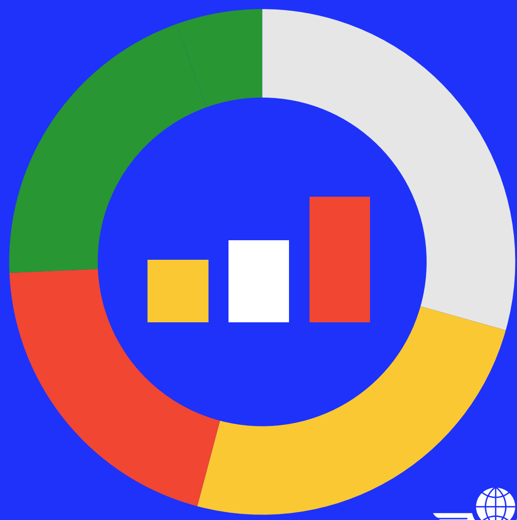
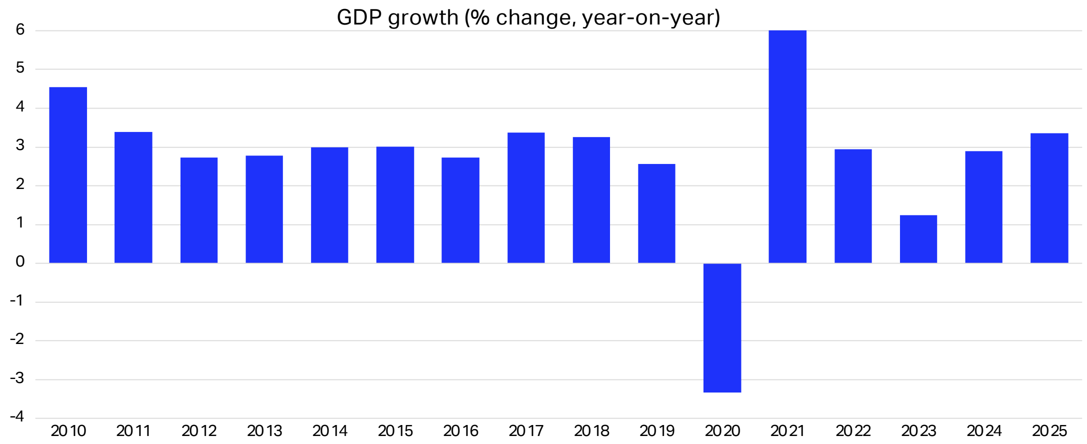
Airline Industry Update and Outlook



Marie Owens Thomsen
Chief Economist

IATA

Global GDP growth slows sharply in 2022 and 2023

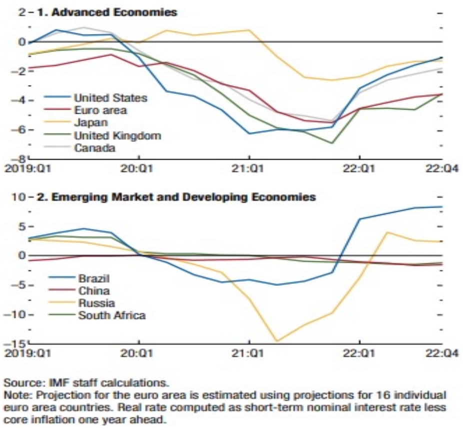


Source: Oxford Economics

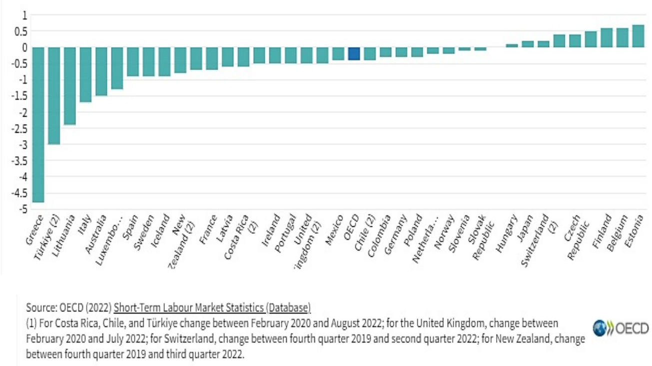
- In 2022 the global economy slowed from 6% GDP growth to close to 3% - this is a sharp slowdown. Long-term average global GDP growth is in the around 3.0 – 3.5%.
- 2023 is likely to slow further.
- Pent-up demand for travel has so far protected the air traffic recovery in that demand has not been very sensitive to slowing growth, nor to high inflation.
- This fortunate situation can be expected to wane gradually over the next year.

