

IATA
ANNUAL
GENERAL
MEETING

Global Outlook for Air Transportation

Marie Owens Thomsen

Senior VP & Chief Economist
IATA Sustainability & Economics



Global GDP Growth

2021

6.3%

2023

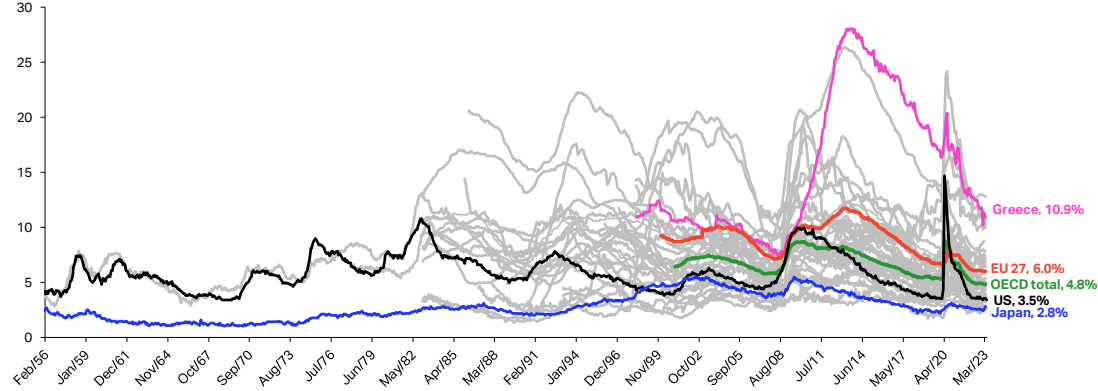
2.8%



On the topic of prosperity, many fear a recession. This is a sentiment that is likely linked to the sharp slow-down in global GDP growth from over 6% in 2021 to just below 3% in 2023. No doubt, that deceleration is painful for many, but the average global GDP growth rate is around 3% since the 1970s.

Labor markets remain tight With the unemployment rate at historic lows

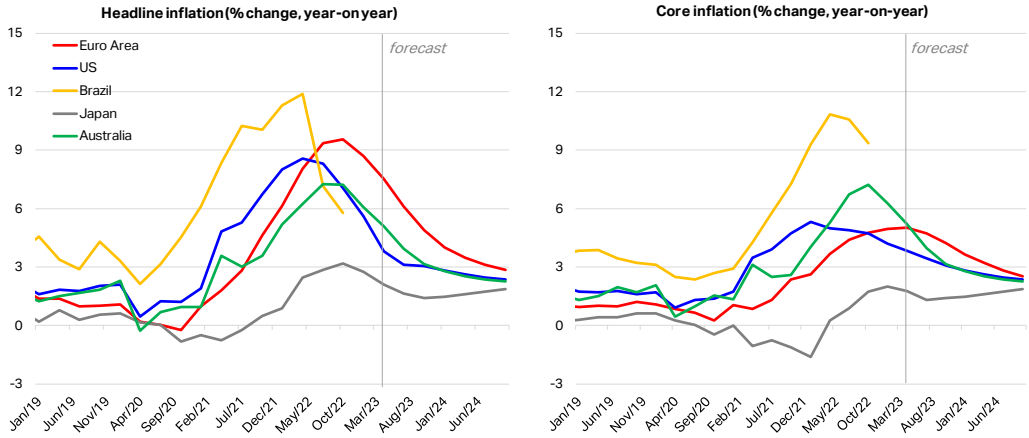
Unemployment rate, % share of labor force



