




# Outlook for airline markets and industry performance

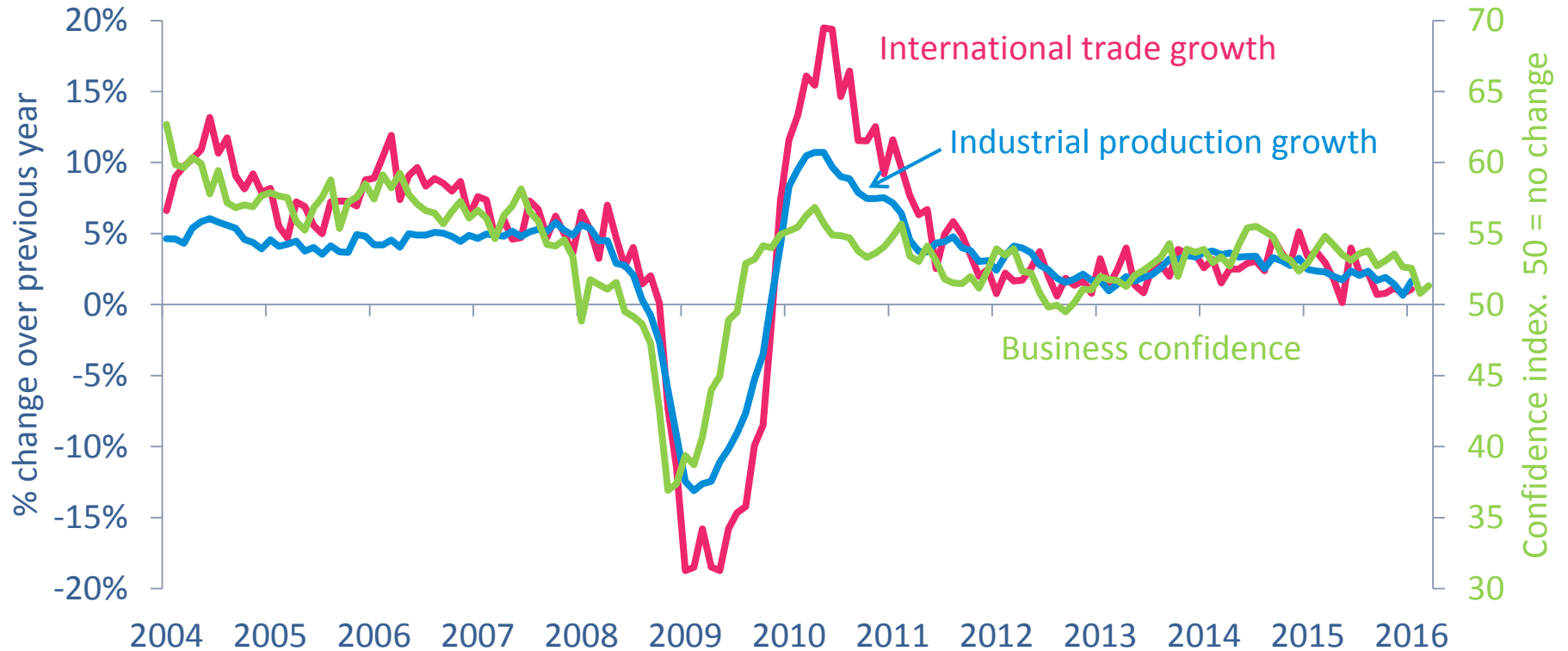
June 2016

Brian Pearce  
Chief Economist  
International Air Transport Association



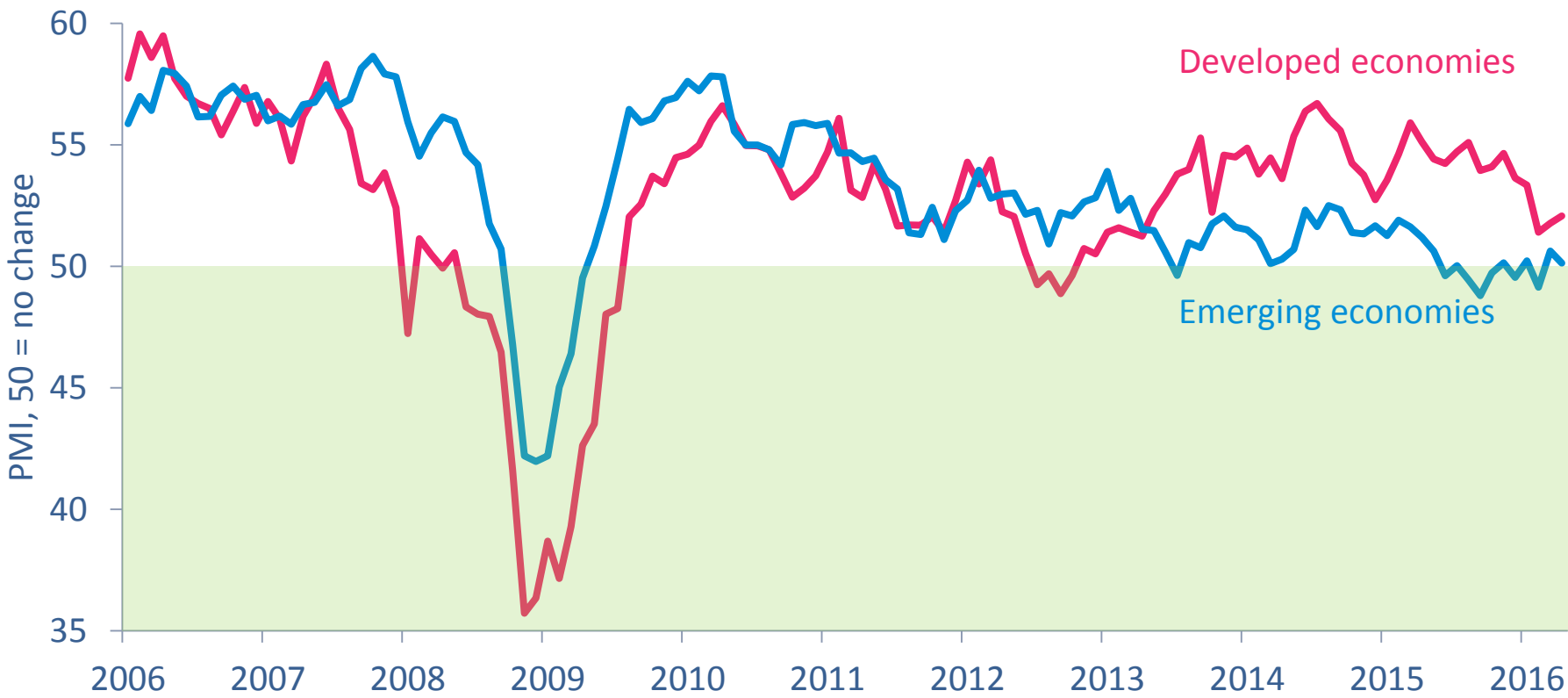
# The already weak economic cycle is slowing

