



Chief Economist's Report

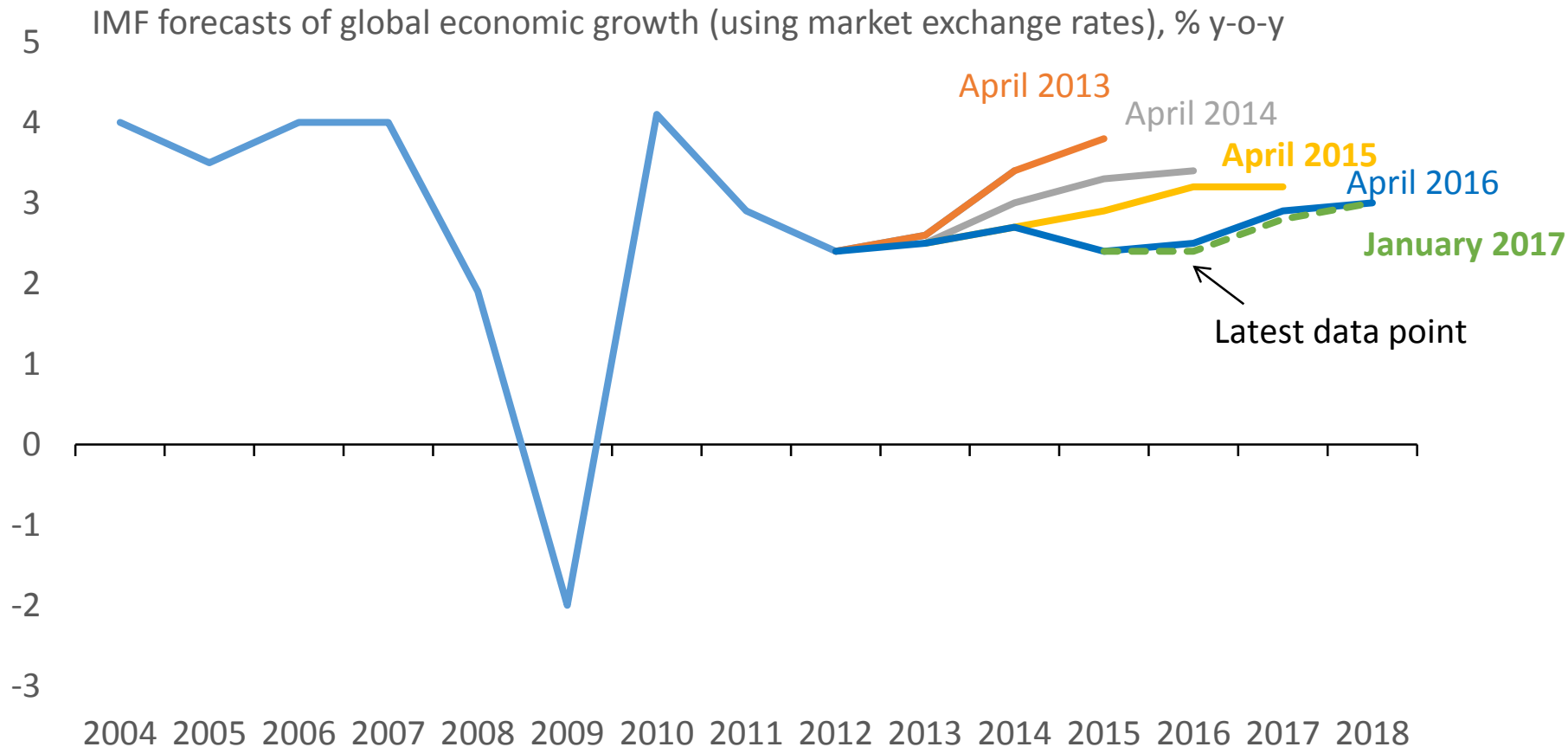
22 February 2017
IATA Legal Symposium, Washington

Brian Pearce
Chief Economist, IATA

Themes

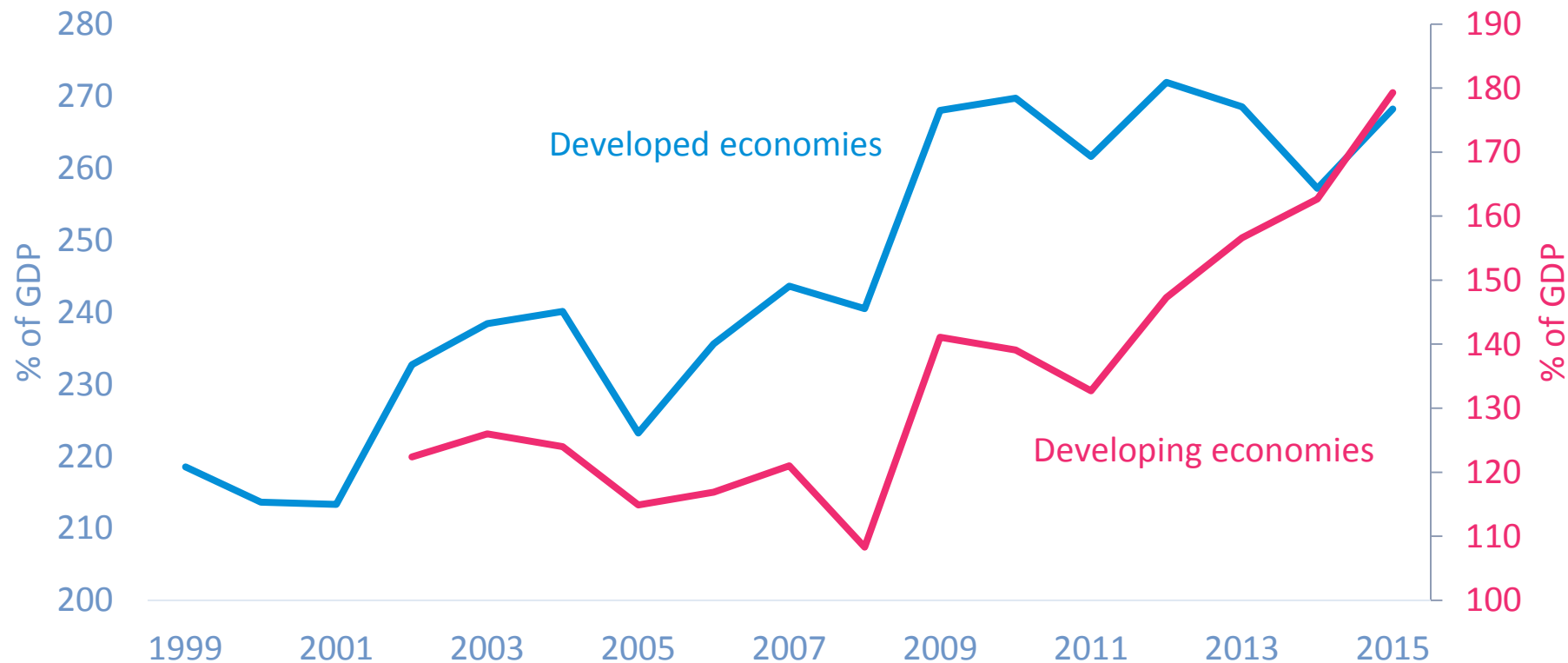
1. World economy still stuck on low-growth path
2. Demand for air travel strong but cargo challenged
3. Still great value for consumers and the wider economy
4. Investors seeing value created for 1st time, but not everywhere
5. Industry facing threat of disruption

