



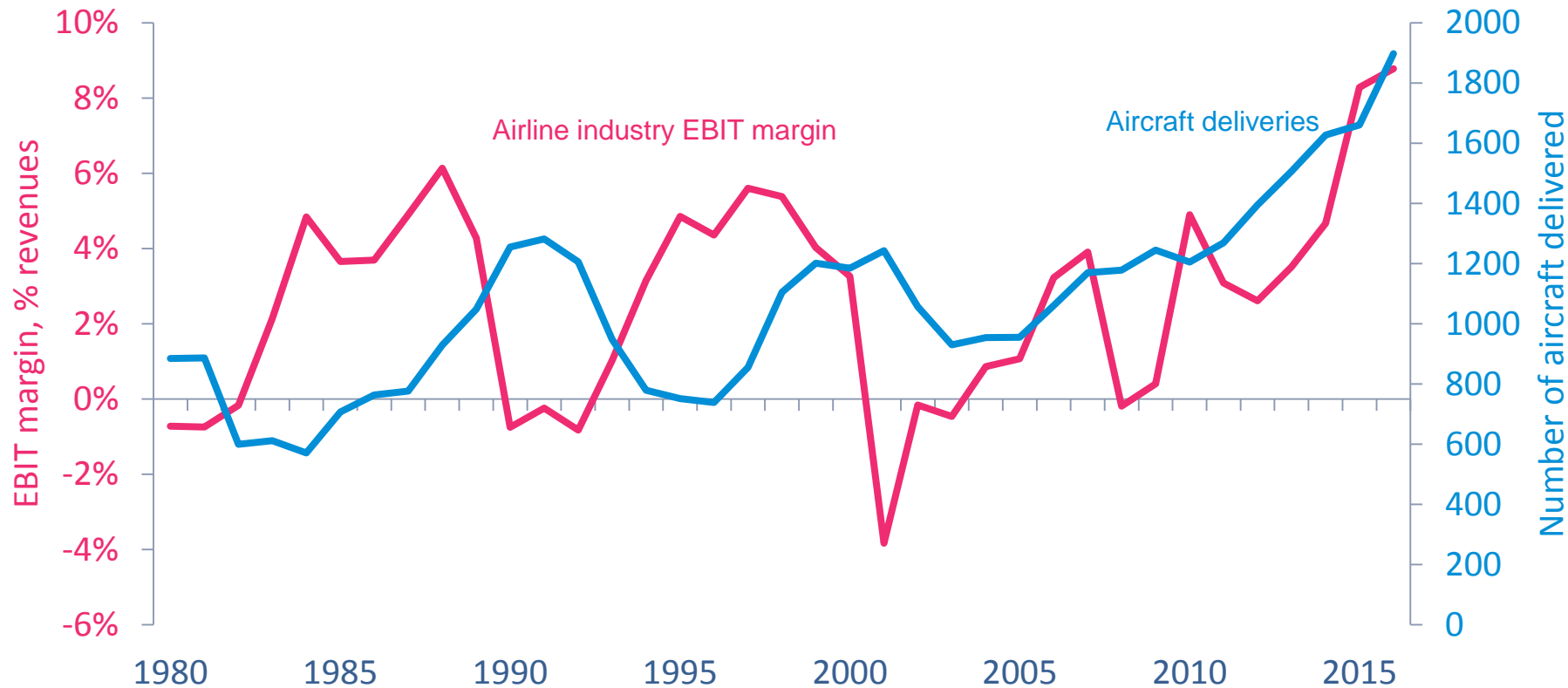
# Where are we in the cycle – and what scenarios face us for the future?

September 2016

Brian Pearce  
Chief Economist, IATA

# Extended delivery cycle reflecting airline performance

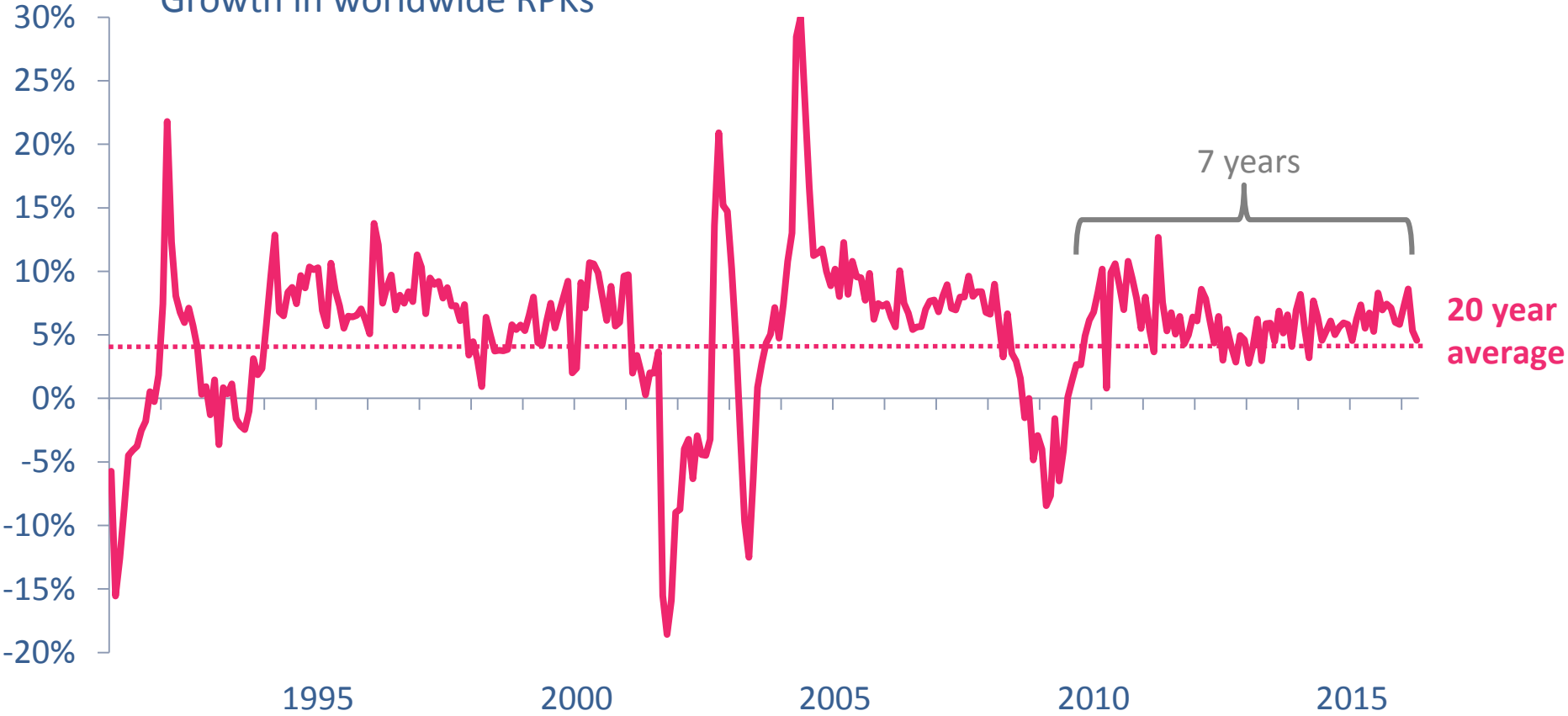
Aircraft deliveries compared to airline industry EBIT margin



