

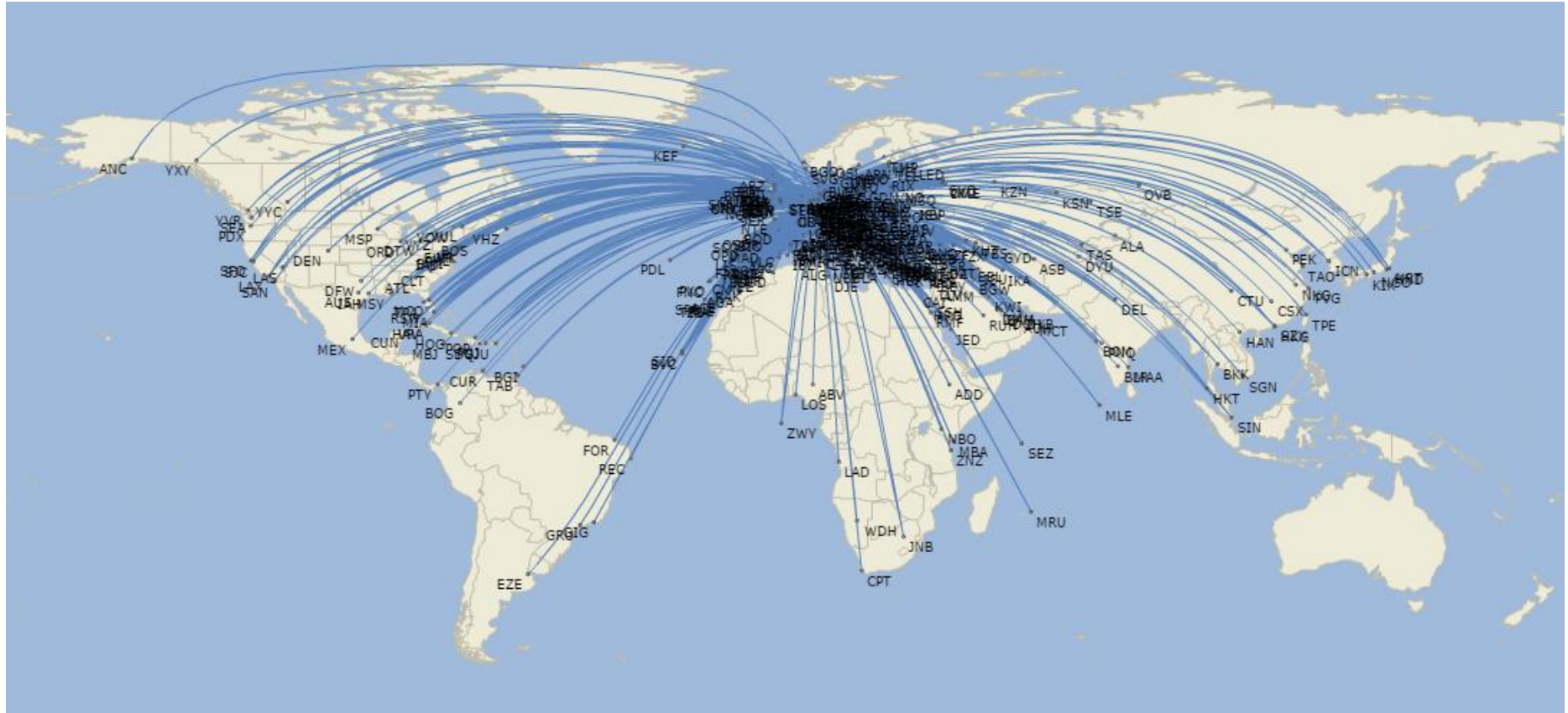


Air transport: performance, outlook and economic benefits

Brian Pearce,
Chief Economist,
IATA

www.iata.org/economics

Connectivity is key to economic success



Source: SRS Analyser database direct routes to/from Germany May 2017

Ingredients for economic success

Connections to key cities and trading partners

...few **delays**

...**cost-efficient** for users

...**frequencies** that business need

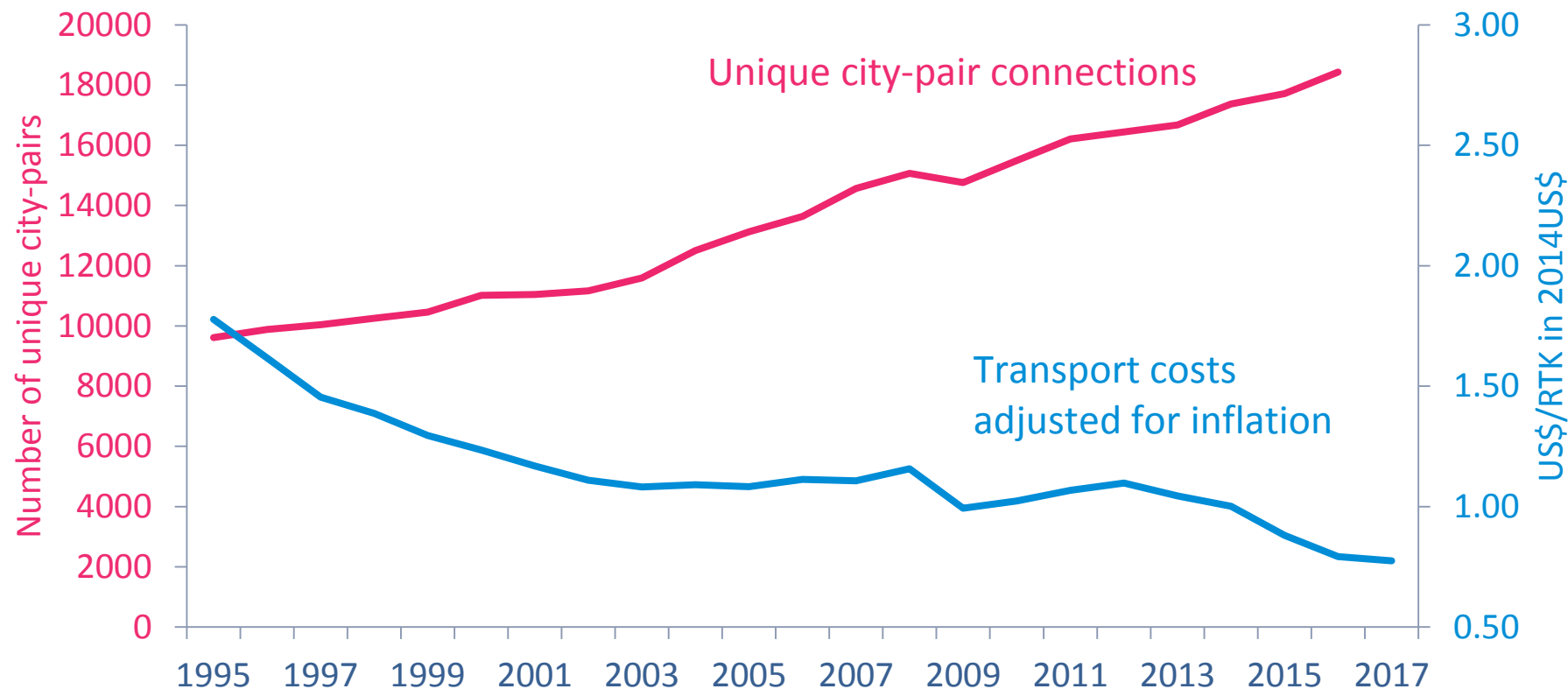
...vital **infrastructure** for the economy

...generating **flows** of goods, people, investment, competition and ideas

...boosting **non-inflationary economic growth** potential

The industry has seen considerable success globally

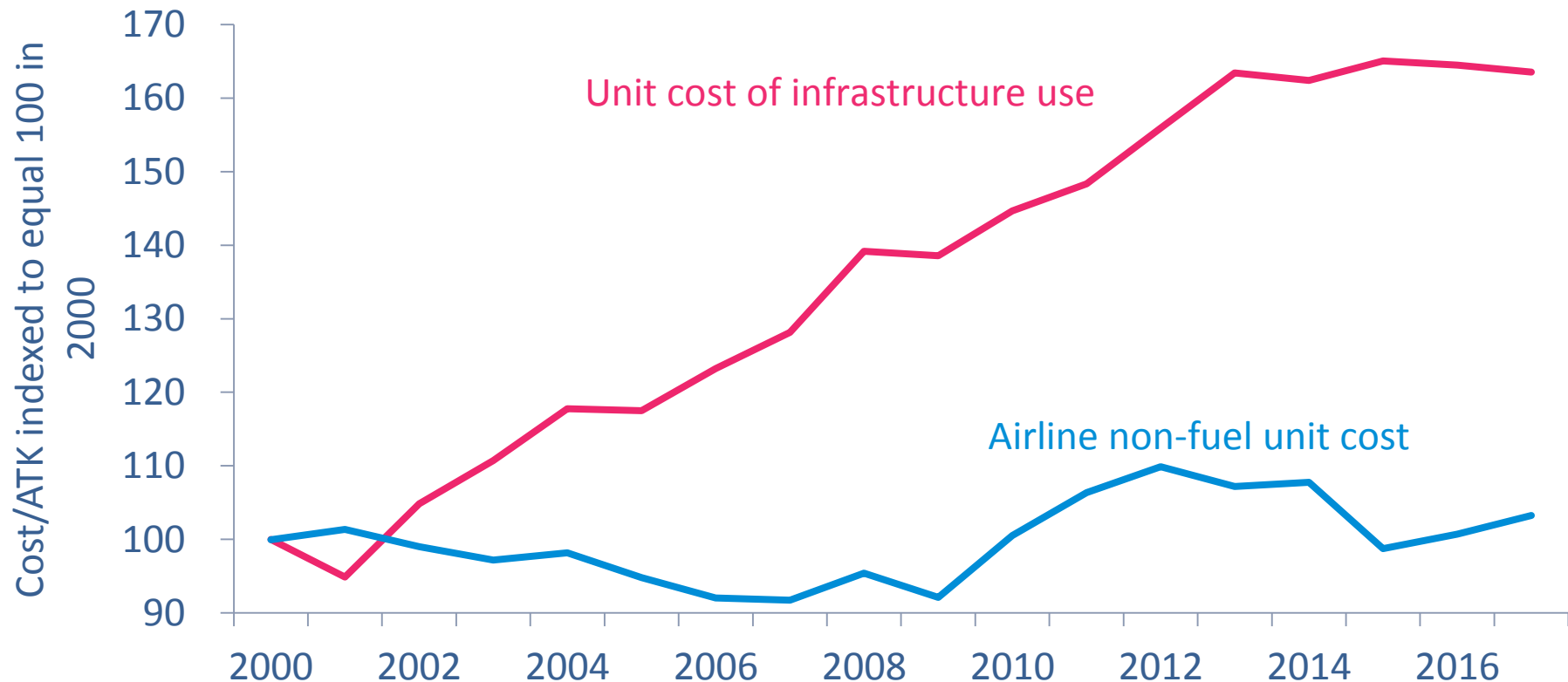
Unique city-pairs and real transport costs



