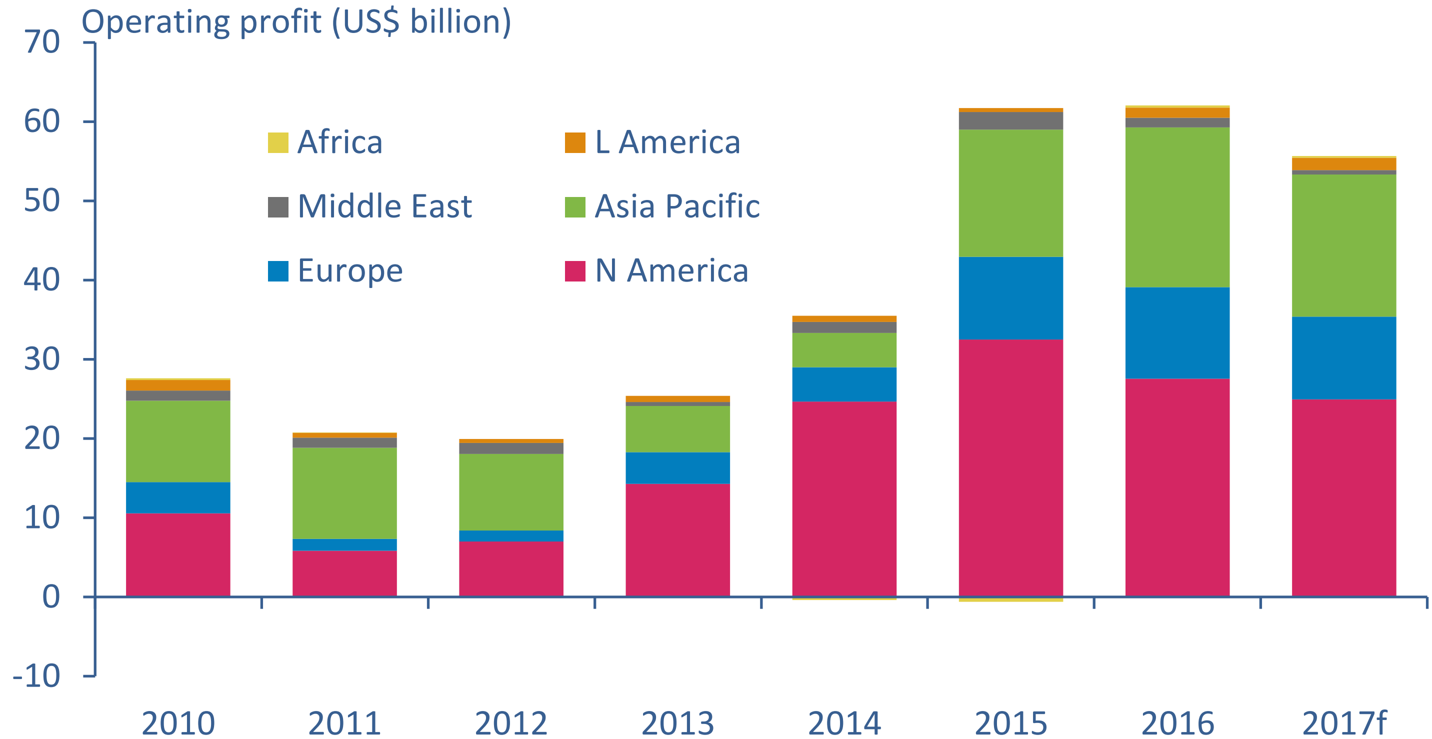
IATA Economics' Chart of the Week

16 JUNE 2017

Profits dip but still robust in 2017; regional divergence remains



Source: IATA, ICAO

- Our latest industry outlook (link) includes updated financial forecasts; the global airline industry is expected to generate an operating profit of $55.7 billion in 2017. Although this represents a downgrade from the level of the last two years (around $61-62 billion in 2015 and 2016, respectively), it is an upward revision for 2017, compared with our initial December estimate of $48.5 billion.
- This figure represents a relatively good EBIT (operating) margin of 7.5%, on industry revenues estimated at $743 billion in 2017. For the third consecutive year, the industry is forecast to generate a return on invested capital (ROIC) which exceeds the cost of that capital (WACC), at 8.8% vs 7.3%. The gap, however, is expected to narrow in 2017 to 1.5 percentage points, as returns ease and the cost of capital rises.
- At the regional level, the profit outlook is a very mixed picture. The financial performance of North American airlines continues to lead the way, generating around 45% ($25 billion) of the total industry profit. Asia Pacific and European airlines follow, with a forecast operating profit 18.0 billion and 10.4 billion, respectively in 2017. For Asia Pacific, the outlook is bolstered by the improvement in air freight, which generally accounts for a larger share of airline operations in this region. For Europe, an improved economic backdrop helps to support another solid performance.
- In Latin America, expected recovery in both economic and industry conditions should help airlines to see a small lift in operating profits this year, up $200 million to $1.5 billion. In contrast, profits in the Middle East are likely to ease again in 2017 to just $500 million, amidst signs of a slowing in demand across a number of key routes. In Africa, operating conditions remain challenging and a small operating profit of $300 million is forecast in 2017, on par with last year; performance in the region is improving, but only slowly.

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