



# The outlook for commercial air transport

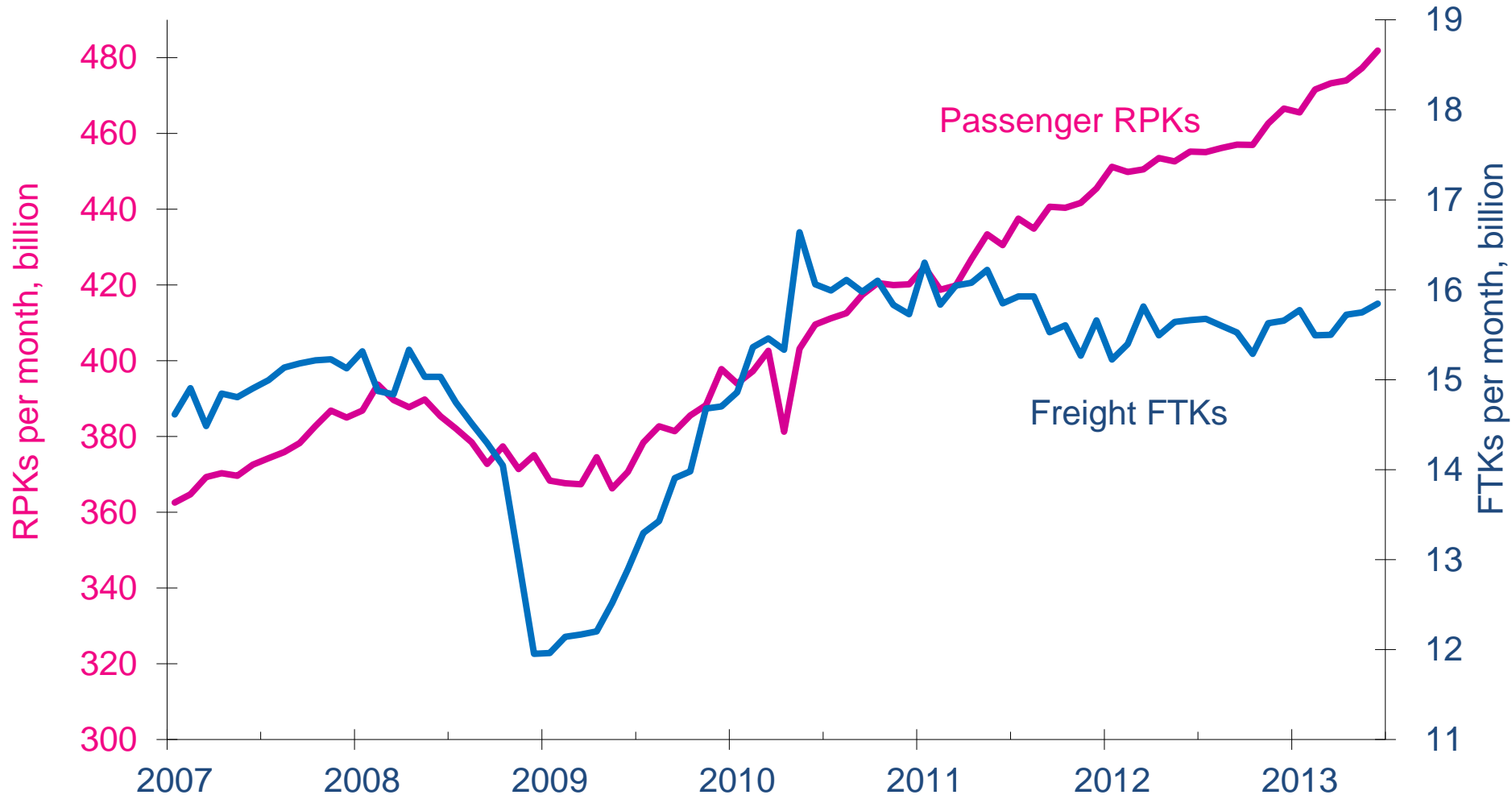
Brian Pearce  
Chief Economist  
[www.iata.org/economics](http://www.iata.org/economics)

To represent, lead and serve the airline industry



# Demand for air travel and cargo diverge

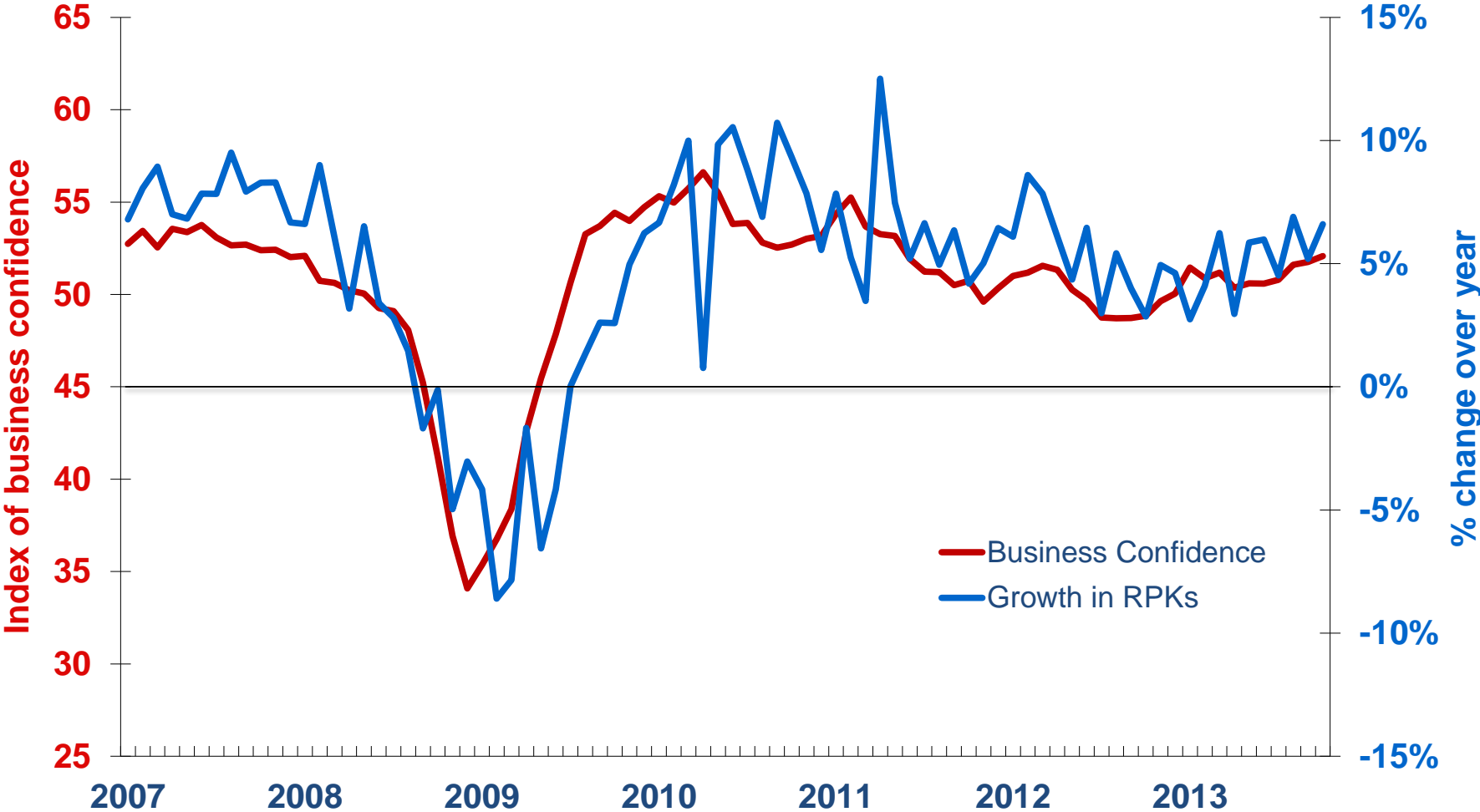
Air travel and air freight volumes  
Seasonally adjusted



