

Airline industry outlook update

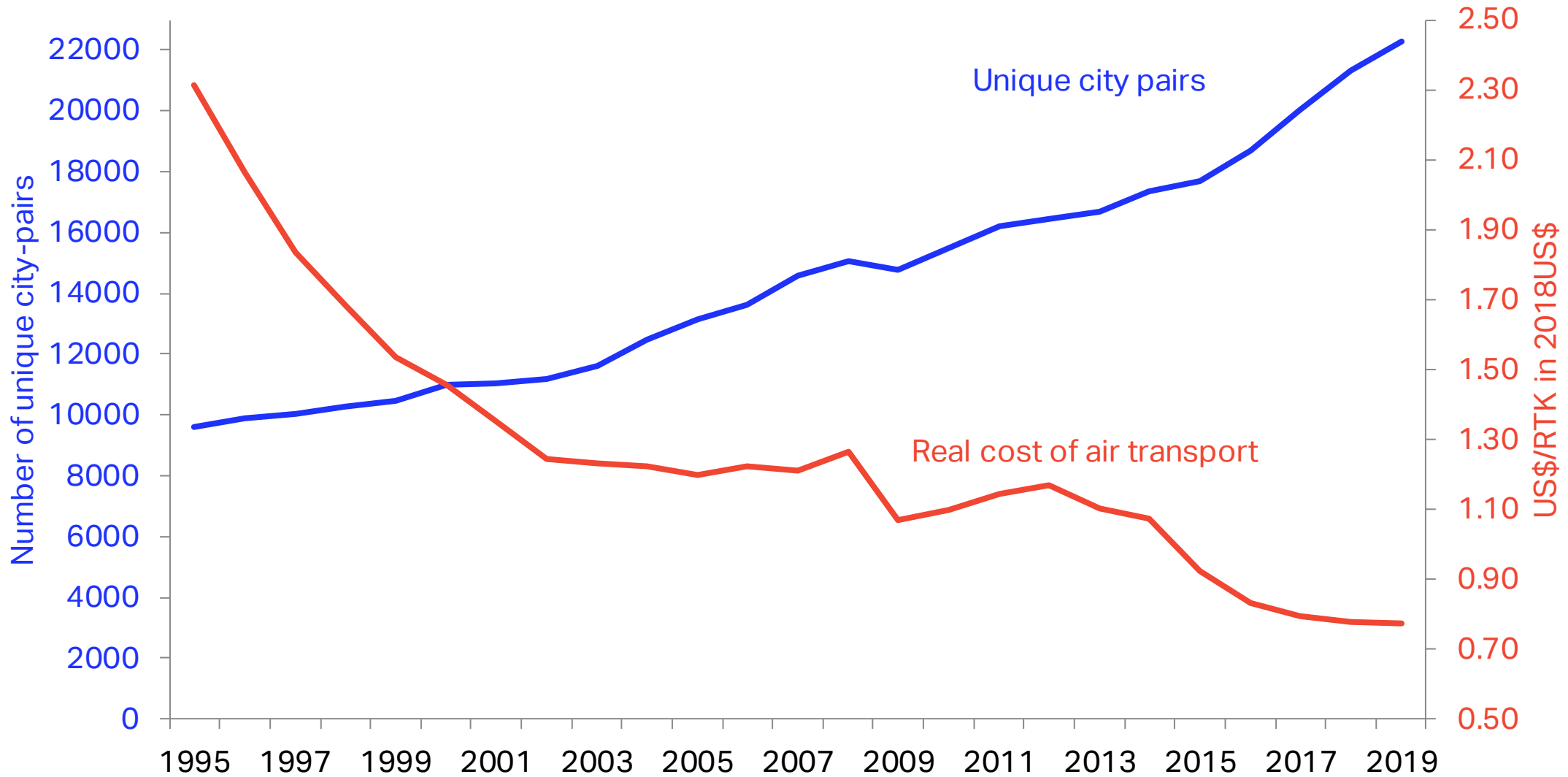
Brian Pearce
Chief Economist

2 June 2019



More cities connected at lower real cost

Unique city-pairs and real transport costs

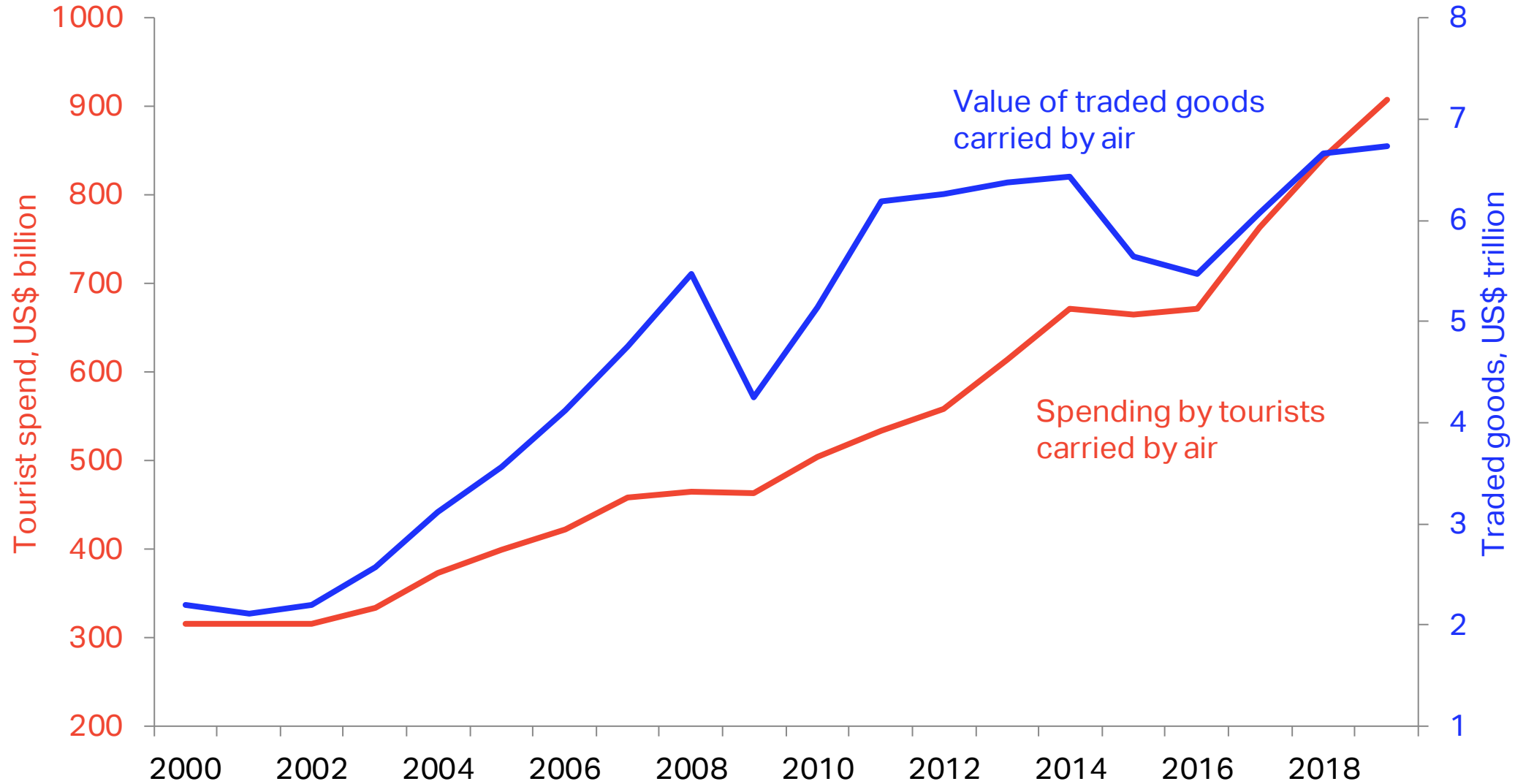


Source: IATA Economics using data from SRS Analyzer, ICAO, IATA statistics, IATA Economics forecast