## Global economic cycle indicators



# Now both developed and emerging economies weaker

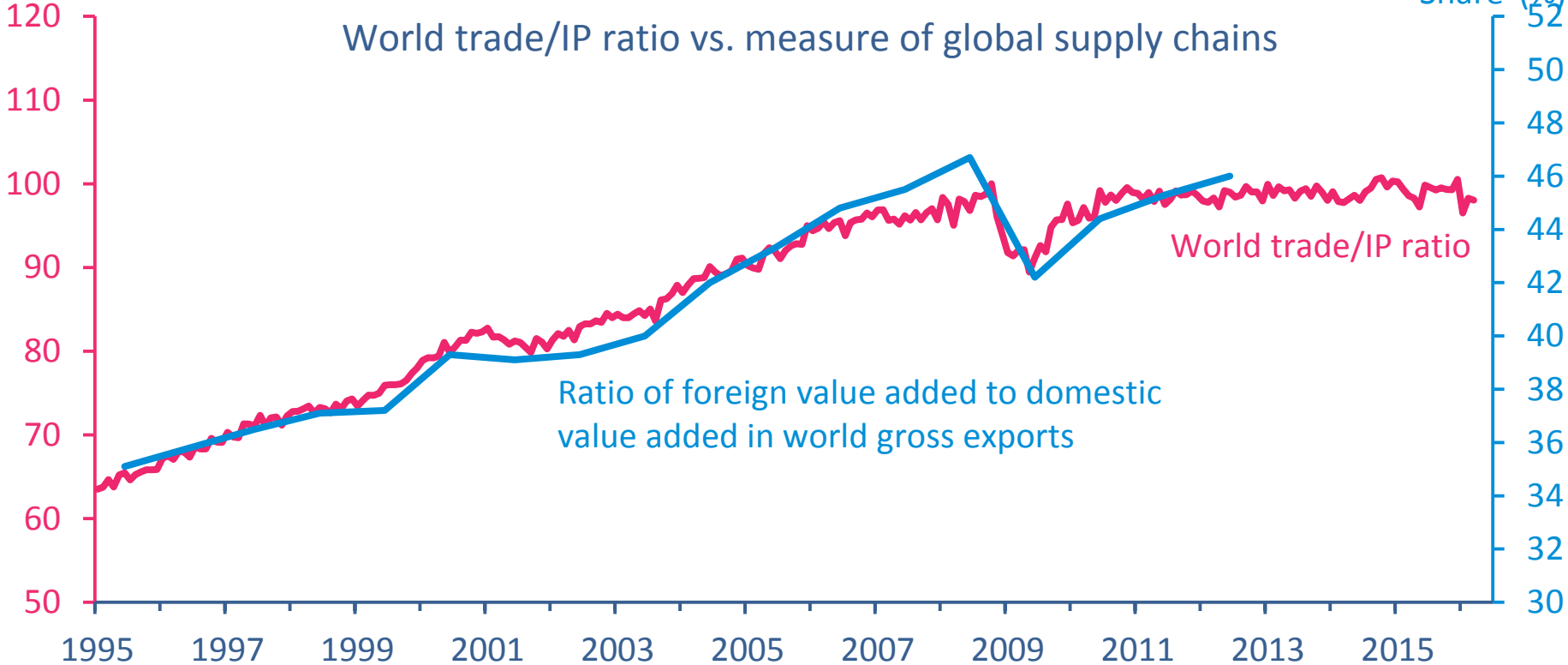
Business confidence



Source: IATA Economics using Markit data

# Globalization is still paused

Index (Oct 2008=100)



World trade/IP ratio vs. measure of global supply chains

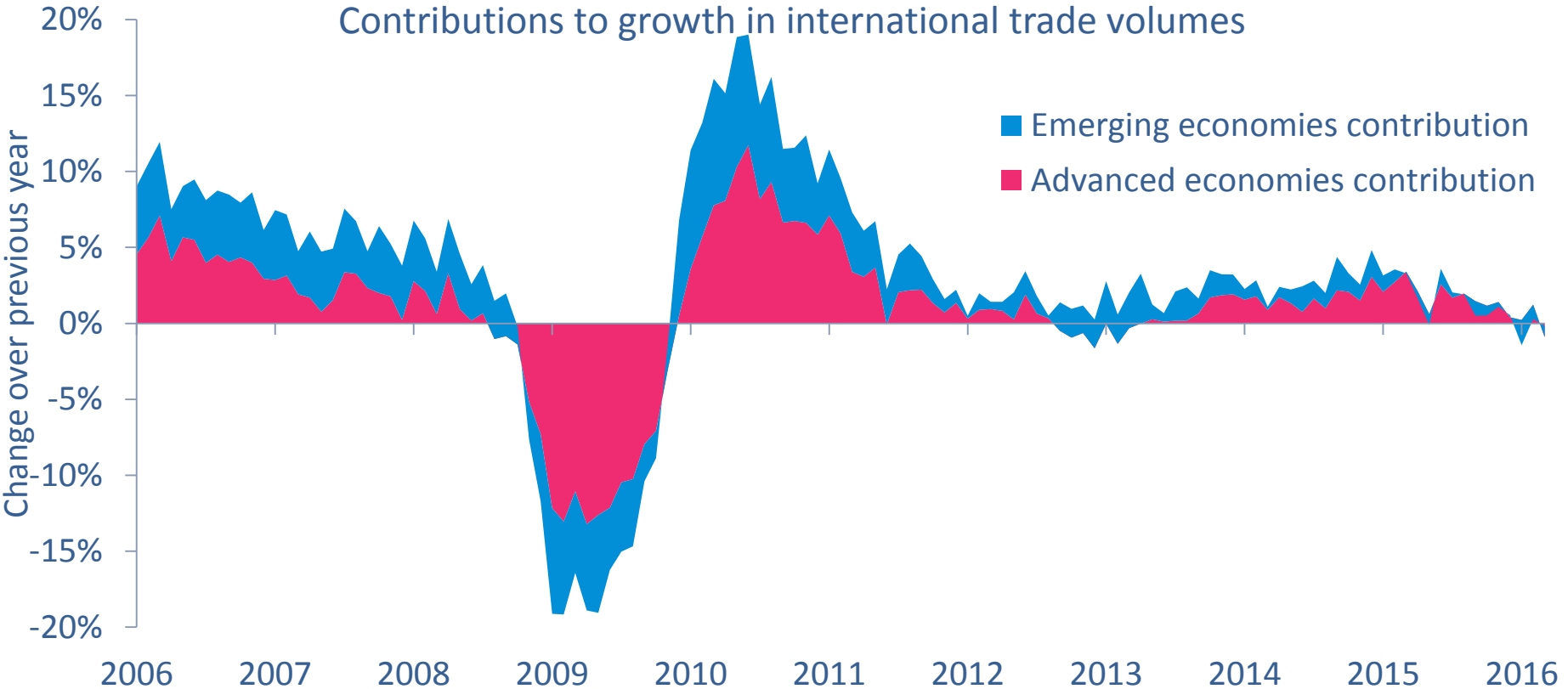
World trade/IP ratio

Ratio of foreign value added to domestic value added in world gross exports

Share (%)

Sources: IATA, Netherlands CPB, OECD-WTO TiVA database

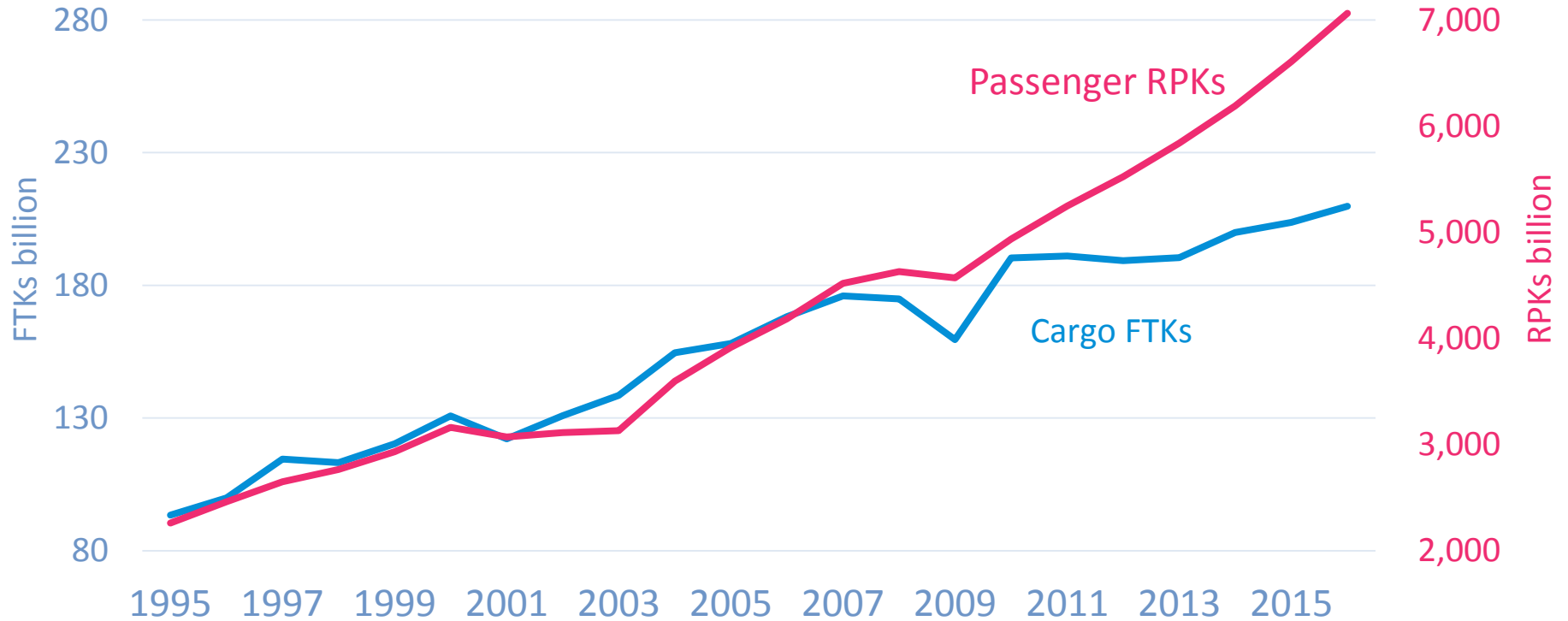
# International trade growth has slowed to a stop



