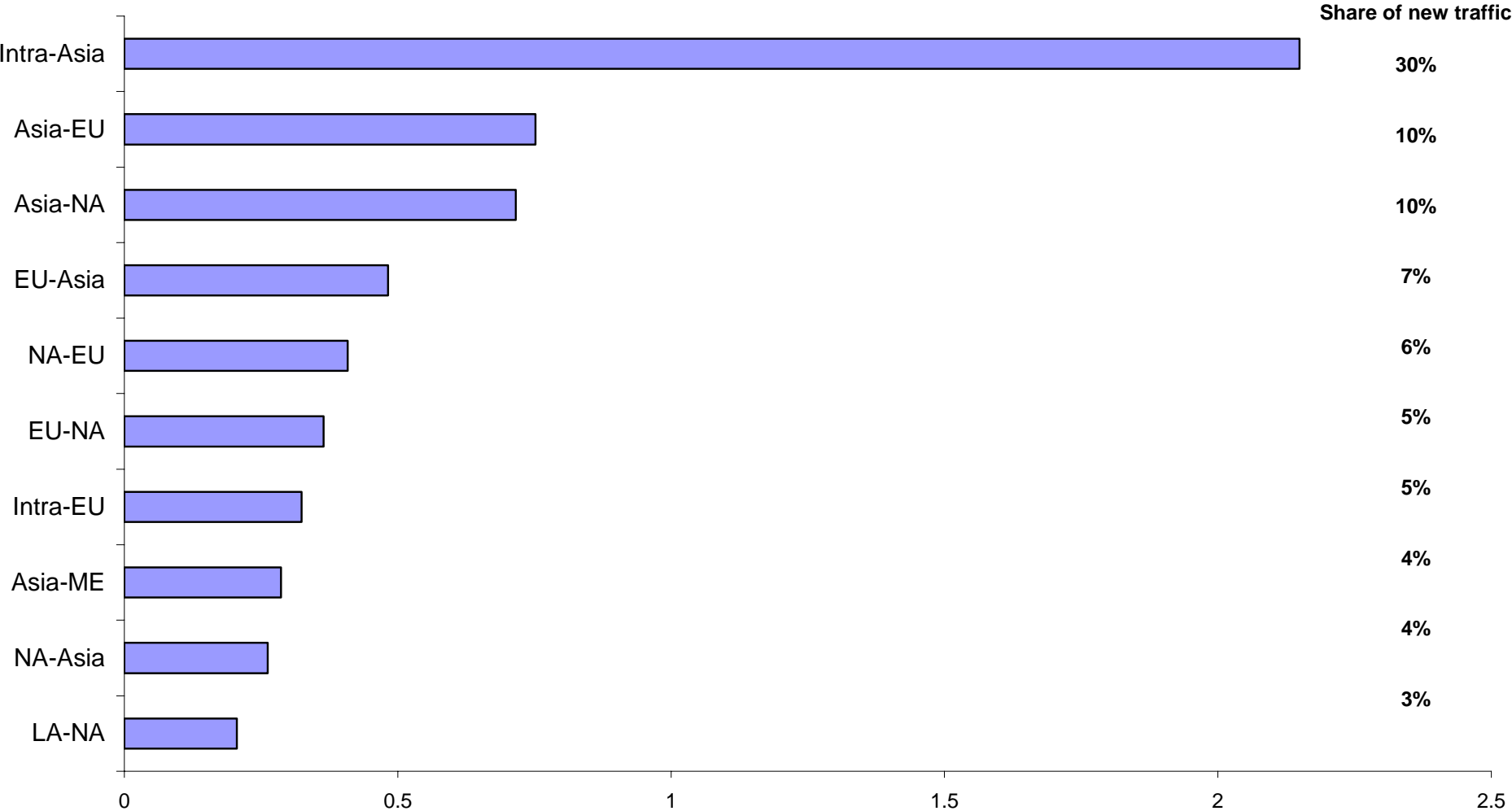
Air freight already surprisingly weak



Source: WTO, IATA Freight Forecasts 2006-2010

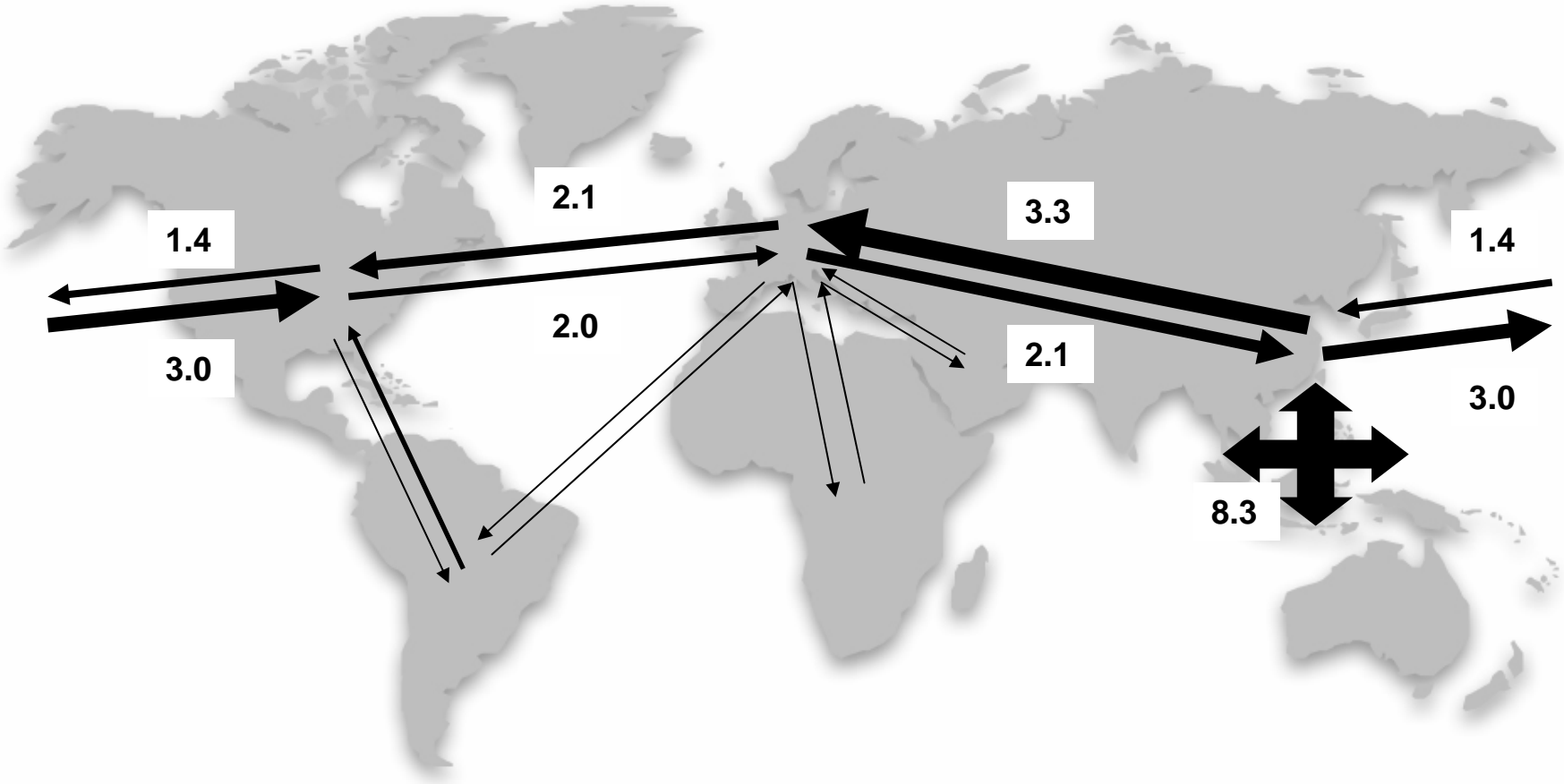