Source: IATA Sustainability and Economics using OECD Statistics



Inflation likely peaked in 2022



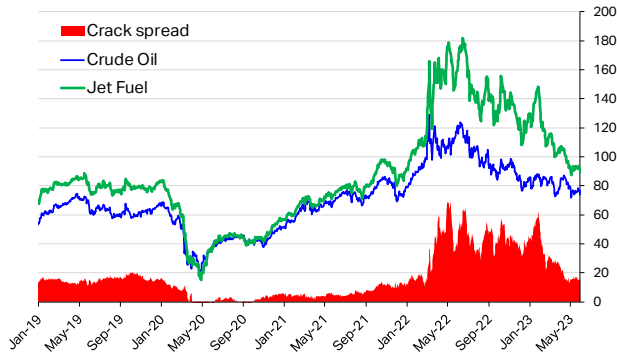
Source: IATA Sustainability and Economics using OECD Economic Outlook



Pressures on operating costs peaked in 2022

Jet crack spread also narrows

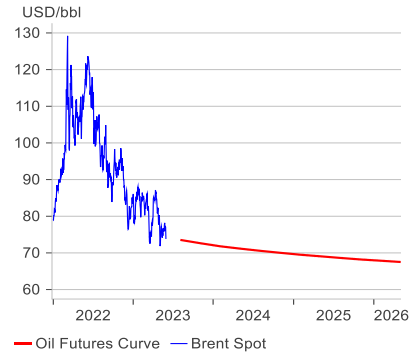
Jet fuel price and crude oil price



Source: IATA Sustainability and Economics, Platts – S&P Global, Macrobond

Brent Oil, Spot Price

ICE Oil Futures as of 31-May-23 (qtrly)



MACROBOND



- Russia's invasion of Ukraine caused a significant shock to the global economy, especially to energy and food markets – squeezing supply and pushing up prices to unprecedented levels.
- But Crude oil price is trending down since June 2022, jet crack coming down from the peak, and has been below \$40 per barrel in recent weeks.
- Market expects crude oil price to remain at around \$70 per barrel for the rest of the year.



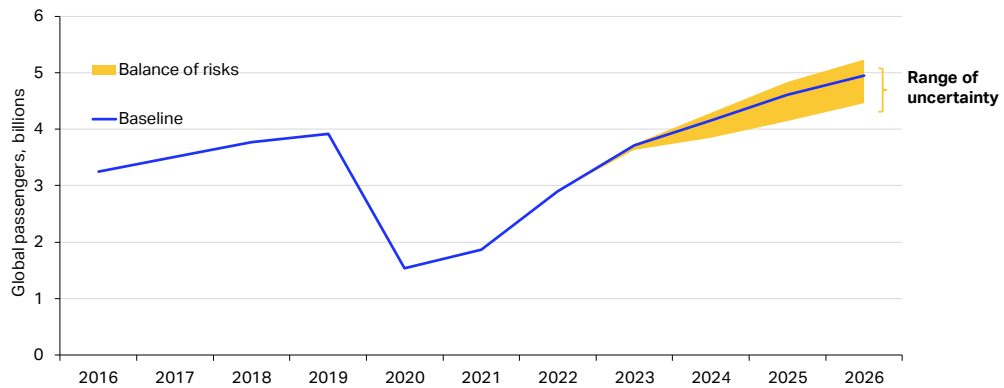
Traffic at -12.2%

Full year 2023 RPKs versus 2019

Still, on the back of this strong pent-up demand, we expect full year 2023 global traffic (RPKs) in our industry to reach 87.8% of 2019. We expect the industry to recover fully to the 2019 level in 2024. We do remain impaired though, and it might take years before we catch up with the pre-Covid trend in traffic.