Flows of trade and tourism boosted

Value of trade carried by air and the spending of tourists

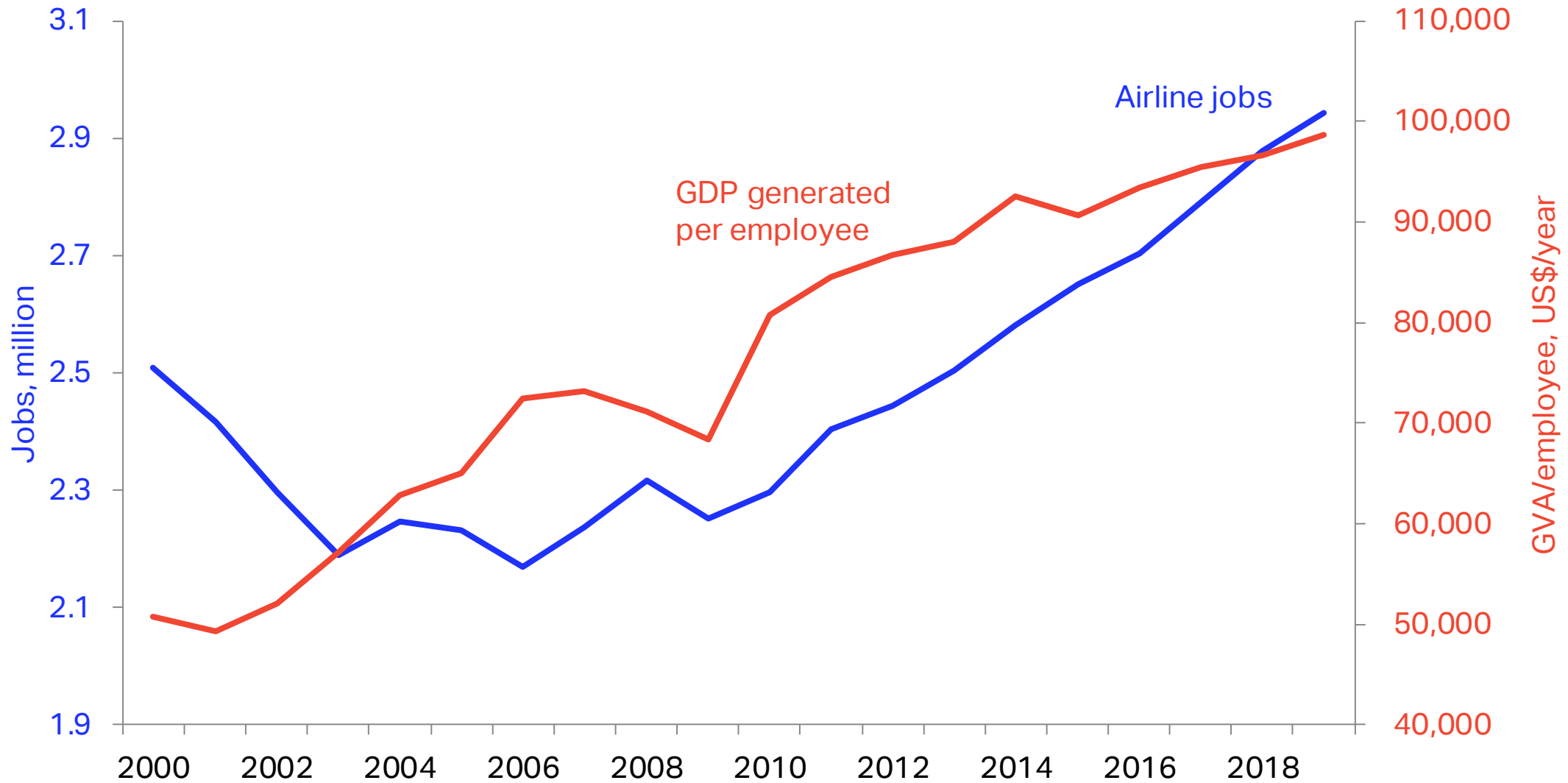


Source: IATA Economics using data from UNWTO, Oxford Economics, IATA Economics forecast



Supporting more jobs and GDP

Airline industry jobs and value added (GDP) per employee

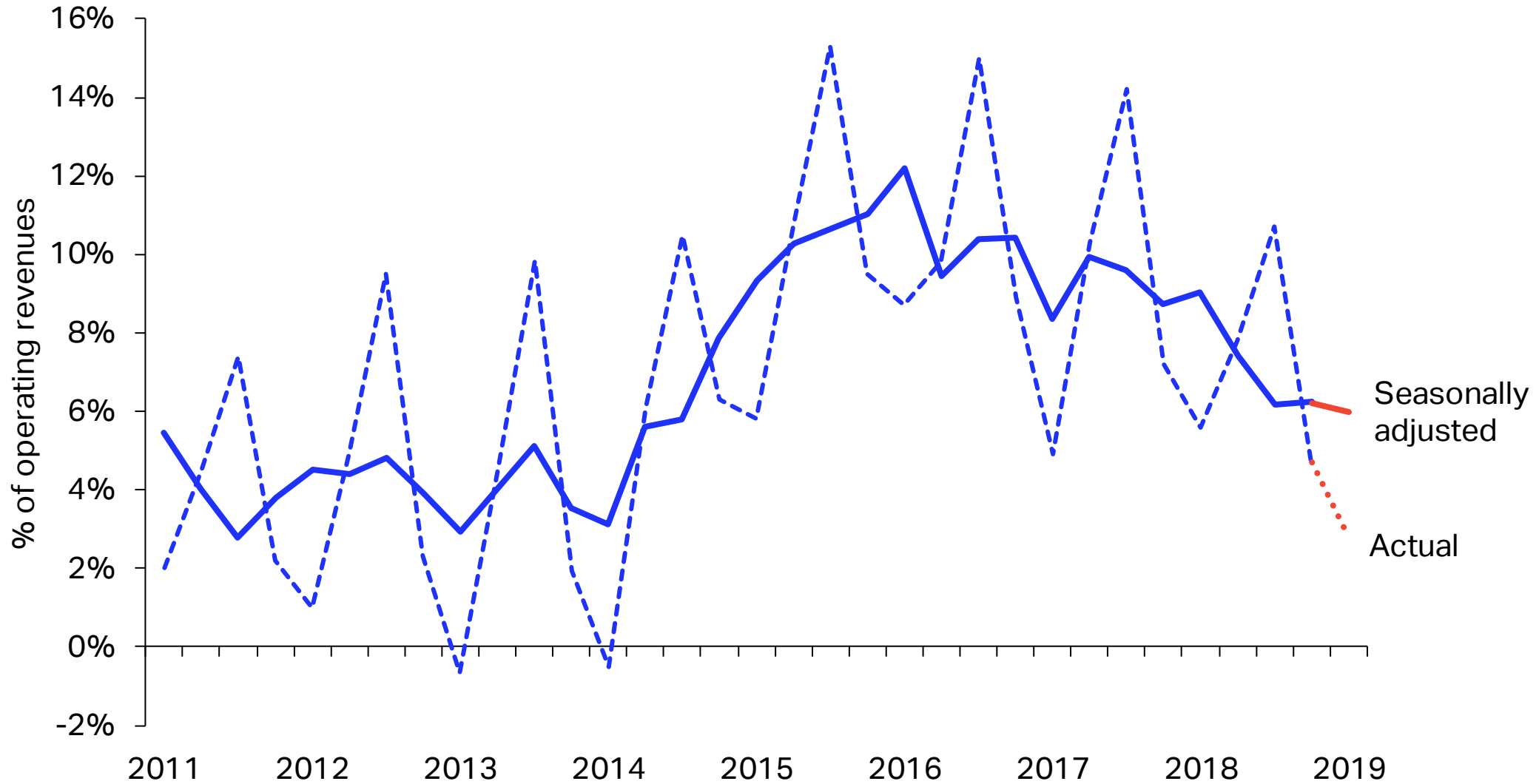


Source: IATA Economics using data from ATAG ABBB 2018 Appendix direct airline GVA and jobs