Two-thirds new freight flows to/in Asia

New international freight traffic in millions tonnes, 2005-2010



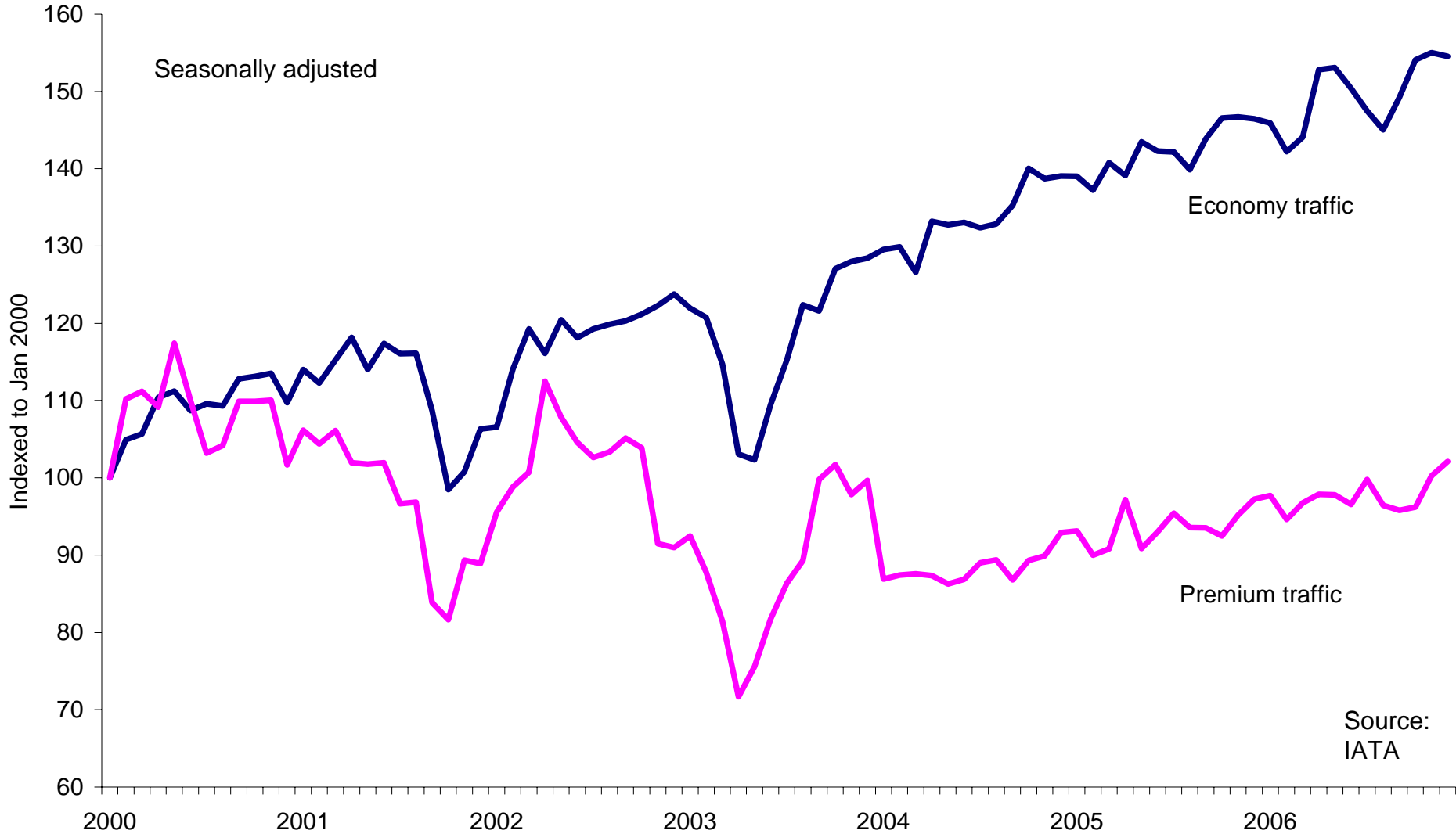
Source: IATA freight forecast 2006-2010