Passenger traffic expected to recover in 2024

Risks are still tilted to the downside

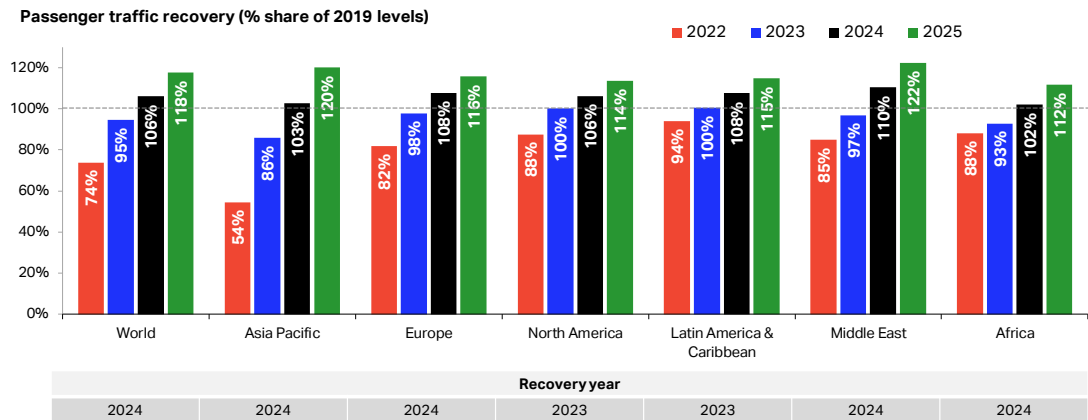


Source: TourismEconomics/IATA Sustainability and Economics



- Risk of a global recession is slim, but slowing growth rates still represent a drag.
- A number of risks, notably a strong USD, rising interest rates, and war in Ukraine, tilt our range of possible outcomes to the downside.
- For the long-term, climate related costs and impacts are also a concern.

Forecast upgrades reflecting recent developments North America and Latin America to recover in 2023, ASPAC in 2024

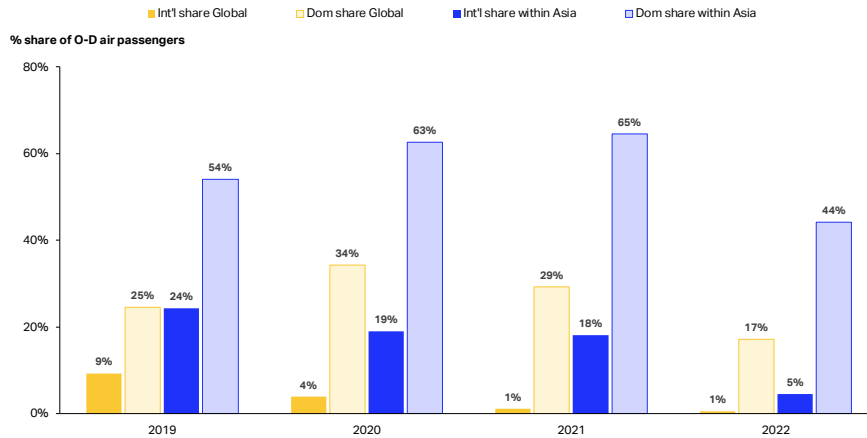


Source: Tourism Economics/IATA Sustainability and Economics Air Passenger Forecasts as of March 2023



- Reflecting the recent developments in Asia-Pacific, we have revised our forecast for the region upwards, now recovery is expected for 2024 (vs 2025 previously)
- The reopening on China will have not only a large effect on the global recovery but also on international traffic within the region, since traffic between neighboring countries were among the most traffic intensive routes in 2019
- North America is still expected to recover in 2023, previously having led the world in terms of recovery
- LATAM has also been revised upwards, reflecting the strong recovery in some countries and international markets within the Americas and between Europe and the Americas