Source: IATA using Netherlands CPB data

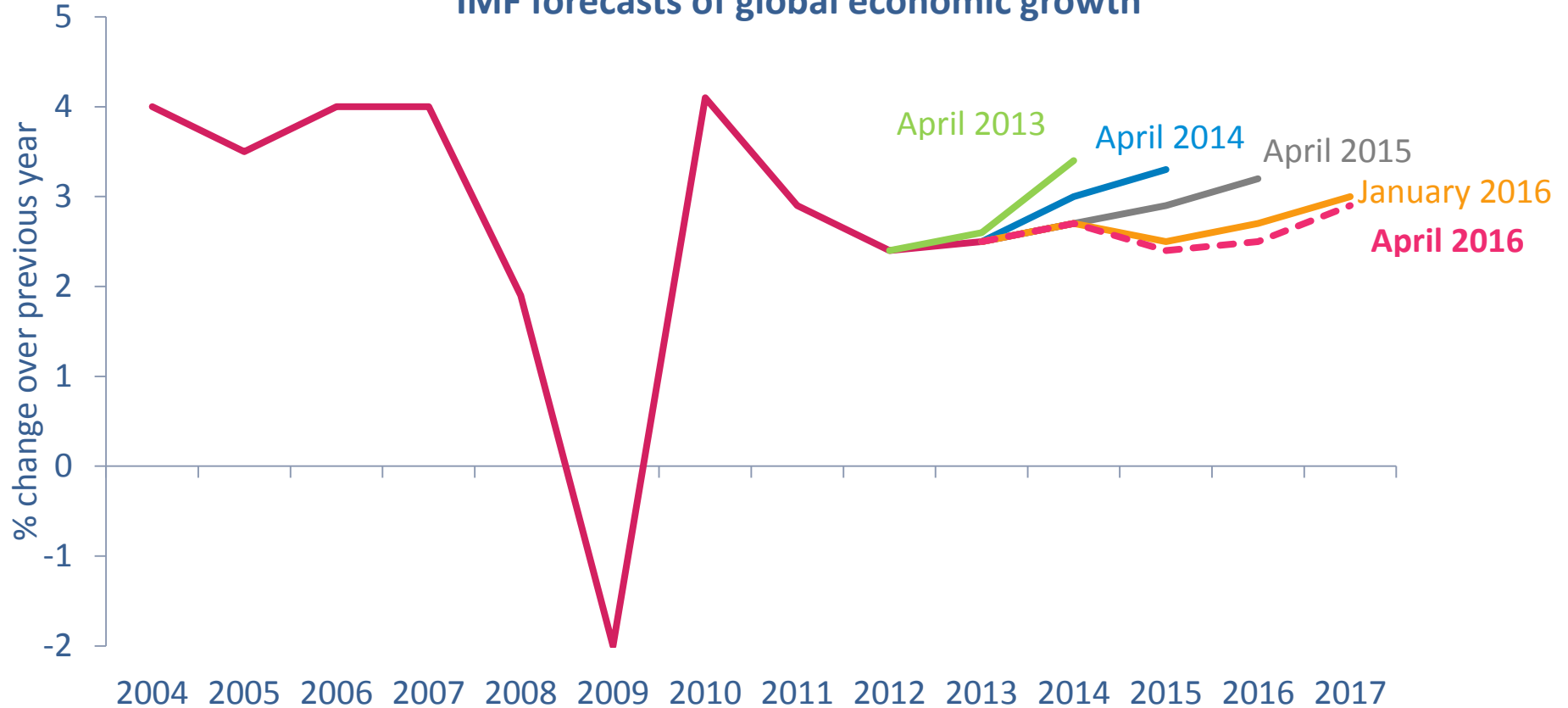
# So cargo is weak...but air travel is still booming

Air travel and cargo volumes



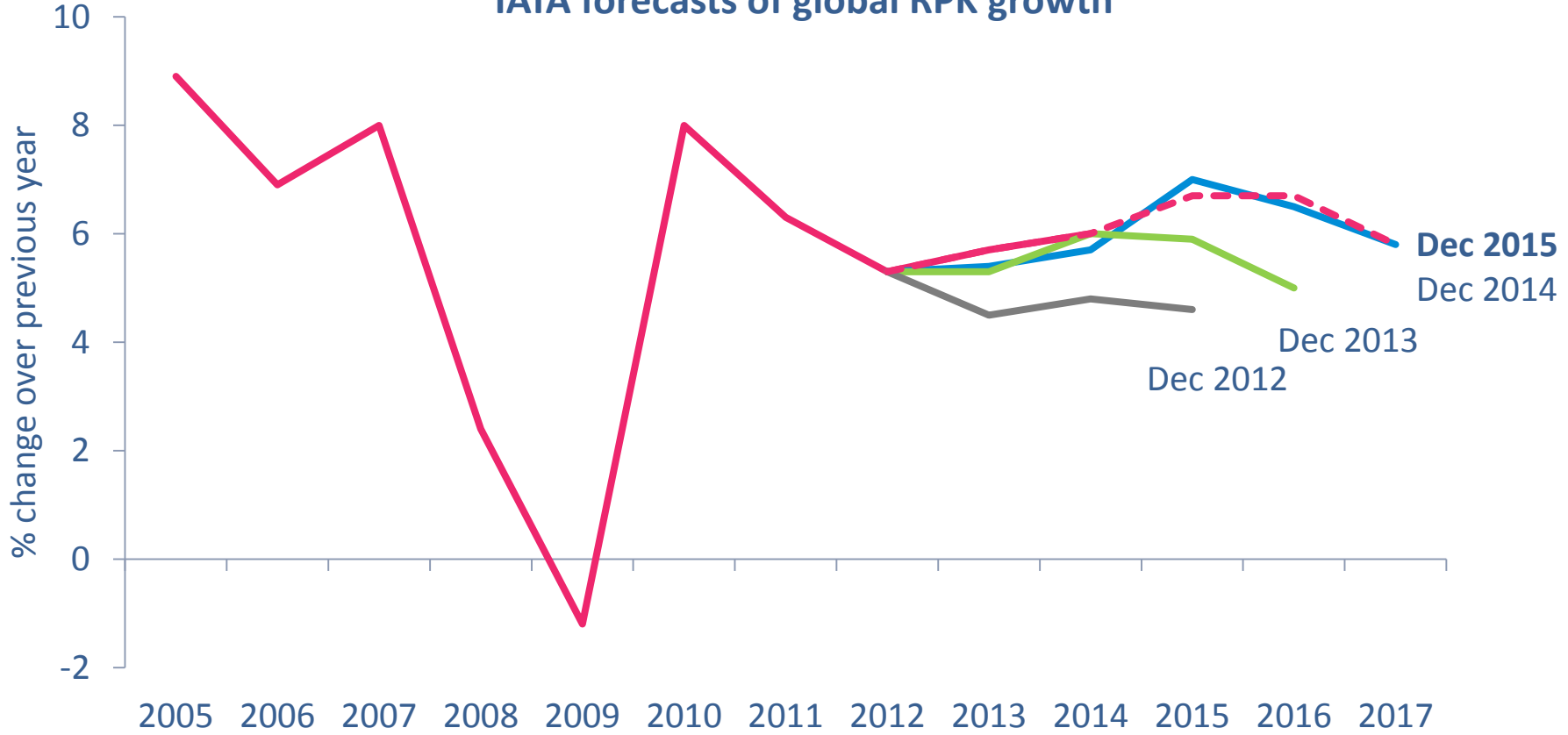
# World is stuck in a low economic growth path