Major air freight flows in 2010

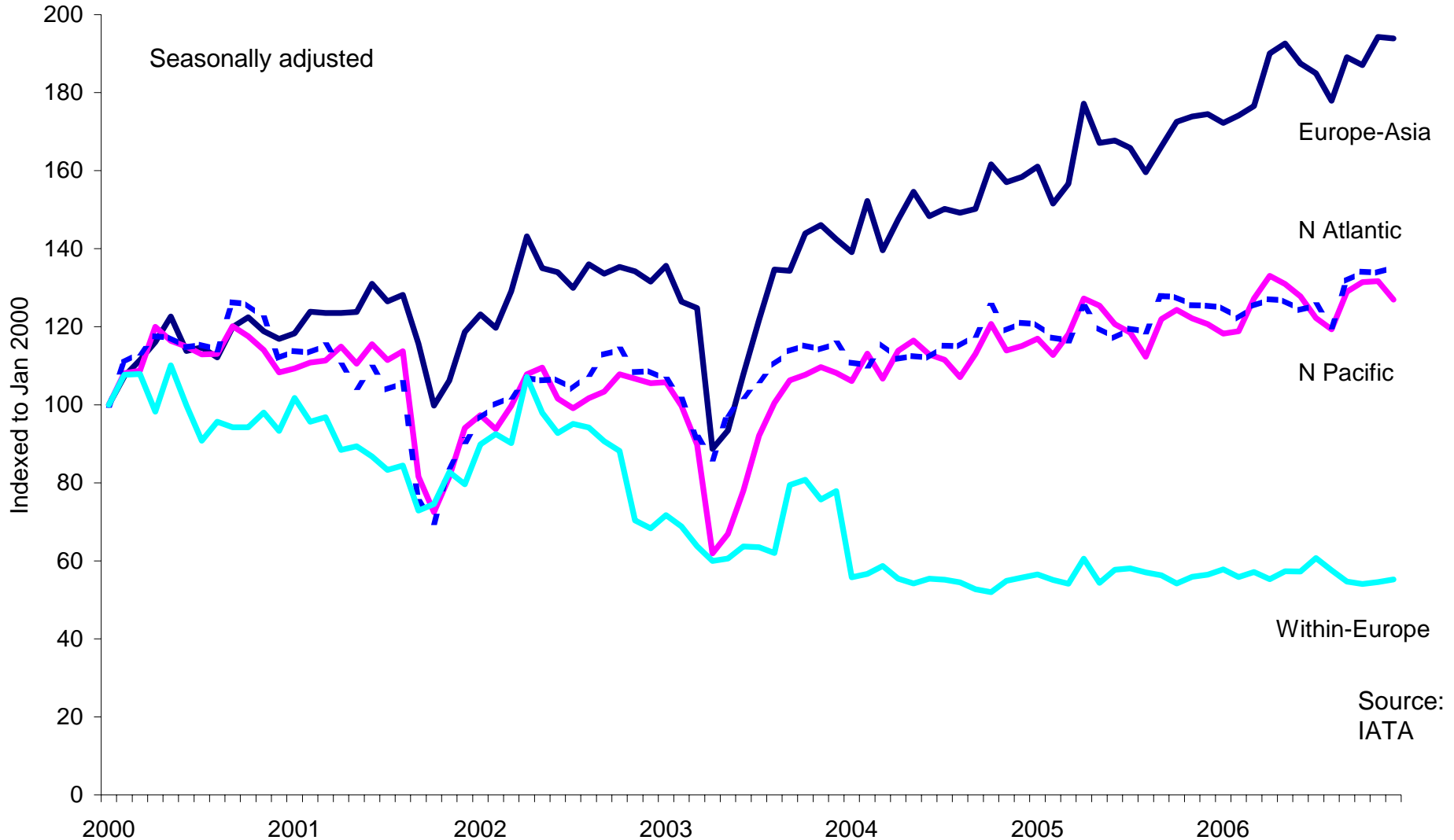


Million tonnes
Source: IATA freight forecasts 2006-2010

Most passenger growth at back-end

