

# Airline Industry Update and Outlook

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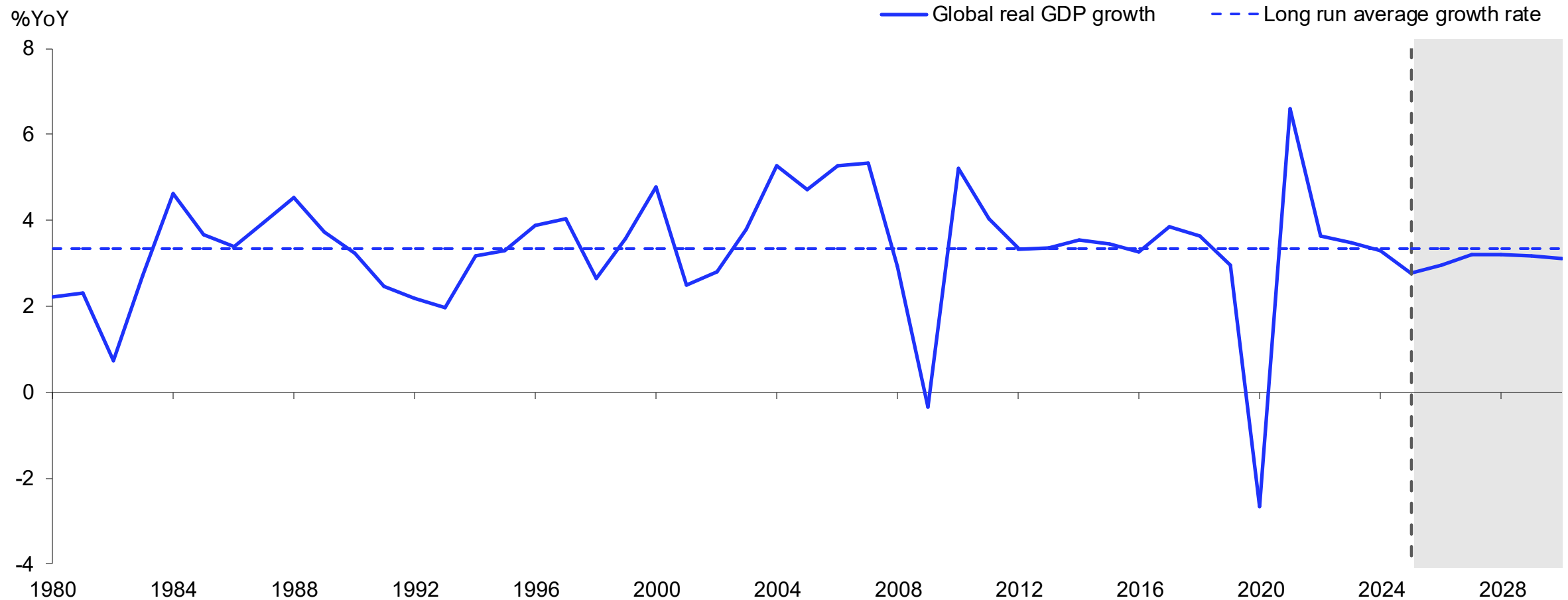
# Macroeconomic Context