Rates and jobs are **GDP-Positives**

Rising real rates but still mostly negative



Change in unemployment rate for OECD countries, Sep 2022 compared with Feb 2020, percentage points

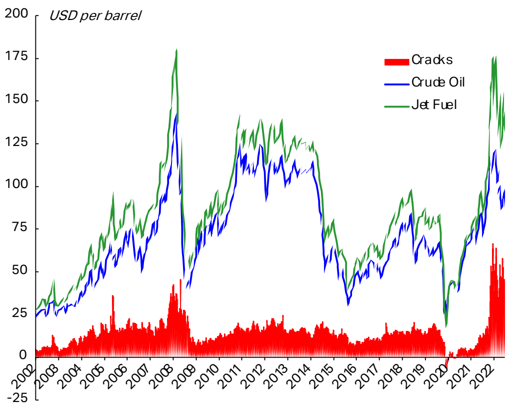


Source: IMF World Economic Outlook, October 2022;
Unemployment Rates, OECD - Updated: November 2022.

- Central banks have lifted nominal policy interest rates quite sharply, but elevated rates of inflation still keep real interest rates negative for major economies (with the exception of Brazil and Russia).
- Negative real interest rates act as a subsidy in favor of debtholders (but is a tax on savings) and mean that monetary policy is still accommodative.
- Global labor markets are still red-hot. It is more beneficial to the global economy that more people are employed, than the fact that the purchasing power of their earnings is reduced by the rate of inflation.
- US November jobs numbers showed new jobs at 263’000 and the unemployment rate at 3.7%.
- The EU unemployment rate stood at 6% in September and at 6.6% for the euro area – the lowest since 1990.
- Unemployment rates are expected to rise and job creation to slow in 2023.

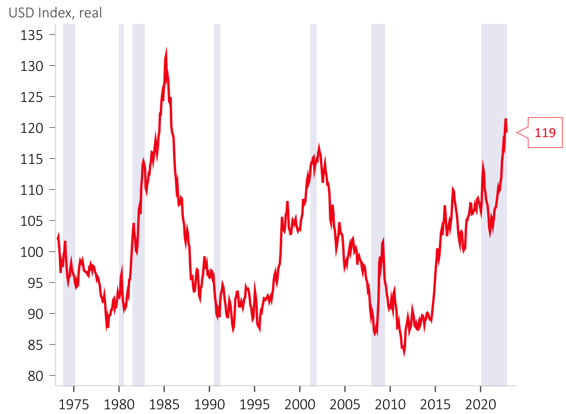
Oil and USD are **GDP-Negatives**

Jet fuel price and crude oil price



Source: IATA Economics using data from Platts.