Shares of China's aviation market in global and Asia

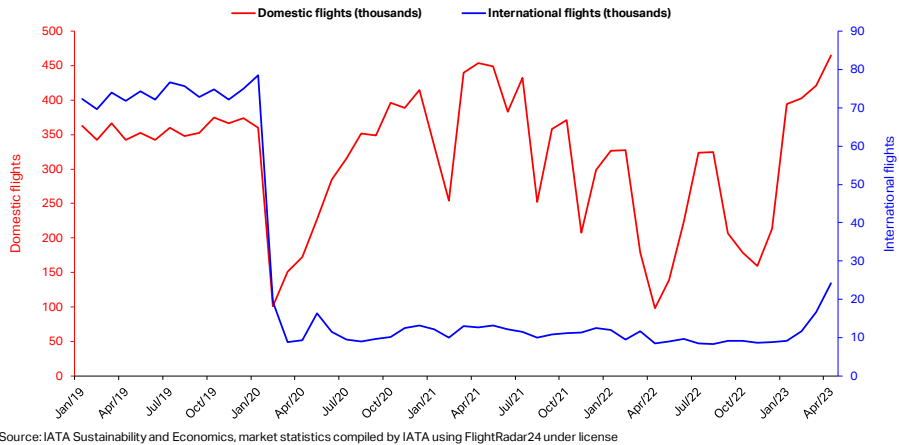


Source: IATA Sustainability and Economics, using data from DDS for inbound and outbound origin-destination (O-D) passengers
 Note: Based on OAG data, scheduled seat capacity shares of China in 2019 were 9% of global international, 22% of global domestic, 17% of international within Asia, and 51% of domestic within Asia.



- Before the Covid-19 pandemic in 2019, China accounted for 9% of global international air passenger demand and 25% of global domestic demand.
- Within Asia, China had a dominant market share in both domestic (54%) and international markets (24%), making China the largest point of origin for travelers in the region.
- During the pandemic period, China's share of international air travel demand dropped to only 1%.
- As China's domestic market was less affected by China's zero-Covid policies, its share of global domestic demand actually increased to 34% and 29% in 2020 and 2021, respectively, before dropping to 17% in 2022 when China tightened its domestic air traffic flow to contain the Omicron variant.
- Given the significant size of China's air travel markets, the rapid recovery in the number of air travelers in the country will contribute to the recovery of total domestic and international air passenger traffic.

China's domestic and international monthly flights

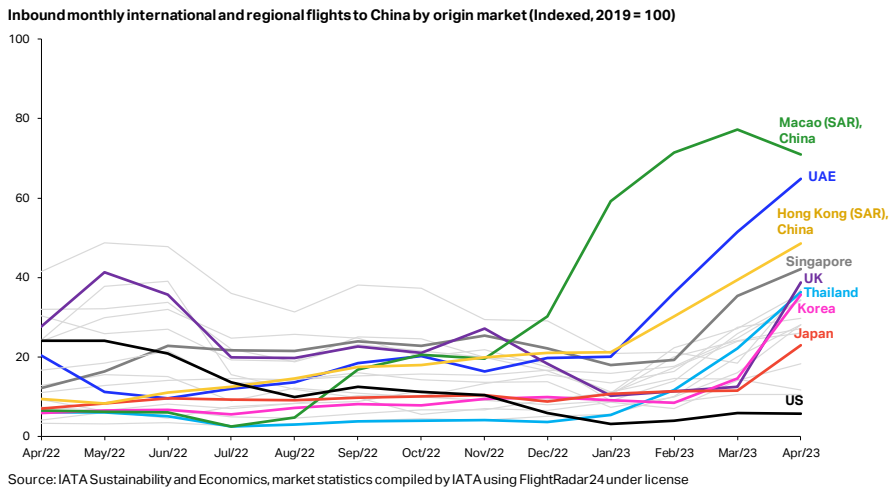


Source: IATA Sustainability and Economics, market statistics compiled by IATA using FlightRadar24 under license



- Domestic air traffic (red line) in terms of monthly number of flights already exceeded pre-Covid levels, despite with fluctuated with steep traffic declines and V-shaped rebounds in response to changing travel policies; while international (blue line) is on an upward trend after the announcement of reopening.
- In March 2023, domestic available seat kilometers (ASK) in China were already 13.6% above their 2019 levels, and domestic revenue passenger kilometers (RPKs) were only 3.3% below the same month in 2019
- Domestic air travel demand is expected to fully recover first, potentially by summer 2023. International demand will follow, and we provide estimates of the possible recovery timing for international inbound traffic in the next slides.