Source: IATA Economic Performance of the Airline Industry, End-Year 2016 report

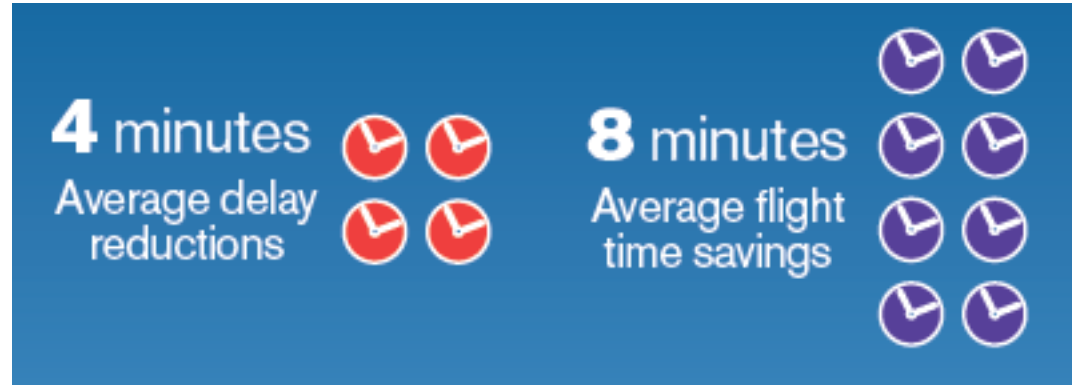
But infrastructure costs have diverged

Unit cost of infrastructure & airline non-fuel expenses



Source: IATA Economic Performance of the Airline Industry, End-Year 2016 report

And delays are a big cost to Europe and Germany

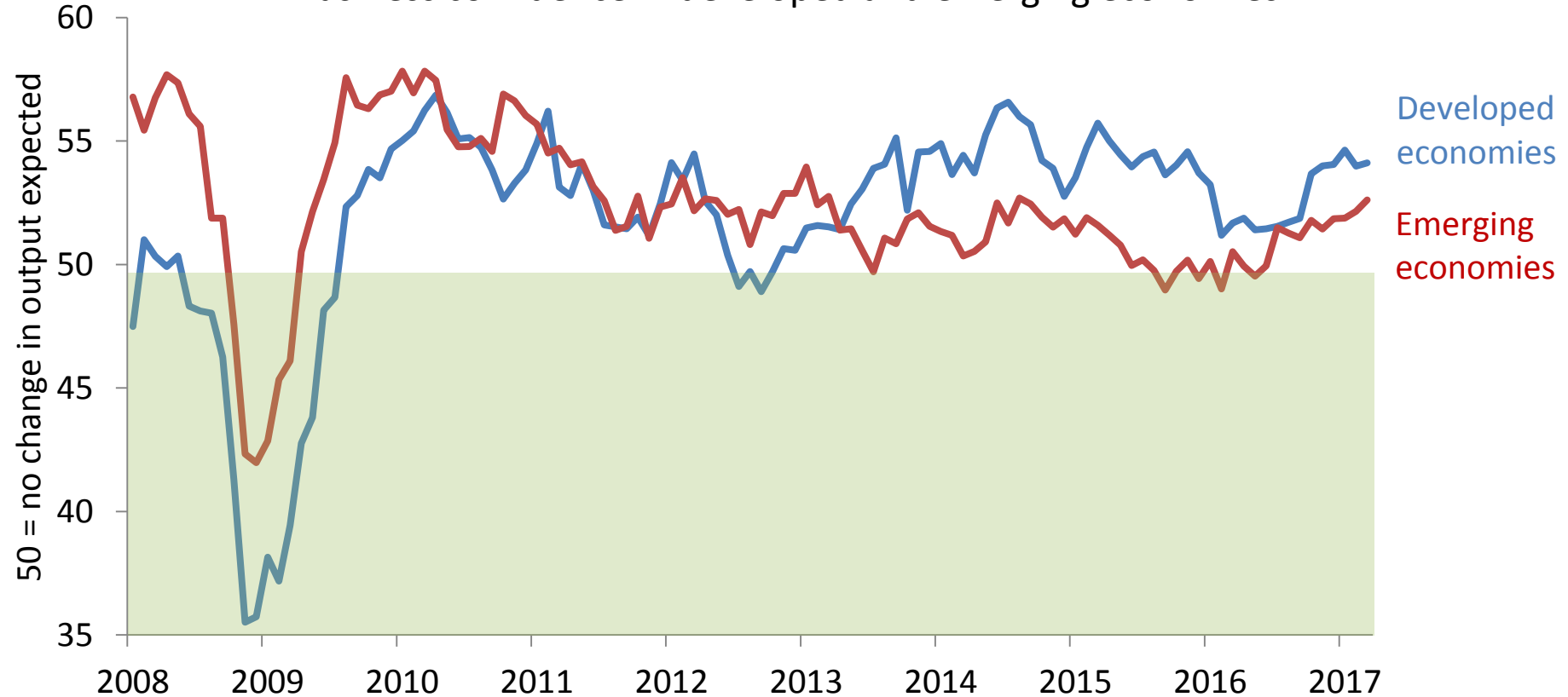


Germany would be a major beneficiary:

- GDP up €45 billion
- Jobs up 158,000
- Passengers +13 million

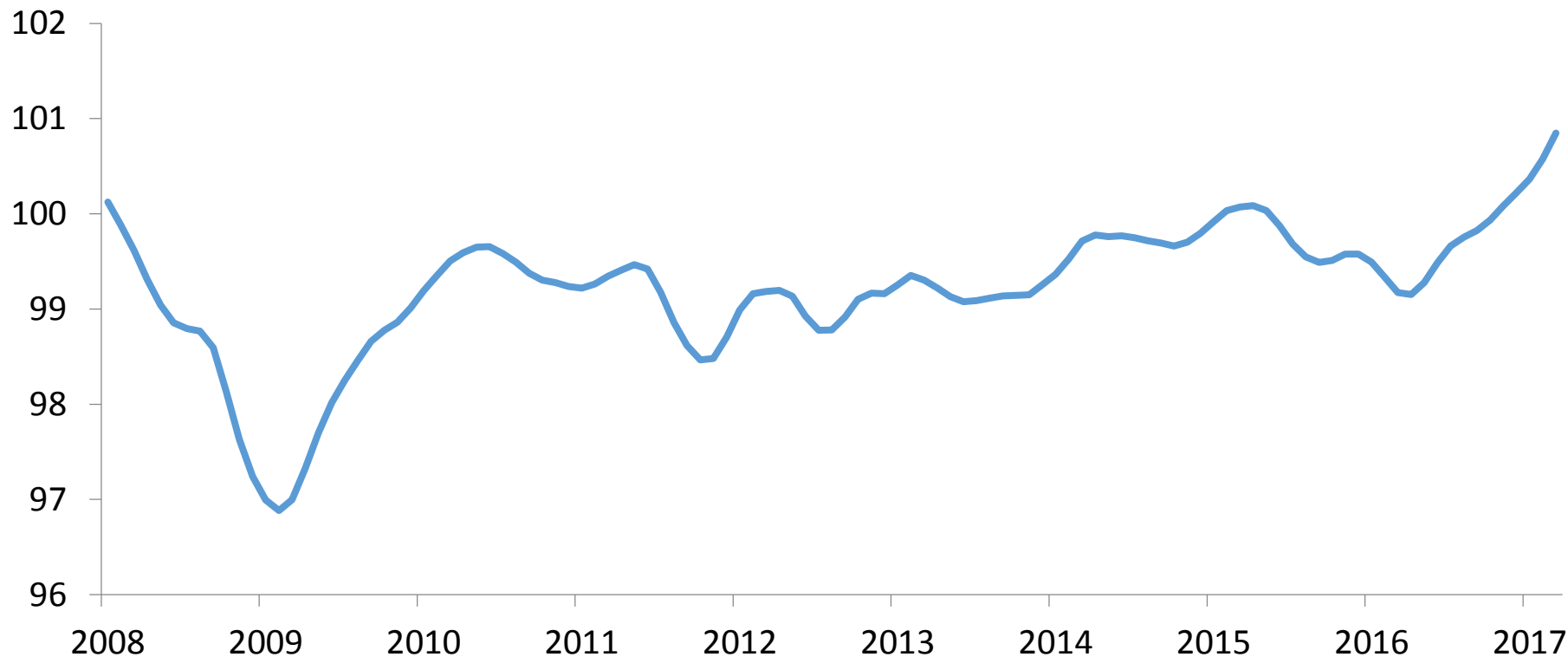
The wider economic situation is now improving

Business confidence in developed and emerging economies



Businesses and consumers more confident

Worldwide average consumer confidence



Perhaps surprisingly given political shocks



Donald Trump Vows to Rip Up Trade Deals and Confront China

The New York Times
28 June 2016

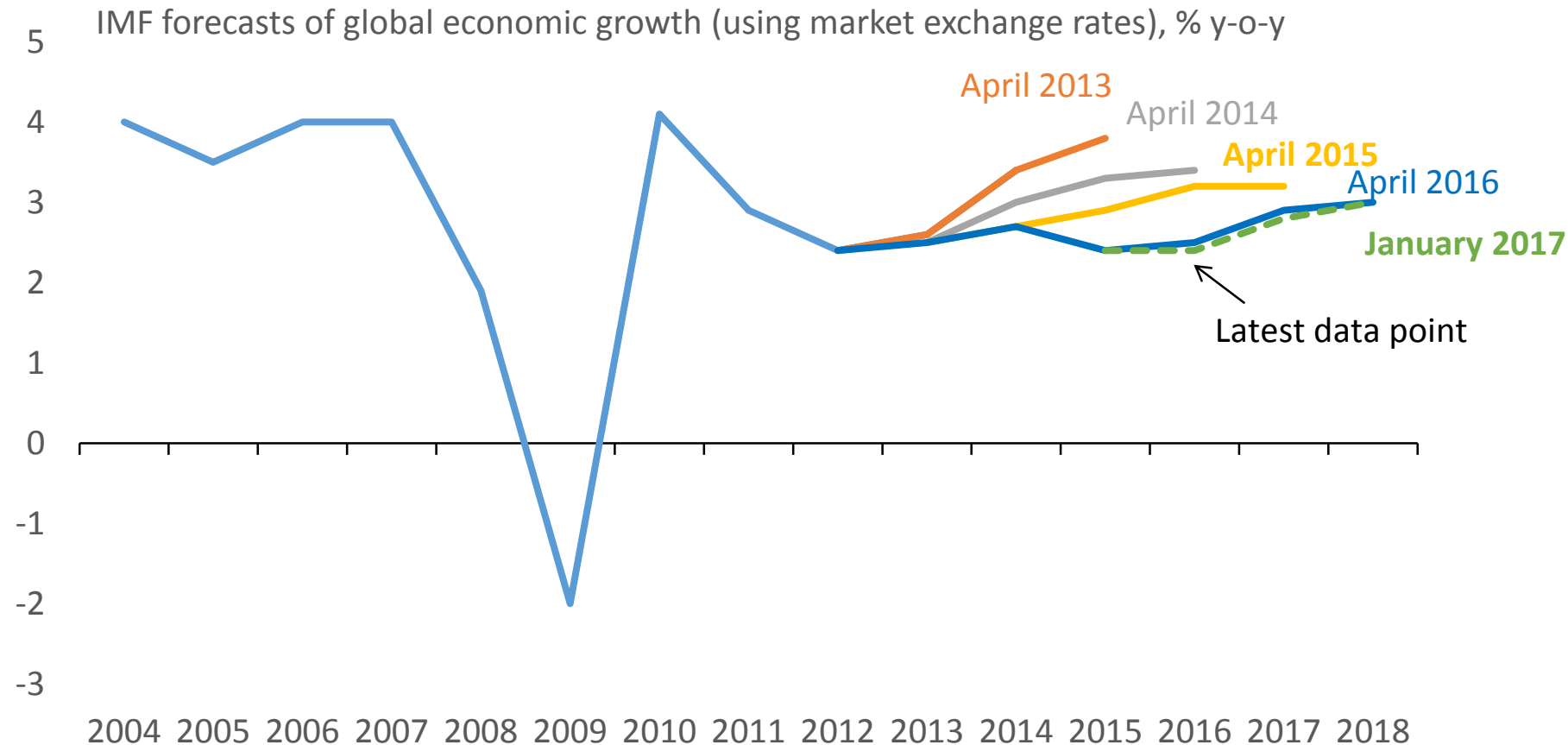
Across Europe, distrust of mainstream political parties is on the rise