World economy stuck on low-growth path



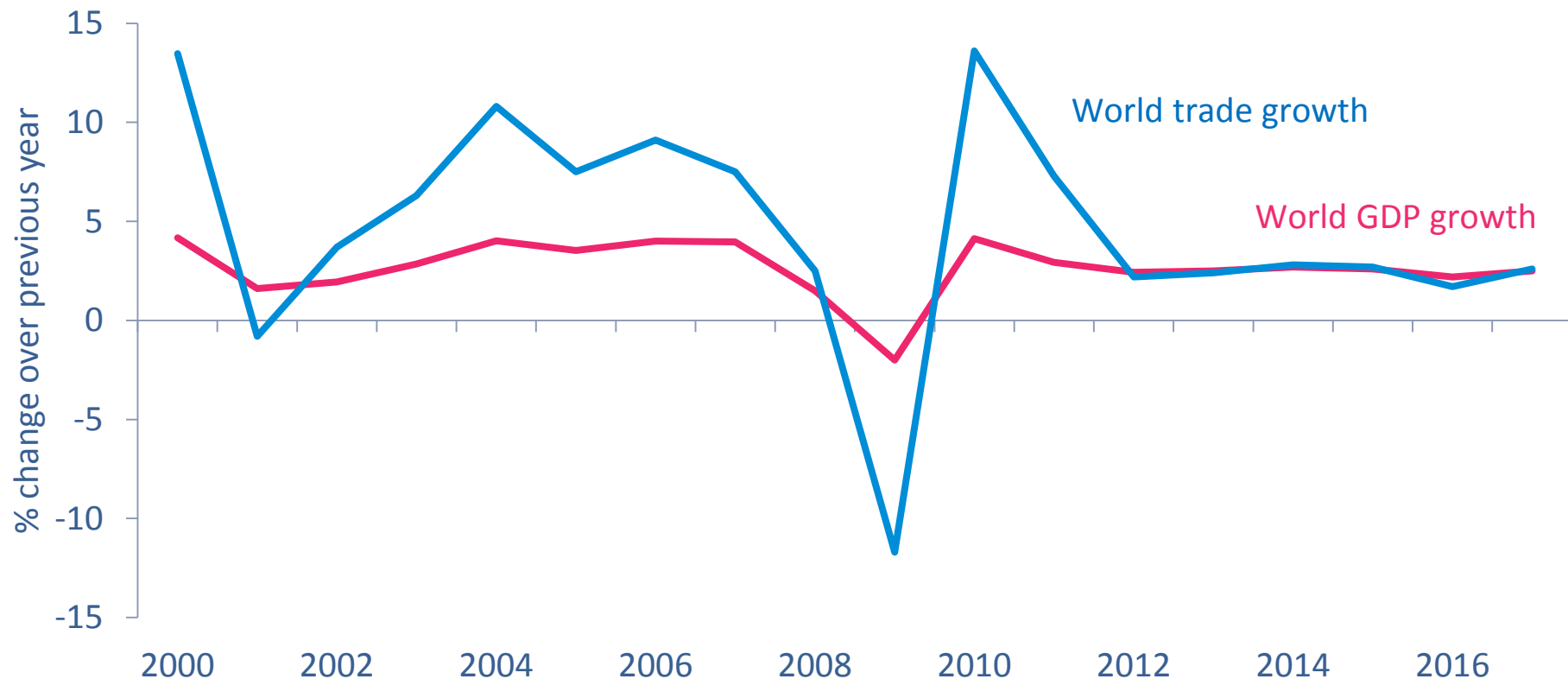
Partly because of the debt overhang

Outstanding debt of non-financial sector, % of GDP