Source: IATA using data from Ascend, ICAO and IATA Statistics plus own forecasts

# Also extended cycle in global air travel growth

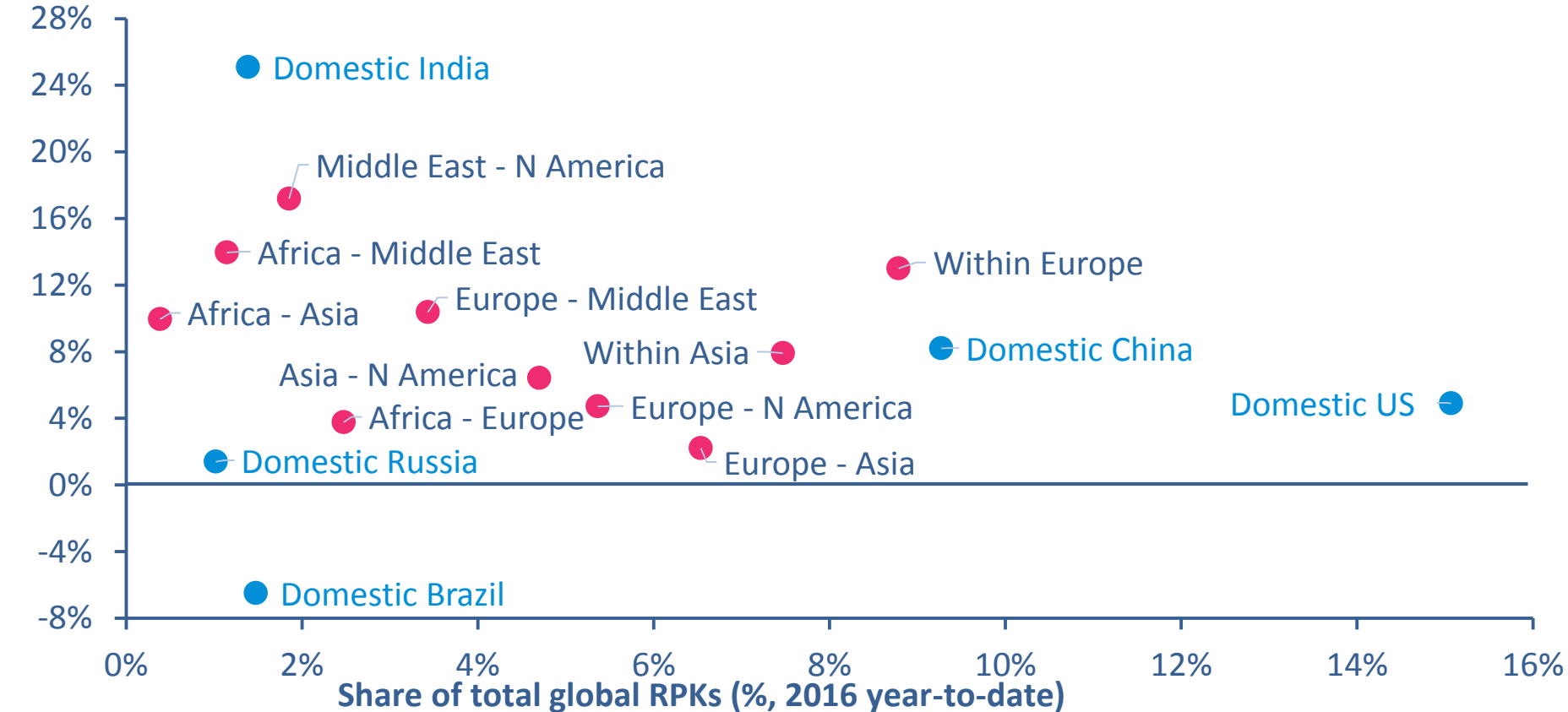
Growth in worldwide RPKs



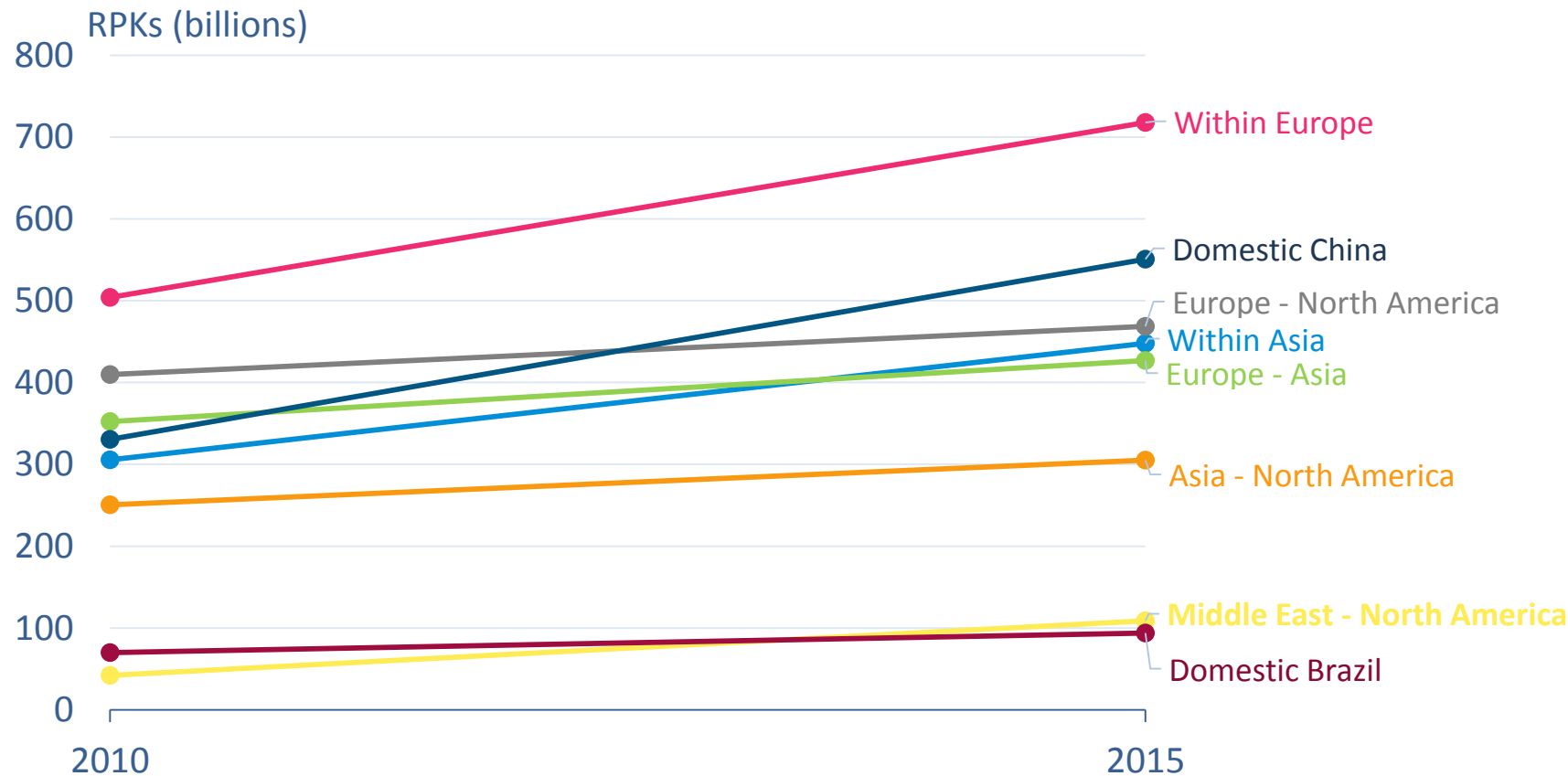
Source: IATA using data from IATA Statistics