Guardian
25 May 2016

**Clamour for trade protectionism on rise:
Arun Jaitley**

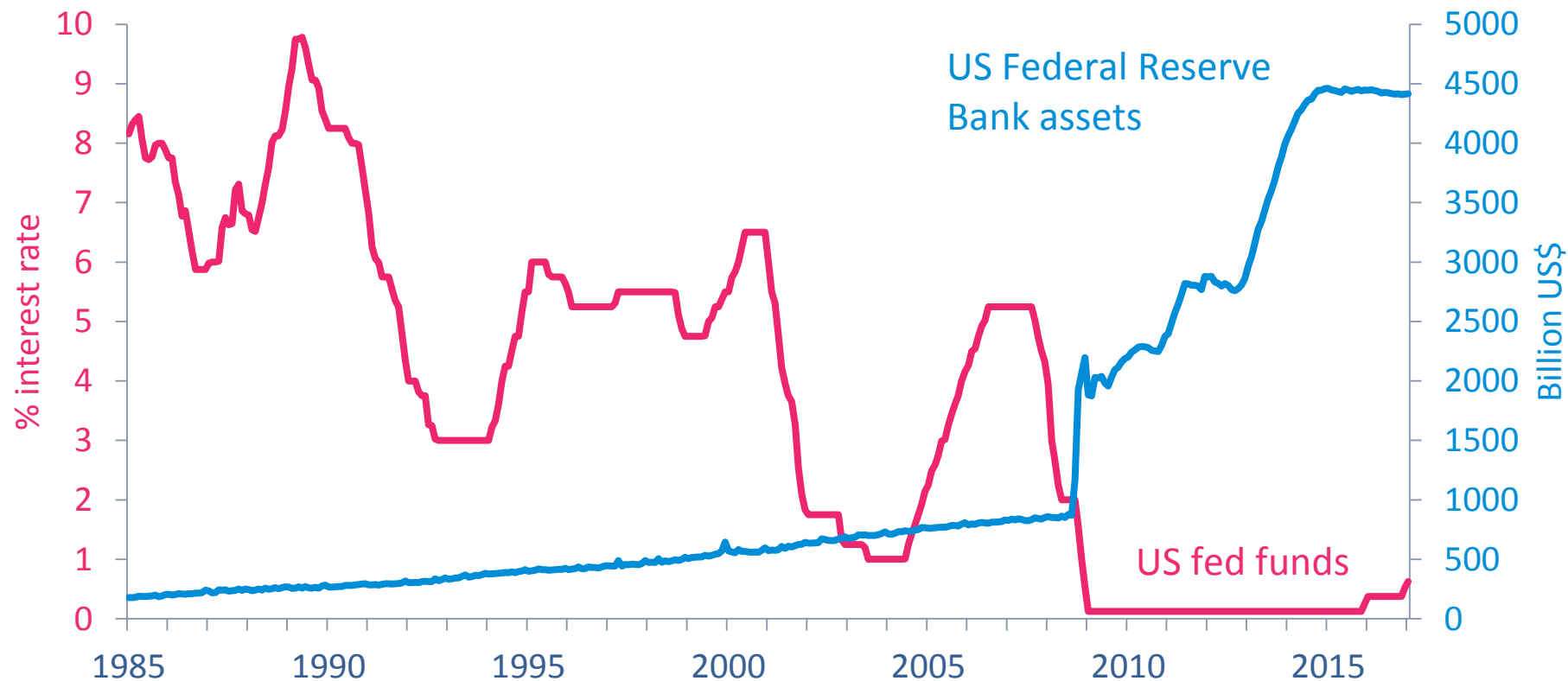
CNBC
13 October 2016

The IMF economic growth forecast may be right at last



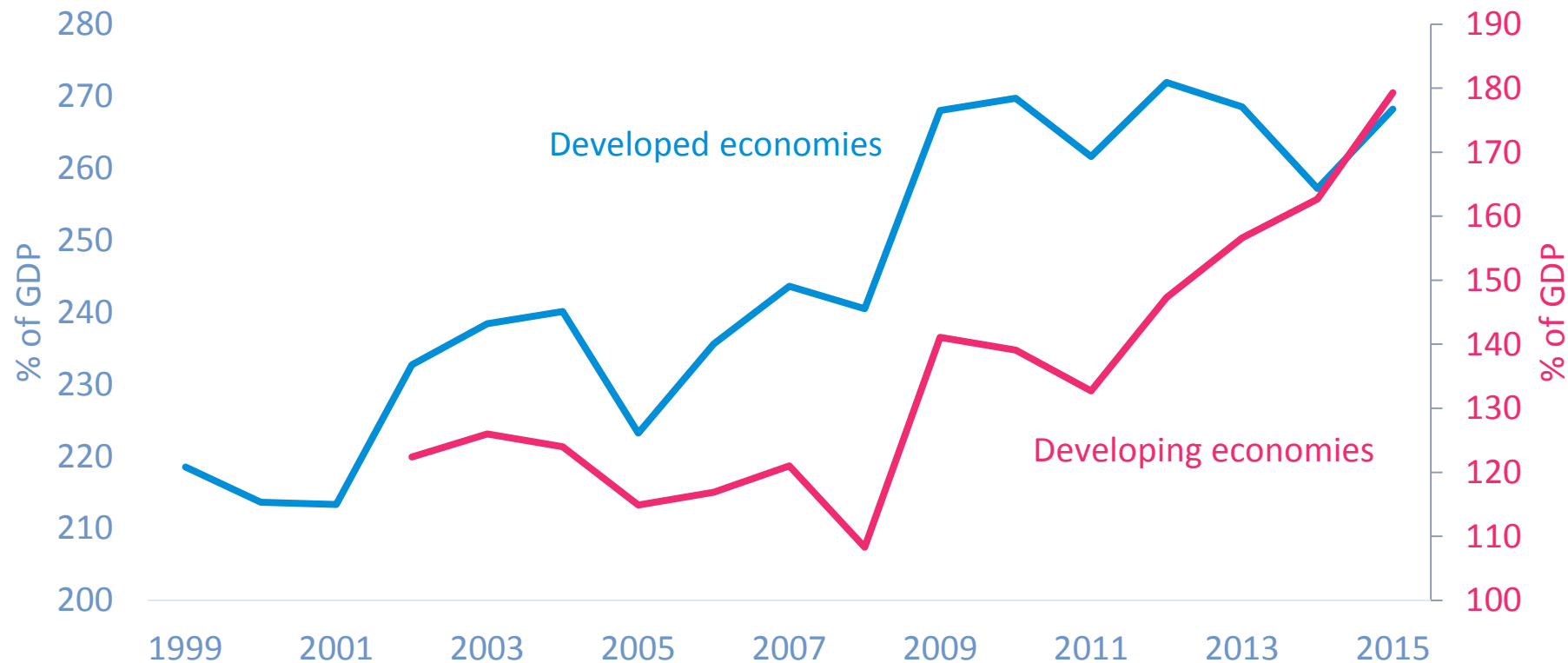
But revival has not been because of monetary policy

