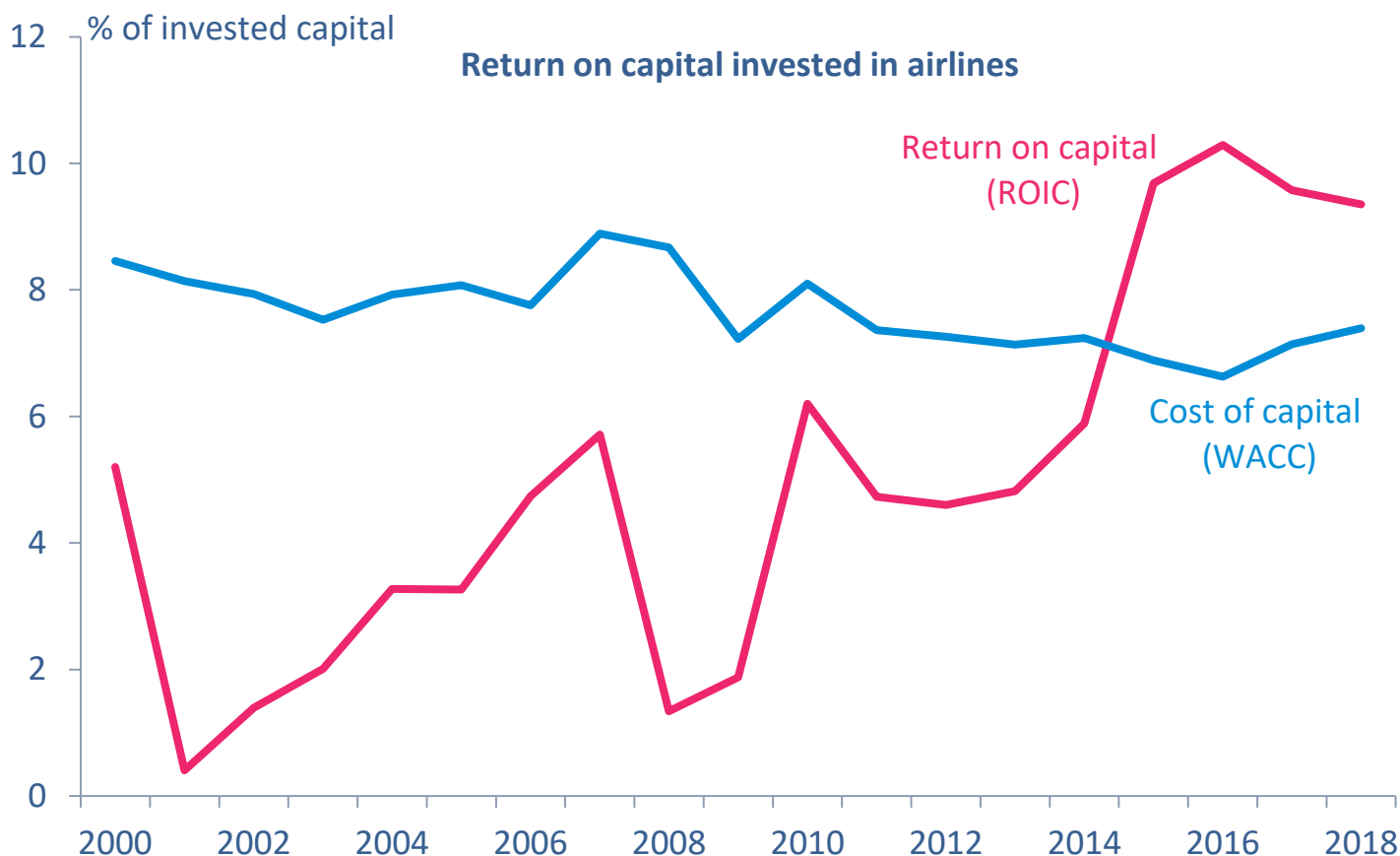




IATA ECONOMICS' CHART OF THE WEEK

8 DECEMBER 2017

AIRLINES FORECAST TO CREATE VALUE FOR INVESTORS FOR 4TH YEAR



Source: IATA

- In this week's release of the latest [Economic performance of the airline industry](#) update, IATA forecasts 2018 to be the fourth consecutive year of above-cost-of-capital returns for investors.
- At 9.4%, the forecast industry-wide average return on capital is not quite as good as the previous three years – accelerating unit costs are expected to marginally outpace rising unit revenues – but is still above the expected 7.4% cost of capital, which is what investors could earn if they took their capital and placed it in non-airline assets with a similar risk profile.
- The headline number of \$38.4 billion net profit looks a very large number – but not in the context of over \$800 billion of revenue and more than \$600 billion of invested capital. On average over recent decades the net profit margin on revenues has been close to zero. That means airlines have been able to pay their bills and service their debt, but there has been, on average, virtually nothing left to pay shareholders for risking their capital – until the past three years.
- It is important that airlines continue to generate returns that at least match the cost of capital (or rather the alternative destination for investors' capital). Both Airbus and Boeing estimate that the industry will need to attract \$5-6 trillion over the next two decades to pay for the aircraft expected to be required to meet future demand. It looks from the chart that the performance of the past three years has been exceptional. It has been. Since its inception the commercial airline industry in aggregate has typically failed to create value for investors; but this needs to change. Recent performance must become the normal, as it is in other industries.

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IATA Economics
economics@iata.org