# But a very mixed picture across travel markets today

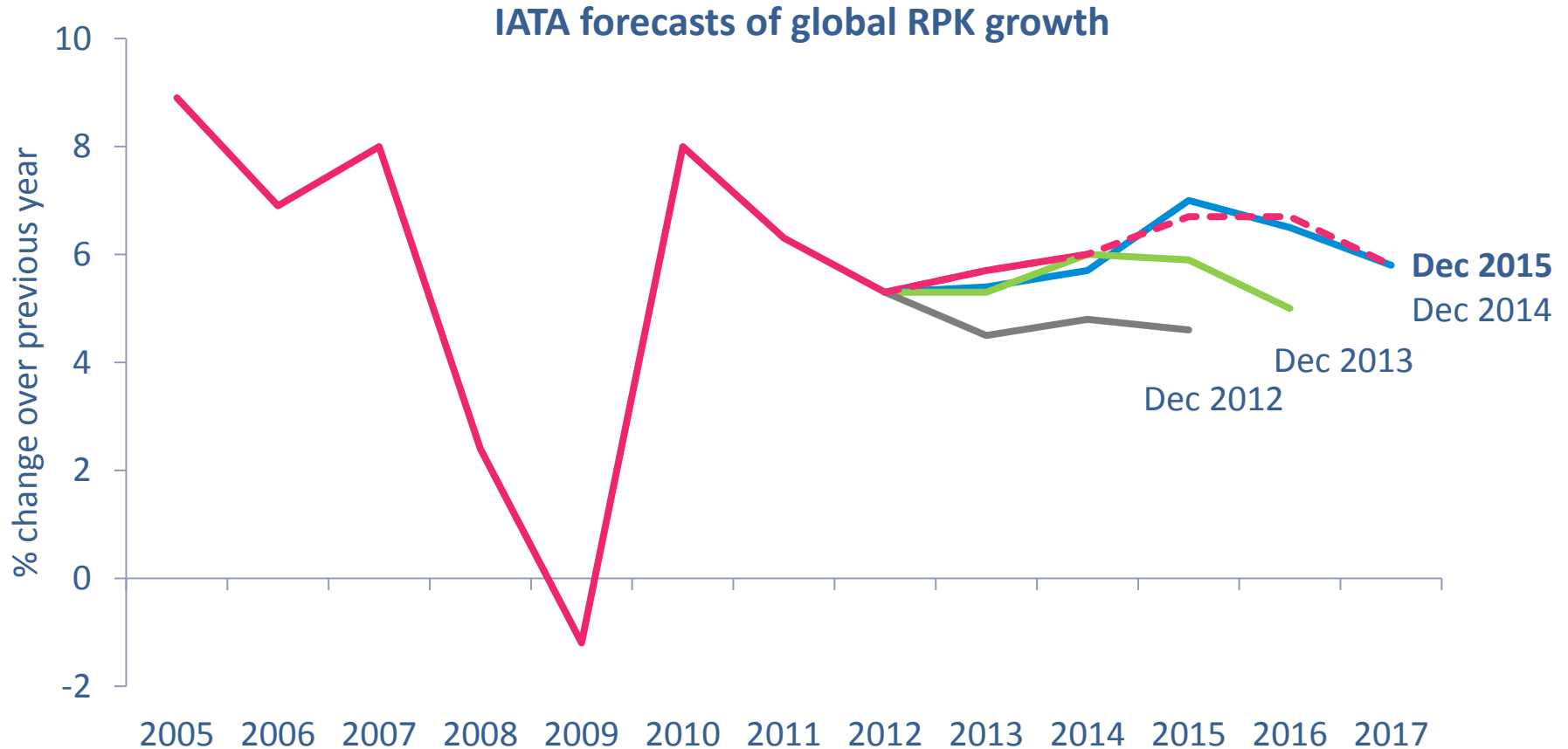
RPK growth by int'l route and dom. market (YTD, % year-on-year, up to March, segment-based)



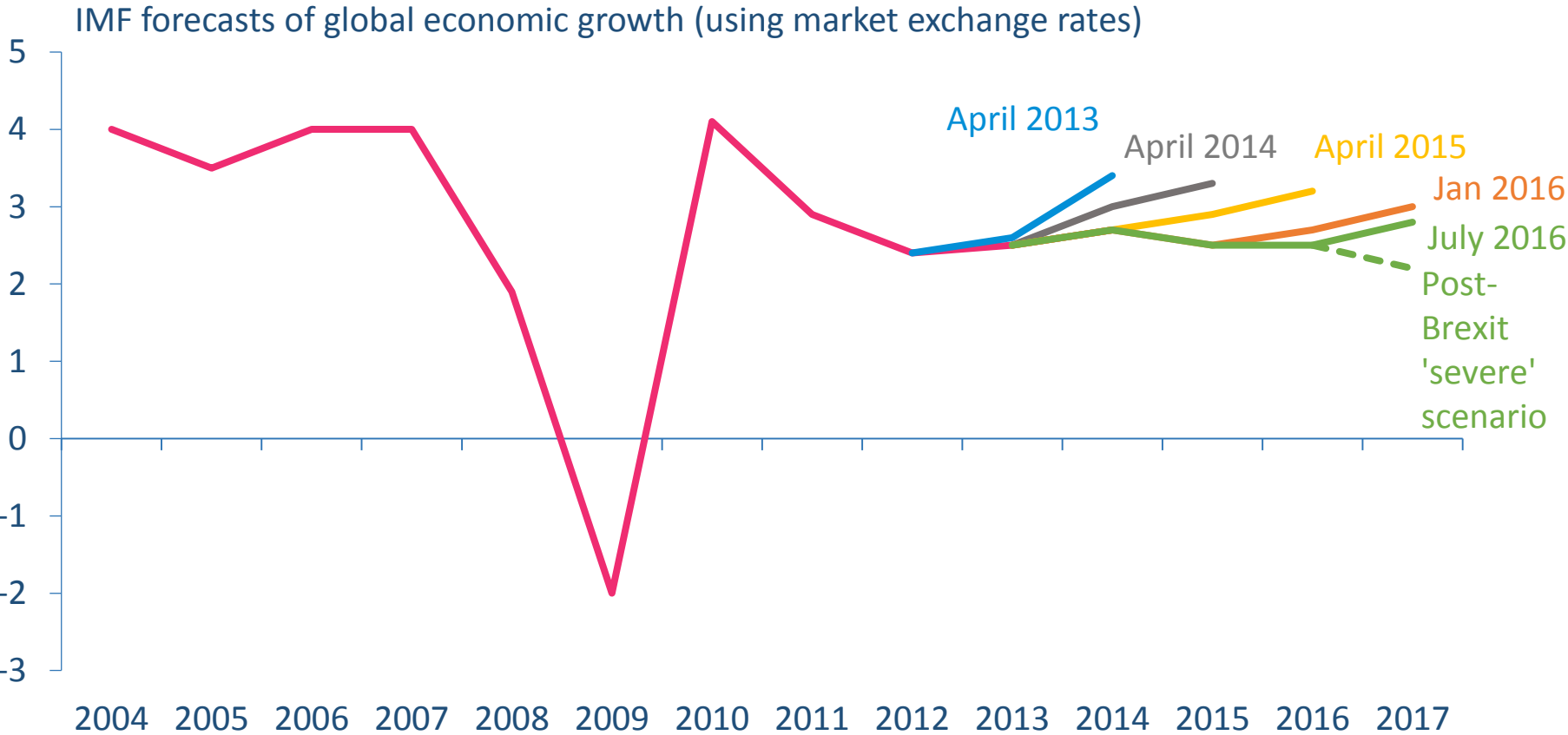
# Biggest growth in Asian markets but also Europe