# Global GDP forecast dips below its long-run average

## And risks to the economic outlook have increased

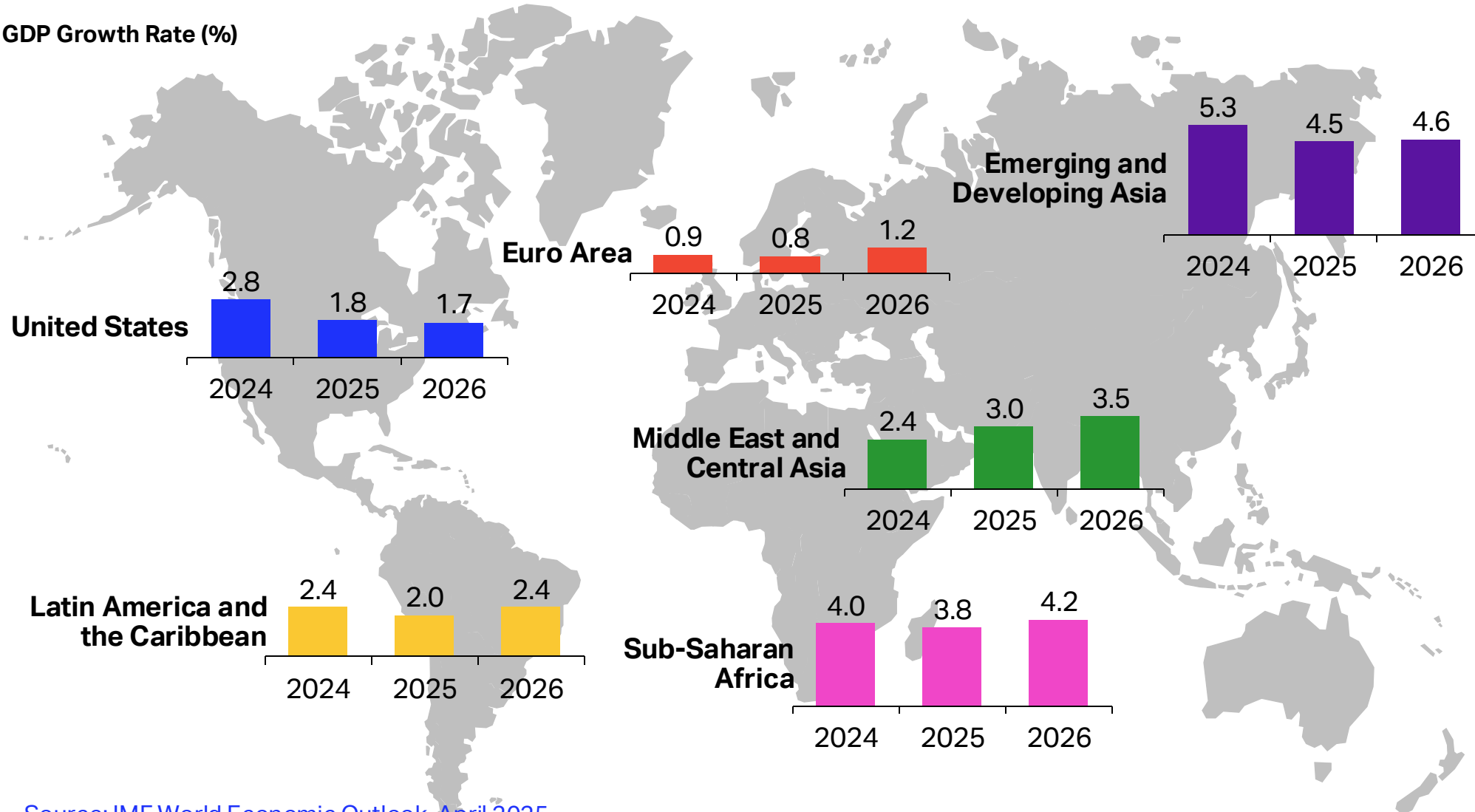
Global Real GDP Growth Rate



# GDP strongest in emerging & developing economies

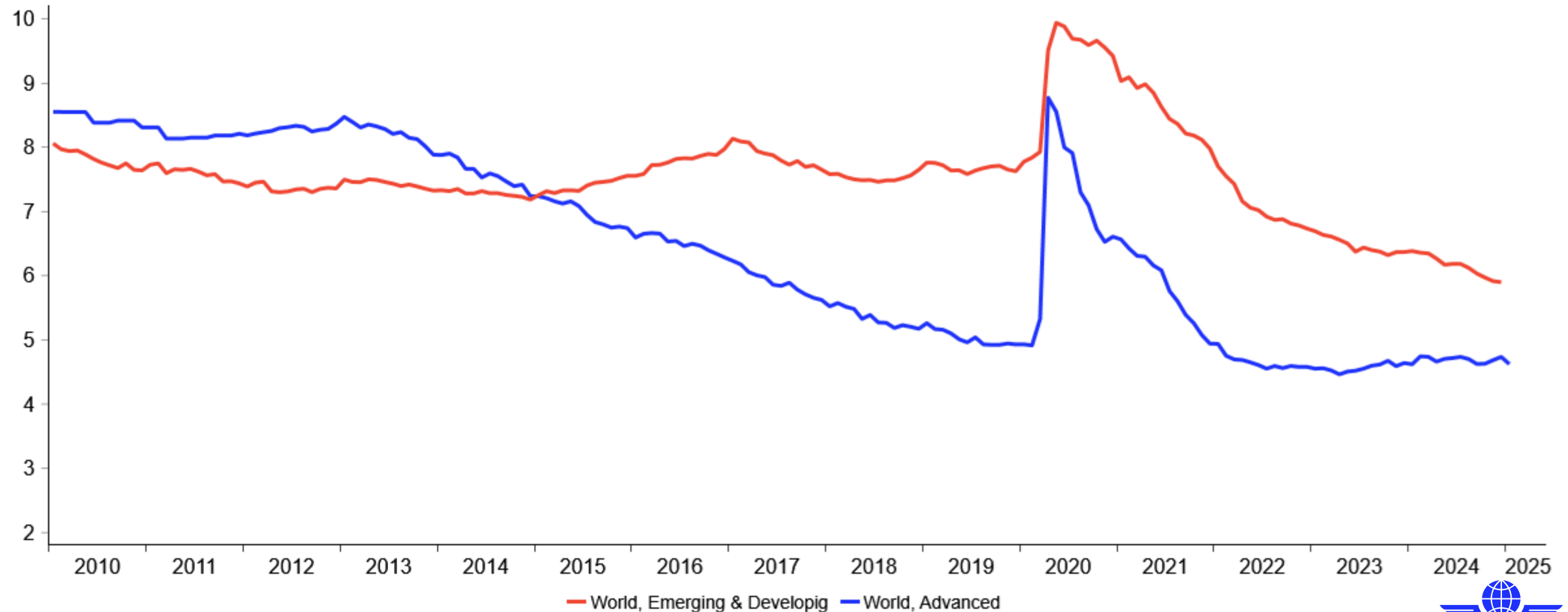
## Geopolitical developments weigh upon the forecasts

Real GDP Growth Rate (%)



# Unemployment rate has stabilized near historic lows

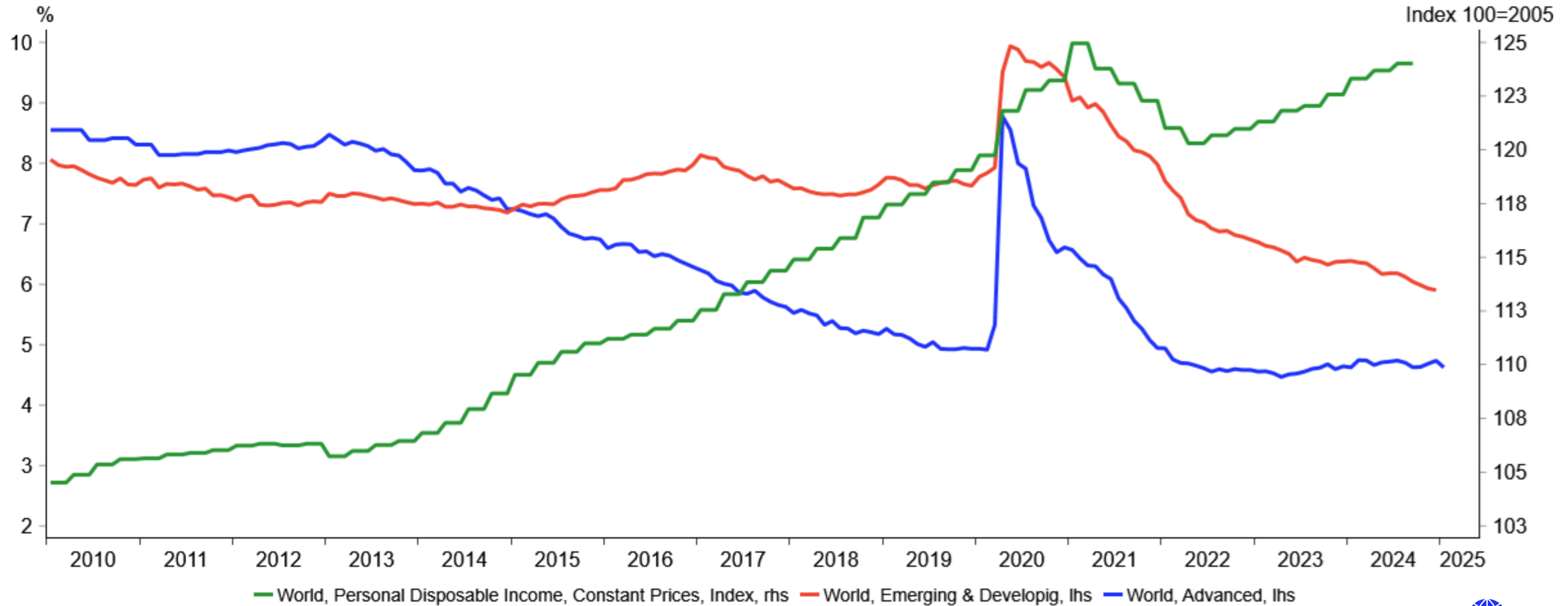
Unemployment rate, % of labor force



# Unemployment rate has stabilized near historic lows

## Supporting disposable income and consumer demand

Unemployment rate (% of labor force, lhs) and Personal Disposable (Index, rhs)

