

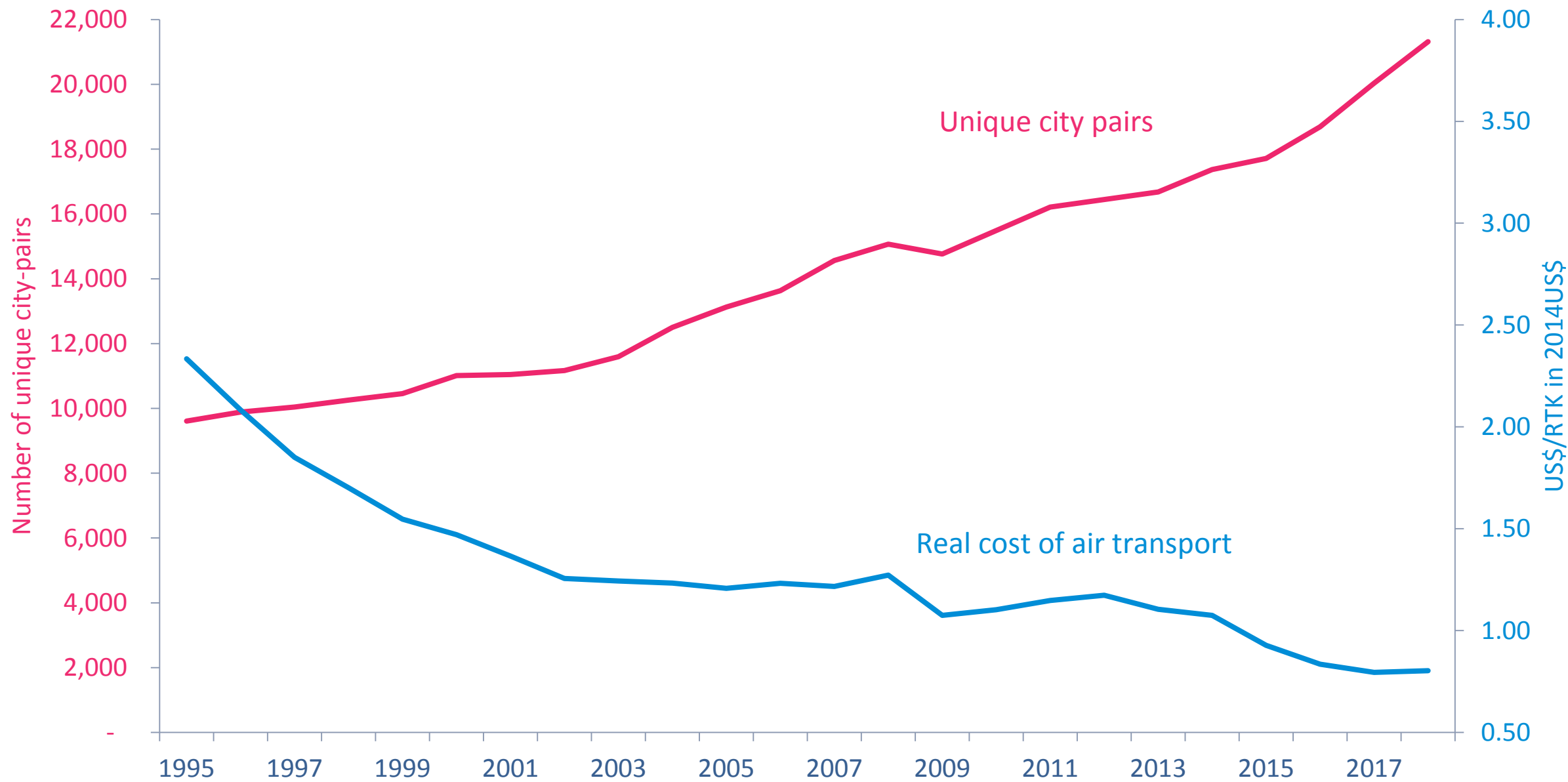


# Economic performance of the airline industry: mid-2018 update

Brian Pearce,  
Chief Economist,  
IATA

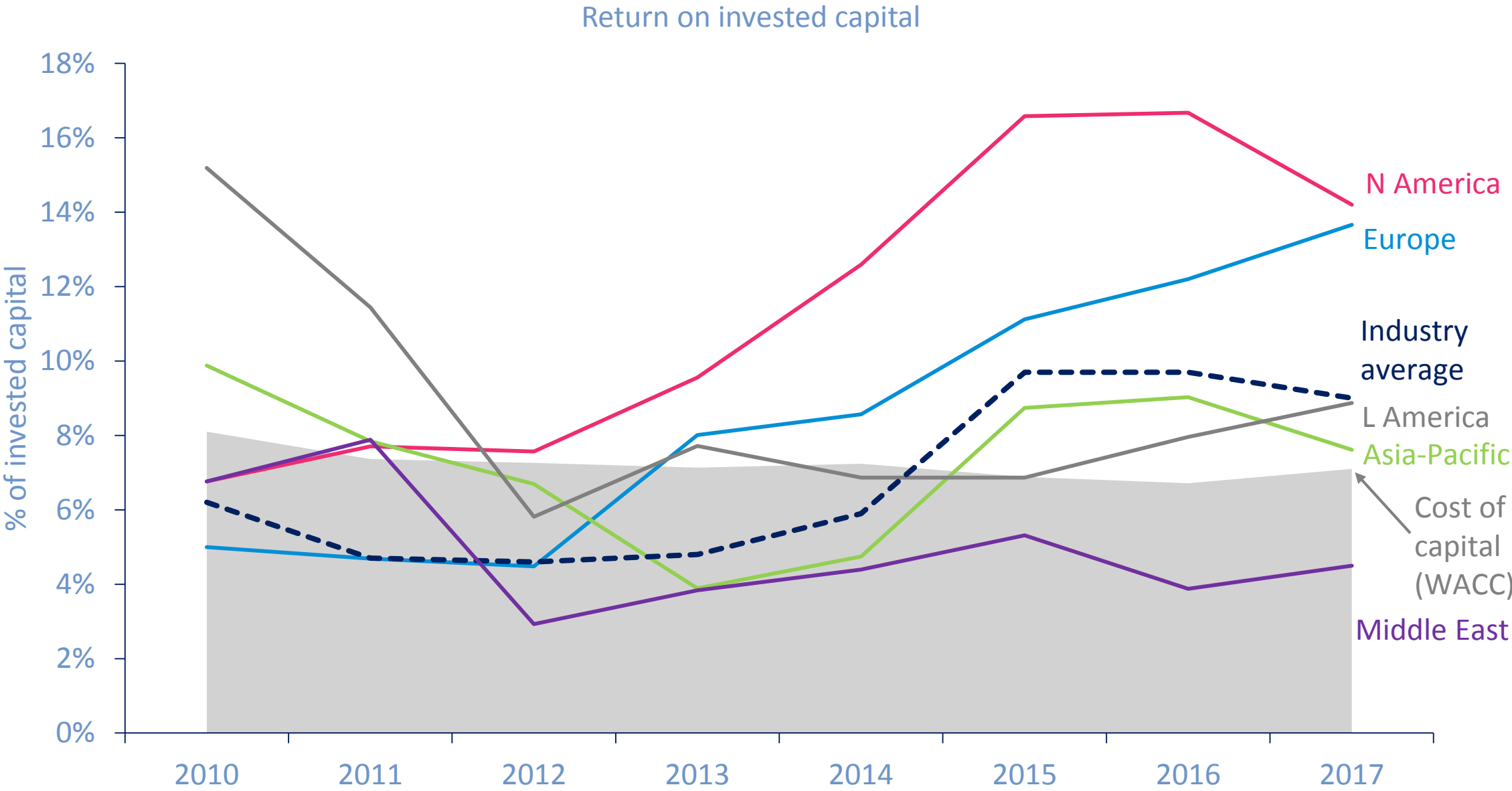
[www.iata.org/economics](http://www.iata.org/economics)

