

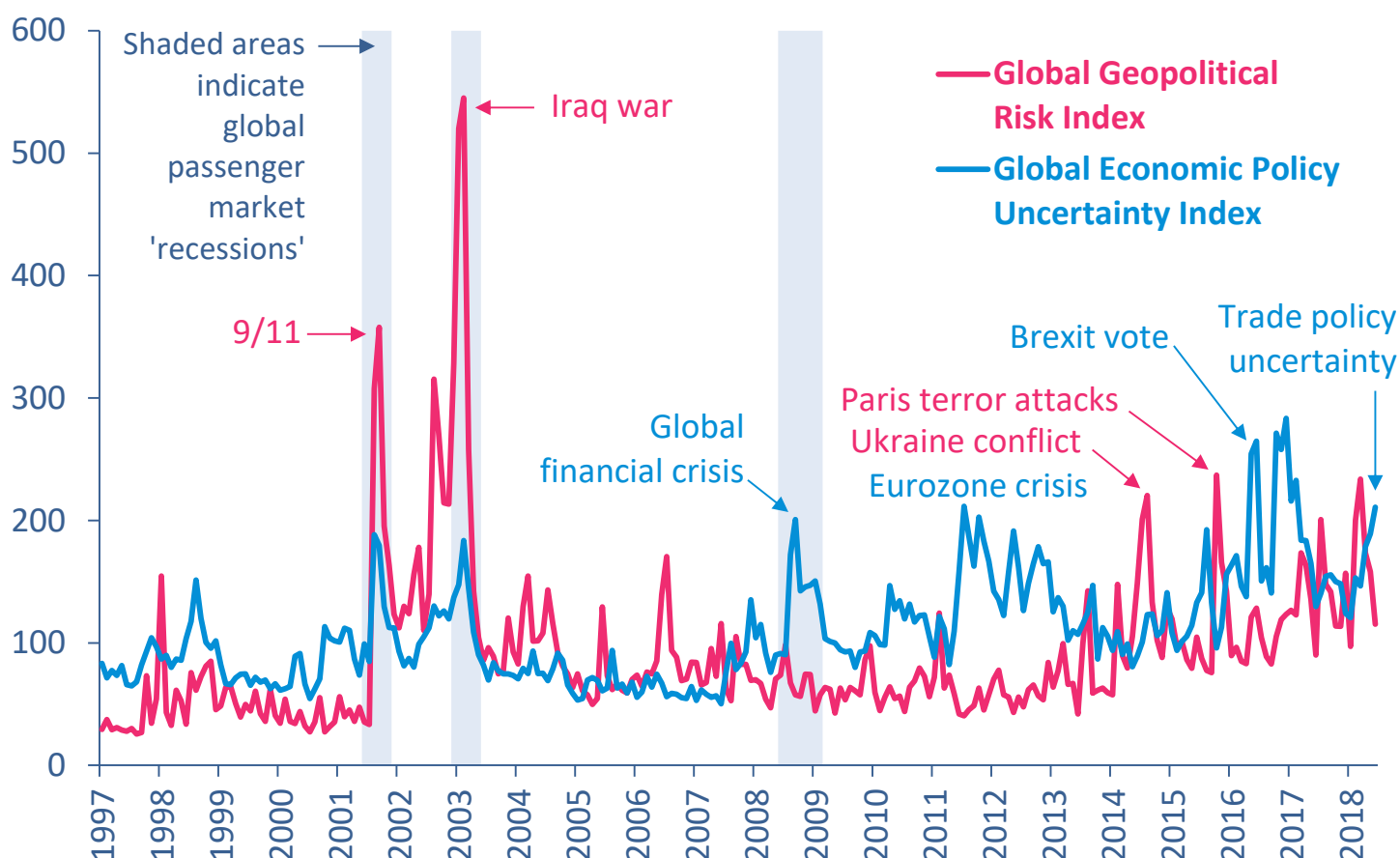


IATA ECONOMICS' CHART OF THE WEEK

10 AUGUST 2018

ECONOMIC POLICY UNCERTAINTY: A BELLWETHER FOR PAX DEMAND?

Risk indices



Sources: IATA, www.politicaluncertainty.com

- The last three major shocks to global air passenger demand – the shaded periods on today's chart, defined as two or more consecutive quarters of declining passenger volumes – have coincided with spikes in economic policy uncertainty. The passenger market 'recessions' around the time of 9/11 and the Iraq war in 2003 were also accompanied by a spike in geopolitical risk, while the shock around the time of the Global Financial Crisis (GFC) was solely an economic shock.
- Trade policy uncertainty has dominated the headlines in recent months and has been a key factor behind the recent pick-up in the global economic policy uncertainty index. The series recently reached its highest level in 16 months and is now above the level reached in the GFC. Clearly, the prospect of a global trade war is a key risk to the outlook. (Recall that the potential implications of a global trade war on aviation were the subject of a recent research note - [link](#).)
- The pick-up in economic uncertainty does not necessarily mean that a downturn in passenger demand is imminent. Indeed, the economic uncertainty index is still some way below the recent peaks of 2016 and 2017, during which passenger demand remained relatively robust. Nevertheless, against a backdrop of rising costs and an upward trend in geopolitical risk, economic uncertainty is another measure that we will be monitoring closely for indications of any shift in the fortunes of global air passenger demand.

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