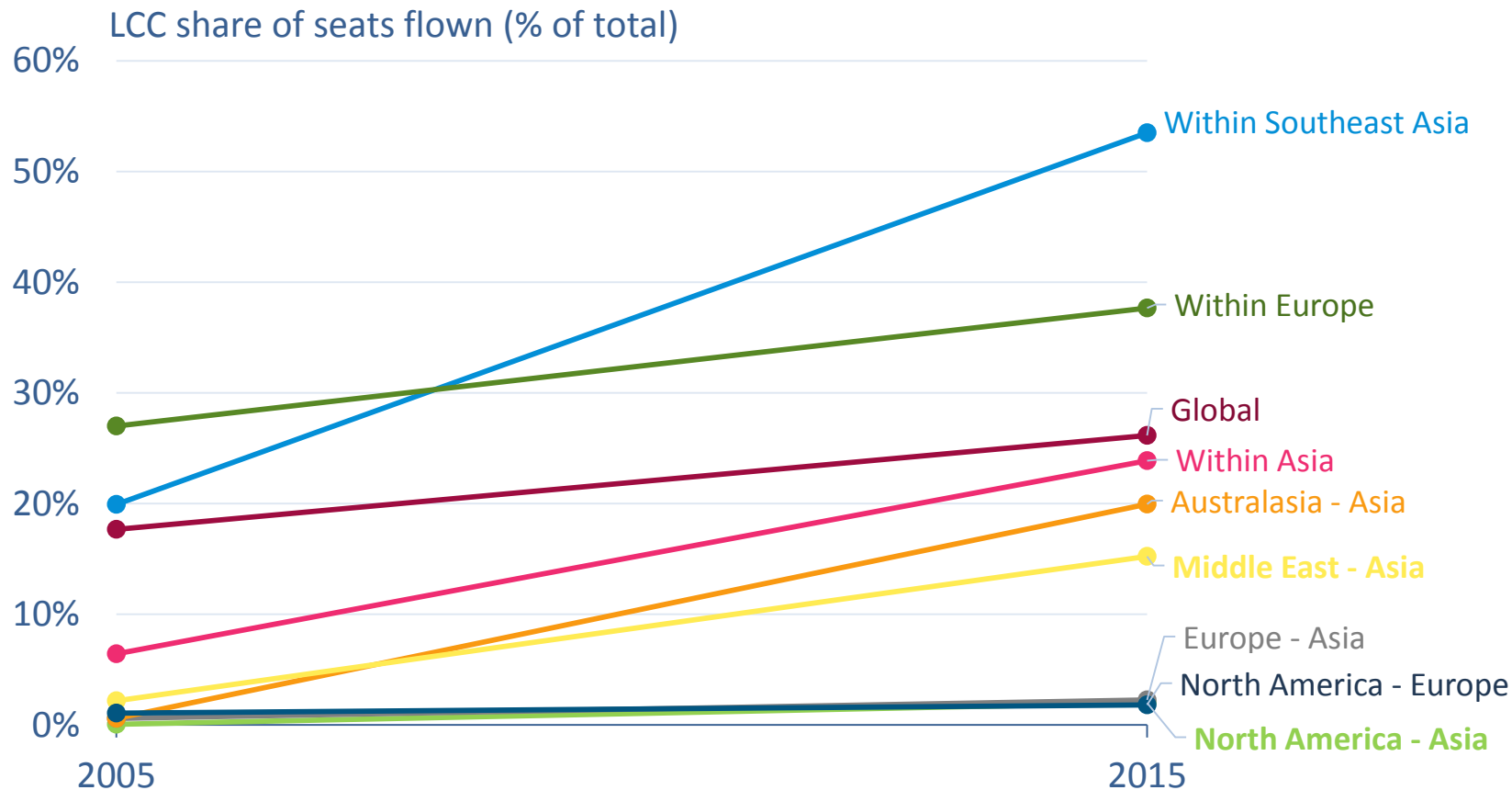
# Air travel growth has surprised on the upside