Source: IATA

# Air travel growth has risen with confidence

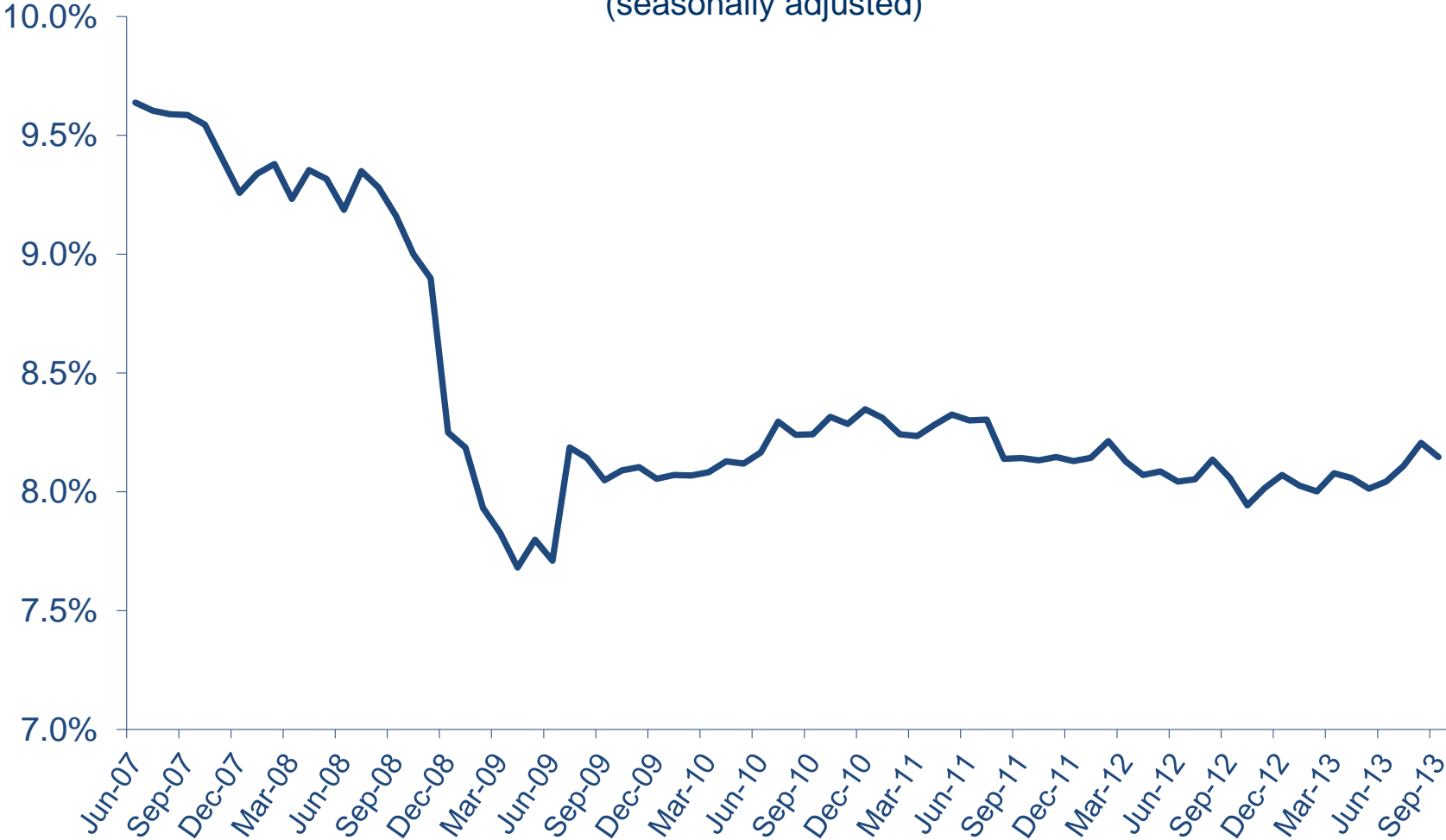
## Worldwide growth in air travel and business confidence



Source: IATA

# But business/first seat demand shifted down

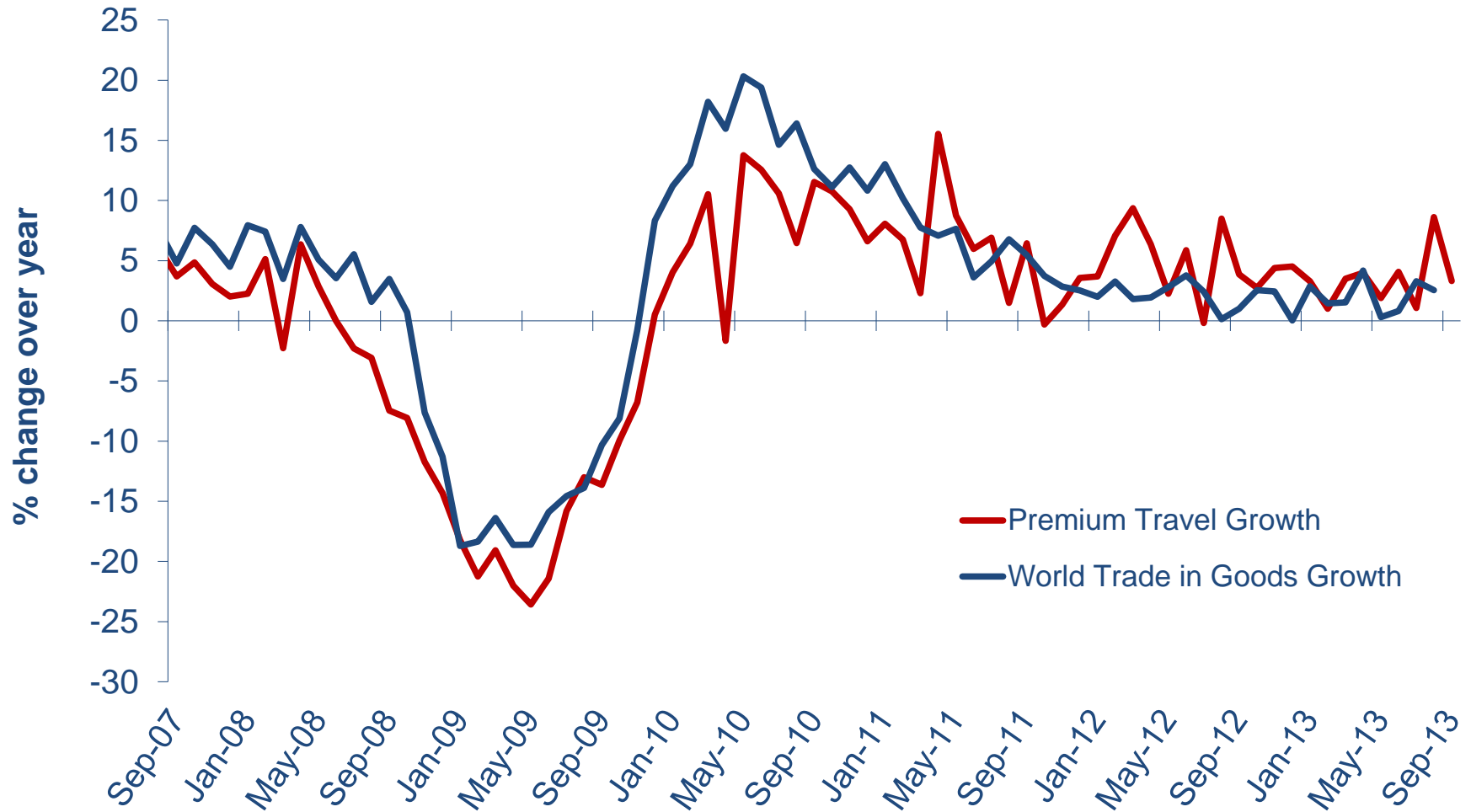
## Premium passengers as a % of total (seasonally adjusted)