But airline industry profit margins under pressure

Airline industry operating margin

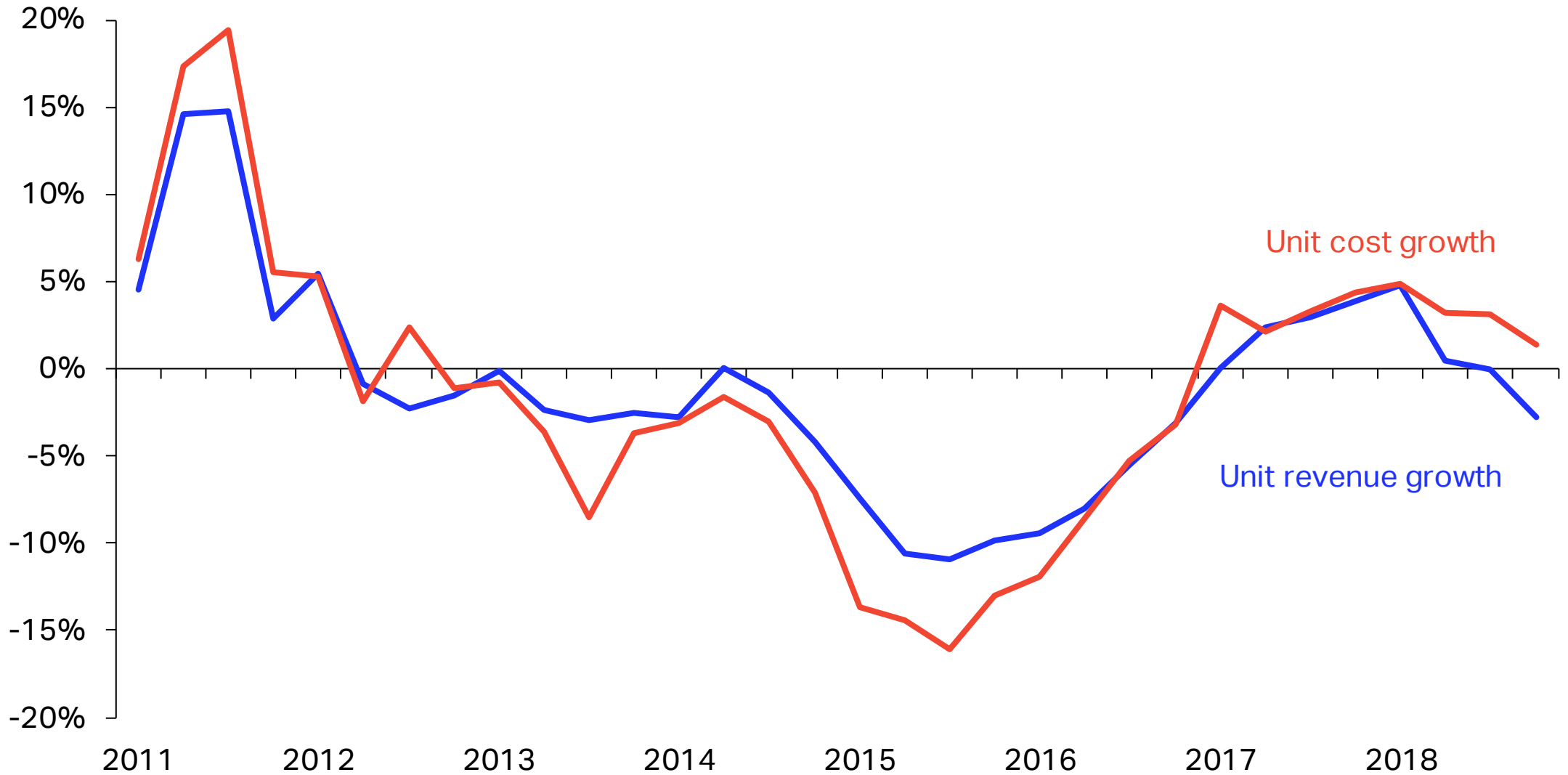


Source: IATA Economics using data from The Airline Analyst



As unit costs rise and cost recovery falters

Unit cost and unit revenue growth

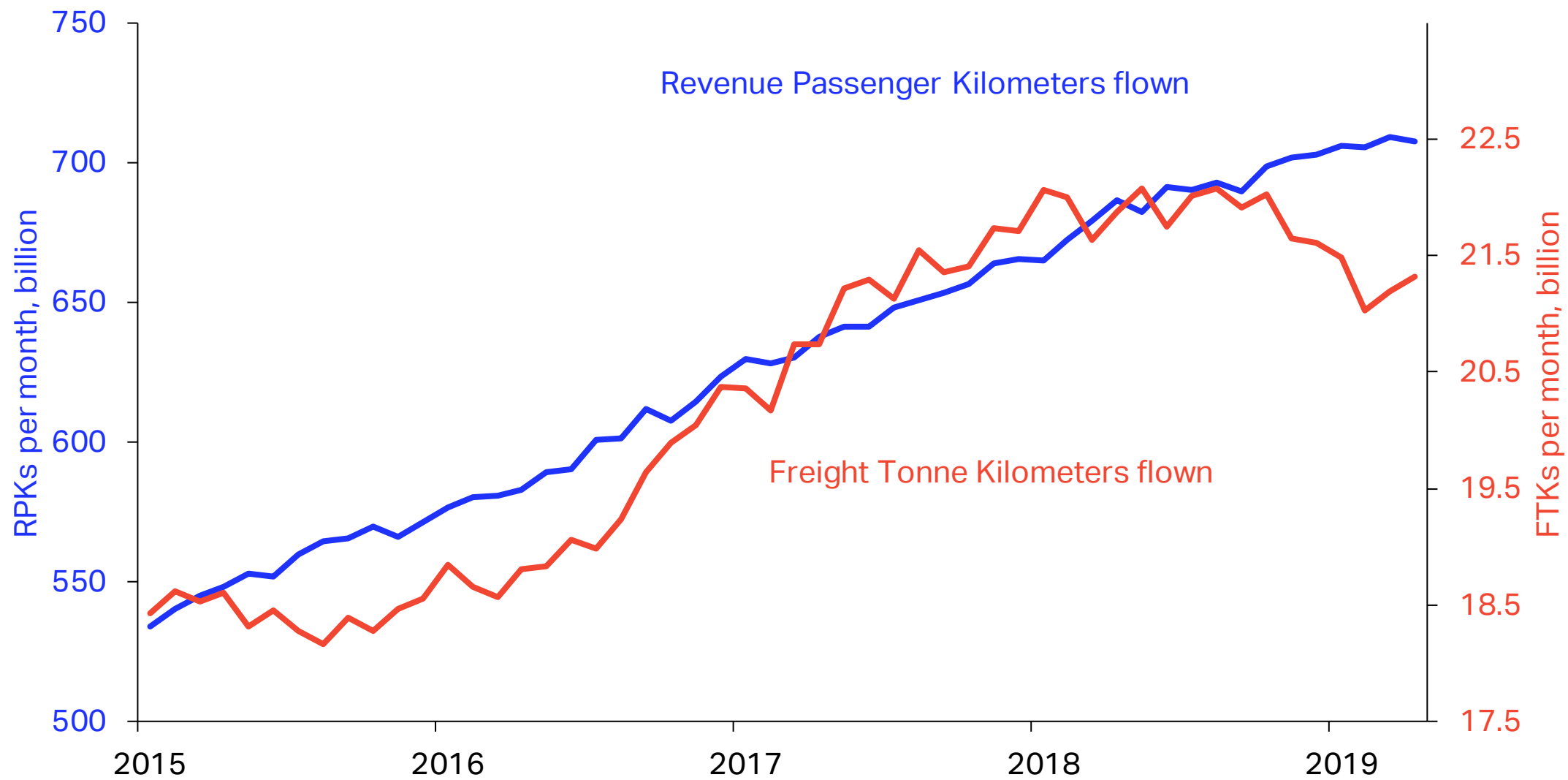


Source: IATA Economics using data from The Airline Analyst



Air travel demand expanding but cargo shrinks

Worldwide FTKs and RPKs, seasonally adjusted

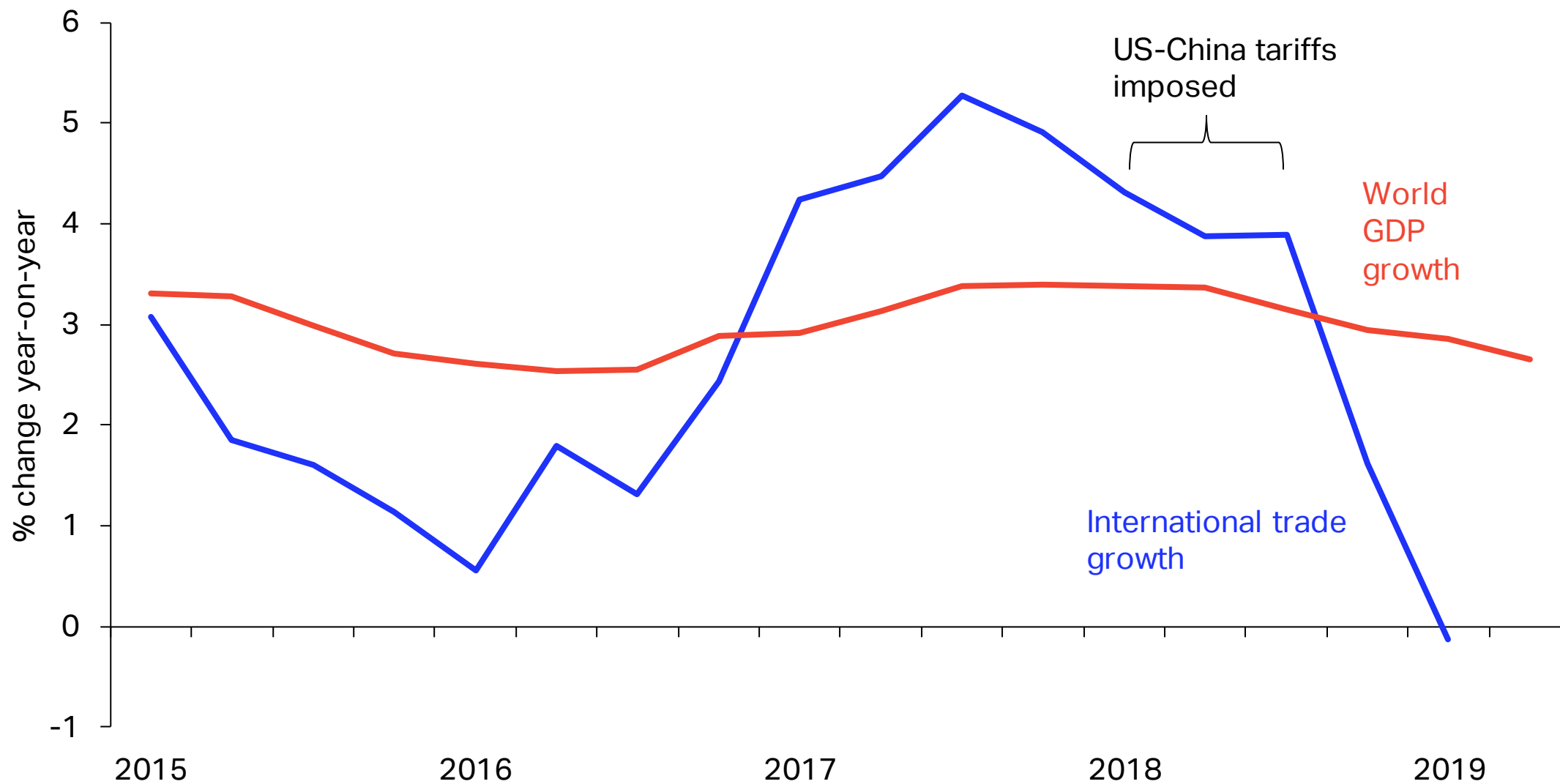