# Despite world stuck in a low economic growth path

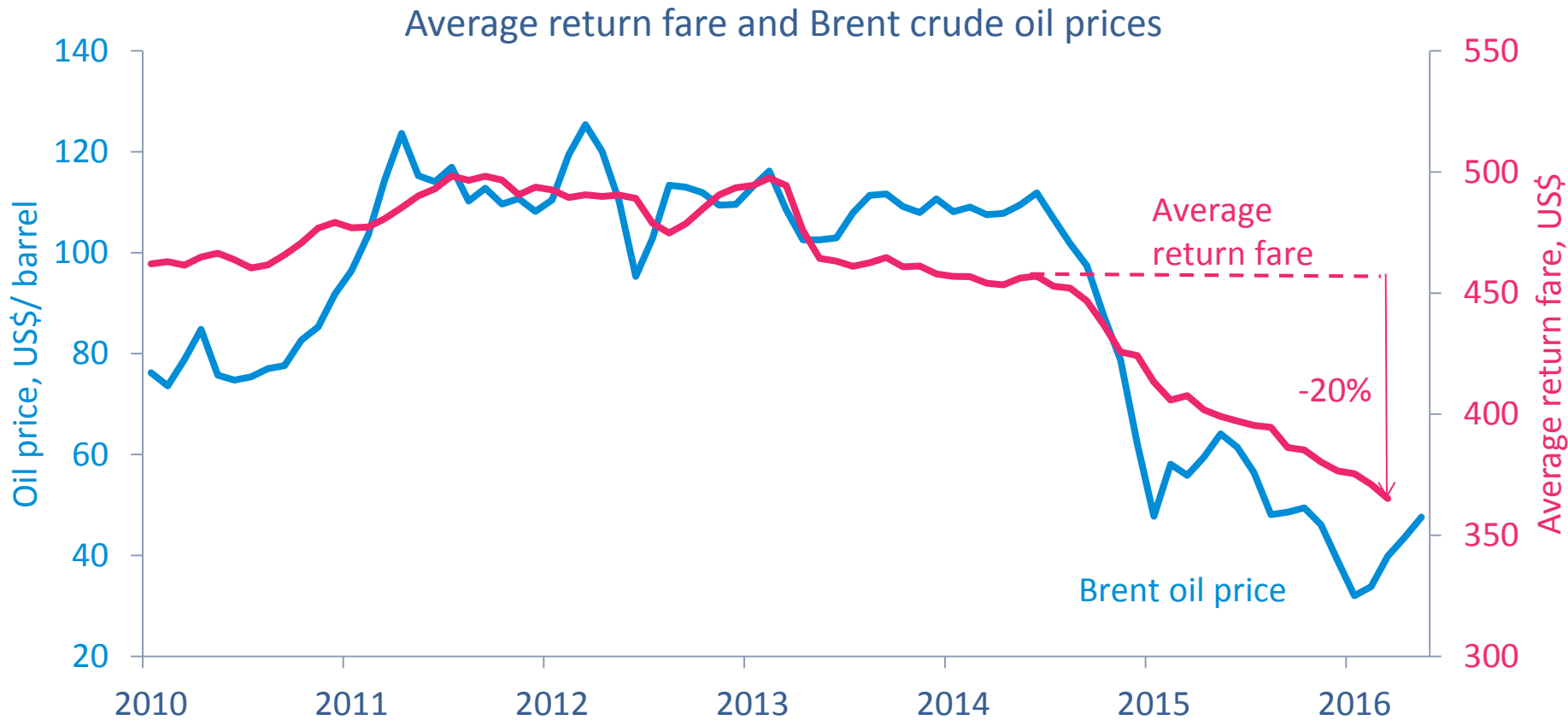


# Price stimulation from LCC entry in significant markets



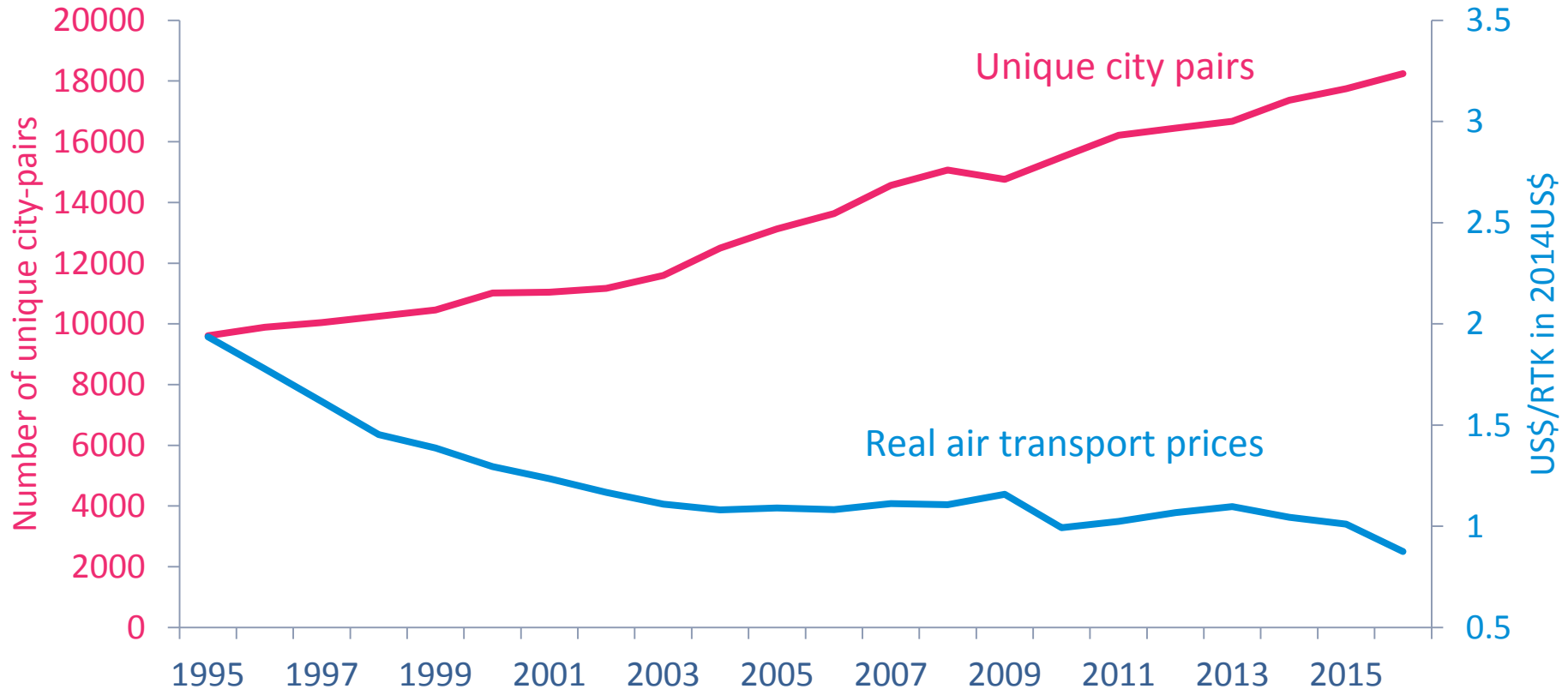


# Significant price stimulation from fuel cost pass-through



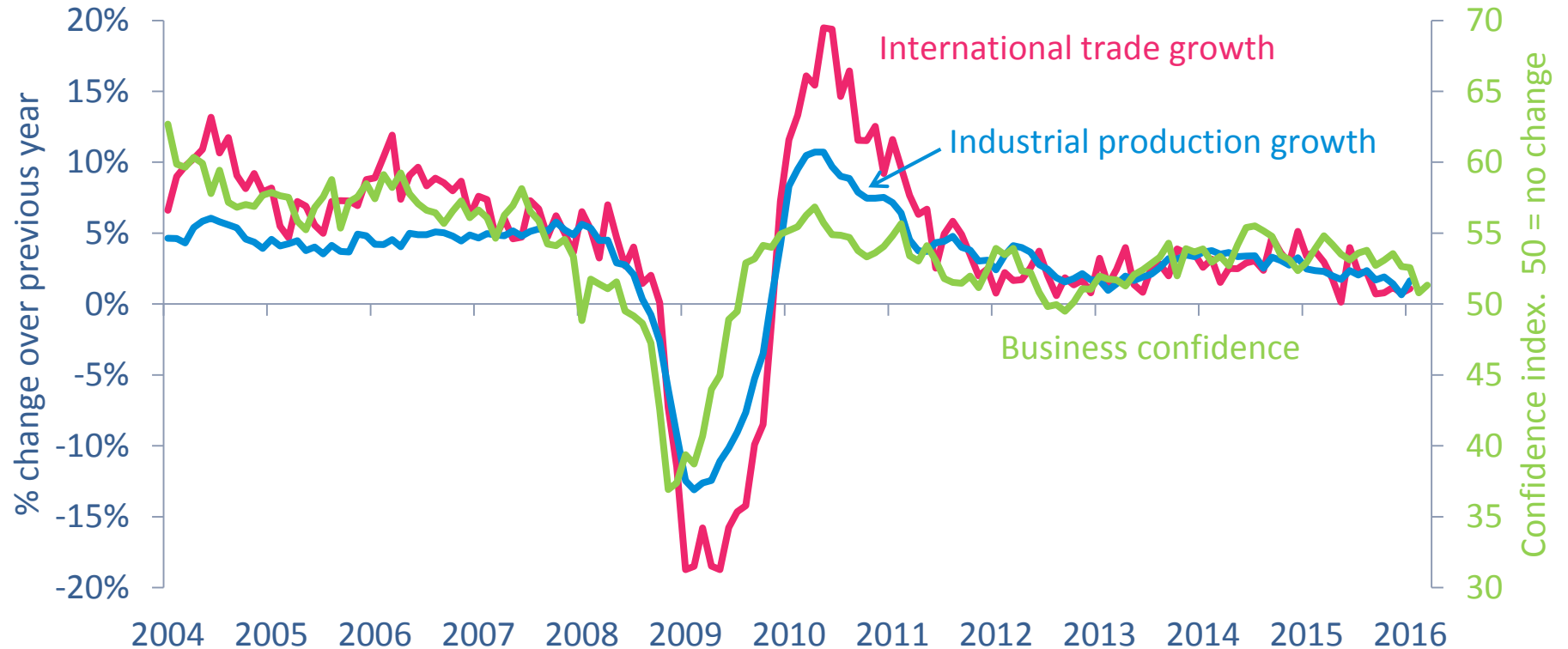
# Demand also stimulated by more direct connections