Source: IATA

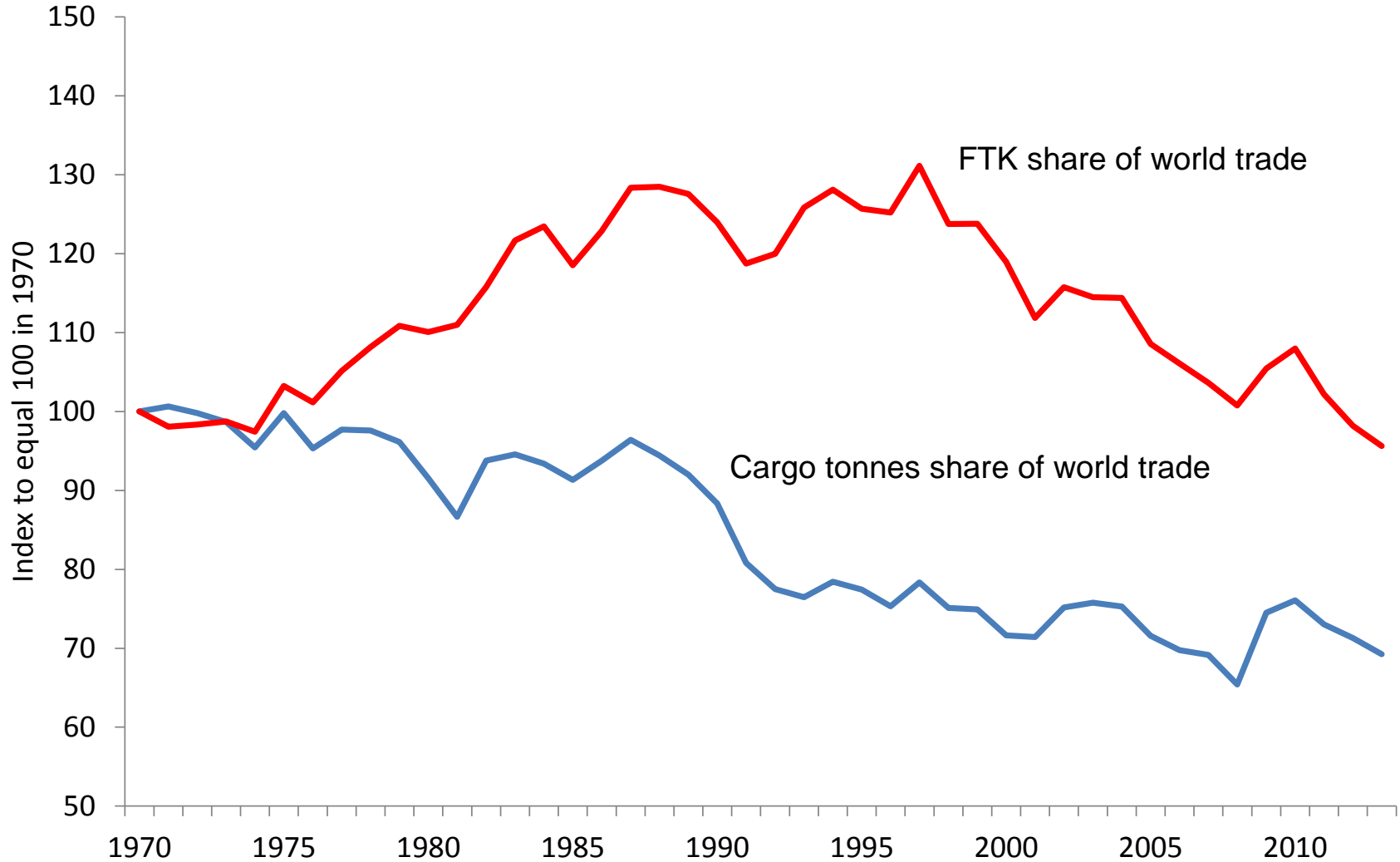
# Because of weak international trade growth

## Premium passengers and world trade growth



# Air cargo is seeing a switch to other modes

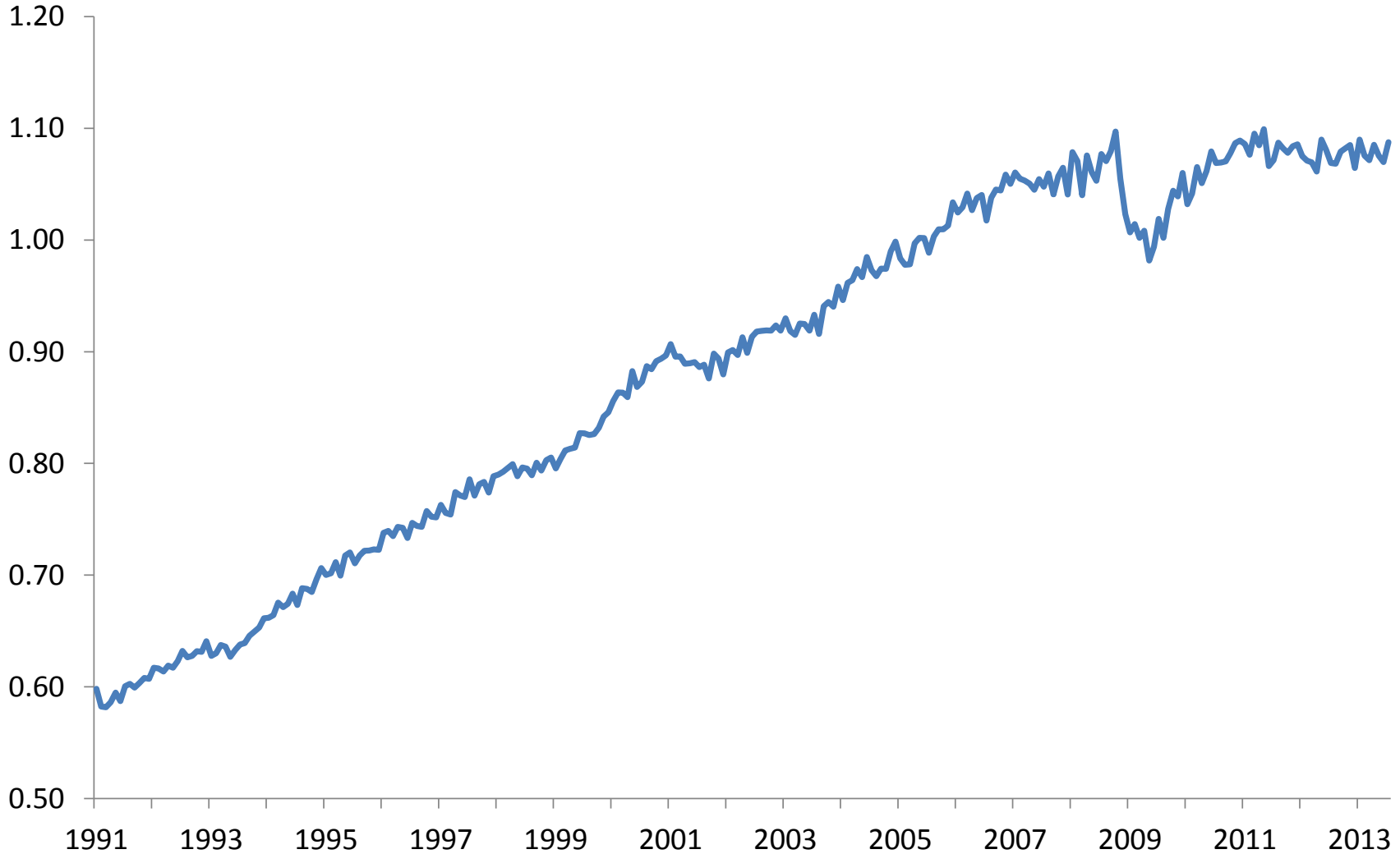
Ratio of air cargo tonnes and FTKs to world trade volumes



Source: World trade – IHS Global Insight, Netherlands CPB Air cargo history – ICAO

