



# Industry Outlook

June 2007



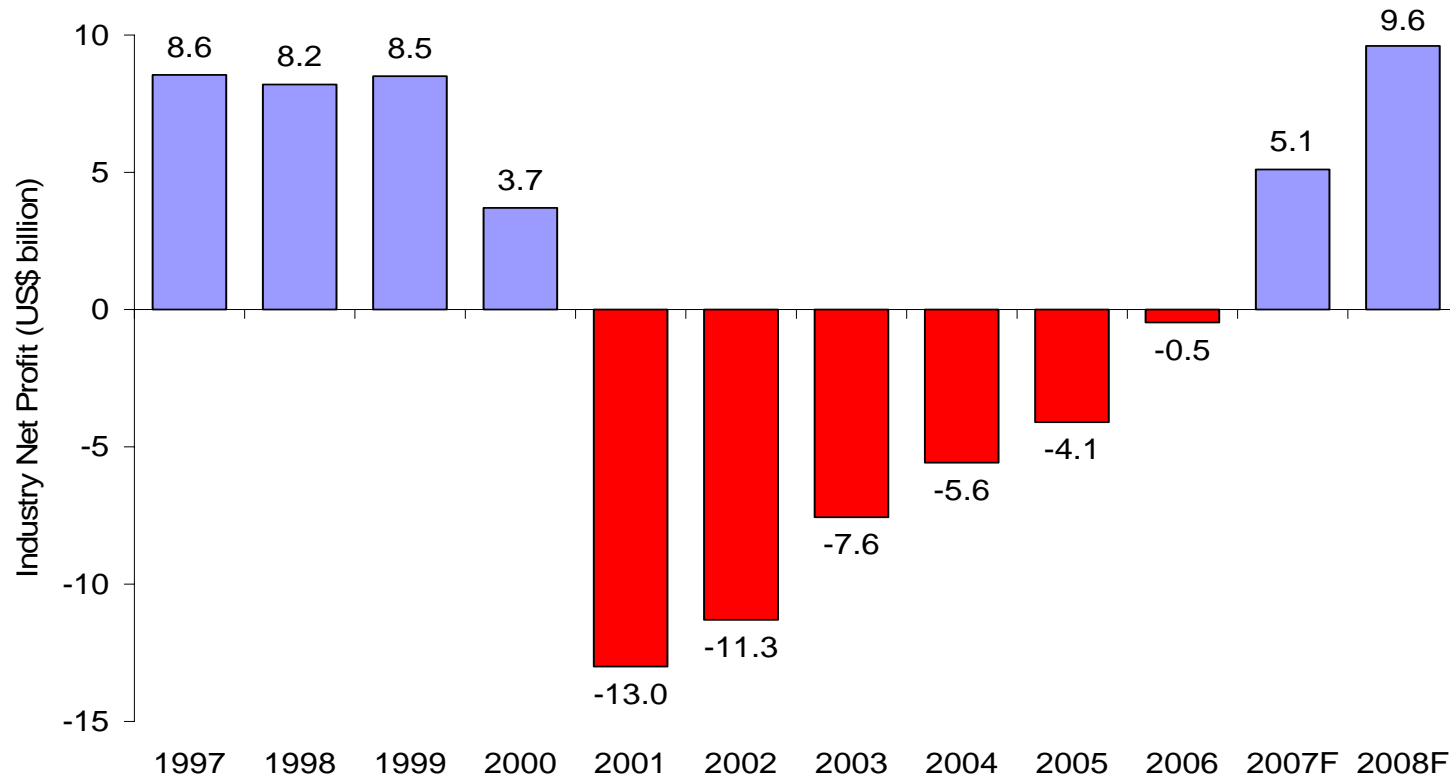
To represent, lead and serve the airline industry