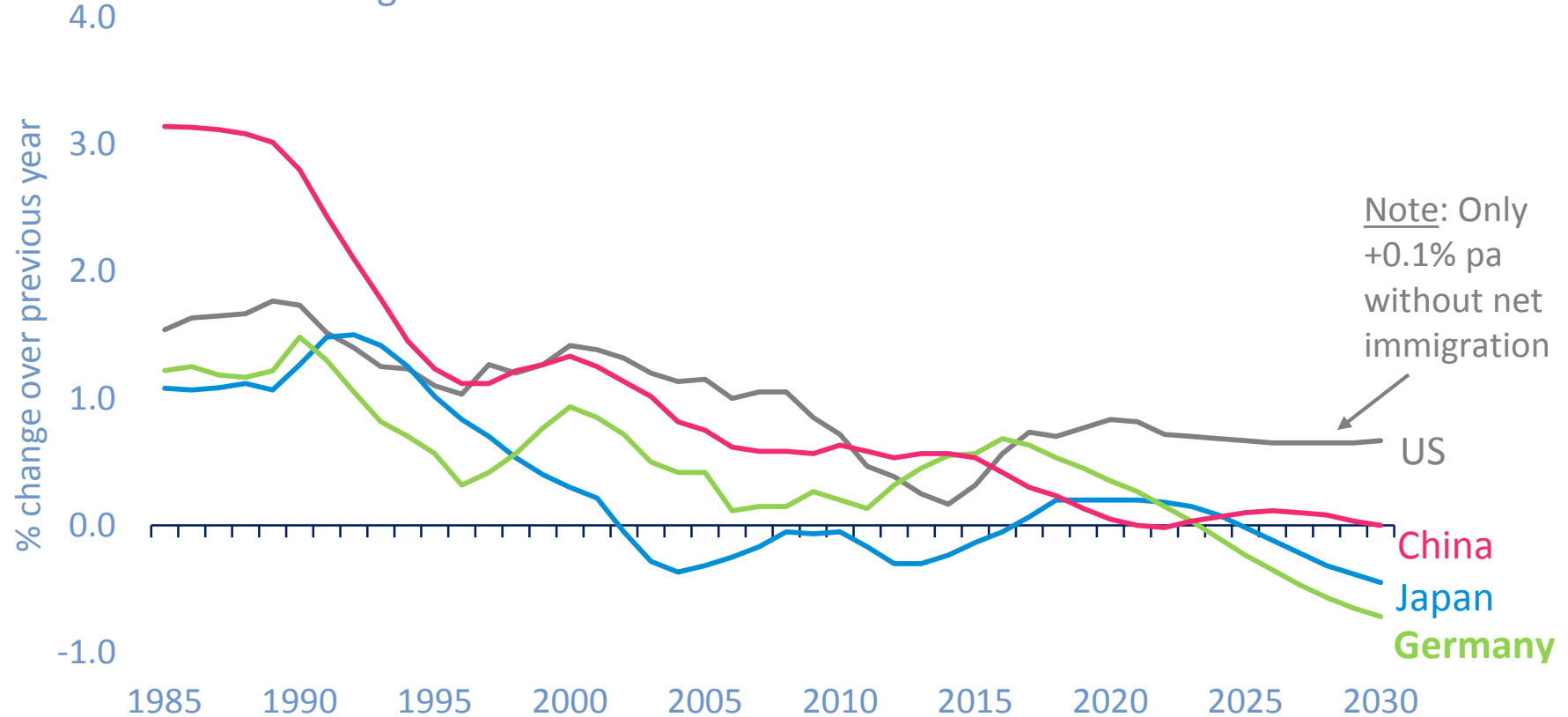
But also the retreat from globalization

World GDP and cross-border trade growth



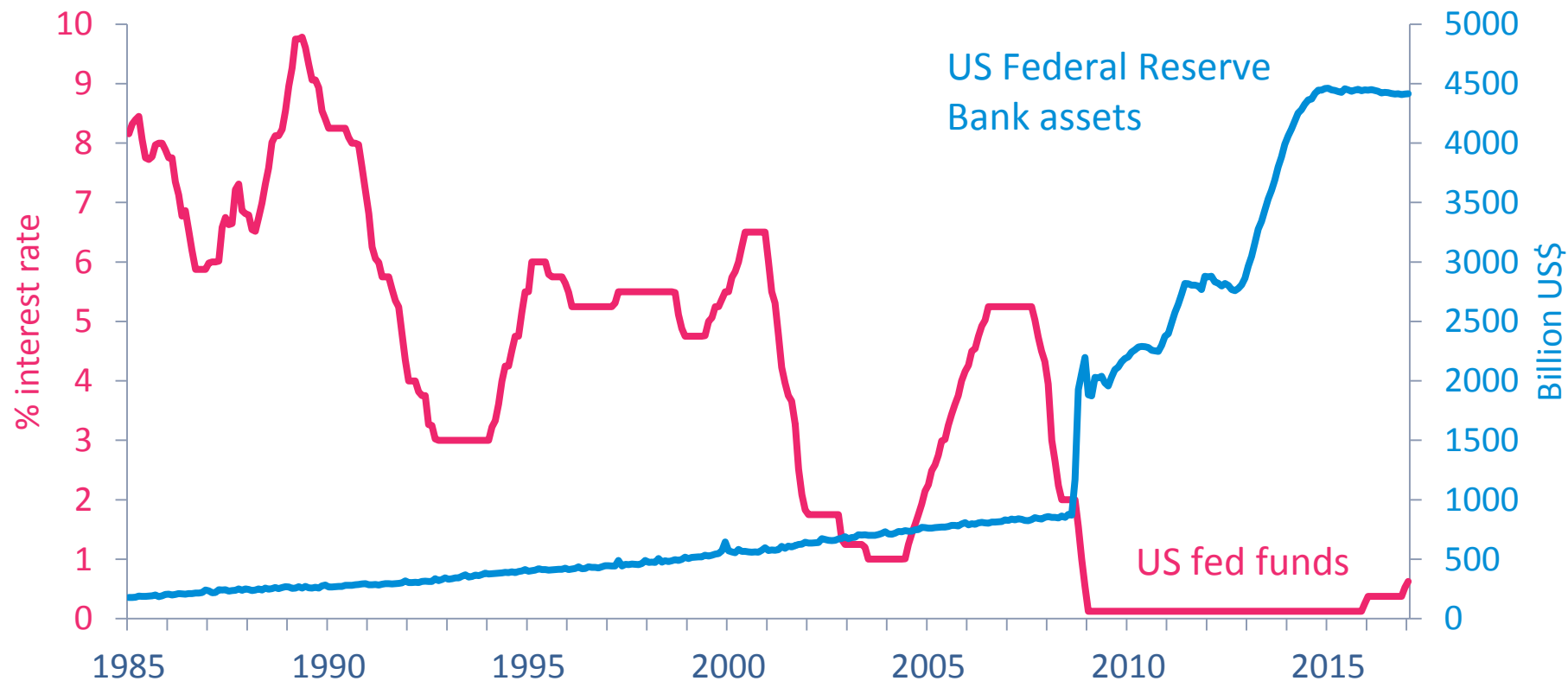
Poor demographics in some major economies