# Record city-pair connections bring choice and economic benefits



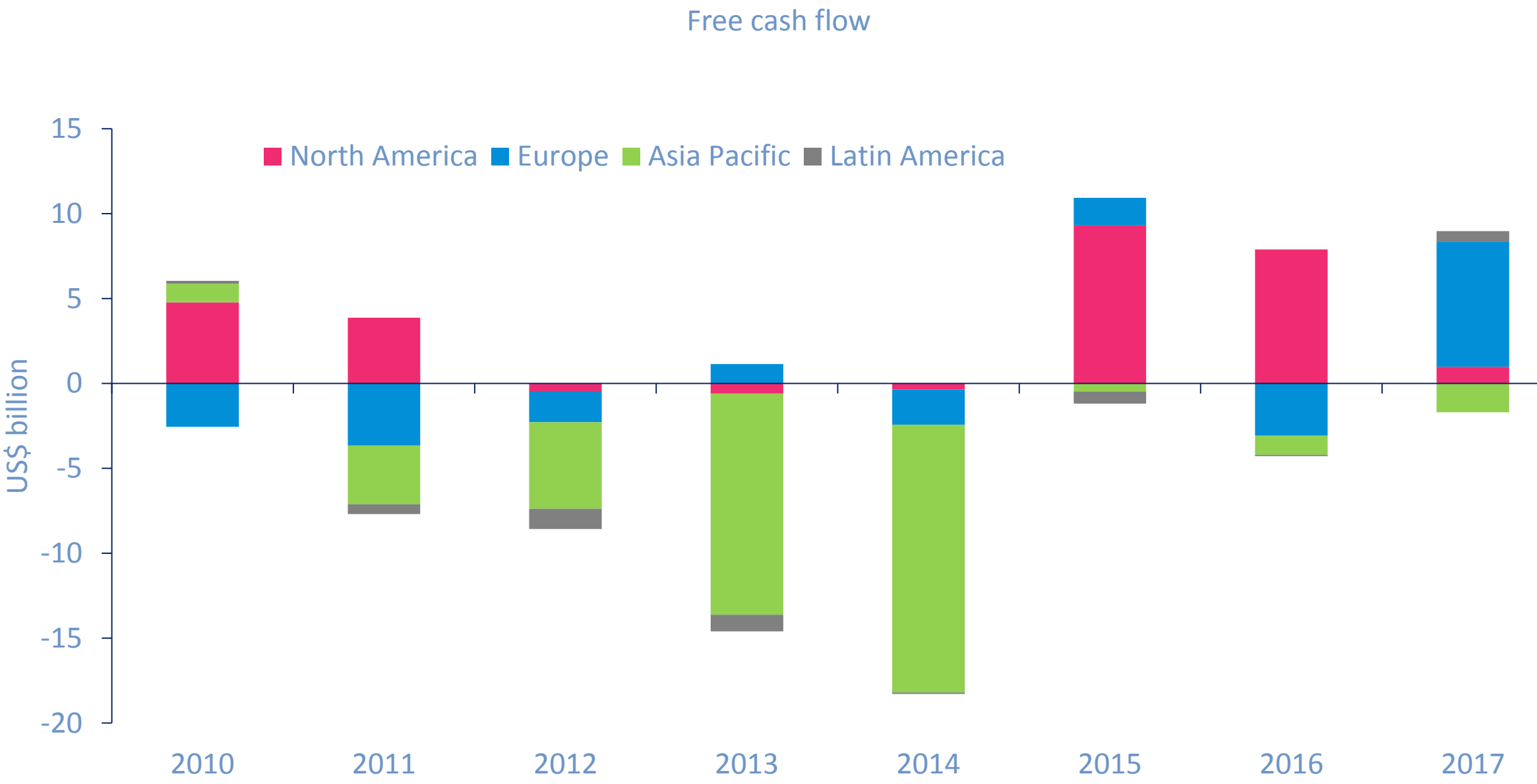
Source: IATA Economics using data from ICAO, IATA Statistics, SRS Analyzer and our own forecasts

# Airlines are also creating value for investors



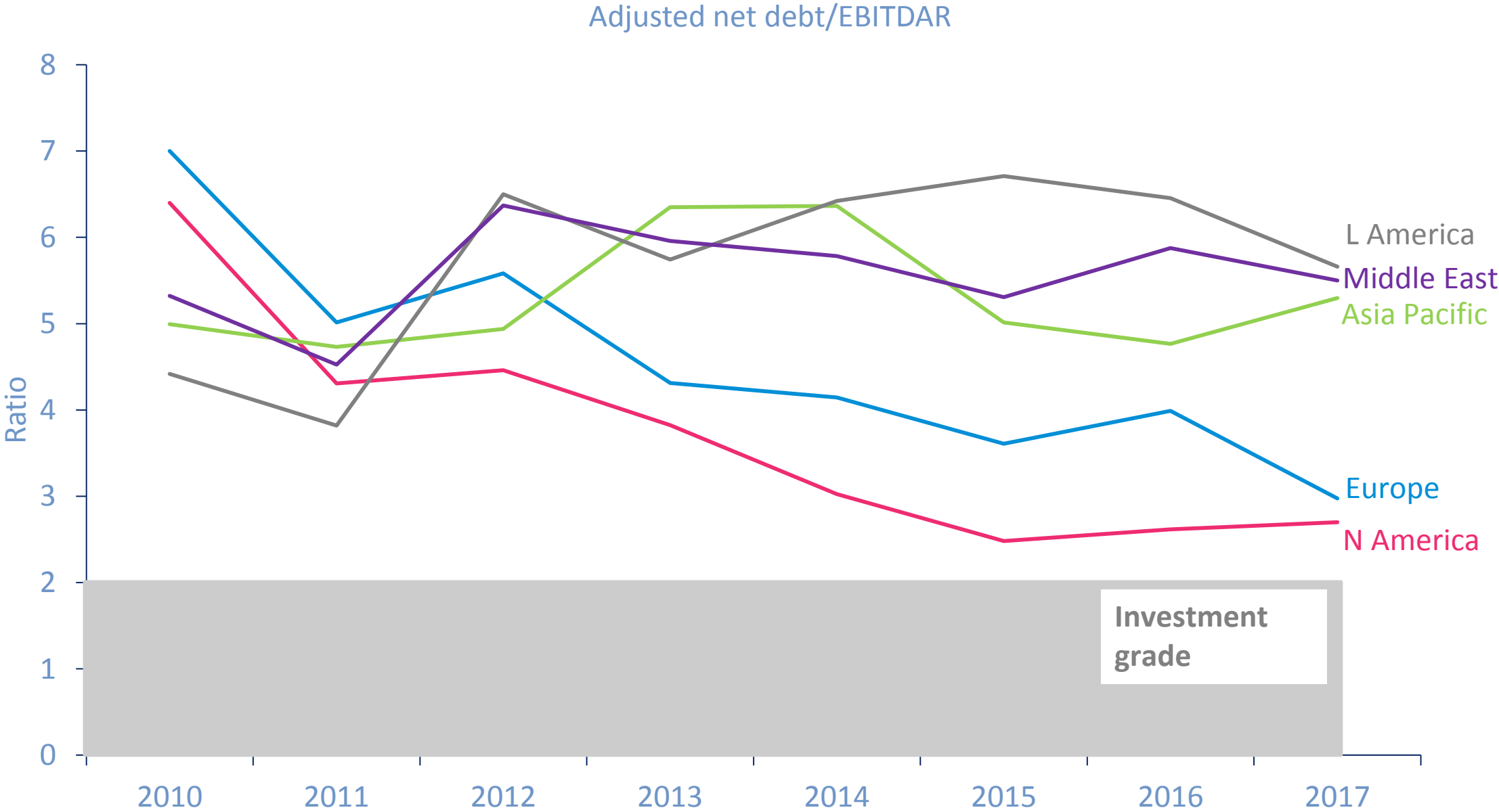
Source: IATA Economics using data from The Airline Analyst