# A Profitable Industry Again

Revenue growth and cost-efficiencies offsetting high fuel prices

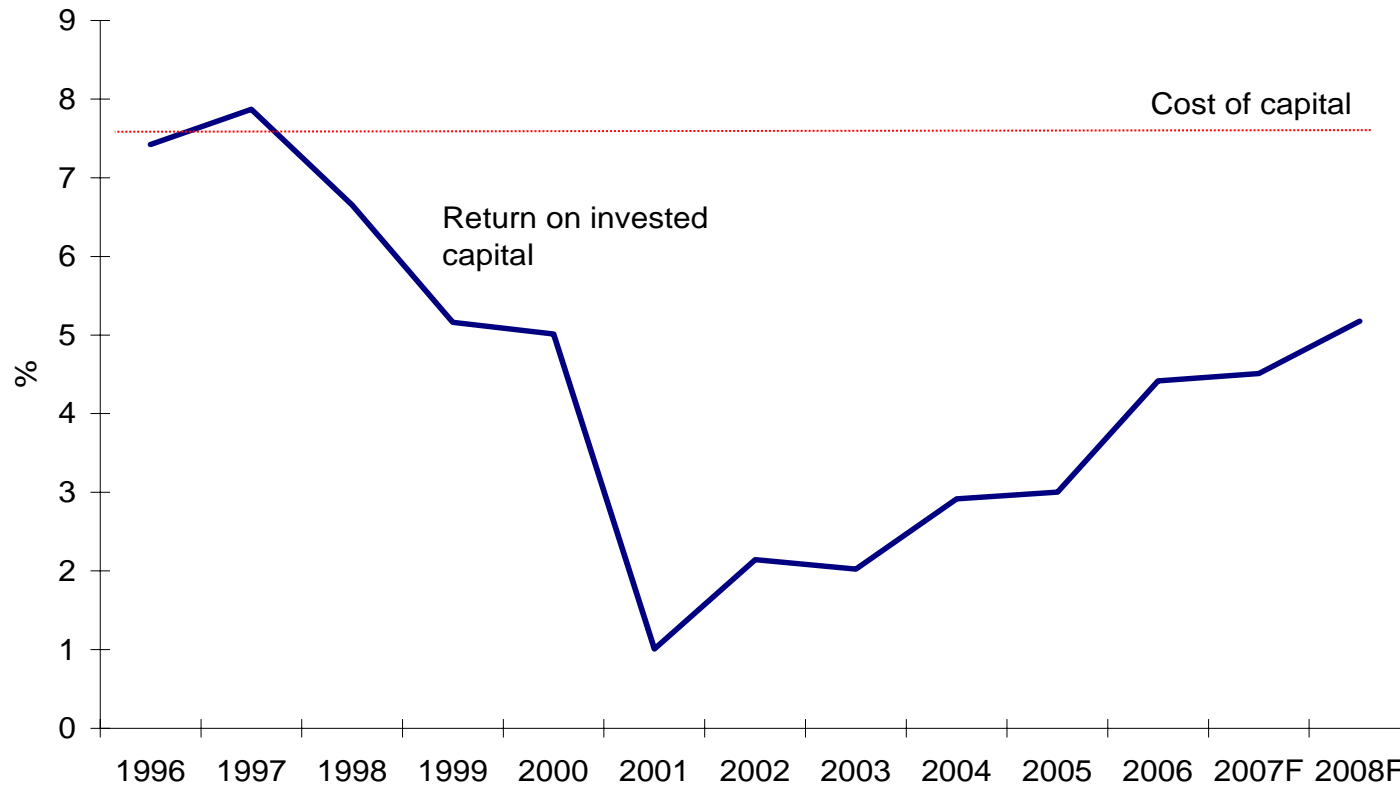


Source:  
ICAO, IATA



## But there is still a shortfall in returns

Airlines still struggle to recover their cost of capital



Source: IATA



# Revenue growth has peaked

Robust but slower revenue growth expected in 2007 and 2008

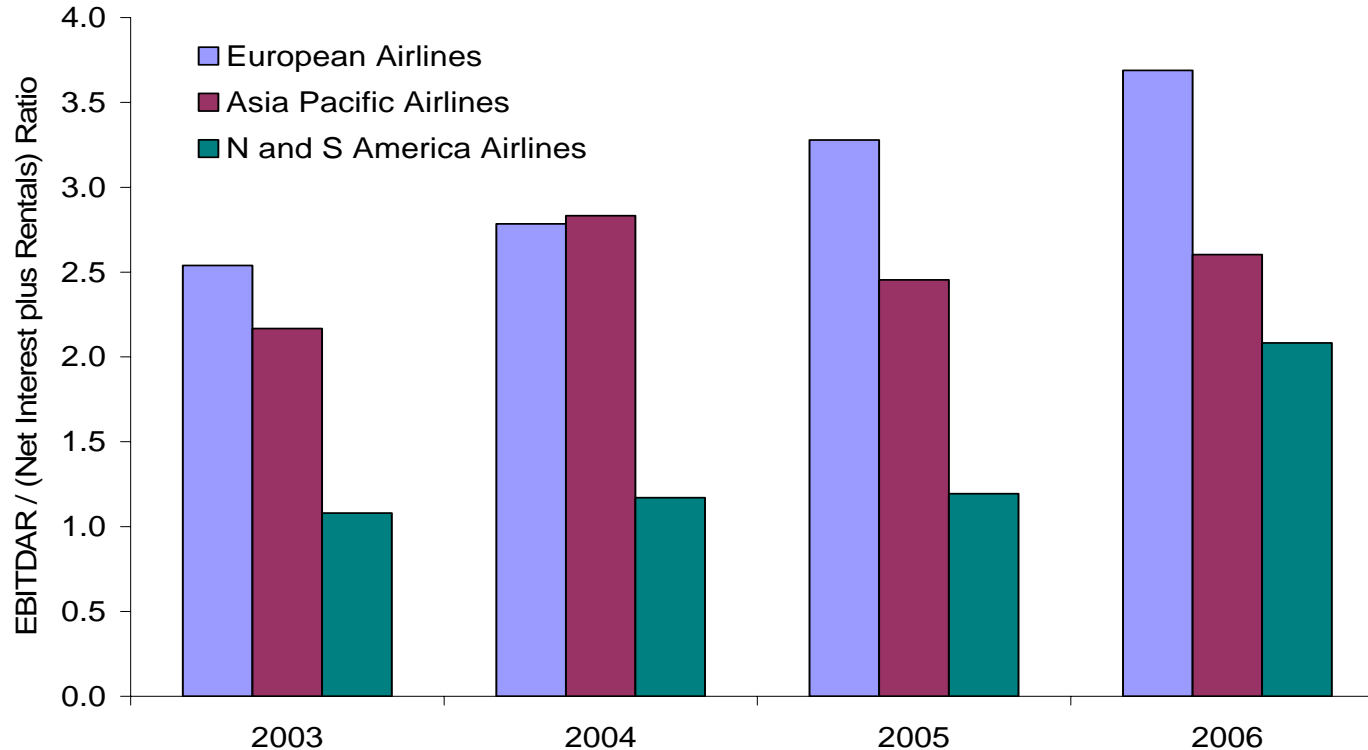


Source:  
EIU, IATA



