



State of the global airline industry

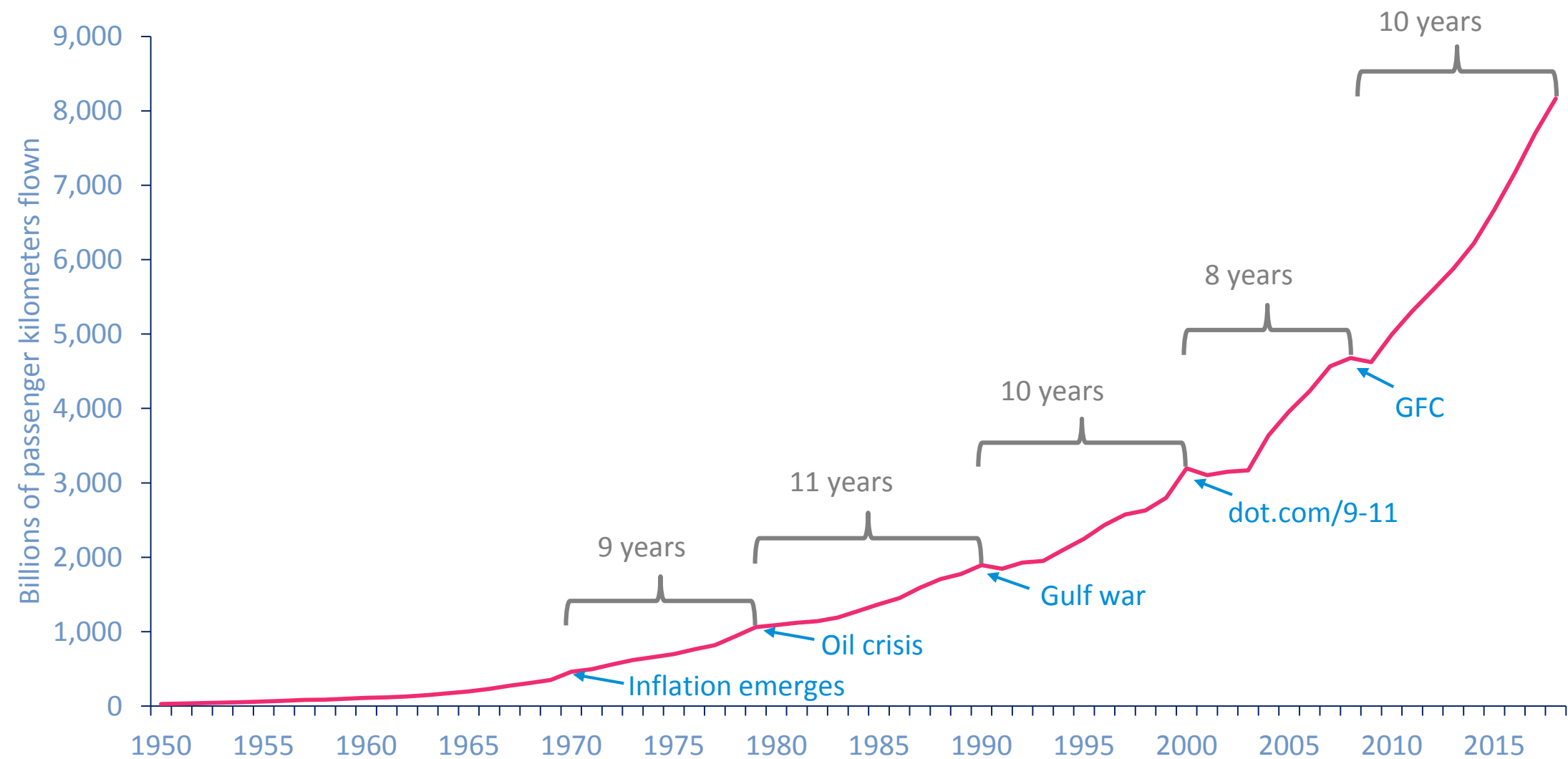
1st March 2018
Bangkok

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www.iata.org/economics

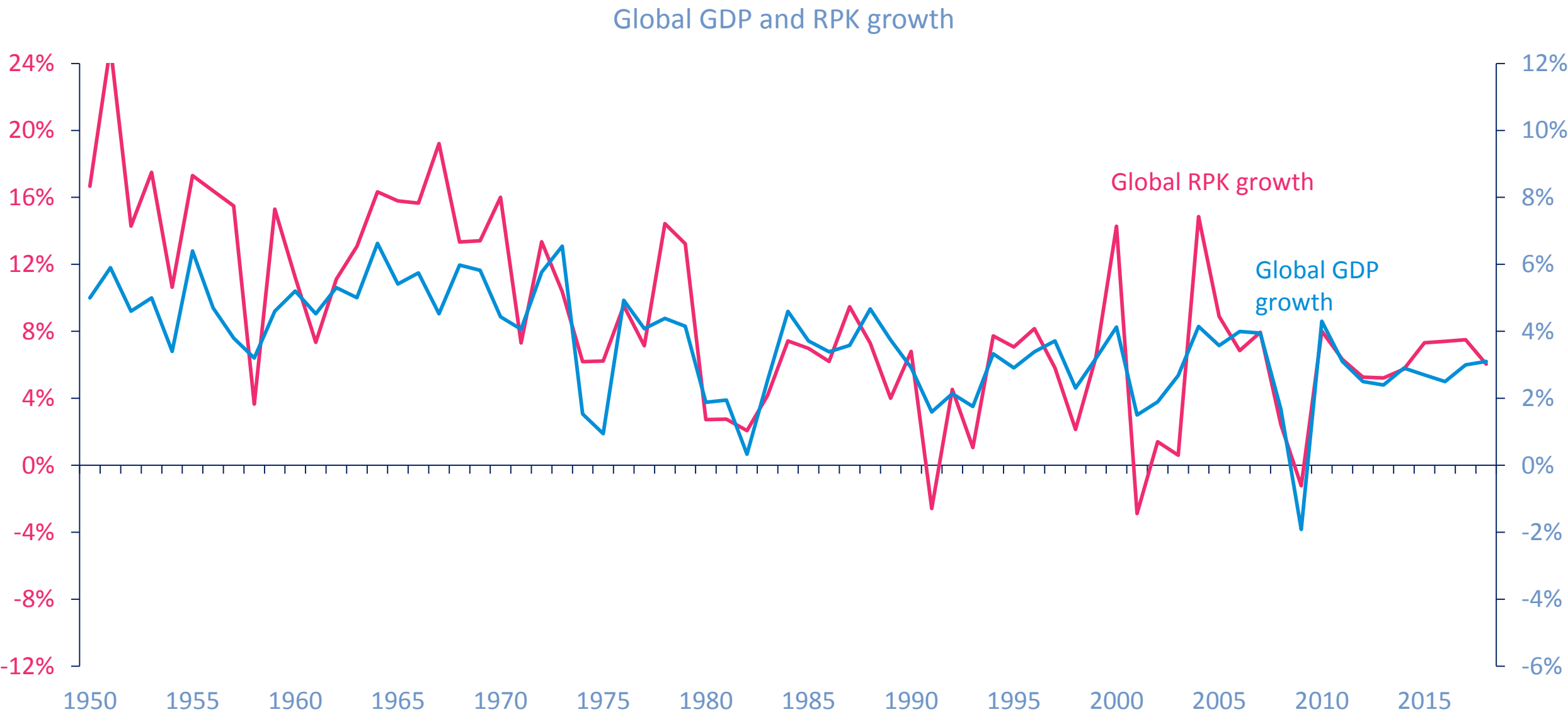
Is the industry cycle about to end...and does it matter?