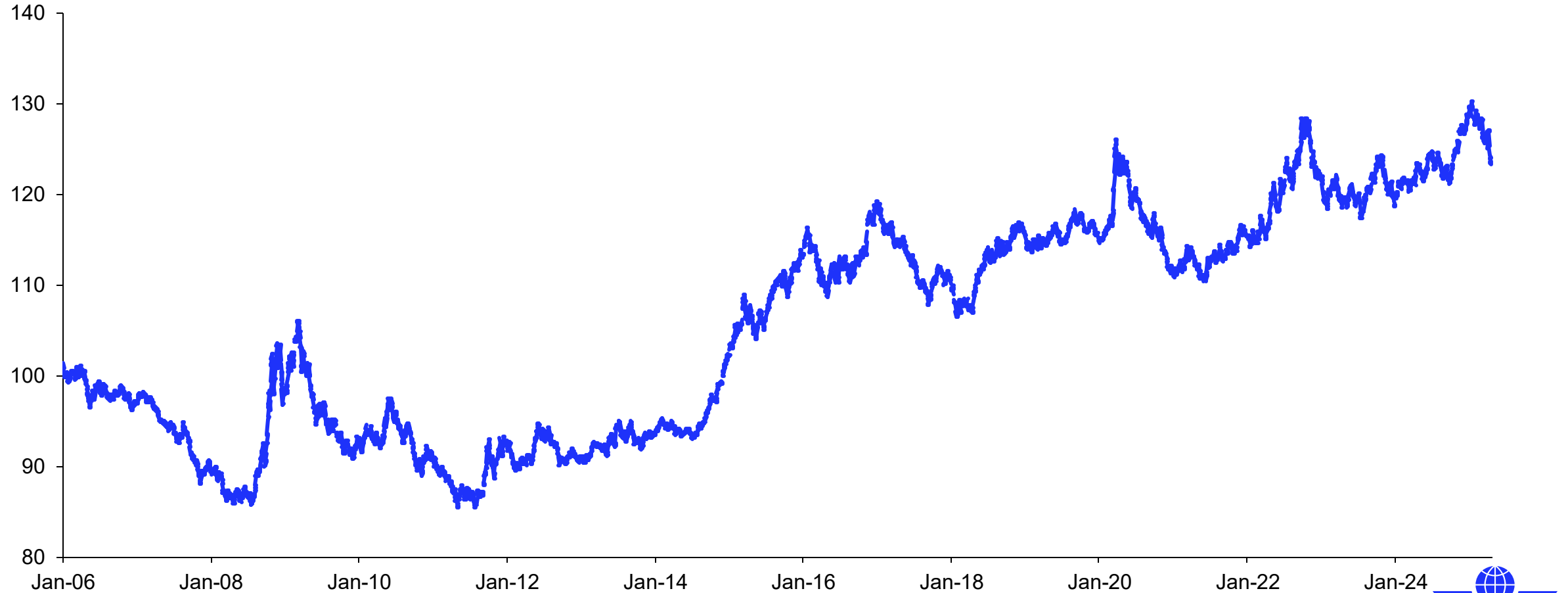


# The USD remains elevated, but has recently eased

## Market shifts are reflected in exchange rate developments

### US nominal trade-weighted exchange rate

Index Jan 2006=100

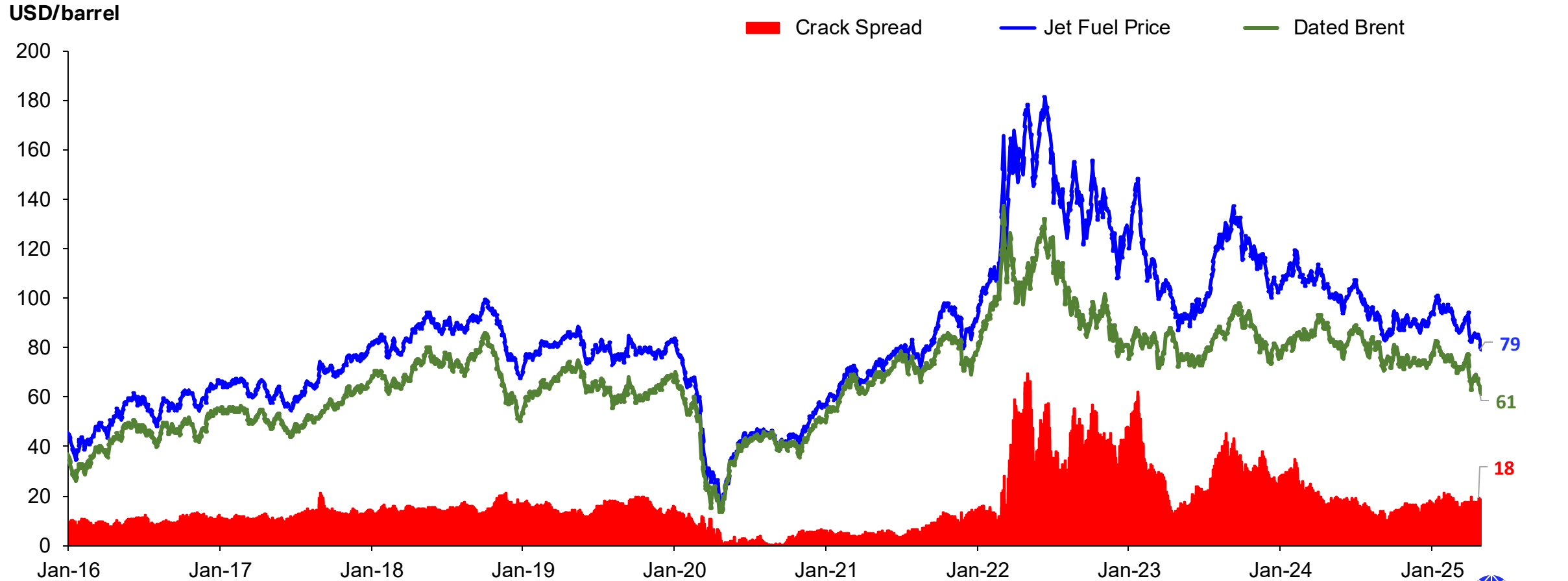




# Fuel prices are trending lower

## Combined with a weaker USD, this reduces pressure on airlines

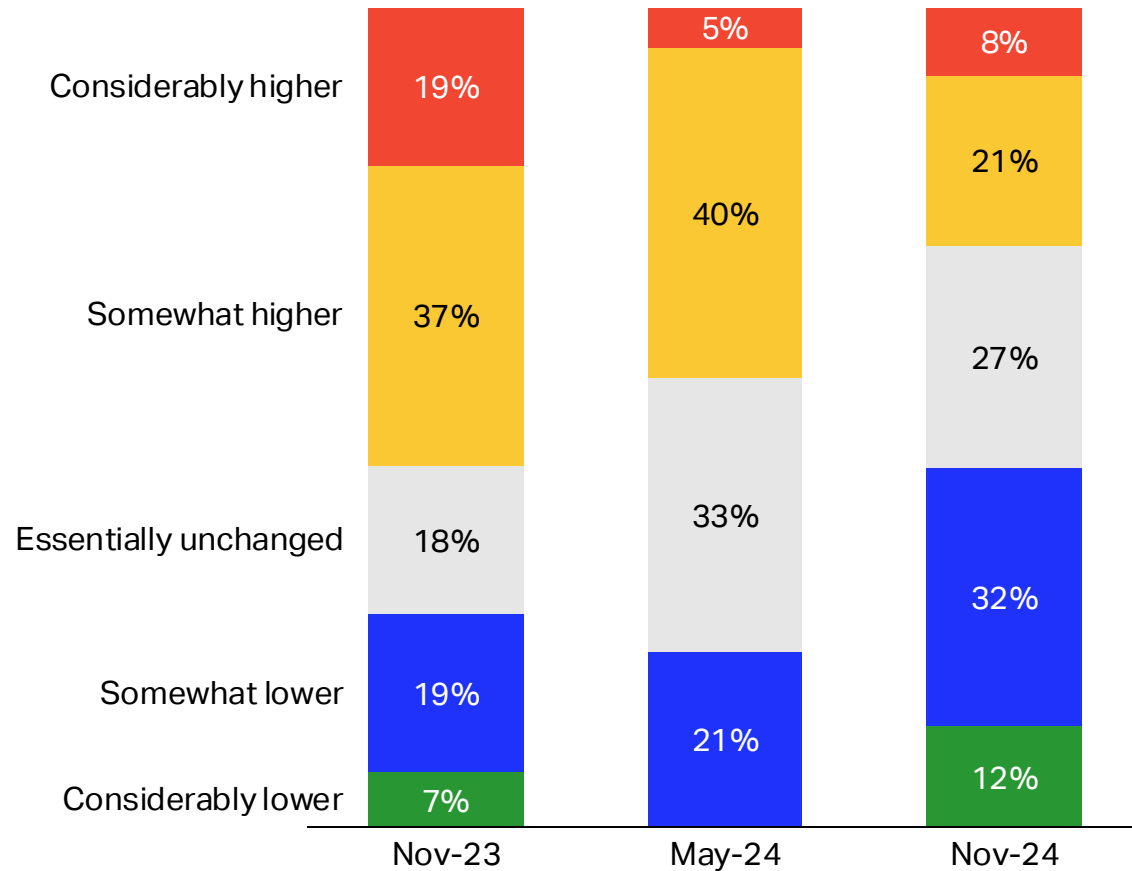
Jet Fuel Price vs Crude Oil Price