## But balance sheets have improved

Financial and cash-flow ratios are healthier

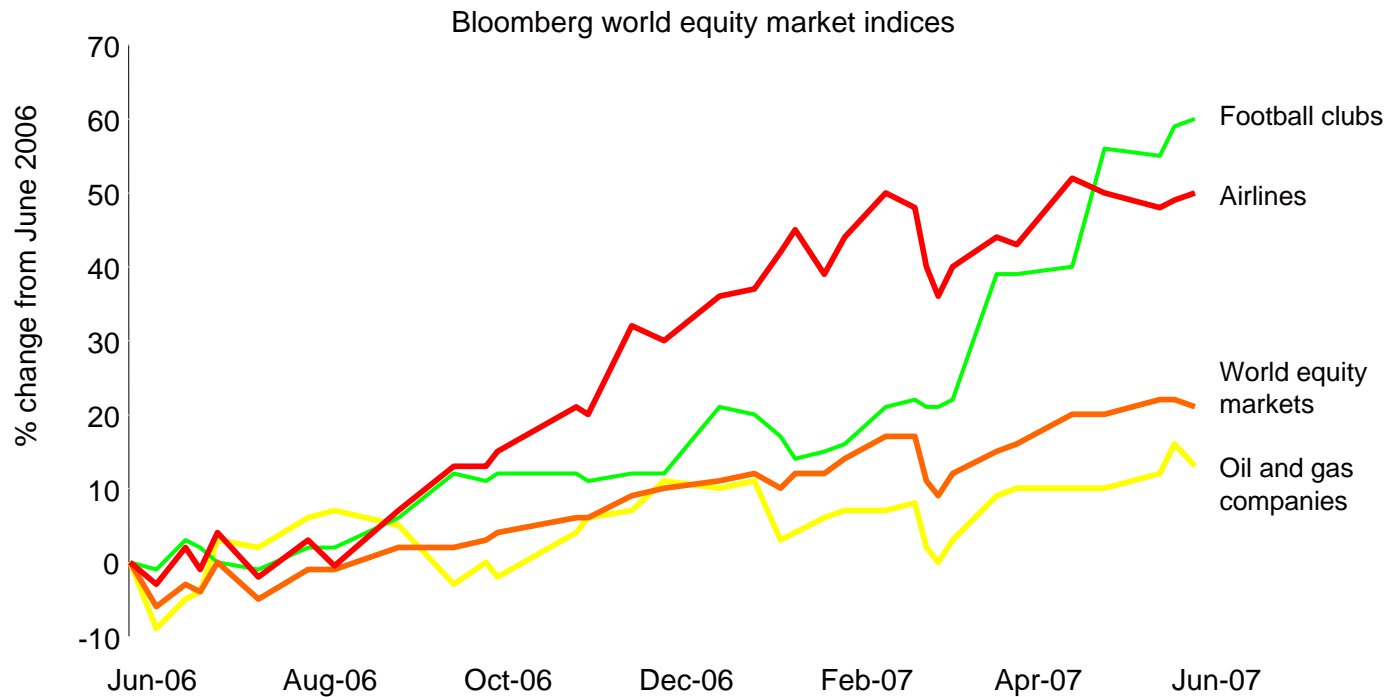


Source:  
UBS, IATA



# Investors are bullish

Airline stocks have grown faster than the market average

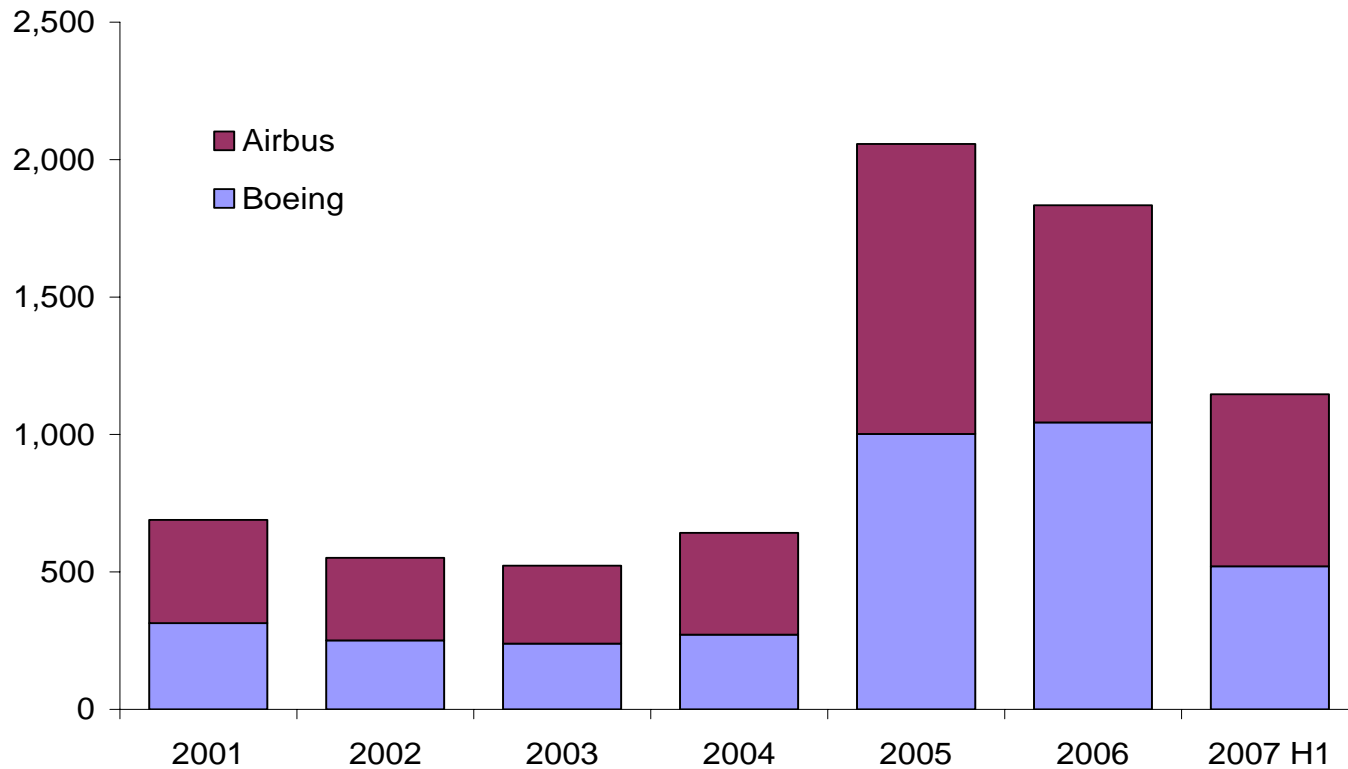


Source:  
Bloomberg



## And airlines are too

New aircraft orders remain high

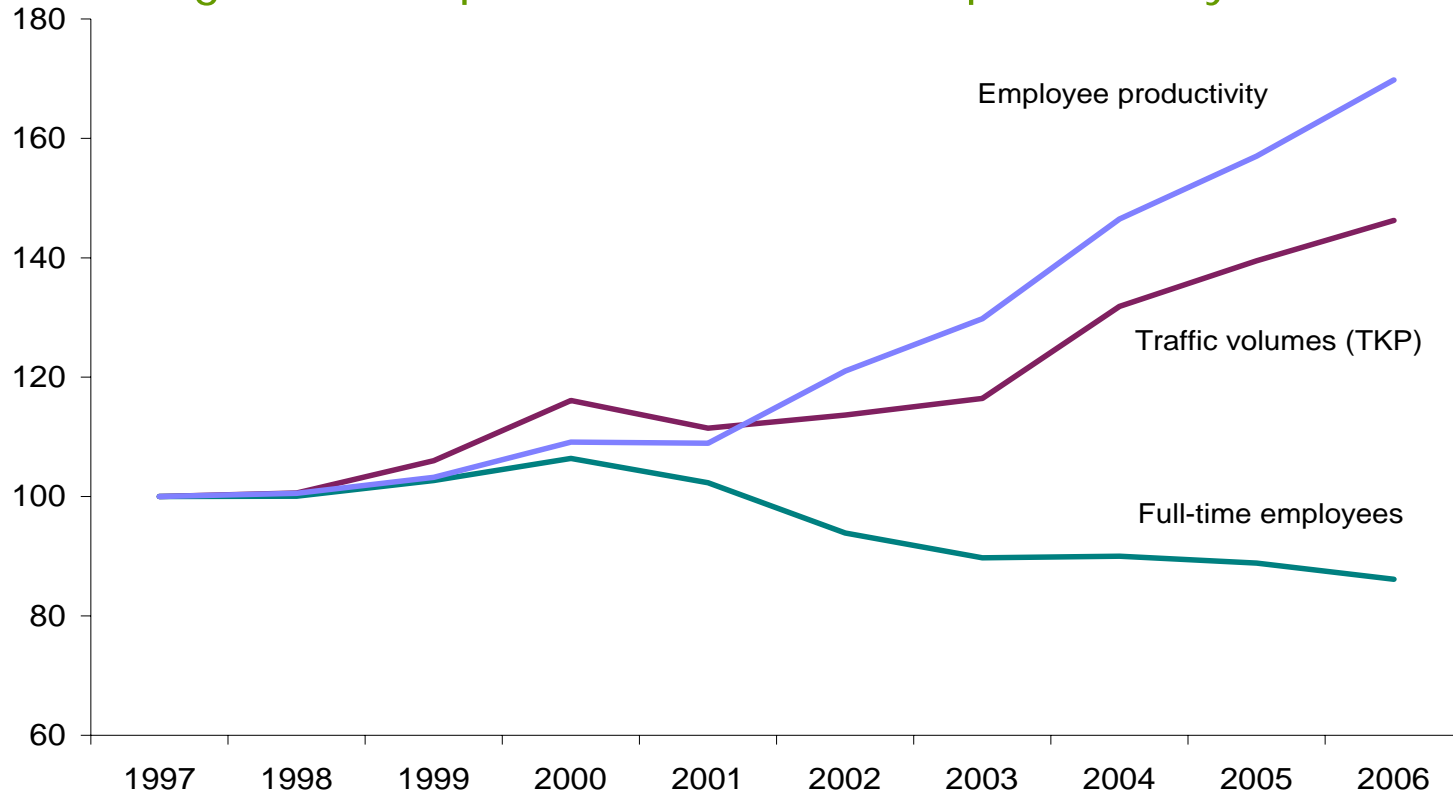


Source:  
Airbus, Boeing



# Labour is being used more productively

Significant improvements in labour productivity since 2001