Unique city-pairs and real transport costs

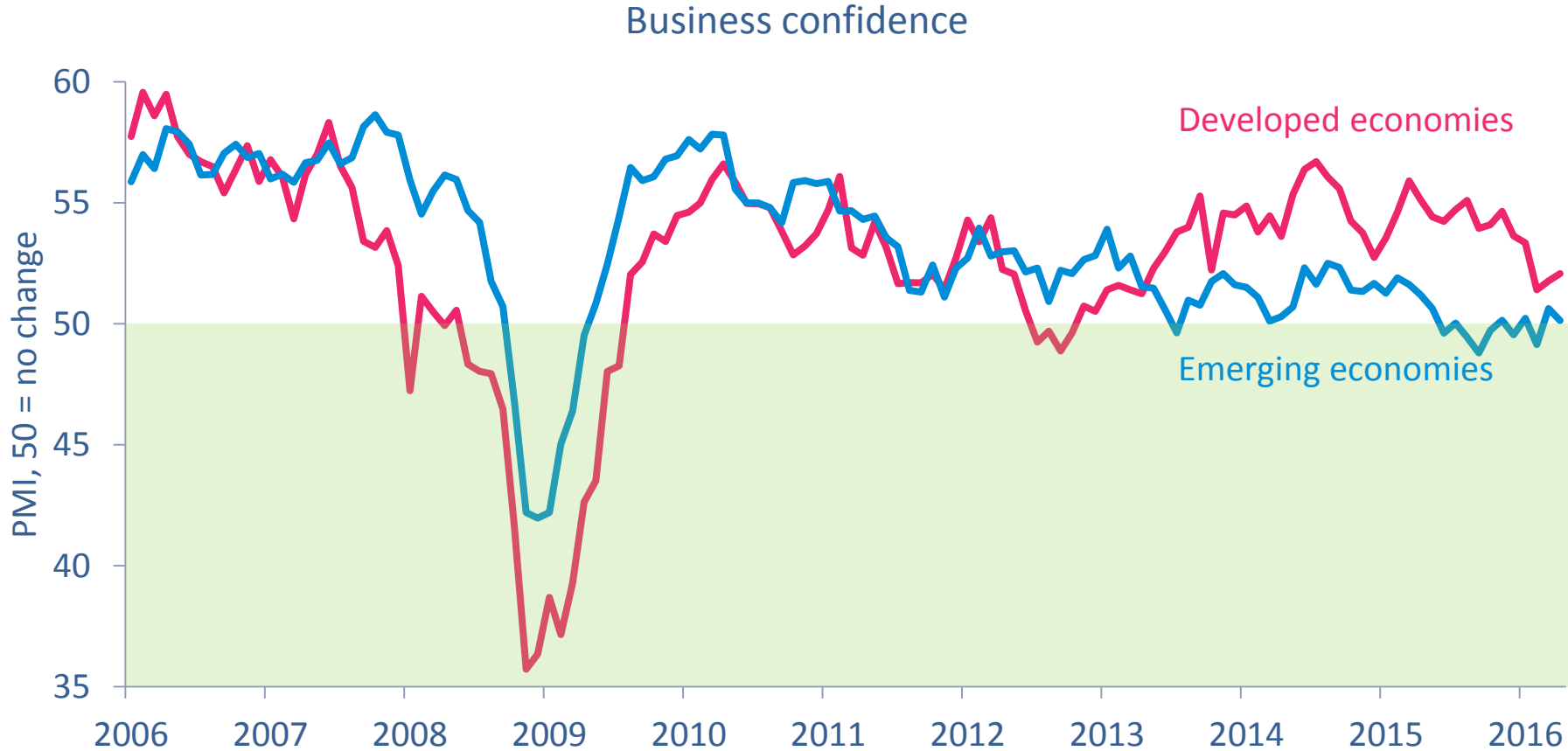


# But lackluster economic cycle now seems to be slowing

Global economic cycle indicators



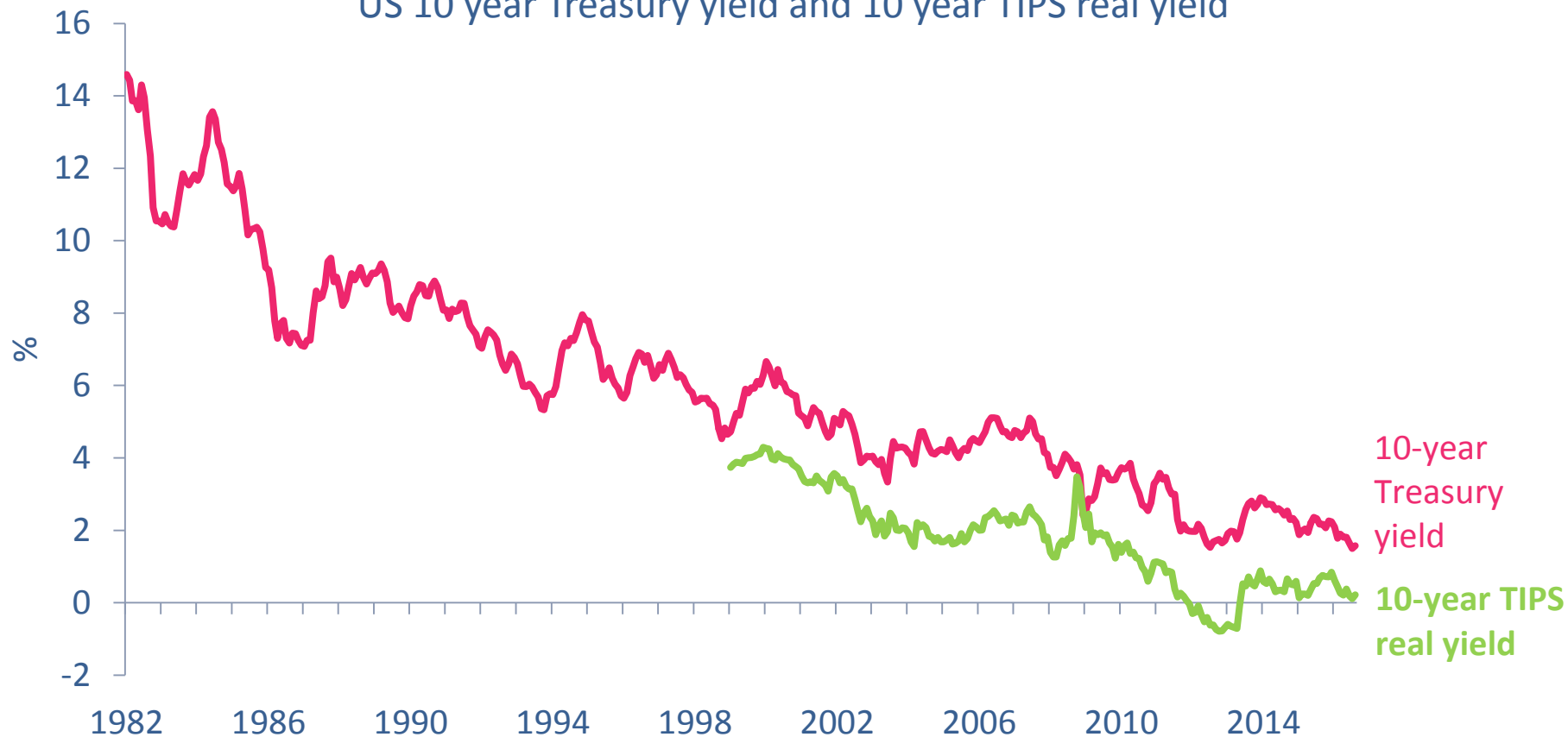
# Both developed and emerging economies now weaker



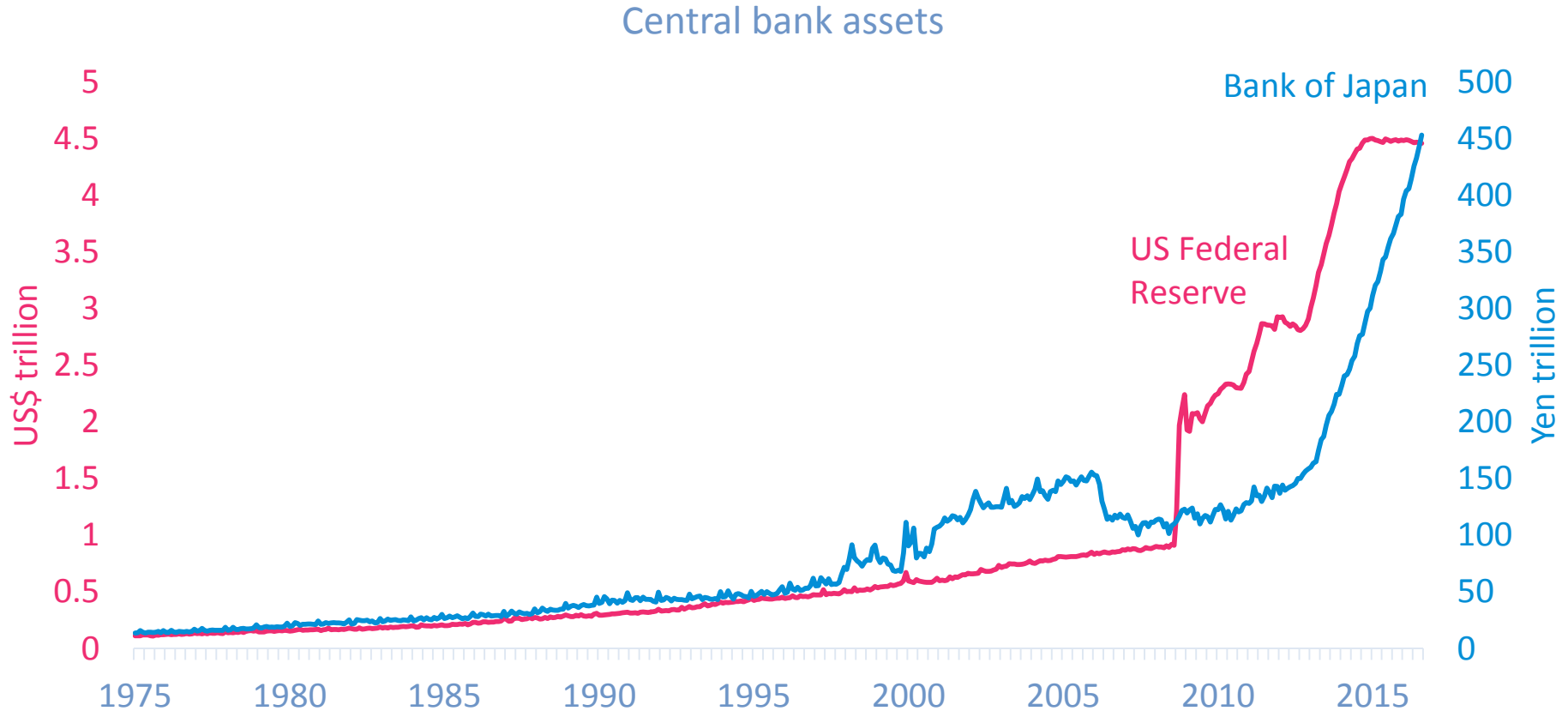
Source: IATA Economics using Markit data