US federal funds target rate and balance sheet assets



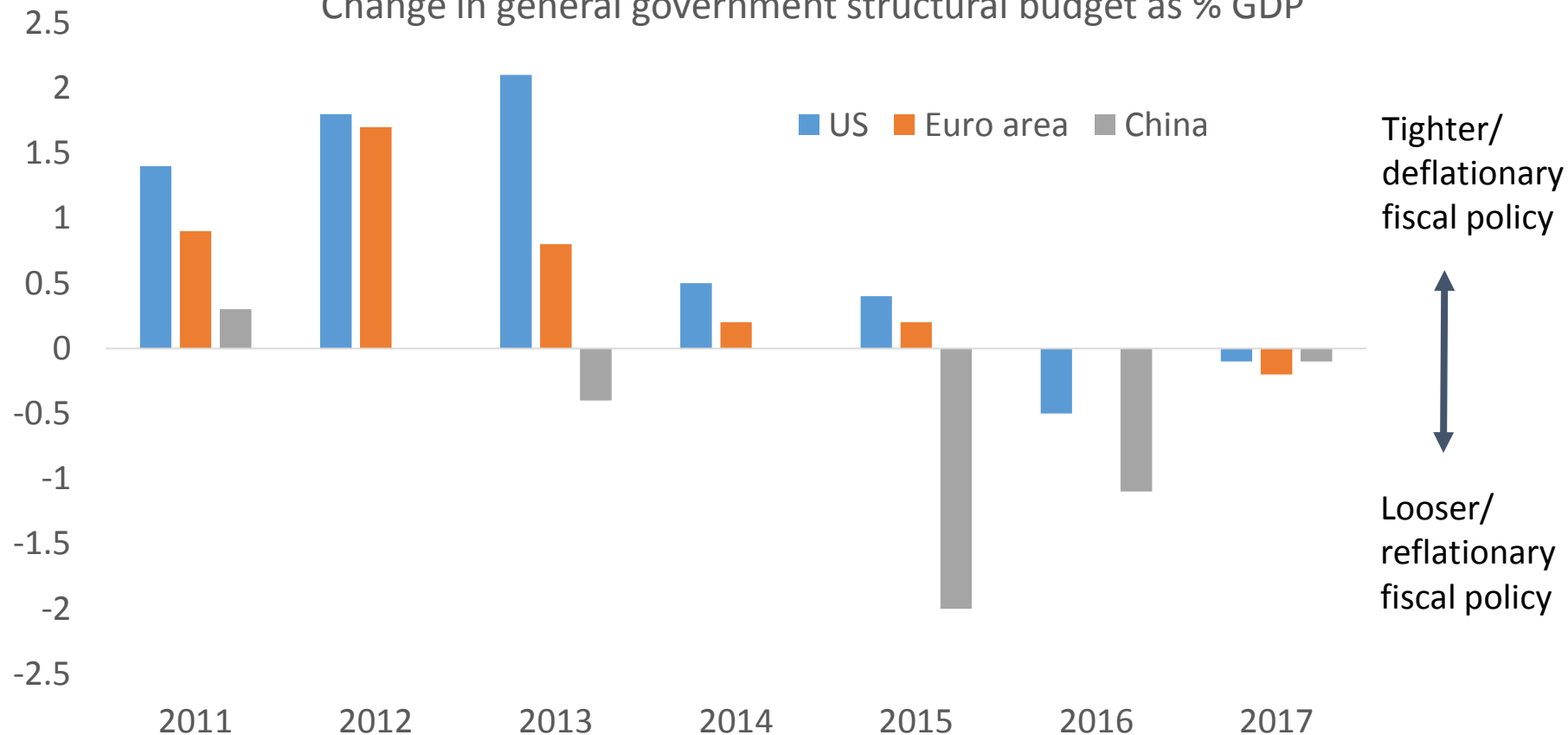
Nor has the debt overhang been resolved

Outstanding debt of non-financial sector, % of GDP

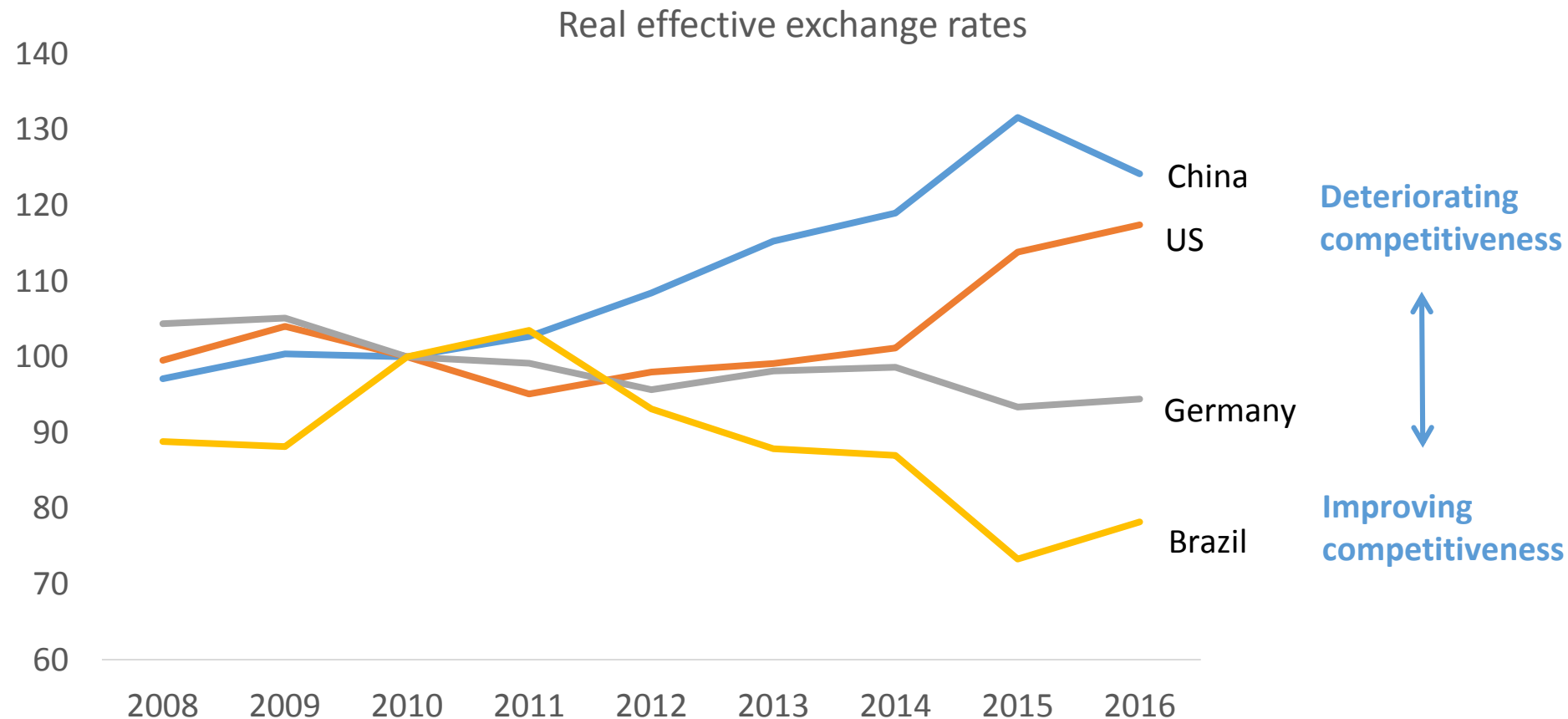


But fiscal policies recently became a stimulus to growth

Change in general government structural budget as % GDP

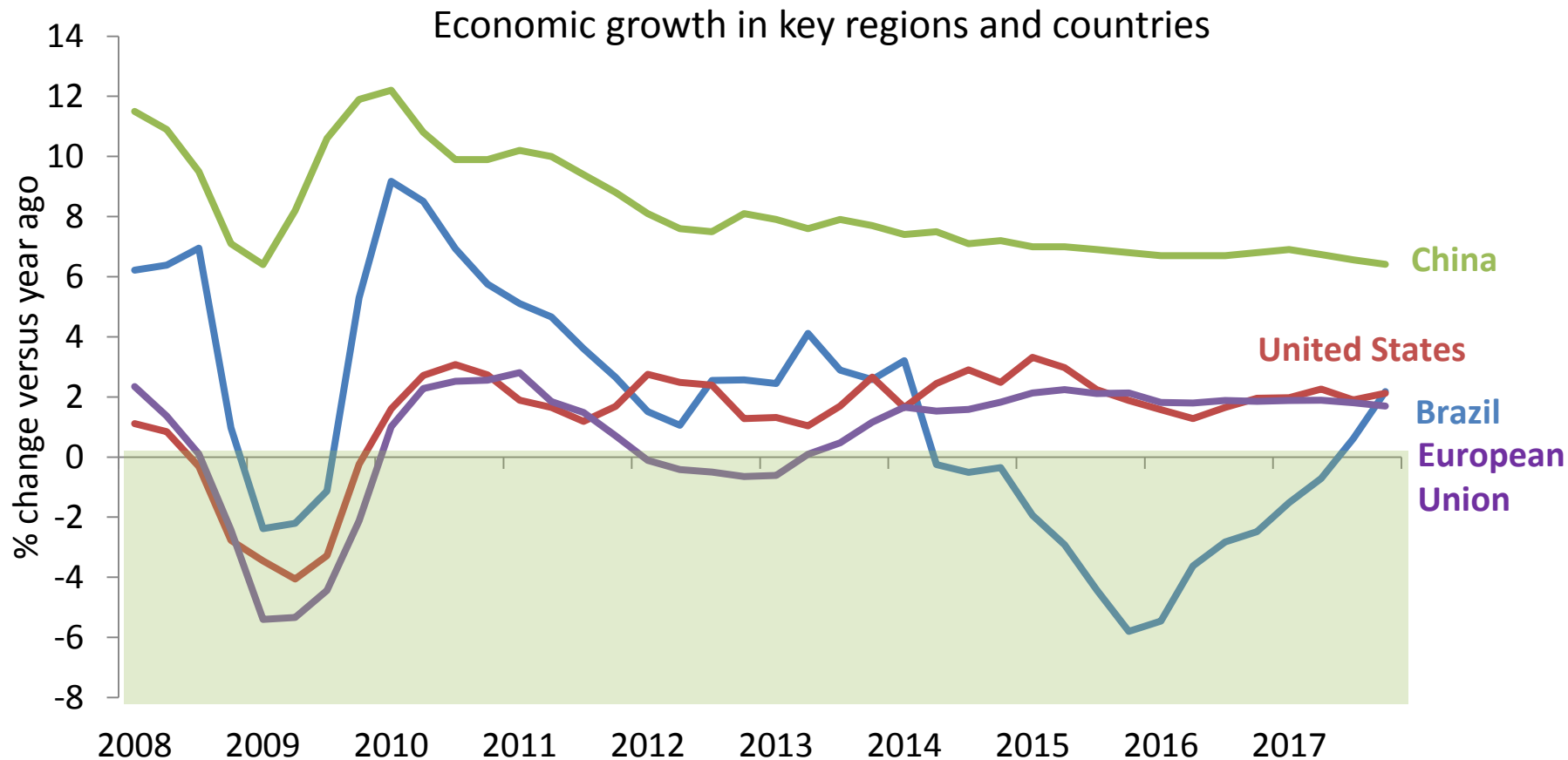


Changes in trade competitiveness spread the recovery



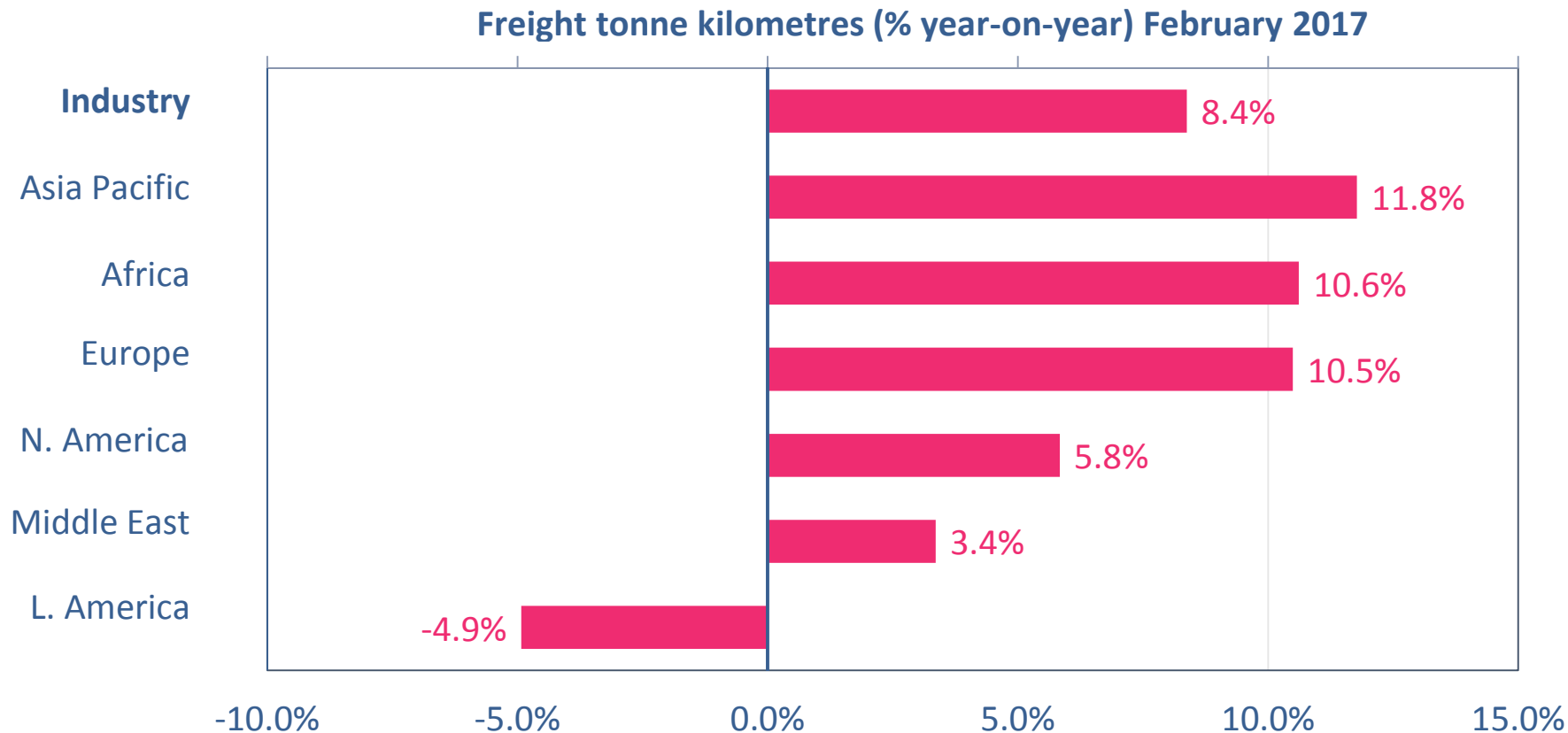
Source: IATA Economics using data from the World Bank

