



Global economy and aviation – do we have room to grow?

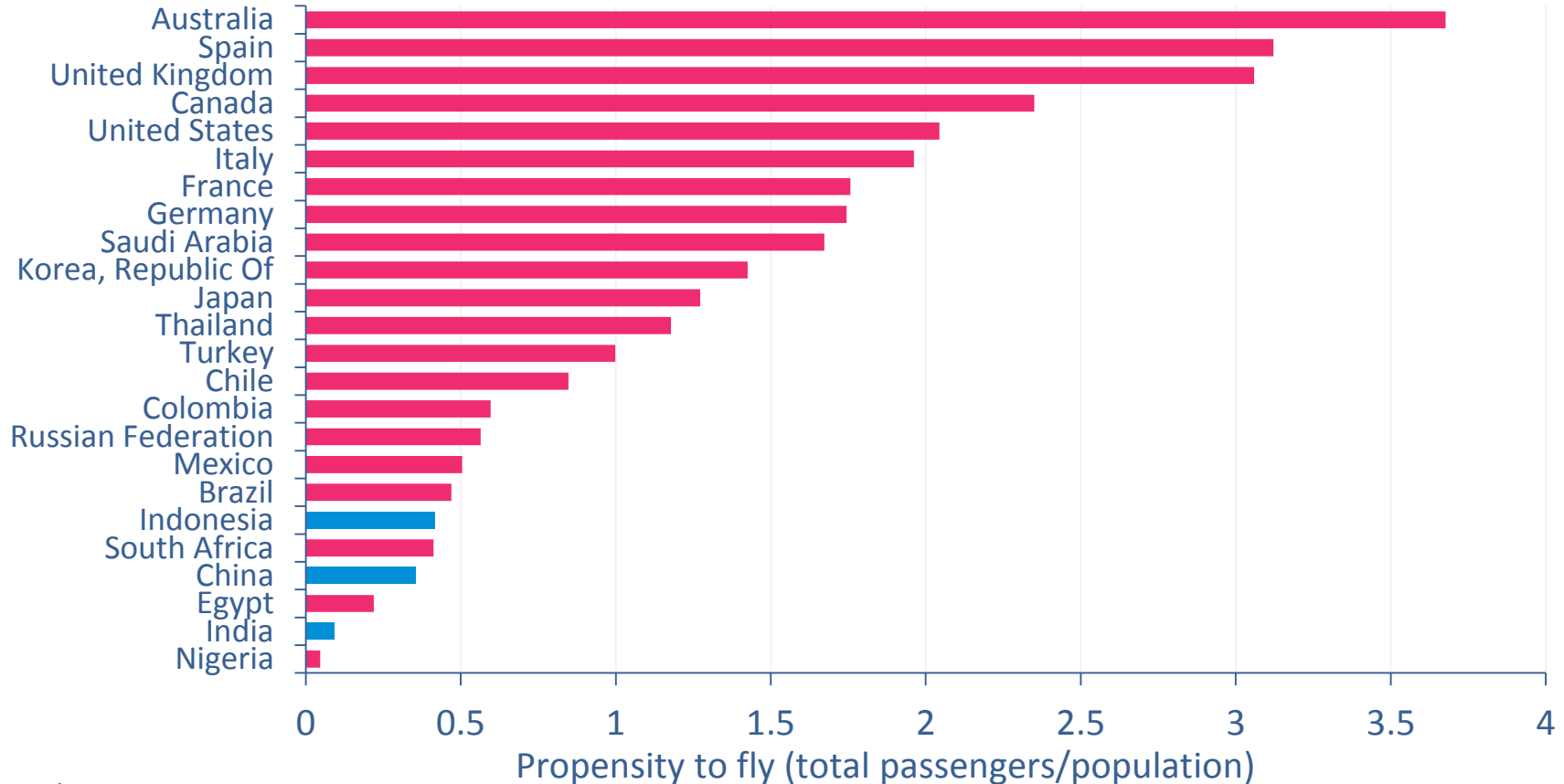
18 January 2017

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Chief Economist, IATA

Room to grow?

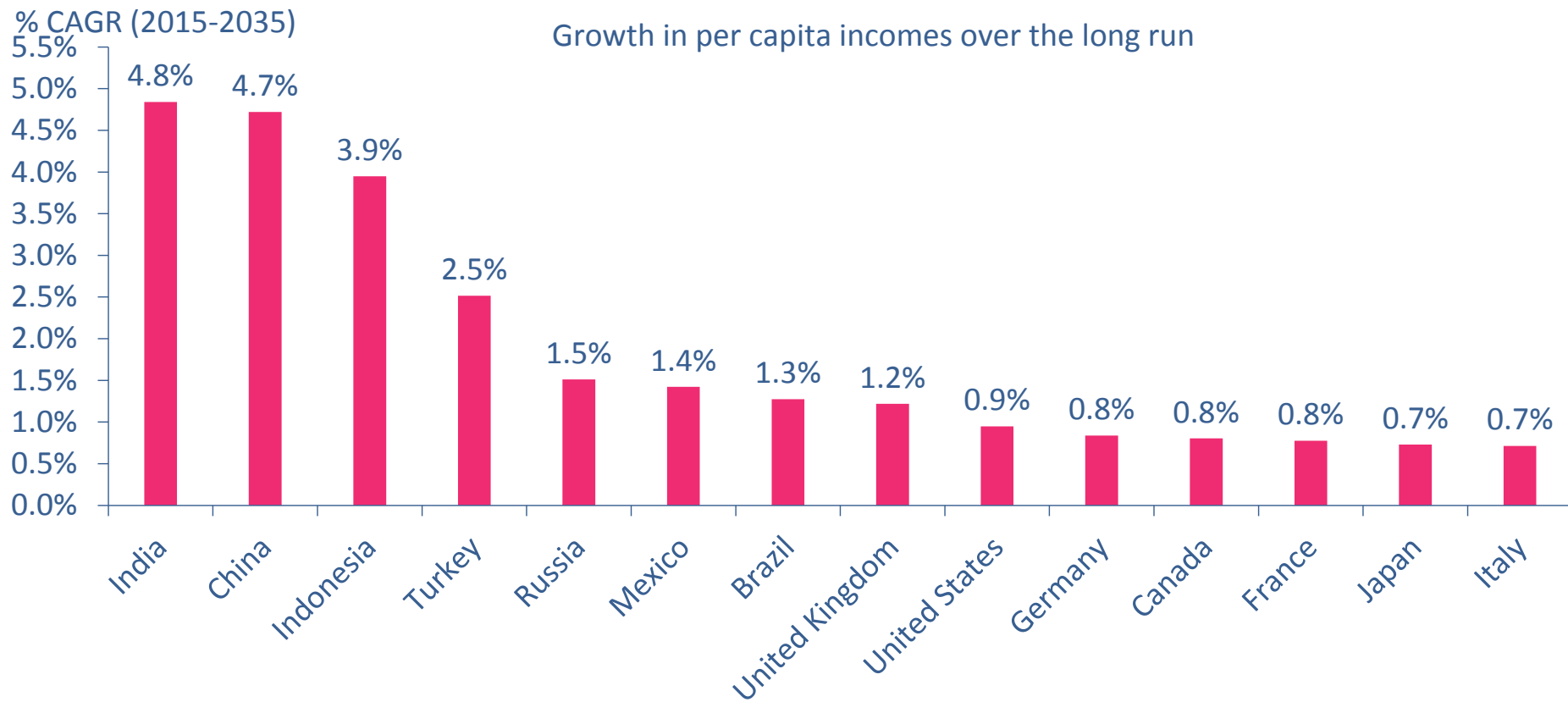
- Looking through the cycle
- Potential constraints
- The cycle