# World awash with savings and short of investment

US 10 year Treasury yield and 10 year TIPS real yield

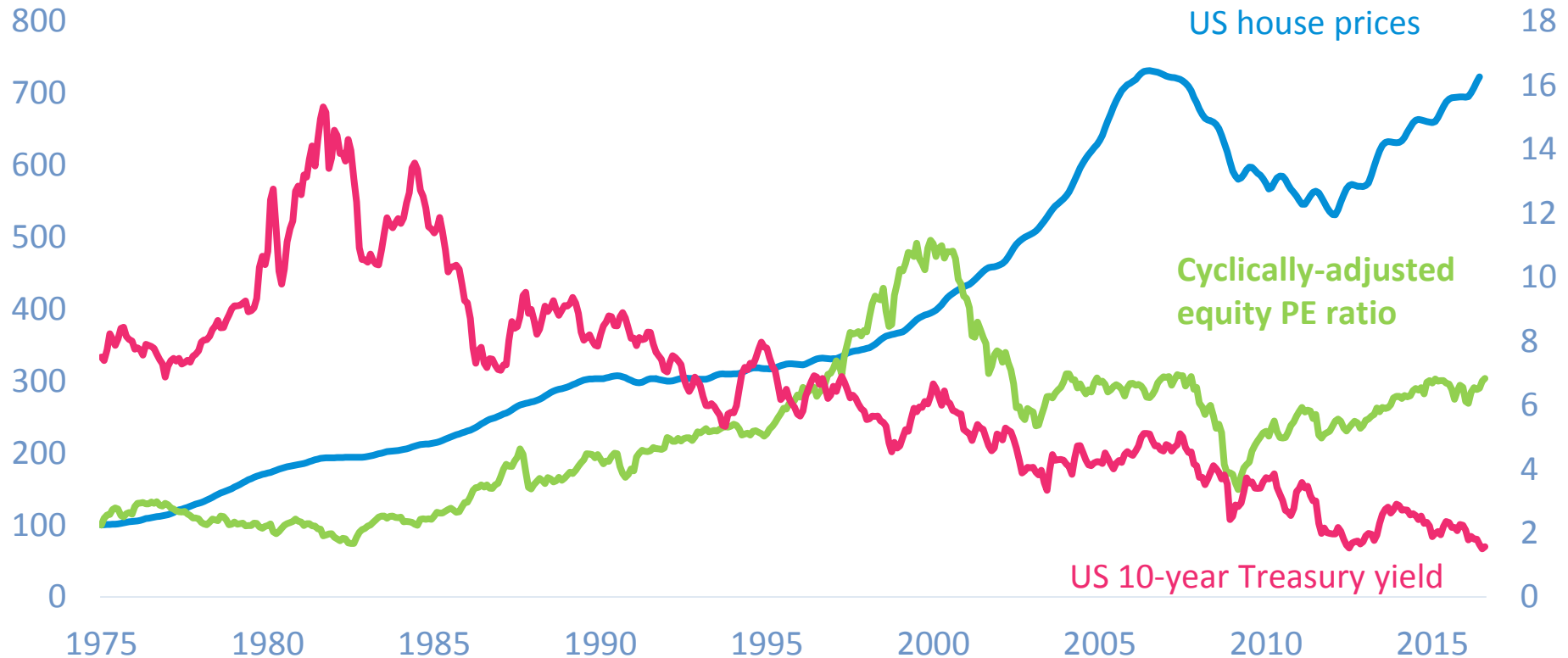


# Central banks continue to print money



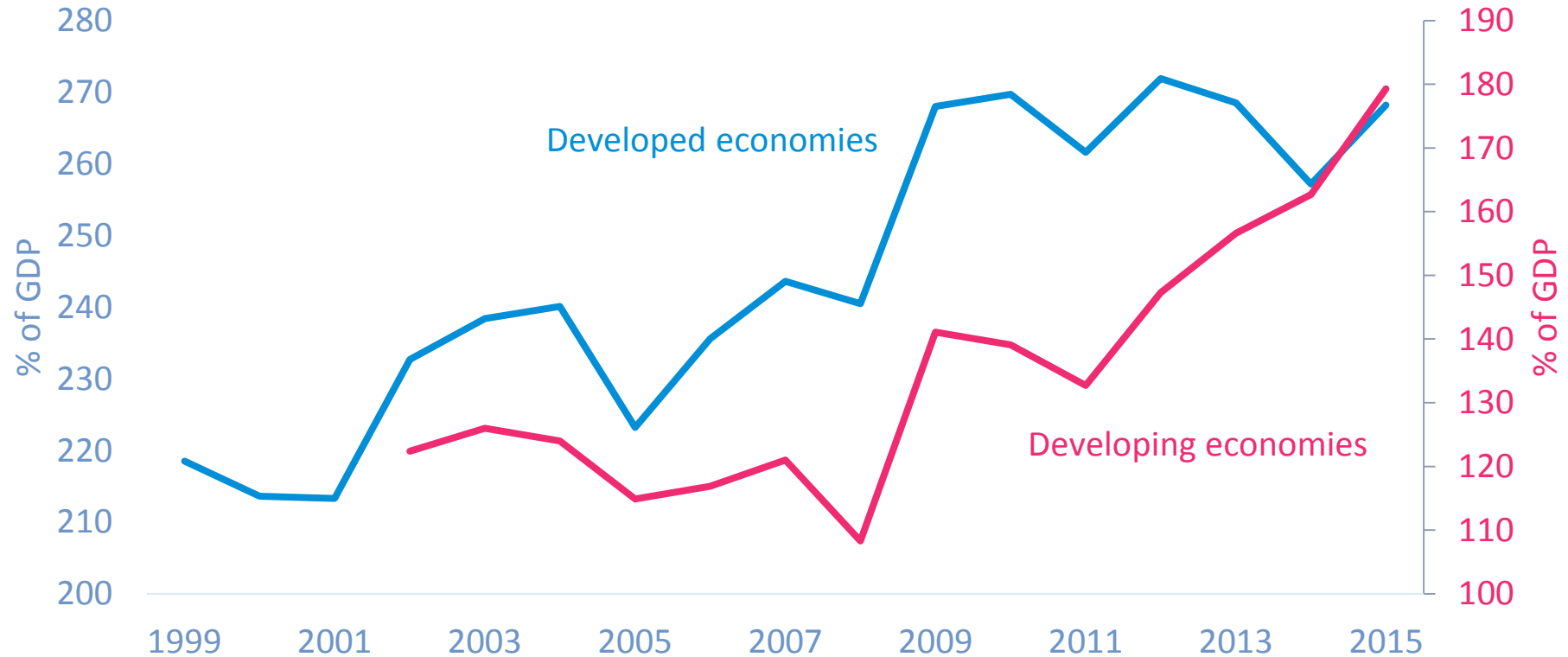
# Asset price valuations back to pre-GFC levels or more