Economic growth converging and stronger overall

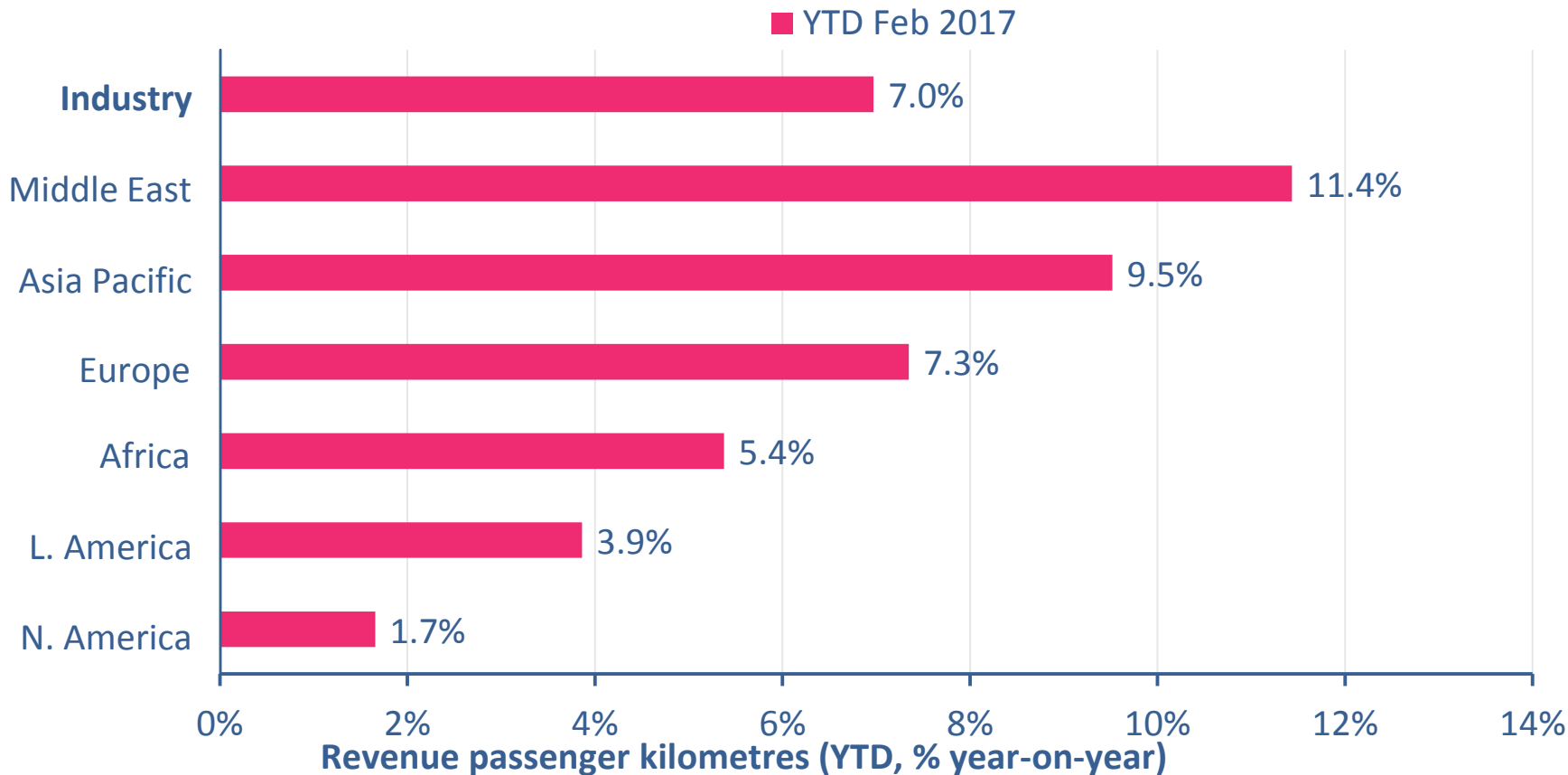


Source: IATA Economics using data from Oxford Economics

Giving a strong start to the year for European air cargo

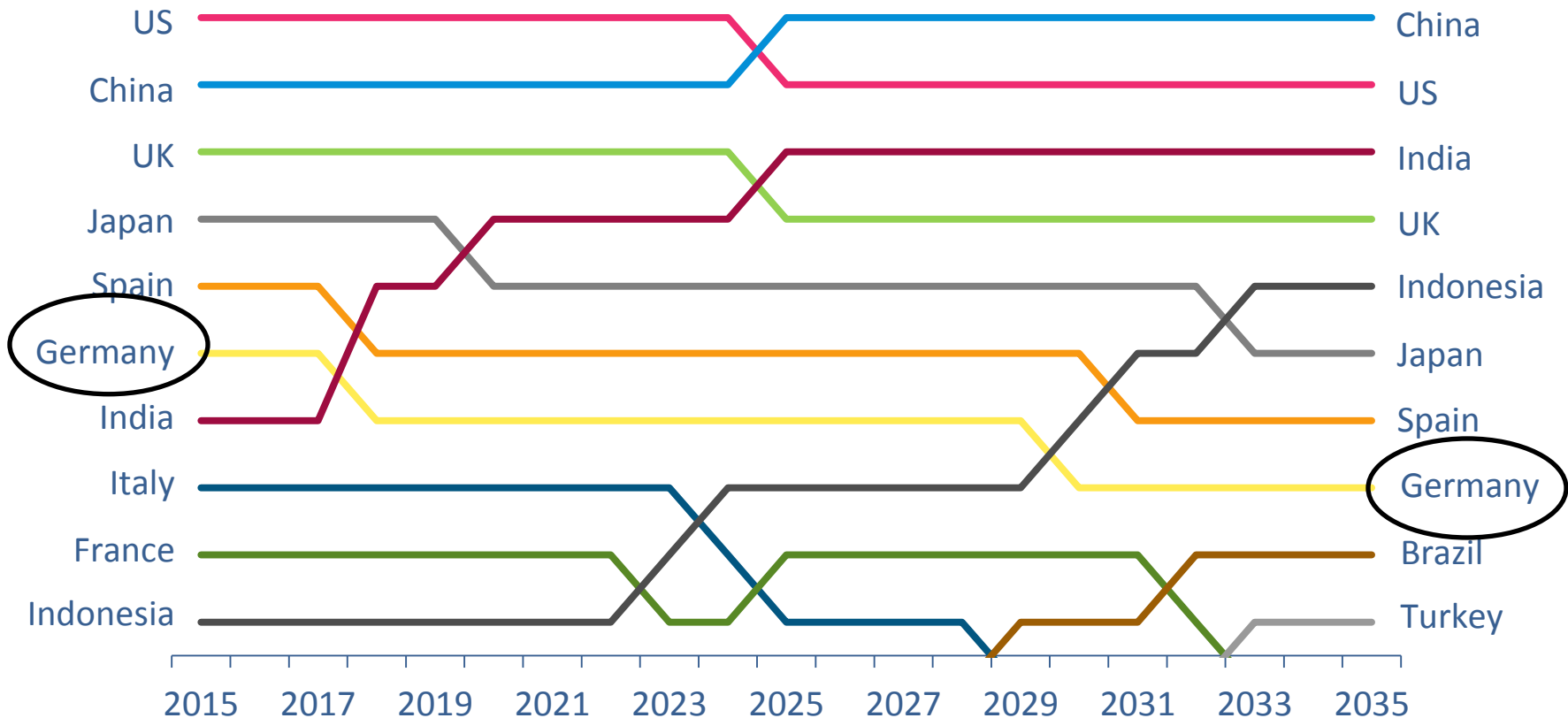


European air travel growth is also strong



Source: IATA Economics using data from IATA Statistics

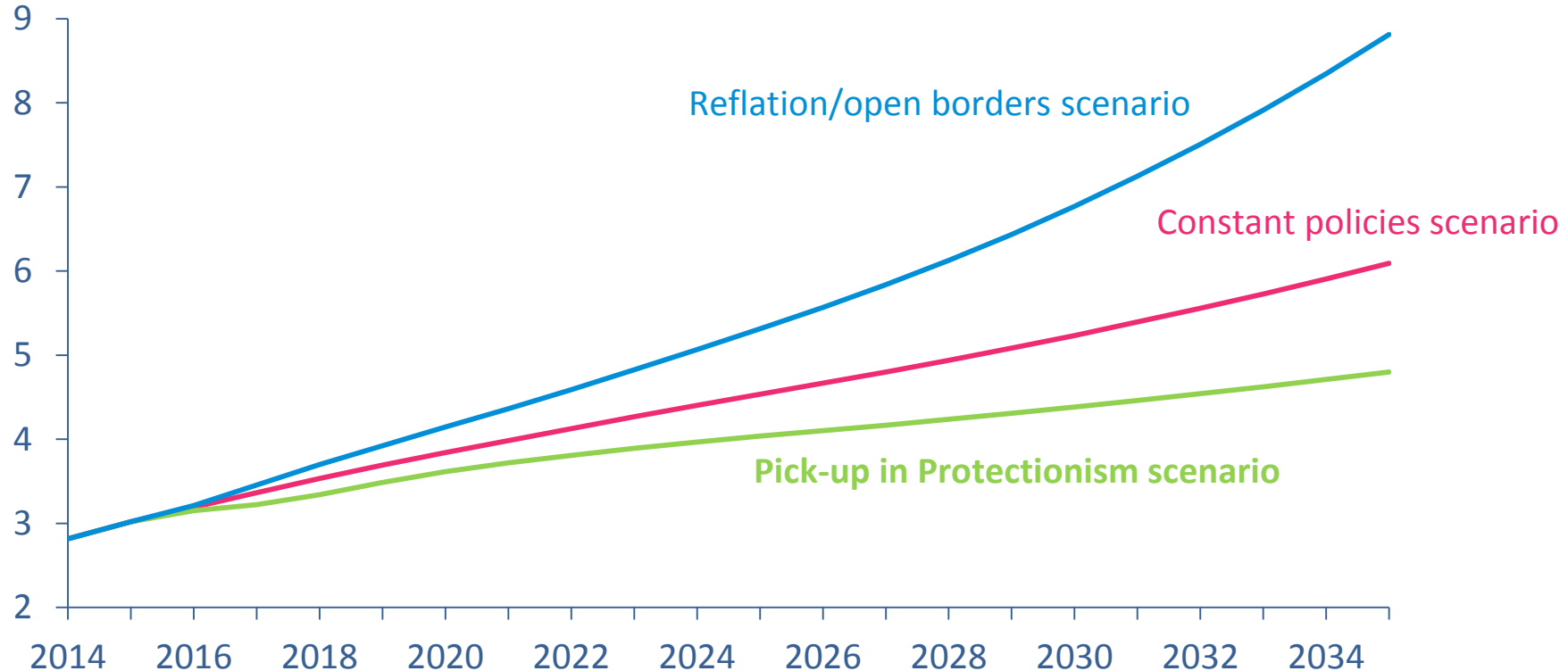
But longer-term prospects look like relative decline



Source: IATA Economic Performance of the Airline Industry, End-Year 2016 report

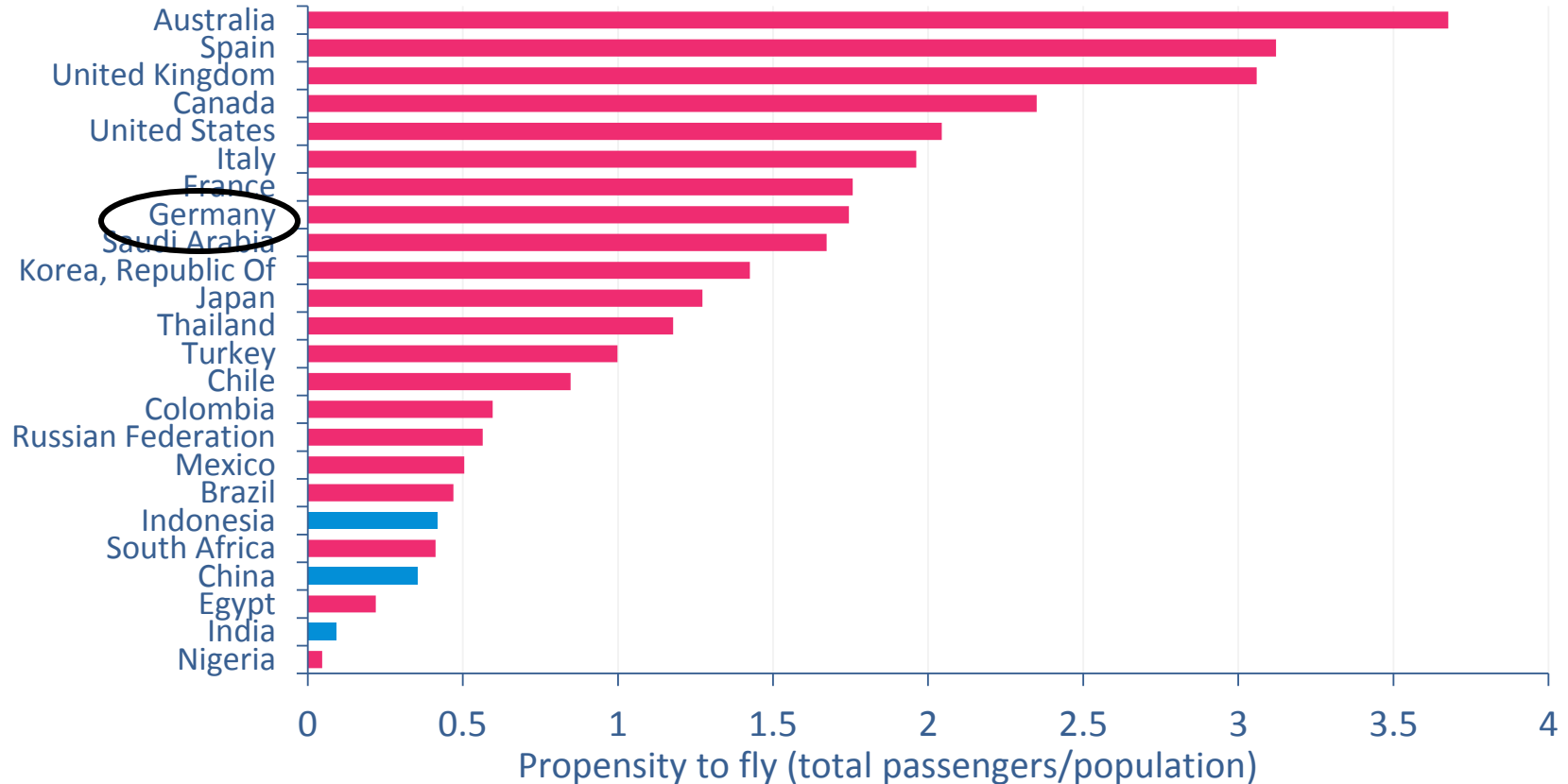
Air travel still has lots of potential to grow globally

Global O-D passenger journeys (billion)