# Strong free cash flows allow debt to be repaid



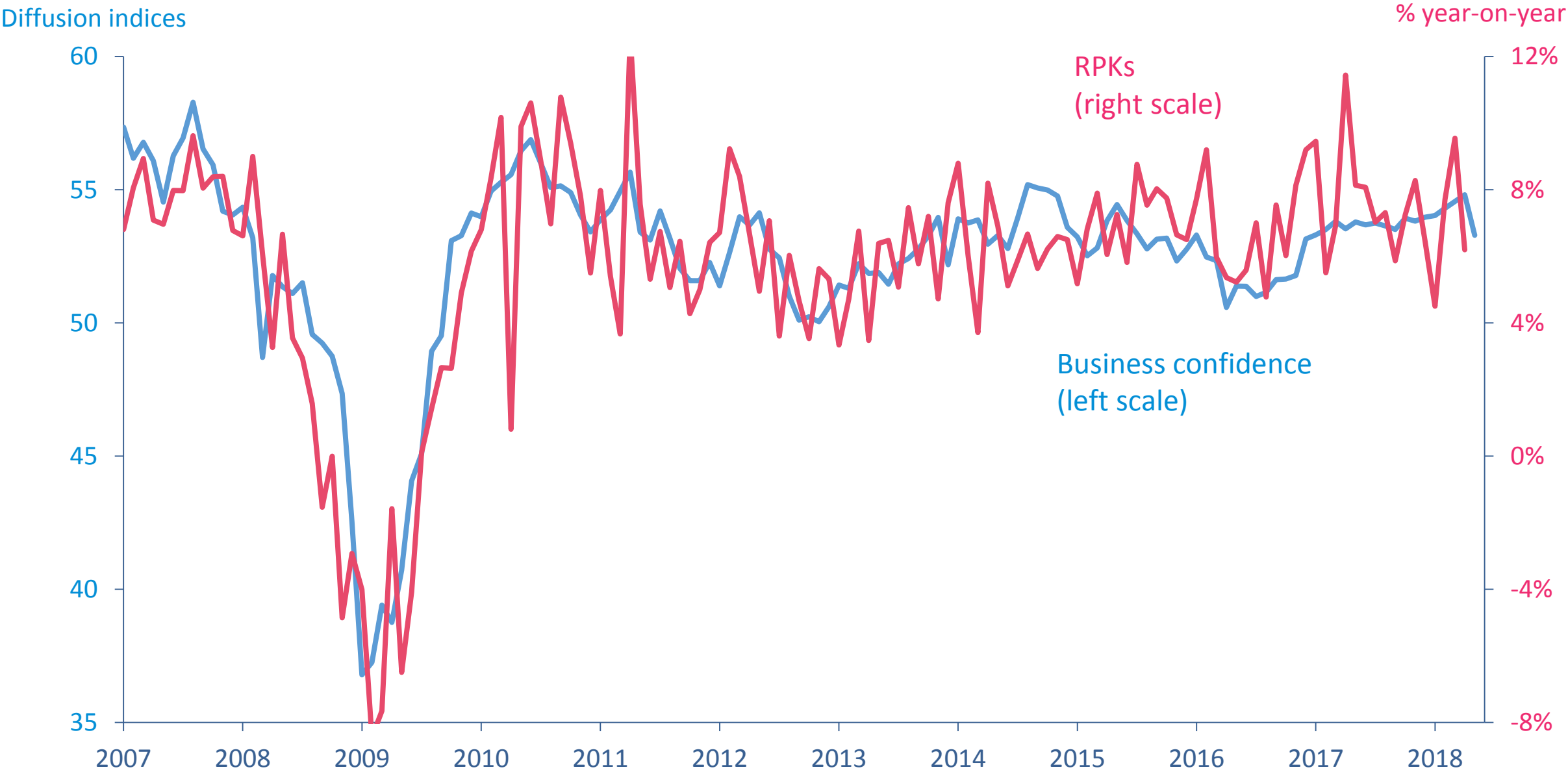
Source: IATA Economics using data from The Airline Analyst

# Though airline balance sheets have not yet improved in all regions



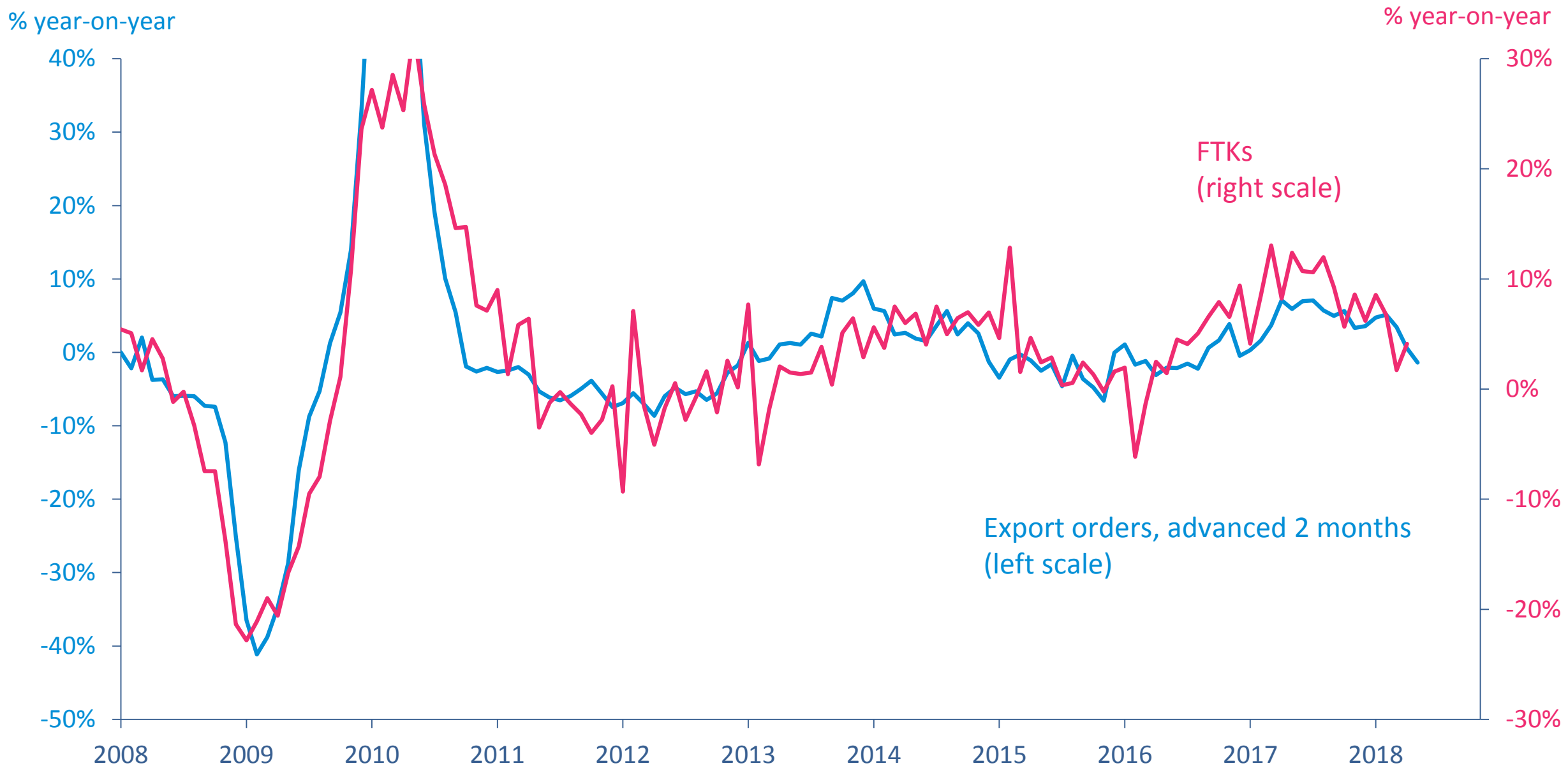
Source: IATA Economics using data from The Airline Analyst

# Air travel continues to grow above-trend in early 2018



Source: IATA Economics using data from IATA Statistics, Markit

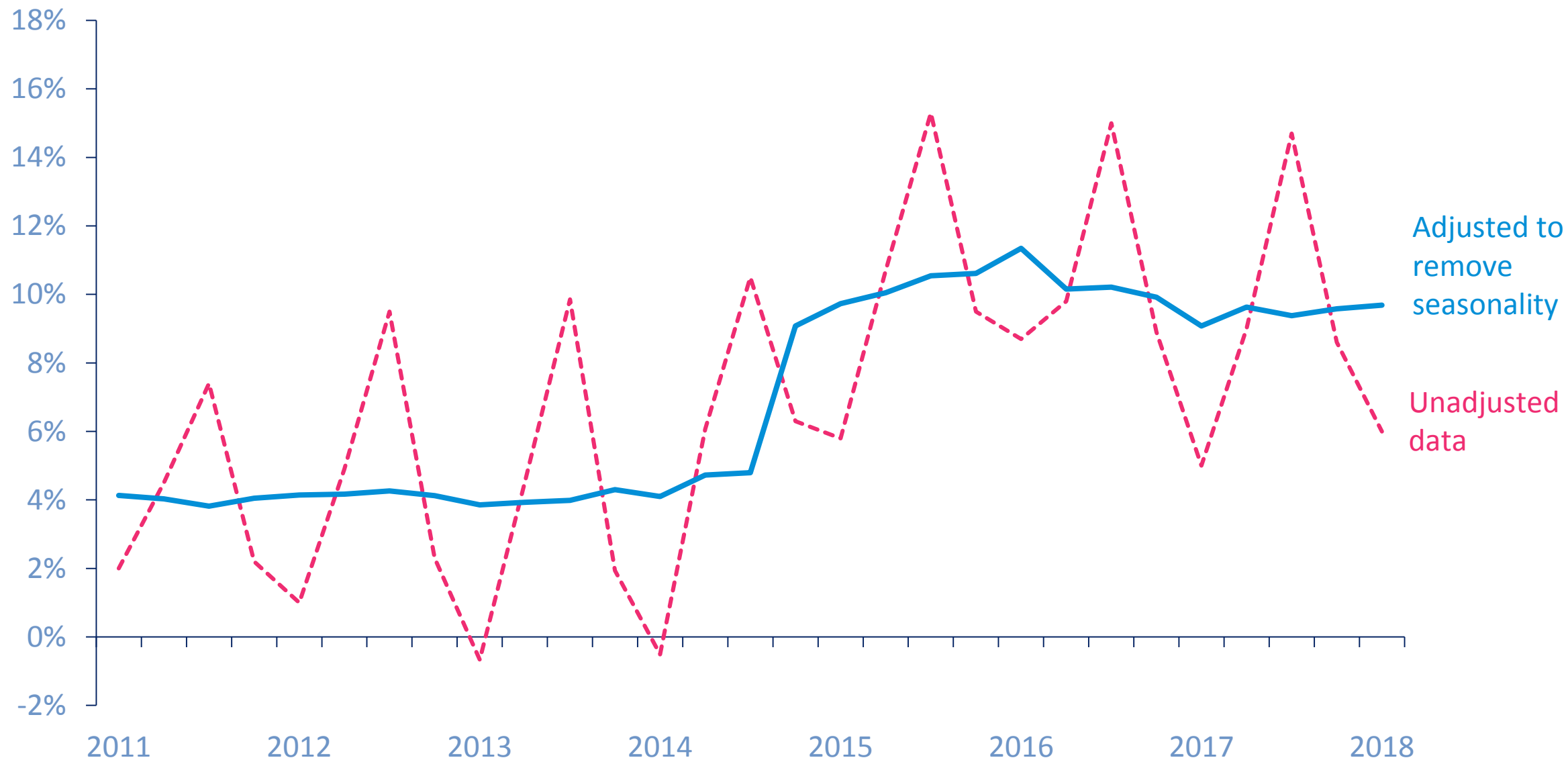
# Cargo slowing as inventory re-stocking cycle ends