## IMF forecasts of global economic growth



# Yet air travel growth has remained strong

IATA forecasts of global RPK growth

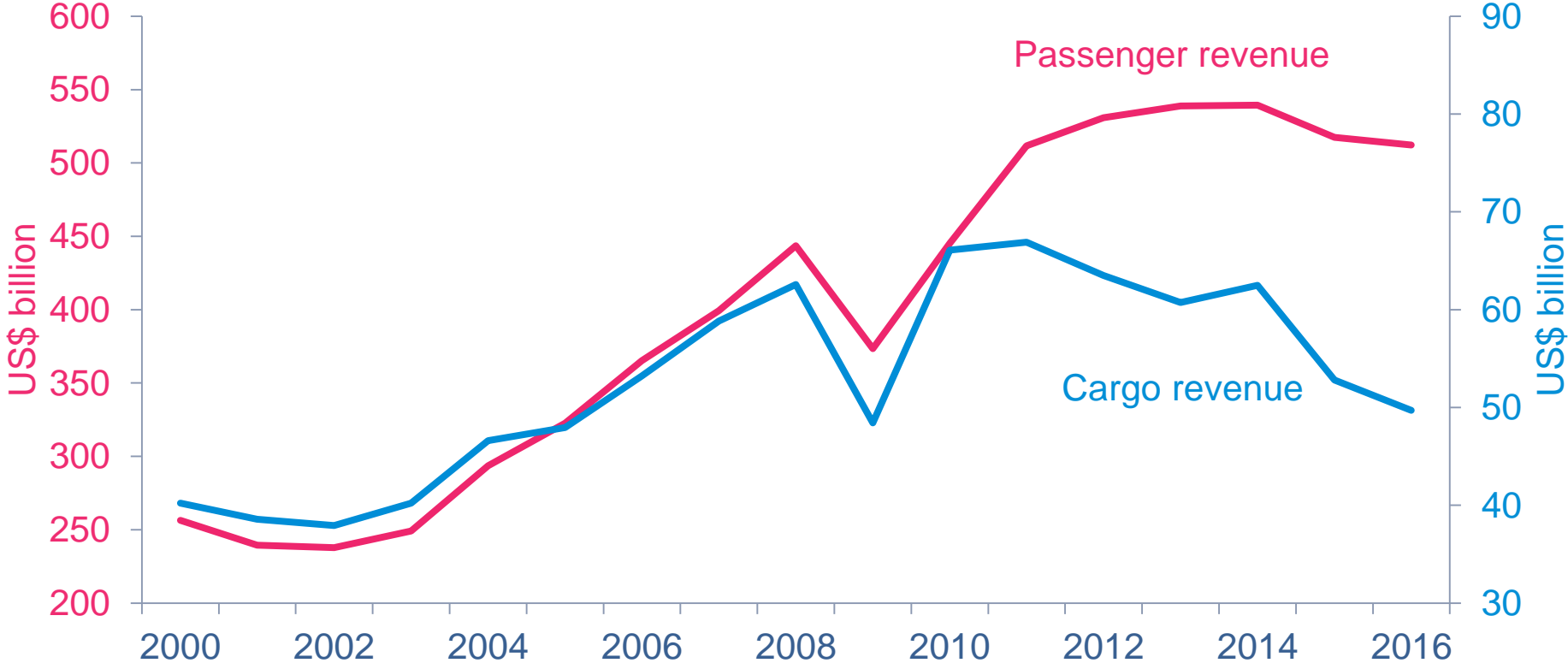


Source: IATA Economic Performance of the Airline Industry



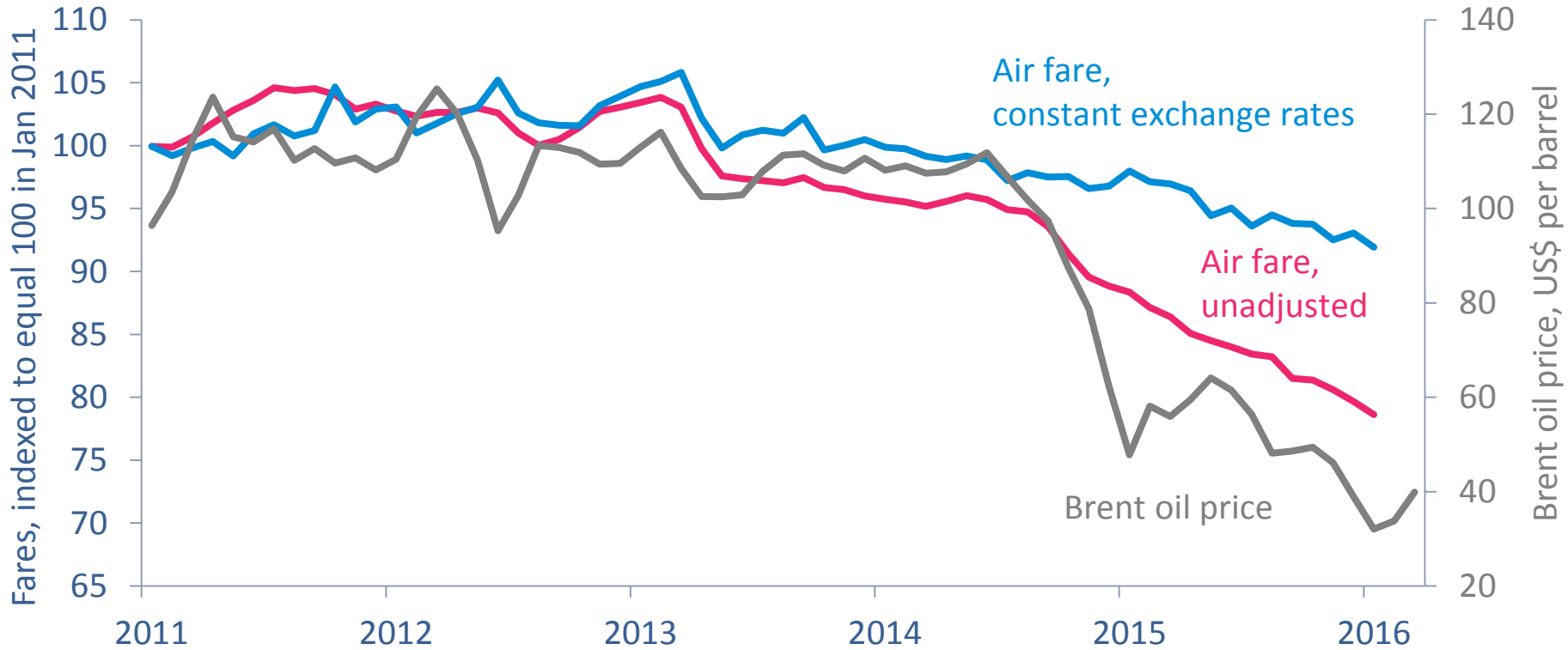
# Cargo revenues significantly lag passenger business