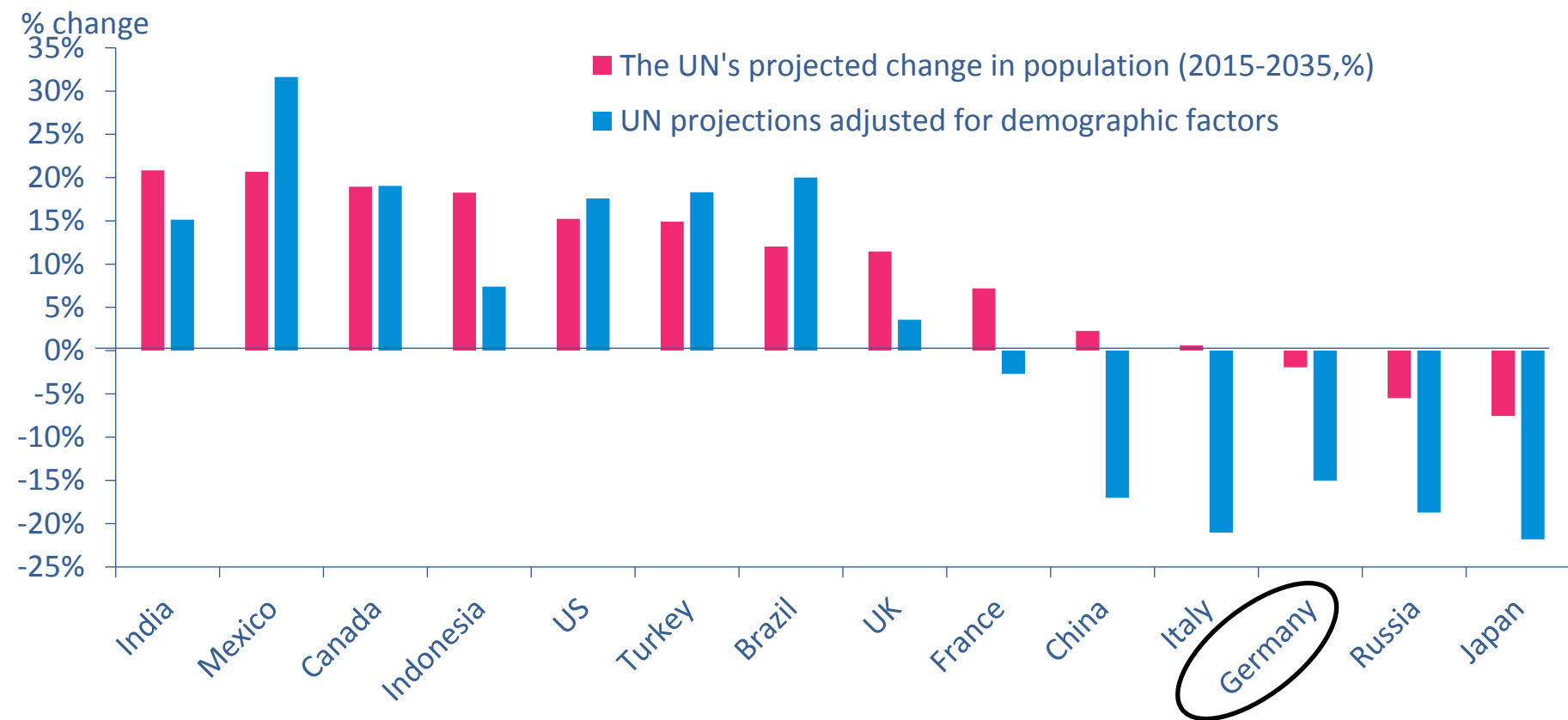
Source: IATA Economic Performance of the Airline Industry, End-Year 2016 report

But air trip frequency already high/mature in Germany



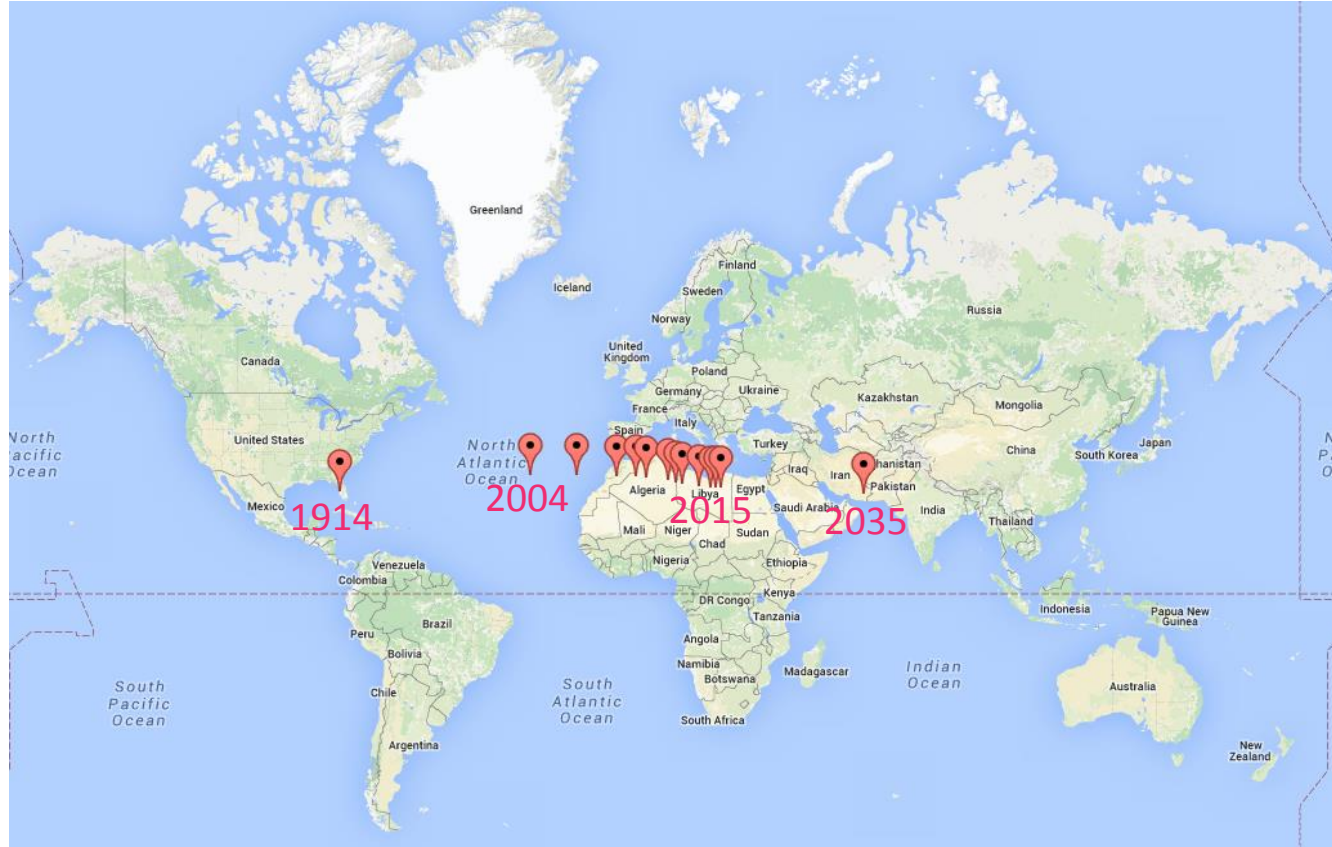
Source: IATA Economic Performance of the Airline Industry, End-Year 2016 report