Trip frequency still low in many important markets

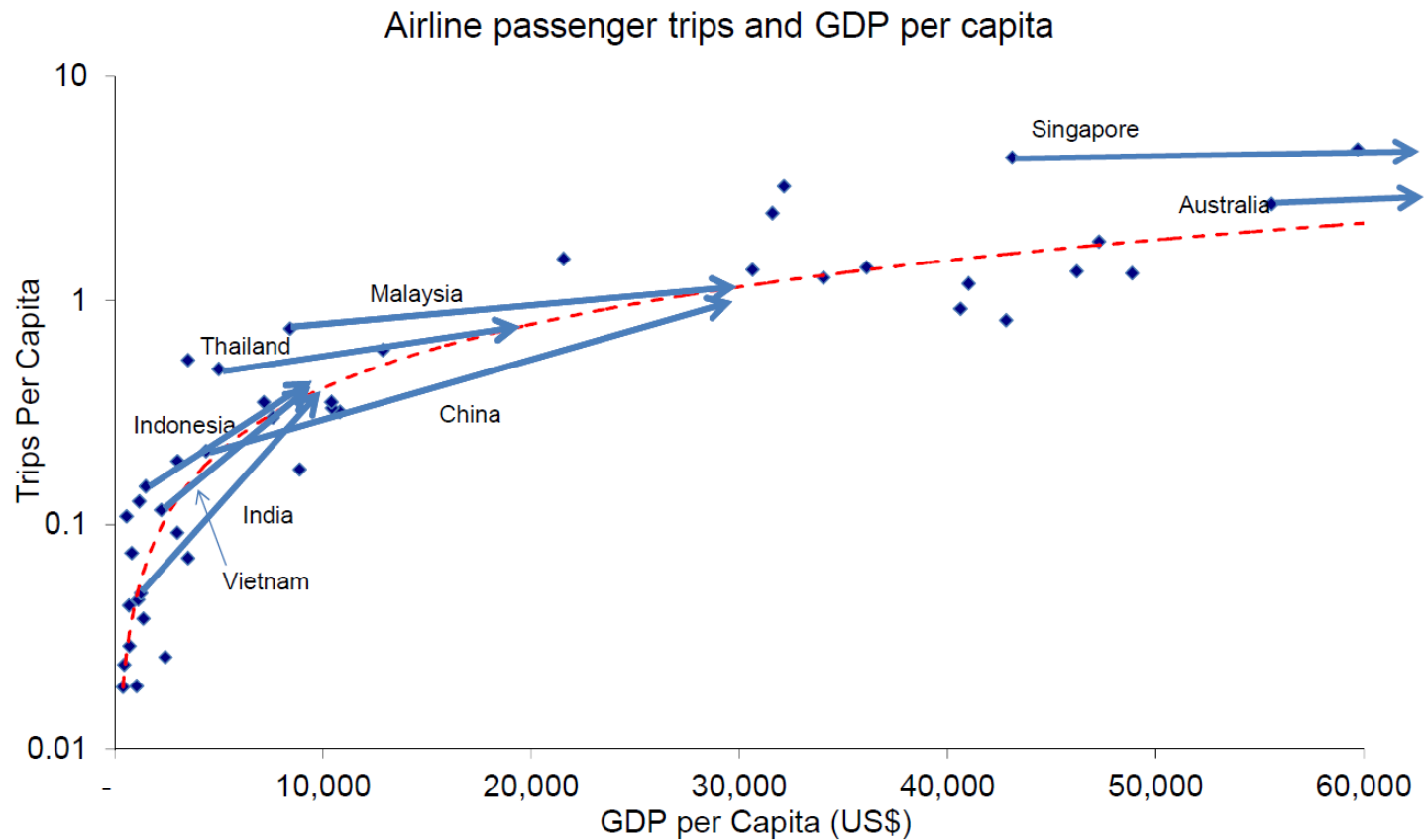


Source: IATA/Tourism Economics Air Passenger Forecasts, September 2016

Living standards still have much room for catch-up

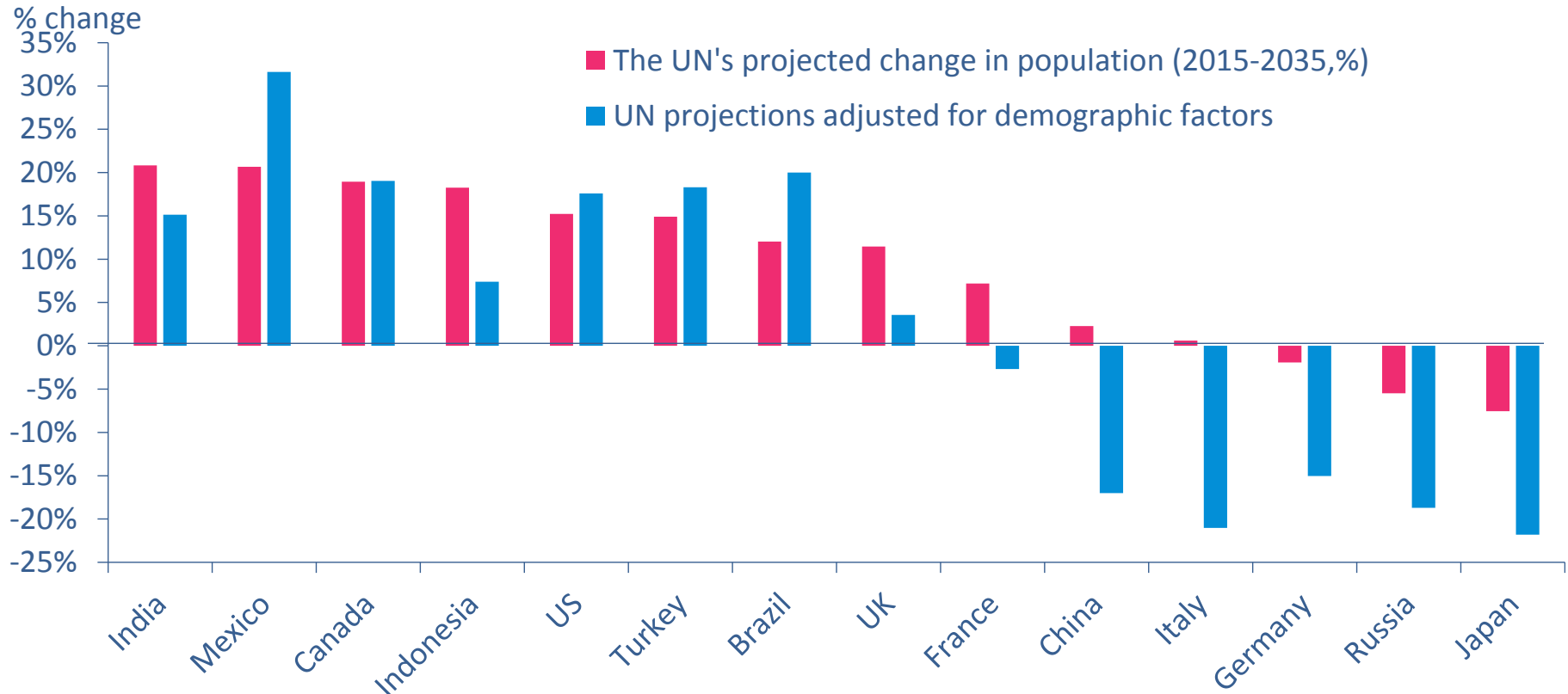


Multiplier effect of development on some key travel markets



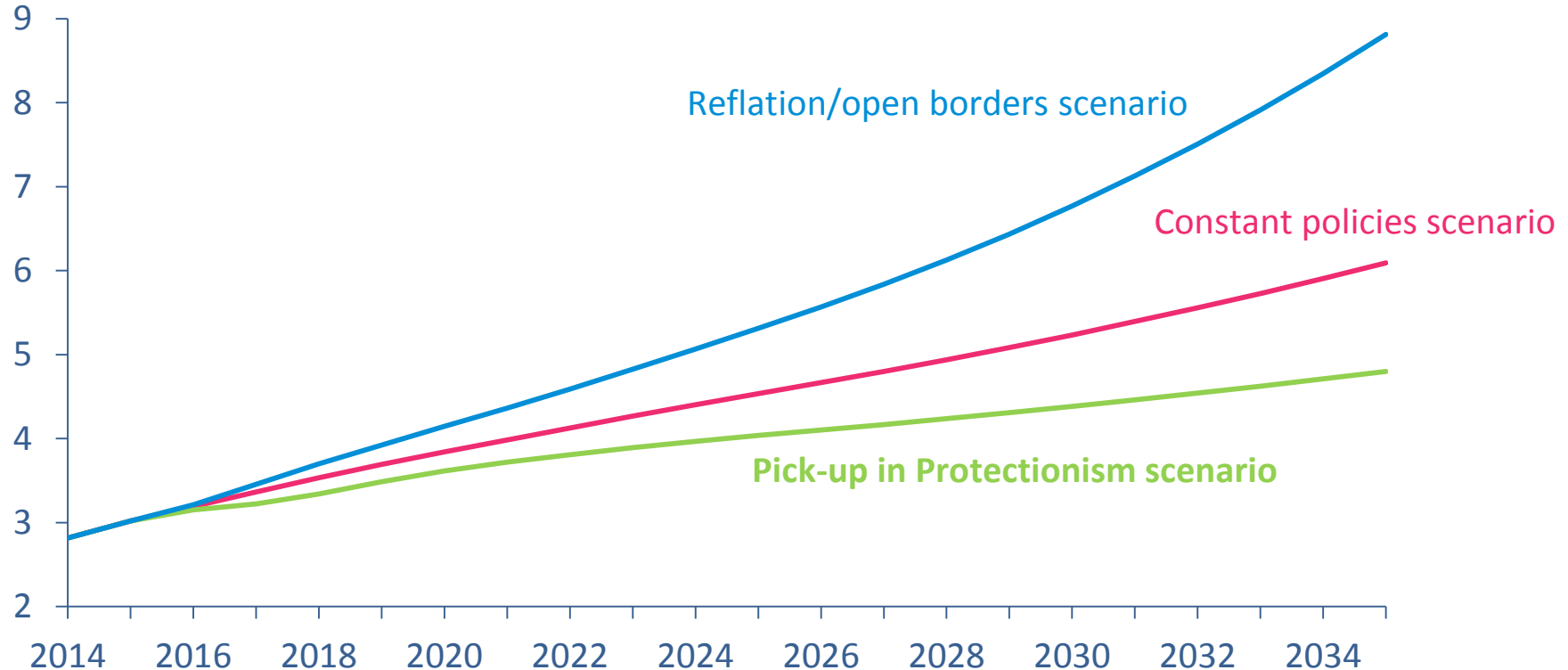
Source: IATA/Tourism Economics Air Passenger Forecasts, September 2016