Real broad dollar index



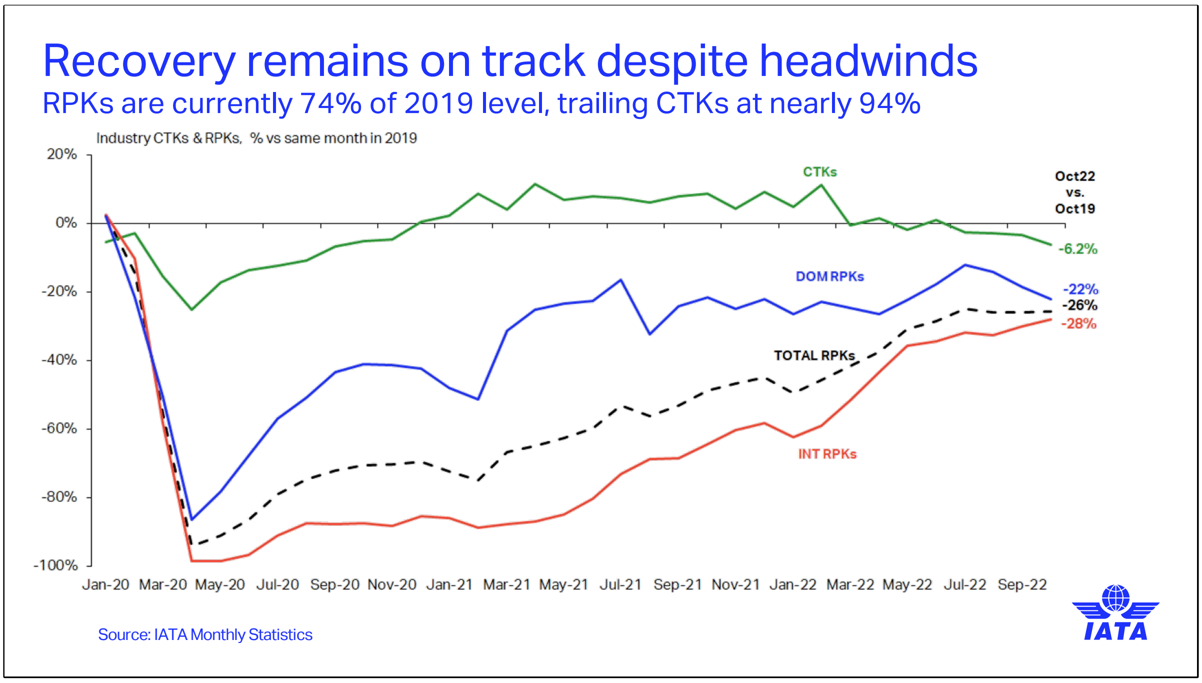
- The share of fuel in total airline costs is around 20 - 25% in “normal” times, and higher still currently.

- The large crack spread is a particular concern, and it might remain high as refining capacity is limited, though the International Energy Agency expects improvement in supply-demand imbalances this year and next.

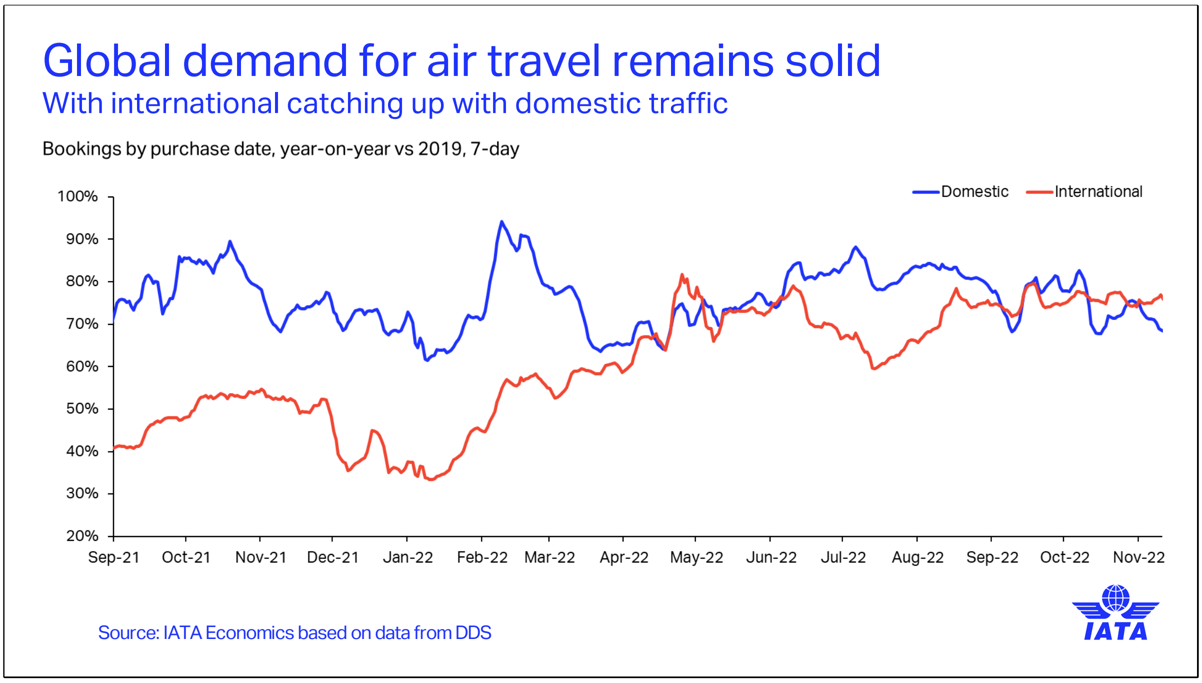
- By the end of November, the crack stood at USD 40 per barrel, which is 47% of the crude oil price (USD 84 per barrel), and roughly one third of the jet fuel price.