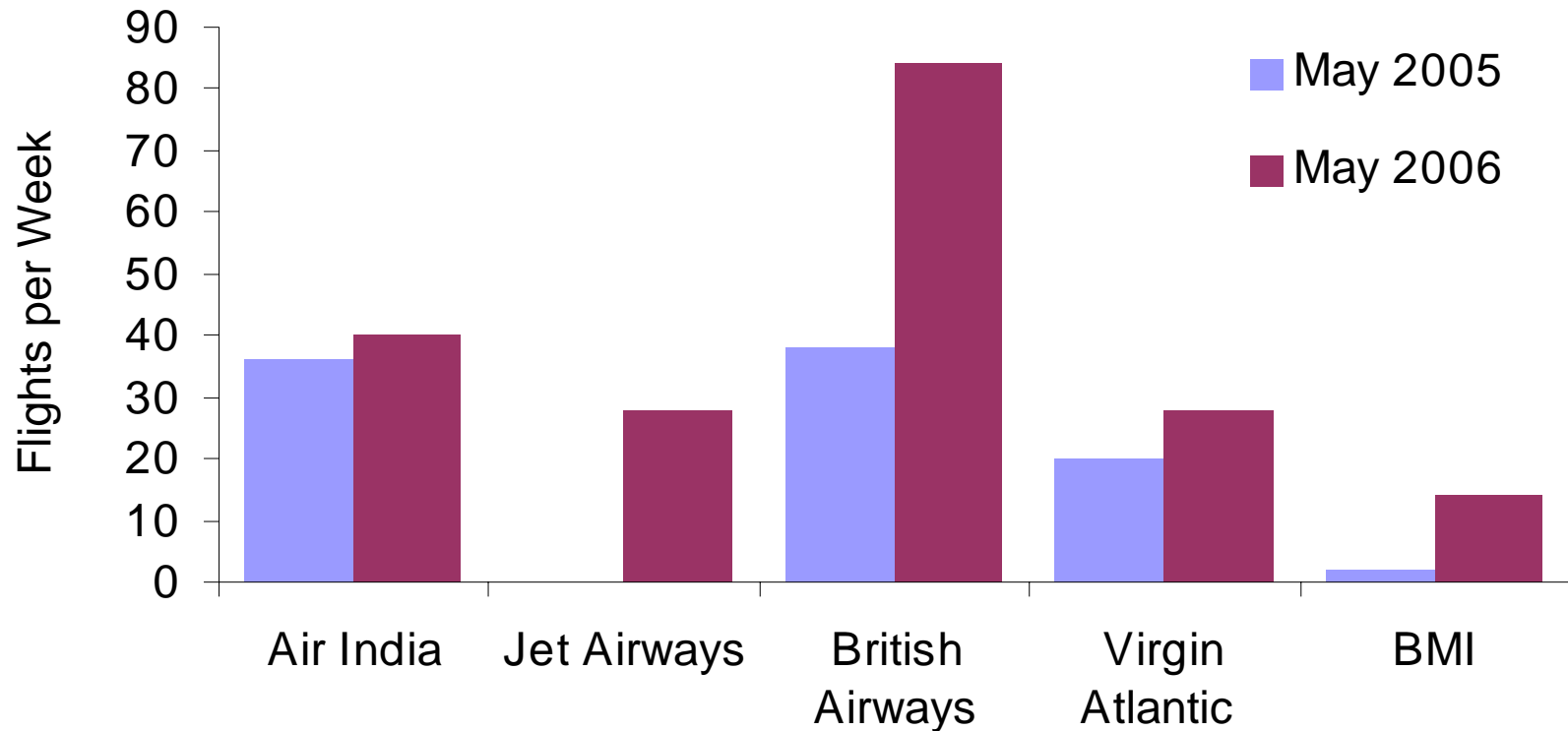


But some premium markets are booming



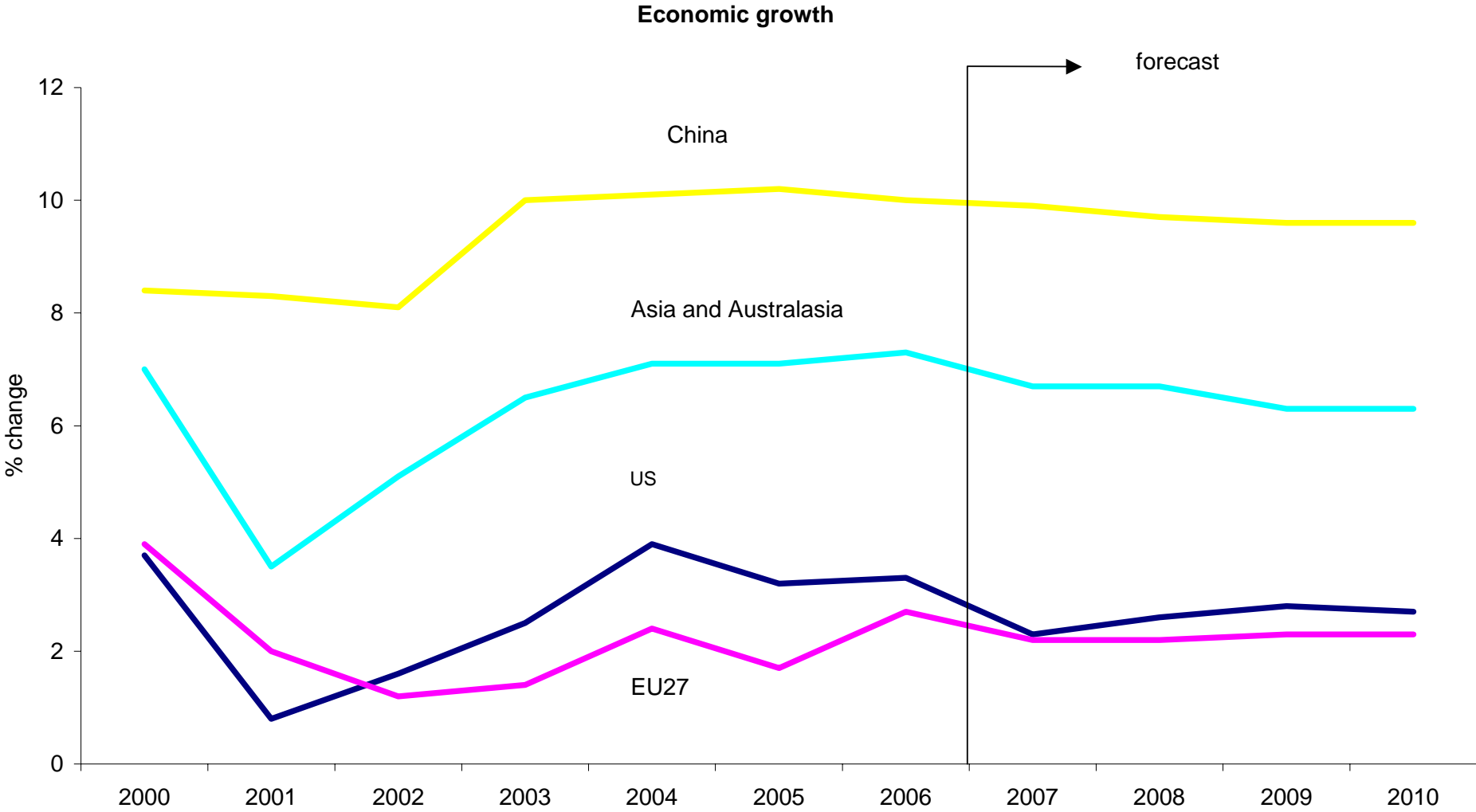
Market liberalisation major driver of traffic