Source: IATA Economics using data from IATA Statistics



The problem is with cross-border trade

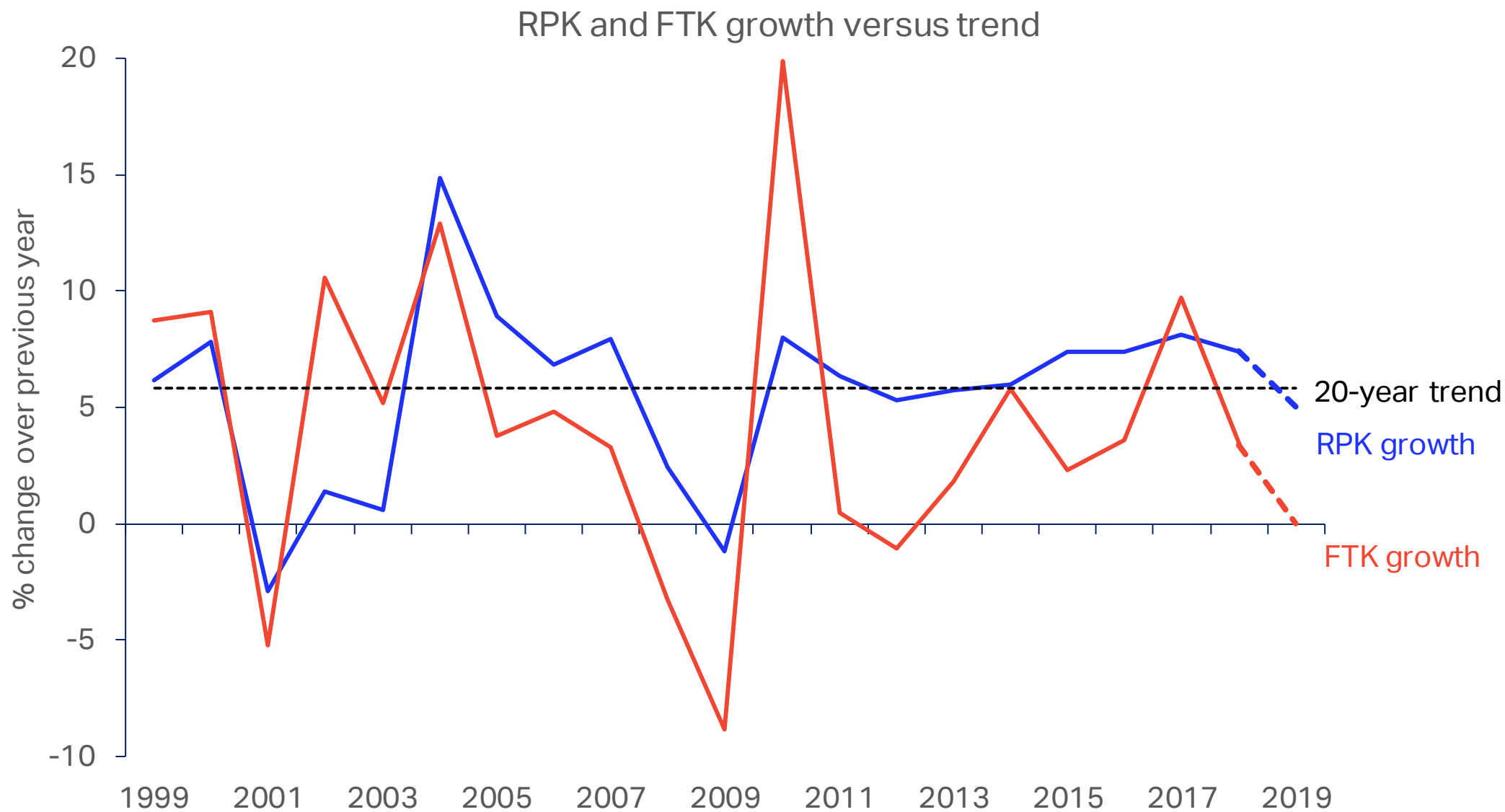
World GDP and international trade growth



Source: IATA Economics using data from Netherlands CPB and Oxford Economics



Cargo market stalls in 2019 while air travel slows

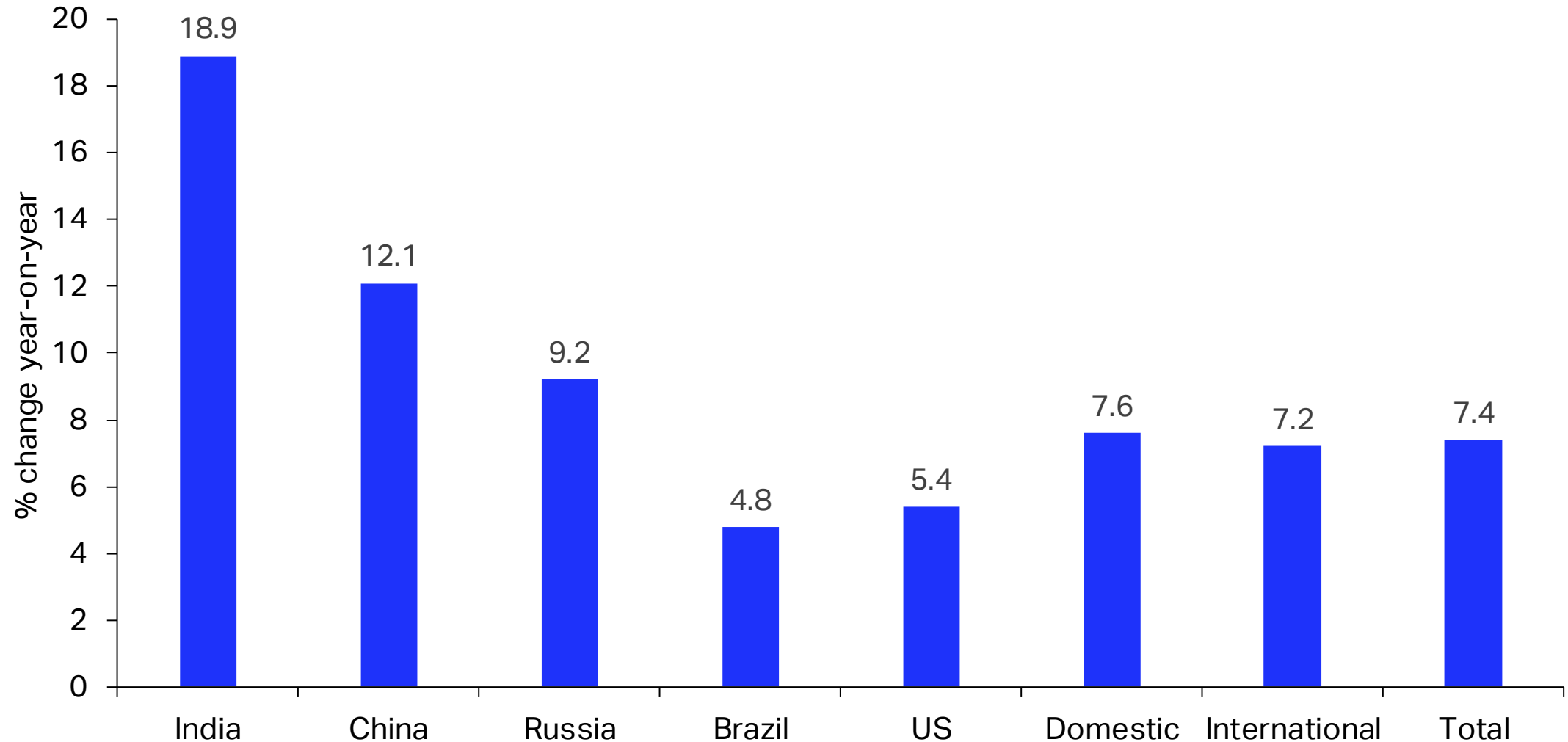


Source: IATA Economics forecast and IATA Statistics data



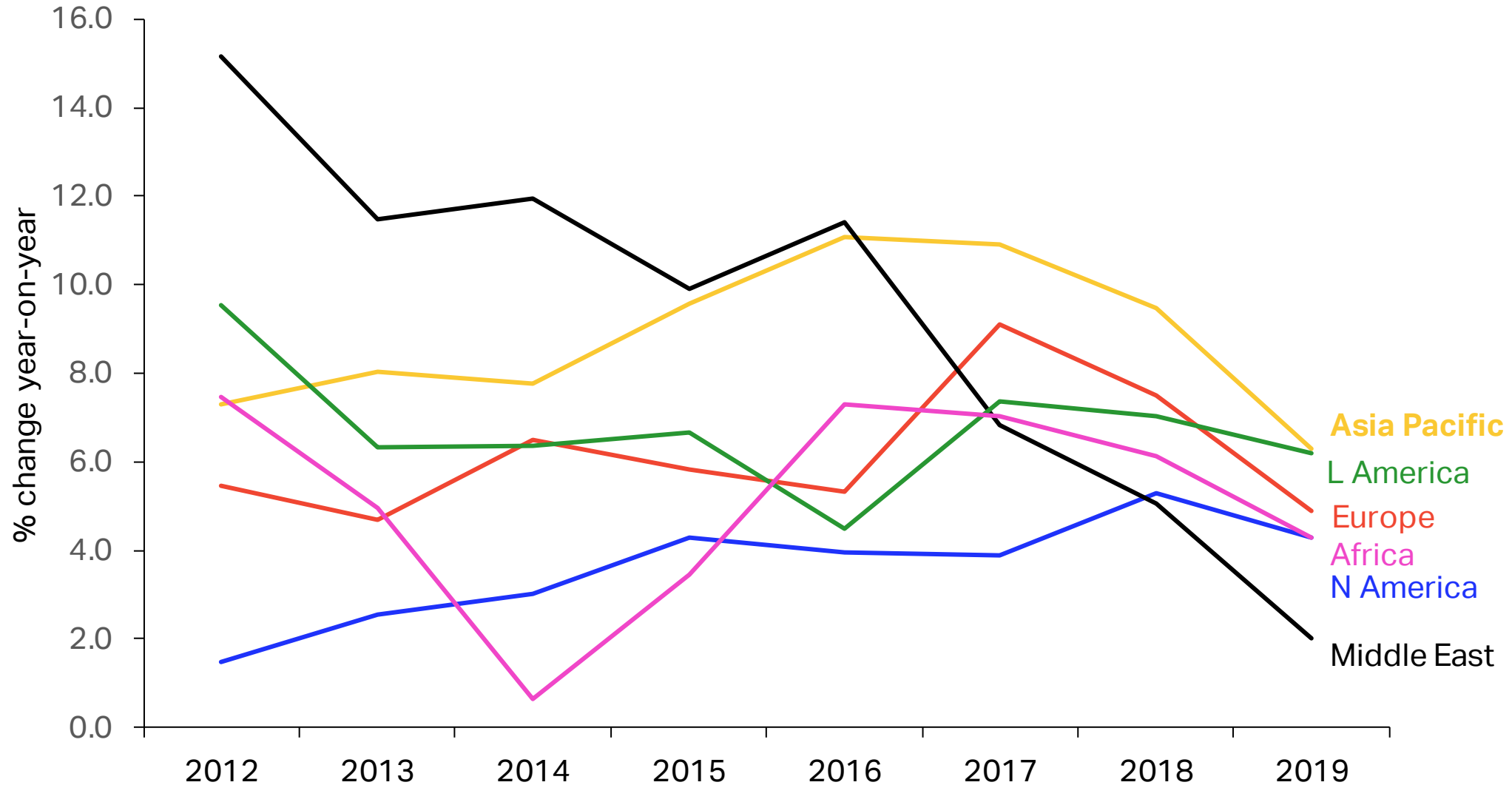
Air travel growth driven by the emerging markets