Global passenger kilometers flown (RPKs)



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

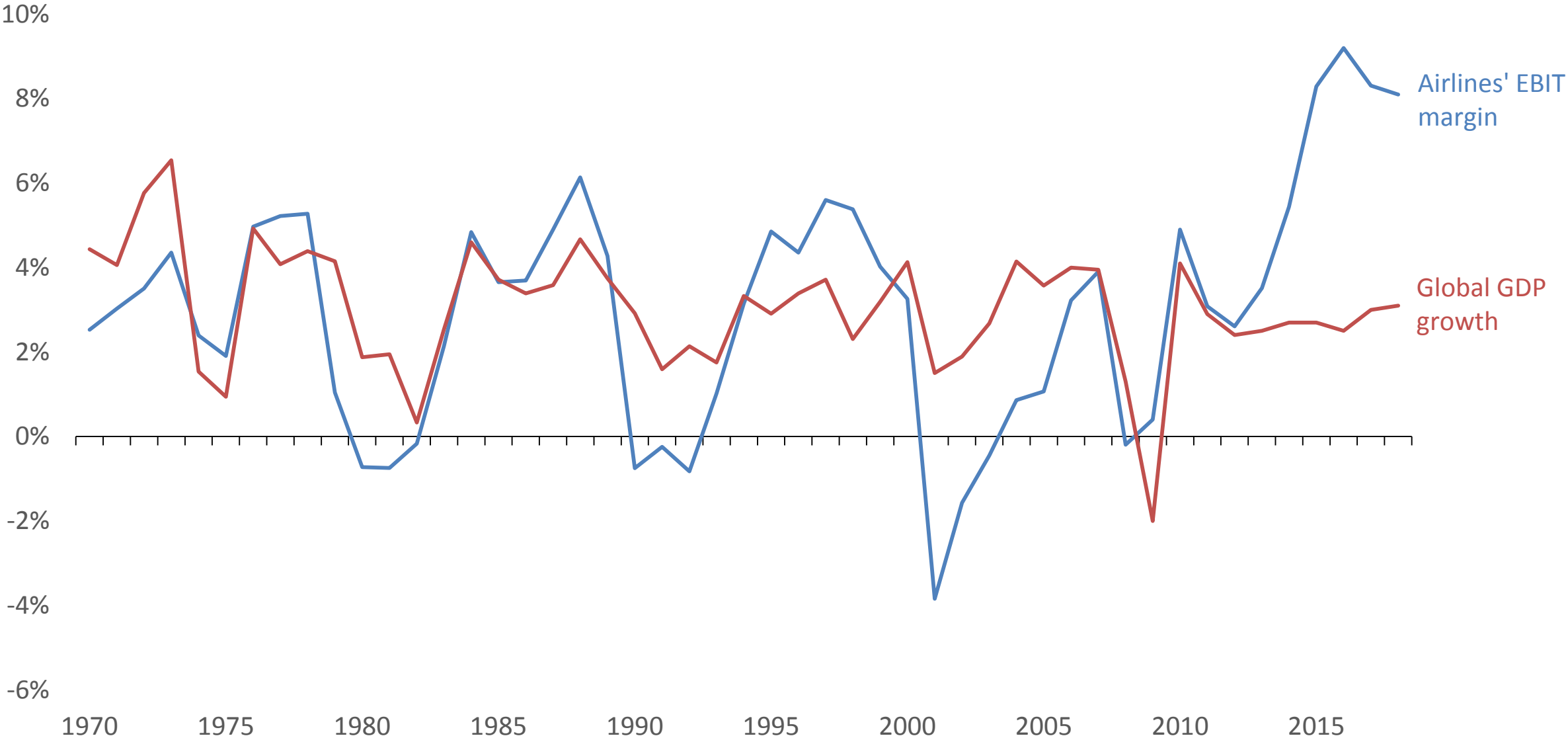
The economic cycle is critical for air travel



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

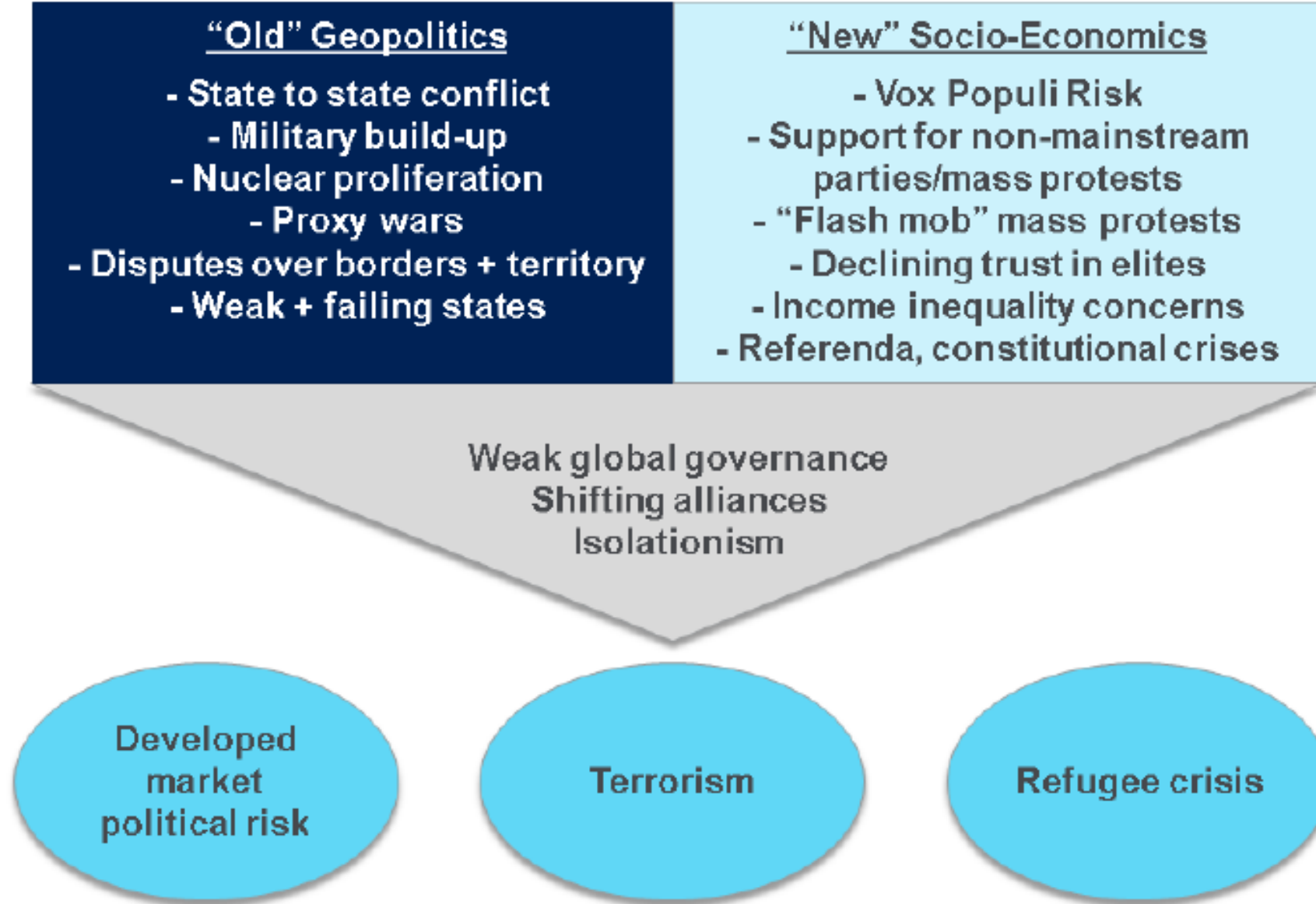
But how important is the cycle (now) for airline financial performance?