Demographics strong in some key markets, adverse in others



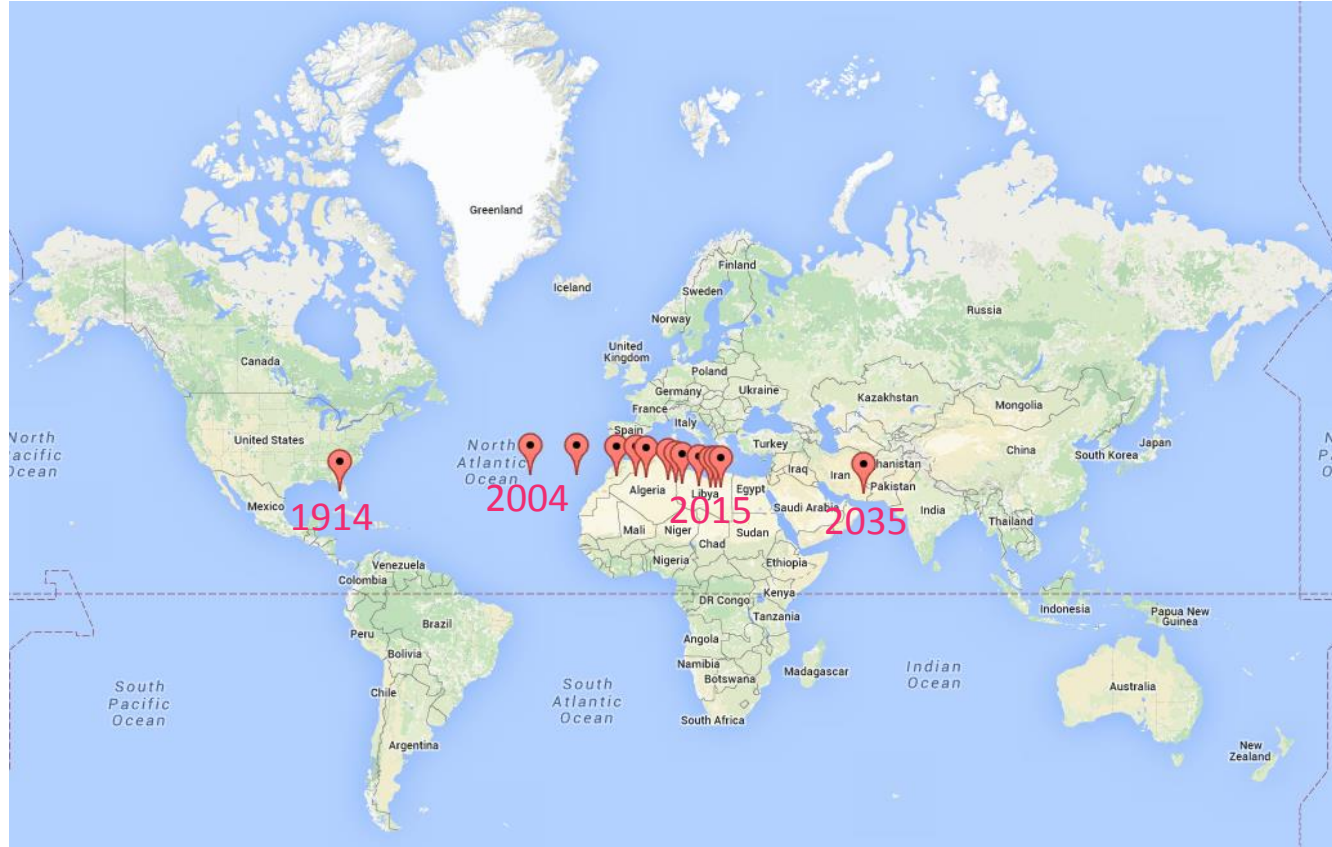
Long-term travel growth even in gloomy macro scenario

Global O-D passenger journeys (billion)



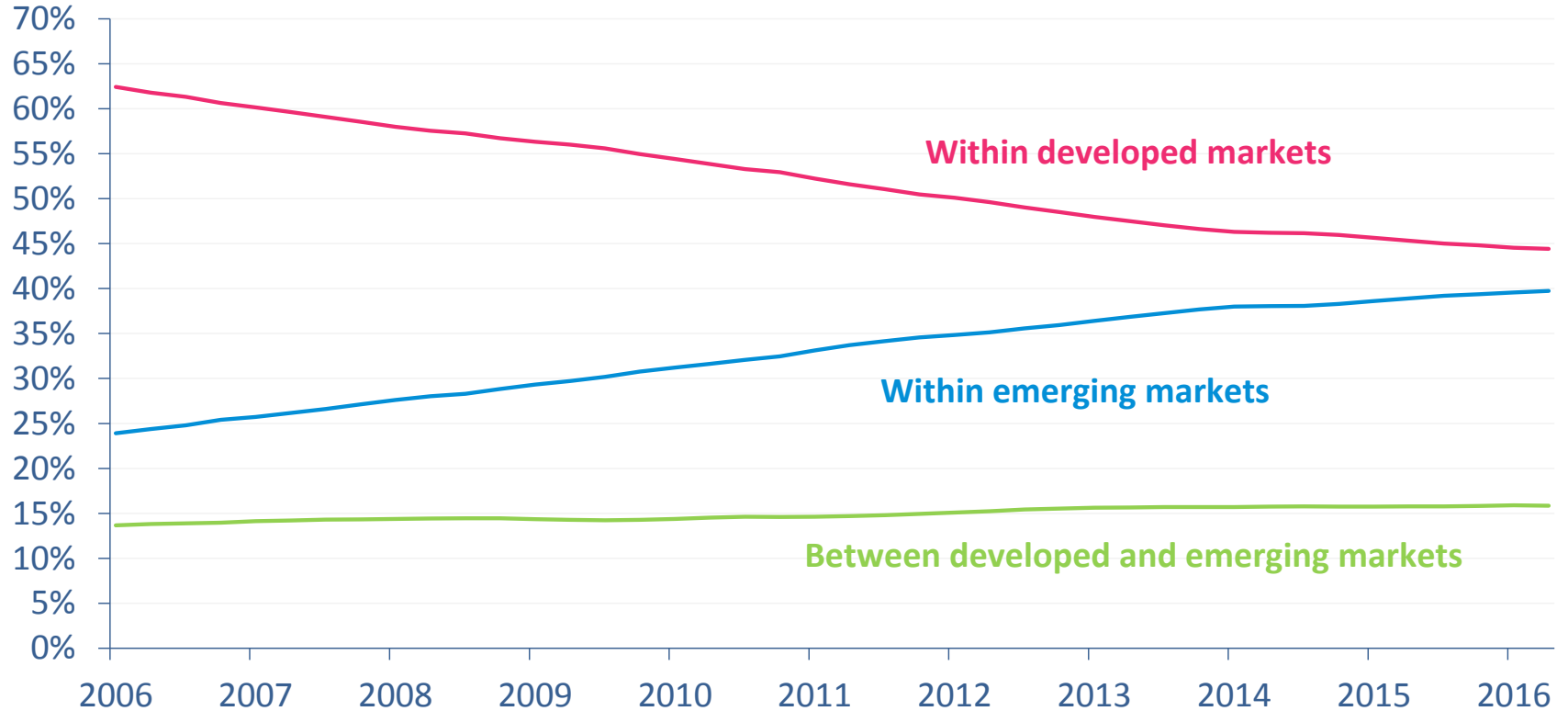
Source: IATA/Tourism Economics Air Passenger Forecasts, September 2016