# But a bigger problem is world trade weakness

Ratio of world trade to domestic industrial production



Source: Netherlands CPB, IATA

# Partly due to rise in protectionism

Almost 500 protectionist measures taken in 2012

● Number of measures



Source: Global Trade Alert

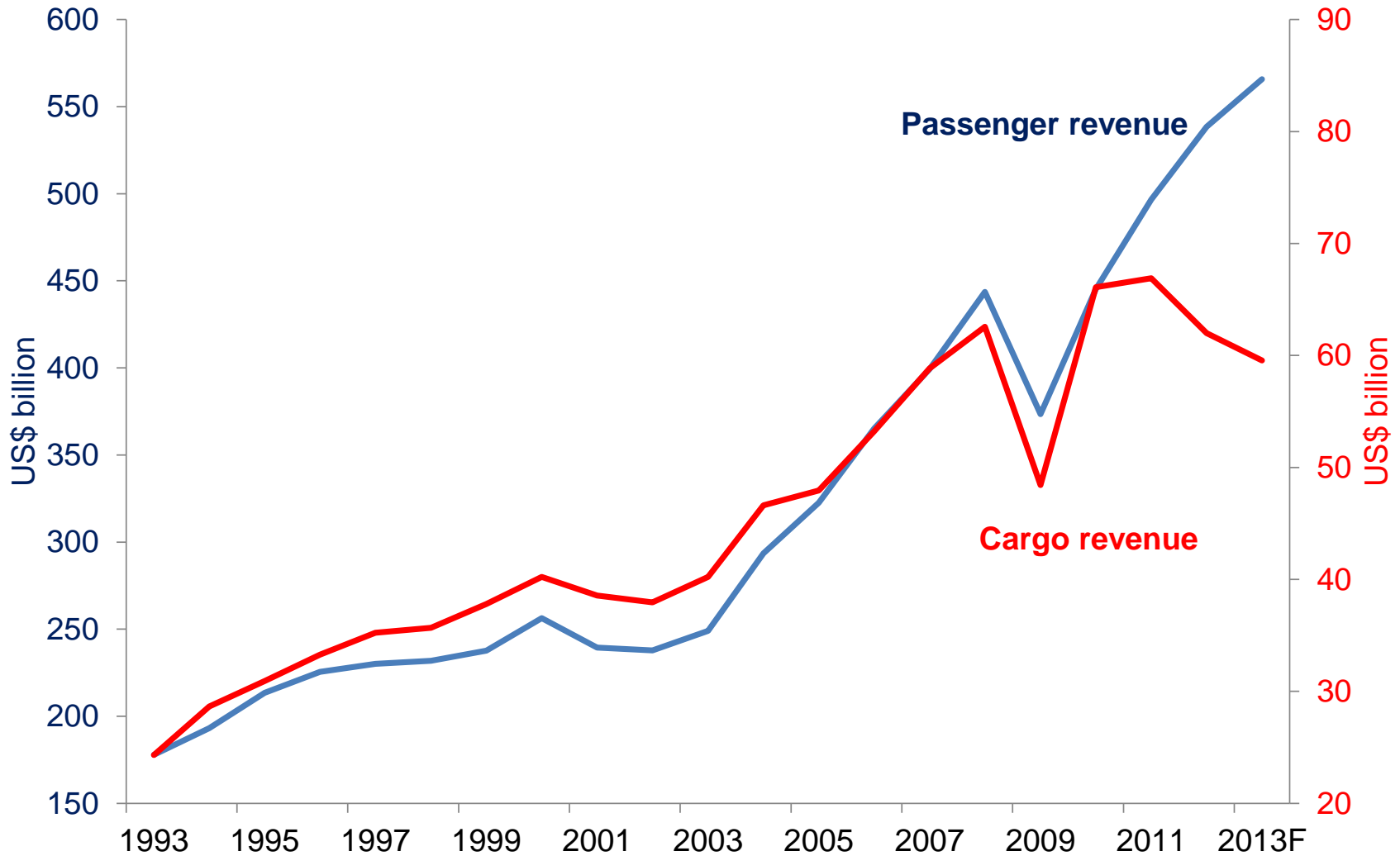


# Bali trade deal positive but more needed

- Trade facilitation welcome
- Doha-lite but endorses multilateral system
- Ratification of MC99 legal framework required
- Regional deals e.g. Trans-Pacific Partnership
- Bilateral deals e.g. US-EU

# Revenue divergence greater than volumes

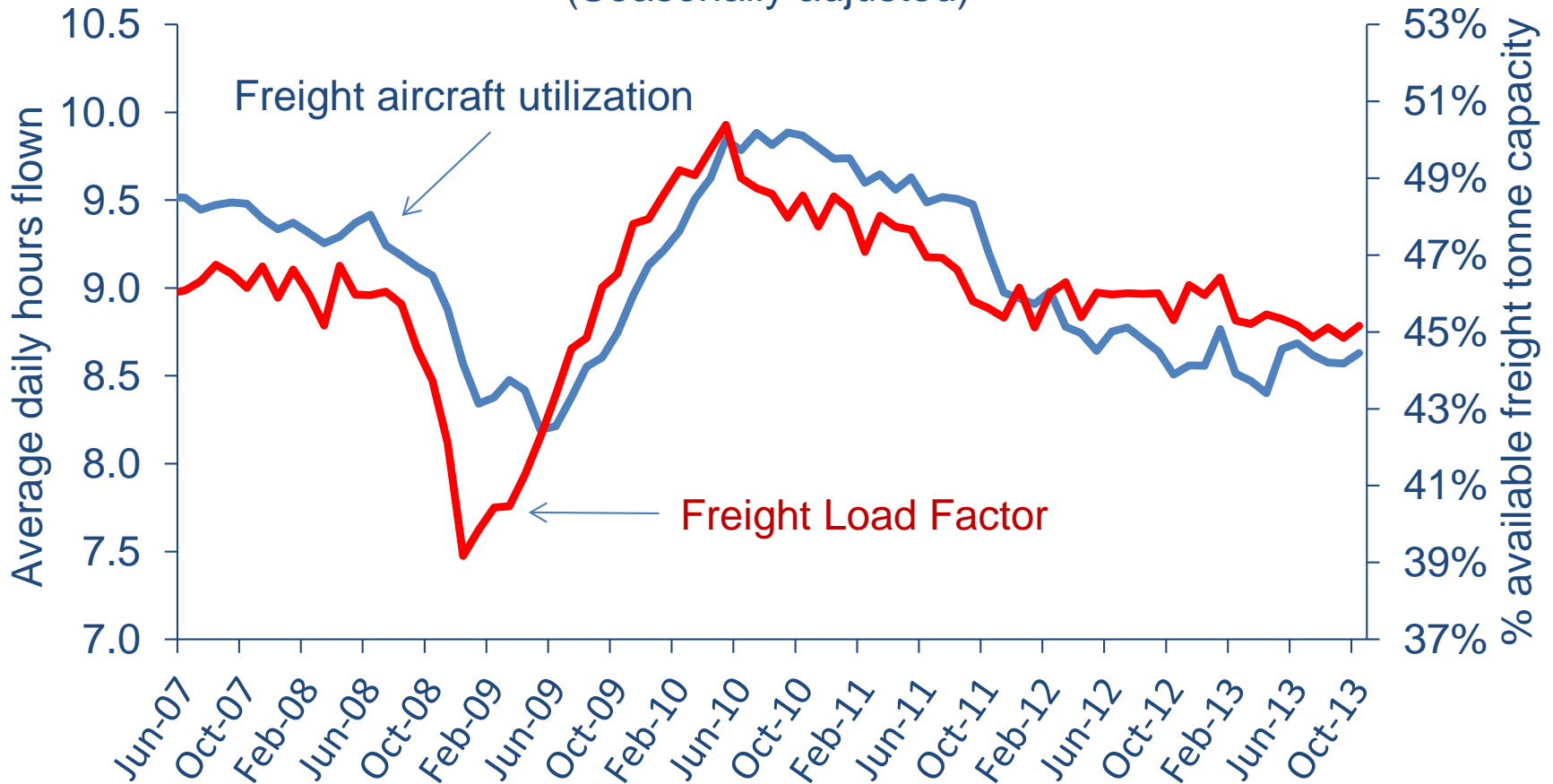
Passenger and cargo revenues



Source: ICAO (history), IATA (forecast)