Source: IATA Economics using data from IATA Statistics, Markit

# Airlines' operating margin was stable in the first quarter of 2018

Worldwide average airline operating margin

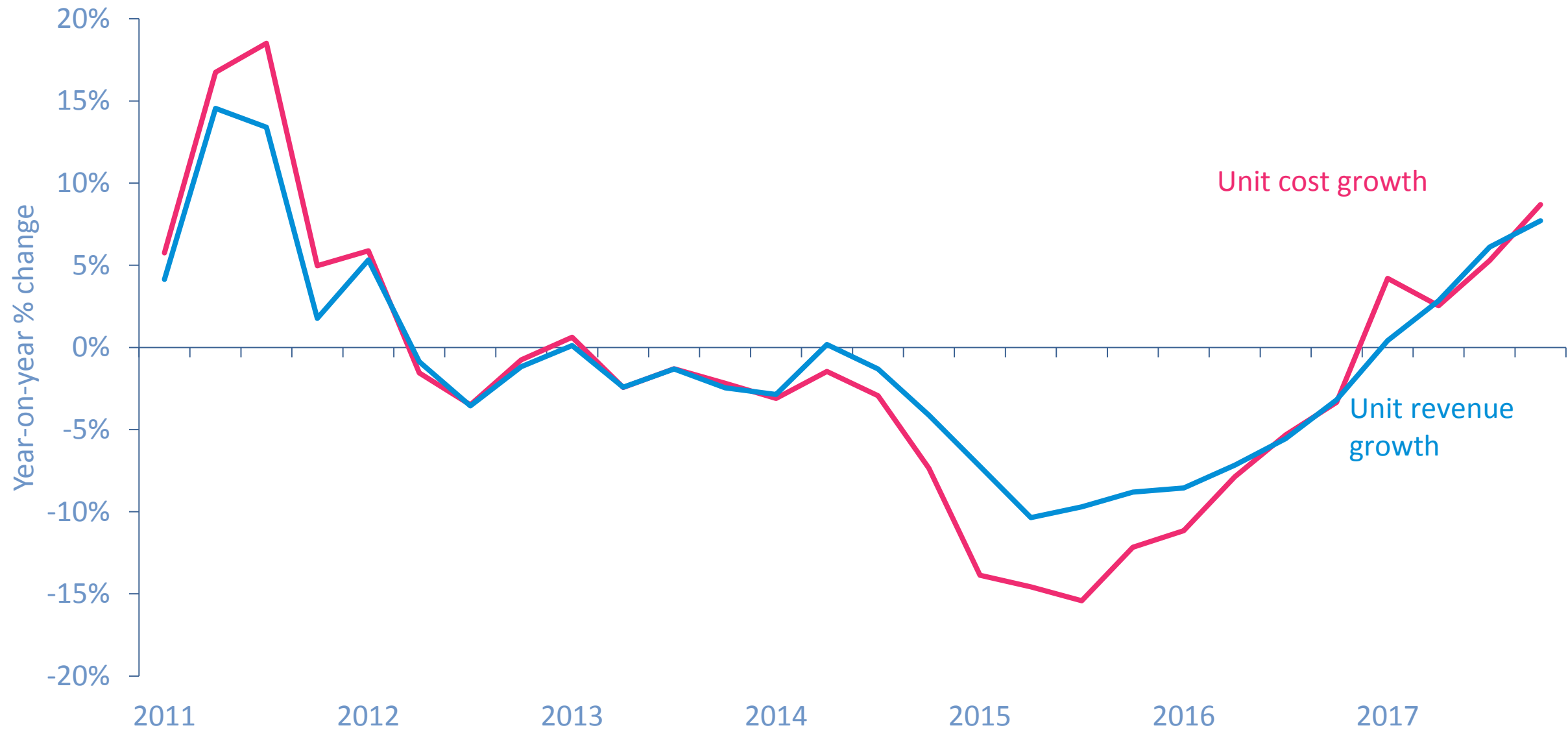


Source: IATA Economics using data from The Airline Analyst, airline releases. Note: This data is from airlines report quarterly only



# But the industry now faces severe late-cycle cost pressures

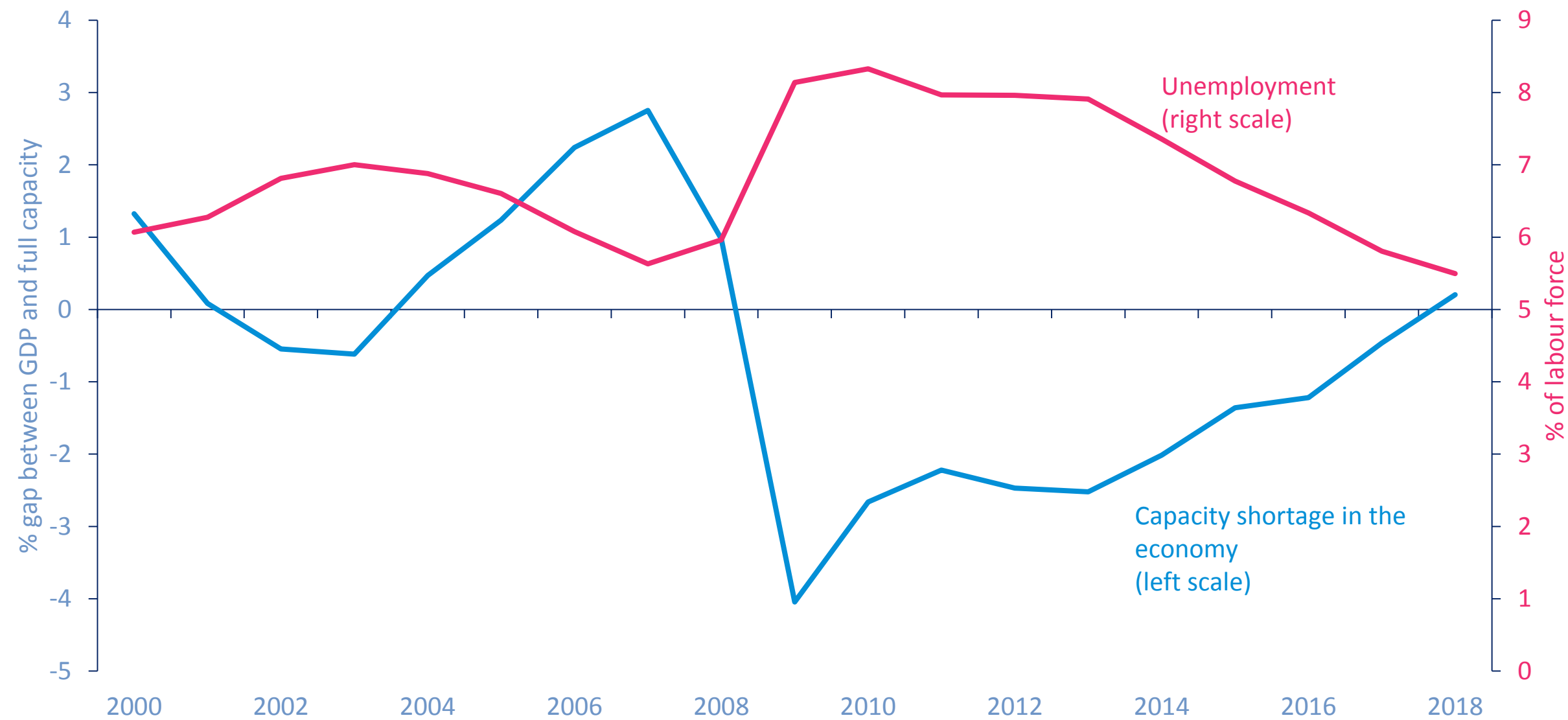
Industry wide growth in unit revenues and unit costs