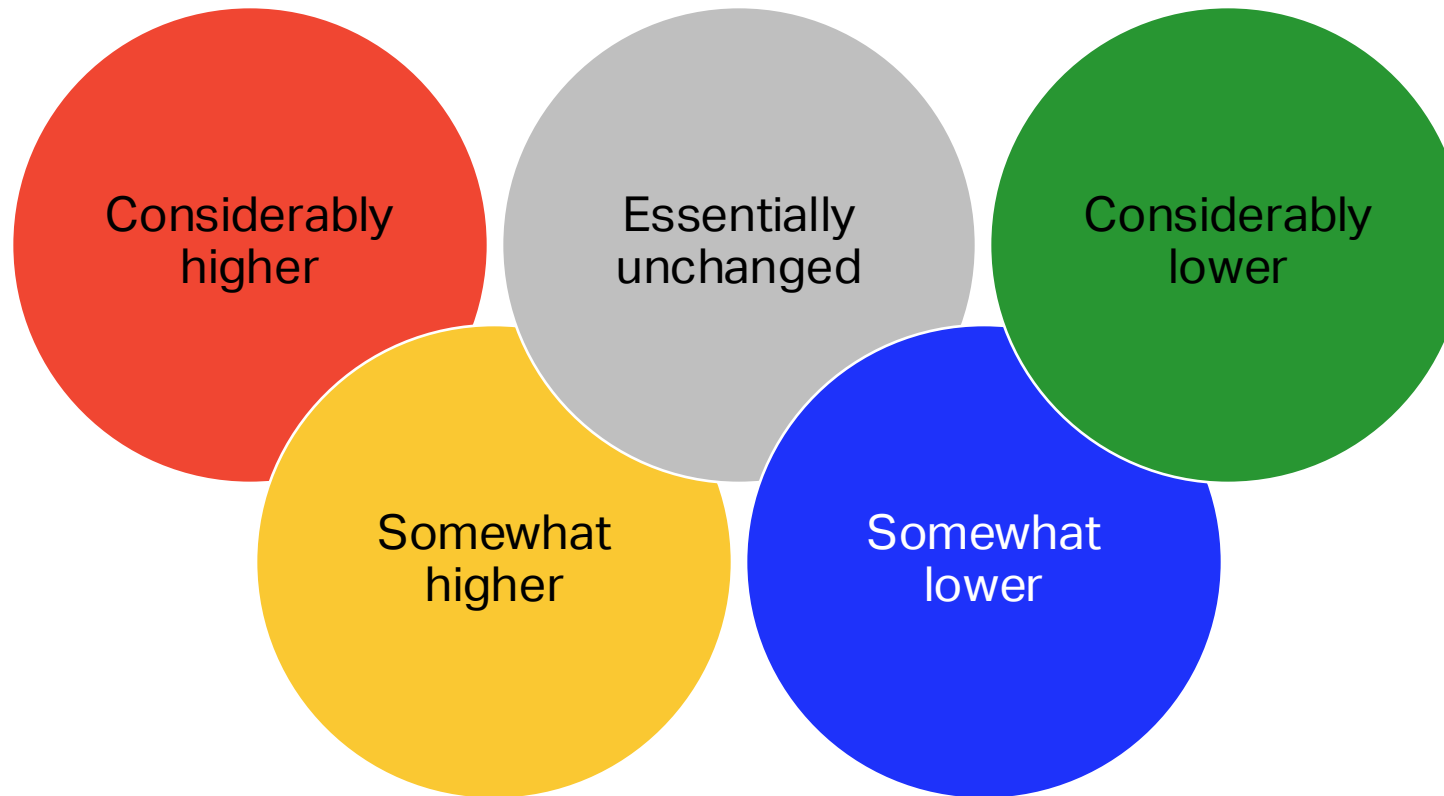
# What were our expectations?

What are your views on the world oil price in 6 months' time?



# What are our expectations for the future...?

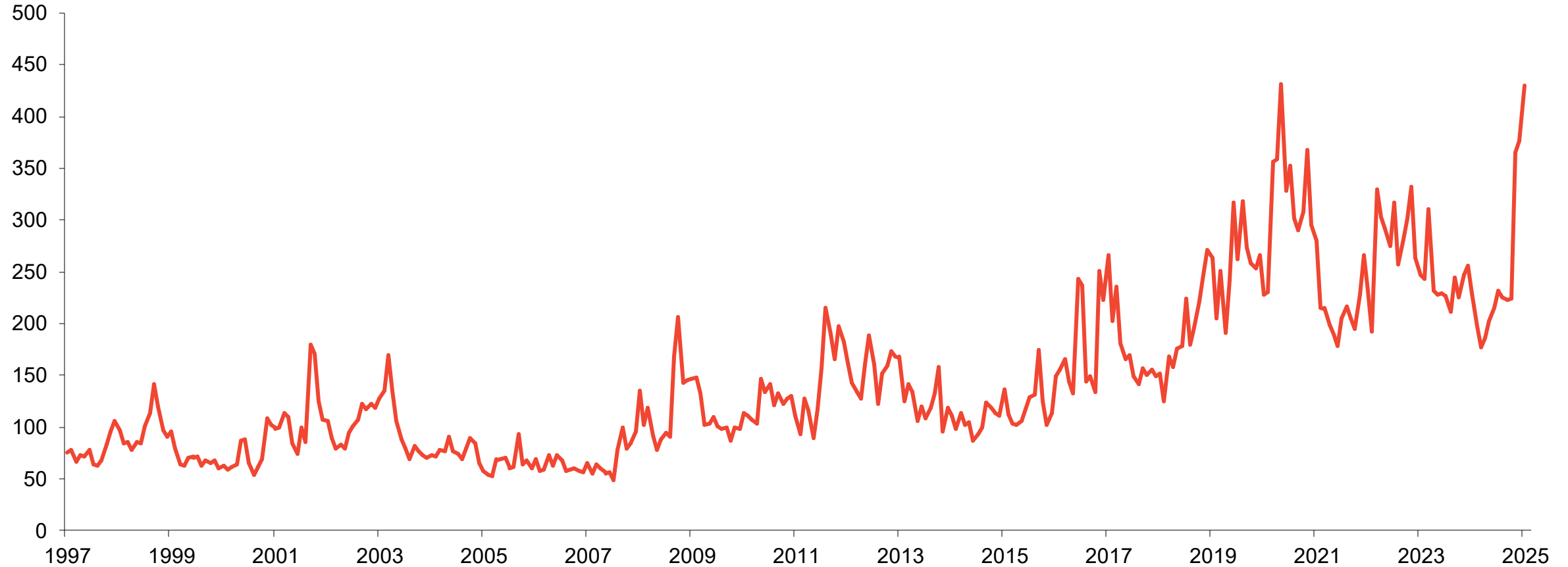
What are your views on the world oil price in 6 months' time?



# The long-term economic outlook is stable for now

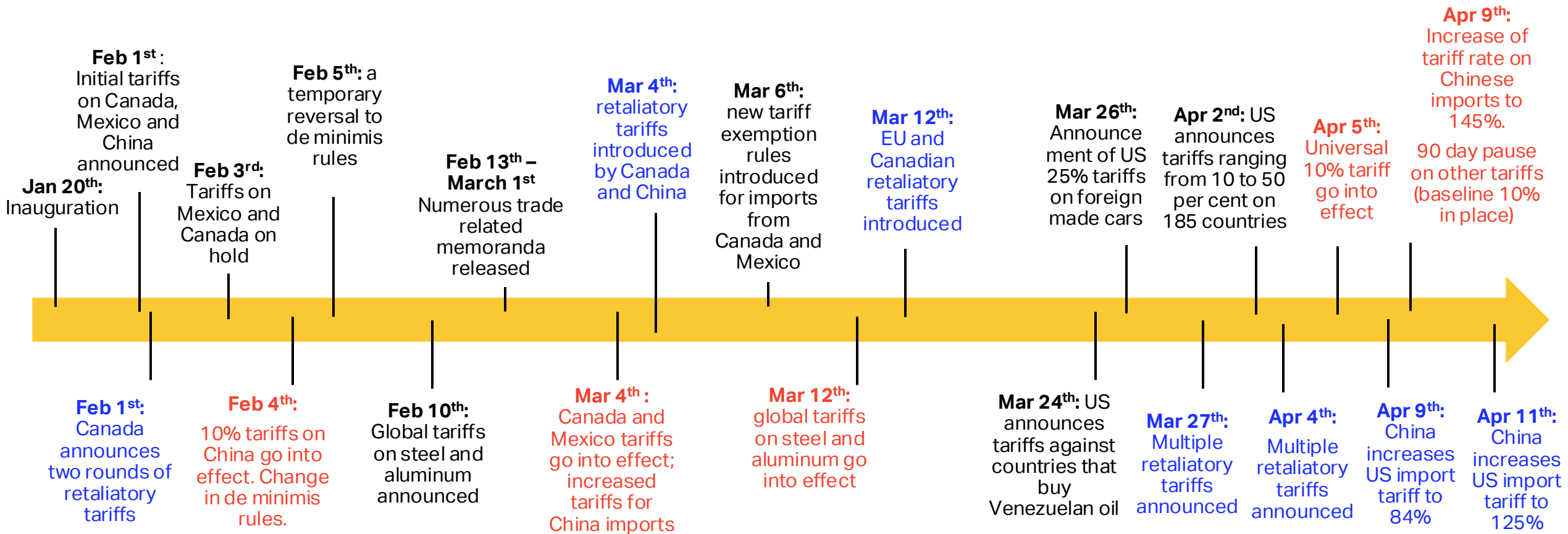
## But what about the short-term perspective?