# Cargo asset utilization under pressure

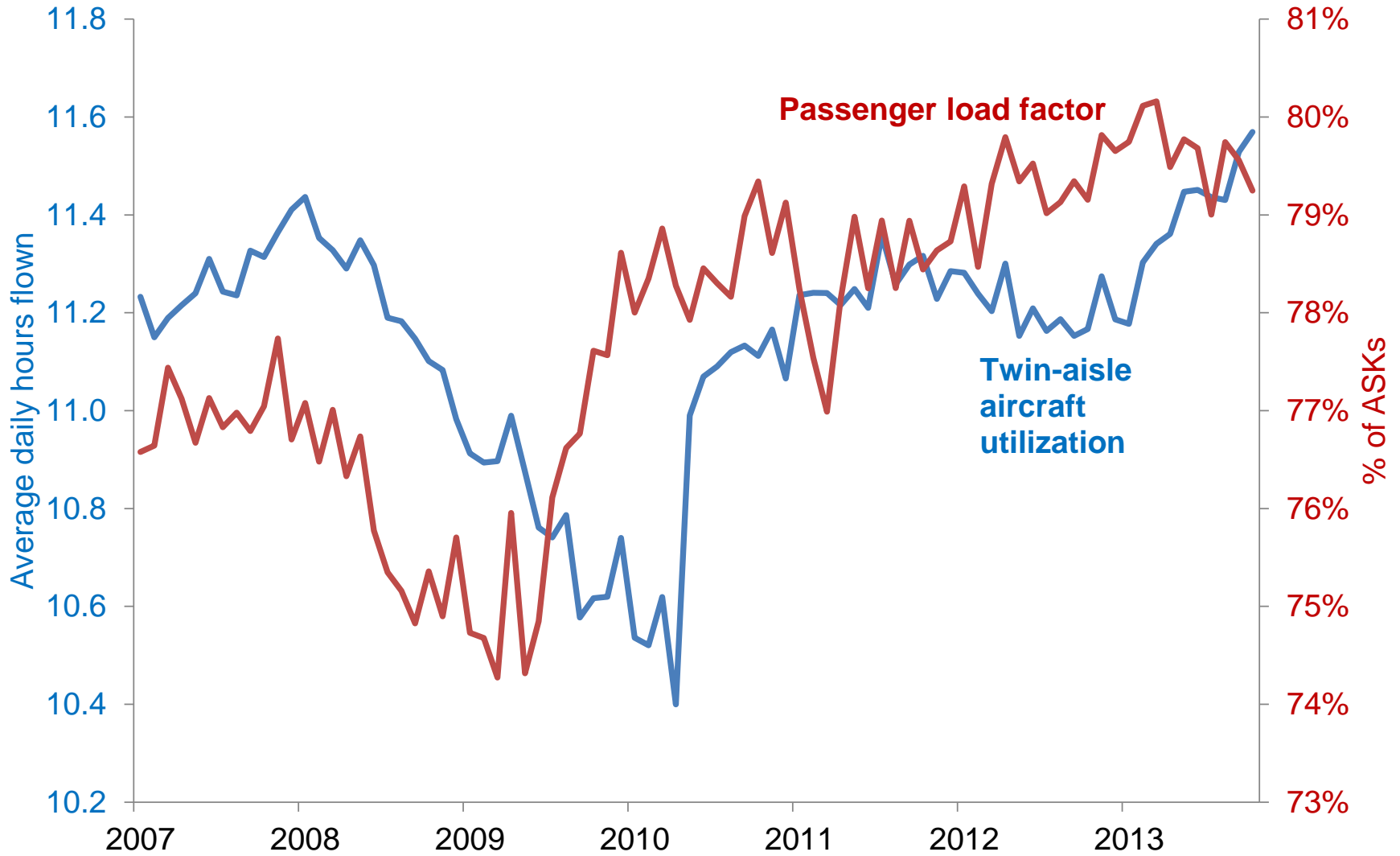
## Freight load factor and freighter aircraft utilization (Seasonally adjusted)



Source: IATA, Boeing

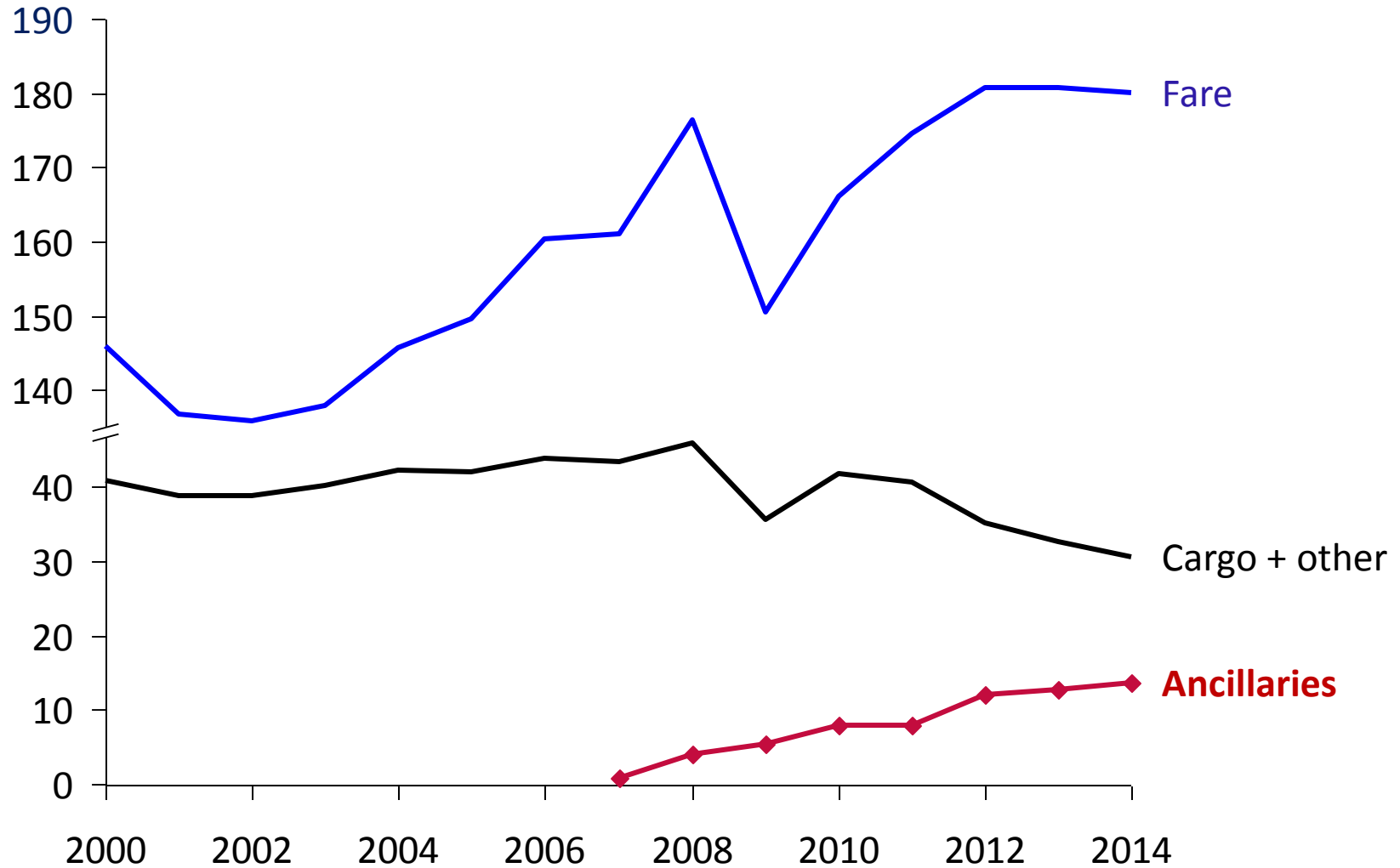
# Asset utilization high in passenger business