Labour force growth

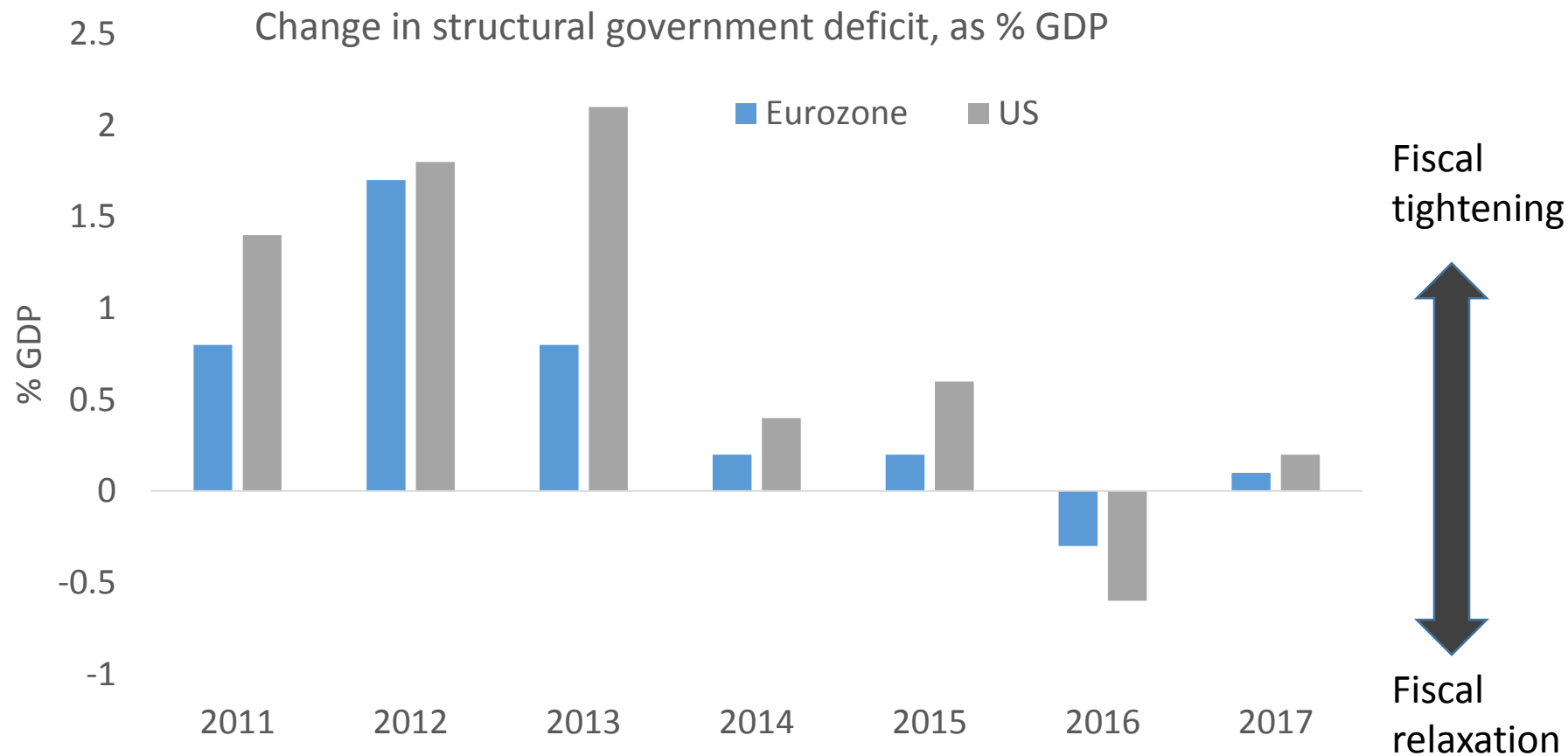


The exhaustion of monetary policies

US federal funds target rate and balance sheet assets



And, until 2015, fiscal austerity policies



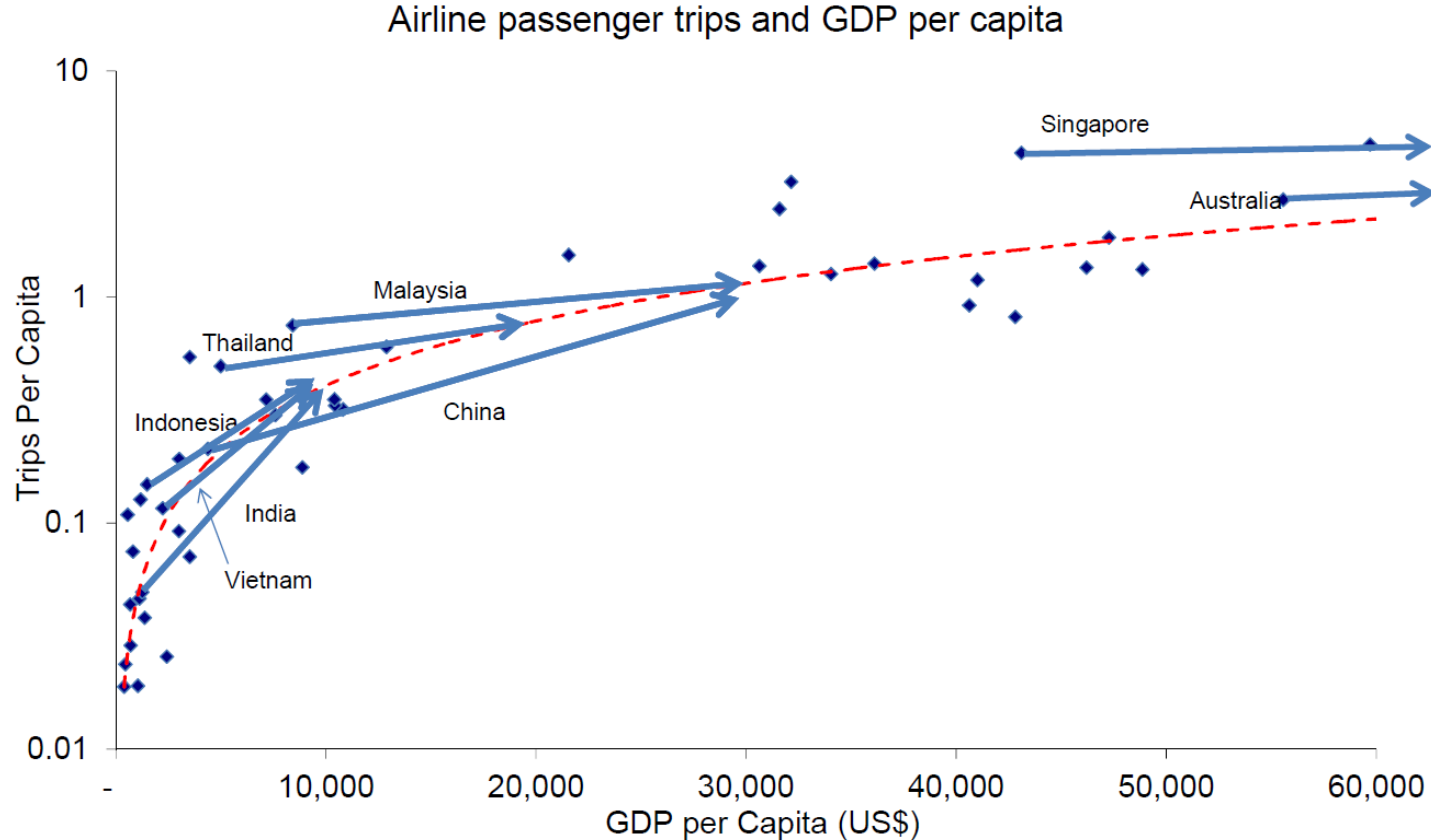
Demand for air travel strong, but cargo challenged