Revenues from passengers and cargo



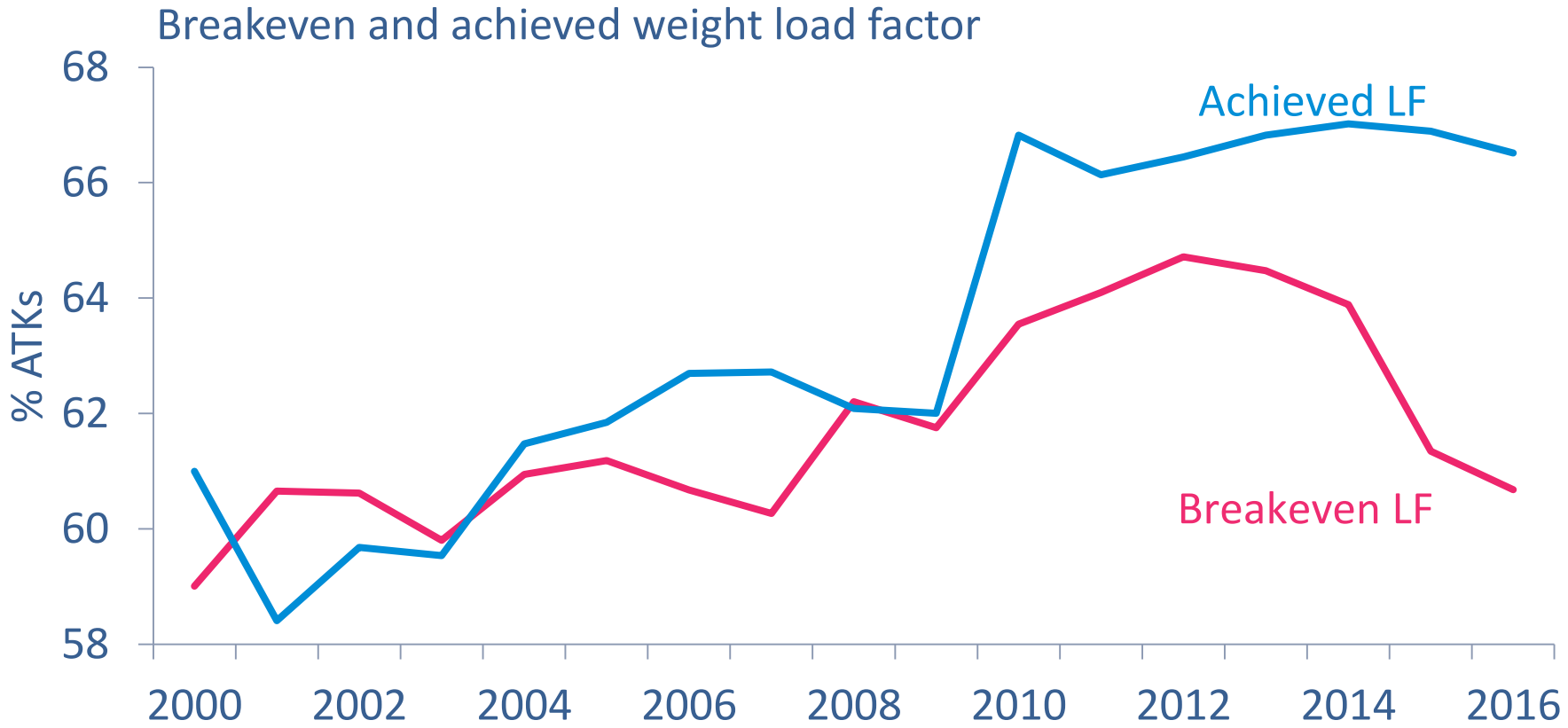
# Cash flows rising despite falling RASK