Centre of gravity for aviation moving rapidly East

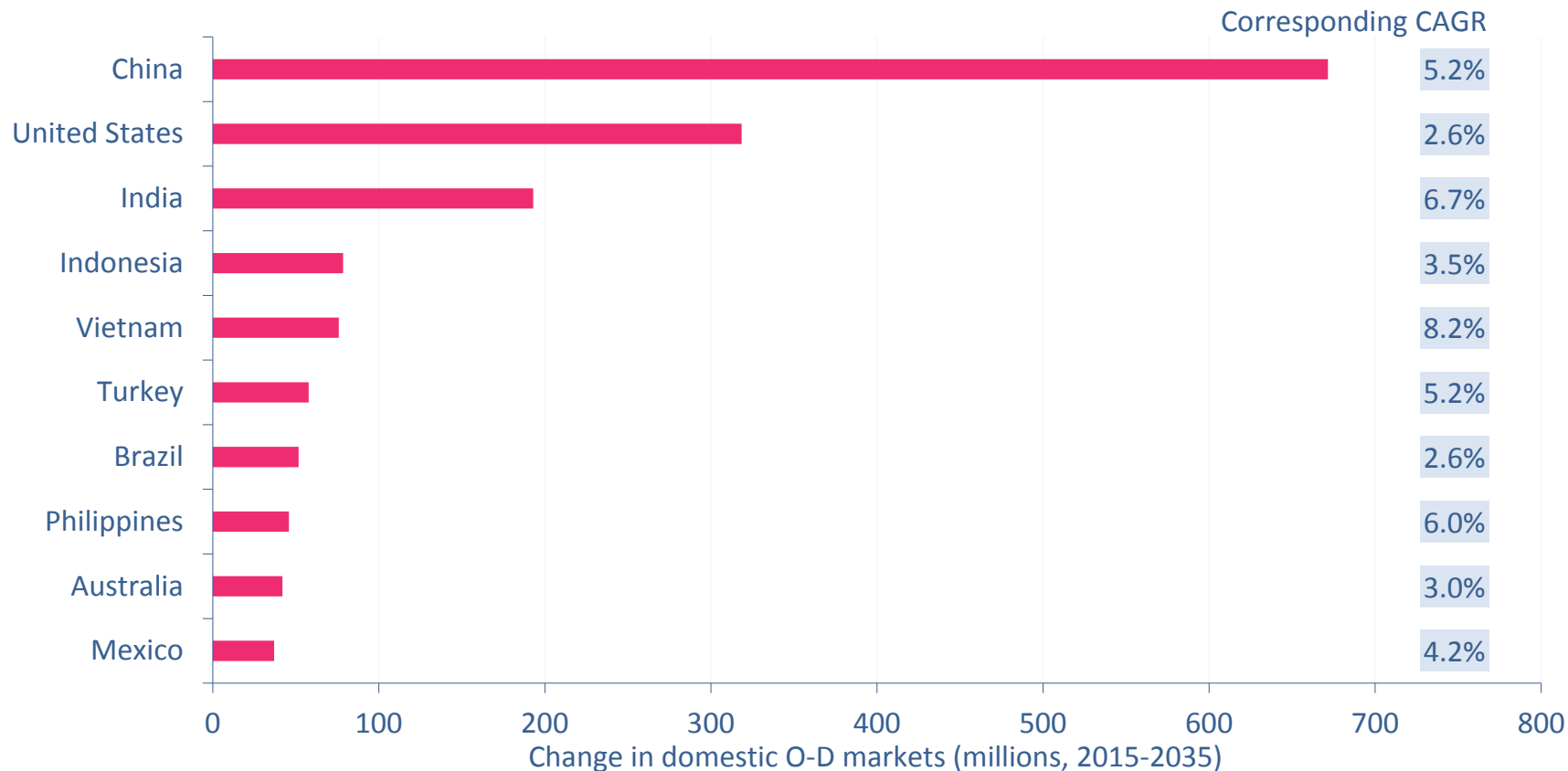


Biggest growth is in EM-EM travel

% of total O-D journeys (12m rolling sum)