Global economic policy uncertainty index



# A trade war is unfolding in front of our eyes

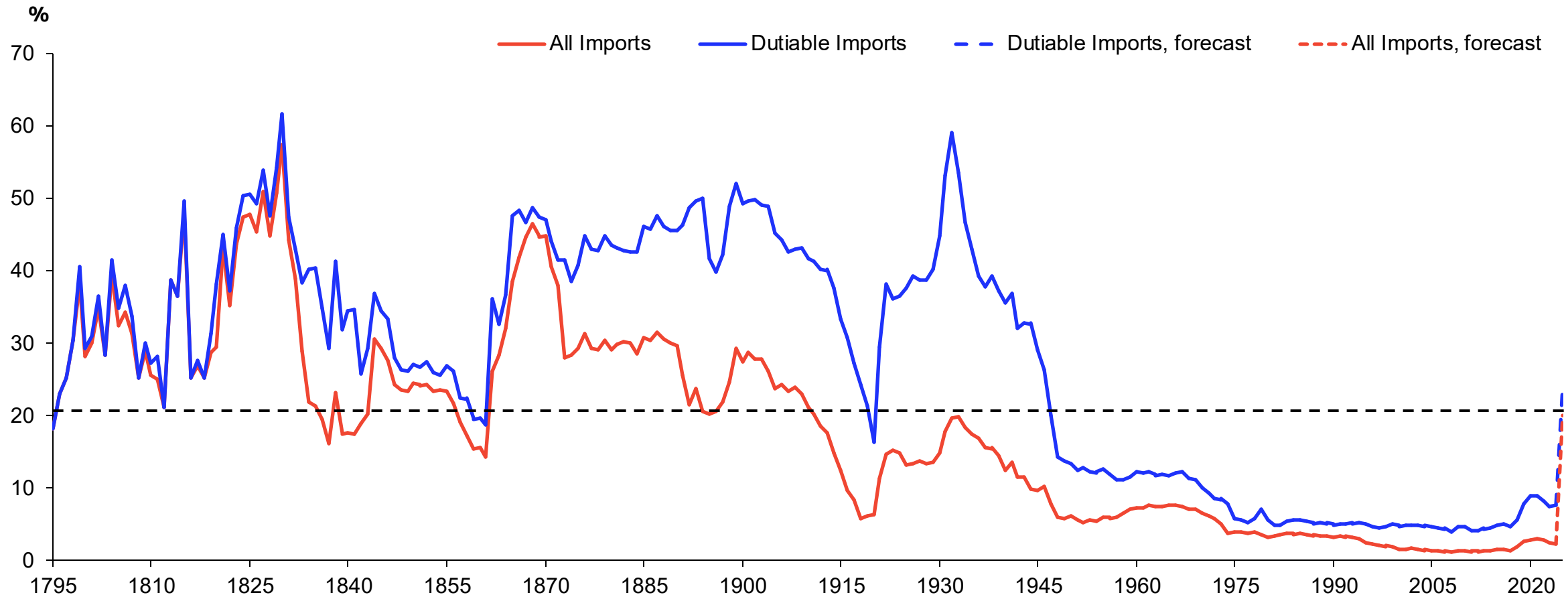
## Frequent policy changes create economic and business uncertainty



# US tariffs could rise to highest since World War II

## The international trade landscape is changing in front of our eyes

US average tariff rate on imported goods



# Tariffs will undoubtedly affect aviation

## Through both direct and indirect impacts

### Direct impacts include:

- Reduction in trade flows due to price increases
- Change to trade flows
- Customs processing delays
- Likely increase in aircraft prices impacting financial performance

### Indirect impacts include:

- Business uncertainty resulting in reduced investment
- Inflation and reduction in consumer confidence slowing growth in e-commerce and dampening demand for air travel
- Exchange rate fluctuations

### The outcome will depend on:

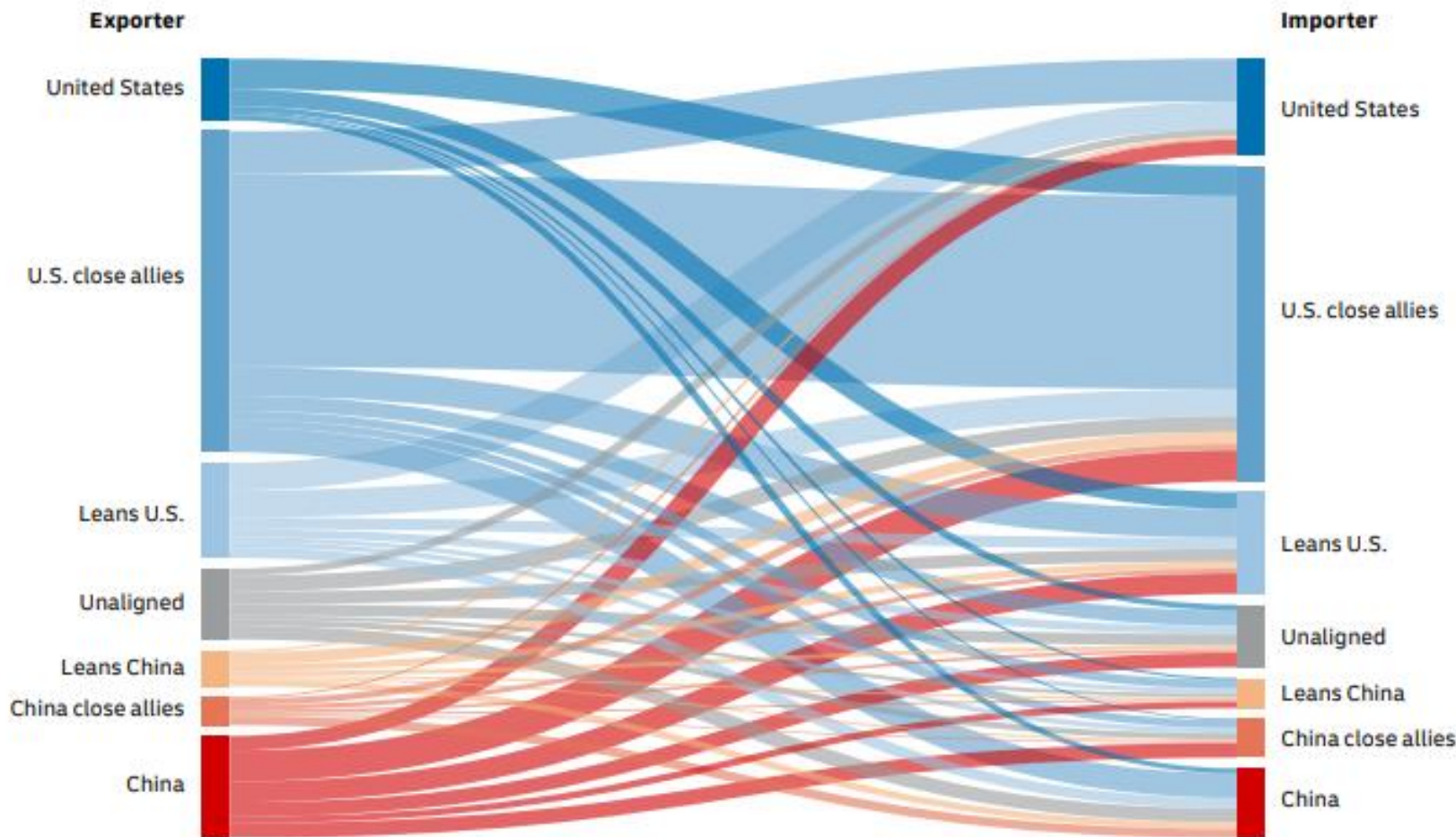
- Actual trade tariffs implemented
- Governmental responses
- Price elasticities
- Financial performance and ability to absorb increased costs
- Existence of relevant infrastructure and expertise
- The timing and permanency of any changes