RPK growth 2018 vs 2017



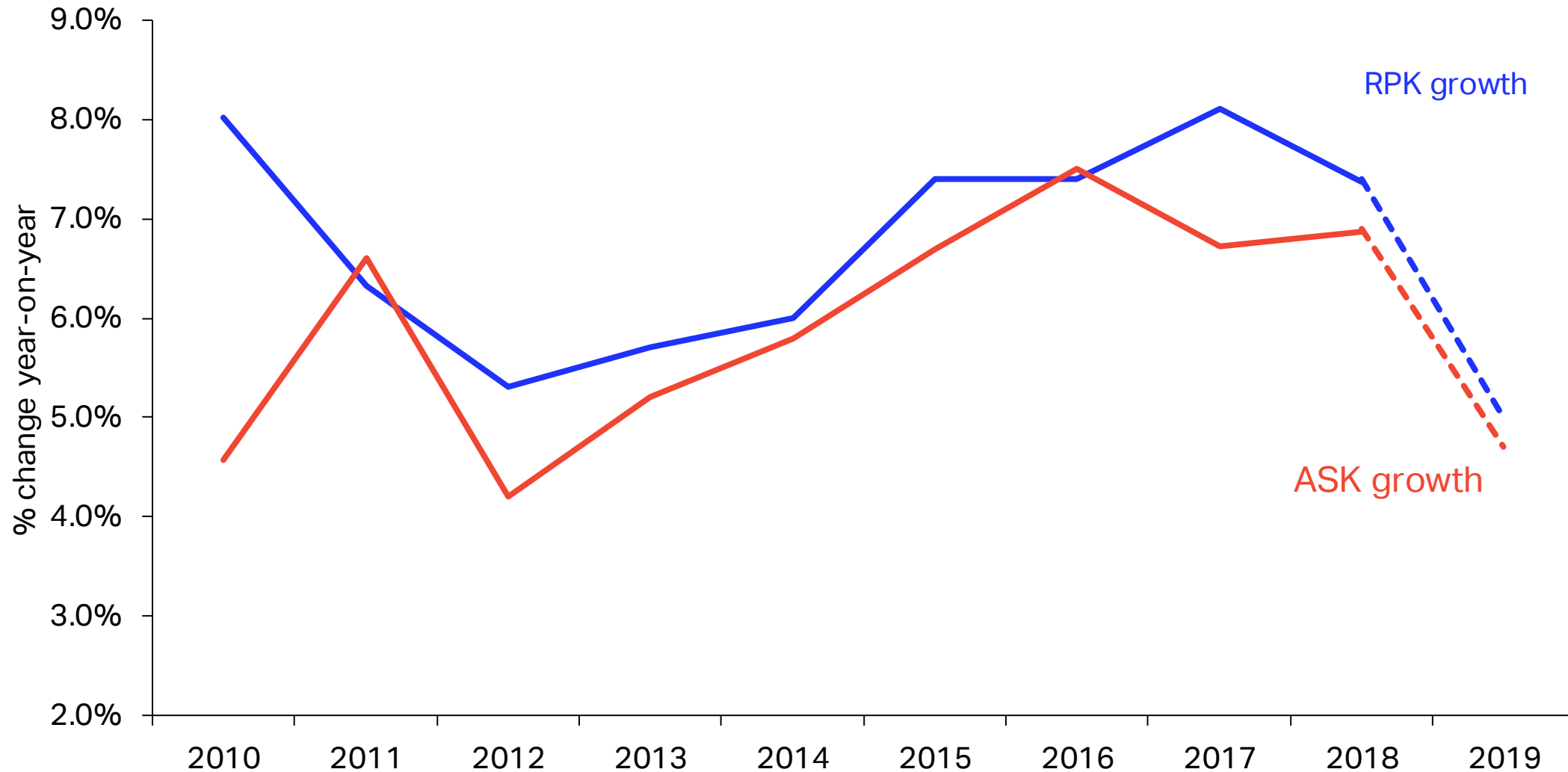
We forecast the fastest growth this year in Asia

RPK growth by region of registration



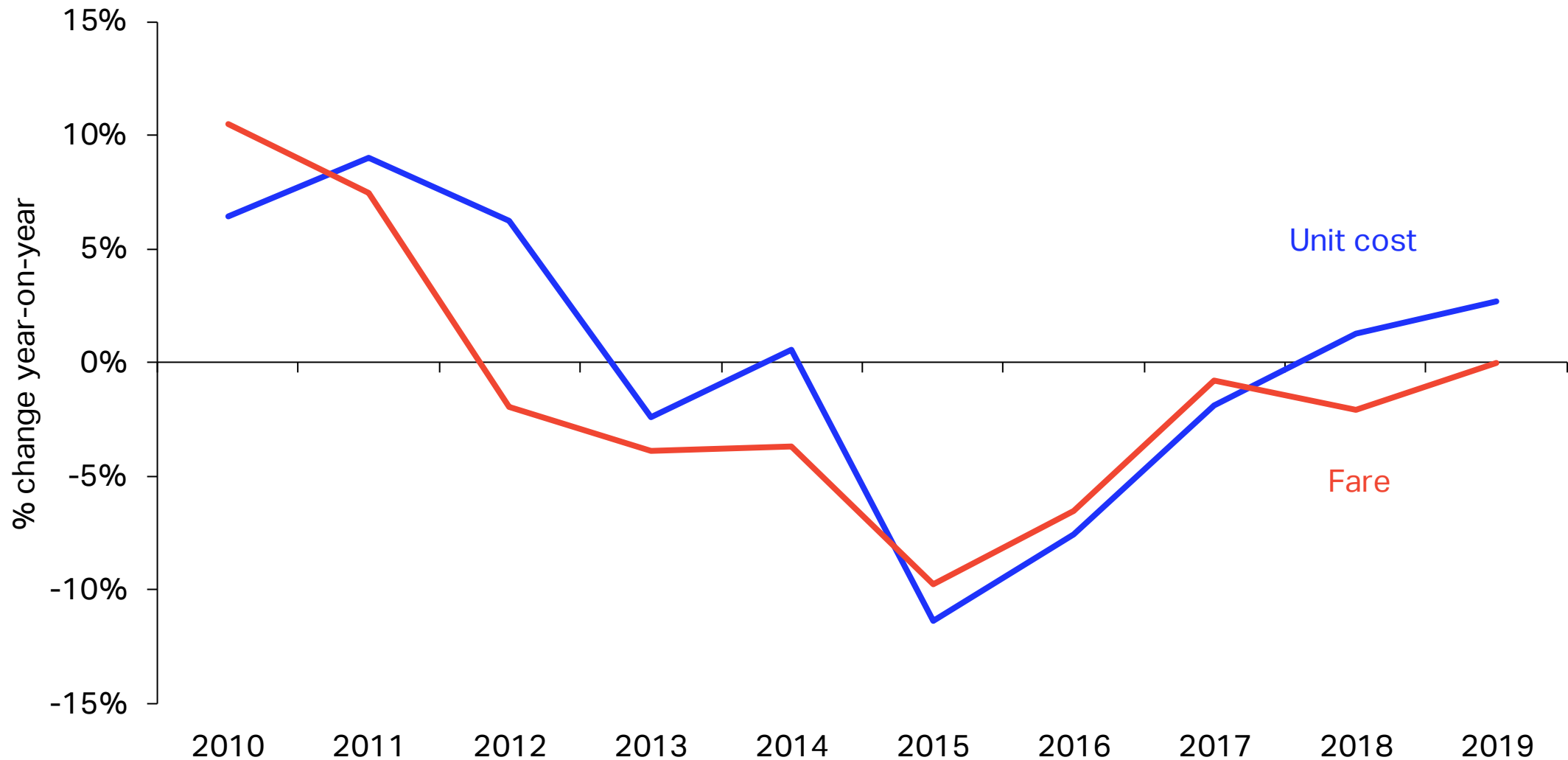
Airlines announced slower growth in schedules