Airline industry EBIT margin and global GDP growth



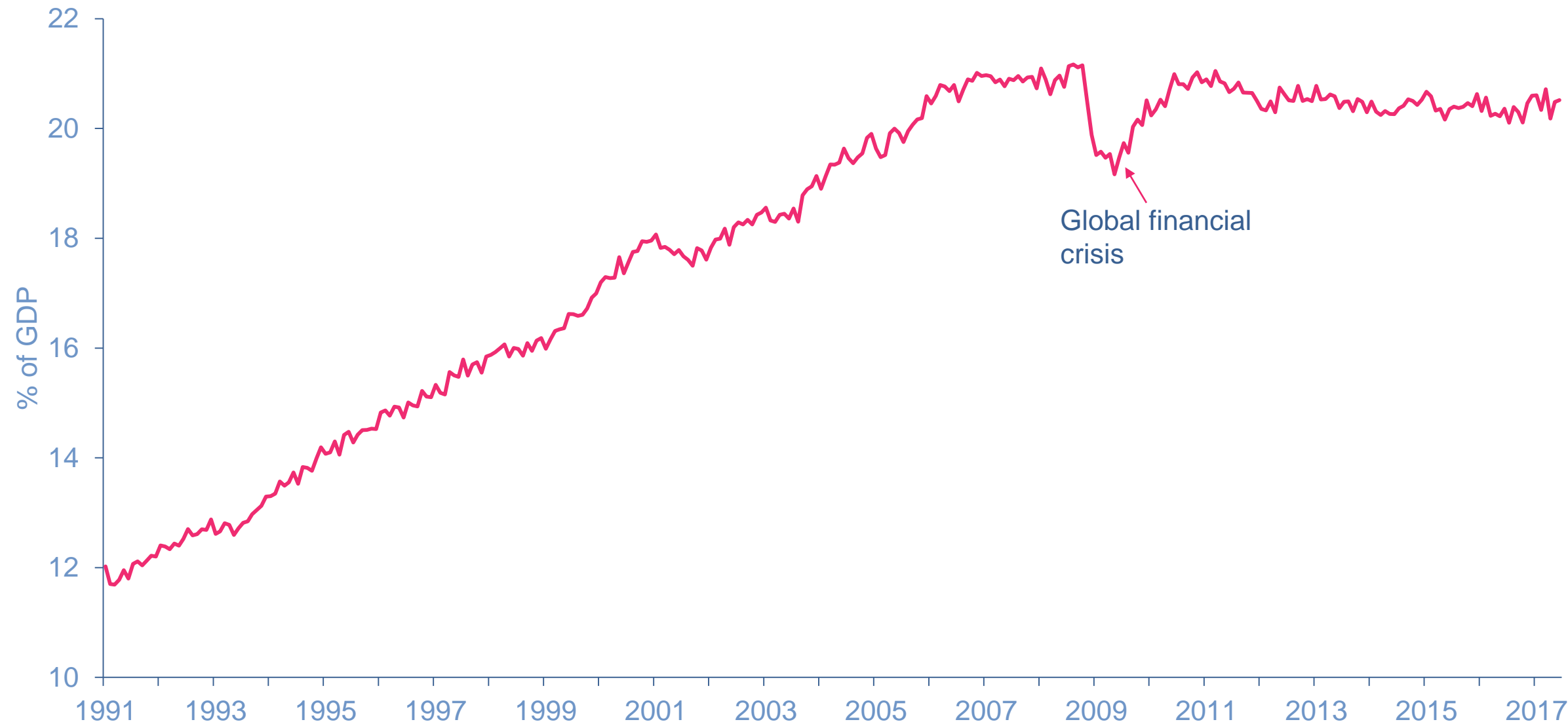
Source: IATA Economics using data from ICAO, IATA Statistics, IMF and our own forecasts

What could go wrong – geopolitics?



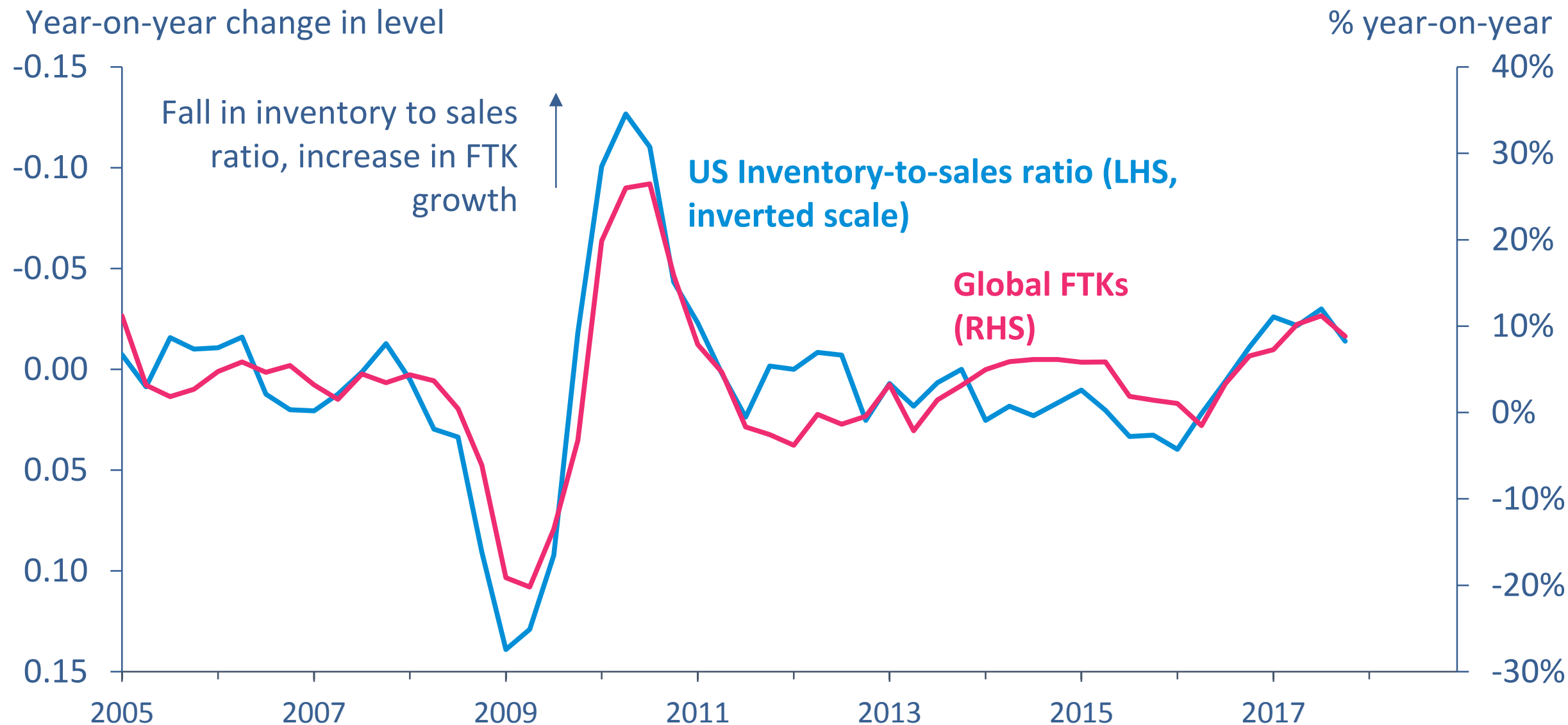
Protectionism is one issue that has already gone wrong