- US dollar index peaked in October, reaching historic highs since 1985.

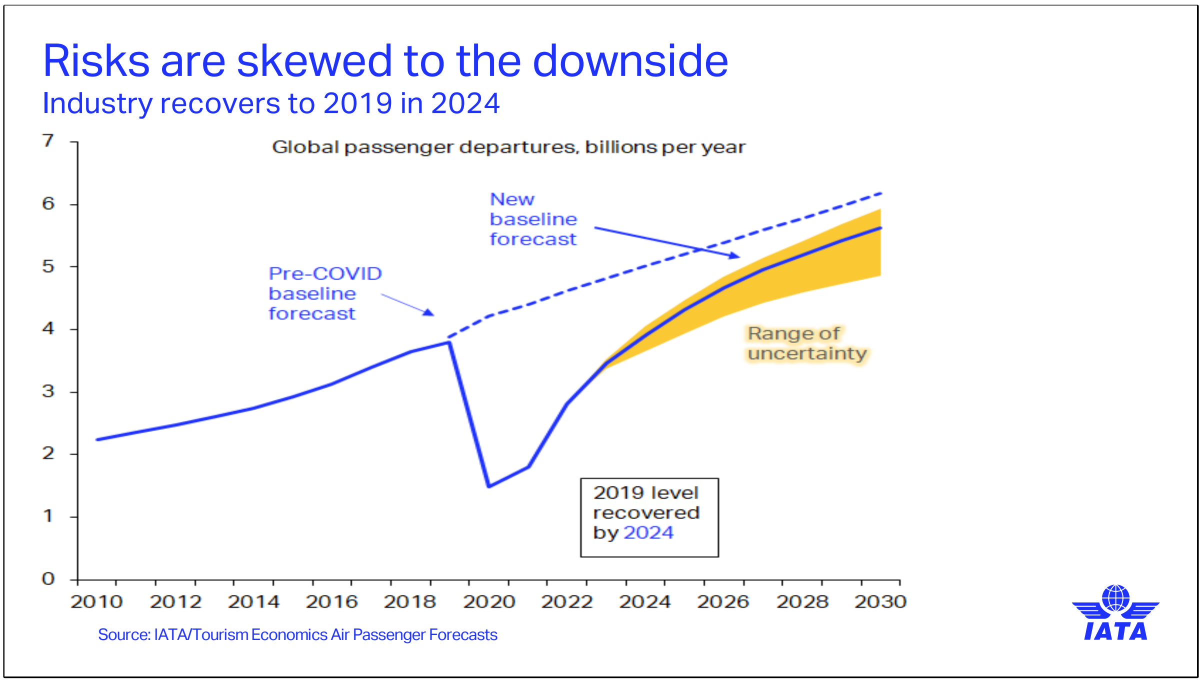
- In 2011-2014 we lived through a similar period with high oil prices and the world economy grew at around 3-3.5% and airlines were profitable.



- Travel restrictions, or the lack thereof, are still the main drivers of air transport traffic.
- Cargo was less affected by those during the pandemic and therefore was able to show off its strategic importance. Today cargo is facing some headwinds stemming from the slowing macro-economic and trade environment as well as from the incoming belly capacity as passenger traffic recovers, both putting some pressure on yields.
- Domestic traffic was the second-least affected by travel restrictions and hence the second-best performing market segment, standing at 78% of 2019 levels currently. The profile in this market is heavily influenced by policy in China.
- International traffic has been the most restricted and therefore the last market segment to recover. International too is held back by policy in China, and to some degree by the war in Ukraine. Nevertheless, international is catching up with domestic.