Airlines' RPK and ASK growth



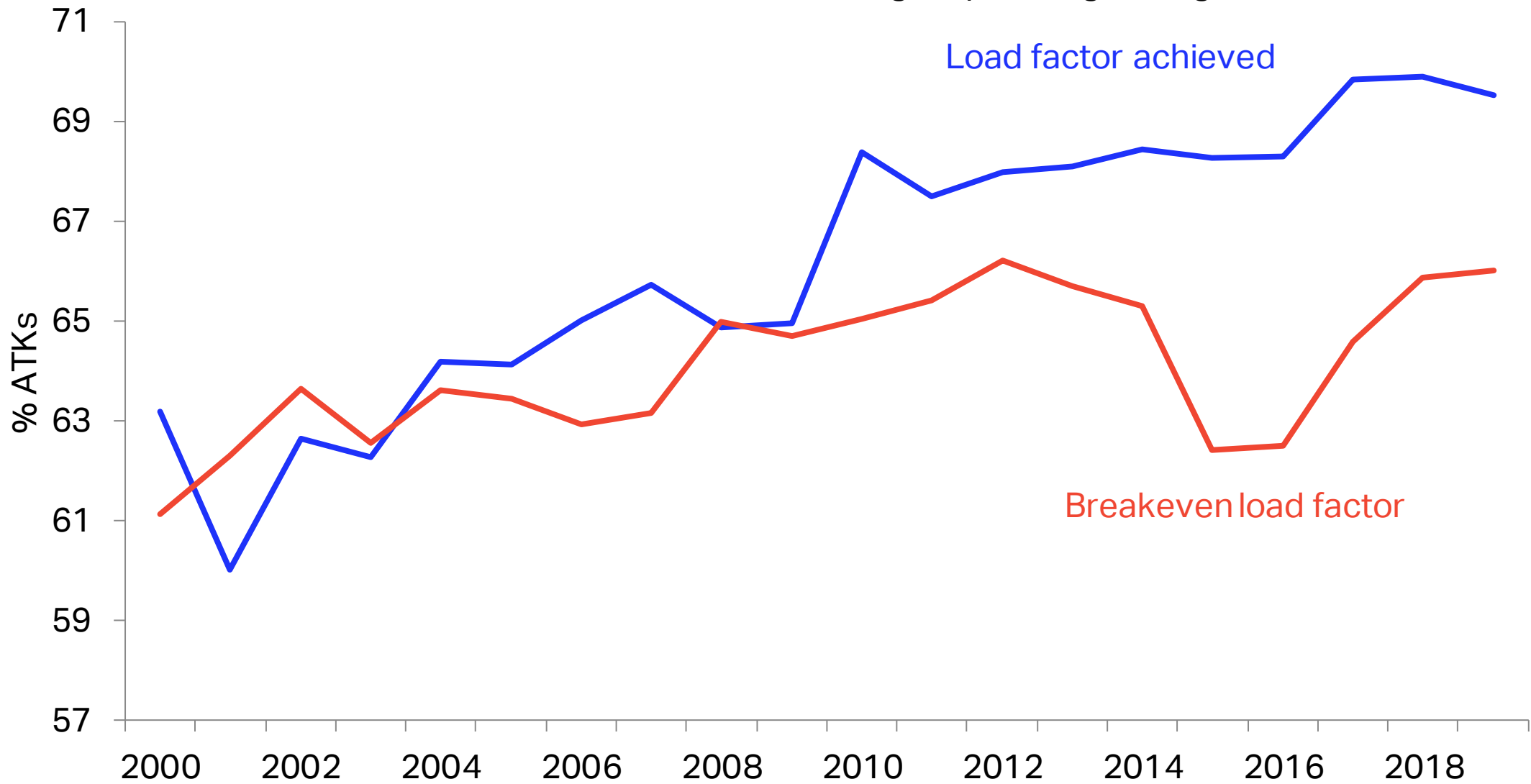
But fares not expected to recover cost increases

Airlines' unit cost and base fare growth



So breakeven rises narrowing gap with load factor

Breakeven and achieved cargo + passenger weight load factors

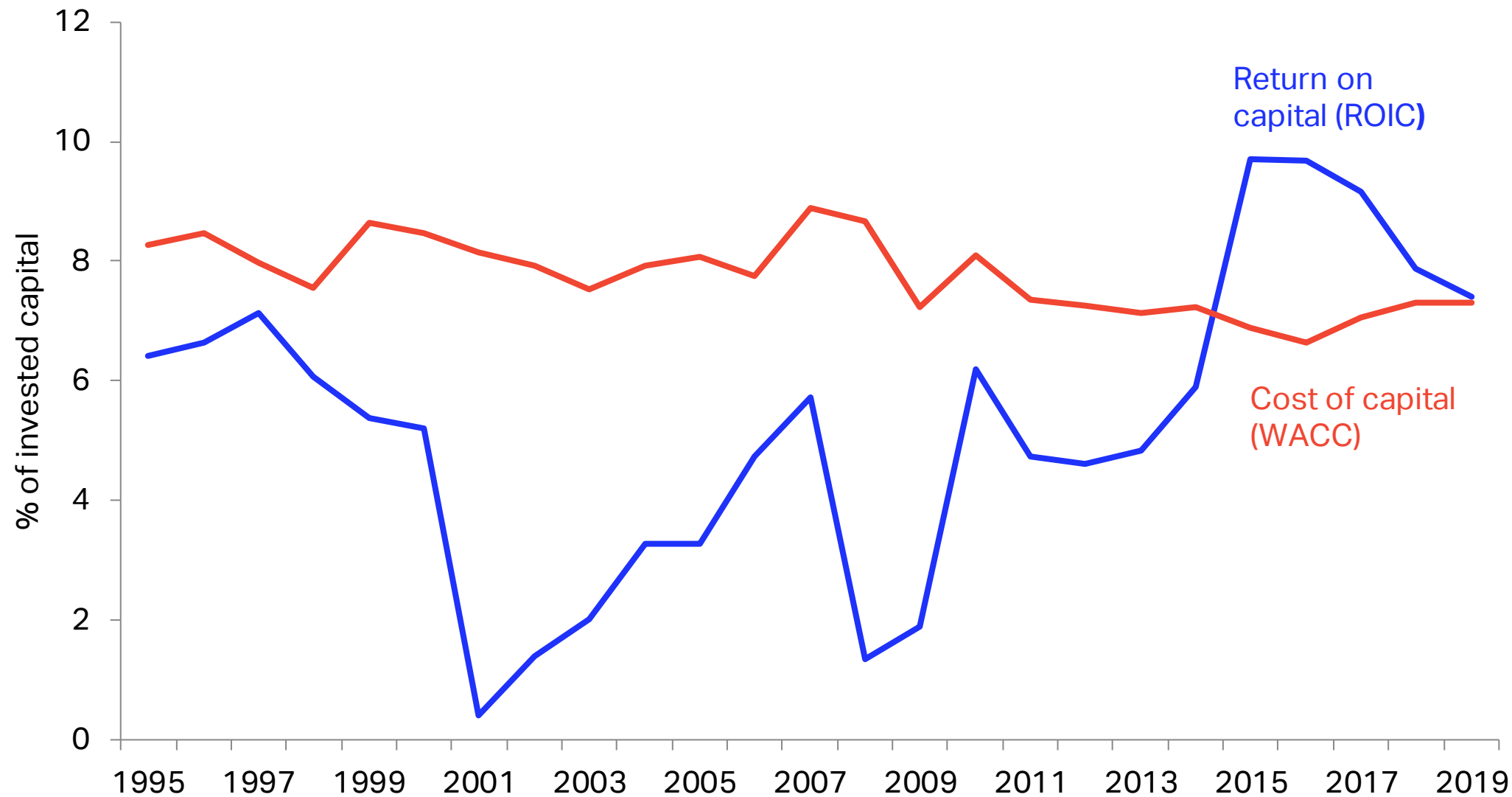


Source: IATA Economics Economic Performance of the Airline Industry, Mid-Year 2019