Share of goods trade (exports+imports) in global GDP



Source: IATA Economics using data from the Netherlands CPB

Damage to cargo obscured by restocking cycle



Source: IATA Economics using data from IATA Statistics and Datastream

Brexit is also symptomatic

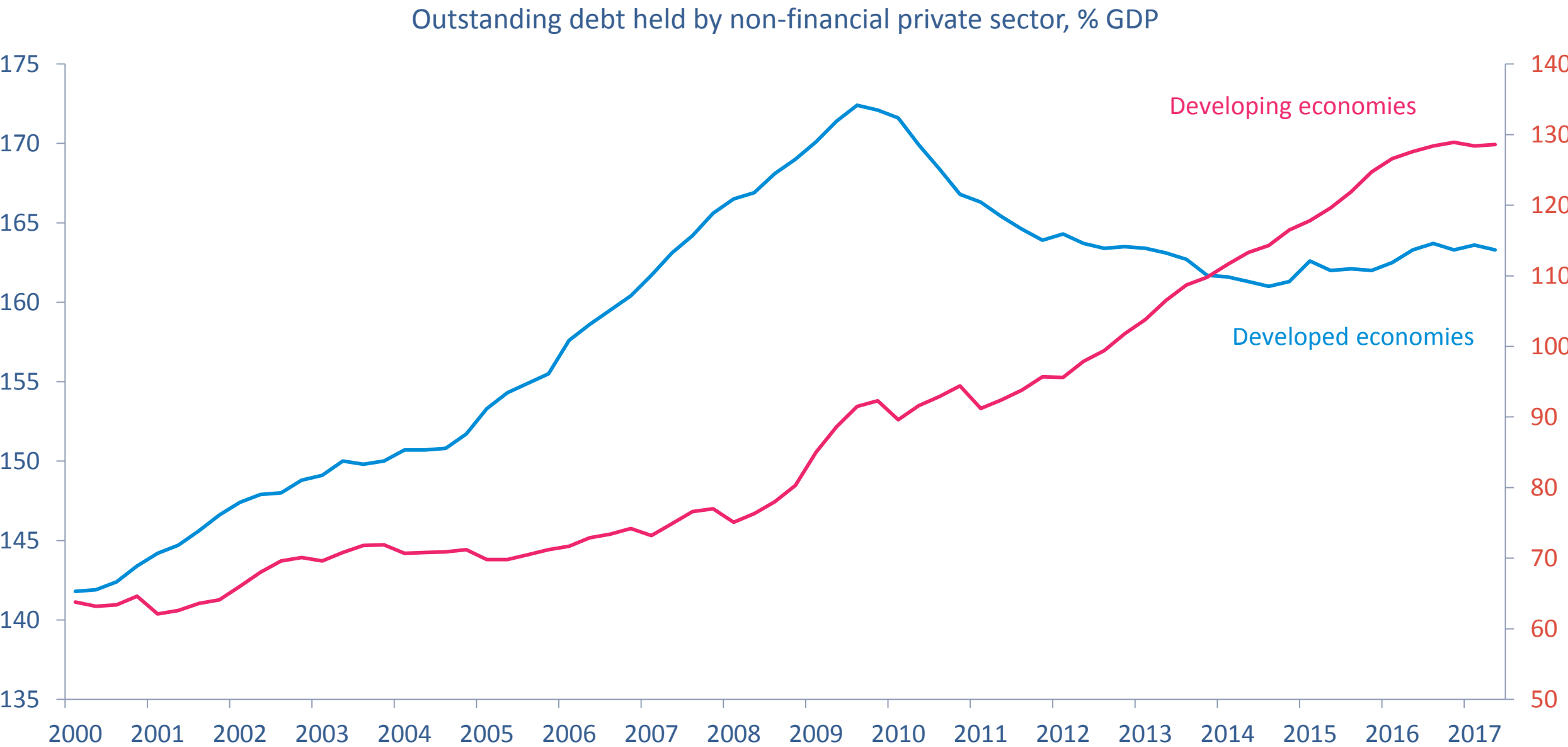
The Treasury View: 3-4 years worth of GDP growth lost

Table 3.D: Annual impact of leaving the EU on the UK (difference from being in the EU after 15 years)

	EEA	Negotiated bilateral agreement	WTO
GDP (%) – central	-3.8	-6.2	-7.5
GDP (%)	-3.4 to -4.3	-4.6 to -7.8	-5.4 to -9.5
GDP per capita ^a – central	-£1,100	-£1,800	-£2,100
GDP per capita ^a	-£1,000 to -£1,200	-£1,300 to -£2,200	-£1,500 to -£2,700
GDP per household ^a – central	-£2,600	-£4,300	-£5,200
GDP per household ^a	-£2,400 to -£2,900	-£3,200 to -£5,400	-£3,700 to -£6,600

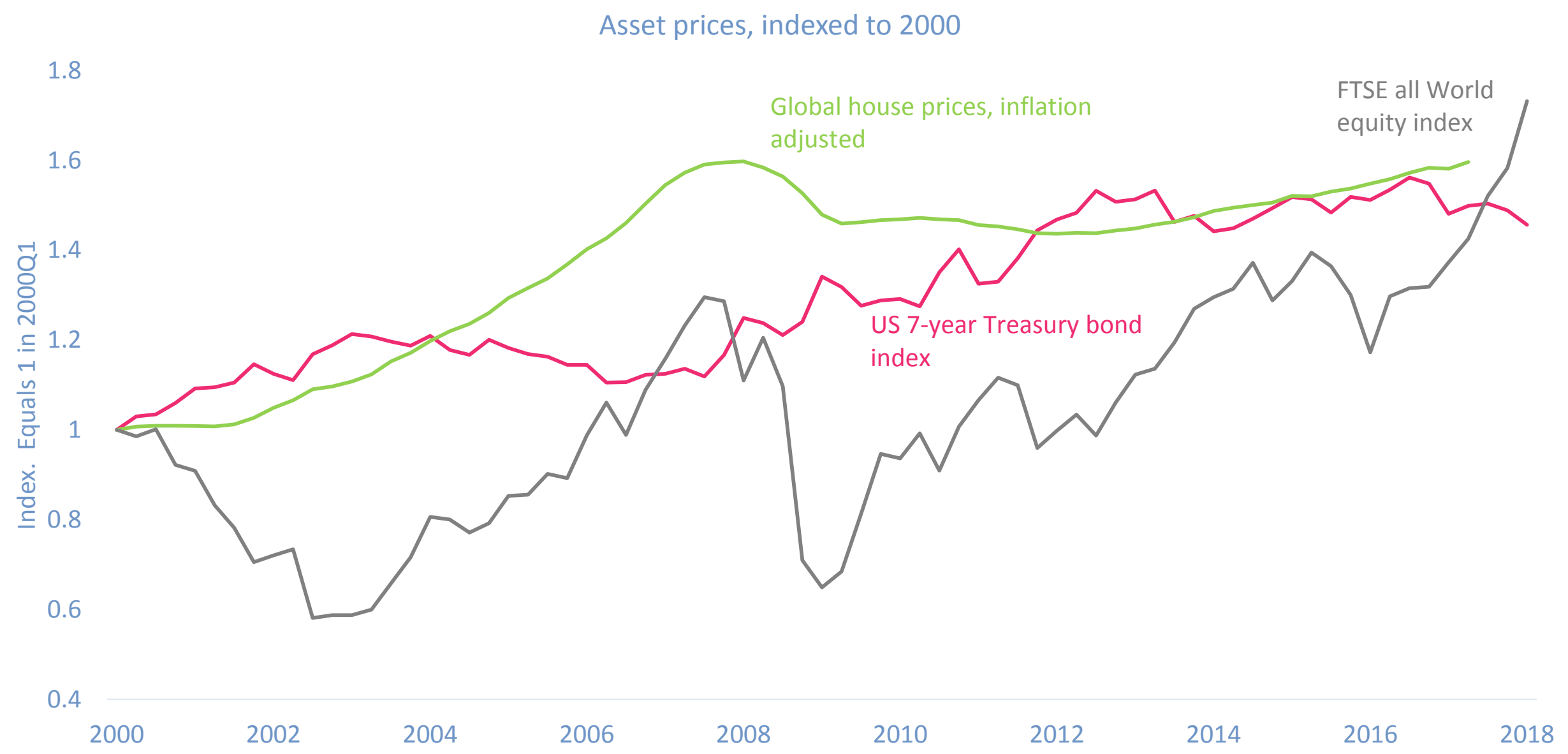
^a Expressed in terms of 2015 GDP in 2015 prices, rounded to the nearest £100.