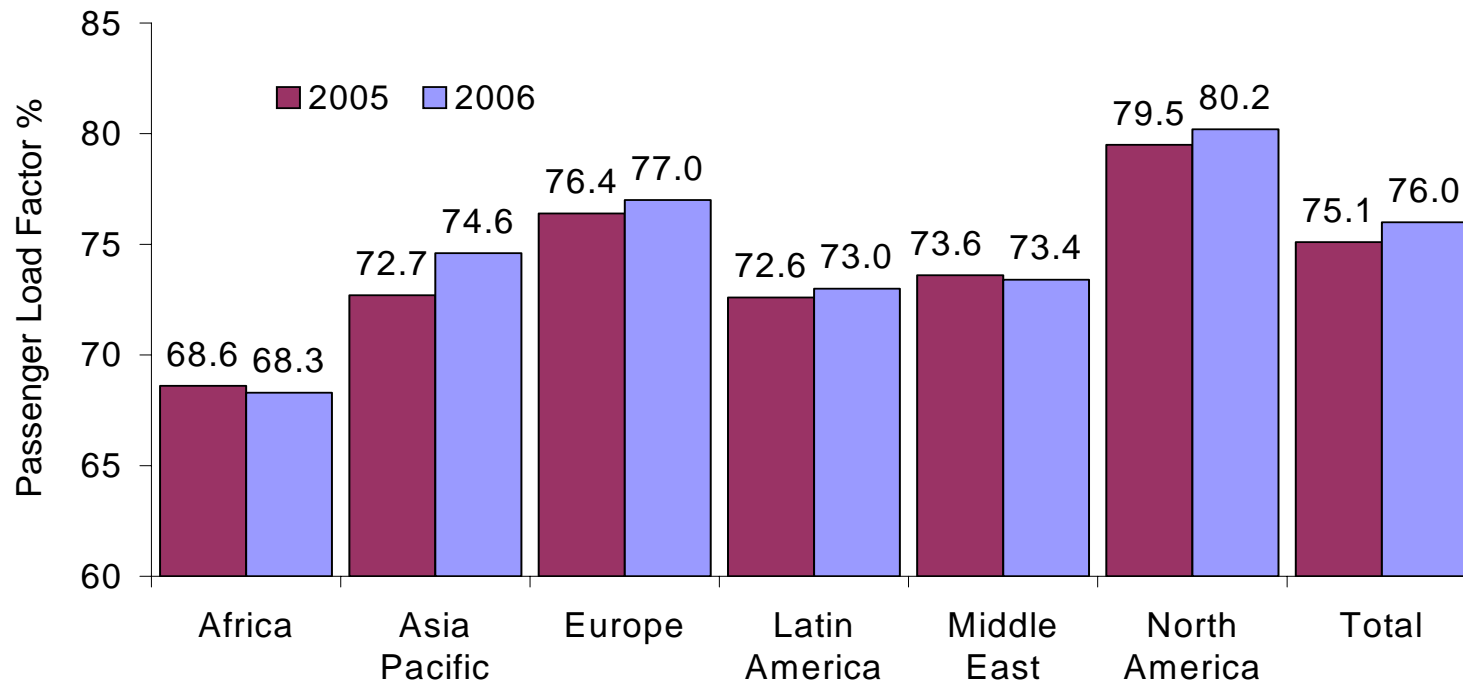
Source: IATA



# Load Factors are High

Domestic load factors now higher than on International routes

**Passenger Load Factor by Region**

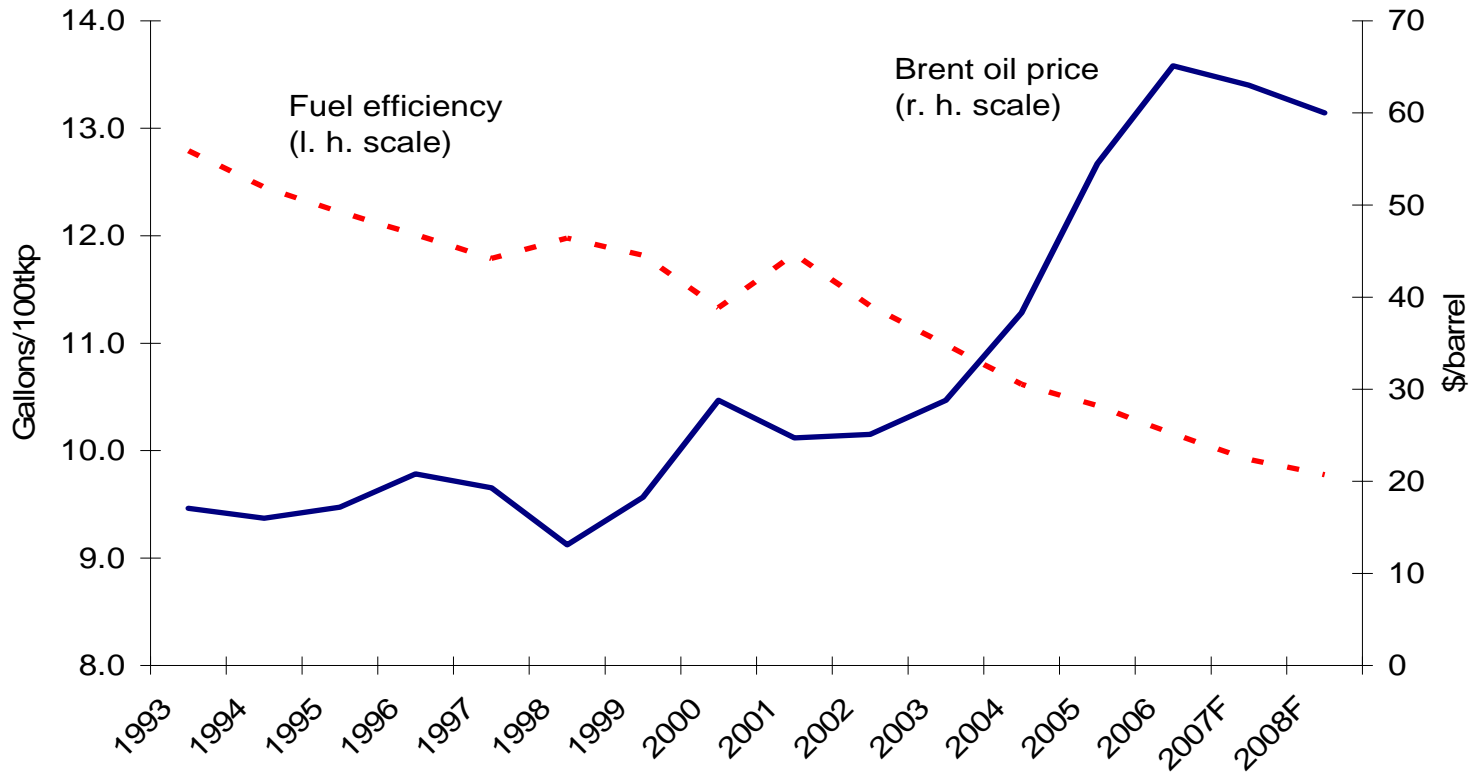


Source: IATA



# While Fuel Efficiency has also improved

High Fuel Prices providing a significant incentive for efficiency gains



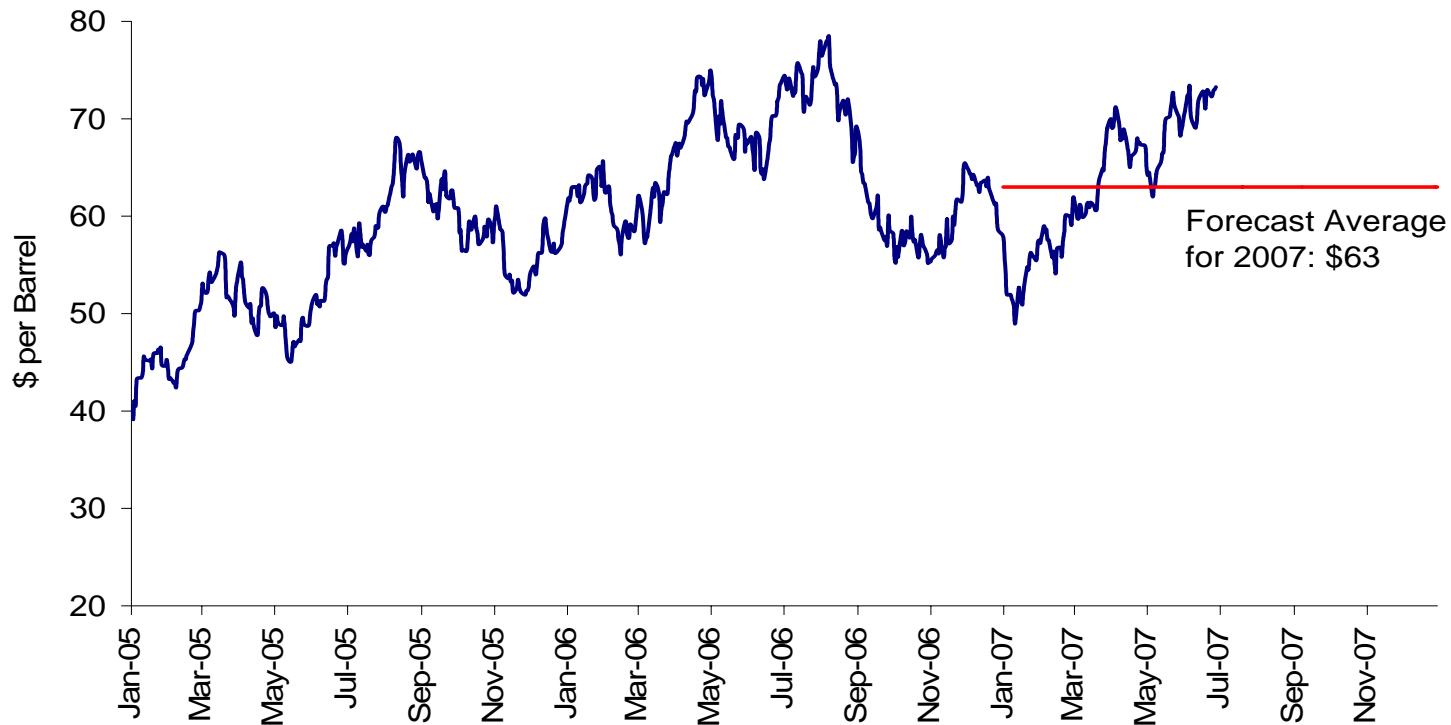
Source: IATA