Number of Flights per Week between London Heathrow and India



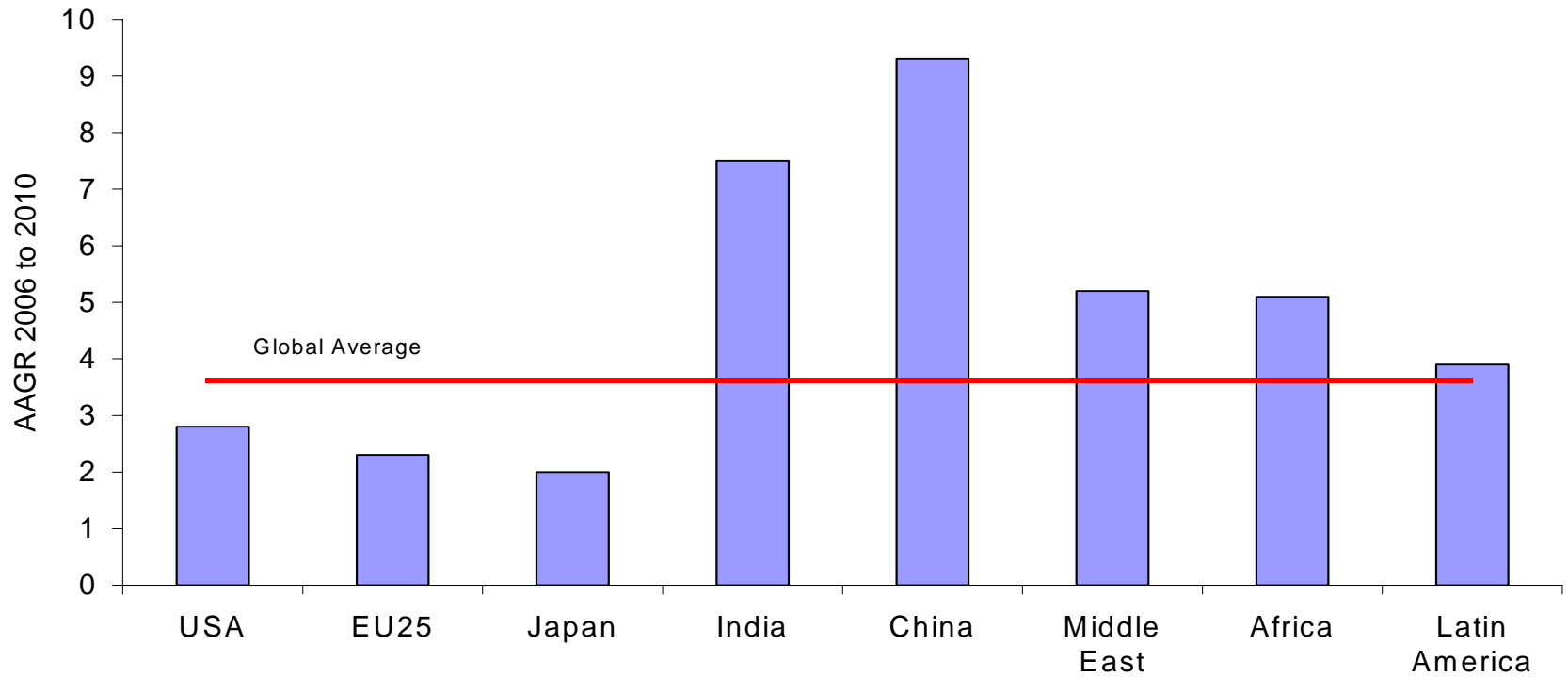
Source: SRS Analyser

And growth is structurally strong in Asia



India & China stand out as growth hotspots

Average Annual GDP Growth - 2006 to 2010

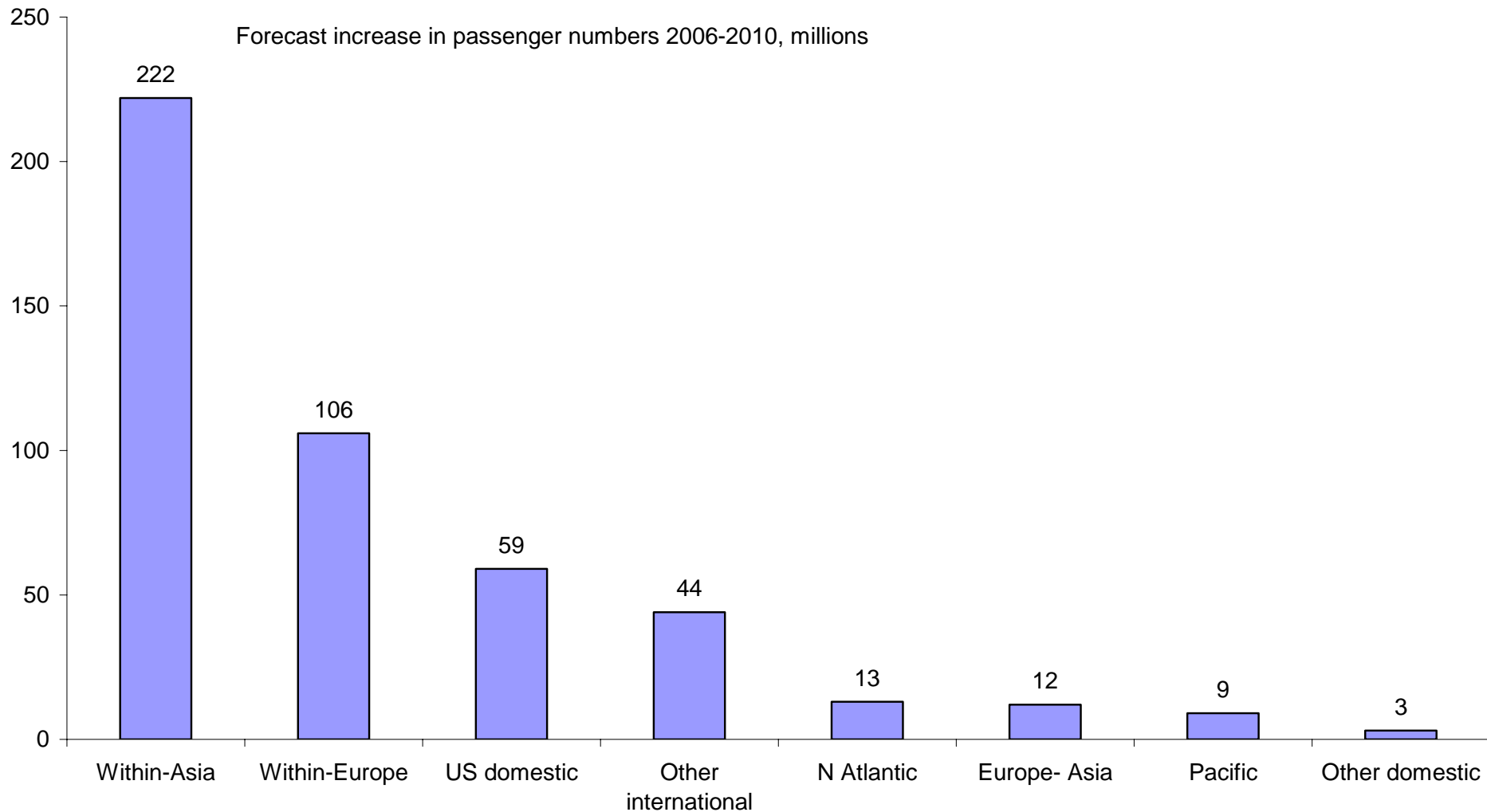


Source: EIU

However, for absolute spending power don't disregard the US or EU27

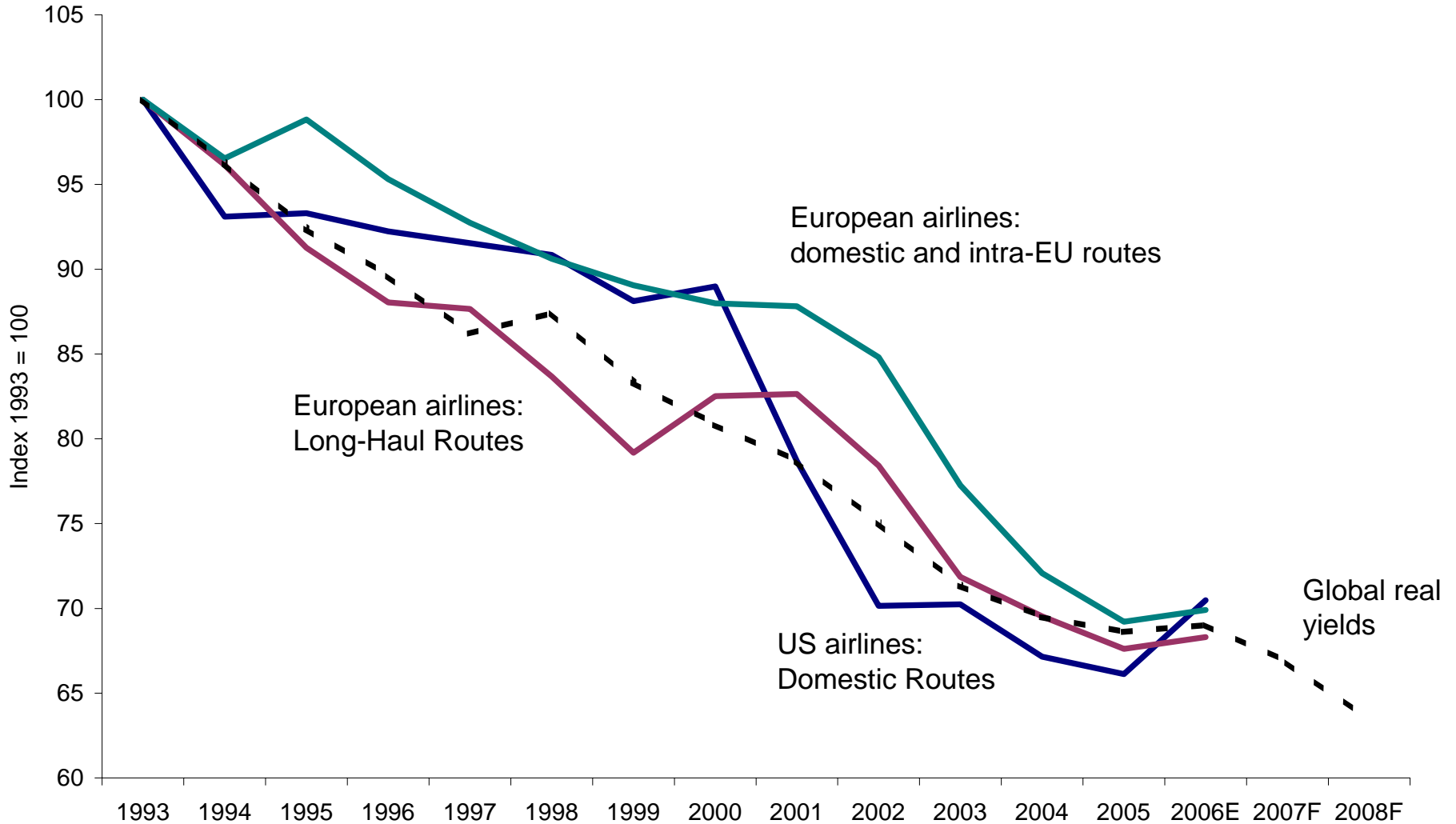
	Population	GDP per capita	GDP growth	National income growth