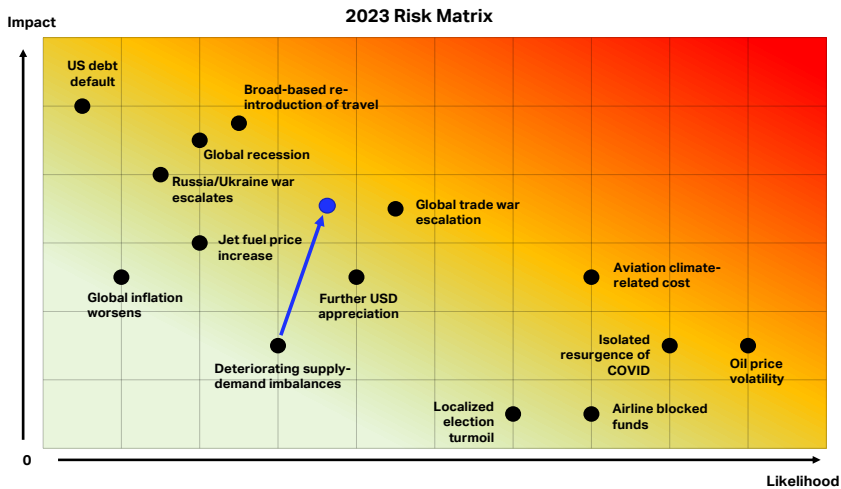
The status of China's international inbound capacity



This chart shows China's top 20 international markets, which accounted for 90% of China's international flights in 2019

- Since the reopening, flights from the US (black line) to China have remained at less than 6% of their 2019 levels since the start of this year, and flights from France and Canada to China are only about 11% of pre-Covid levels. **This highlights the importance of diplomatic relations and coordinated travel policies to ensure the resumption of stable international air travel.**
- In comparison, international and regional flights originating from countries and regions in Asia are leading in the recovery, notably with April flights recovering 71% for Macao (green line) 49% for Hong Kong (yellow line), and 42% for Singapore (grey line).
- With airlines restarting service from the Middle East region, UAE (blue line) to China flights have recovered to 65% of pre-pandemic levels

Industry risks highlighted for 2023



Source: IATA Sustainability and Economics



Risk matrix we recently developed to help us map out our key risks for this year, 2023, by likelihood on one axis and impact on the other.

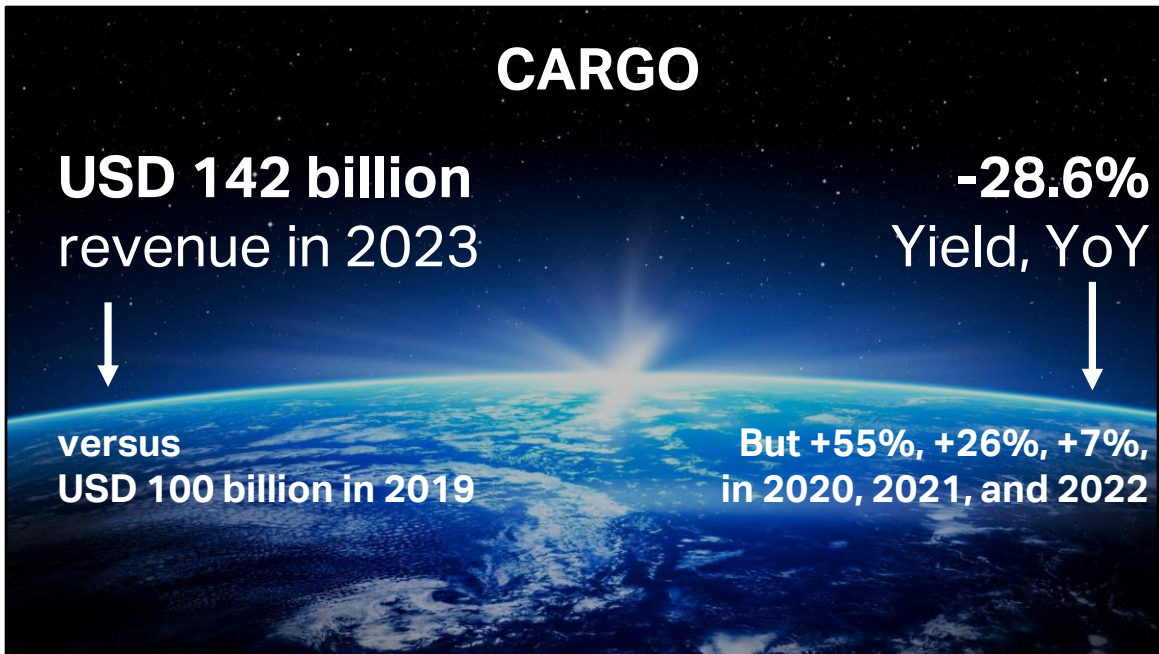
We've highlighted key risks and provide some sensitivities around these risks for better context. We also developed a scenario-based approach to assess the recovery of China's international passenger (post reopening) and risk/impact of further travel restrictions.