And Germany's demographics are poor



Source: IATA Economic Performance of the Airline Industry, End-Year 2016 report

Centre of gravity of air travel shifting away from Europe



Source: IATA Economics using data from PaxIS+

More is needed to preserve wider economic benefits

Connections to key cities and trading partners

...few **delays**

...**cost-efficient** for users

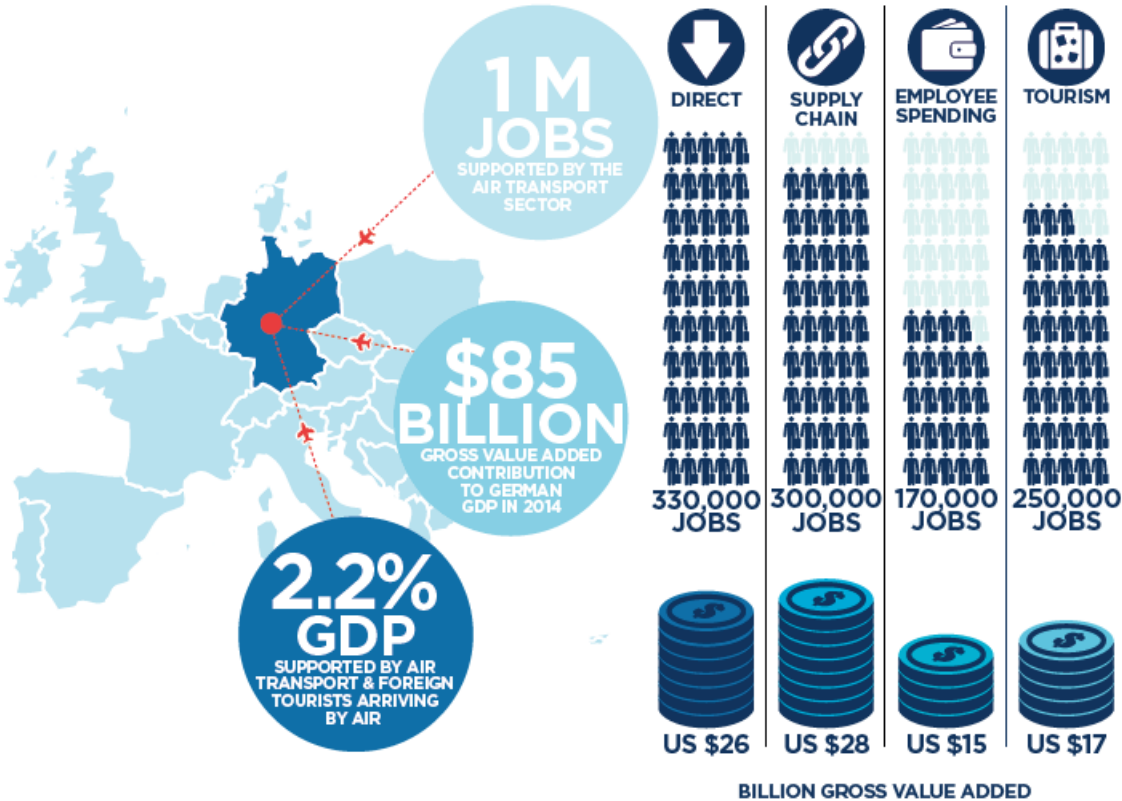
...**frequencies** that business need

...vital **infrastructure** for the economy

...generating **flows** of goods, people, investment, competition and ideas

...boosting **non-inflationary economic growth** potential

Including 1m high quality jobs and \$85bn value added



Source: The Importance of Air Transport to Germany, 2017, IATA/Oxford Economics

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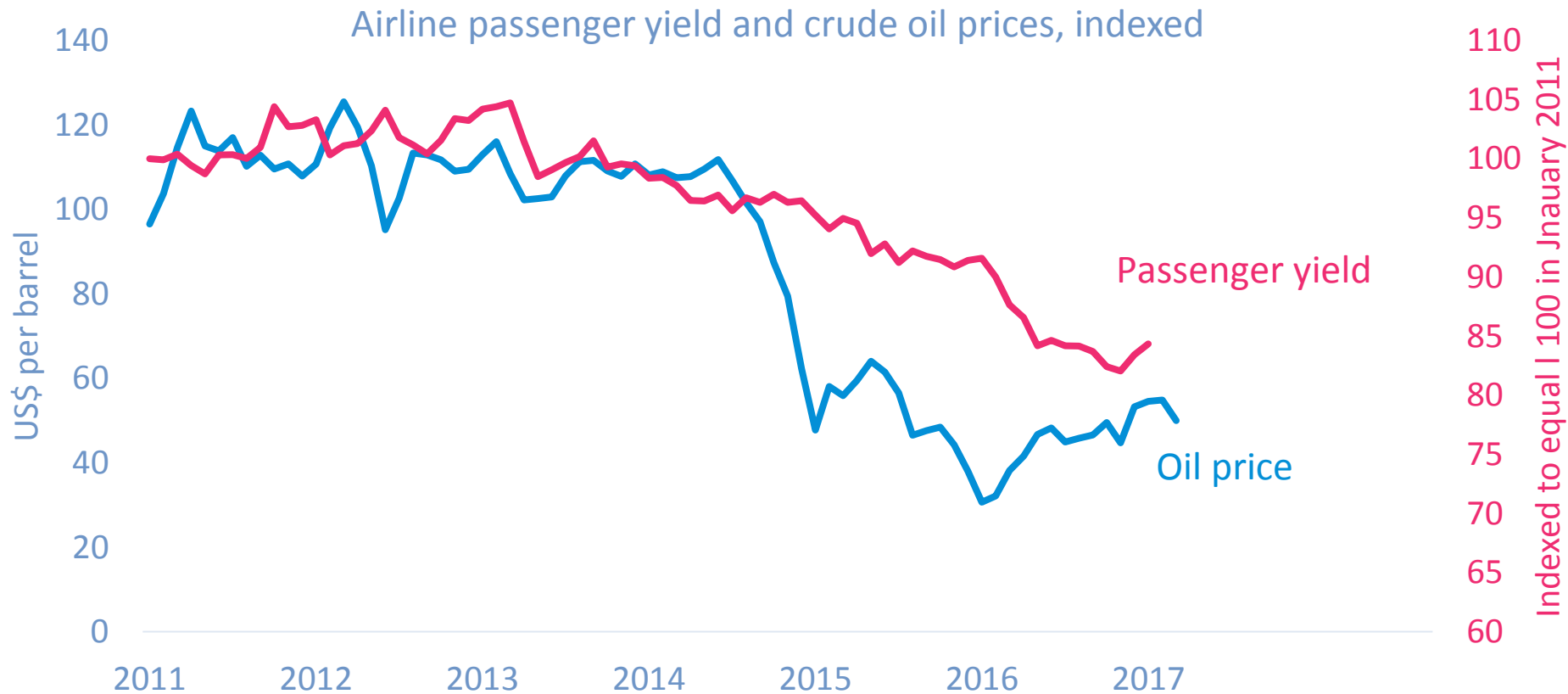
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BACK UP SLIDES

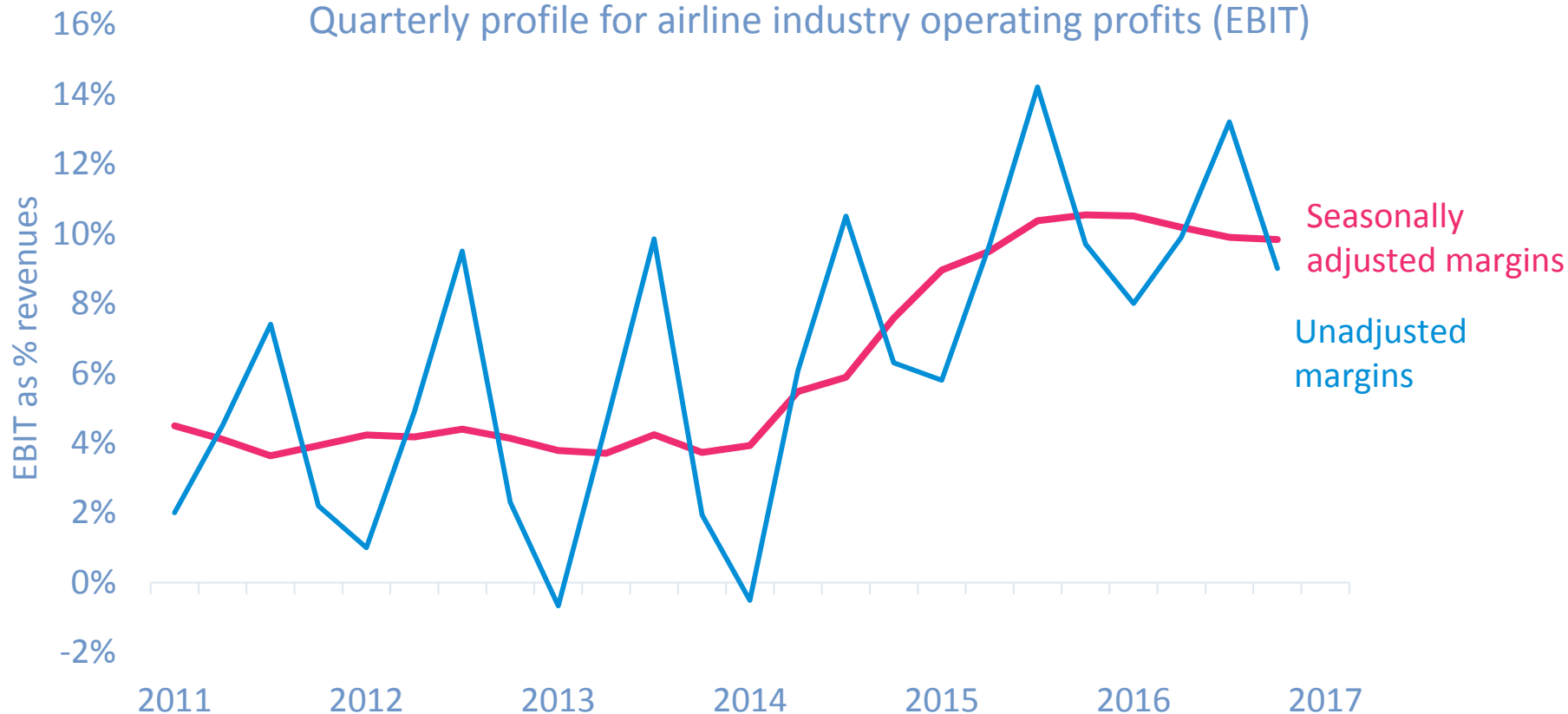
But airline profit margins are now being squeezed



Source: IATA using data from PaxIS+ and Haver

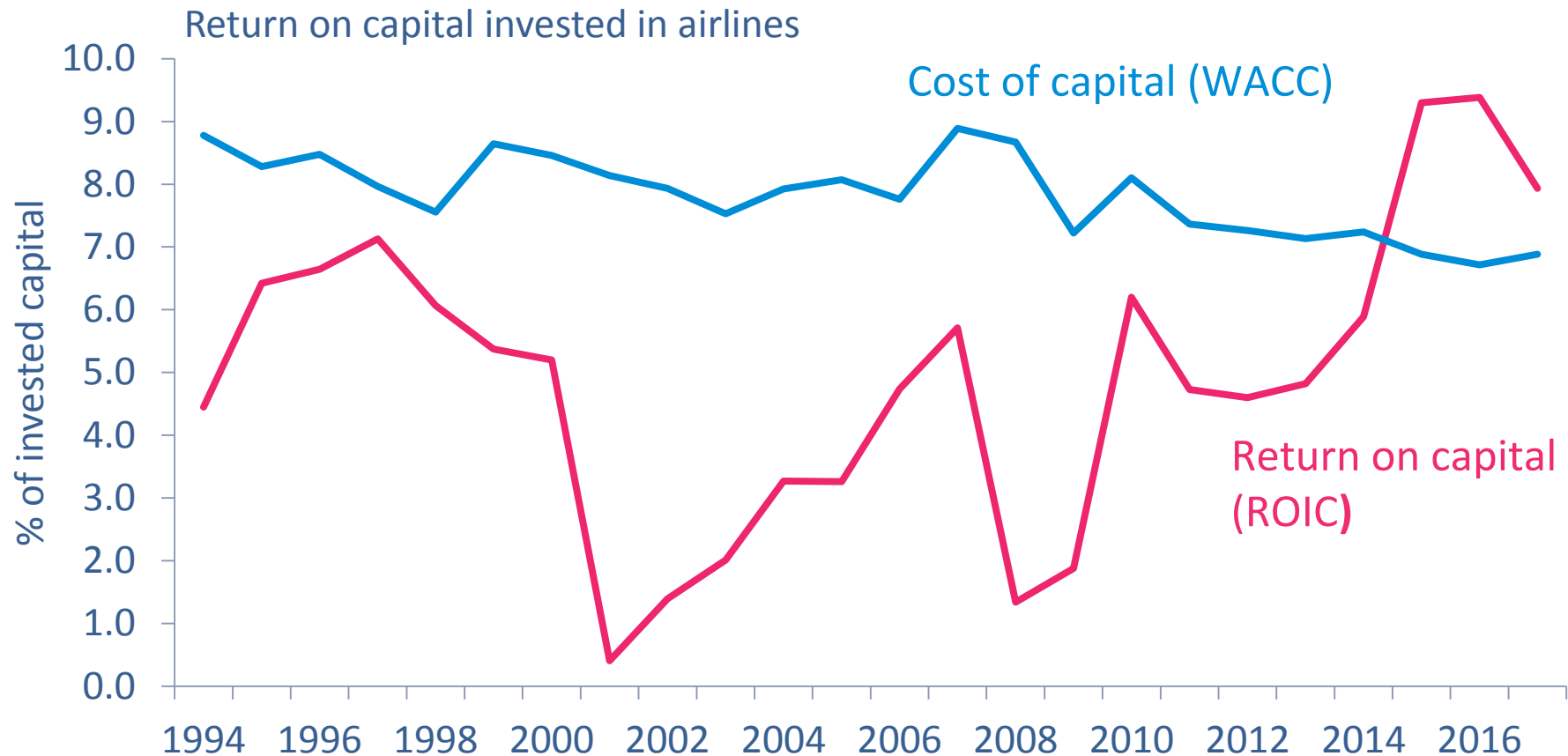
So airline industry profitability peaked a year ago

Quarterly profile for airline industry operating profits (EBIT)



Source: IATA Economic Performance of the Airline Industry – end year 2016 report

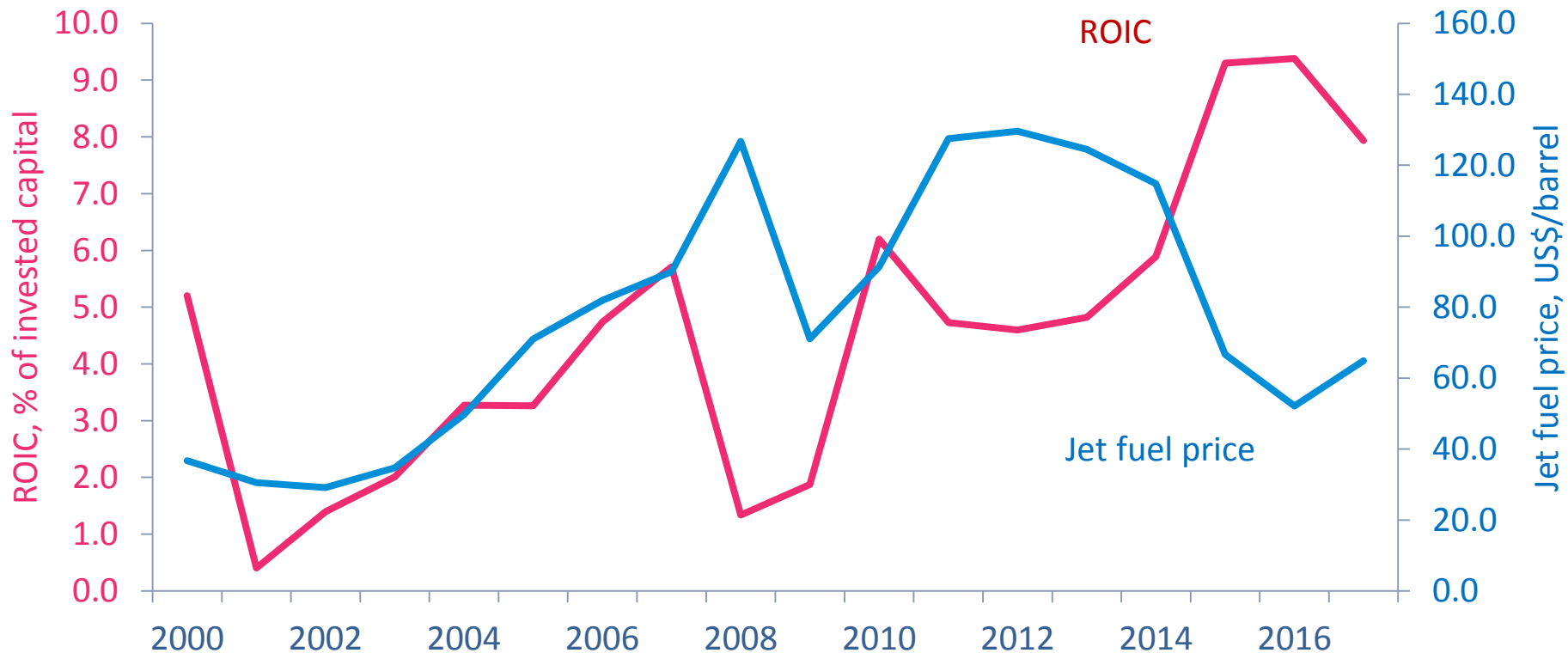
Airlines' return on capital lower this year but still good