Airline revenues, tickets, cargo and ancillaries



Source: IATA Economics using data from PaxIS+, IdeaWorks, CargoIS, ICAO and IATA Statistics

Large potential in populous but (currently) poor markets

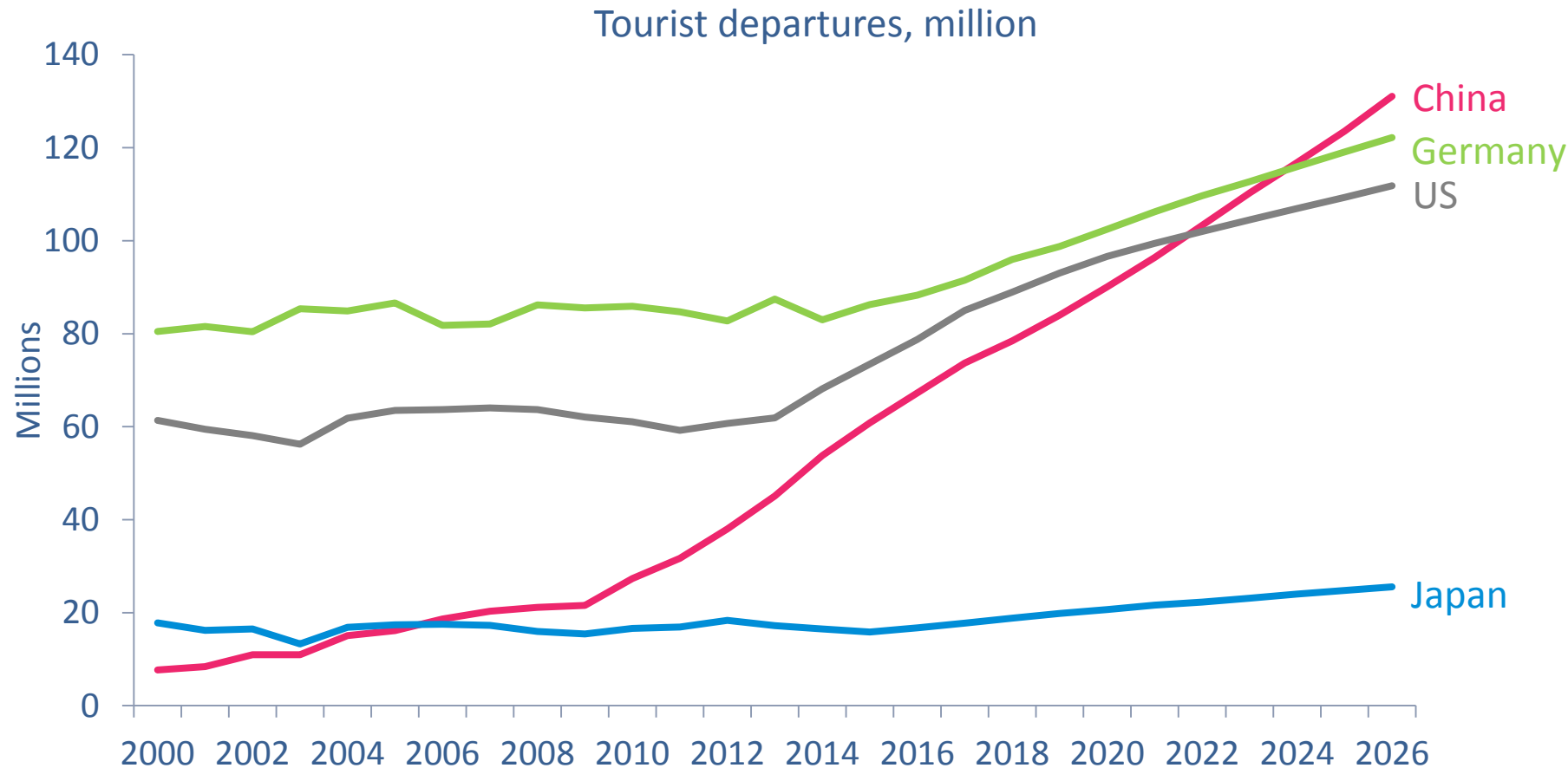


Centre of gravity of air travel shifting fast towards China



Source: IATA Economics using data from PaxIS+

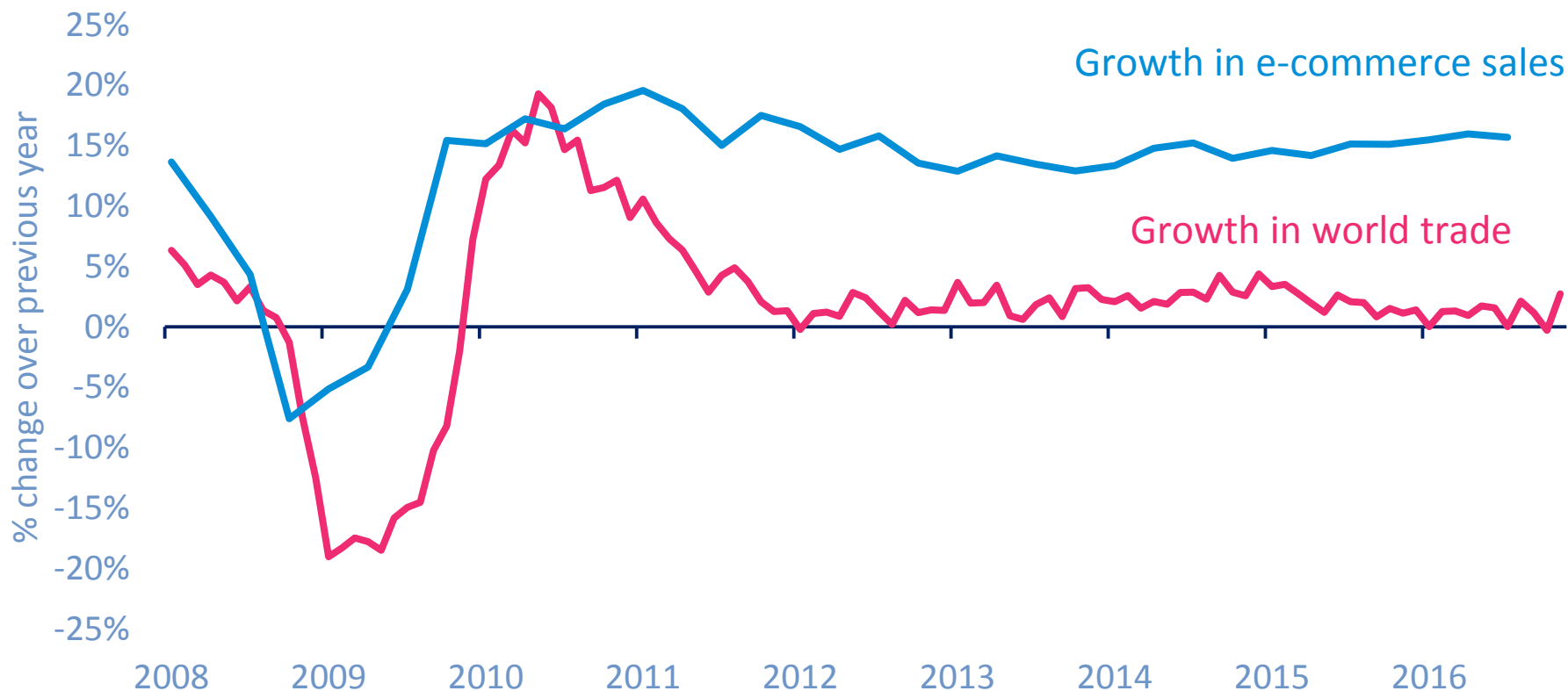