Source: IATA Economics using data from The Airline Analyst

# As spare capacity disappears

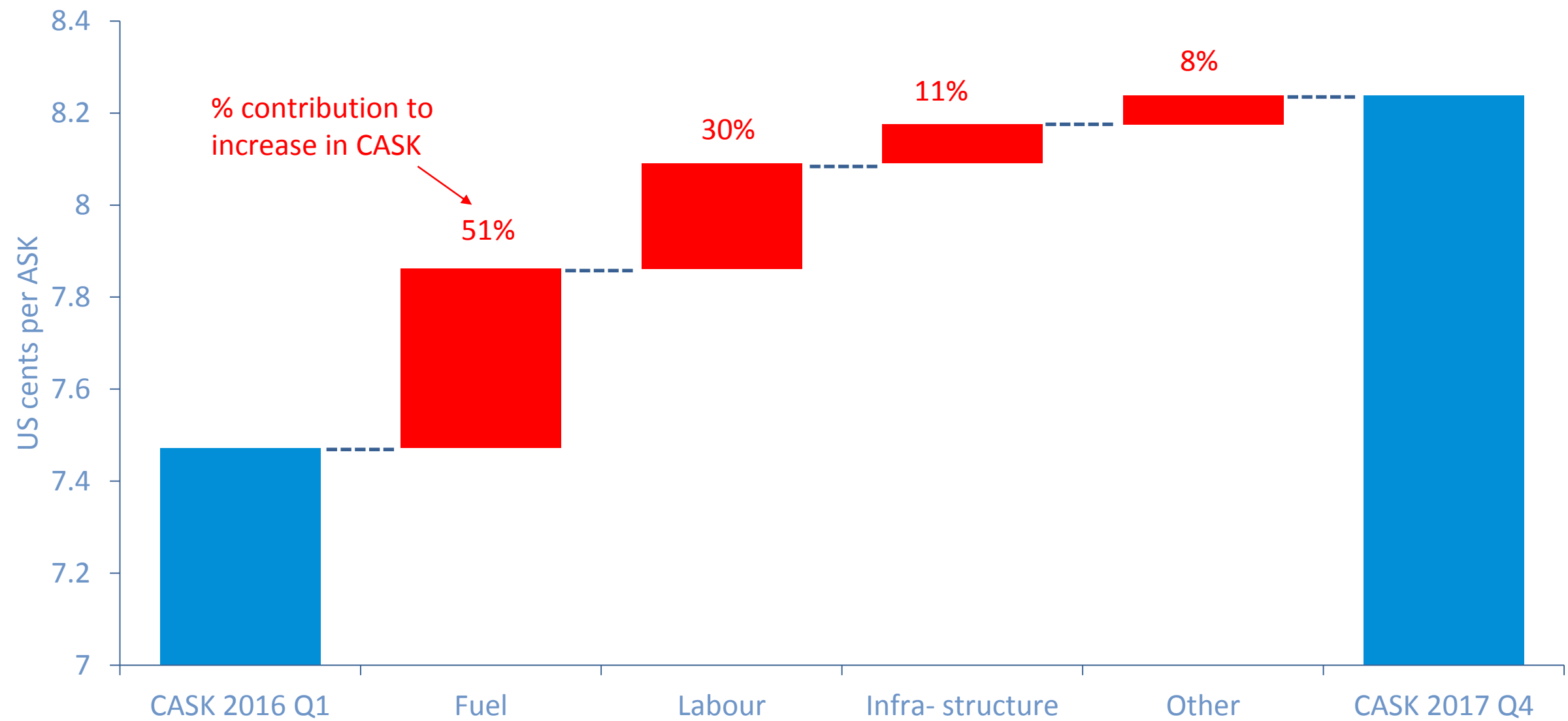
OECD unemployment and capacity shortage in the economy



Source: IATA Economics using data from Datastream

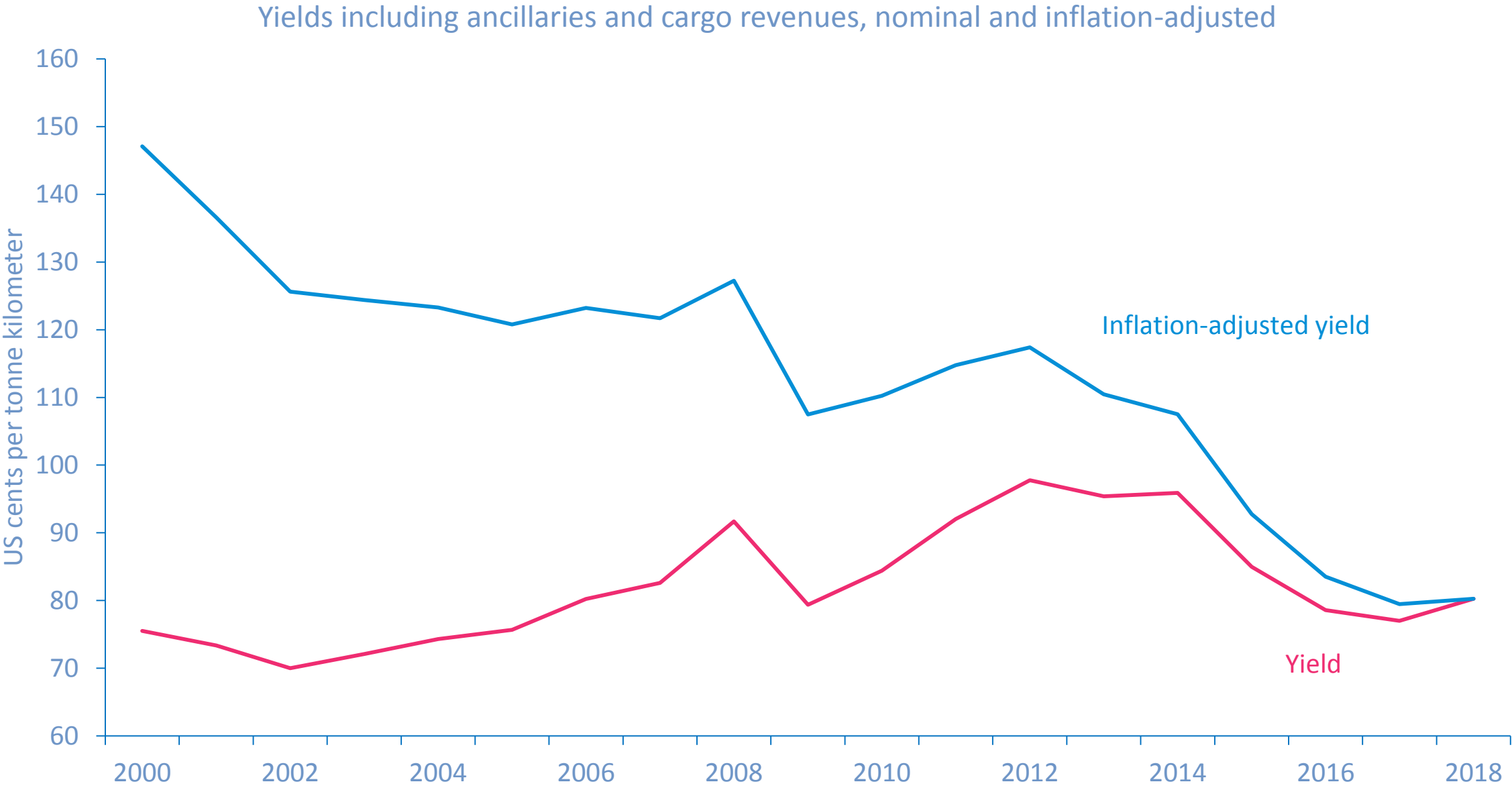
# Fuel, labour and infrastructure are the main source of cost pressure