## Passenger aircraft utilization



# Ancillary services increasingly important

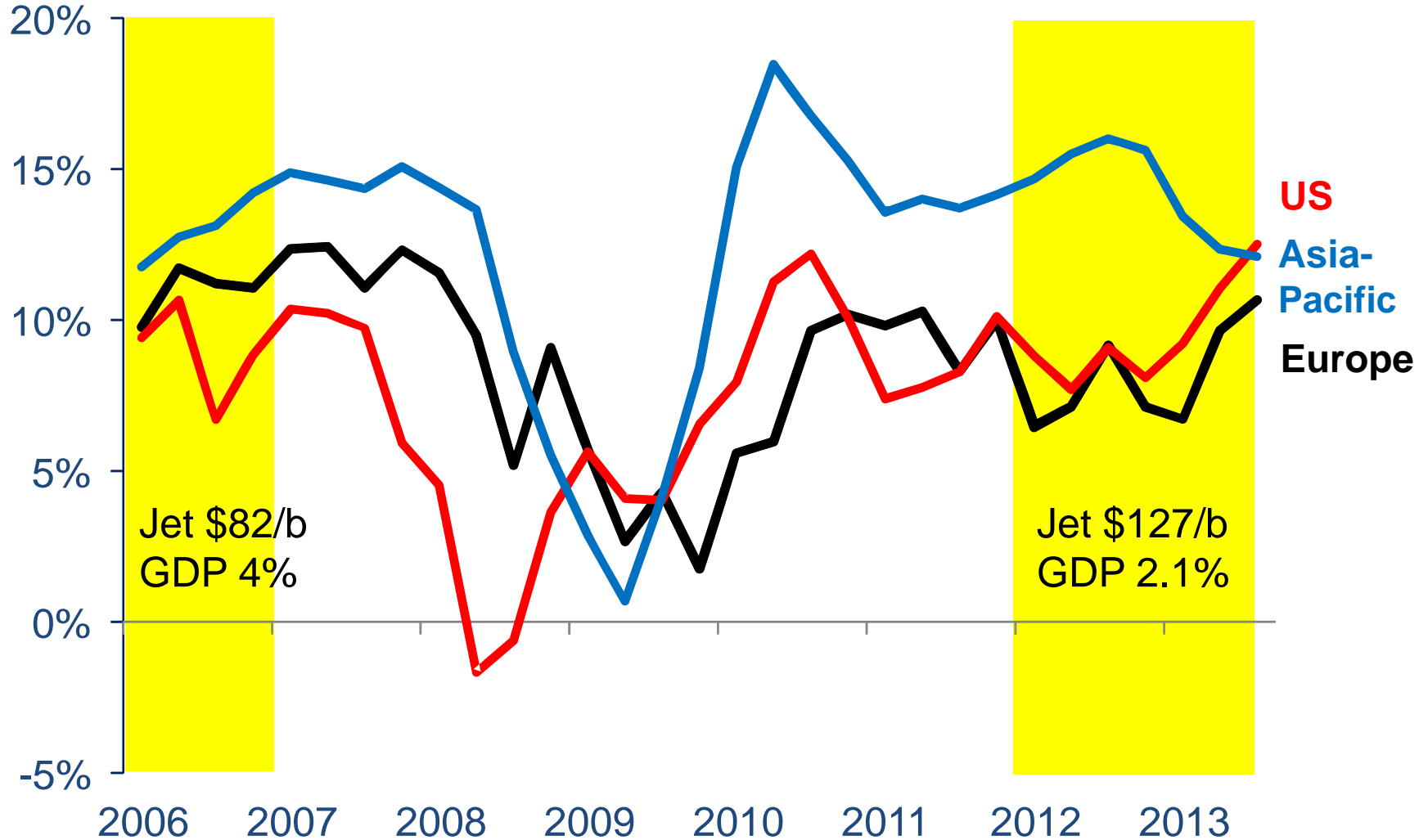
## Revenue per departing passenger



Source: Ancillaries derived from IdeaWorks 2013 report, IATA forecast

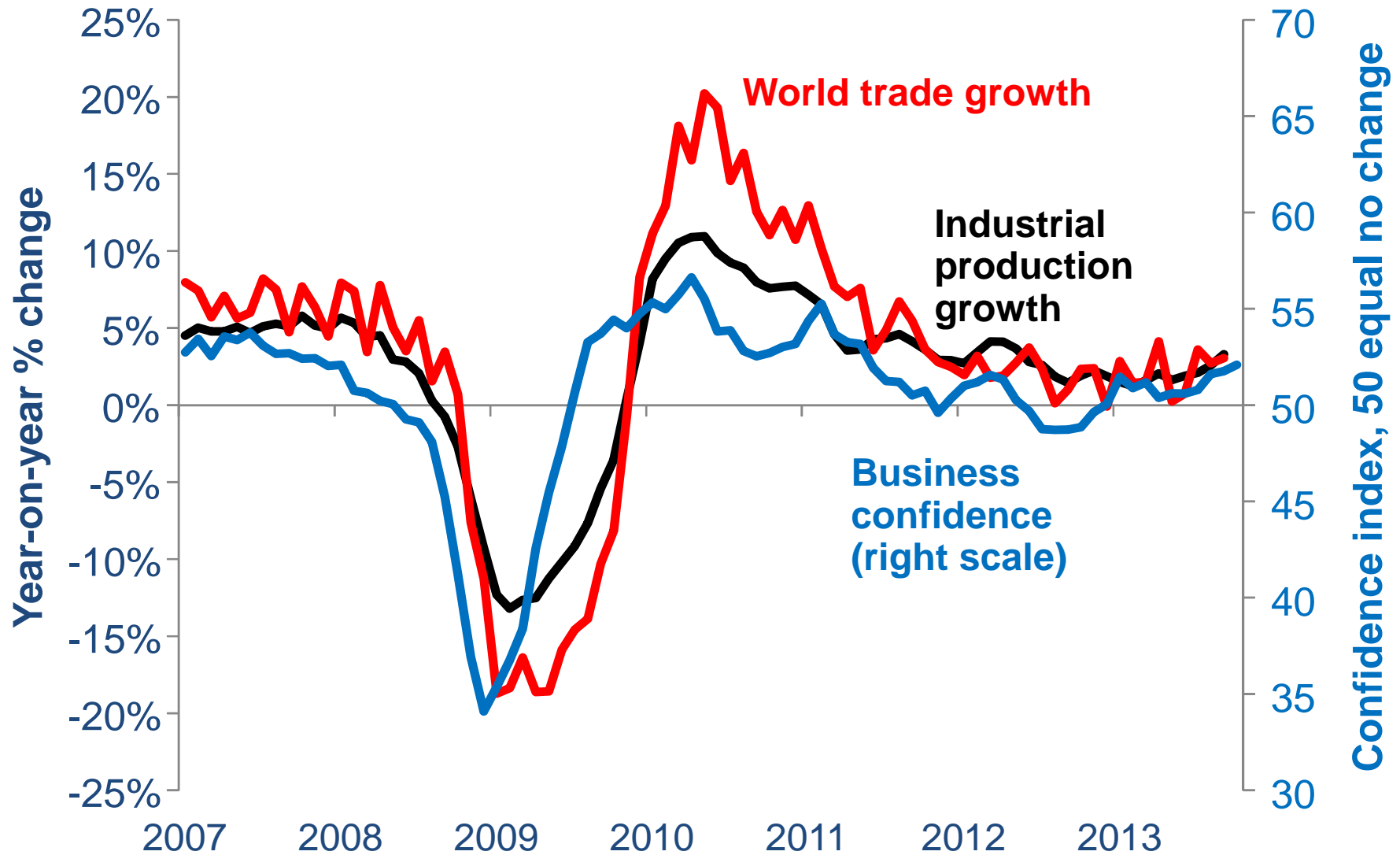
# Cash flows are better than expected

Largest 8 airlines, EBITDA as % revenues, seasonally adjusted