Source: IATA Economic Performance of the Airline Industry, End-Year 2016 report

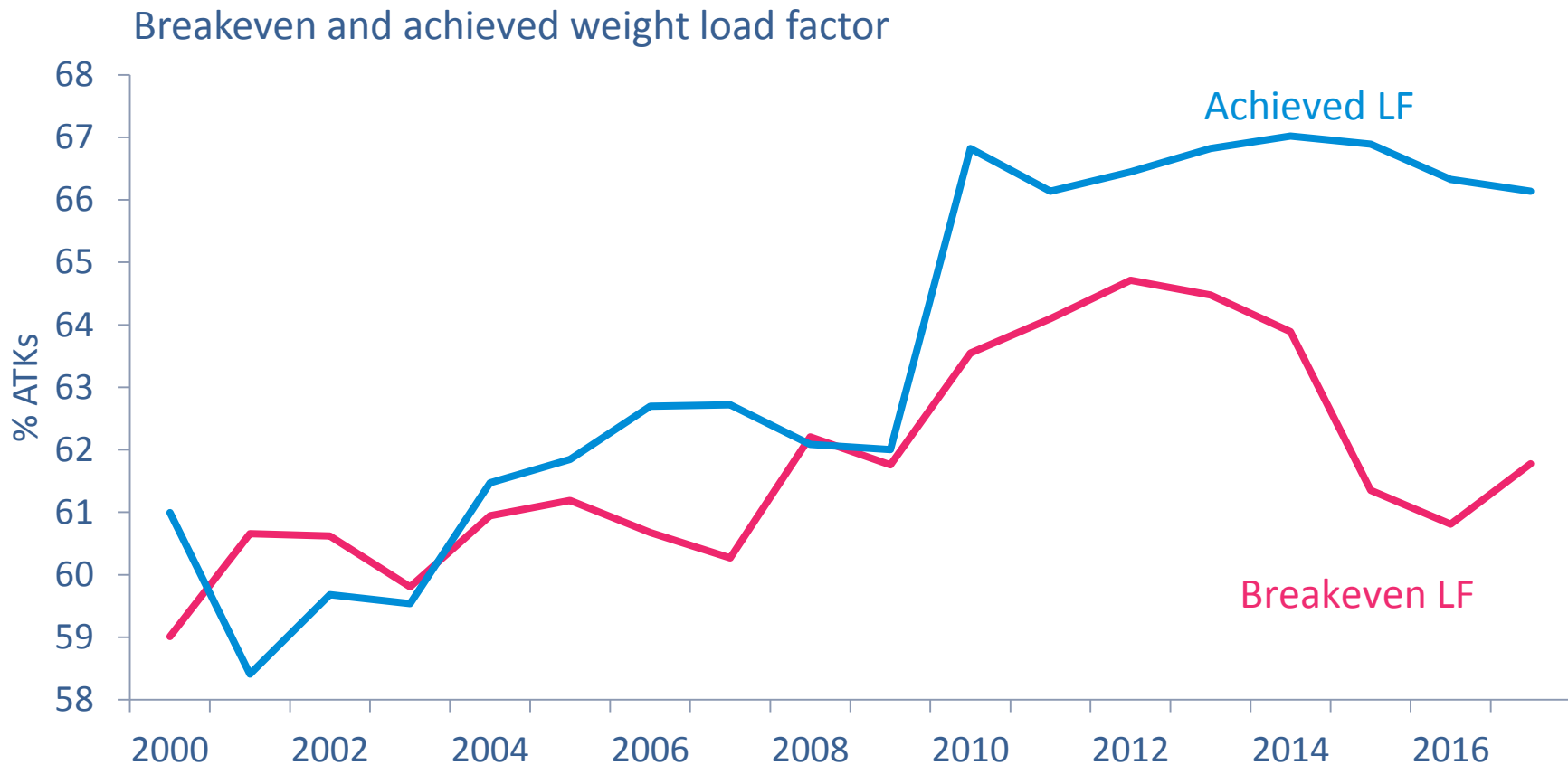
It's partly fuel prices

Airline industry ROIC and jet fuel prices



Source: IATA Economics using data from Platts and IATA

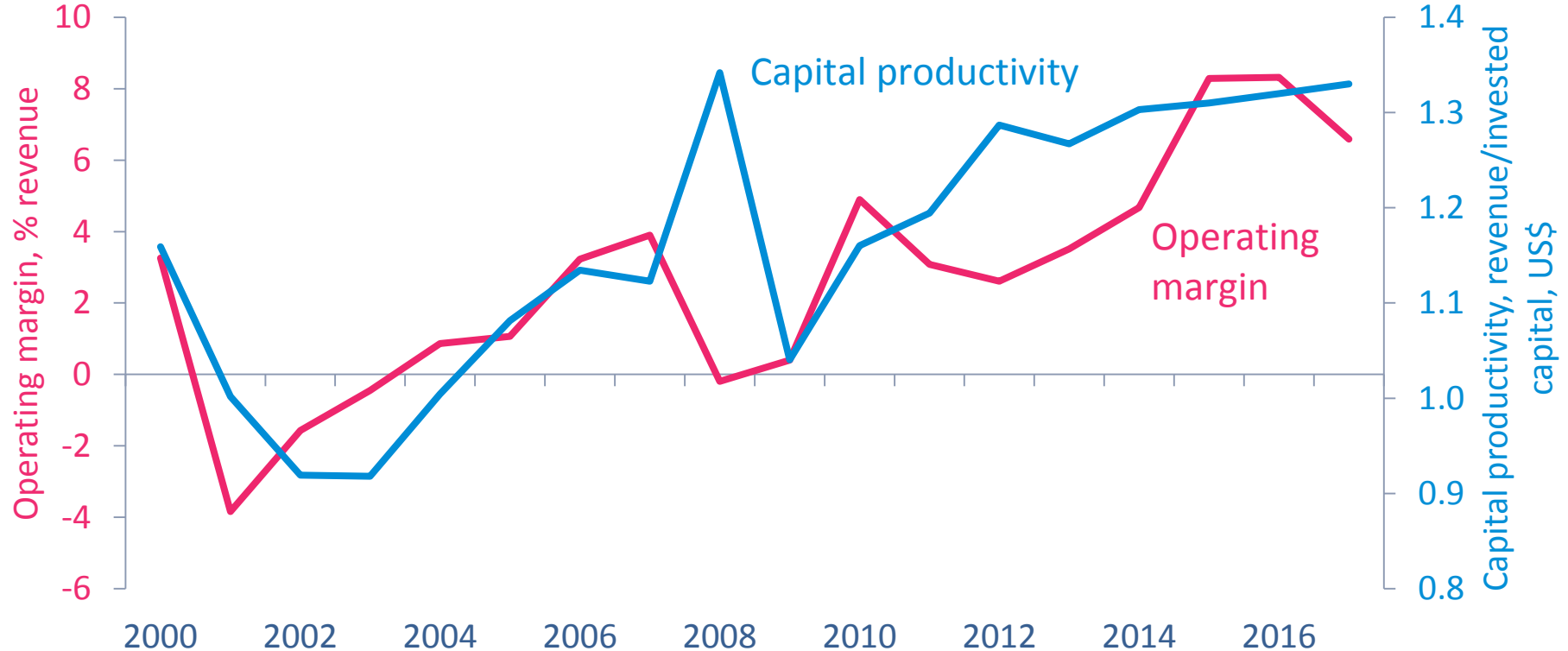
But also better asset utilization relative to break-even



Source: IATA Economic Performance of the Airline Industry – end year 2016 report

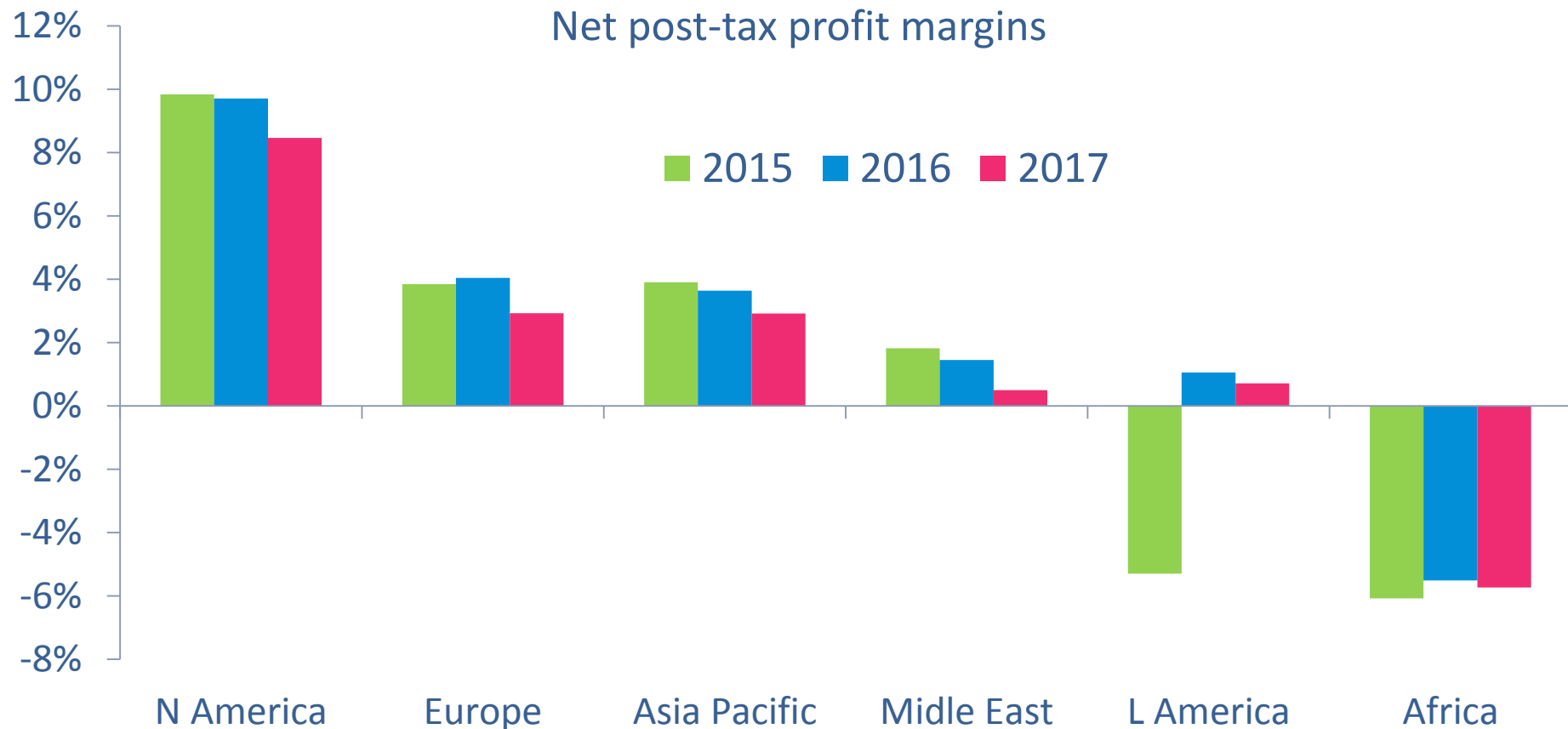
And airlines are trying to sweat their assets more

Airlines' operating or EBIT margin and capital productivity



Source: IATA Economic Performance of the Airline Industry – end year 2016 report

But good airline profits driven almost entirely by US



Source: IATA Economic Performance of the Airline Industry – end year 2016 report