	Millions in 2010	\$ at PPP in 2010	%, 2006-2010 average	\$ billion, 2006-2010 average
US	311	52125	2.7	739
Japan	127	37768	1.7	181
EU27	588	31017	2.3	624
Eastern Europe (inc CIS)	323	16298	5.5	347
Latin America	575	11155	4	350
Asia (exc Japan)	3556	8302	6.5	2348
Greater China	1372	11664	8.9	1402
India	1155	5380	7.6	496
MENA	404	7668	5.5	206

Most growth within-Asia but EU/US solid



Source: IATA BIS Passenger Forecasts 2006-2010

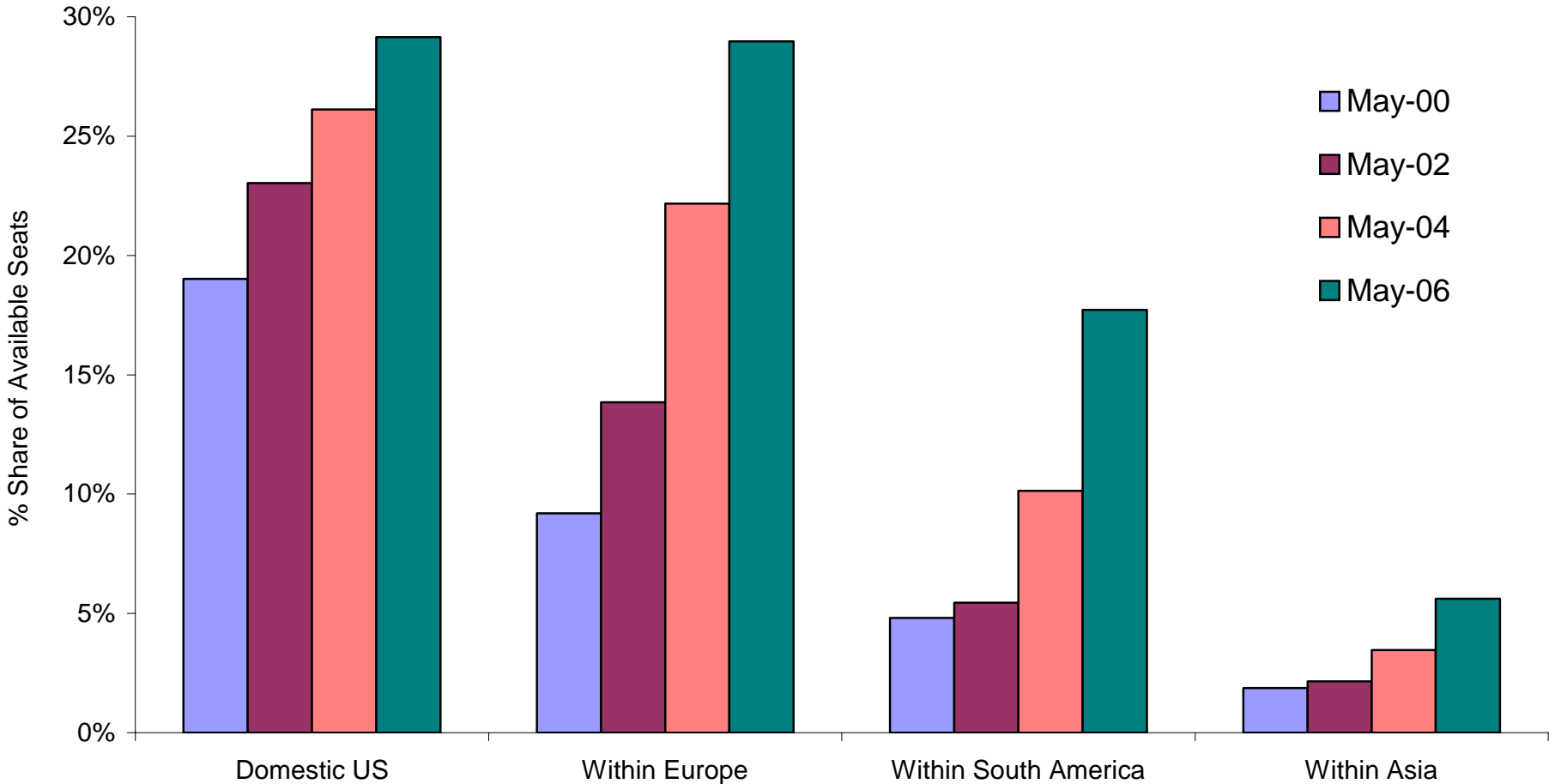
In real terms yields weak across markets