Unit cost changes between 2016 Q1 and 2017 Q4



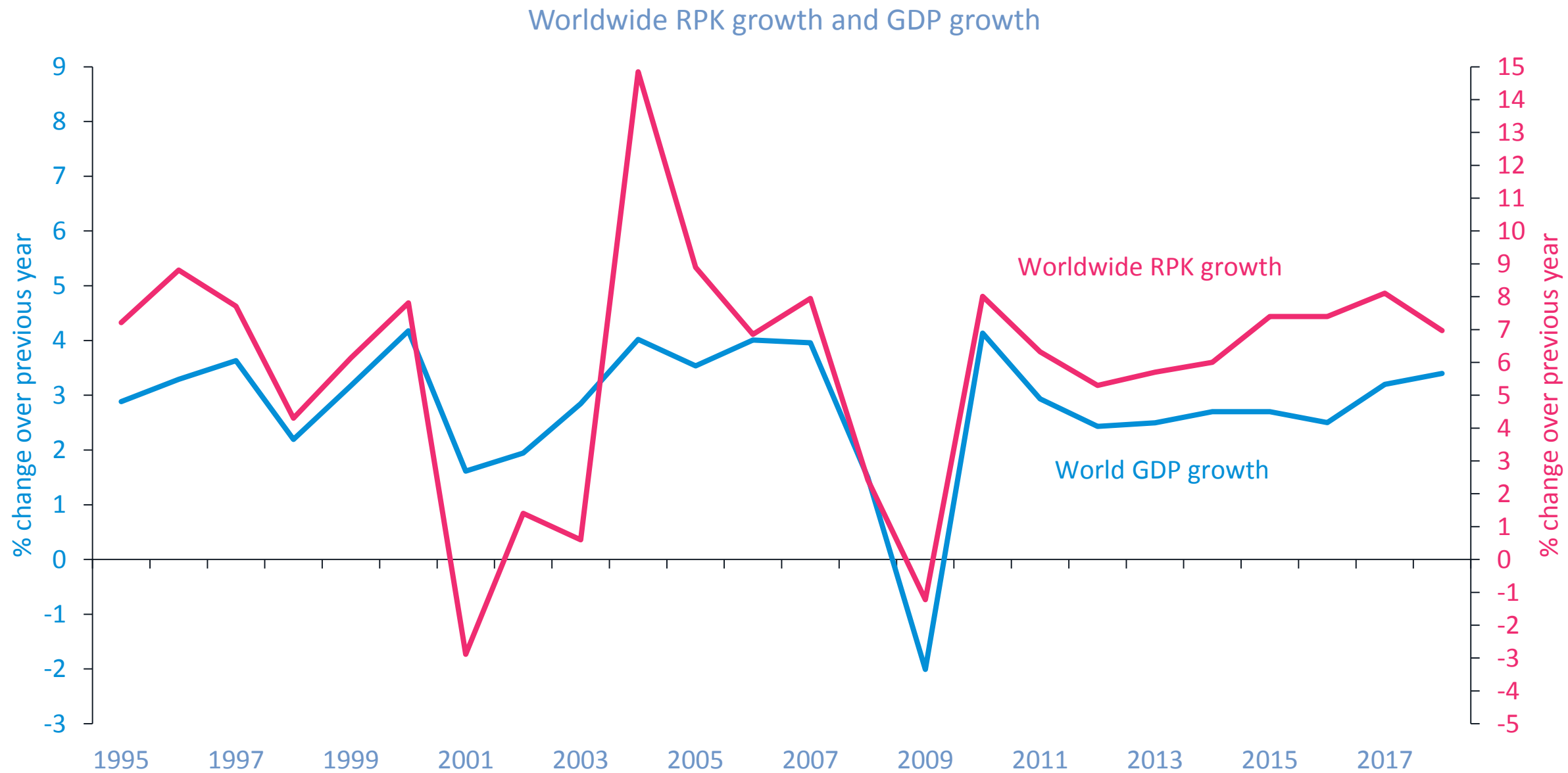
Source: IATA Economics using data from The Airline Analyst

# But cost of air transport expected to stabilize in inflation-adjusted terms



Source: IATA Economics using data from ICAO, PaxIS, CargoIS and our own forecasts

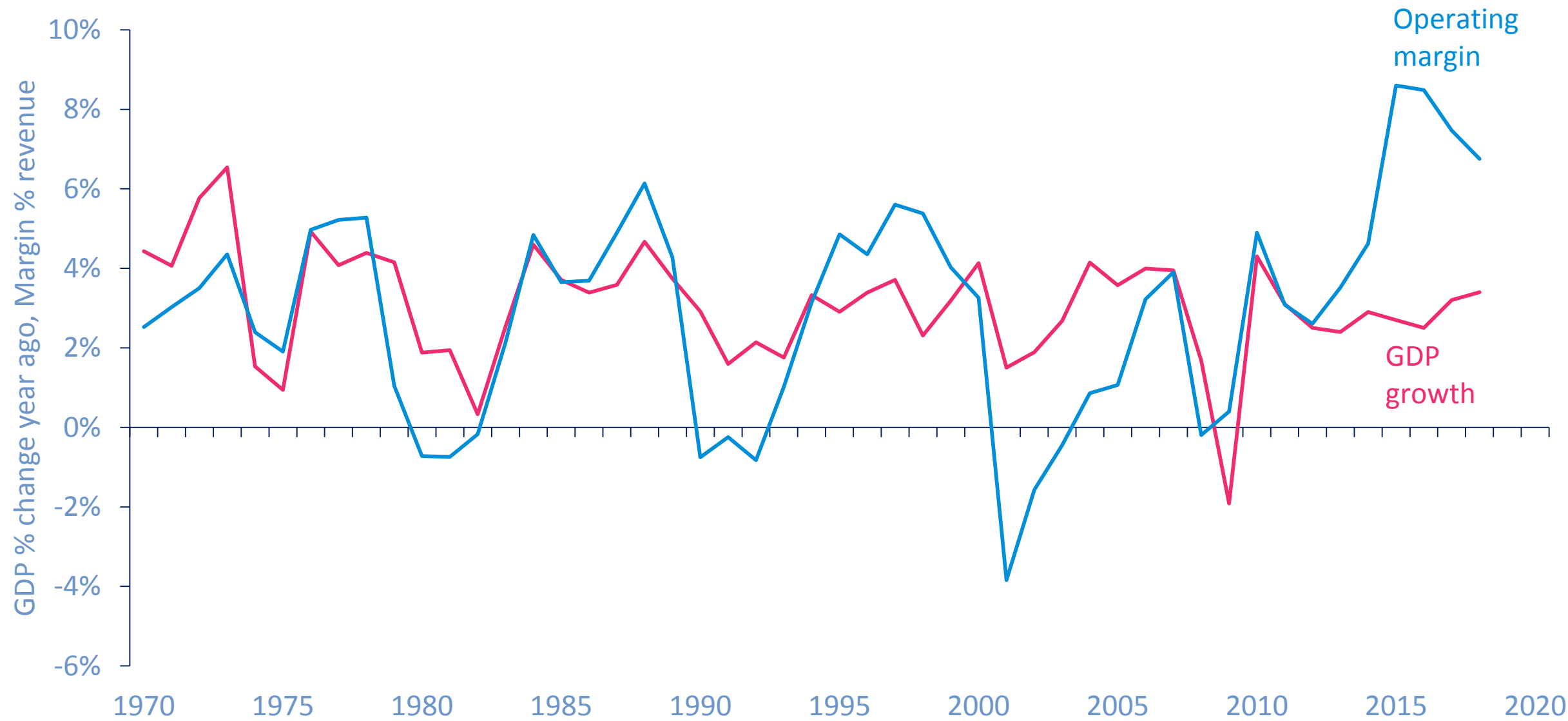
# Strong economic growth supports strong travel growth in 2018



Source: IATA Economics using data from ICAO, IATA Statistics, IMF and our own forecasts

# Airlines financial performance due to more than cycle

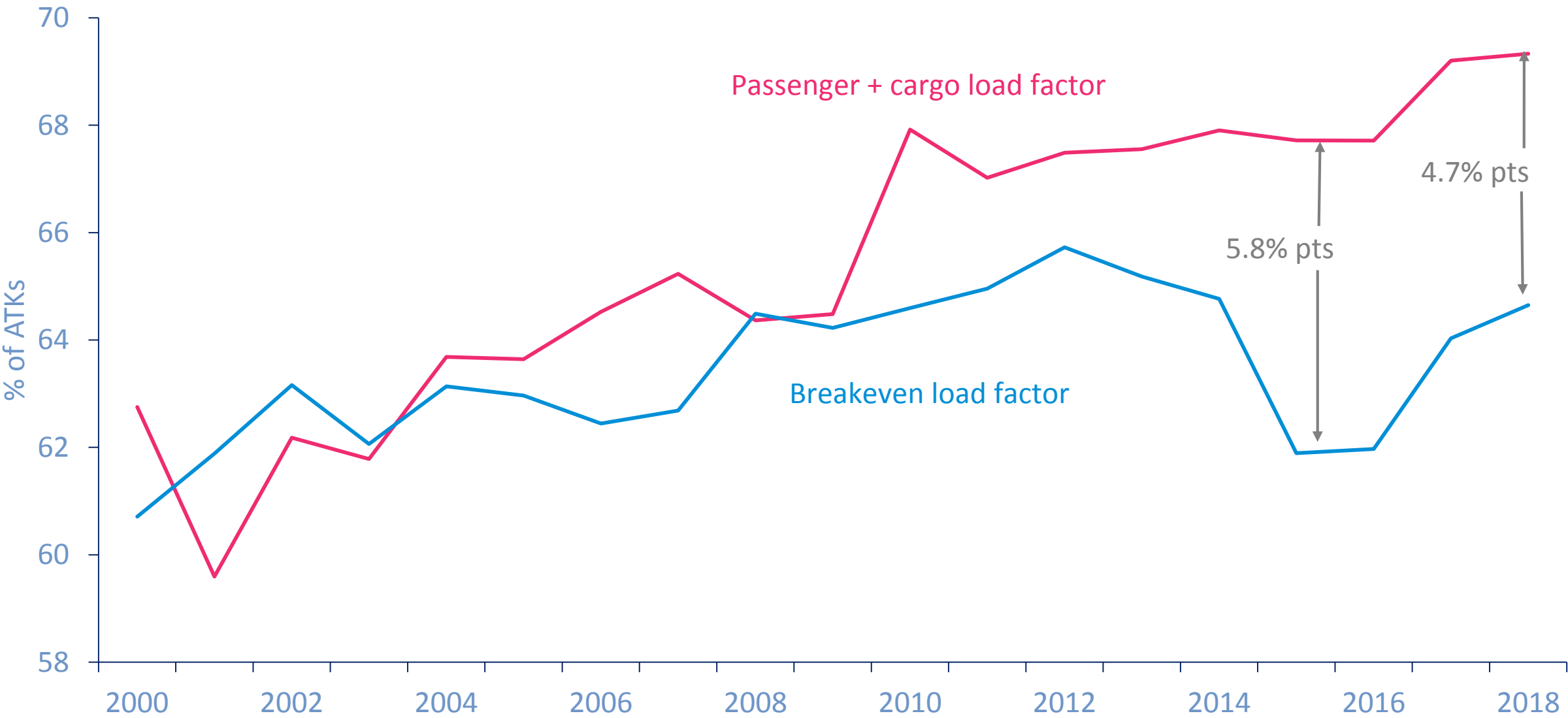
Global GDP growth and average airline operating margin