## Worldwide average air fare and oil prices



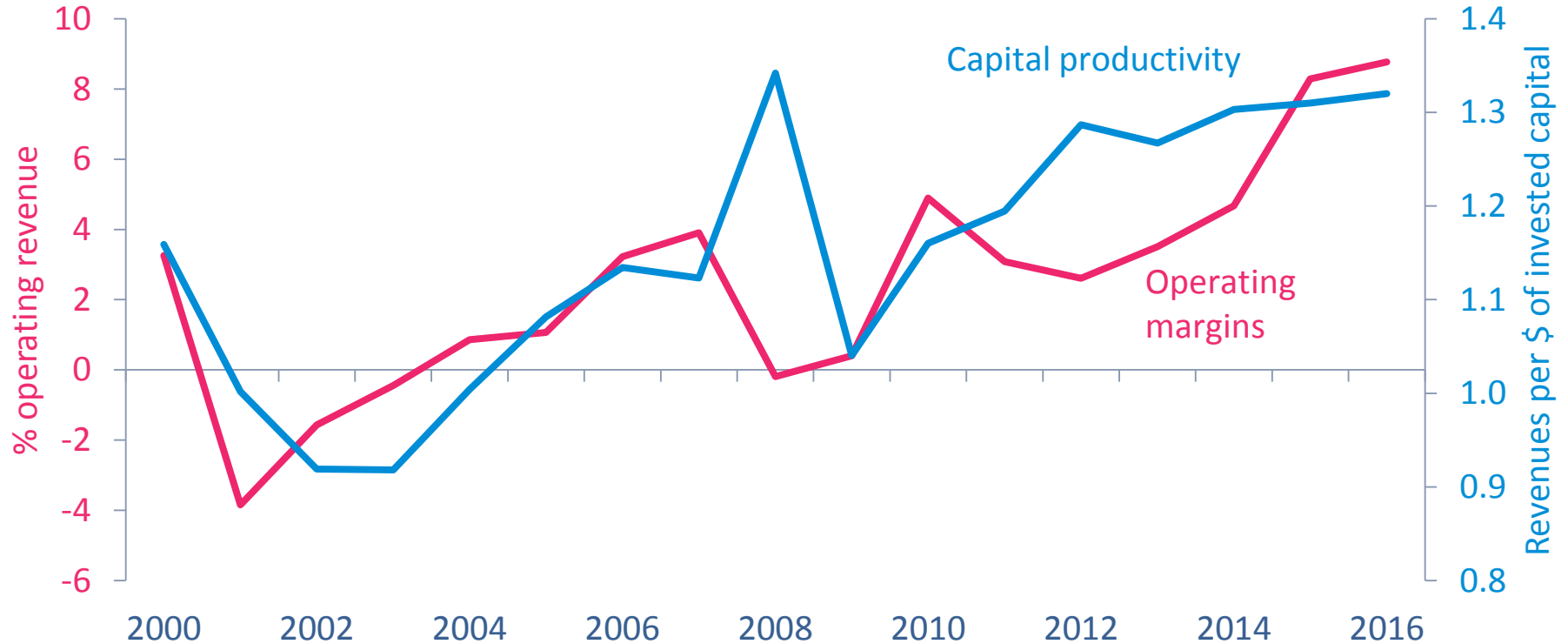
Source: IATA, PaxIS+, Haver

# Widening asset utilization gap driving returns

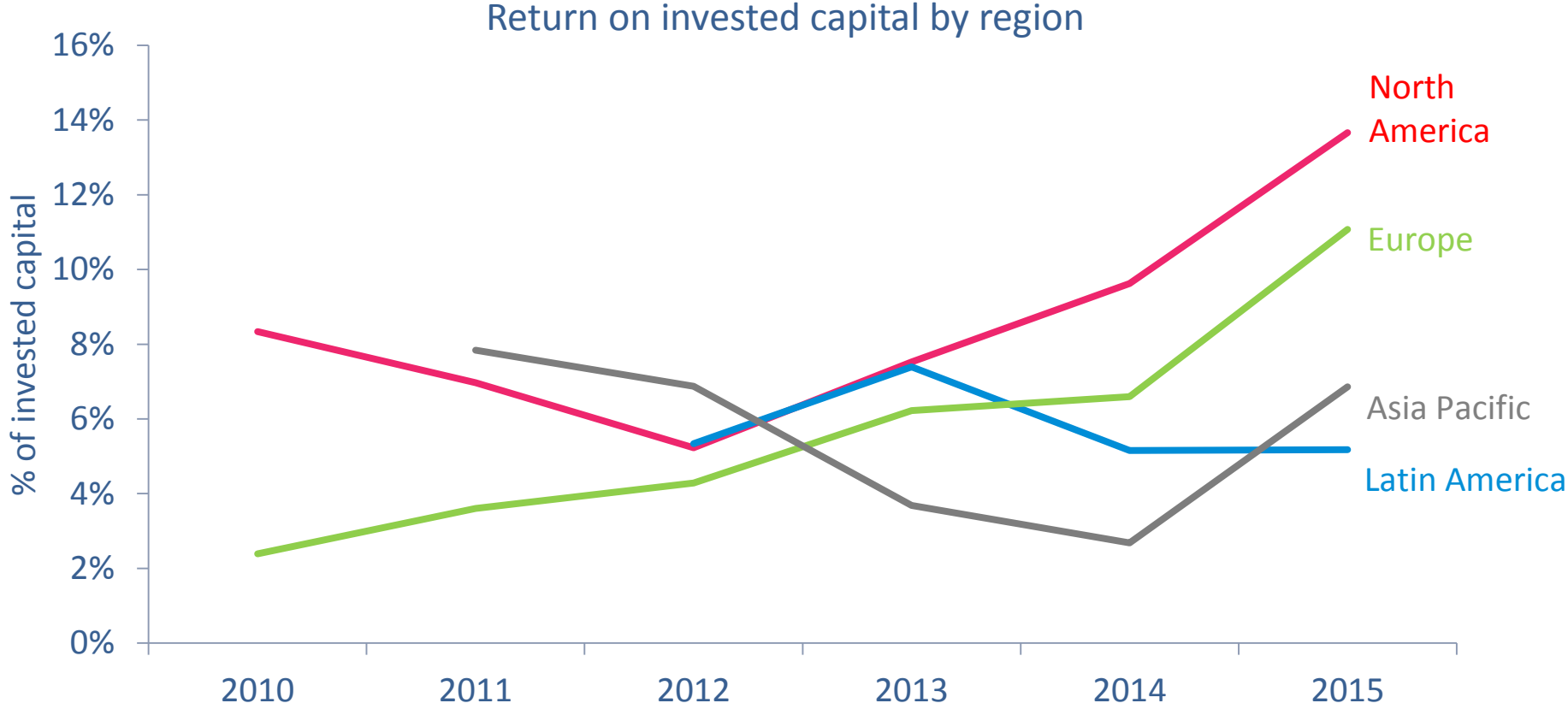


# More productive assets as well as margin gains

## Capital productivity and operating margins

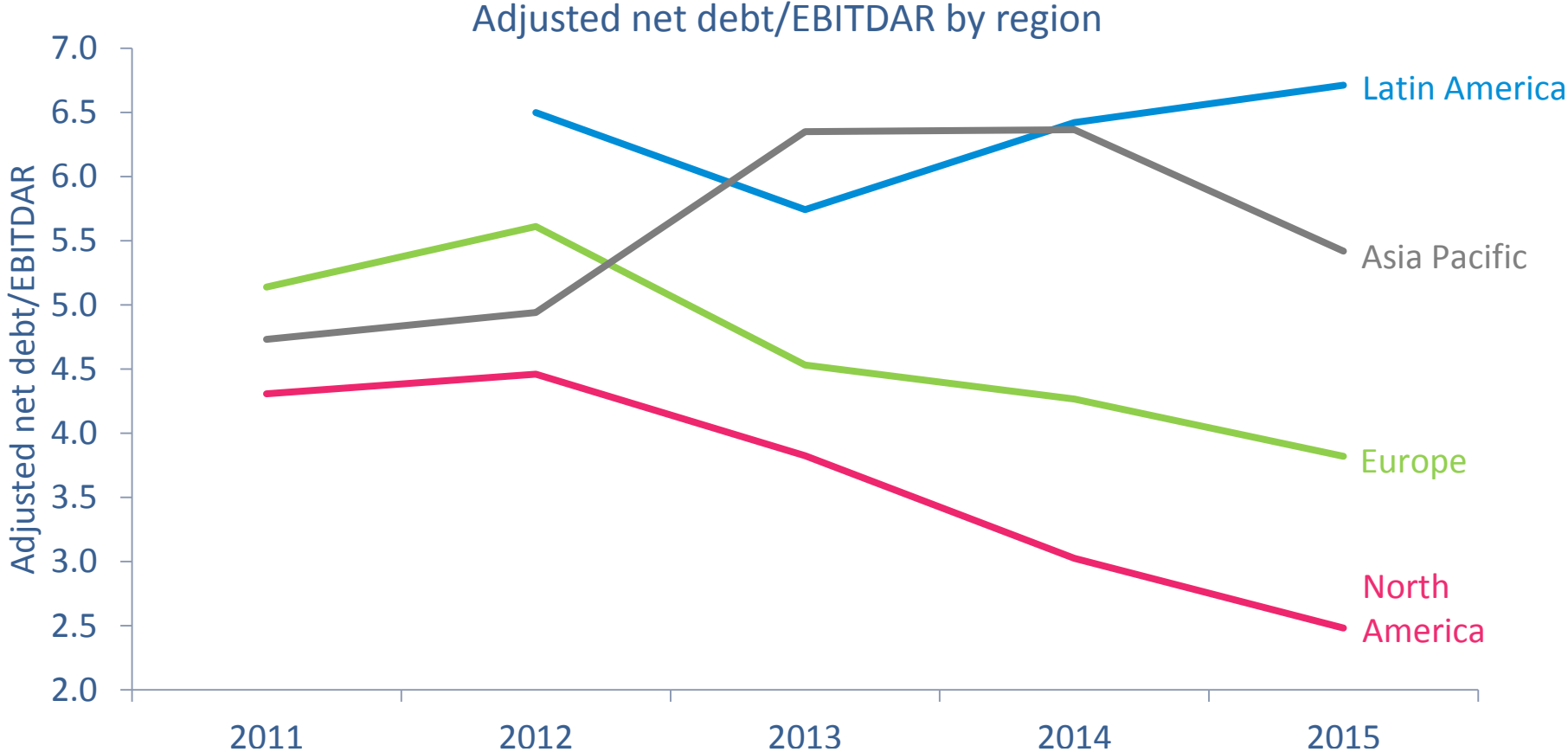