Chinese tourist outflows begin to dominate



Source: IATA Economics using data from Tourism Economics' Decision Metrics database

Cargo faces weak world trade but boom in e-commerce

Growth in world trade and (US) e-commerce sales



Source: IATA Economics using data from Netherlands CPB and Haver

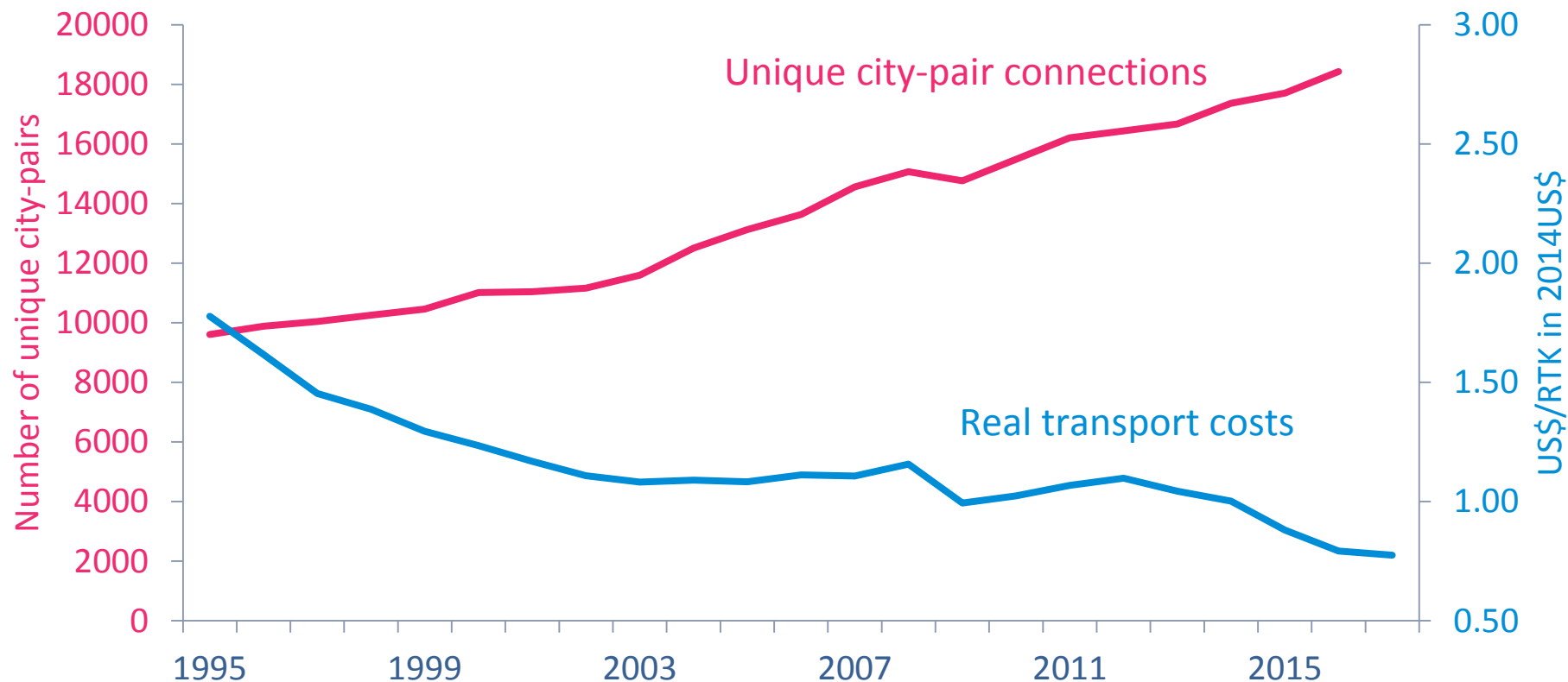
Air travel delivering increasing value for consumers