What (else) could go wrong – debt?



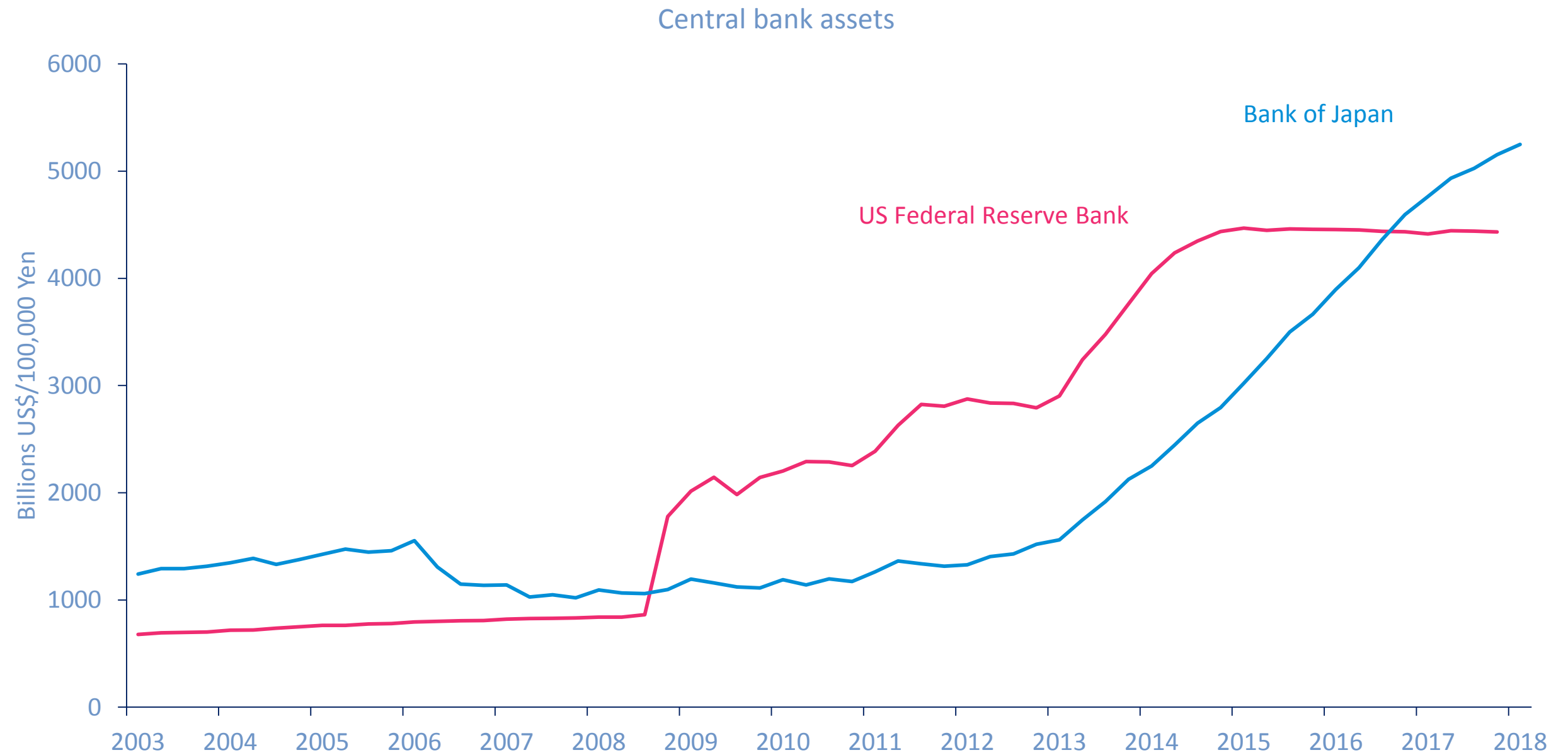
Source: Datastream

Asset prices near all time highs – bubbles about to burst?



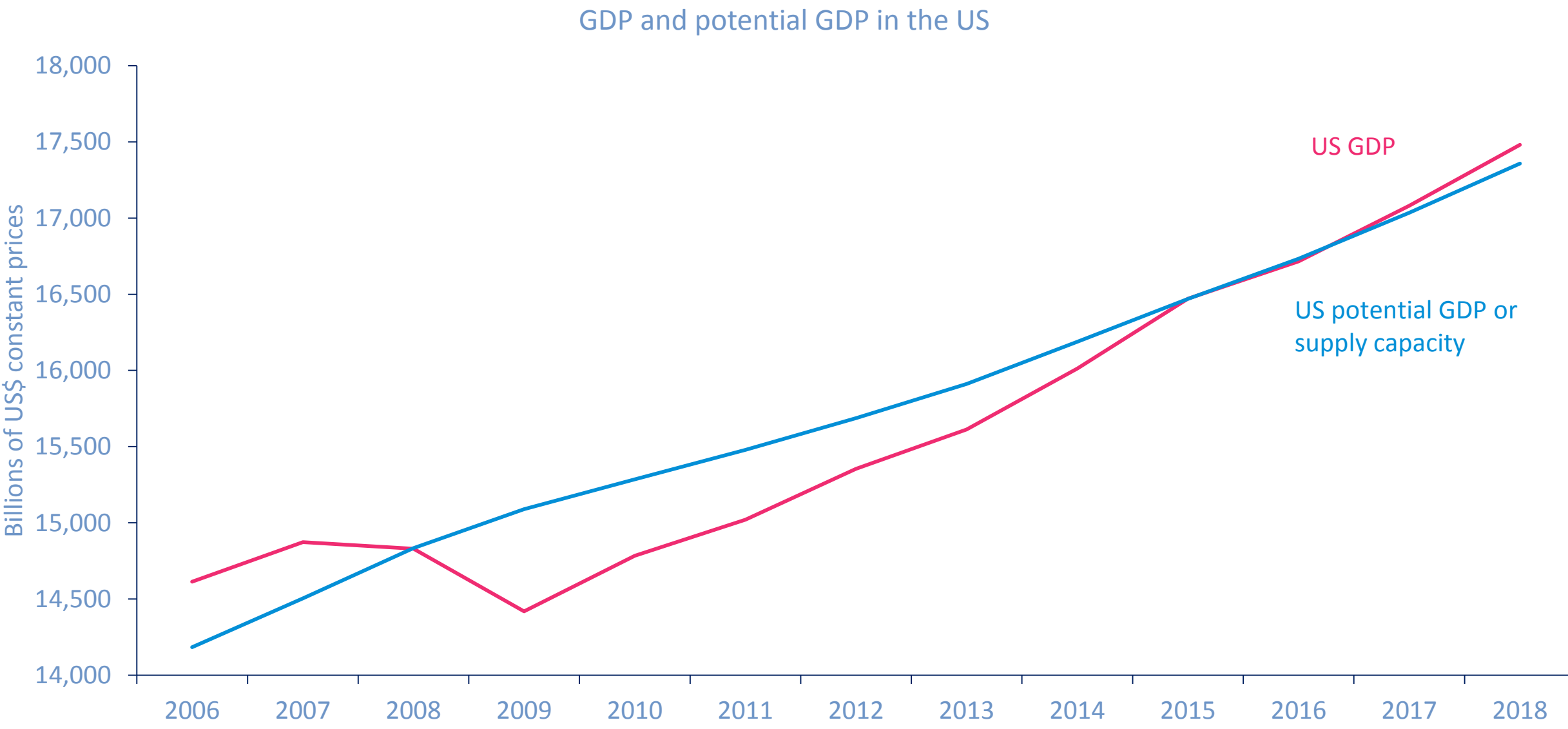
Source: IATA Economics using data from Datastream, IMF