# Return on airline capital now rising in most regions

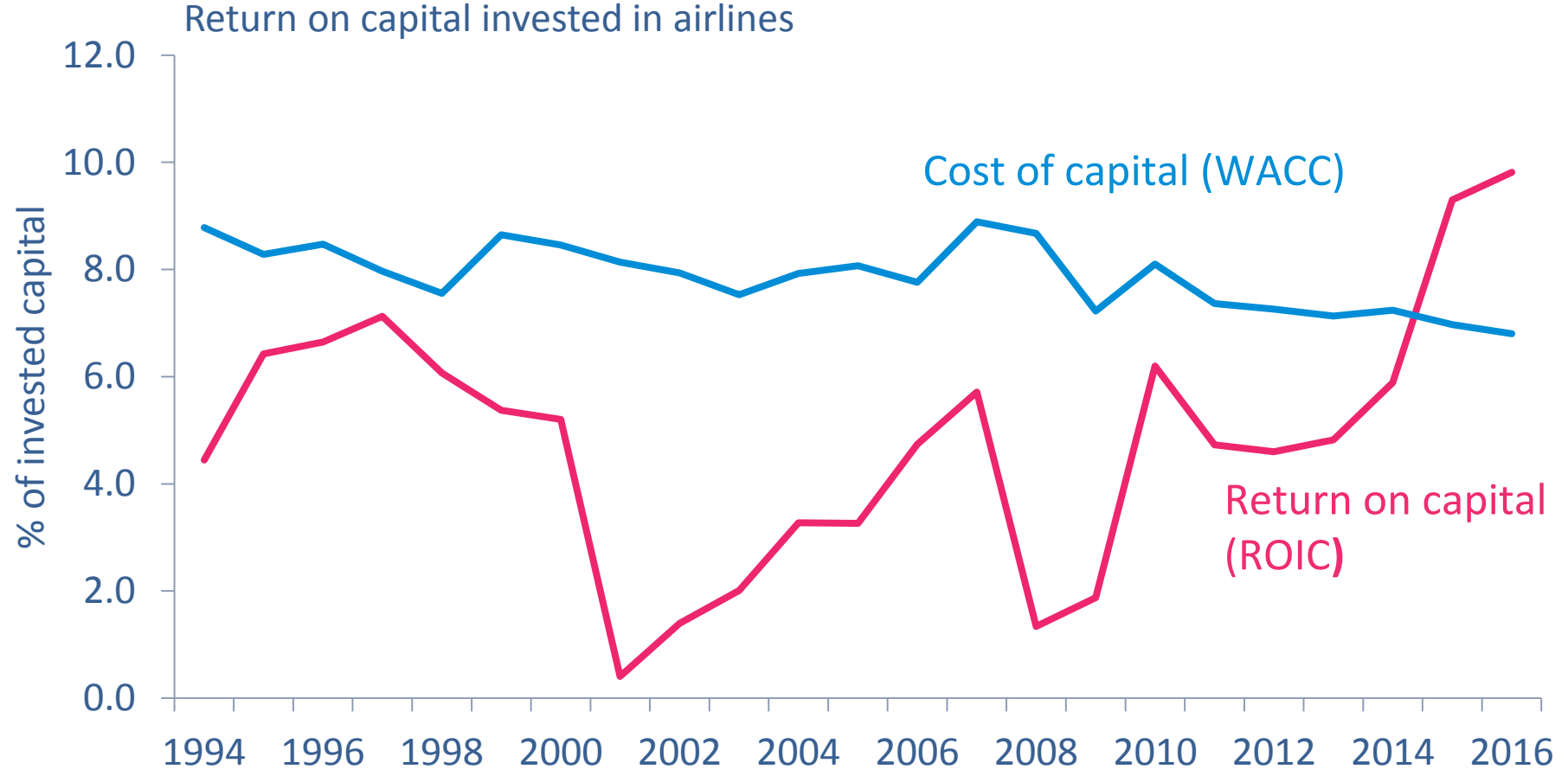




# Balance sheets improved except in L America



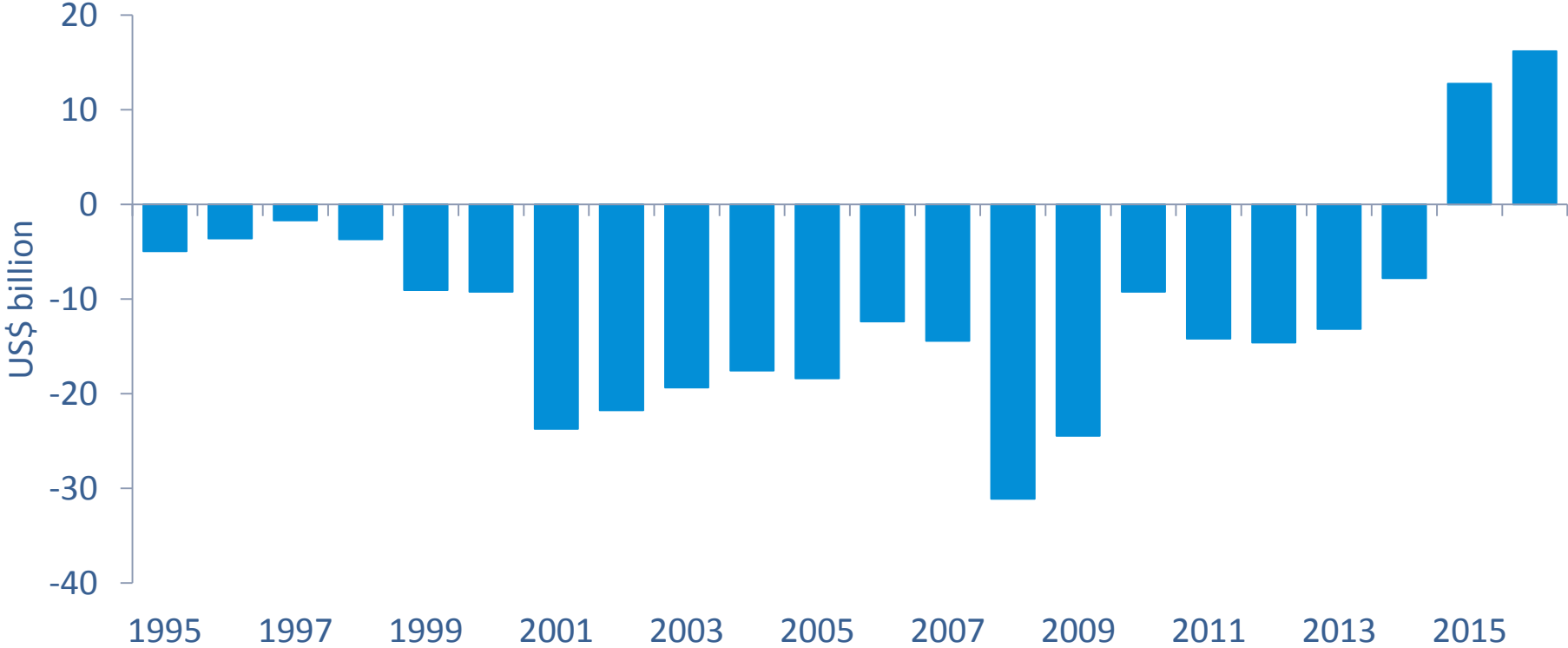
# We forecast a 2<sup>nd</sup> year of above WACC returns



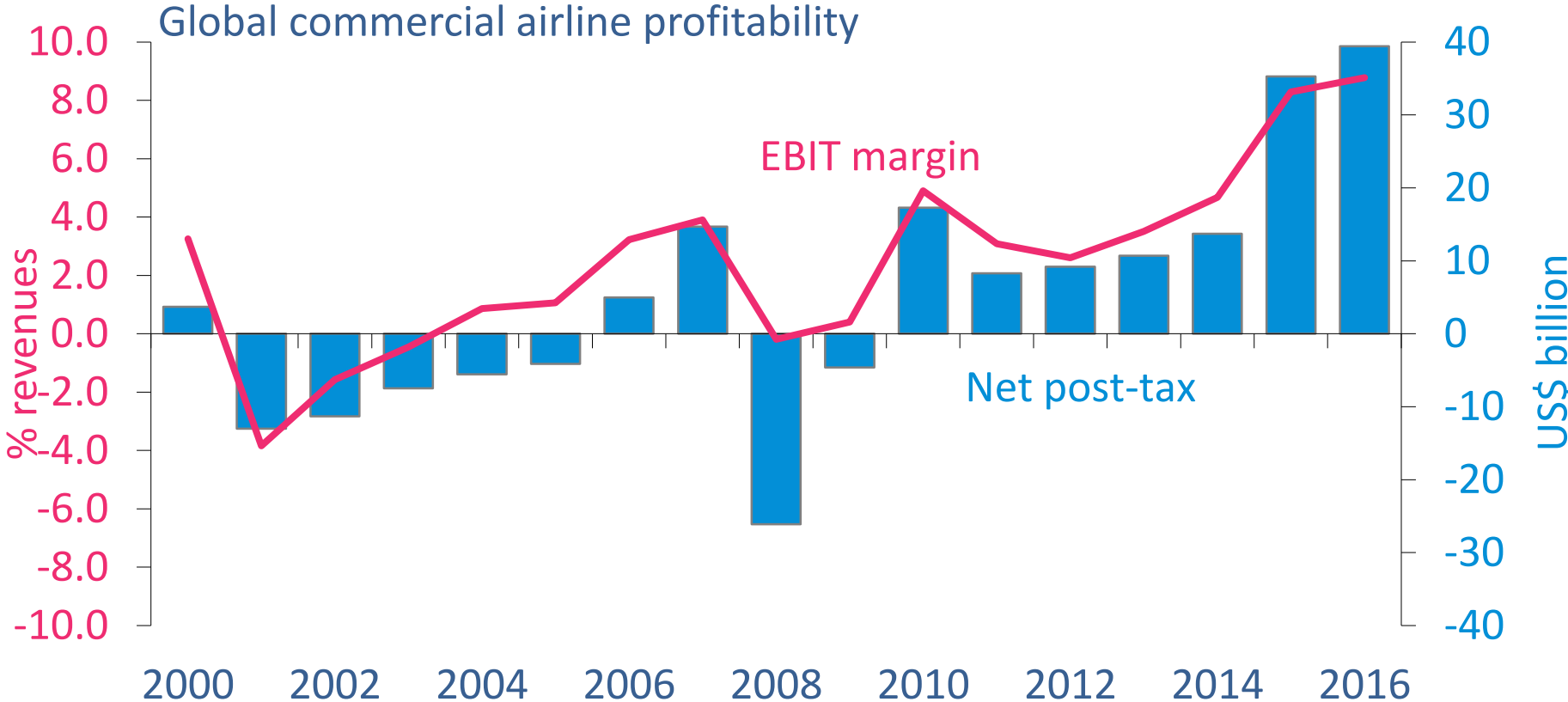


# Just two years of adding value for investors so far

Difference between investing in airlines and investing in similar assets elsewhere