Source: IATA Economics using data from ICAO, IATA Statistics, IMF and our own forecasts

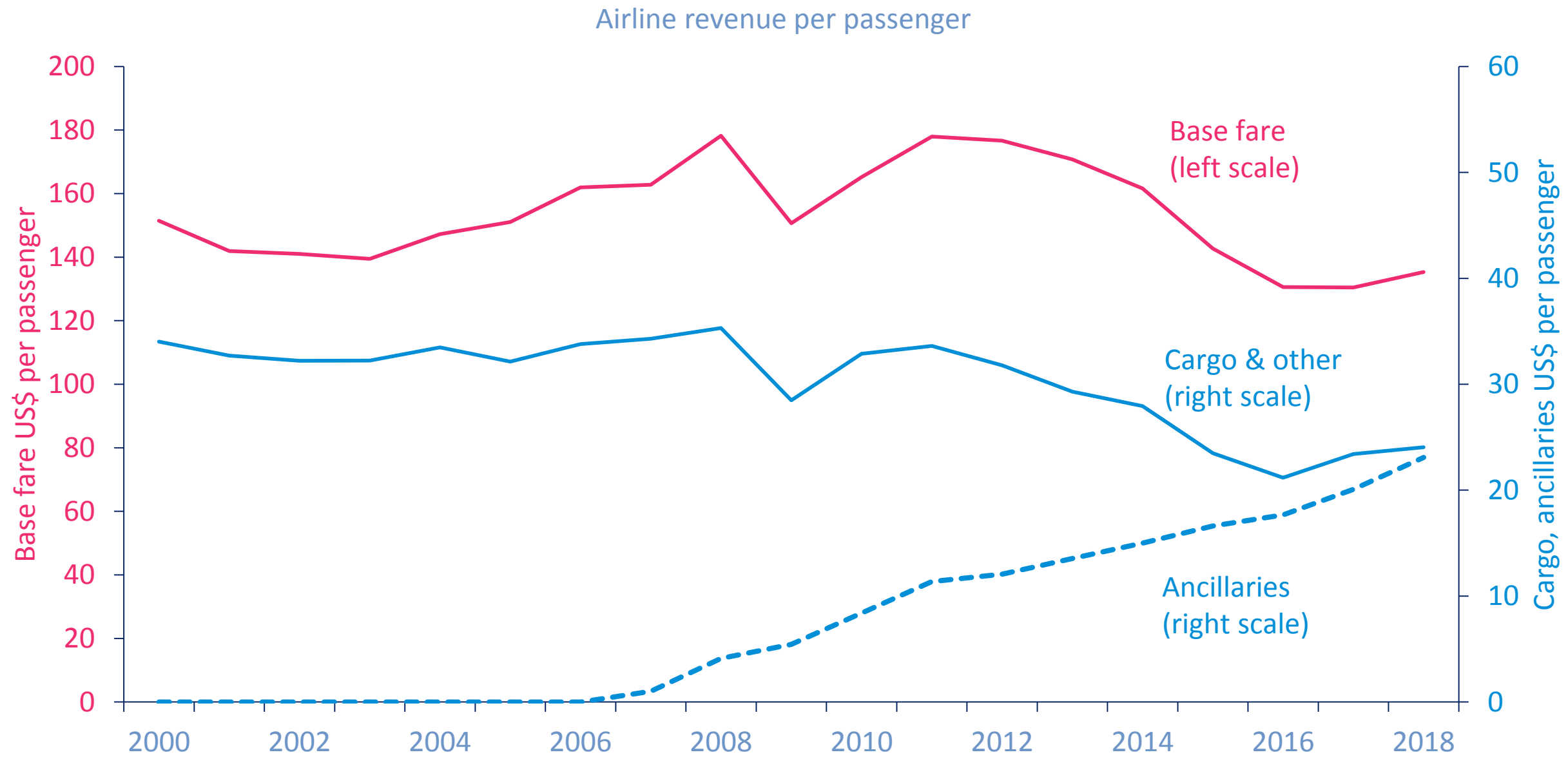
# Asset utilization has improved

Load factor (passenger + cargo) versus breakeven



Source: IATA Economics using data from ICAO, IATA Statistics and our own forecasts

# Ancillaries are partly offsetting commoditized base fares

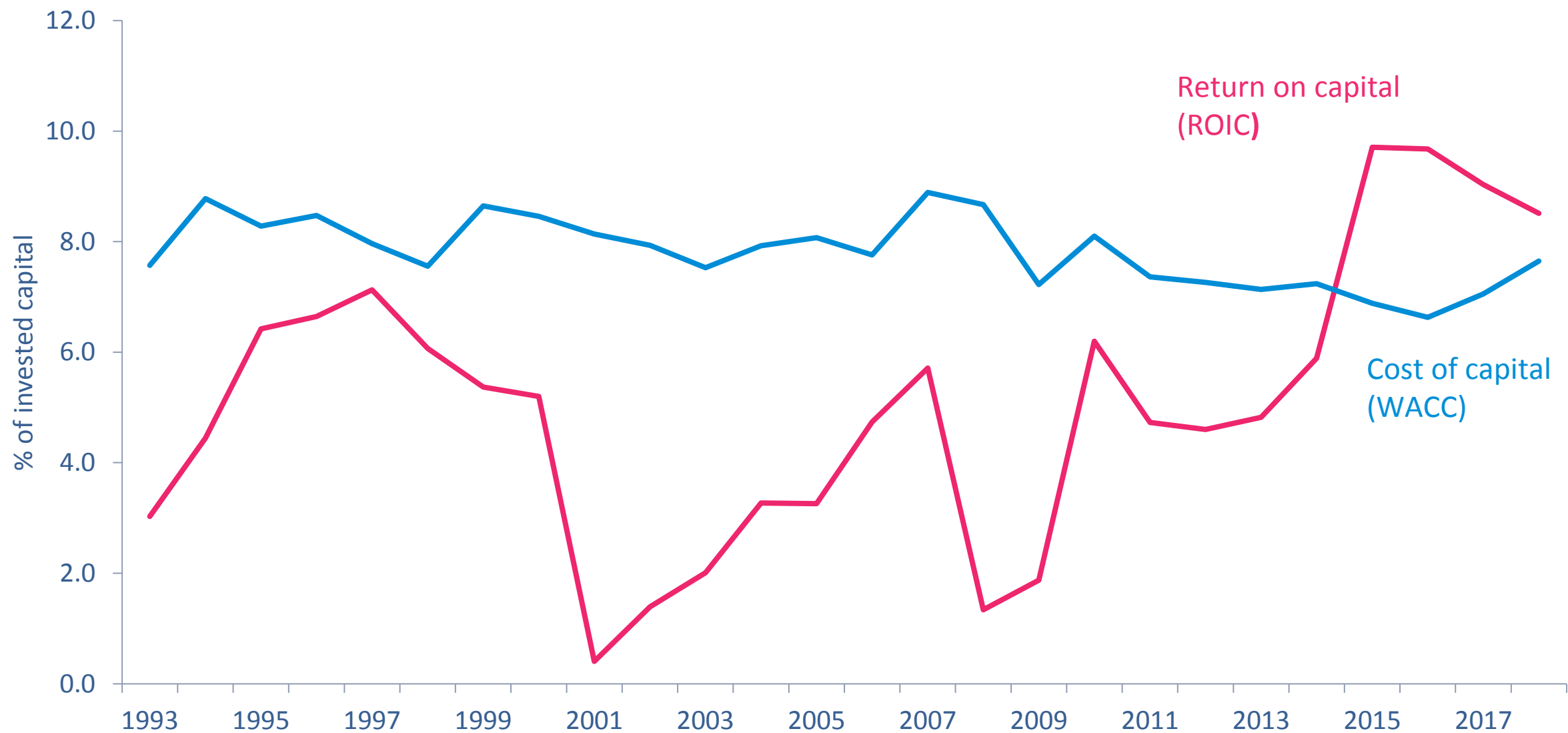


Source: IATA Economics using data from ICAO, IATA Statistics, IdeaWorks and our own forecasts