# However, fuel remains a wildcard

Geo-political risks continue to cause volatility

Brent Crude Oil Price

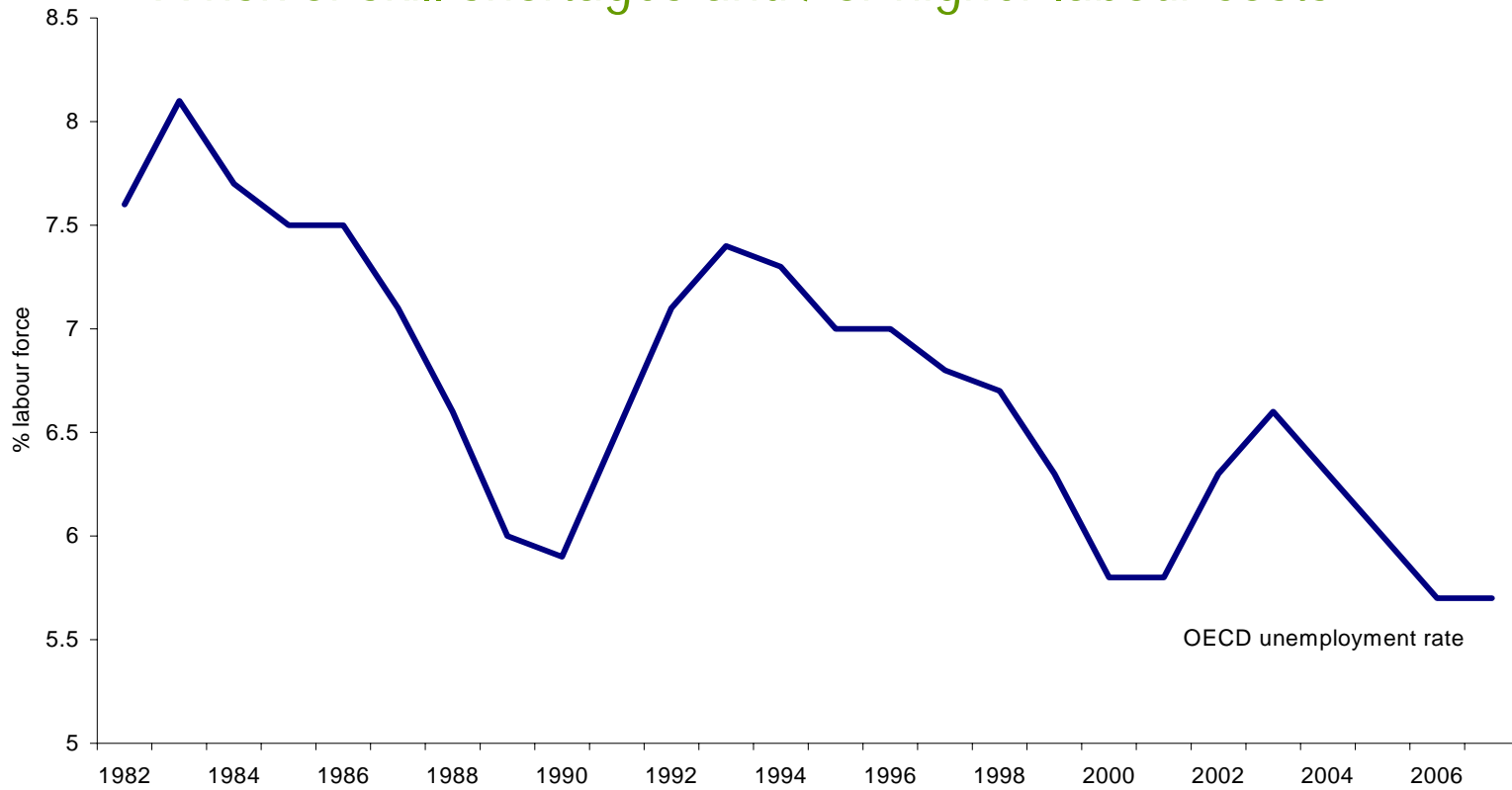


Source: Platts



# Further efficiencies will be harder

A risk of skill shortages and / or higher labour costs

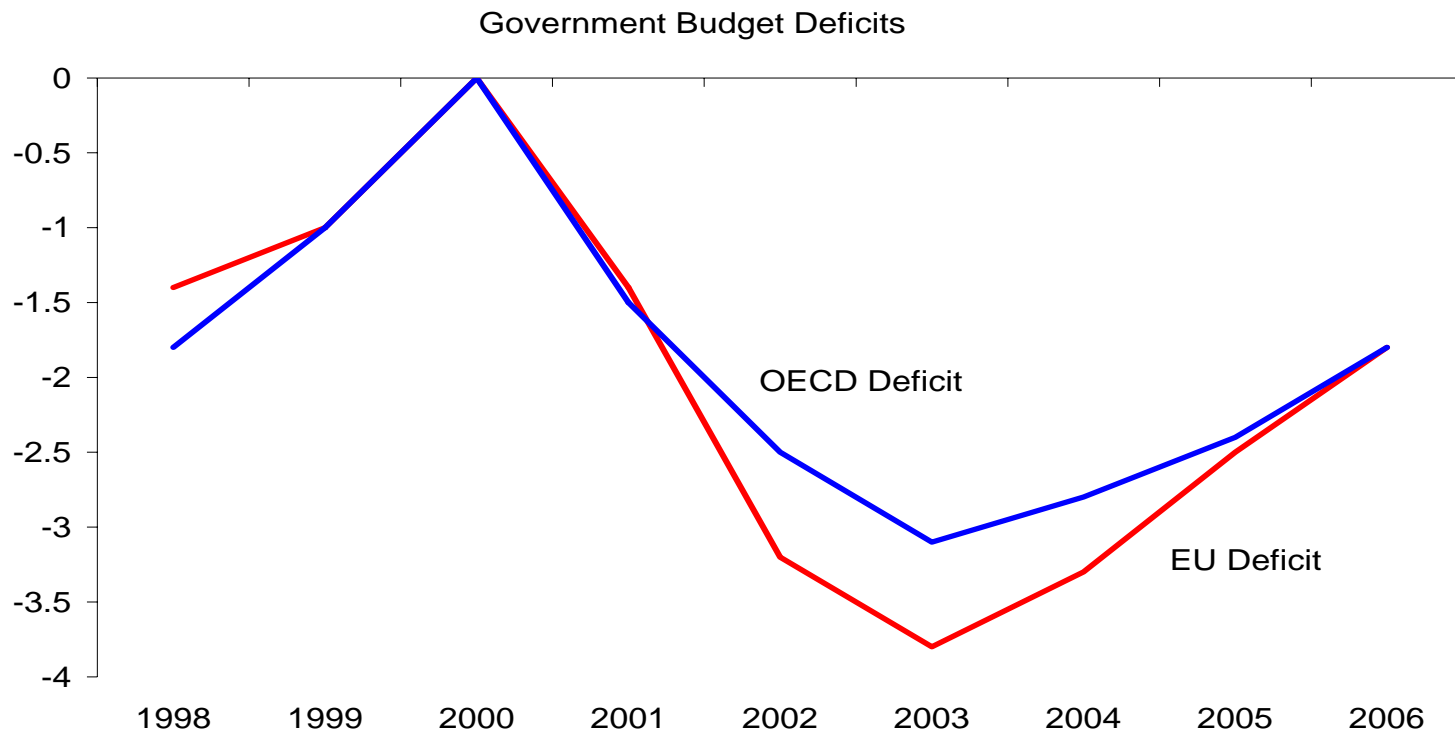


Source: OECD



## And airlines are vulnerable to new taxes

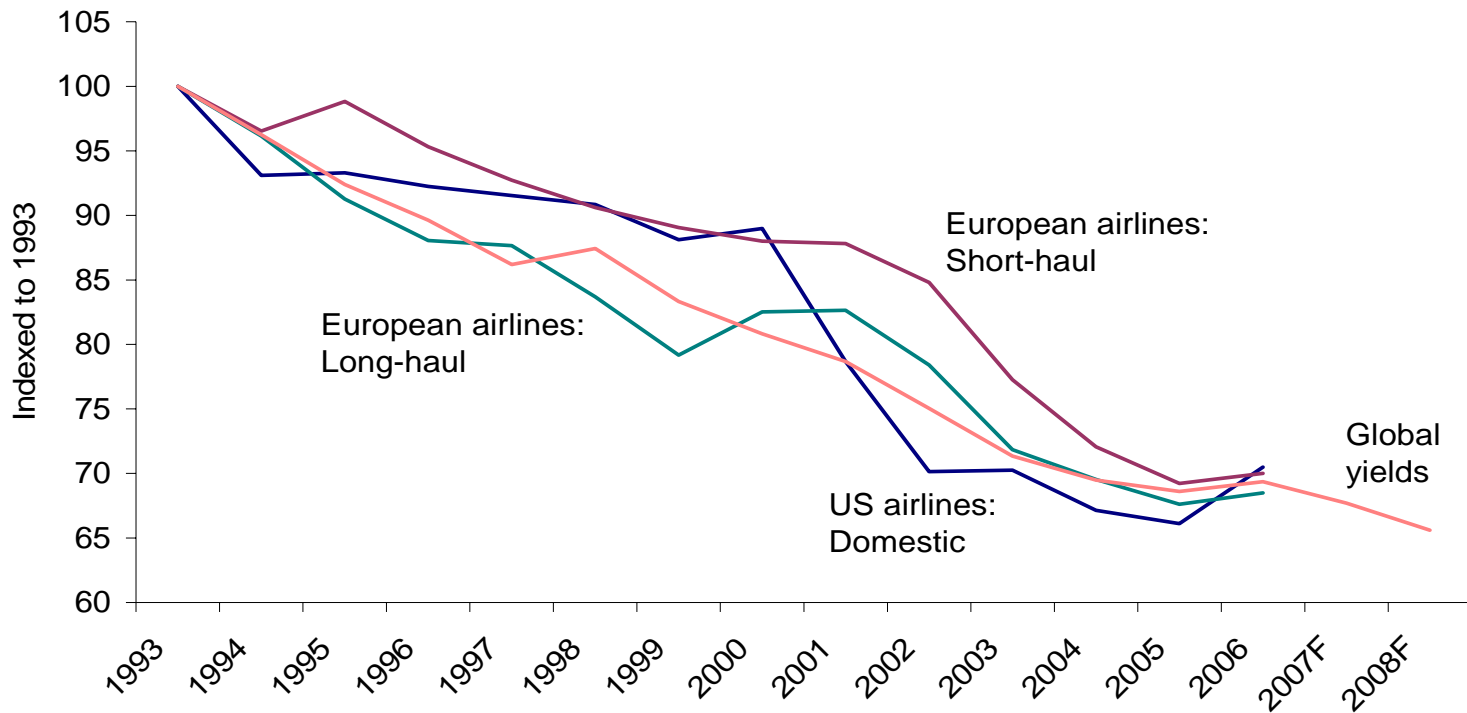
The industry is often used as a revenue-raising tool for Govts