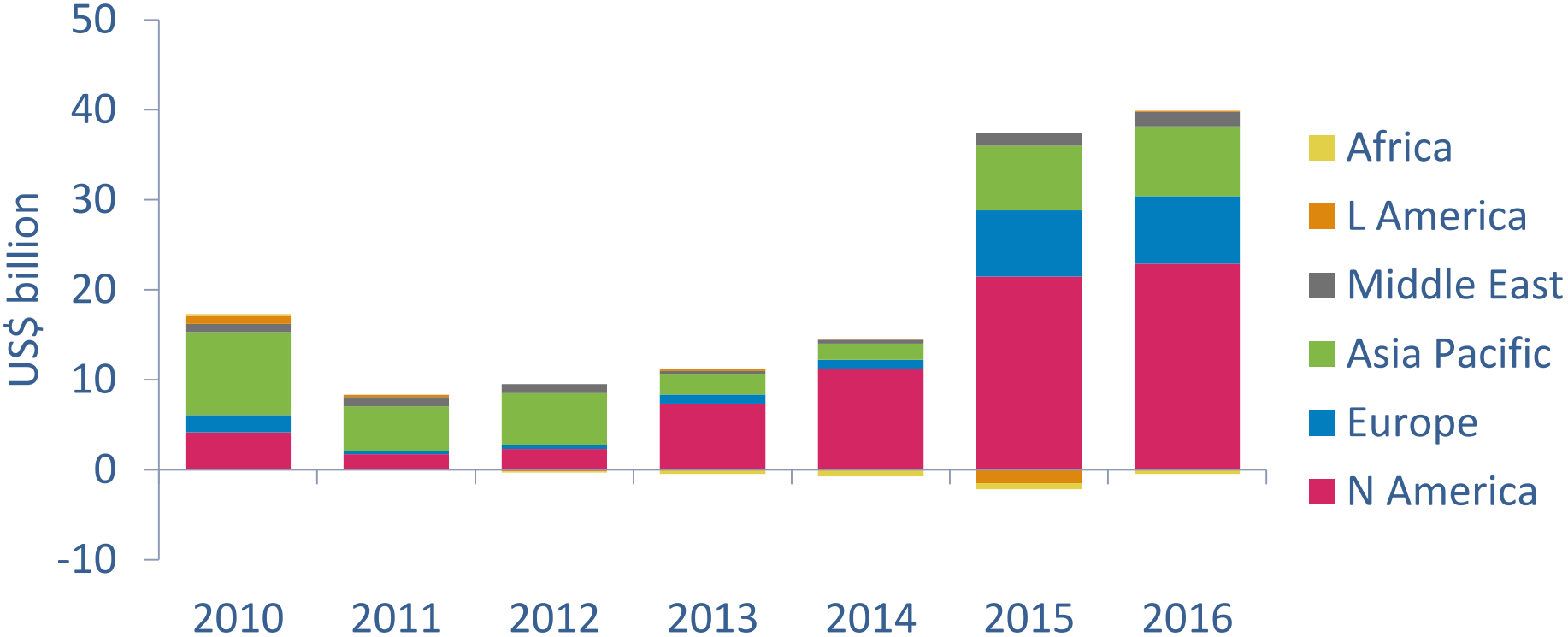
# Net post-tax profits of \$39.4 billion forecast this year



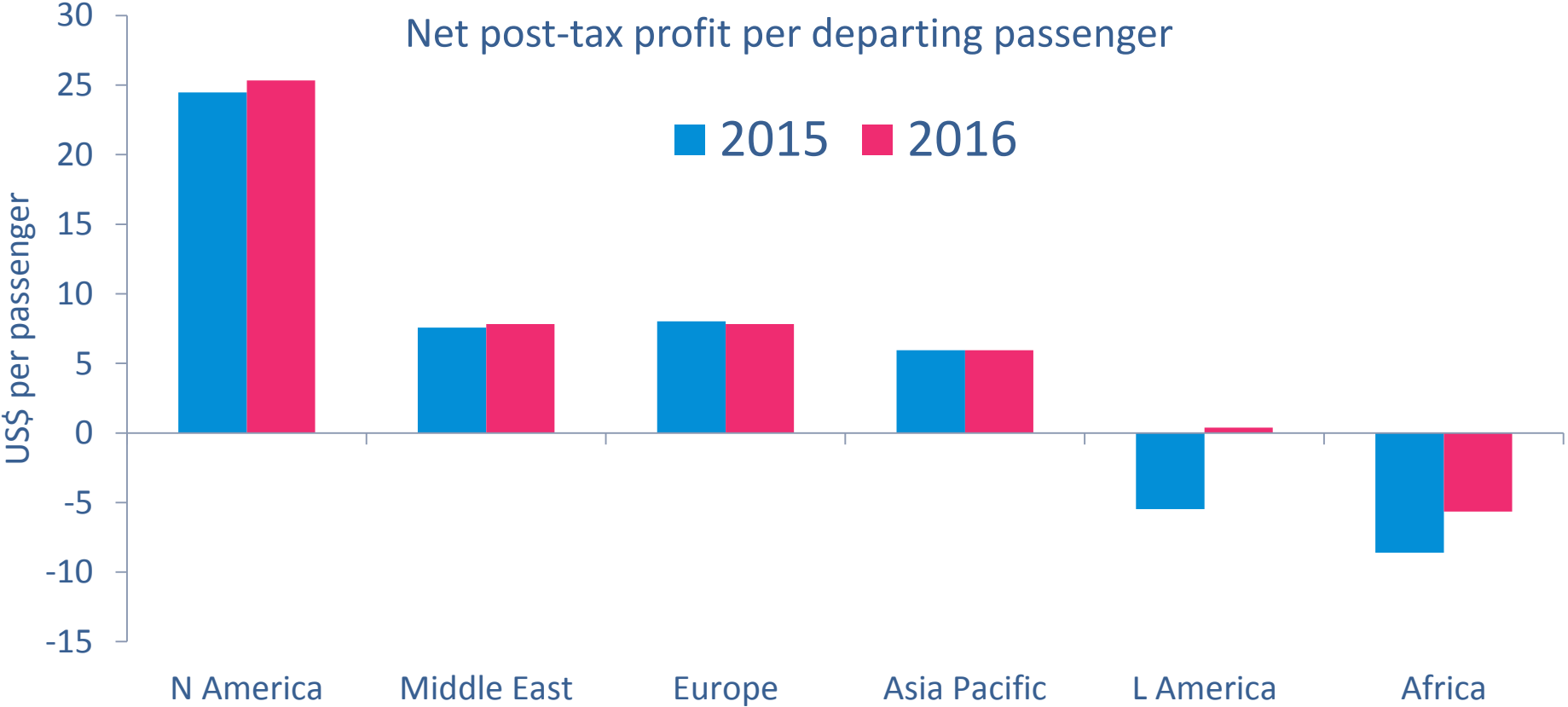
Source: ICAO, IATA

# Driven largely by N America, but also Europe & Asia

## Net post-tax profit by region



# Per passenger profit shows wide regional variation



# Net profit margins show a rather narrower variation