Reducing return on invested capital to 7.4%

Return on capital invested in airlines and their cost of capital

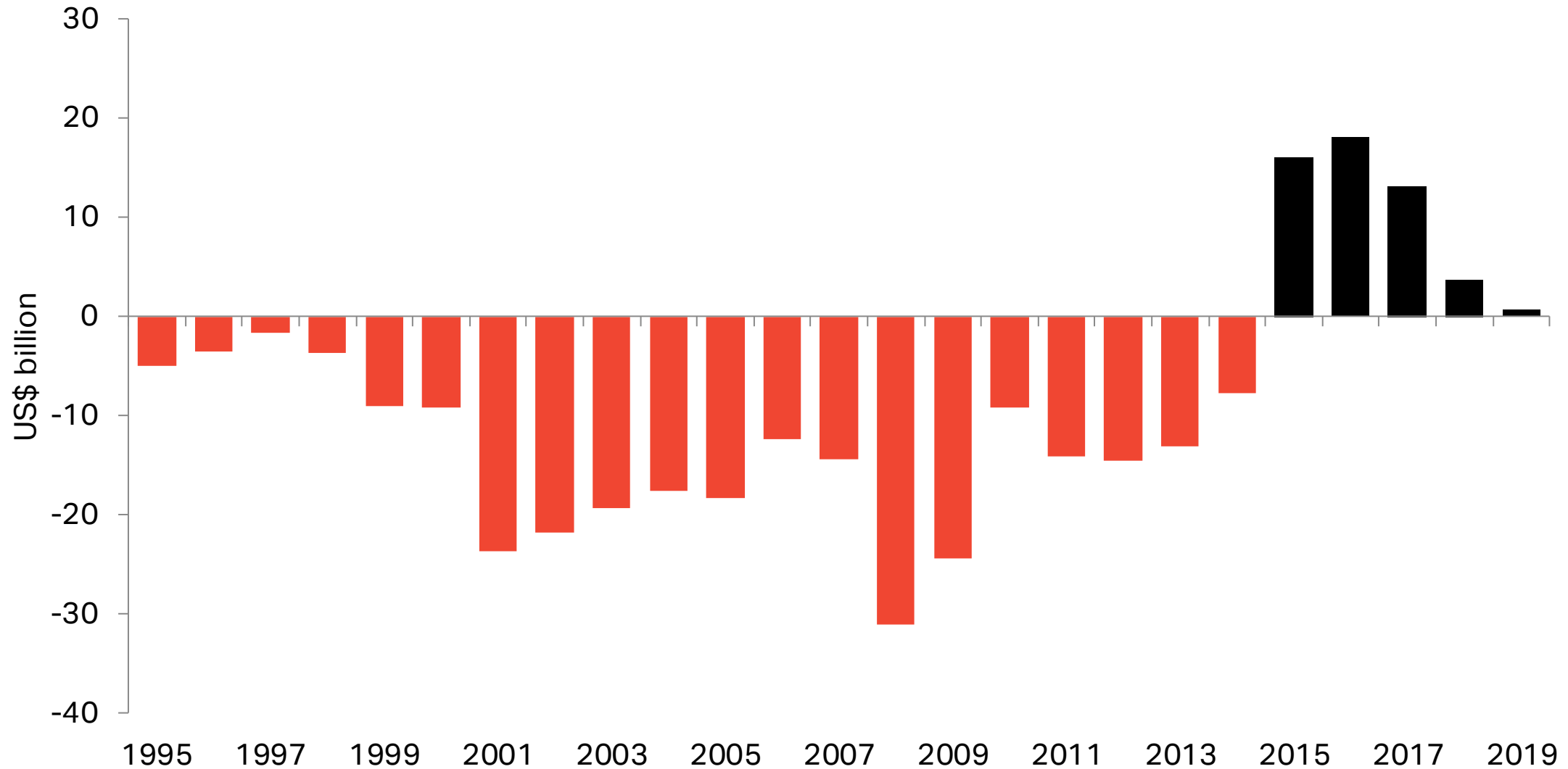


Source: IATA Economics Economic Performance of the Airline Industry, Mid-Year 2019



Investor value creation continues, just

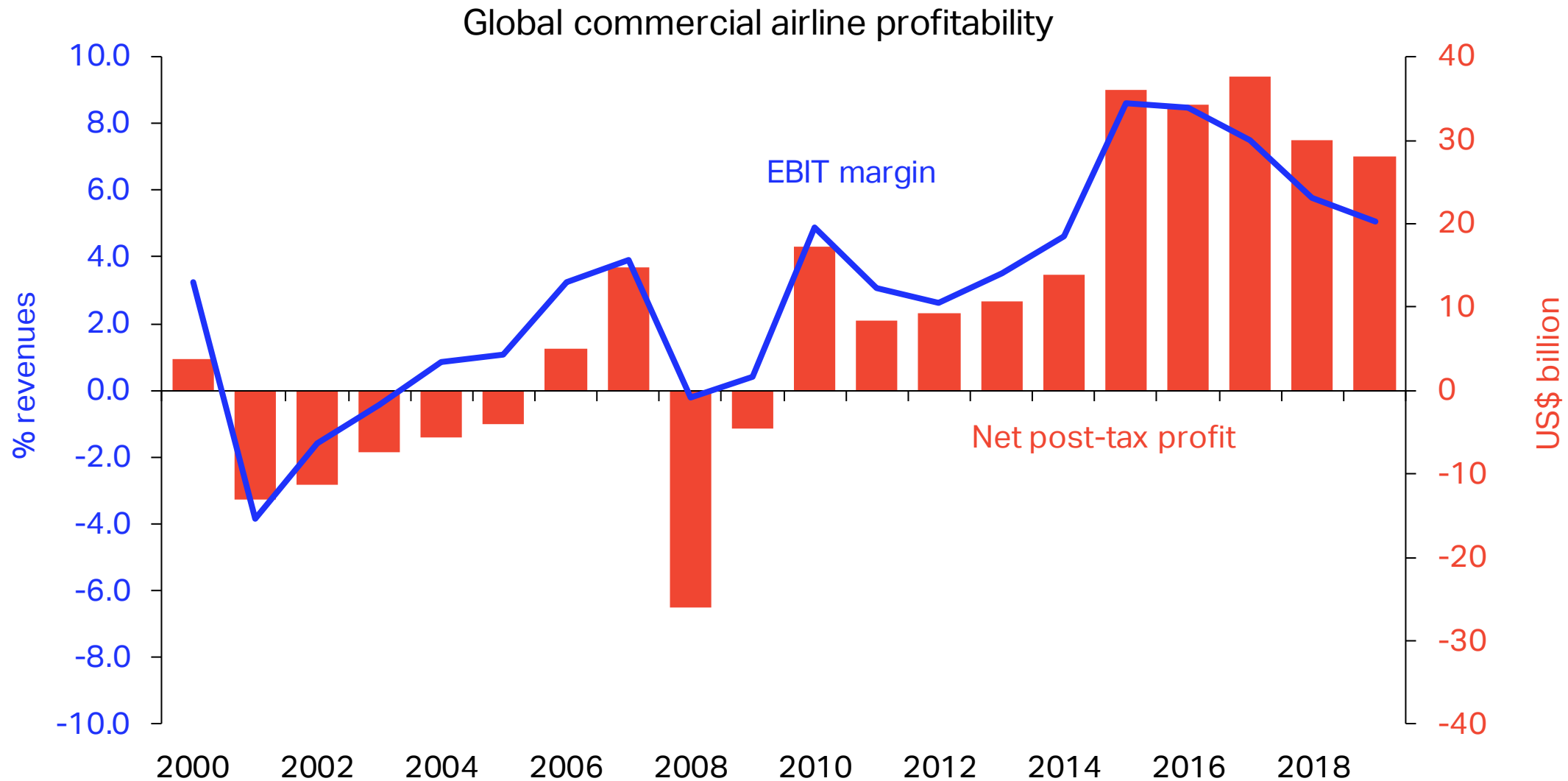
Difference between investing in airlines and investing in similar assets elsewhere



Source: IATA Economics Economic Performance of the Airline Industry, Mid-Year 2019