# But USA accounts only for 13% of global imports

## While trade flows might shift, opportunities are also created

Trade Flows by Geopolitical Bloc, 2023



- International trade will be disrupted – but we don't know exactly how right now.
- Flows might be redirected to benefit from lower-tariff environments.
- Substitution effects may further drive economic activity.
- New markets – and opportunities – might be created.



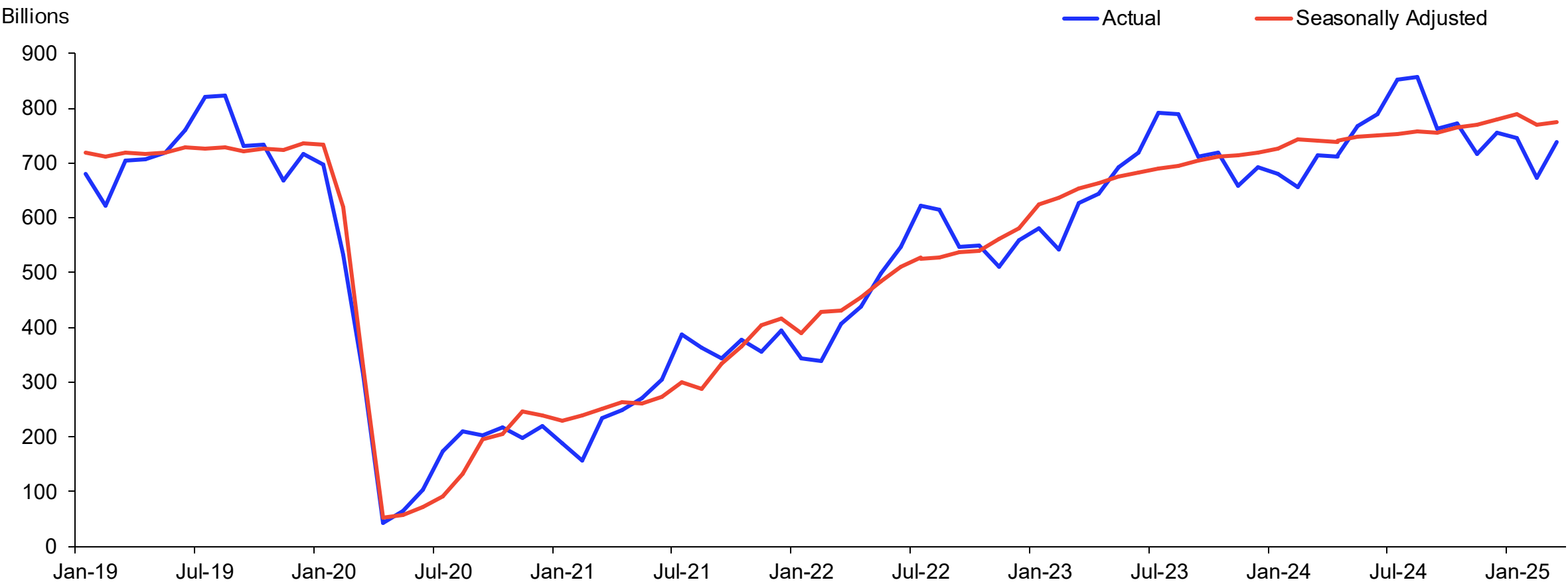
# Industry performance



# Passenger demand growing at a modest 3.3% YoY

Driven predominantly by international travel from Europe and AsiaPac

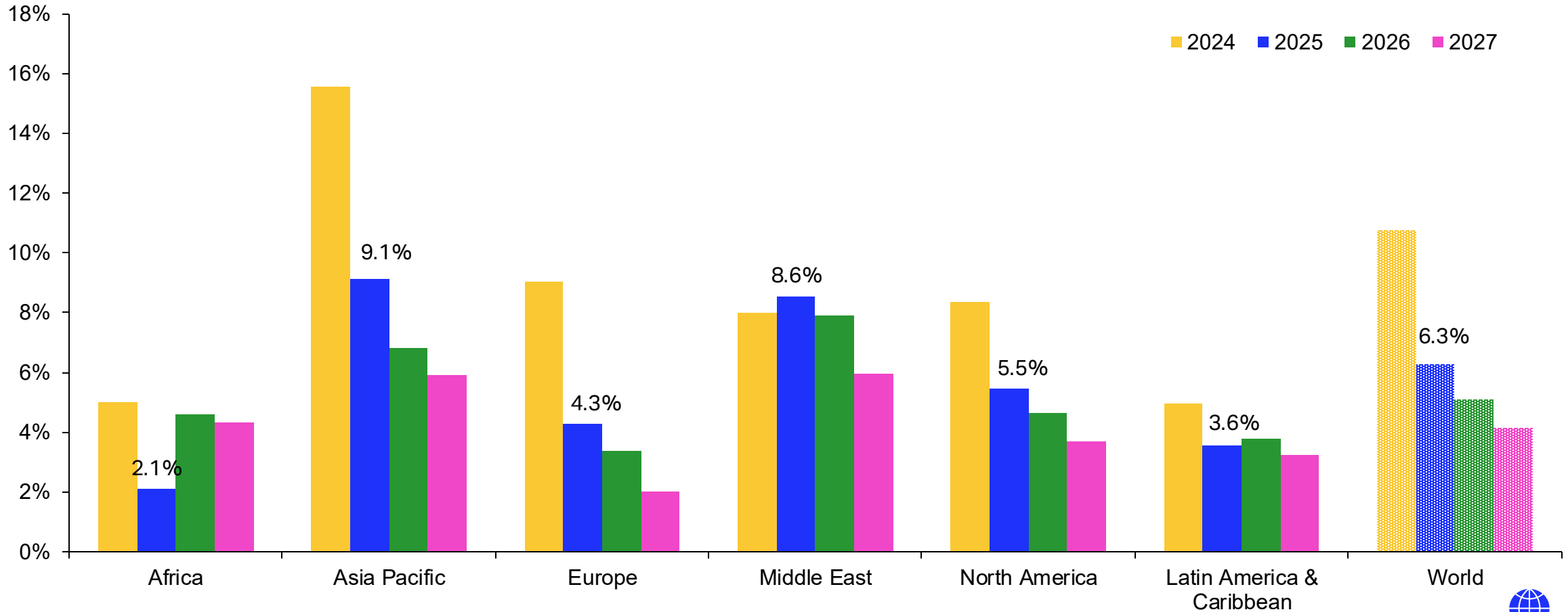
Industry Revenue Passenger Kilometers (RPK), billion