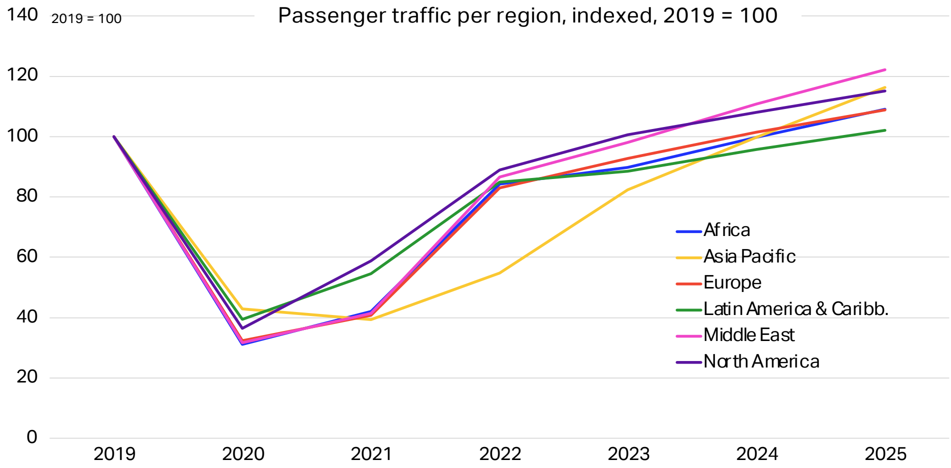
- Domestic bookings have slowed somewhat as the Northern Hemisphere moves into winter and again influenced also by policy in China.
- International bookings are holding up well and have caught up with domestic.
- Both point to sustained activity levels over the quieter winter period.



- We expect the industry to recover to 2019 levels in 2024.
- Risks to our forecast are predominantly on the downside: travel restrictions, jet fuel prices, US dollar appreciation, high inflation, slowing GDP growth, rising unemployment at some point, higher real interest rates, etc.
- Upside risks would include peace – always the superlative growth policy – and the end to lockdowns in China.

Asia Pacific lags in the regional recovery

North America leads

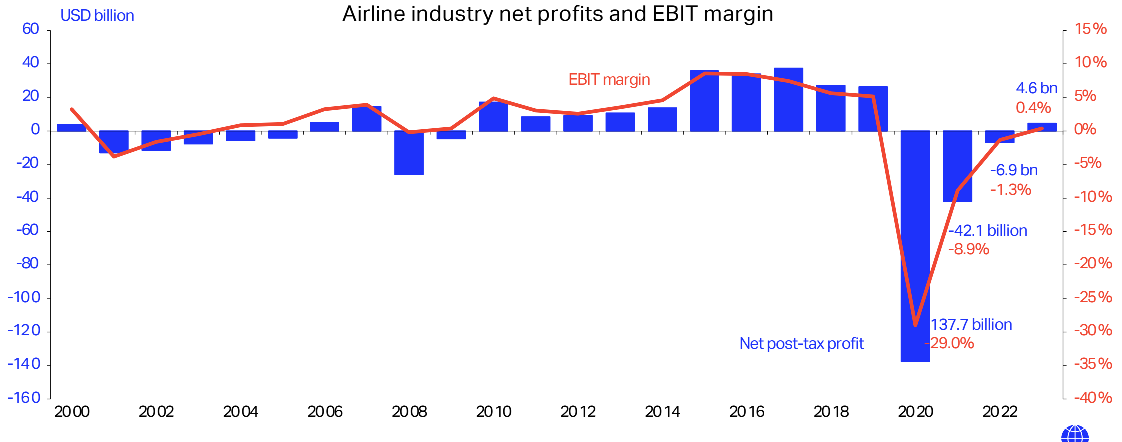


Source: IATA/Tourism Economics Air Passenger Forecasts

- **The regional split sees North America in the lead, in 2023, followed by Europe and the Middle East in 2024, and by Latin America, Africa, and Asia Pacific in 2025.**