US Treasury yields, house prices and equity values



# Debt continues to grow, despite Global Financial Crisis

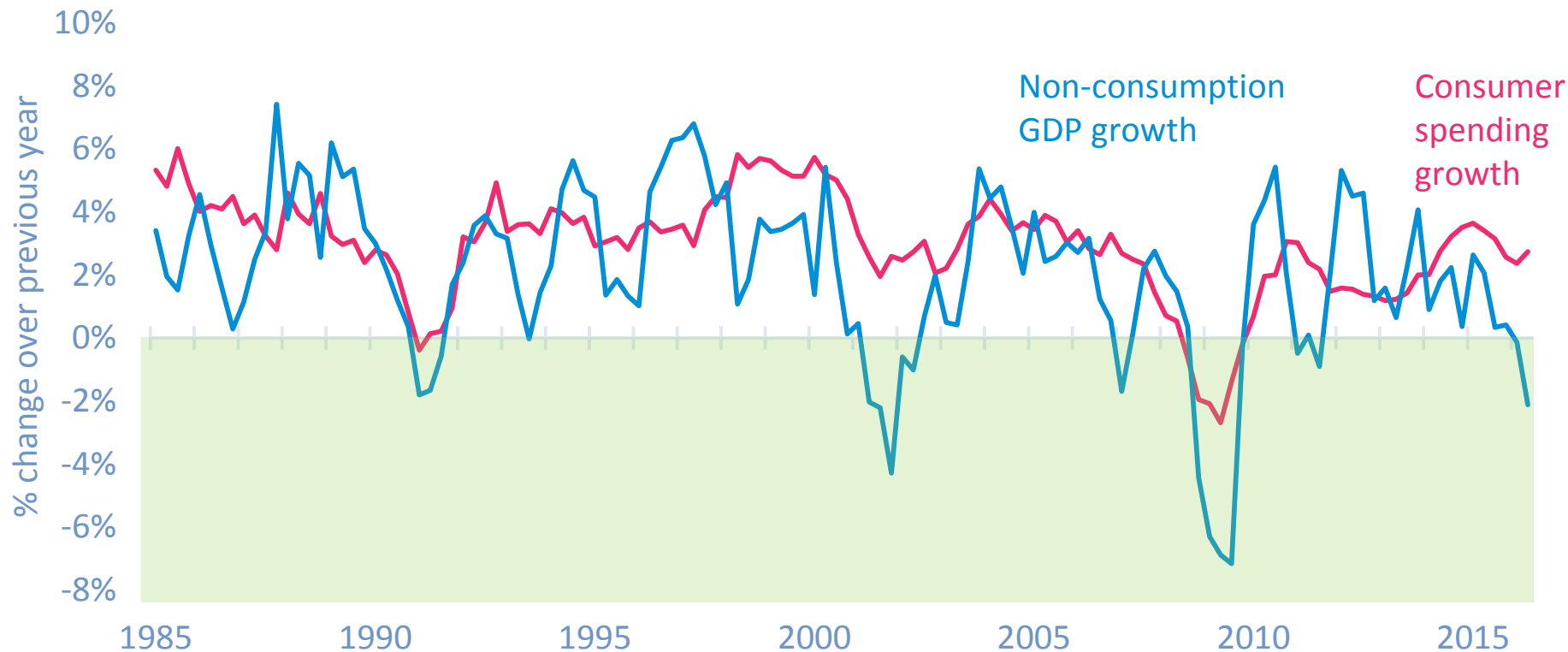
Outstanding debt of non-financial sector, % of GDP





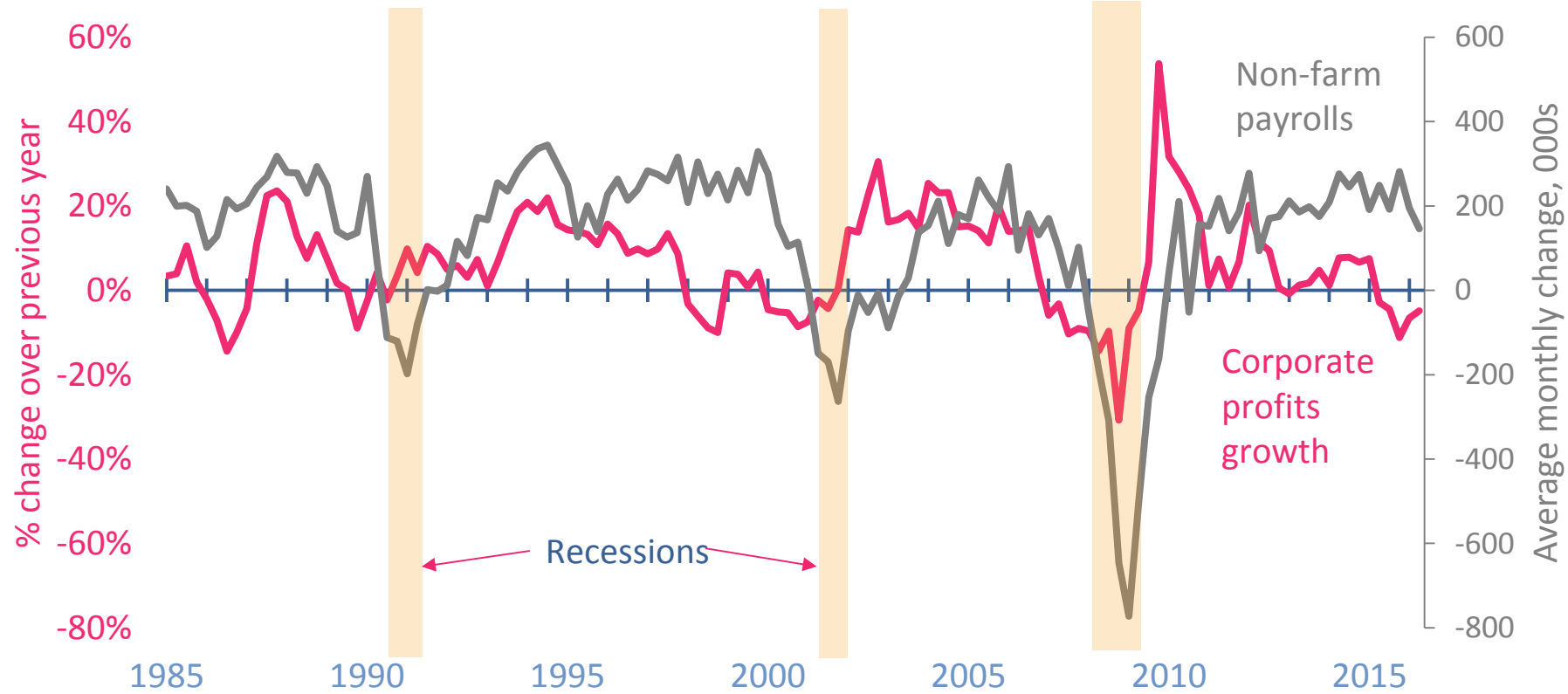
# Only the consumer is keeping US GDP growth positive

US consumer spending and non-consumption GDP growth



# Can payrolls keep growing while corporate profits shrink?

US fixed investment growth and change in non-farm payrolls



# World economy (and aviation markets) at a cross-roads

- Central banks creating asset bubbles not economic growth
- Dangerous levels of indebtedness
- Brexit, support for populism, symptoms of rising inequality
- Two main scenarios:
  - Pessimistic: renewed debt deflation + protectionism; supply-side damage
  - Optimistic: incumbent governments respond to threats from populism and embrace reflationary policies

# LOOKING FOR INSIGHTS INTO AIR TRANSPORT MARKETS AND ISSUES?

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