Source: Bloomberg

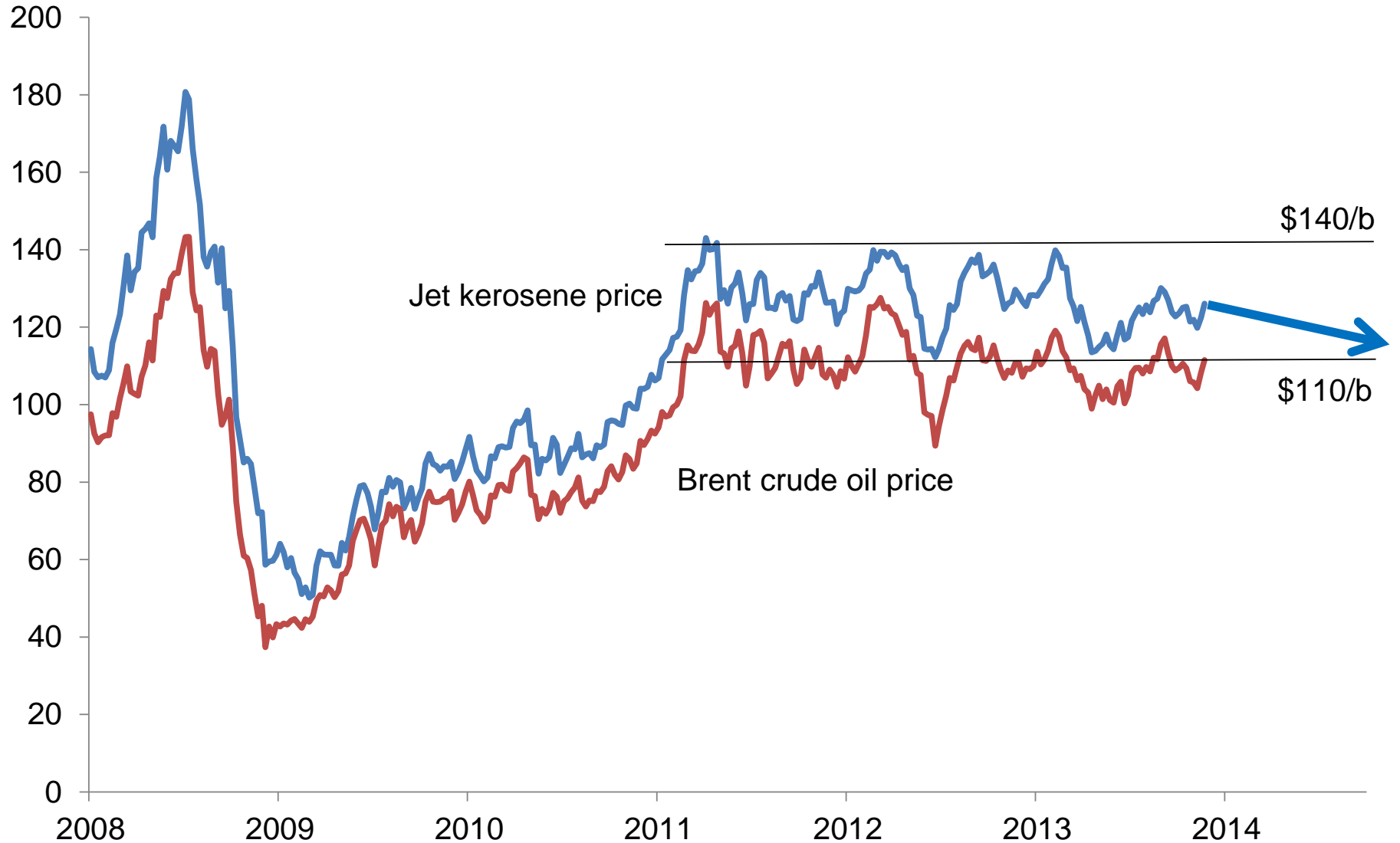
# World economy is finally turning up



Source: Netherlands CPB, Markit

# Jet fuel price to slide to low end of range

Jet kerosene and crude oil price, \$/barrel

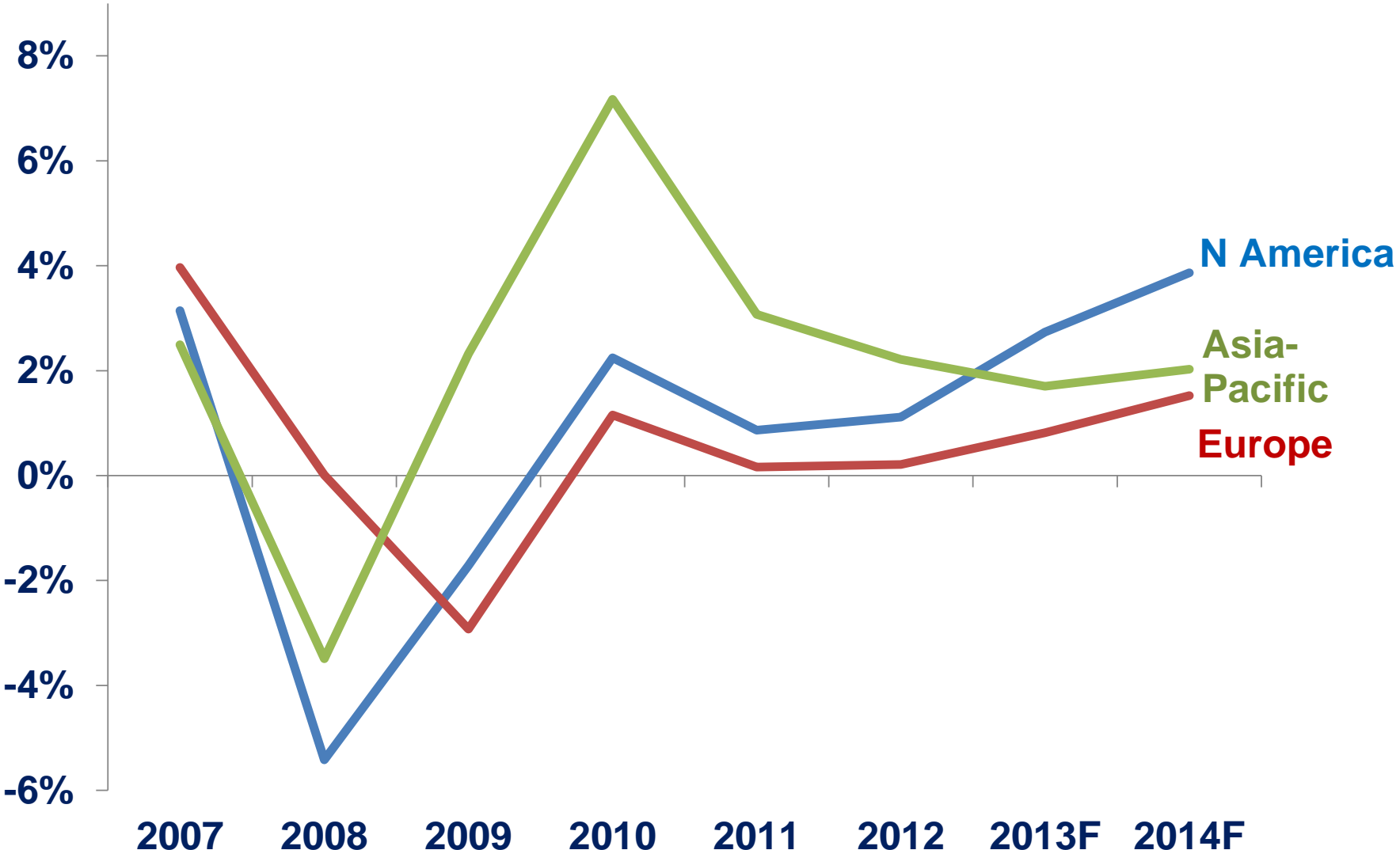


Source: RBS, Platts, IATA



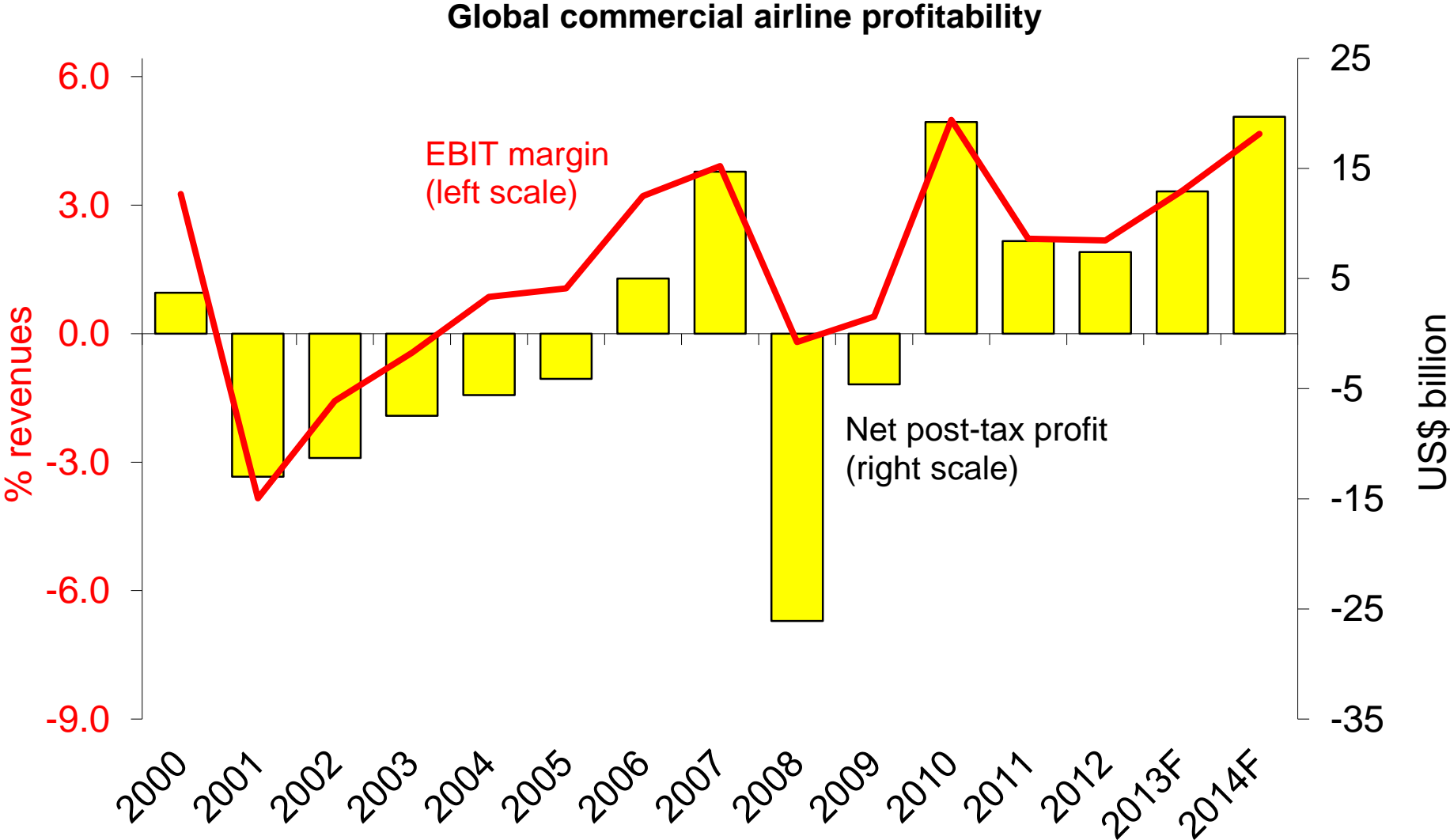
# Better but divergent regional performance