# Yields are likely to decline further

## Liberalisation will add additional downward pressure

Real passenger yields



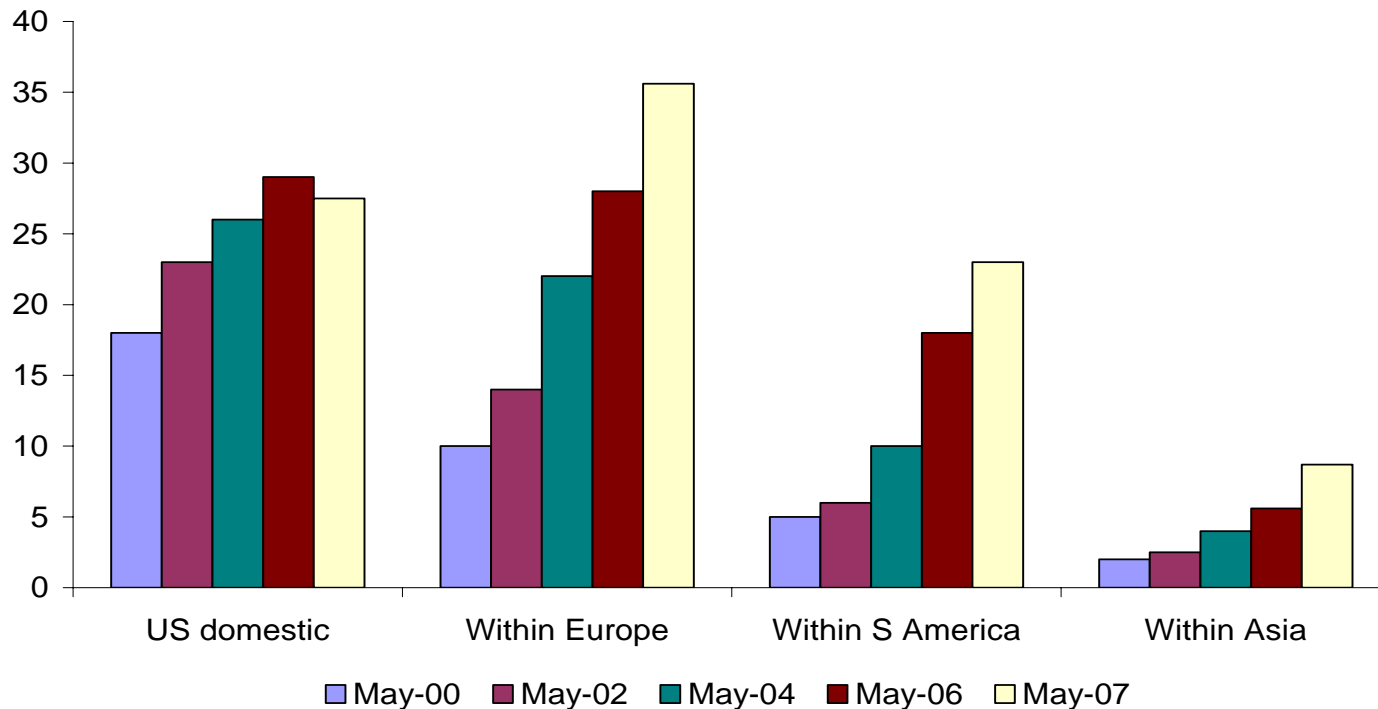
Source:  
ATA, AEA



# As Competition increases further

No-frills airlines are expanding their share in several regions

'LCC' share of seats on short-haul markets

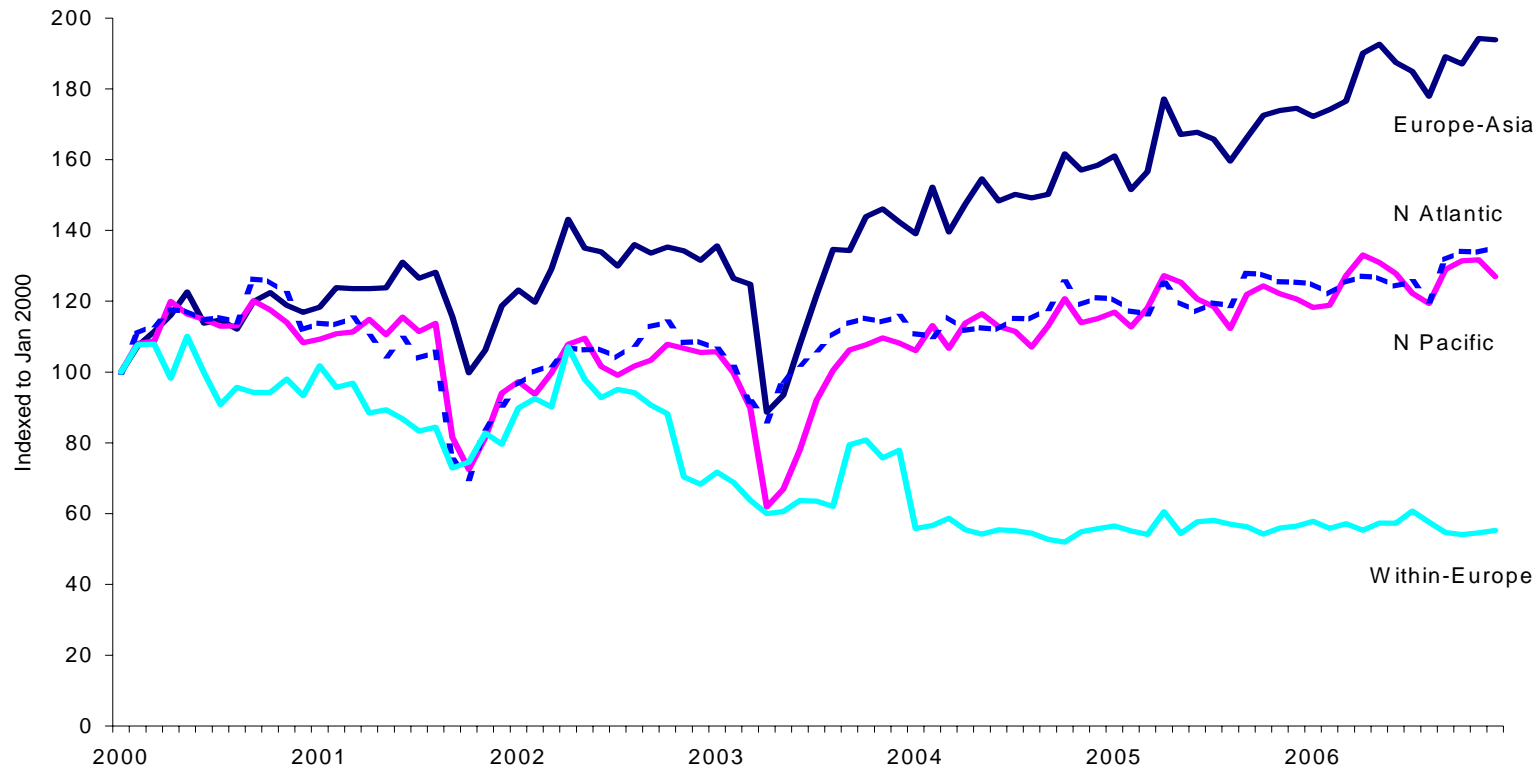


Source:  
SRS Analyser



# Premium service can attract high yields

Some long-haul premium markets are booming

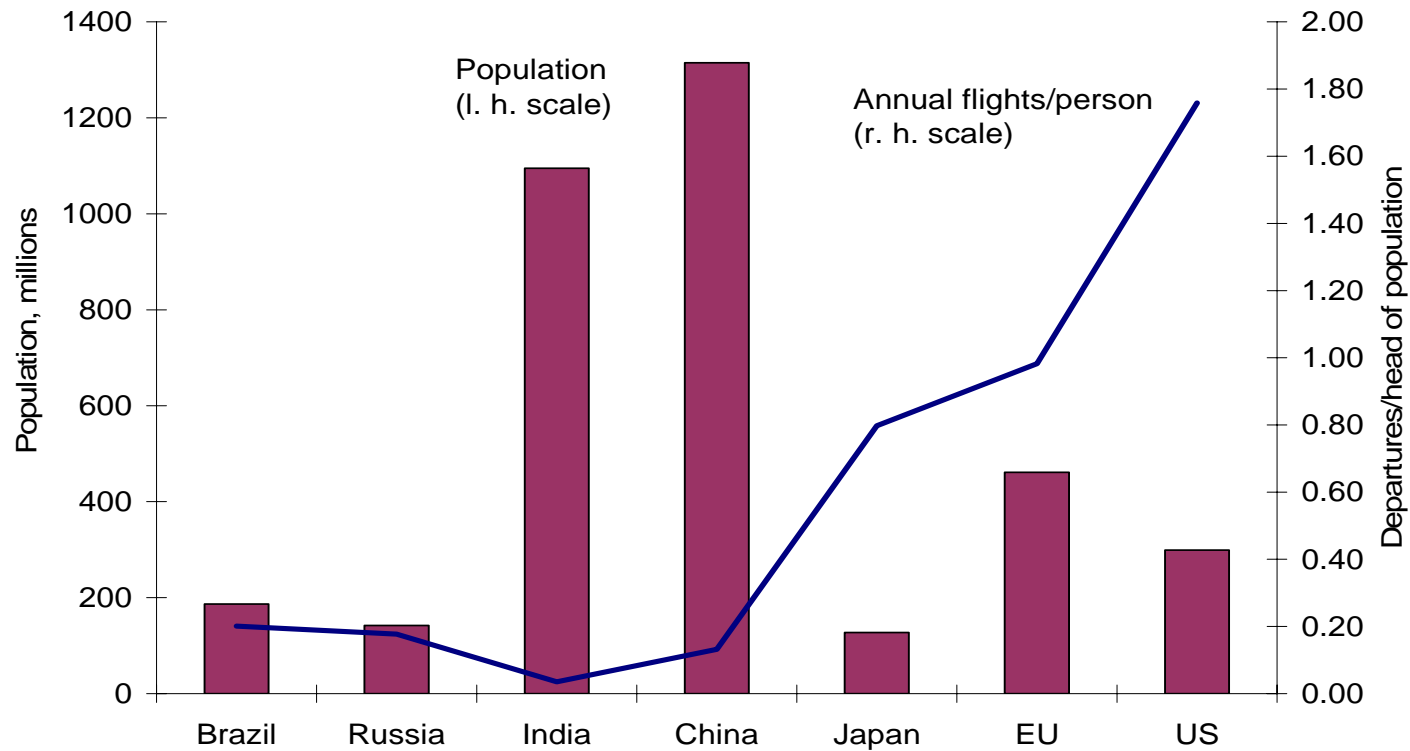


Source: IATA



# With huge potential in emerging markets

## Building with "BRICs" as key markets for future growth

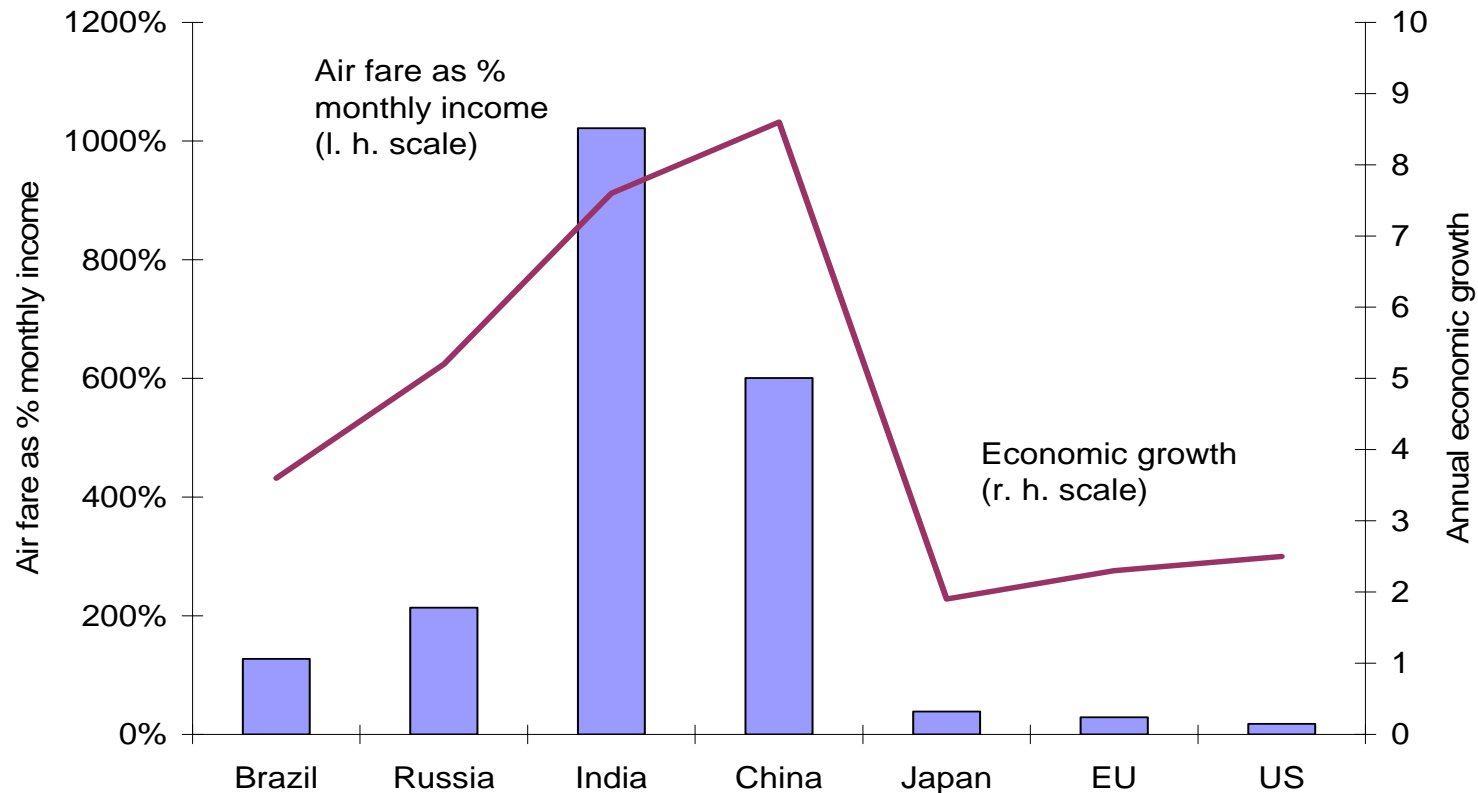


Source: IATA



# Growth will make travel more affordable

But average incomes are still at a very low level

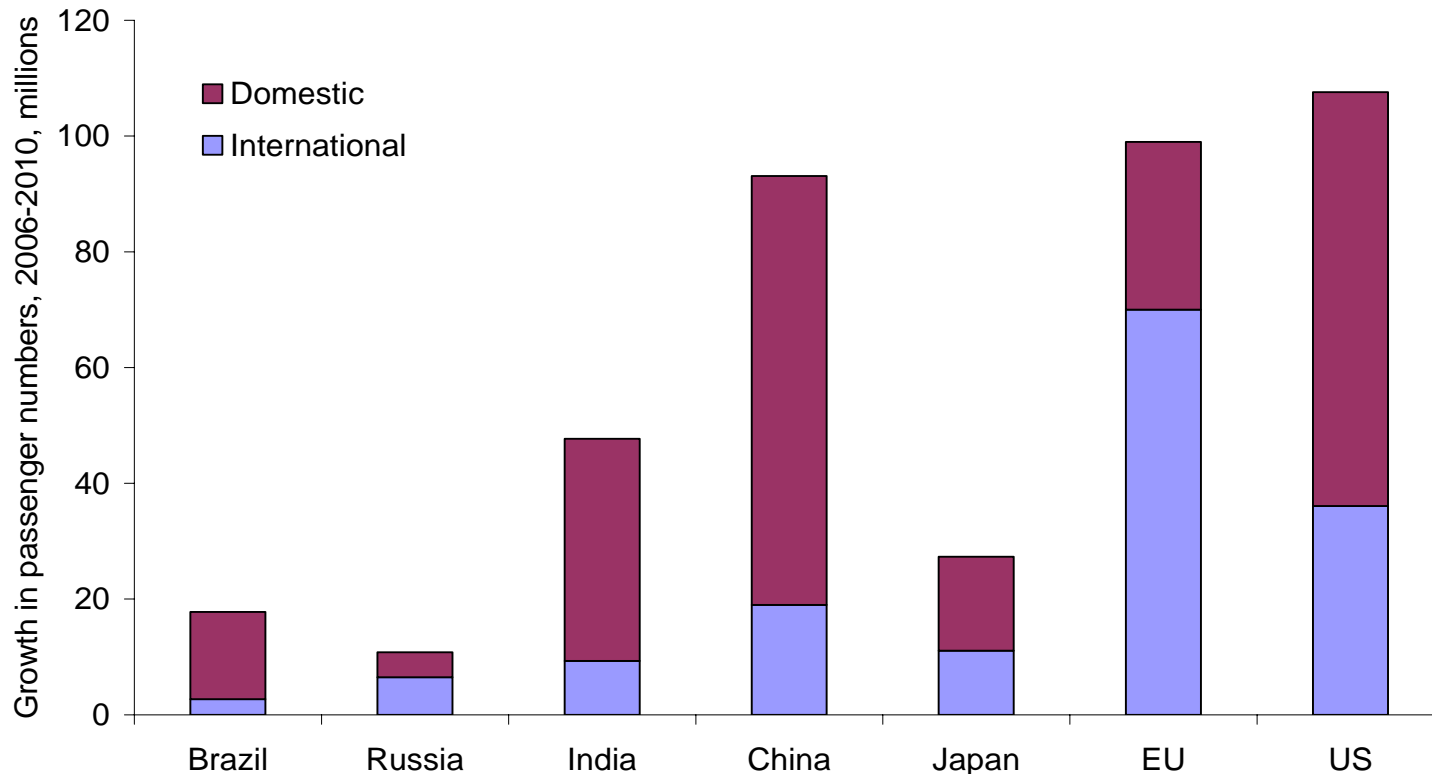


Source:  
EIU, IATA



# Passenger growth is shifting Eastwards

With the highest growth in Asian domestic markets