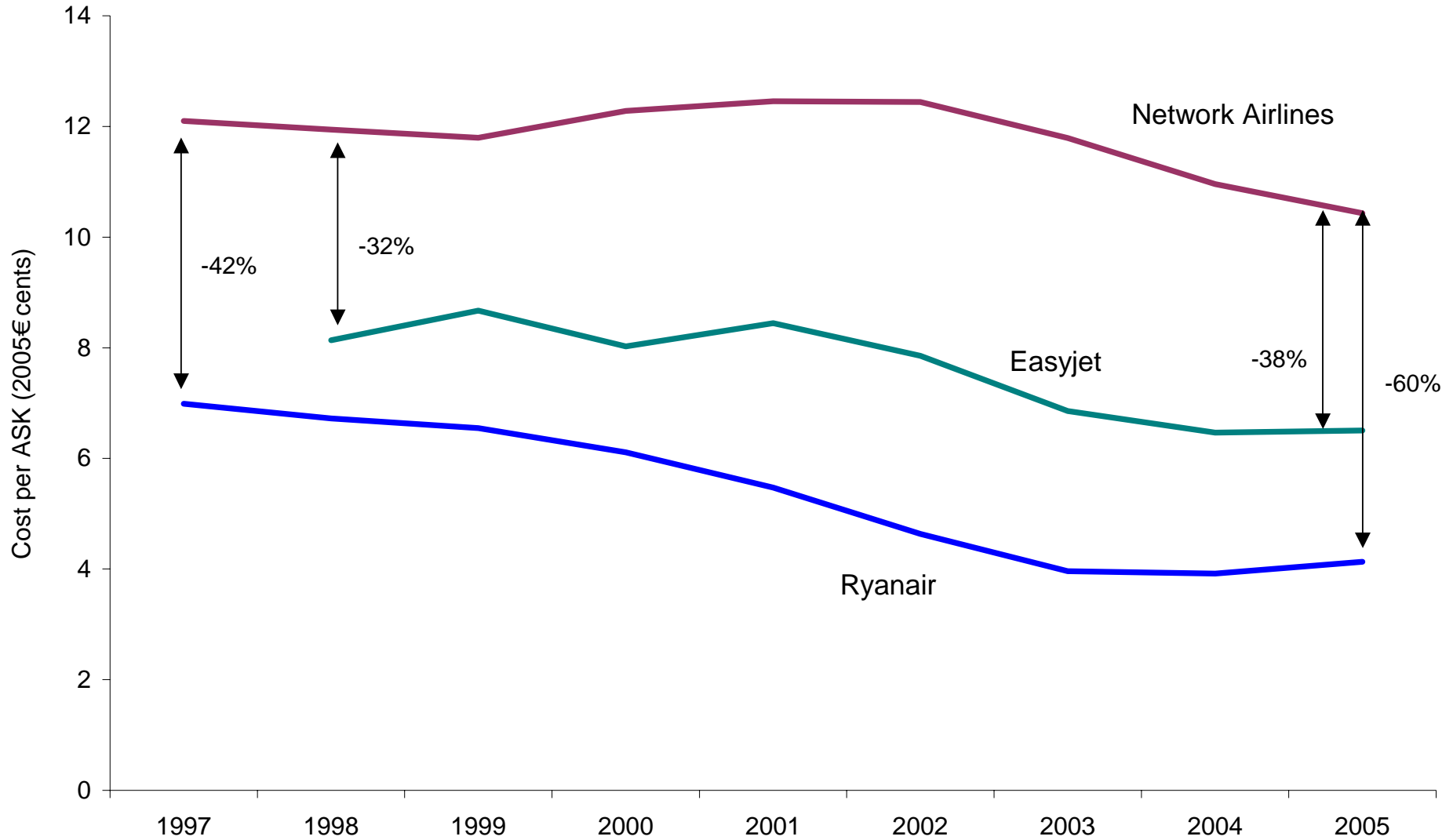
Source: AEA,
ATA, IATA
estimates

New entrants taking an increasing share

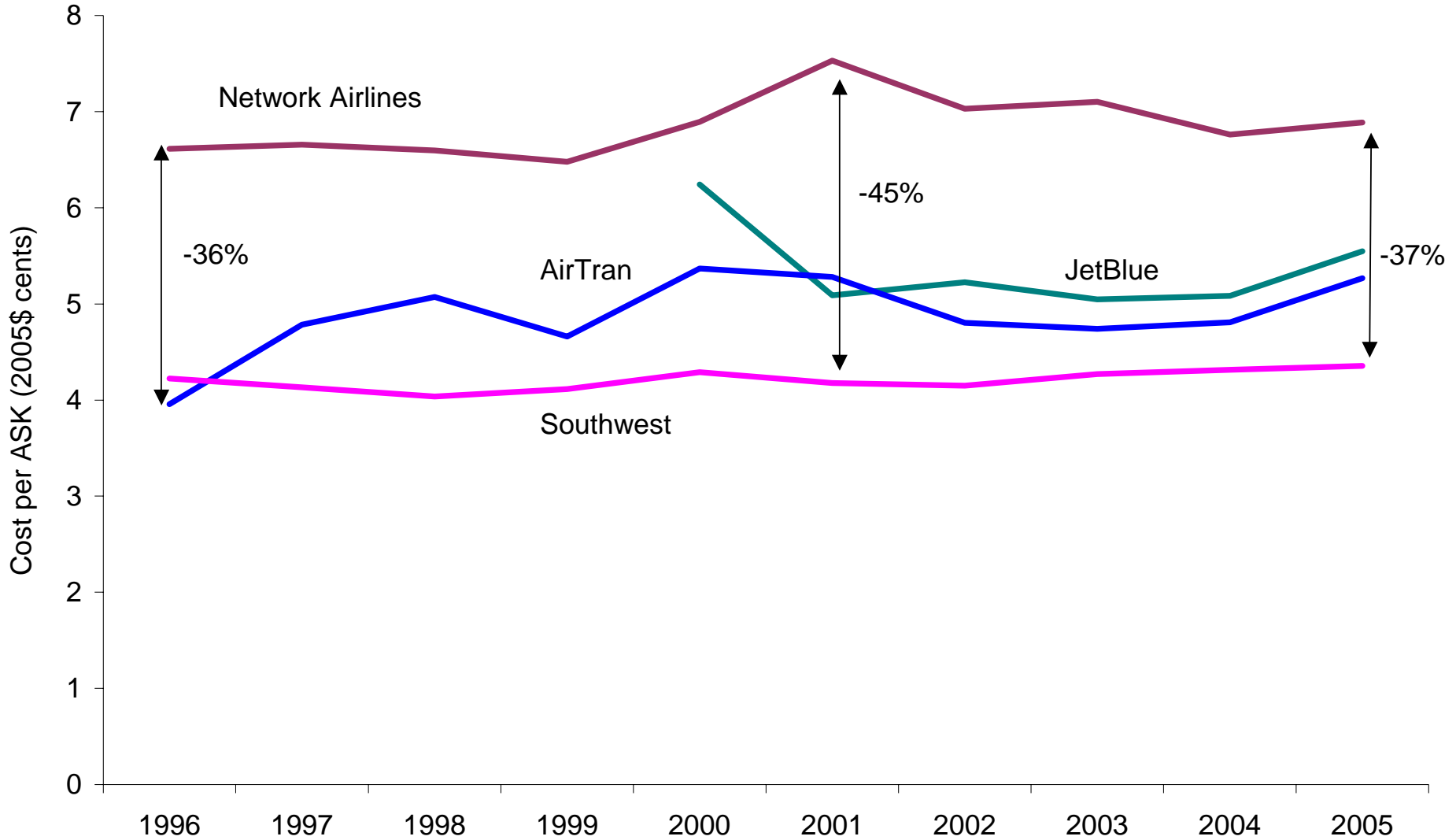
% short-haul seats provide by 'LCCs'



Network airlines have cut costs significantly



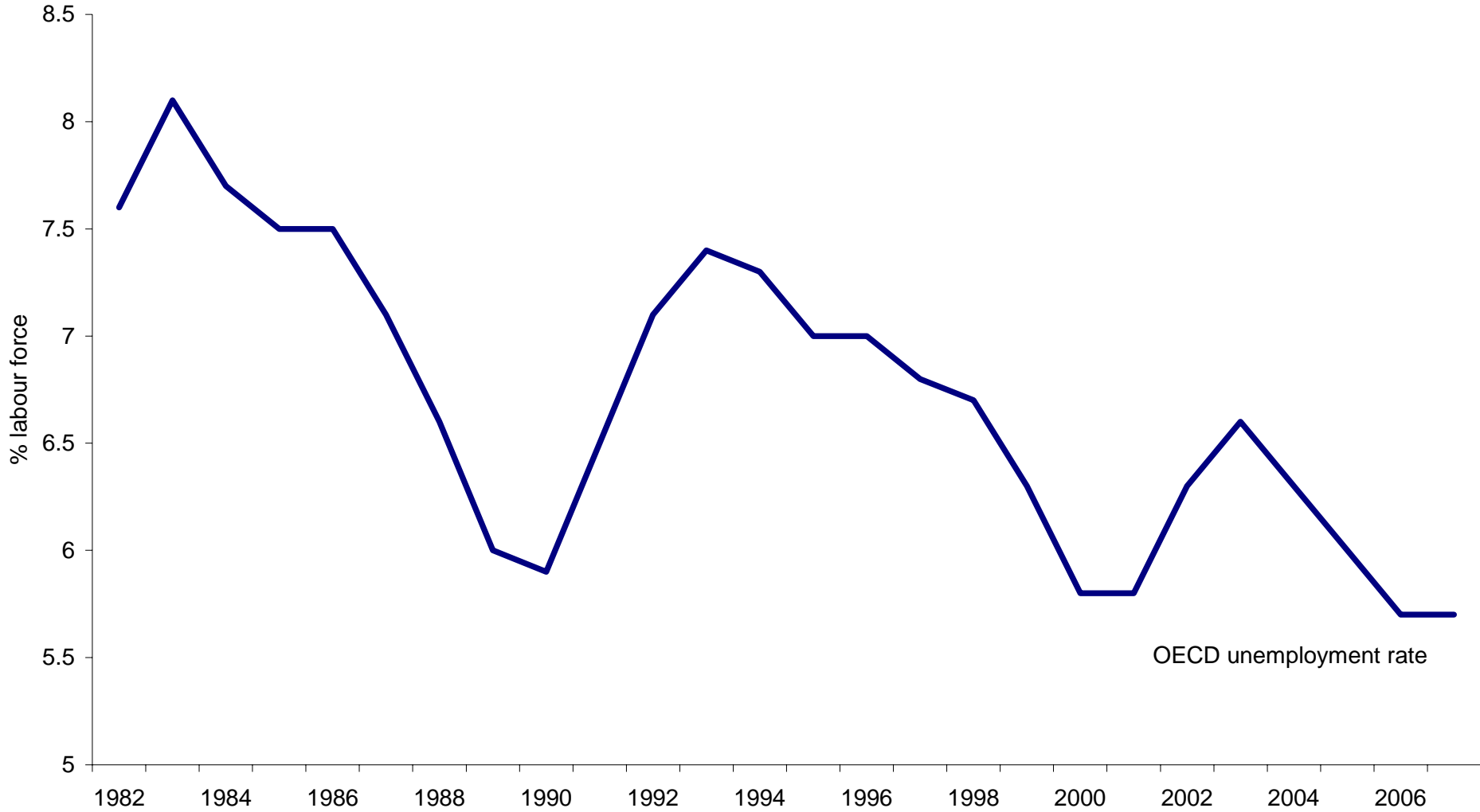
Particularly in Europe but also in the US



But cost pressures starting to emerge despite continuing airline efficiency gains



Wage pressure and labour shortages rising



And governments have large budget deficits to close



Still a way to go before returns match costs