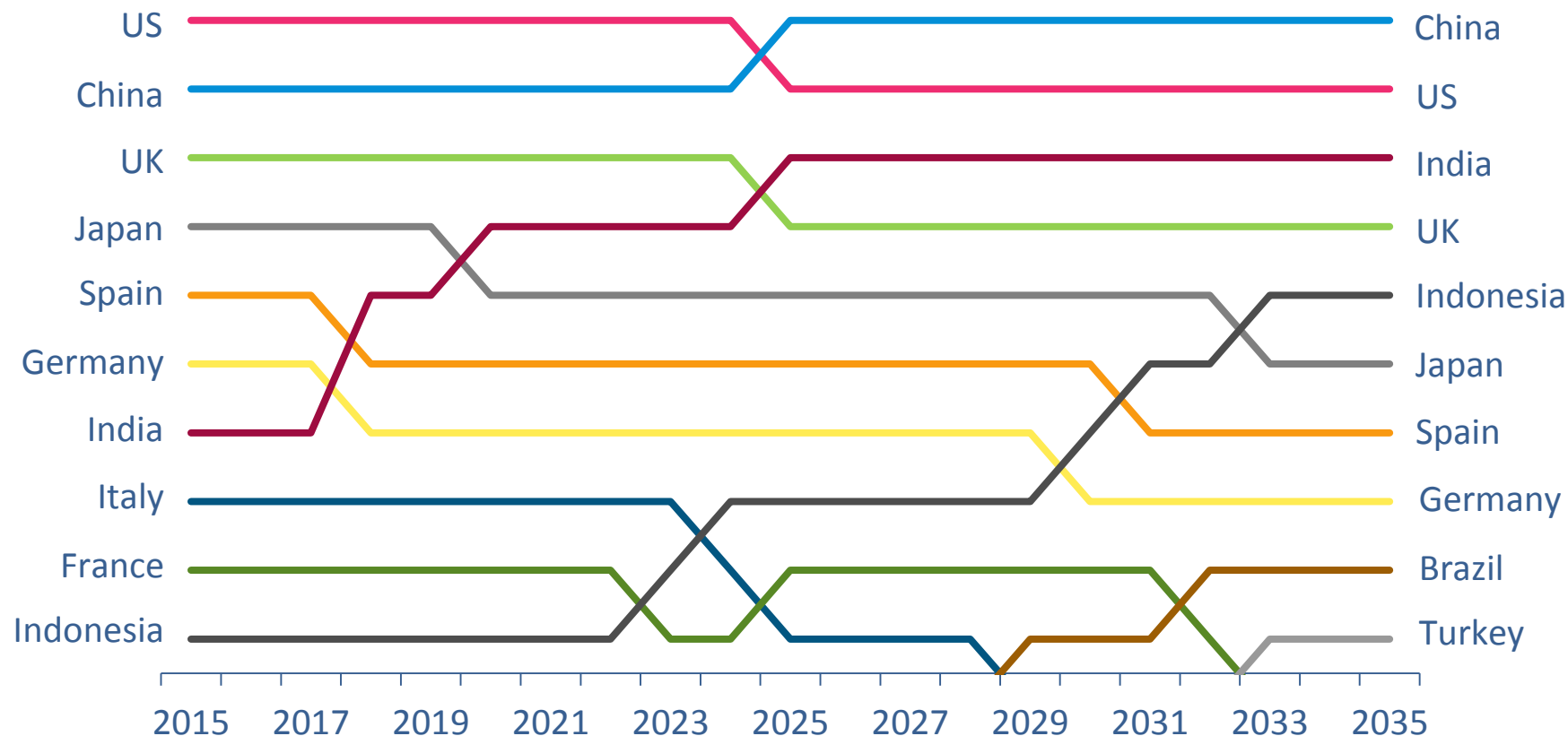


China largest increment, but don't dismiss the US



Source: IATA/Tourism Economics Air Passenger Forecasts, September 2016

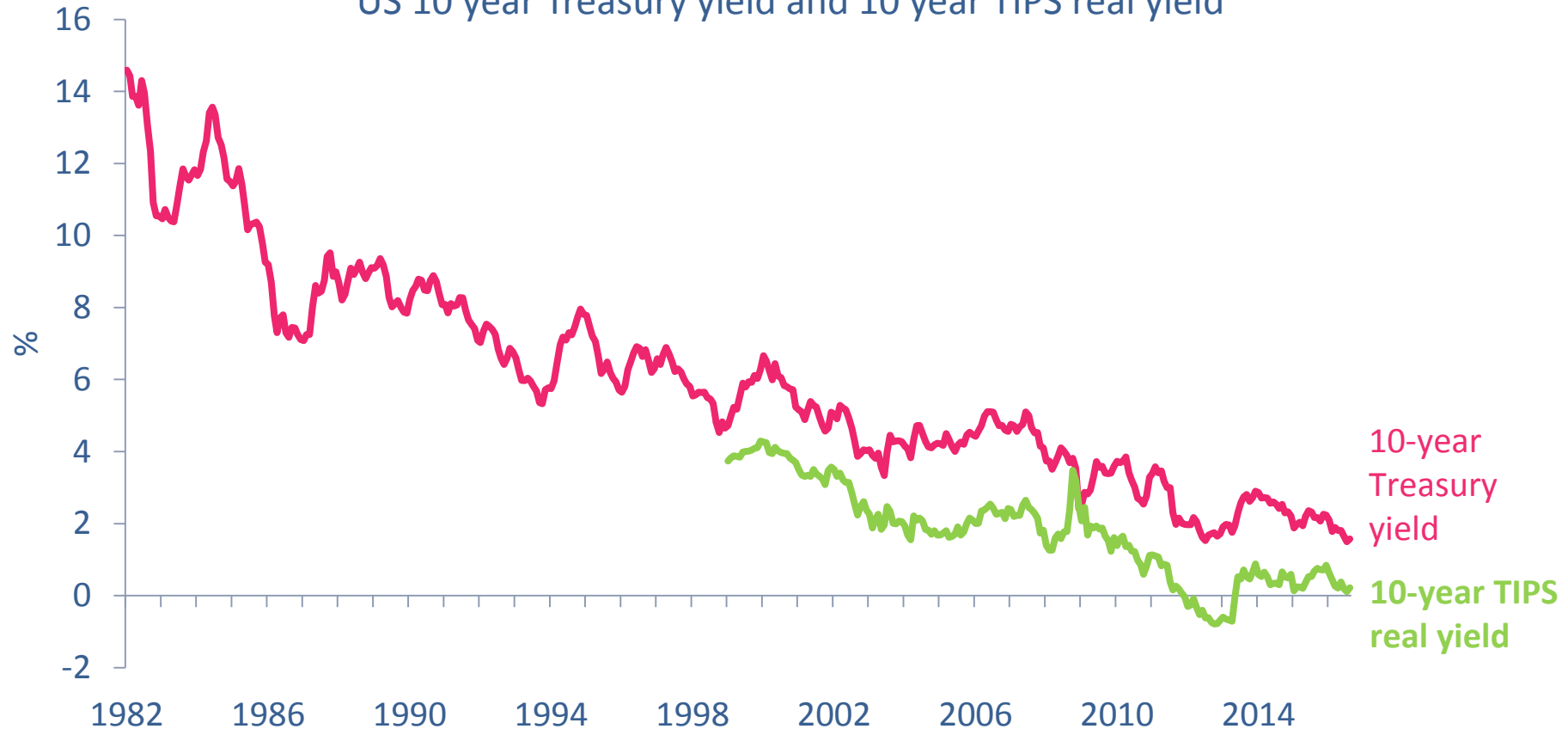
Significant change in top-10 in air travel over next 20 years



Source: IATA/Tourism Economics Air Passenger Forecasts, September 2016

Surely infrastructure will not be a long-run constraint

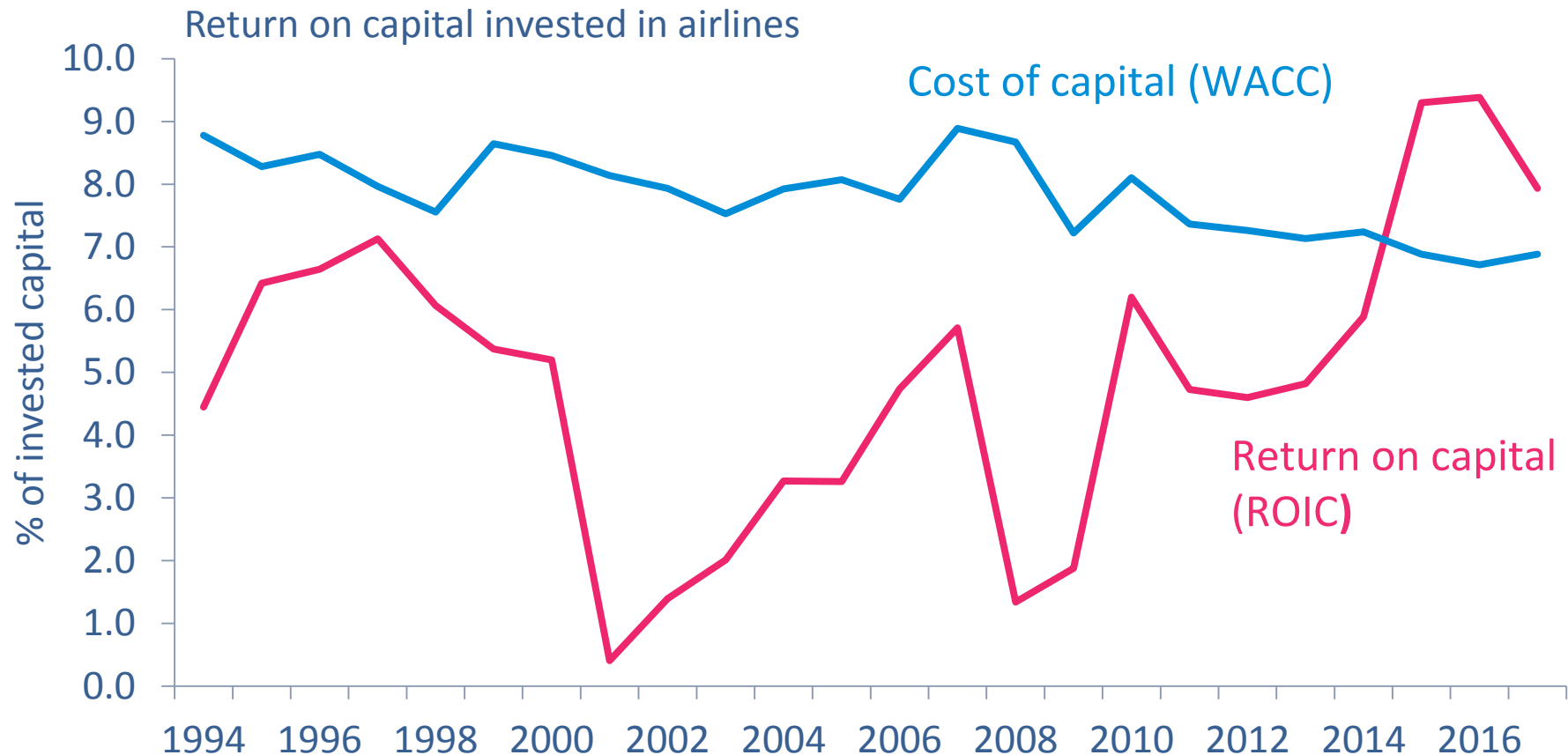
US 10 year Treasury yield and 10 year TIPS real yield