## Airline net post-tax profit margins



Source: ICAO, IATA

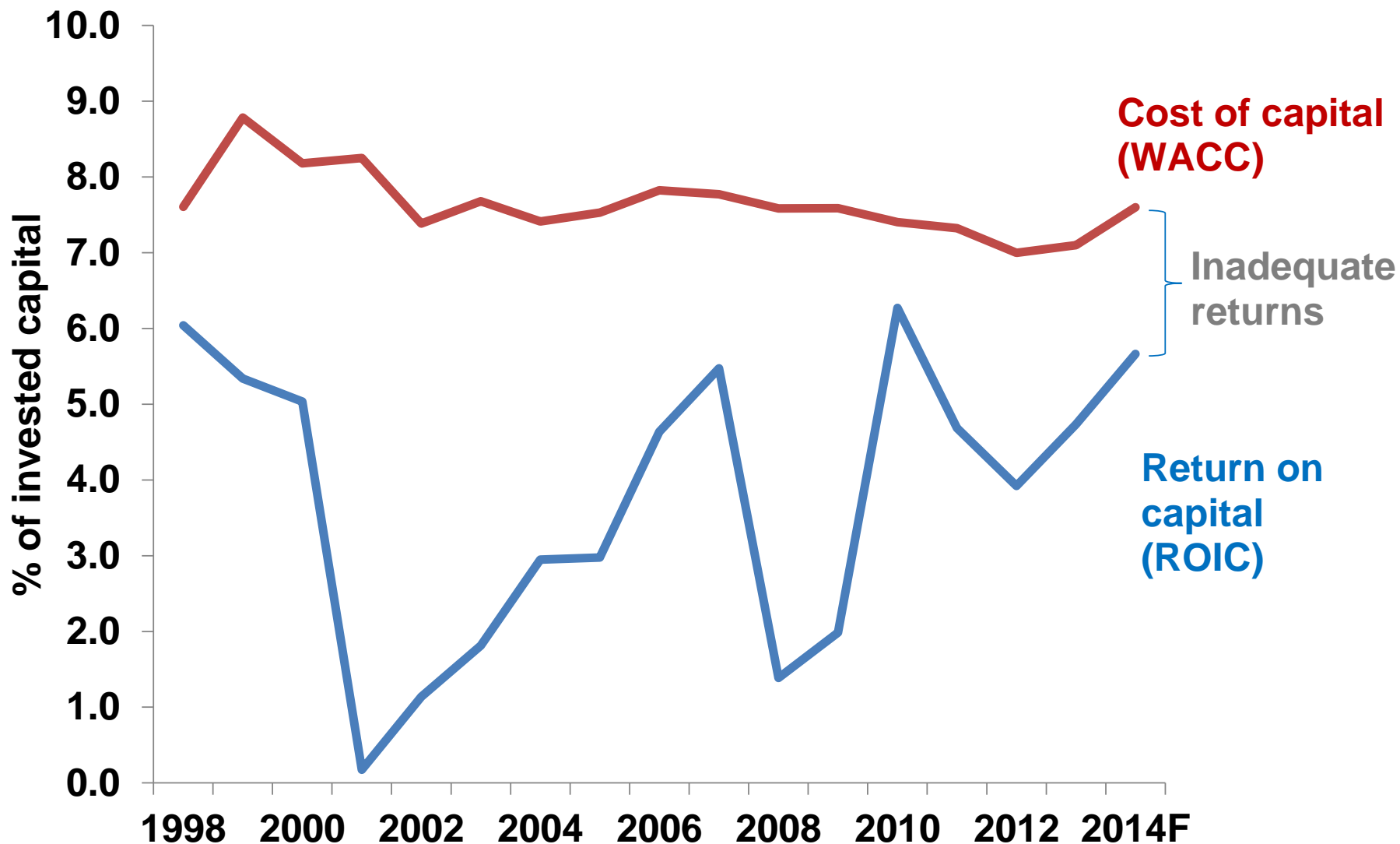
# Industry profitability almost as good as 2010



Source: ICAO, IATA

# Returns up but still inadequate for investors

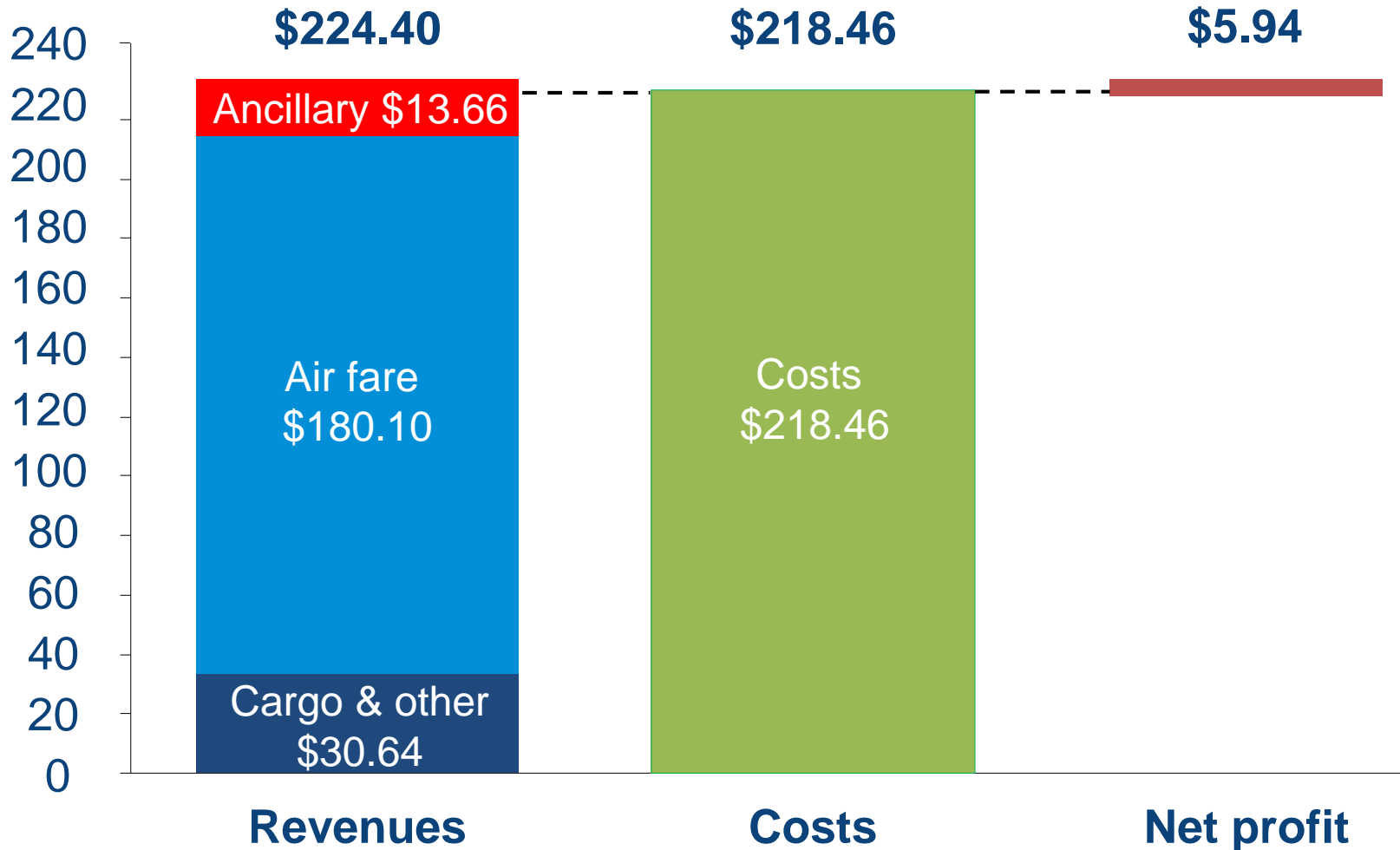
Return on capital invested in airlines and their cost of capital



Source: McKinsey, IATA

# Margins will remain thin and fragile

2014 worldwide results per departing passenger



Source: IATA