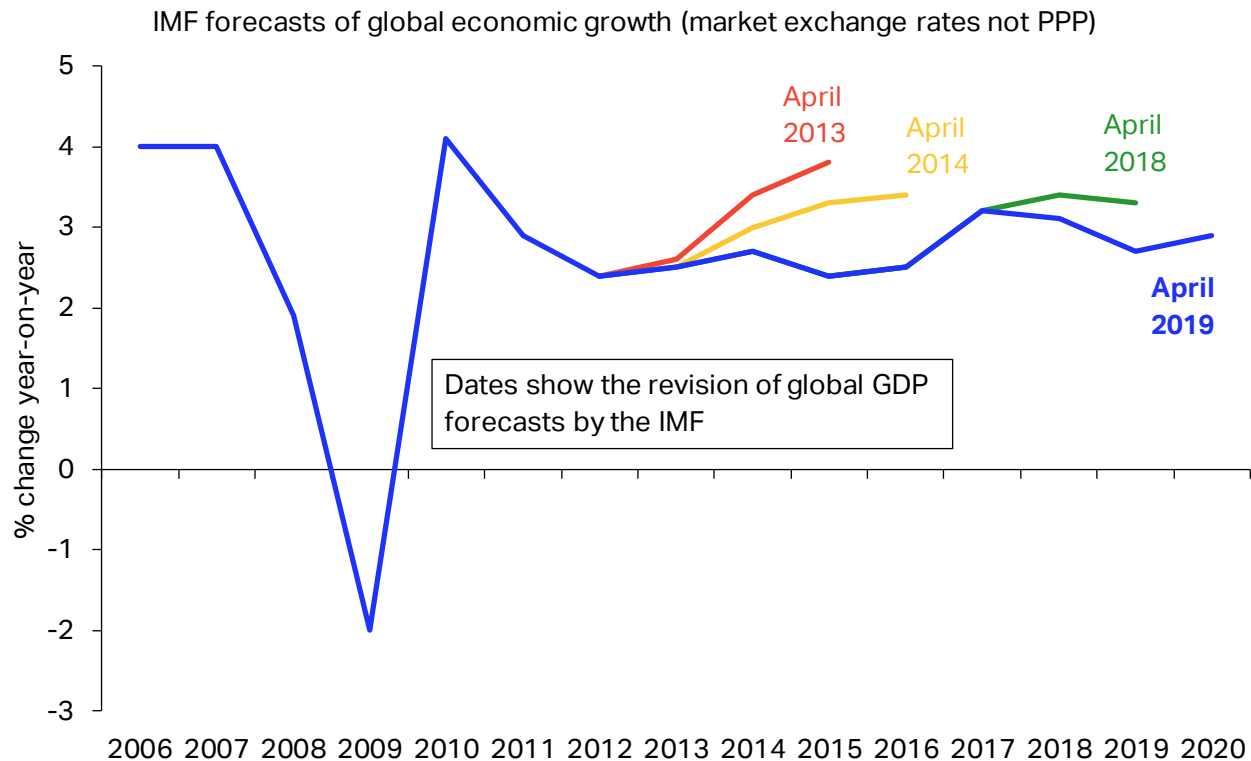




IATA Economics Chart of the Week

12 April 2019

IMF downgrades GDP forecast, but growth still looks OK



Source: IMF World Economic Outlook

- Another global GDP forecast downgrade was released by the IMF this week, the 4th since April 2018. A year ago, forecasters were expecting stable, high, global economic growth of 3.3% (aggregated using market exchange rates not PPP). The IMF have shaved half a percent off that forecast in the past year and now expect a slowdown in the world economy to growth of 2.7% in 2019.
- GDP measures national income and has always been the key driver of air passenger demand, as well as air cargo. So slower GDP growth means slower traffic growth for the airline industry this year. Our [December forecast](#) predicted a slowdown from 6.5% last year to 6% in 2019 for global RPKs, but that was based on a more gradual slowdown in the world economy. We did some analysis on the RPK-GDP multiplier back in [October](#). If the multiplier keeps trending back down to its 1.8x average, as we expect, that implies air travel or RPK growth this year closer to 5%.
- Air travel growth of 5% would be slower than last year but is still a good outcome, close to the 20-year average. What is clear from the chart above is that the IMF is still expecting the world economy to be growing at a good pace this year – stronger in fact than the 2012-2016 period when global RPKs grew on average by 6.5% a year. Moreover, they are forecasting a temporary slowdown in 2019, with stronger growth in 2020.
- We would be surprised if we did not experience a recession sometime in the next 2-3 years, since the expansion is already in its 10th year and there are significant risks. However, there is nothing obvious to stop the expansion over the next 12 months. The challenge for airlines this year will be dealing with the rising unit costs the long expansion has brought, having absorbed all spare capacity, rather than weak growth.

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IATA Economics
economics@iata.org