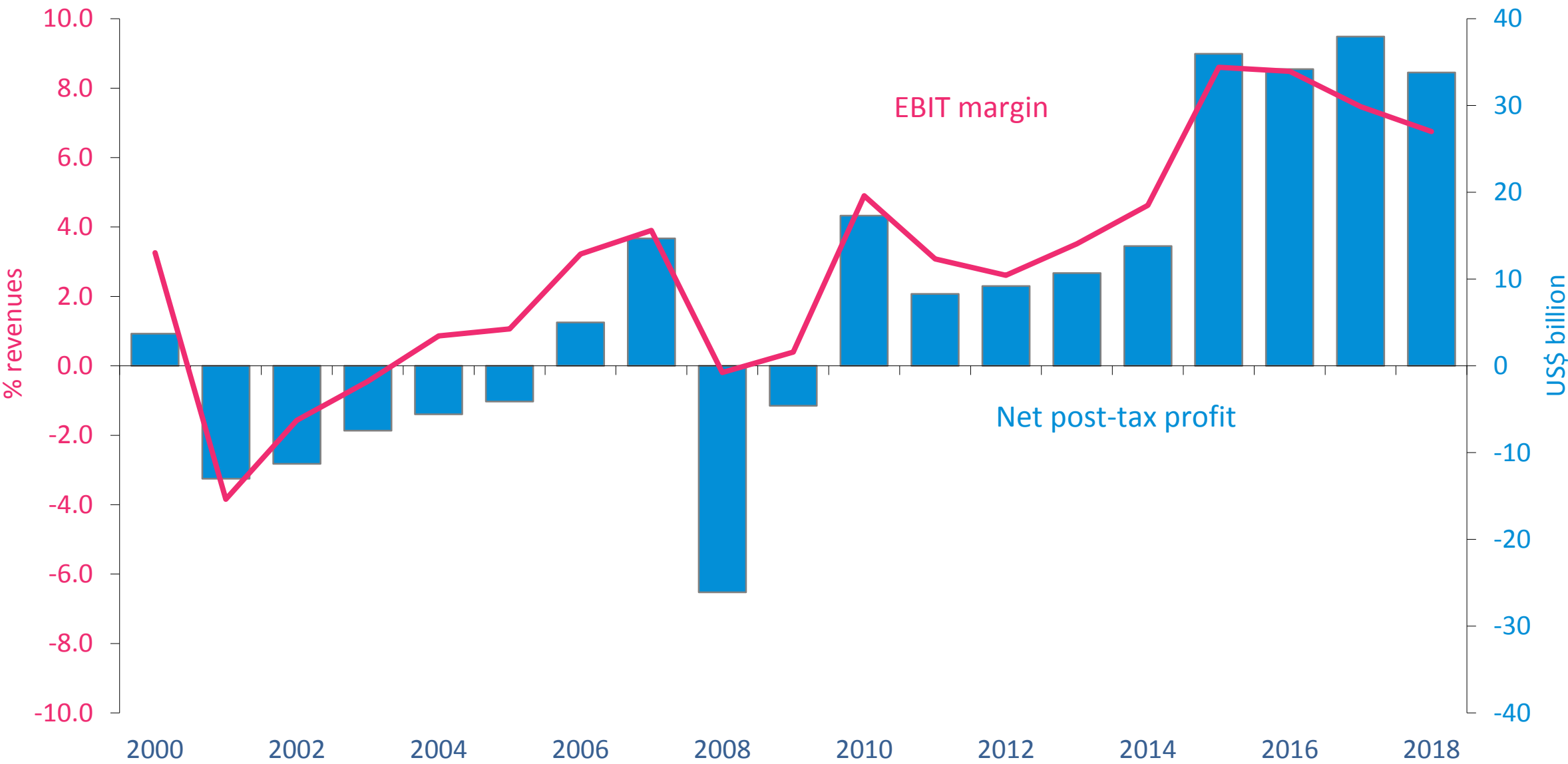
# Airlines' return on capital still creating value for 4<sup>th</sup> successive year

Return on capital invested in airlines and their cost of capital



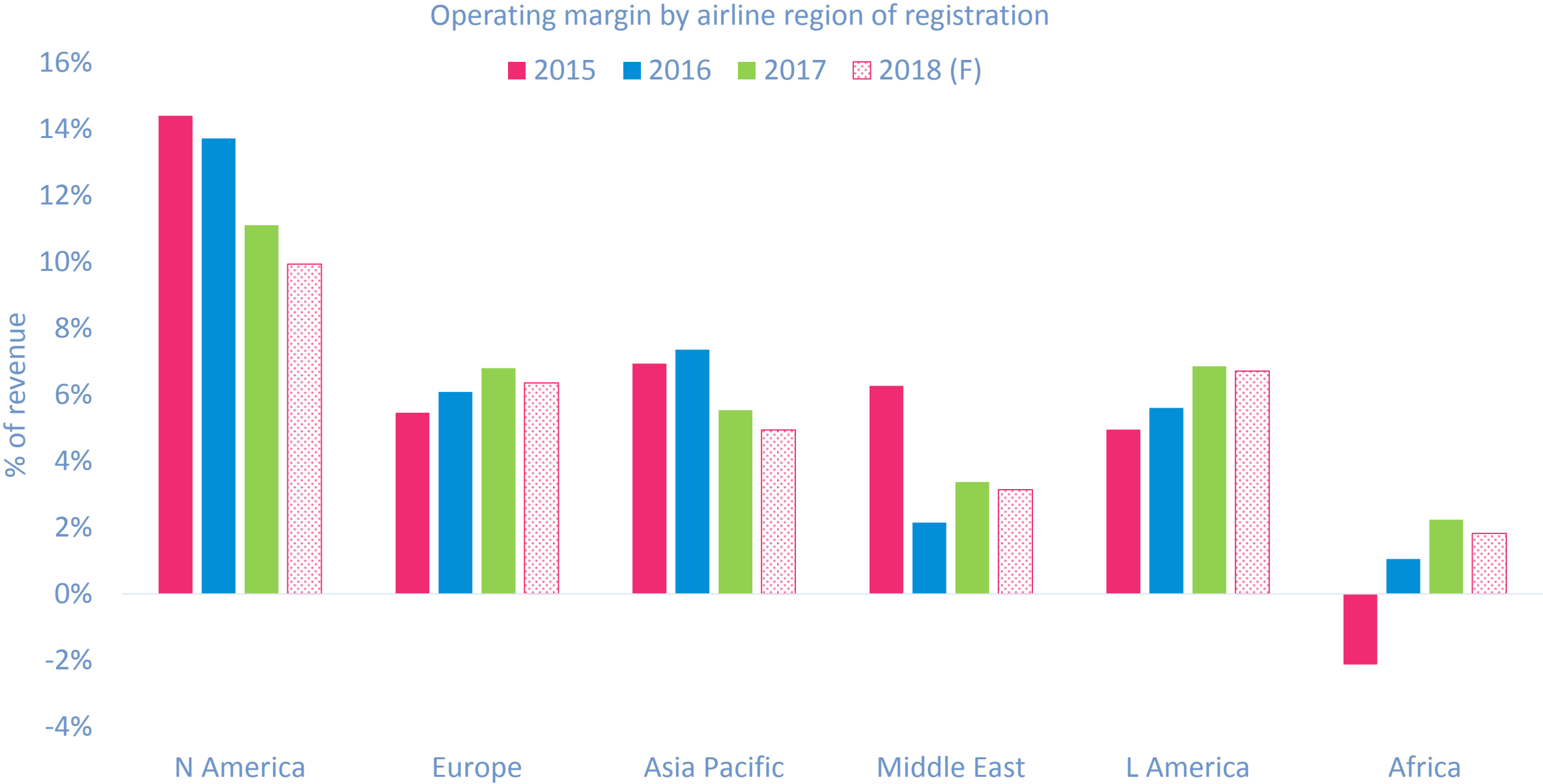
Source: IATA Economics using data from McKinsey, The Airline Analyst and our own forecasts

# Airline profitability under pressure in 2018 but still high



Source: IATA Economics using data from ICAO, IATA Statistics, The Airline Analyst and our own forecasts

# But profitability remains very uneven across regions



Source: IATA Economics using data from ICAO, The Airline Analyst, and our own forecasts