Source: IATA using data from PaxIS+ and Oxford Economics

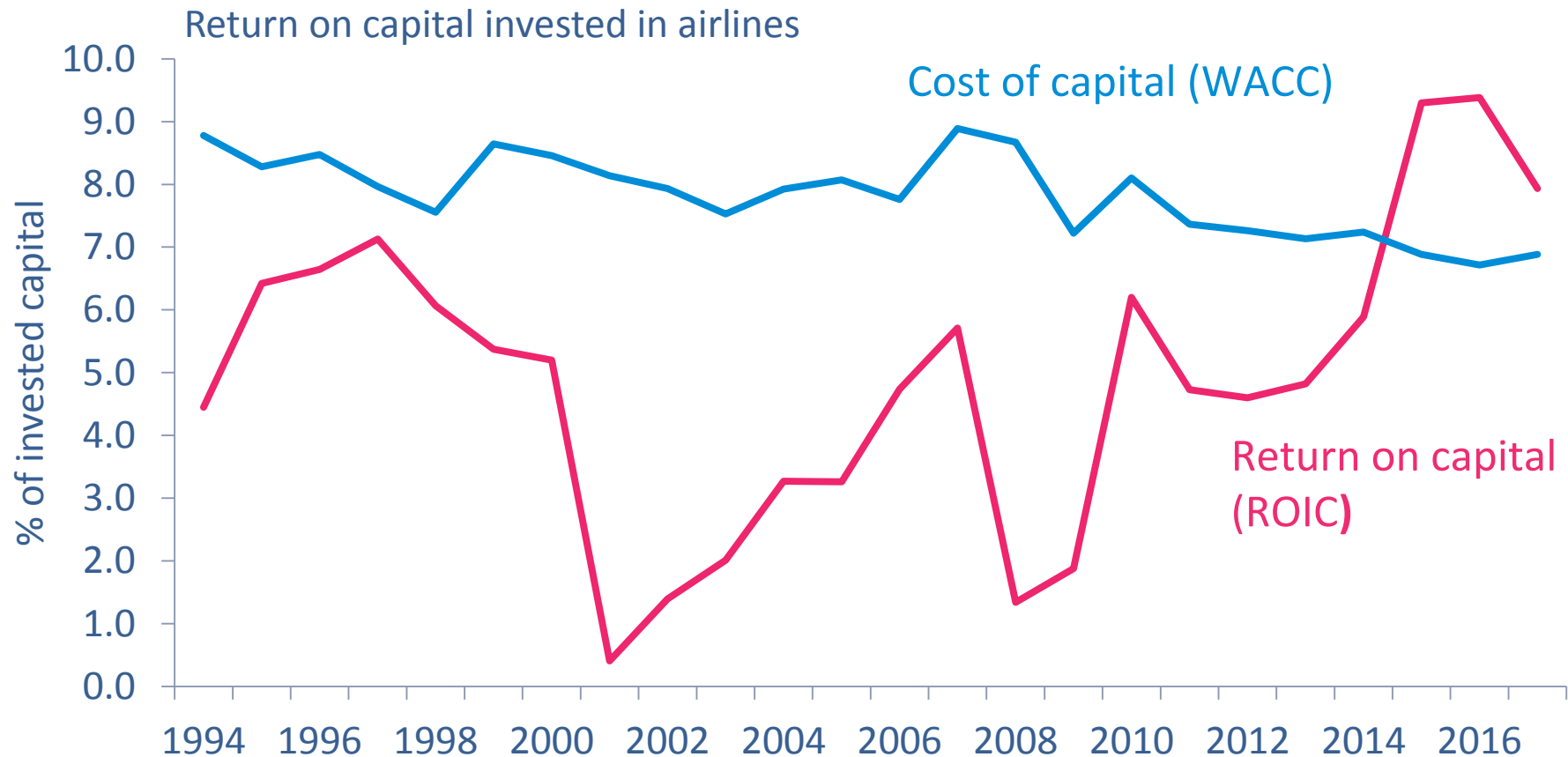
Connections and low costs benefit the wider economy

Unique city-pairs and real transport costs



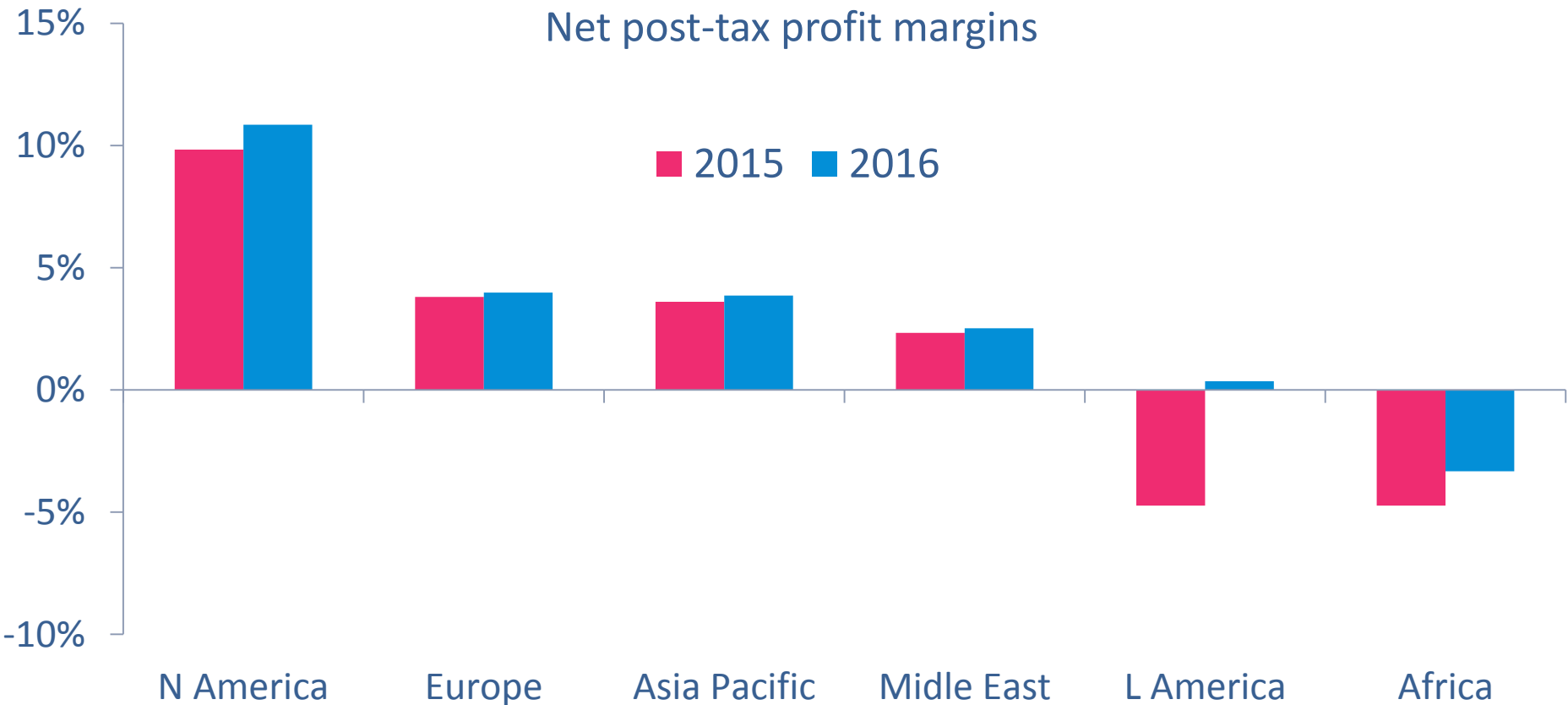
Source: IATA Economic Performance of the Airline Industry, End-Year 2016 report