Central banks only just starting to unwind QE/ their asset mountains

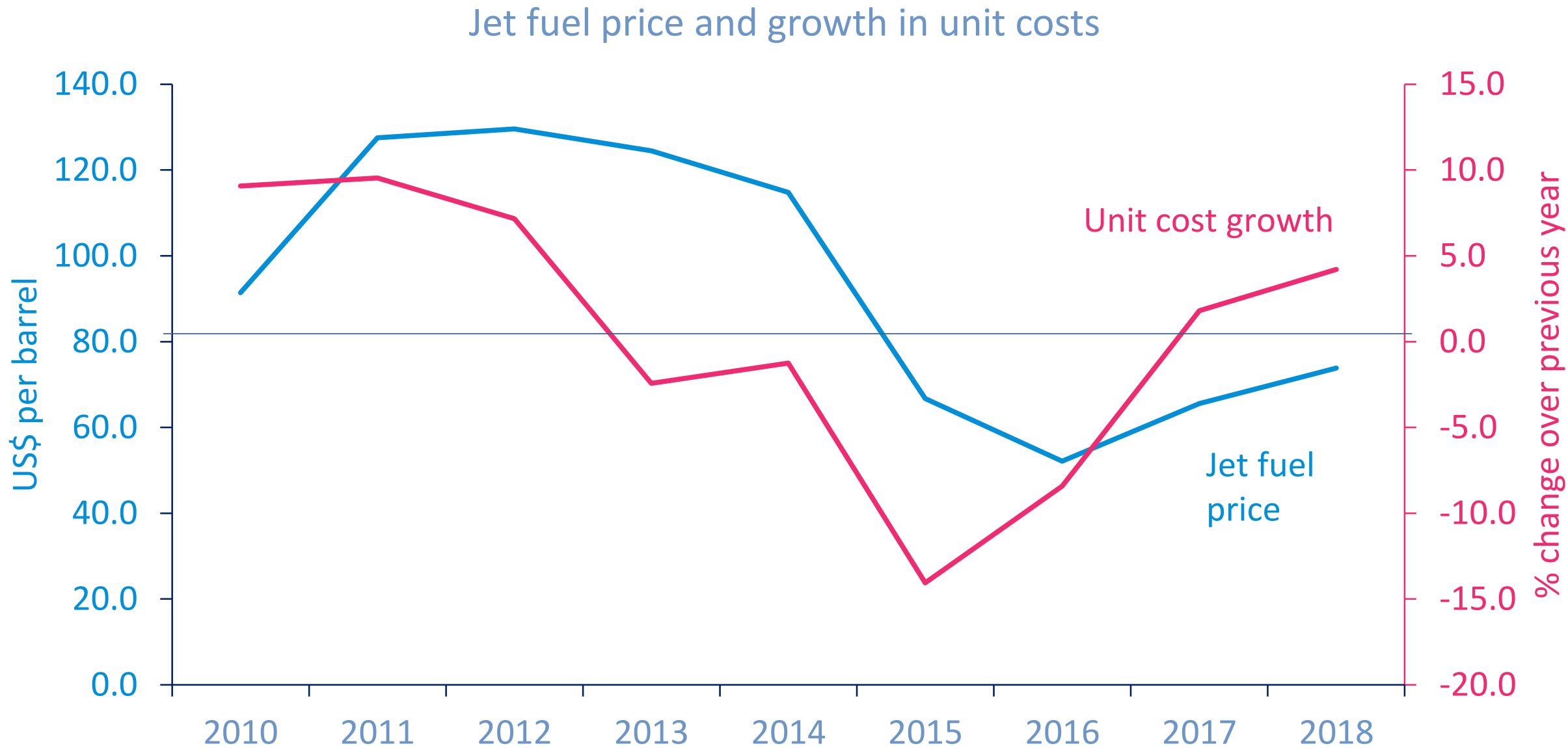


Source: Datastream

What could go wrong – an inflation shock from the US?

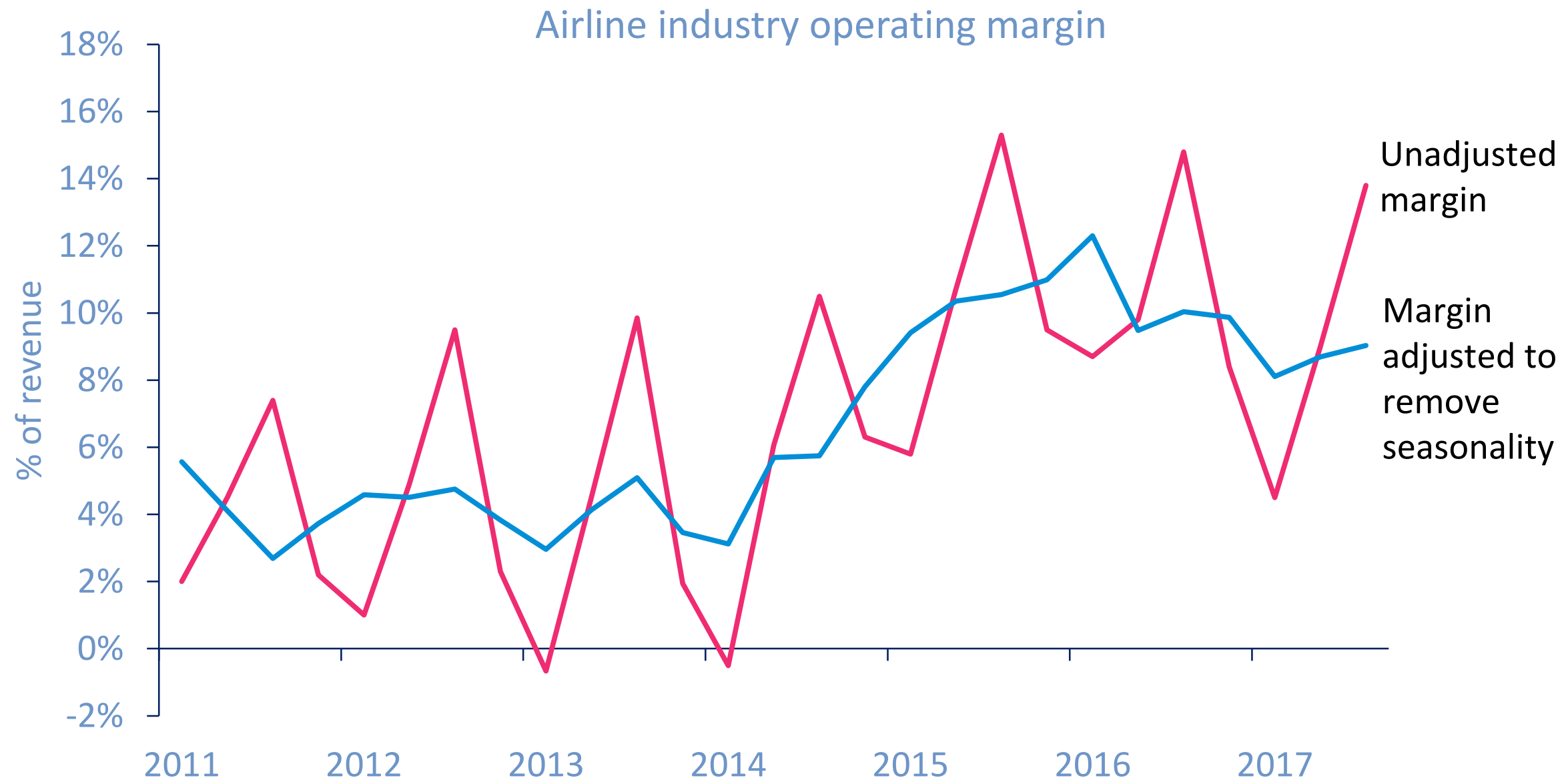


Rising costs are the biggest immediate challenge for airlines



Source: IATA Economics using data from The Airline Analyst, Platts, IATA forecasts