# Passenger numbers to grow by 6.3% in 2025

## But risks to the outlook have increased substantially

Annual growth in passenger numbers by world region

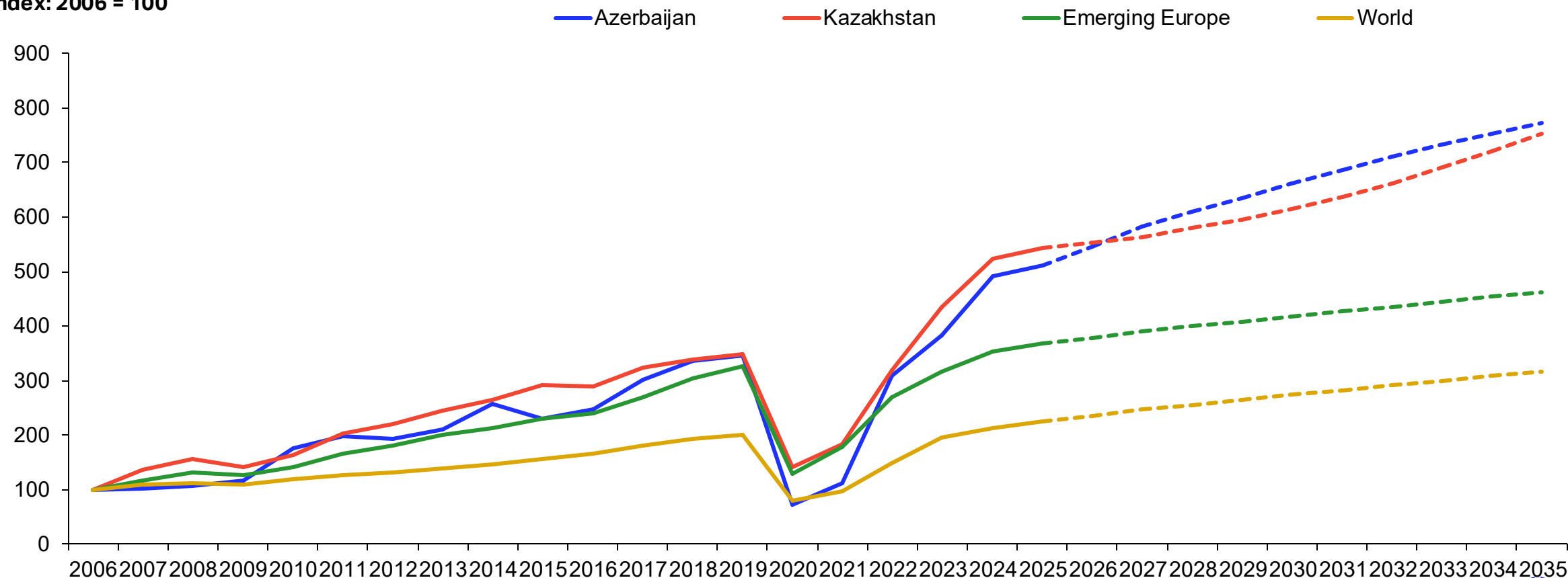


# Azerbaijan aviation market outpacing global growth

## Expected to grow by >40% over the next decade

Annual growth in passenger numbers (actual and forecast, 2006 – 2035)