- Further oil price volatility is to be expected in 2023 as a result of the ban of EU vessels from transporting Russian crude oil and petroleum products to third countries. Refinery capacity also remains limited, which will likely maintain the historically large jet crack spread between crude oil and jet fuel prices in 2023.
- IEA expects crude oil supply to exceed demand for the first half of this year
- EIA February 2023 STEO forecast: Brent to reach 84 USD/bbl this year (17% decrease from 2022 price) and decline further to 78 USD/bbl in 2024
- Additional risks in the oil markets: China's reopening and the EU embargo of EU vessels from transporting Russian crude oil and petroleum products
- Airlines are expected to use increasing volumes of SAF. Depending on its type, SAF currently costs at least twice as much as fossil jet fuel

Supply-demand imbalances are also particularly important in Europe in the context of airspace capacity. Eurocontrol expects significant challenges for 2023, in matching capacity with demand to keep delays down.



Thanks to the recovery in traffic, we expect our industry to deliver an operating profit of USD 22 bn in 2023. Revenue will exceed USD 800 bn for the first time since 2019 when revenue reached USD 838 billion. Thanks to stellar cost control, expenses will likely rise by 8% this year, compared to revenue which will rise nearly 10%. There is pressure on yields, however, declining by just over 1% this year, but this comes on the back of a near 10% increase in yields last year.



Cargo, our hero of 2021, will see some lack of buoyancy in 2023. Revenue will be down from over USD 200 bn in 2021 and 2022, but still significantly up compared to 2019. There is a similar story regarding yields. These are down by 28.6% in 2023, but this follows an amazing streak over the past three years. We also note that the share of cargo in total industry revenue has pulled back from the exceptional 40% in 2021 to 18% in 2023, which is still higher than the pre-pandemic average of around 10-12%.



USD 9.8 billion
Net profit in 2023
= 1.2% margin

On the back of these evolutions, we expect our industry to deliver a net profit of USD 9.8 billion in 2023. This represents a 1.2% net profit margin. That is a remarkable performance, going from net losses of USD 137.7 billion in 2020 to a profit of USD 9.8 billion in 2023 – in the space of 3 years.



	USD bn
North America	11.5
Europe	5.1
Middle East	2.0
Africa	-0.5
Latin America	-1.4
Asia Pacific	-6.9

Every region has improved from 2022. Regionally, North America is in the lead with USD 11.5 billion in 2023, followed by Europe and the Middle East.

USD
-1.10

Per passenger,
2022 and 2023

USD
2.25



It's time to think
outside the cup,
to **protect and**
grow what's
inside it.

In sum, we are resilient and have returned to profit with record speed, since the historic crisis of 2020. Per passenger though, our profit is limited to USD 2.25 in 2023, barely enough for a cup of coffee in many places, and about half a cup where I live, in Geneva. Clearly, it is time to think outside the cup.

IATA
ANNUAL
GENERAL
MEETING

Thank you



IATA
ANNUAL
GENERAL
MEETING

Global Outlook for Air Transportation

Marie Owens Thomsen

Senior VP & Chief Economist
IATA Sustainability & Economics