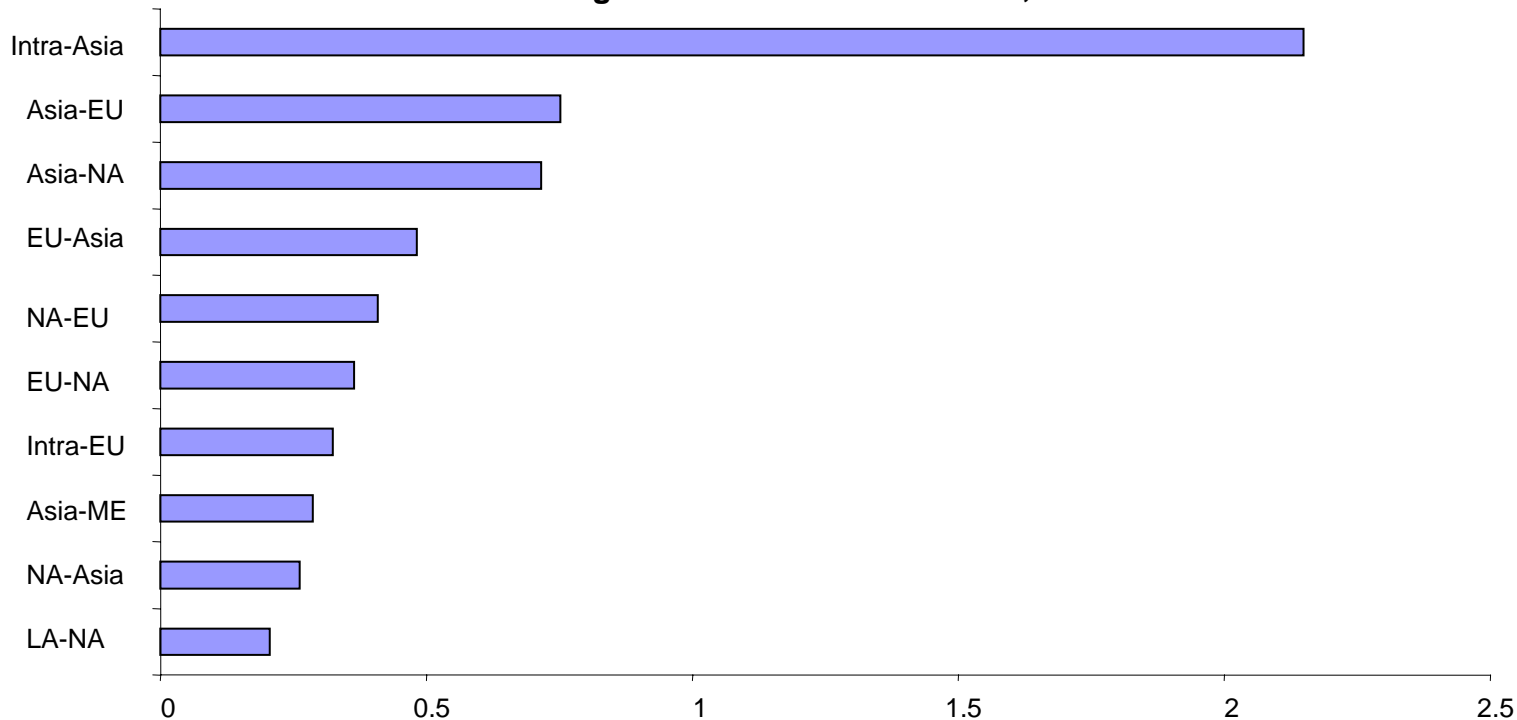
Source: IATA



# With cargo growth shifting even faster

## Two-thirds of new freight flows will involve Asia

New international freight traffic in millions tonnes, 2005-2010



Source: IATA



## But business constraints do remain

Emerging markets can face high regulatory and other barriers

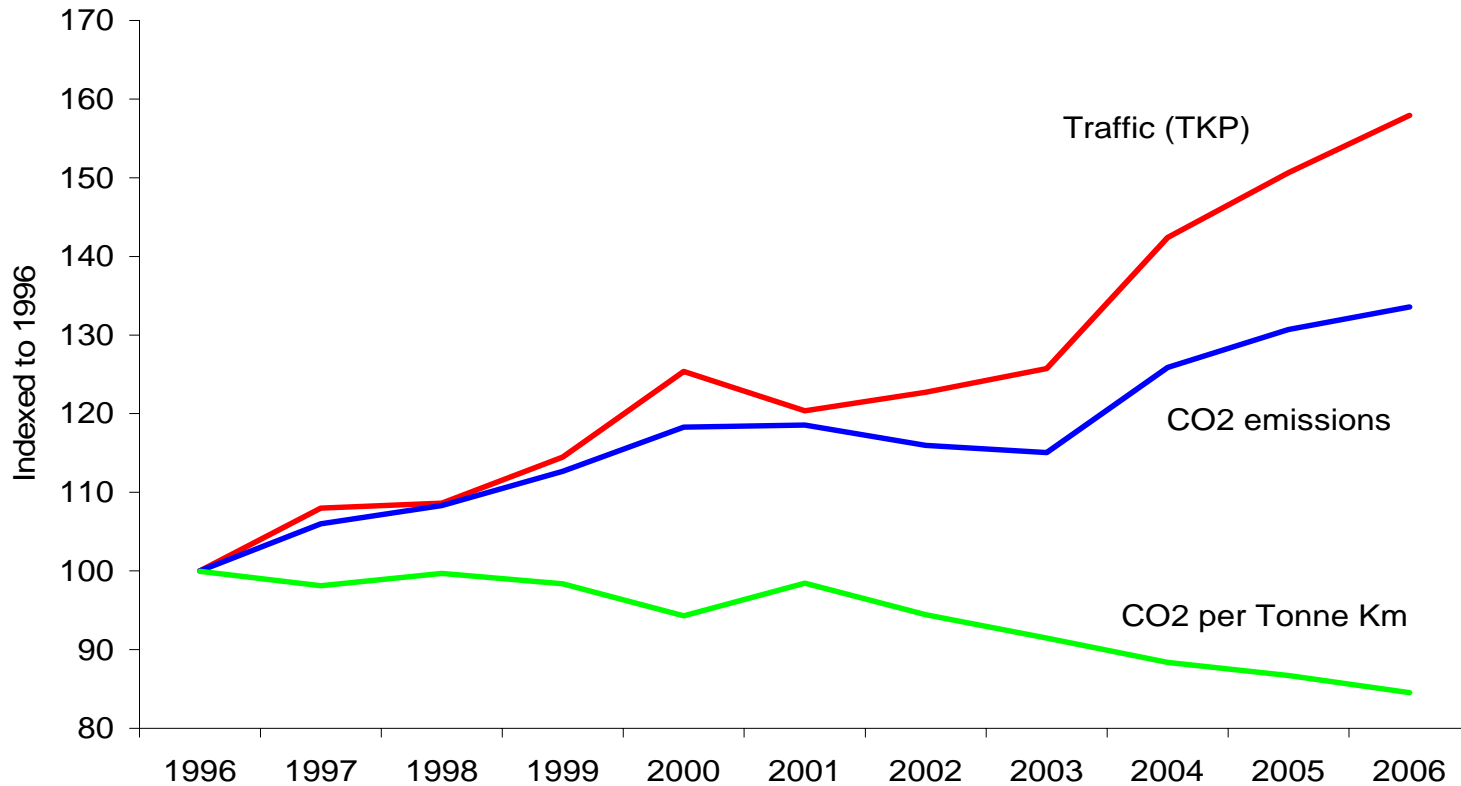
	Freight Growth AAGR 06-10	Ease of Doing Business Index
Singapore	4.7	1
United States	4.5	2
Hong Kong	3.8	5
Germany	4.7	21
Mexico	4.3	43
Hungary	8.0	66
Poland	12.6	75
UAE	5.7	77
China	11.6	93
Russia	4.4	96
Brazil	5.0	121
India	8.2	134

Source: IATA,  
World Bank



# The environment is a key issue

Airlines face increased political and regulatory pressure

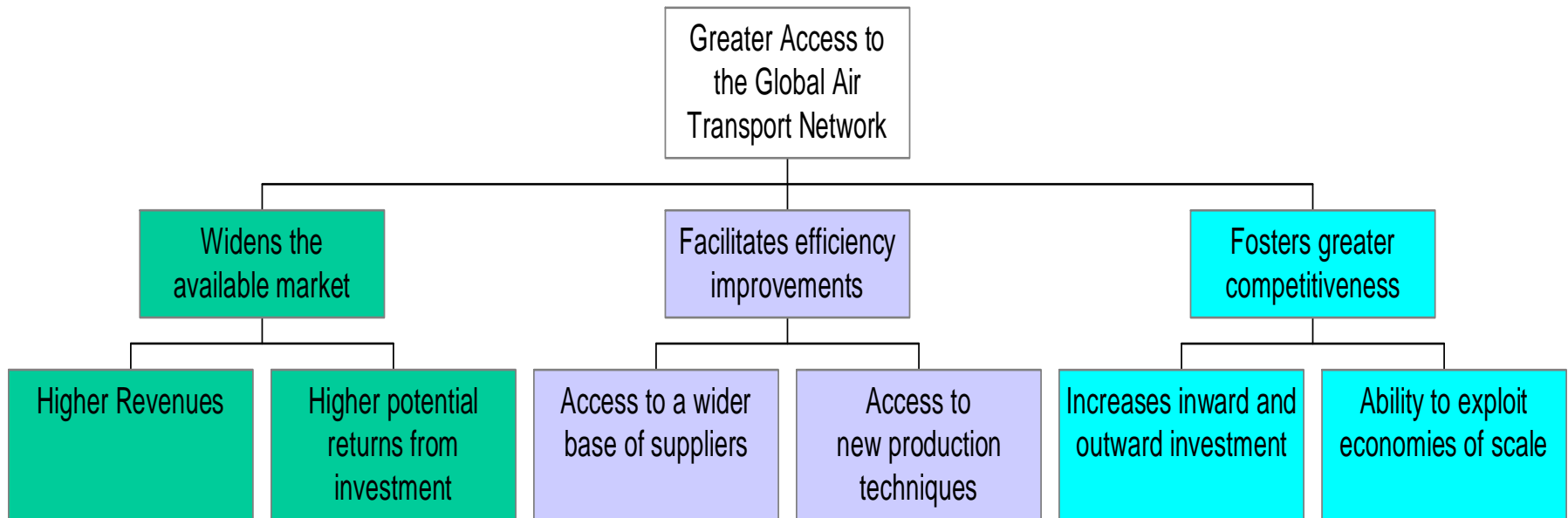


Source: ICAO



# Don't forget the wider economic benefits

The aviation industry can create substantial additional benefits



Source: IATA



# High social and economic returns

Investment projects can generate fast and sizeable benefits

**Economic Rates of Return from Aviation Investment**

	Kenya	Cambodia	Jordan	El Salvador	Jamaica
Investment (US\$ million)	409	786	360	802	191
Increase in national connectivity / GDP	59%	46%	55%	35%	28%
Impact on GDP (%)	+ 0.42%	+ 0.32%	+ 0.39%	+ 0.25%	+ 0.20%
Annual Economic Rate of Return (%)	59%	19%	28%	16%	16%

Source: IATA

## Summary

- Industry profitability is improving
- Strong support from economic growth and a vast potential to develop emerging air transport markets
- But risks and challenges remain
  - Competition placing downward pressure on prices
  - Potential labour shortages or higher costs
  - Significant new aircraft capacity set to be delivered
  - Environmental issues
- Sustainable and profitable growth is the target
- But improving returns will require structural changes