At last investors are getting a 'normal' return



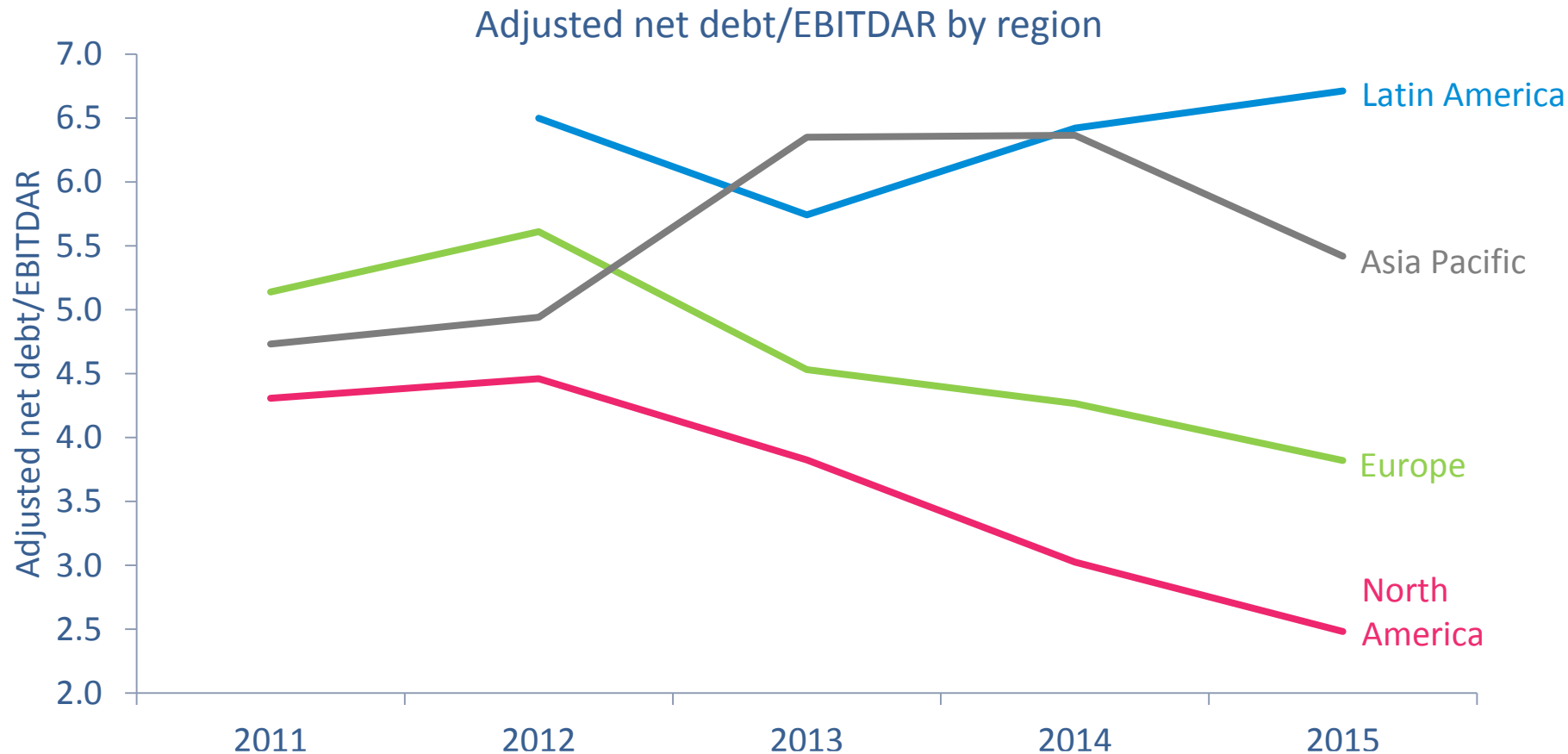
Source: IATA Economic Performance of the Airline Industry, End-Year 2016 report

But airline profitability still challenged outside the US



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

Balance sheets in some regions remain weak



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

Is the future more 'normality' or disruption?

- Replicability of the US and North Atlantic experience
- Ownership & control 'barriers' under pressure
- Empowered consumers and the 'data aggregators'

Replicability of the US and N Atlantic experience

- Consolidation?
- Open Skies allowing ATI-JVs?
- Focus on ROIC and capital productivity?
- Move away from commoditized seat/schedule product?

Ownership & control 'barriers' under pressure

- Cross-border JVs in Asia and Latin America
- Minority shareholding in foreign airlines
- Chinese acquisitions and tourism/economic interests

Empowered consumers and the 'data aggregators'

- Hand-held information availability + social media platforms
- Transparency
- Personalization
- Opportunity - NDC/FFP data
- Challenge – GDSs or is it the 'data aggregators'?

LOOKING FOR INSIGHTS INTO AIR TRANSPORT MARKETS AND ISSUES?

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