Climate change policy more of a potential constraint

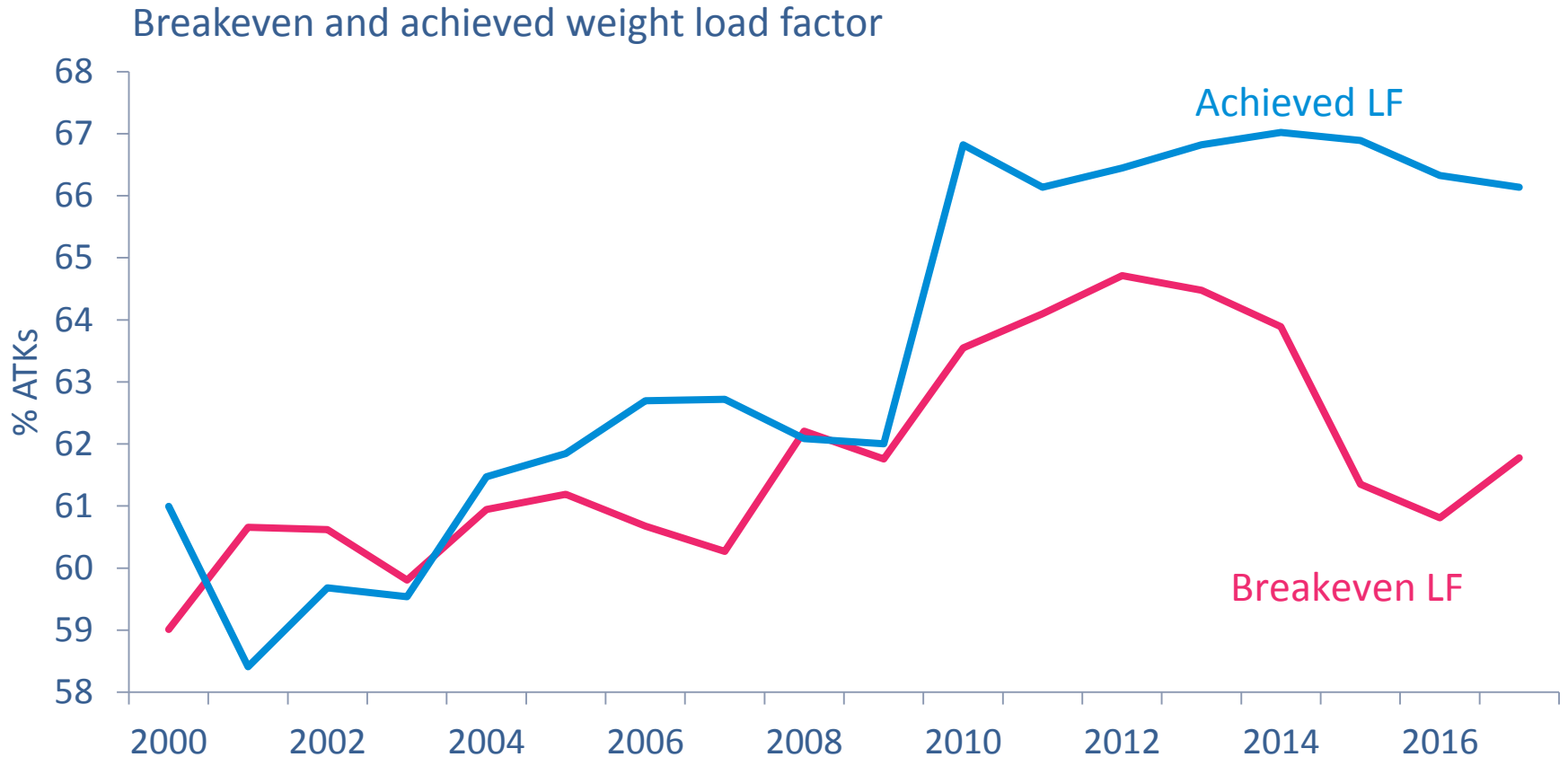
- ICAO agreement for cap on 'net' CO₂ is good progress
- Longer-term low carbon fuels need to succeed

Airlines financial health less of a constraint



Source: IATA Economic Performance of the Airline Industry – end year 2016 report

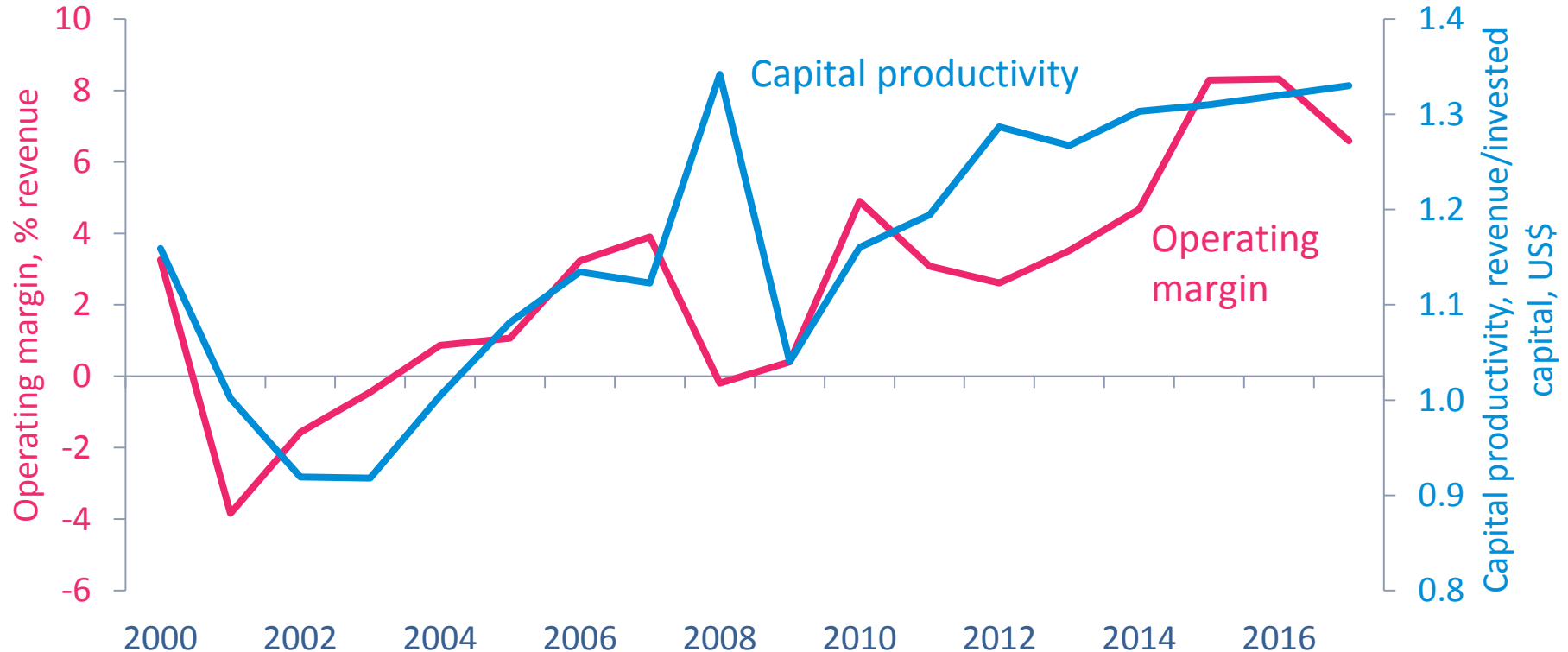
Structural change in approach to asset utilization



Source: IATA Economic Performance of the Airline Industry – end year 2016 report

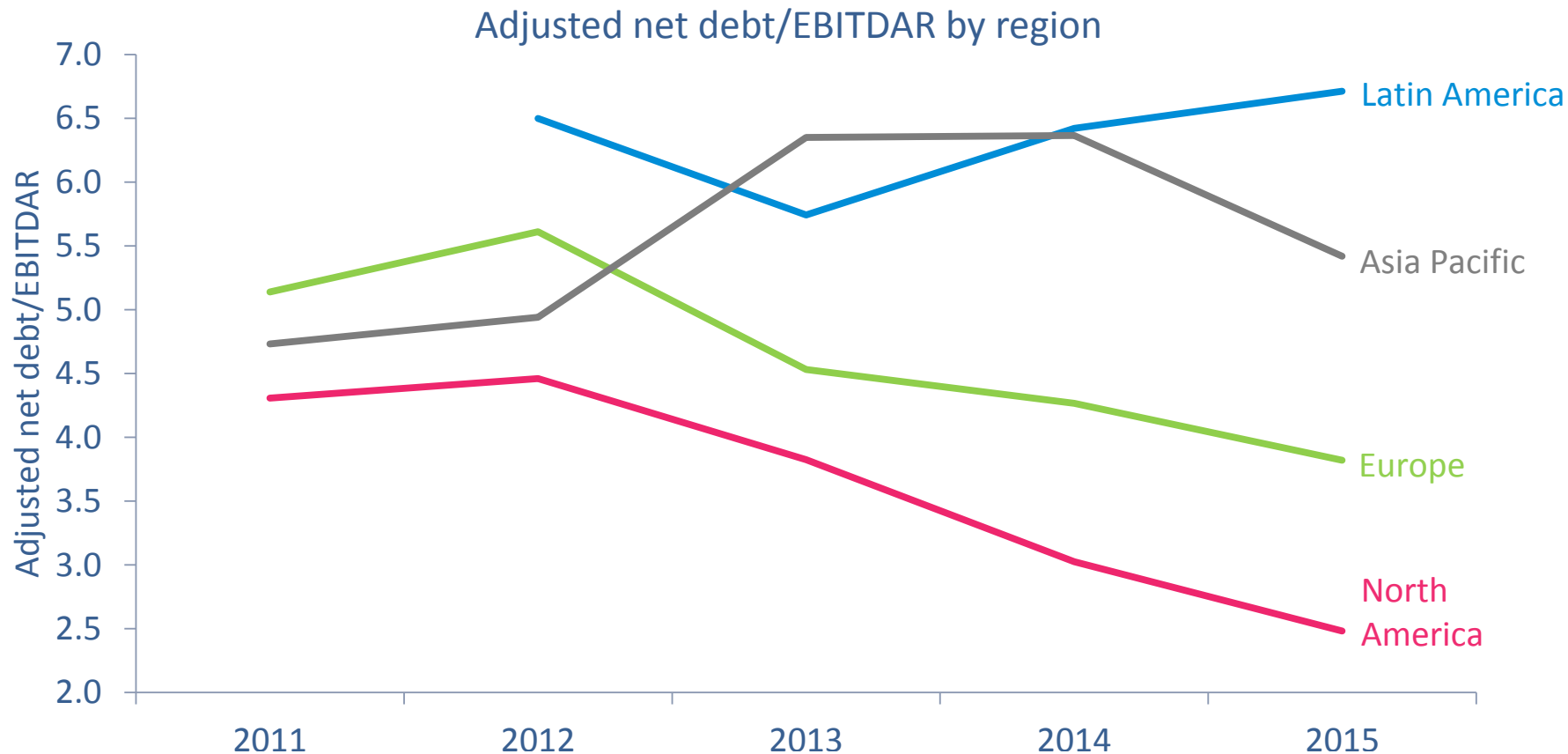
Solid improvement in capital productivity