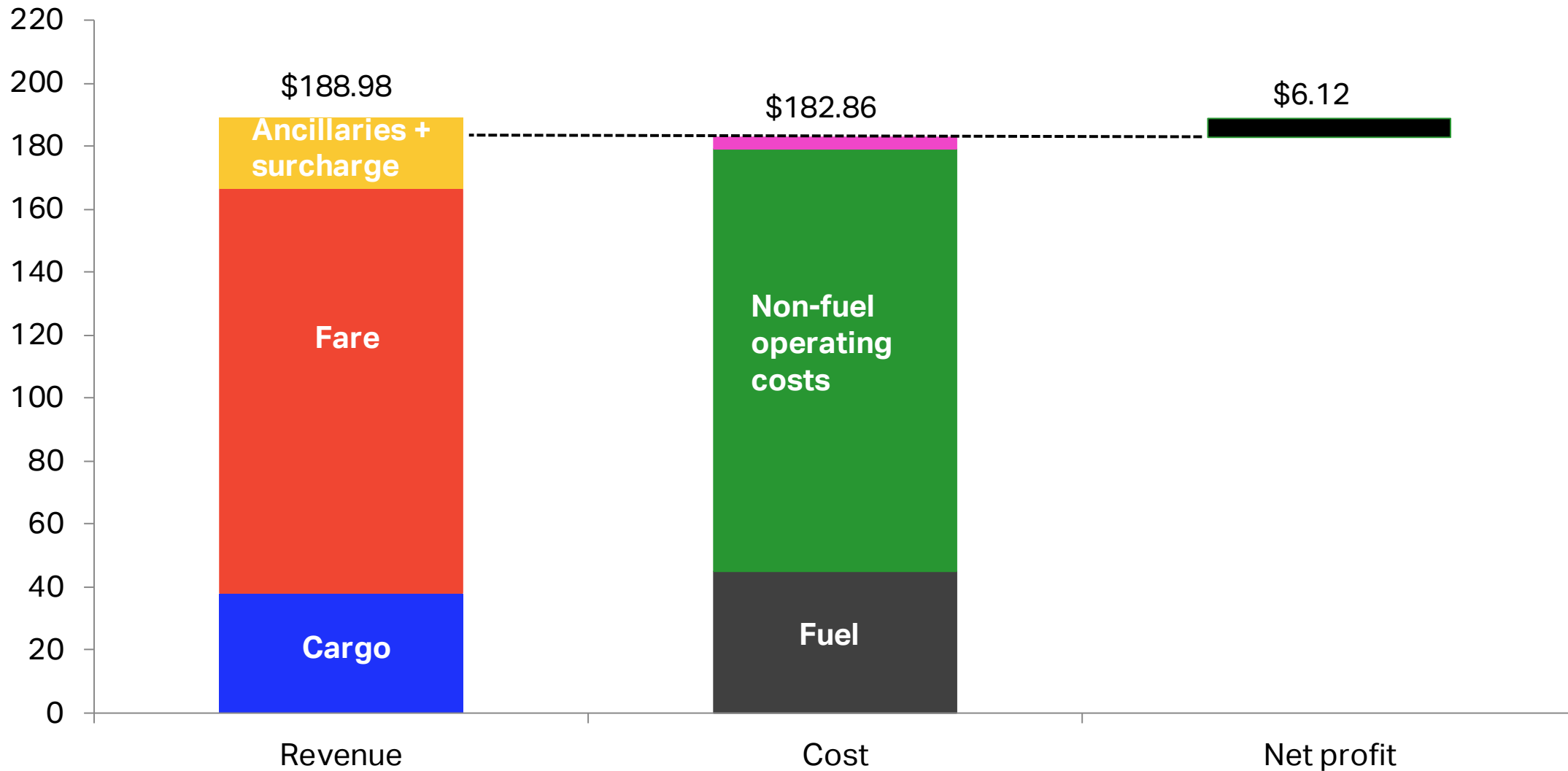


Net profits fall to \$28 billion



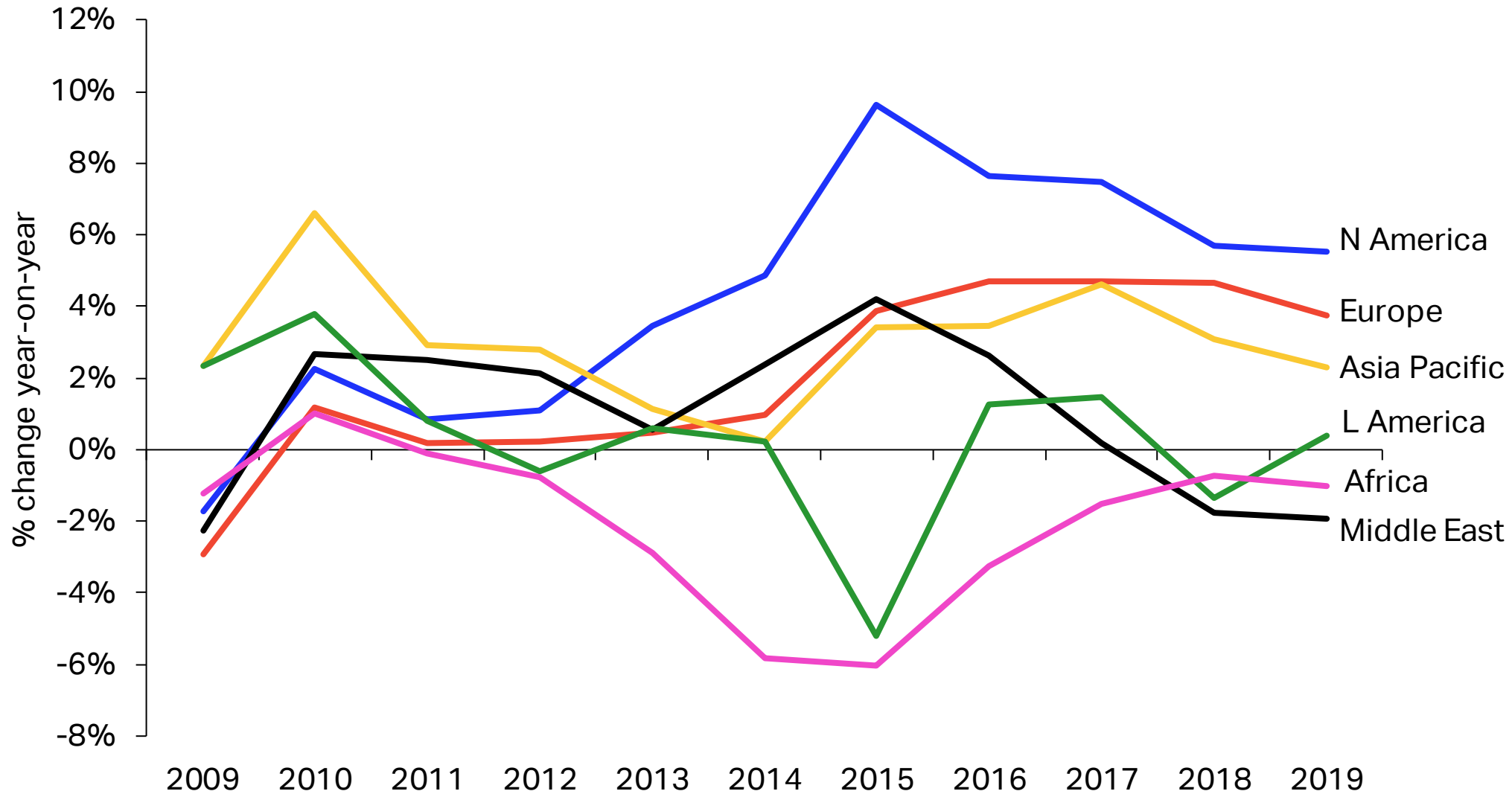
That's \$6 of net profit per passenger

Worldwide airline net post-tax profit, US\$ per departing passenger, 2019



Vulnerability to cash flow shocks remains

Net post-tax profit margins

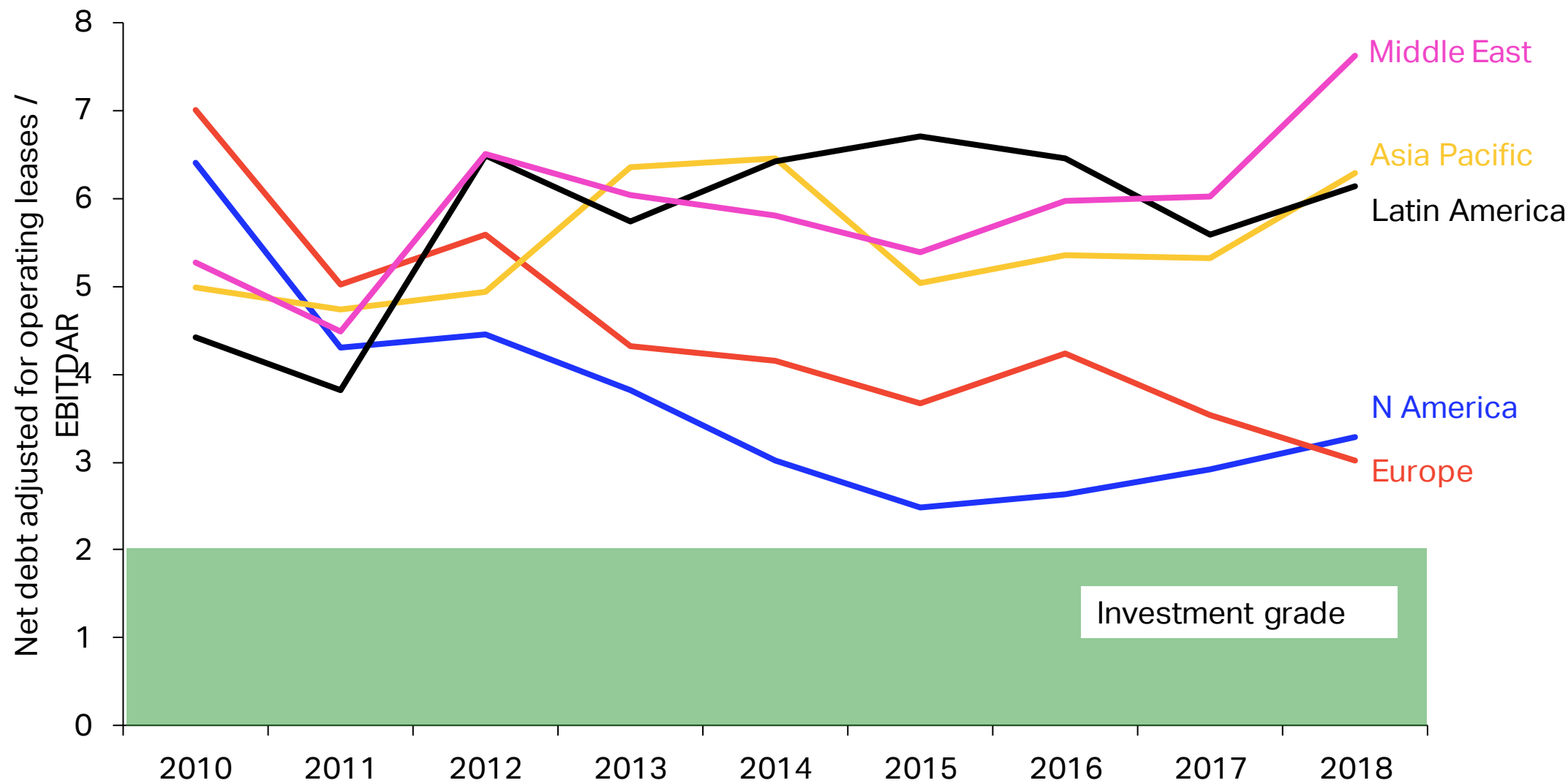


Source: IATA Economics Economic Performance of the Airline Industry, Mid-Year 2019



Particularly in regions with substantial debt

Net debt as a ratio of EBITDA



Source: IATA Economics using data from The Airline Analyst



10 features of the outlook

1. Airlines connect more cities at lower cost in real terms for consumers
2. Further boosting flows of trade, tourism, GDP and jobs
3. Value created for airline investors for 5th successive year in 2019
4. But only just: return on capital down to 7.4%, net profits \$28bn or \$6.12 per passenger
5. Trade wars damaging world trade: air cargo traffic forecast for zero growth
6. World economy avoids recession this year: passenger traffic growth slower but solid at 5%
7. Lengthy expansion creating shortages, rising costs and increased supplier market power
8. New challenge is diminished ability of airlines to recover those rising costs
9. Good industry level performance hiding wide regional differences
10. Airlines in some regions still vulnerable to cash flow shocks or rising interest rates

Thank you

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