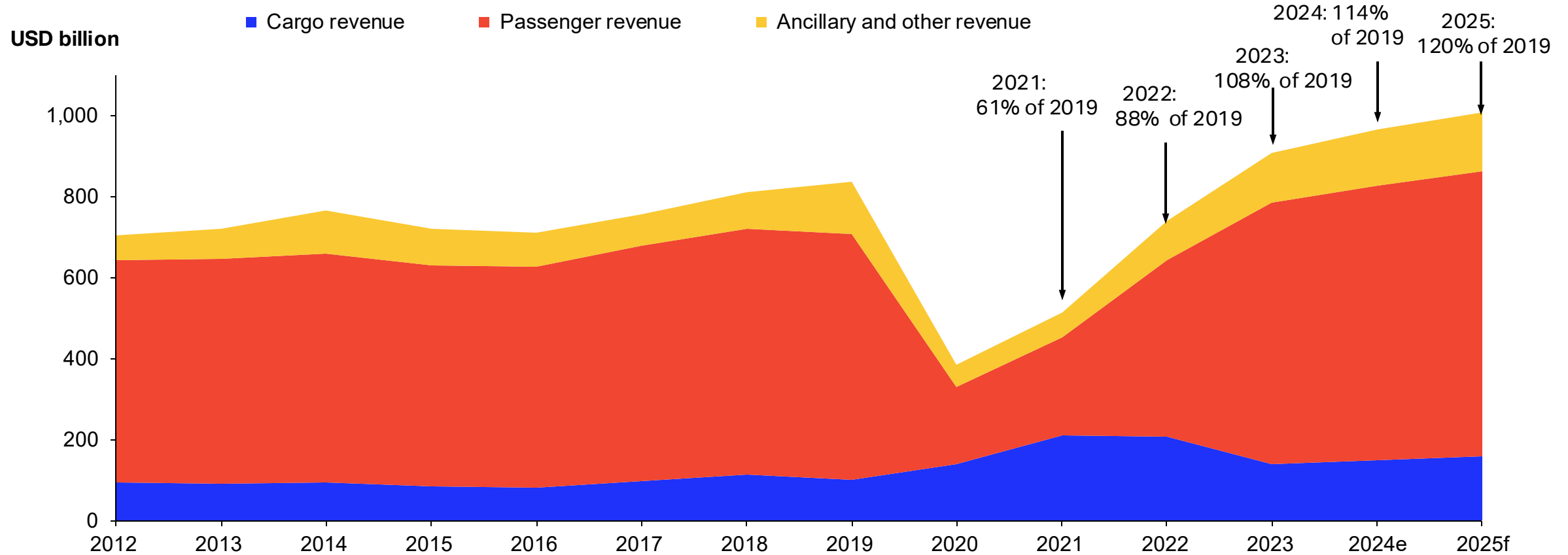
Index: 2006 = 100



# Revenue growth is driven by passenger segment

## With a post-pandemic stabilization visible for cargo

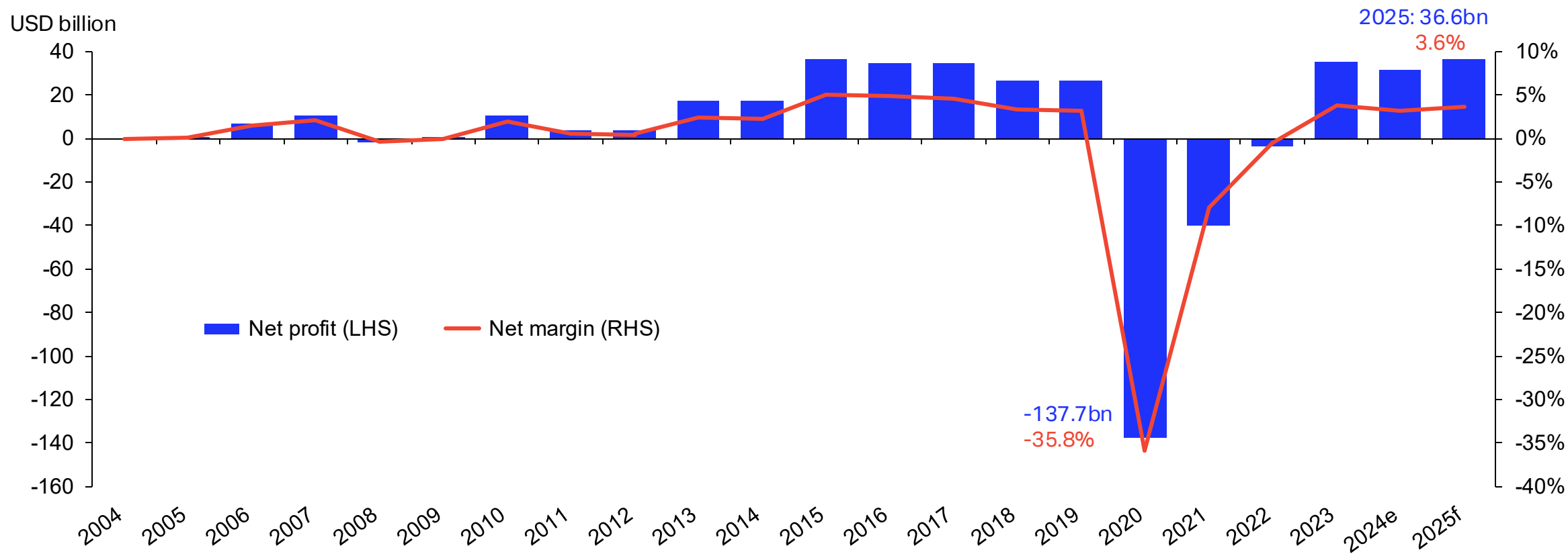
### Airline revenue



# USD 36.6 billion industry profit forecast in 2025

## But overall industry margin remains slim

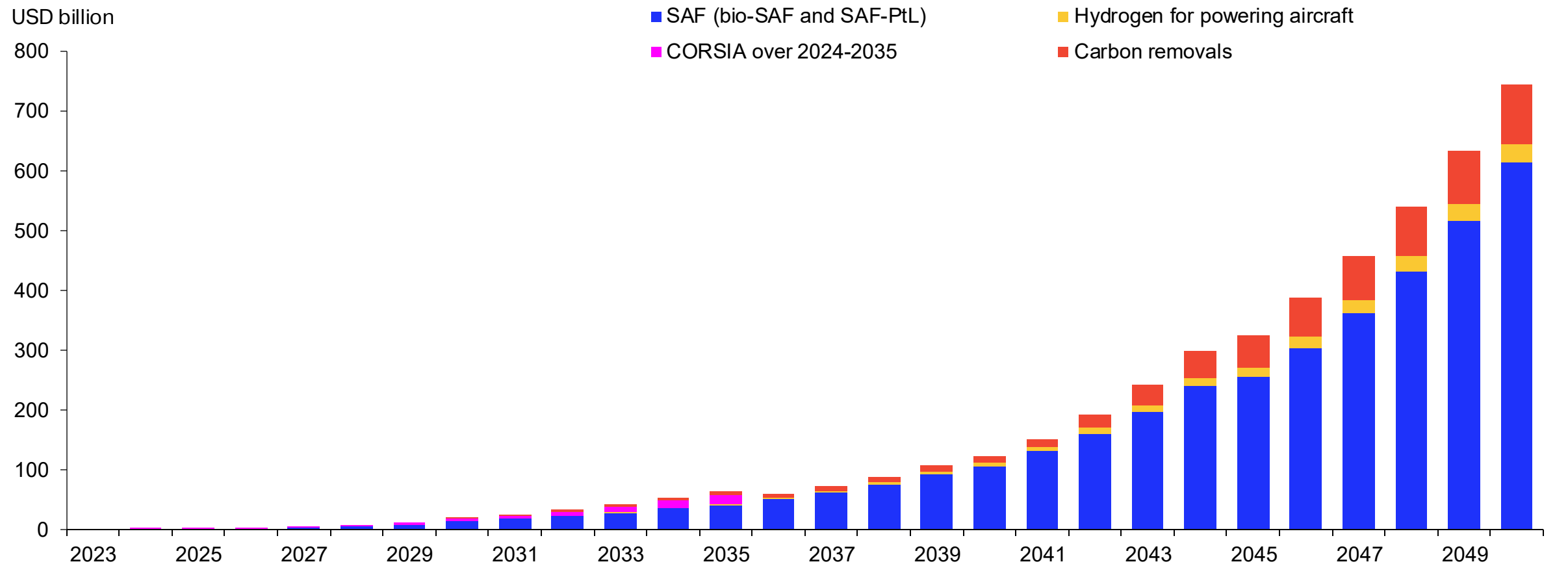
Global airline net profit in USD billion and net margin, as % of revenue



# Net zero transition weighs on financial performance

## Support from regulators and value chain required to achieve goals

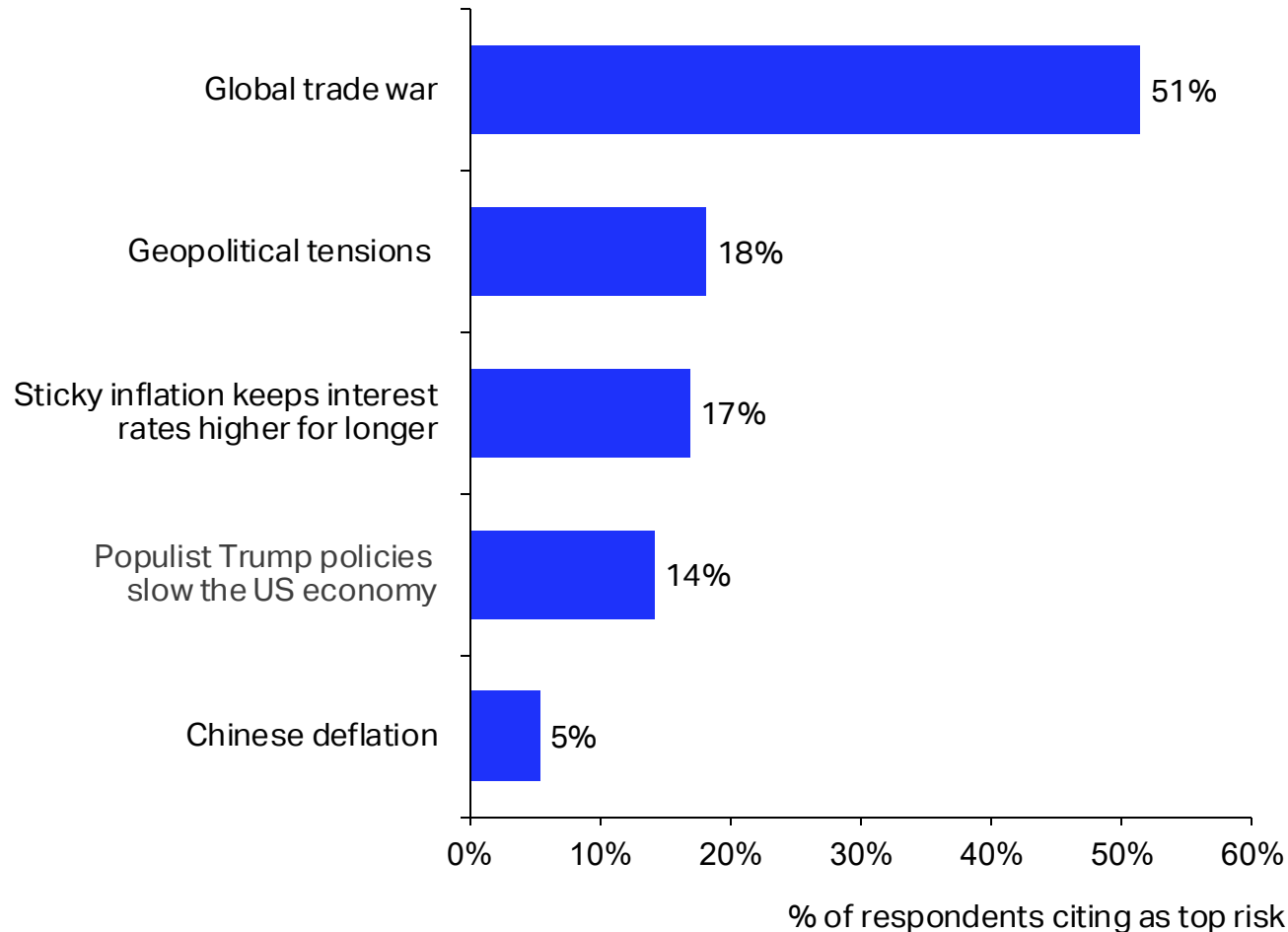
Annual transition cost associated with major net zero transition measures, 2023-2050





# In summary: global trade war is now the key downside risk

Global Risk Survey: near-term downside risks



- A visible shift to global geopolitical dynamics is clearly unfolding.
- On balance, downside risks to the macroeconomic and air transport outlooks have increased.
- A general deterioration in business and consumer confidence will impact investment and economic activity.
- However, new markets and opportunities will likely be created.

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