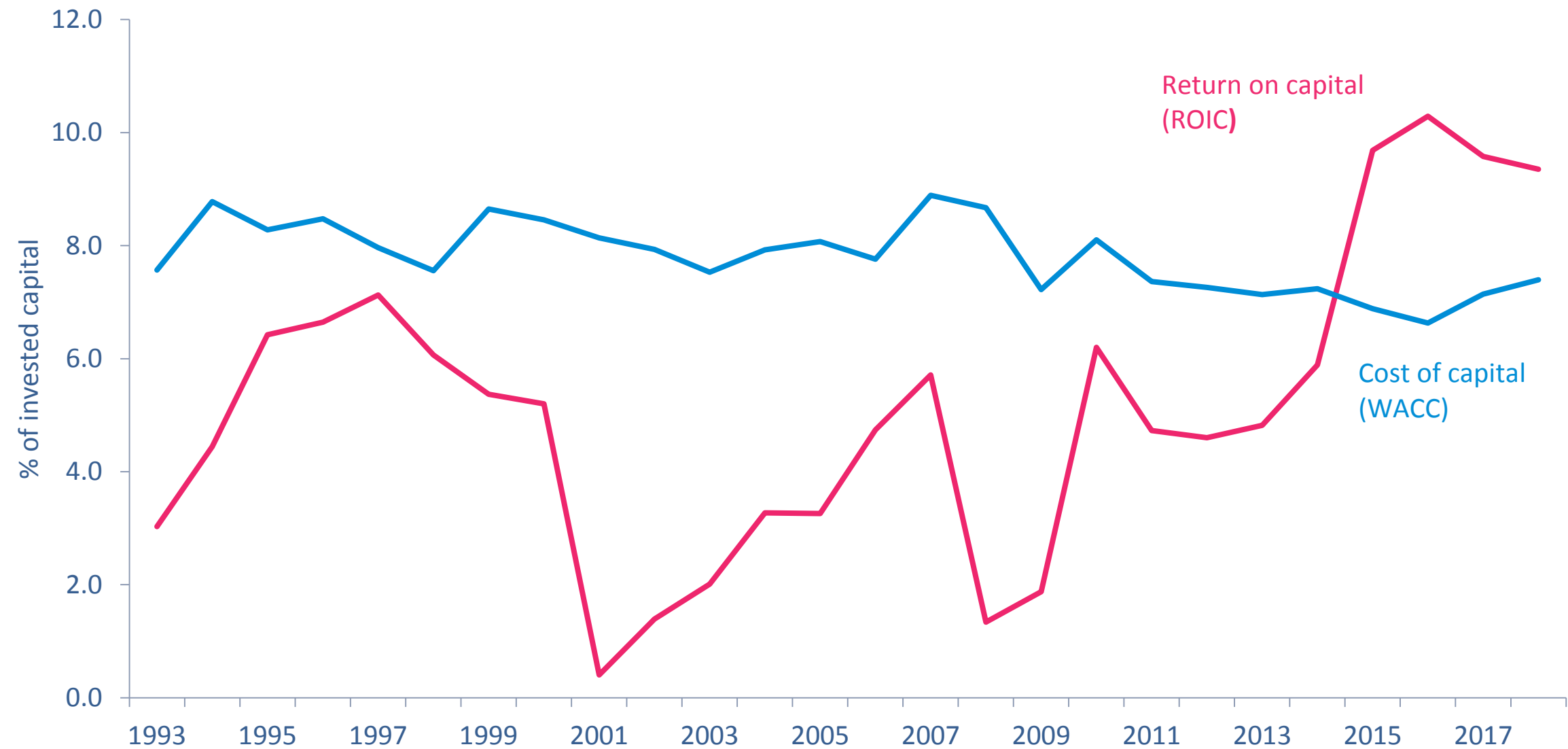
Industry profitability squeezed but now stabilizing



Source: IATA Economics using data from The Airline Analyst and airline releases

Investor returns falling but above cost of capital for a 4th year

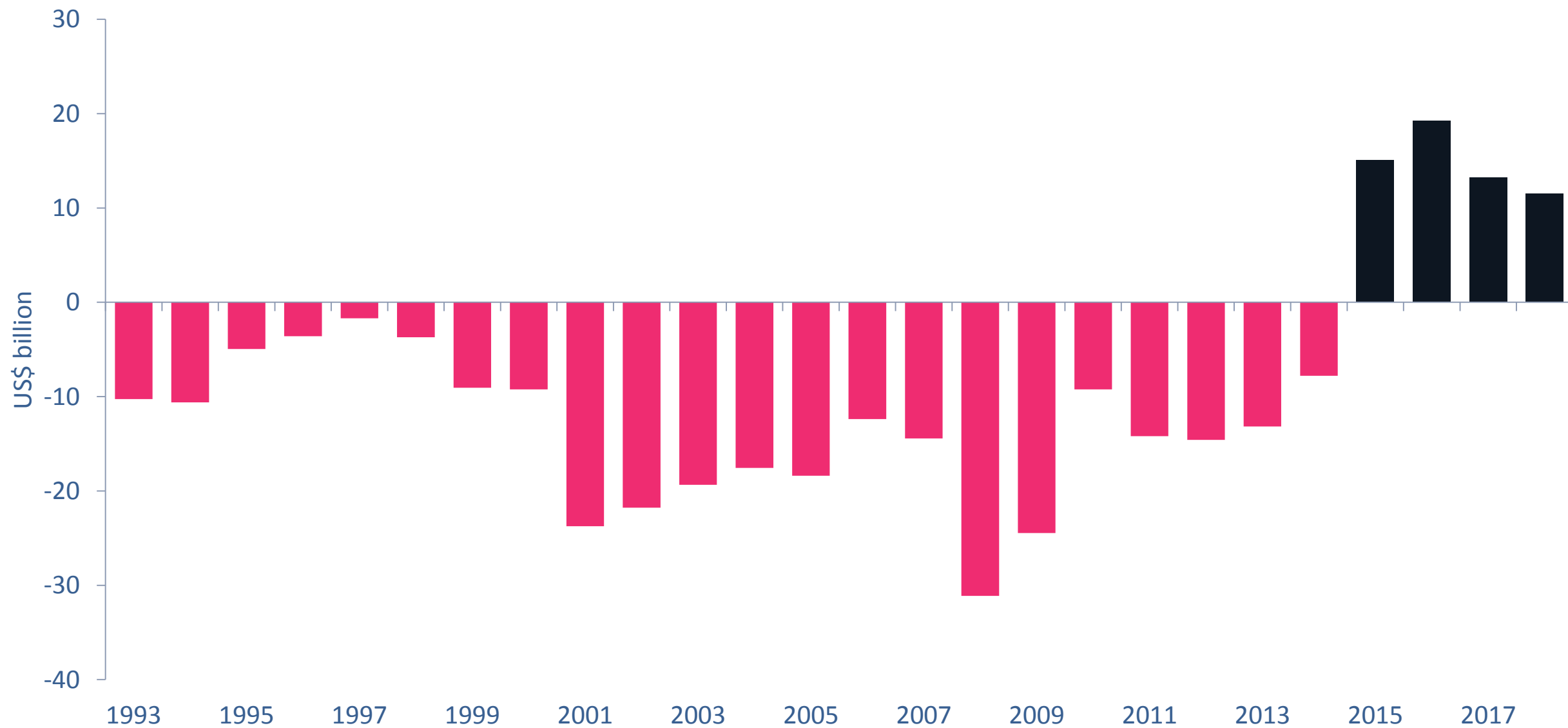
Return on capital invested in airlines and their cost of capital



Source: IATA Economics using data from McKinsey, The Airlines Analyst, IATA forecasts