Airlines' operating or EBIT margin and capital productivity



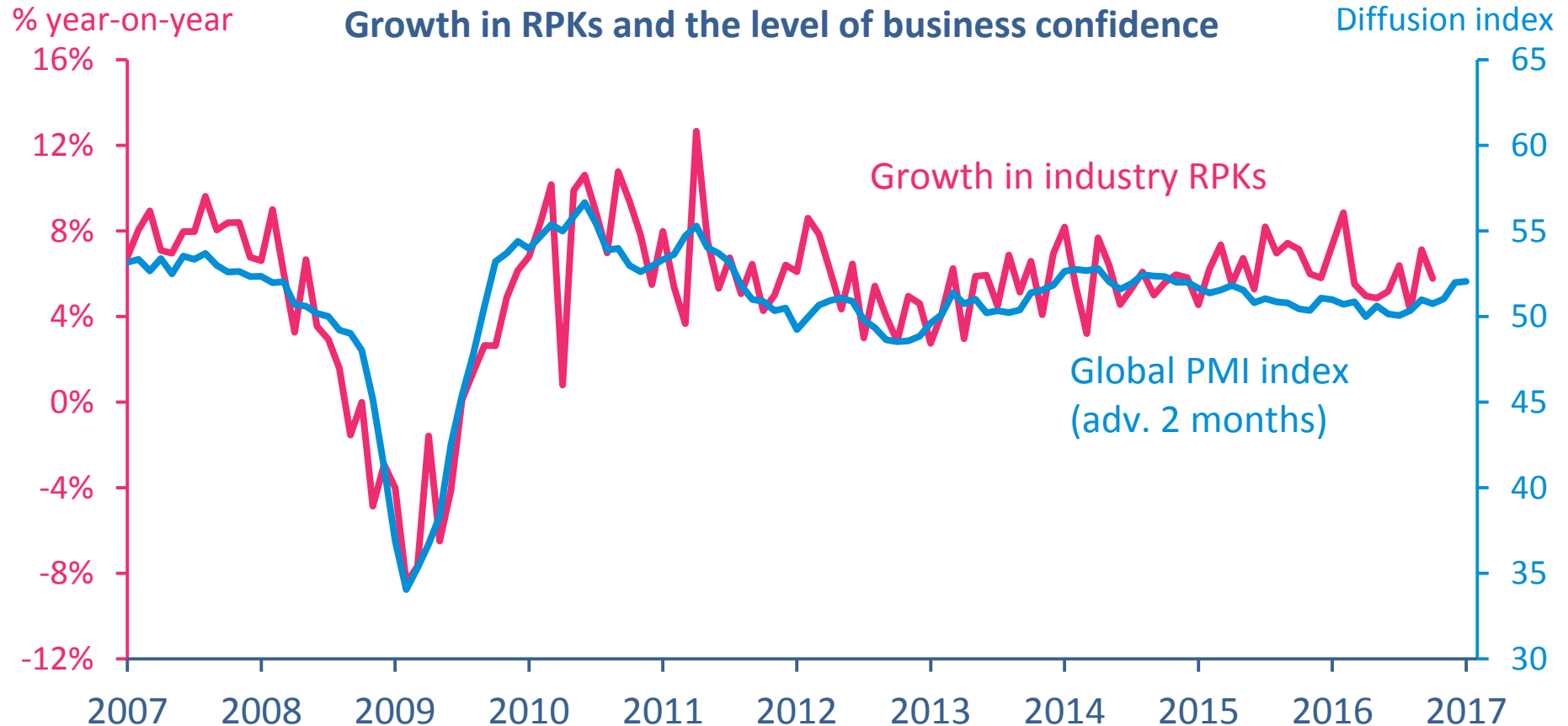
Source: IATA Economic Performance of the Airline Industry – end year 2016 report

Still a wide spread of performance by region



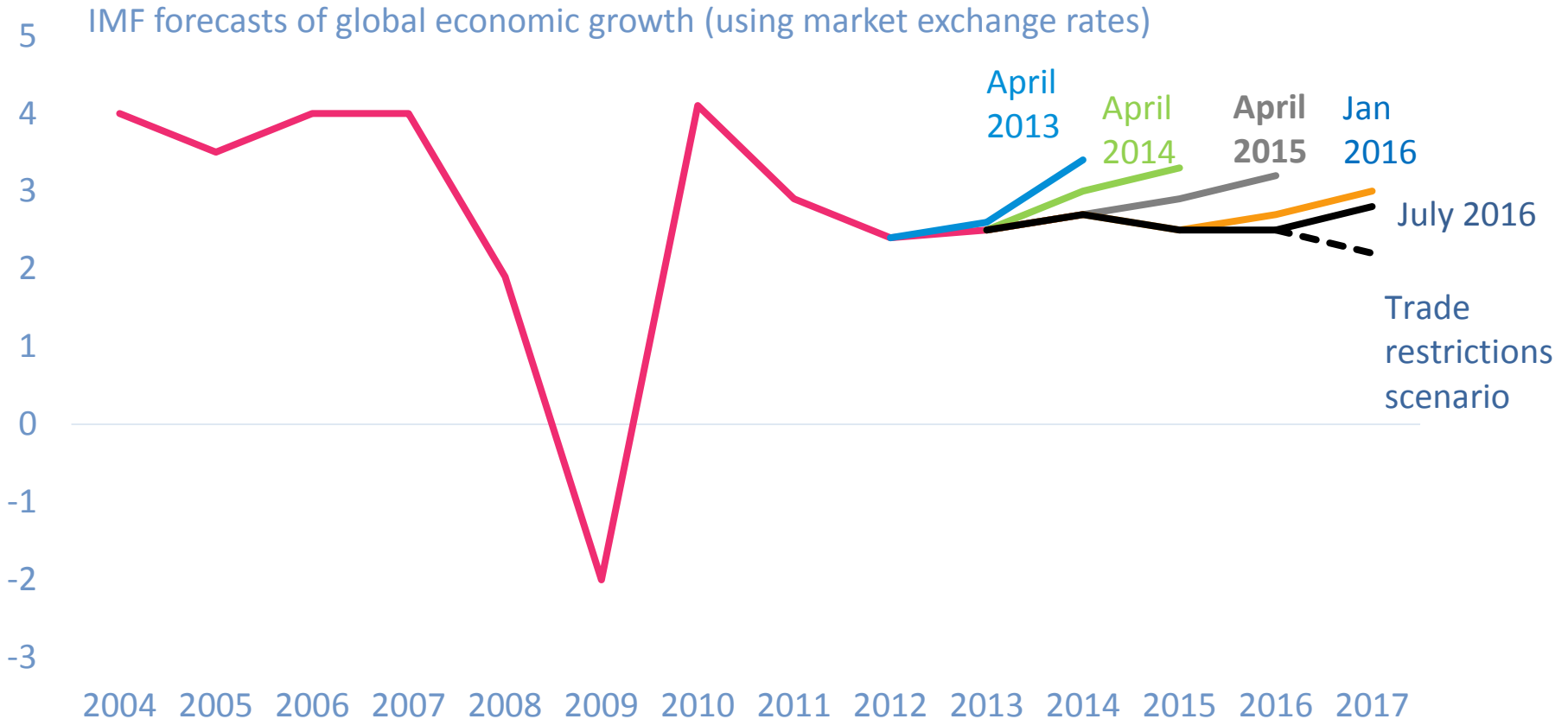
Source: IATA calculations using data from The Airline Analyst