Financial performance improves strongly

With the industry returning to profitability in 2023

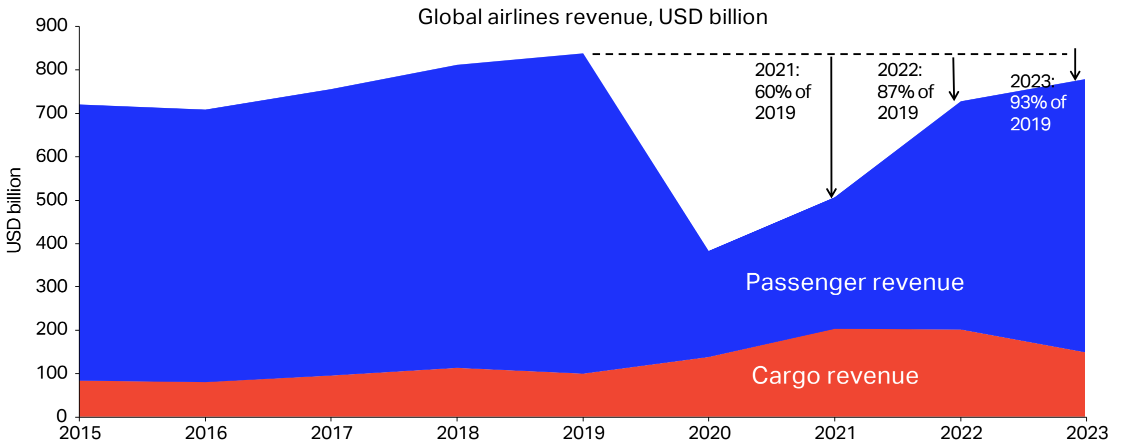


Source: IATA Economics

- We have reduced the loss expected in 2022 to USD 6.9 billion, and emit a first 2023 financial forecast of a profit of USD 4.6 billion.
- This is a stunning performance given the magnitude of the loss in 2020.
- Still, margins remain slim in the industry and the profit per passenger in 2023 a mere dollar, or 0.94 Swiss francs.

Industry revenue is rising

With cargo revenue moderating but higher than in 2019

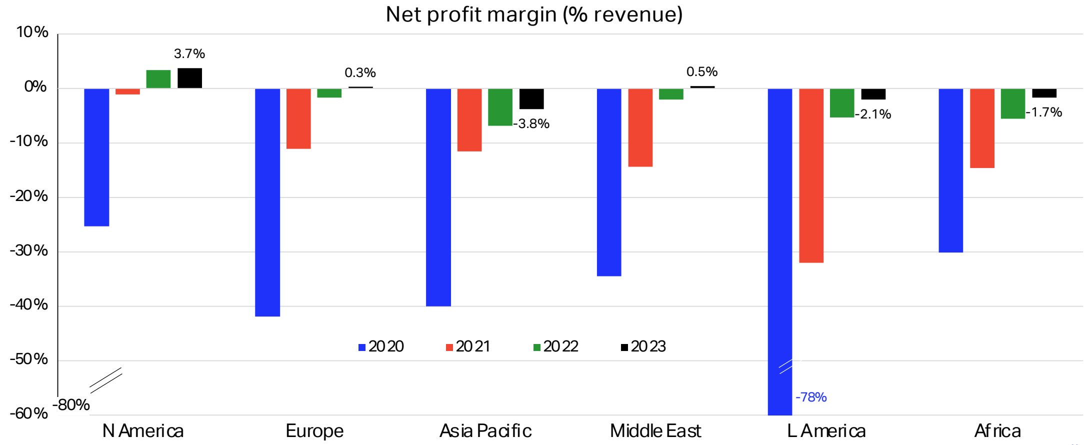


Source: IATA Economics

- **The split between passenger and cargo revenue moved very much in cargo's favor during the pandemic. This is starting to reverse as passenger traffic recovers, but cargo revenue remains significantly above 2019 levels also in 2023.**