Short-run economic momentum has turned up



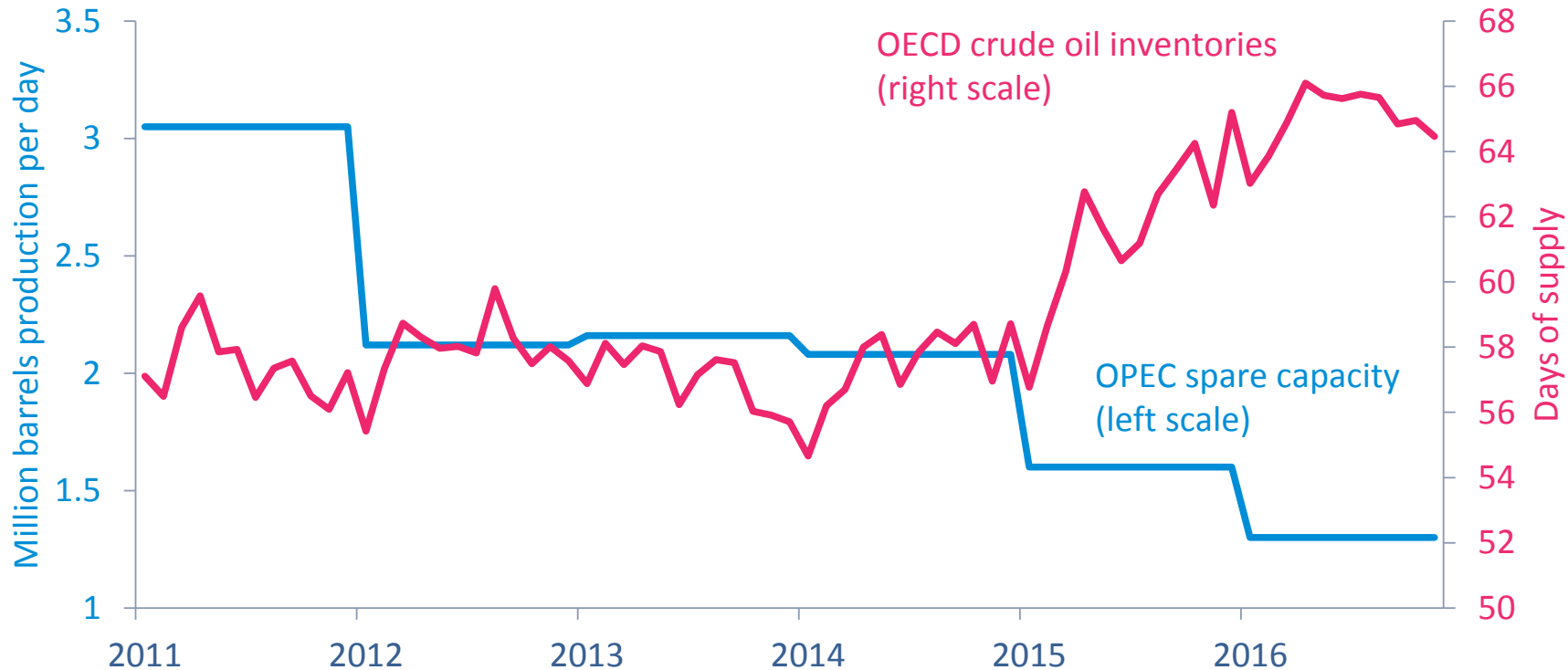
Source: IATA statistics, Markit

But which direction now for the global economic cycle?



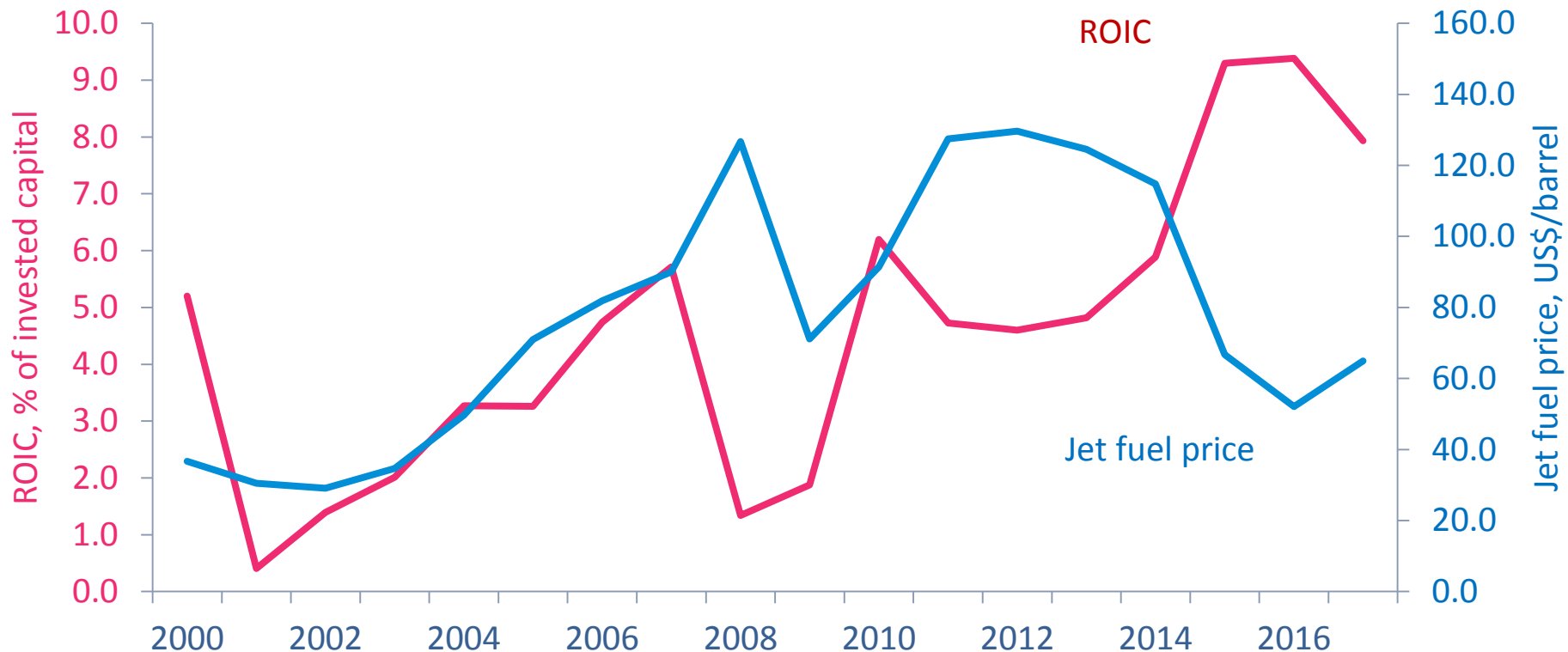
How strong will up-trend in oil prices be?

OPEC spare capacity and OECD crude oil inventories



High fuel prices not always bad for airlines

Airline industry ROIC and jet fuel prices



To sum up

- A look through the cycle is positive, even with gloomy macro
- Potential for multiplier on trip frequency, for some
- Good demographics, for some
- Centre of gravity moving rapidly East
- Some potential constraints to overcome
- Airline financial health better overall but patchy
- Near-term turbulence from the economic cycle and oil prices

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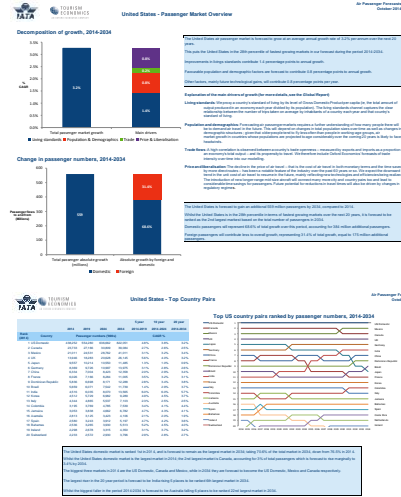
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