North America likely only profitable region in 2022

To be joined by Europe and the Middle East in 2023

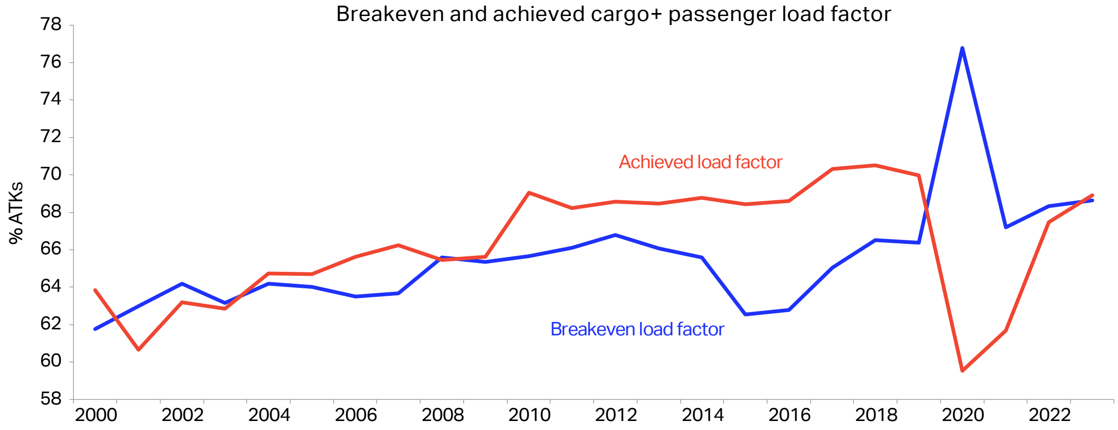


Source: IATA Economics

- North America will likely be profitable from this year, followed by Europe and the Middle East in 2023, and the other regions will have to look to 2024 or beyond regarding their return to profitability.

Total load factor is trending up towards breakeven

Cargo load factor eases on added belly capacity

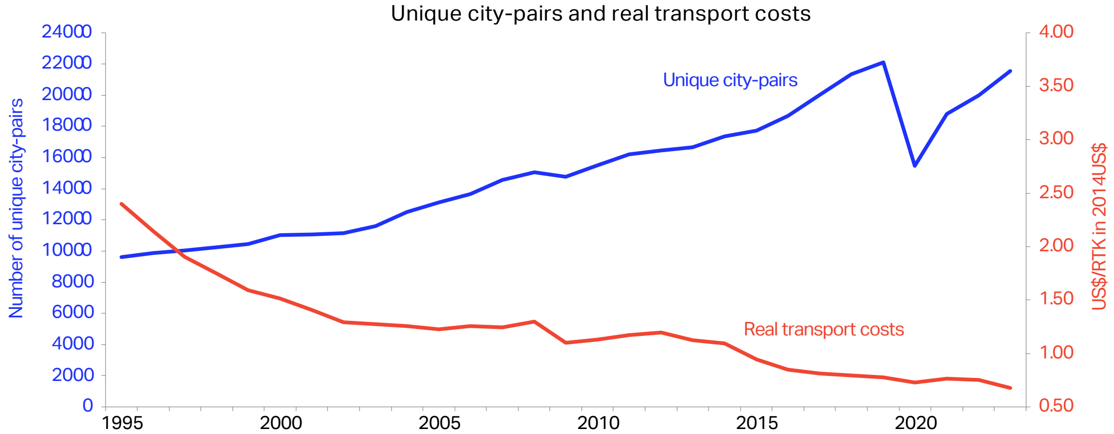


Source: IATA Economics

- The total load factor across both passenger and cargo has just caught up with the breakeven load factor, helped, to a certain extent, by the fact that the industry is not operating at full capacity.

Connectivity is being restored

Though frequency (capacity) will take longer to recover



Source: IATA Economics

- Connectivity is being restored, with the number of unique city-pairs returning to pre-pandemic levels.
- Real transport costs are rather astonishingly continuing their downward path, lending further support to the recovery both in traffic and in connectivity.
- This points to our industry being able to continue to support economic development globally also in the future, and notably if we can all succeed in the energy transition, together.