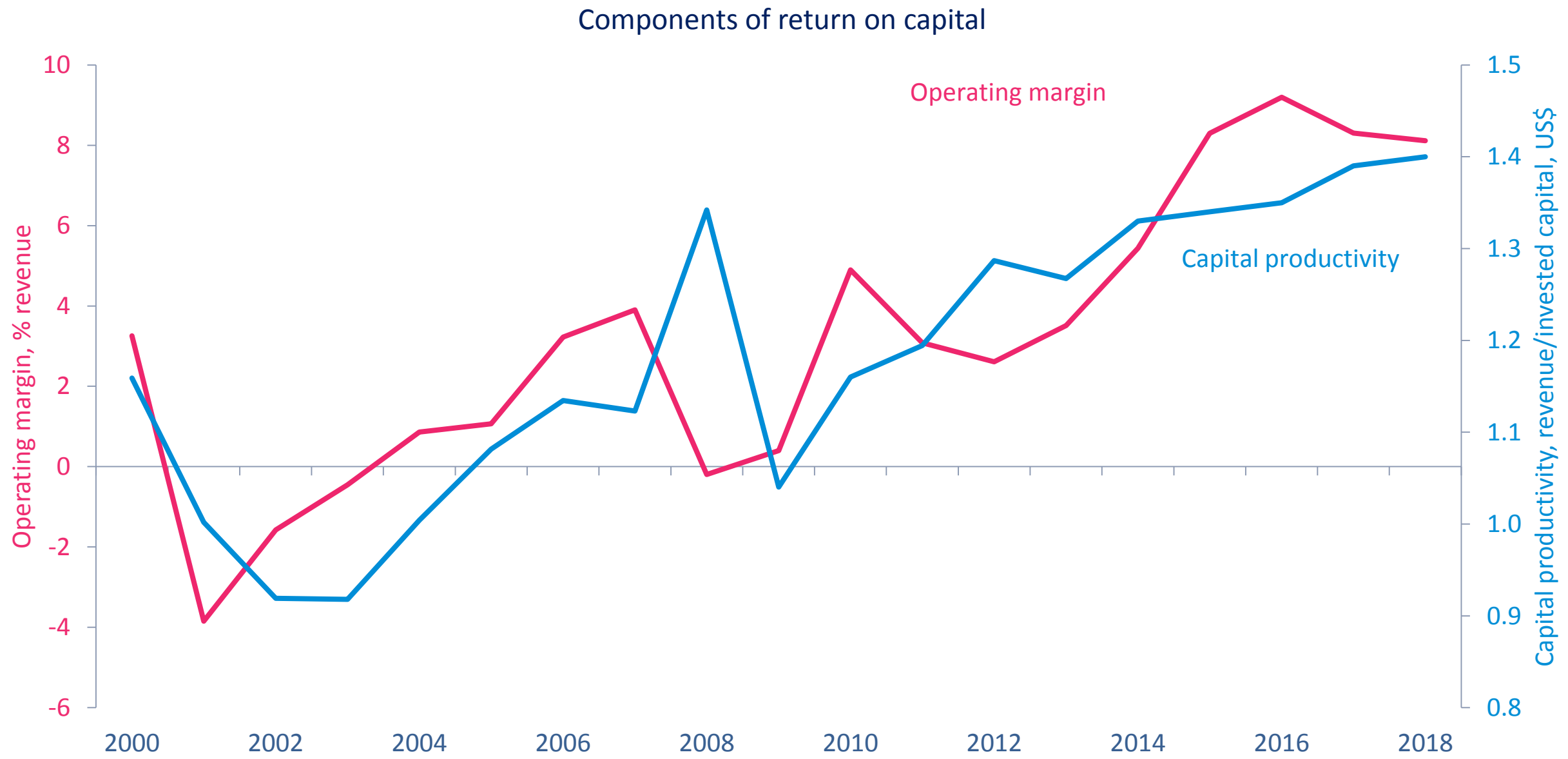
From value destruction to value creation...to a 'normal' industry

Difference between investing in airlines and investing in similar assets elsewhere



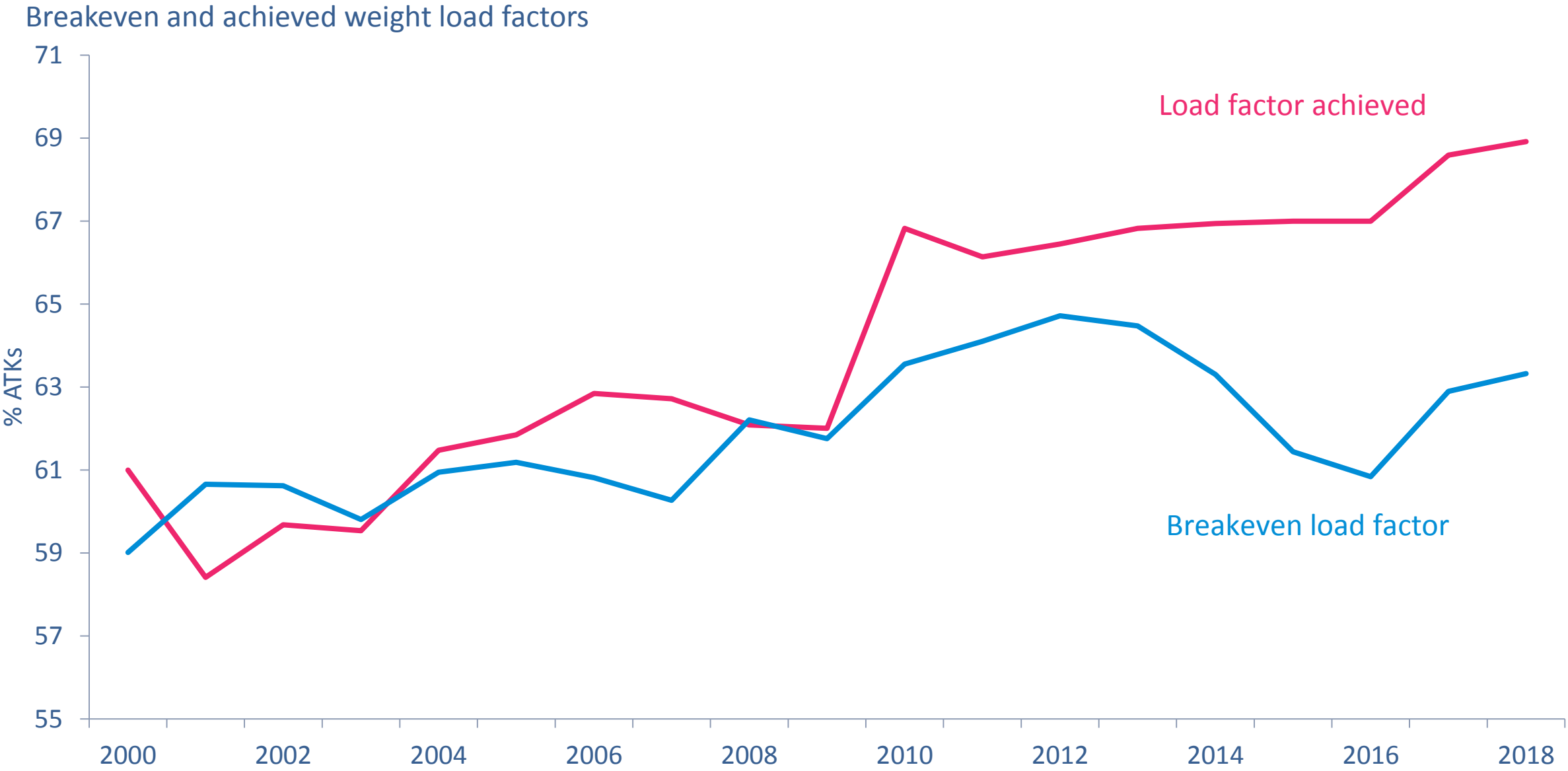
Source: IATA Economics using data from McKinsey, The Airlines Analyst, IATA forecasts

Successfully sweating assets as well as improving margins



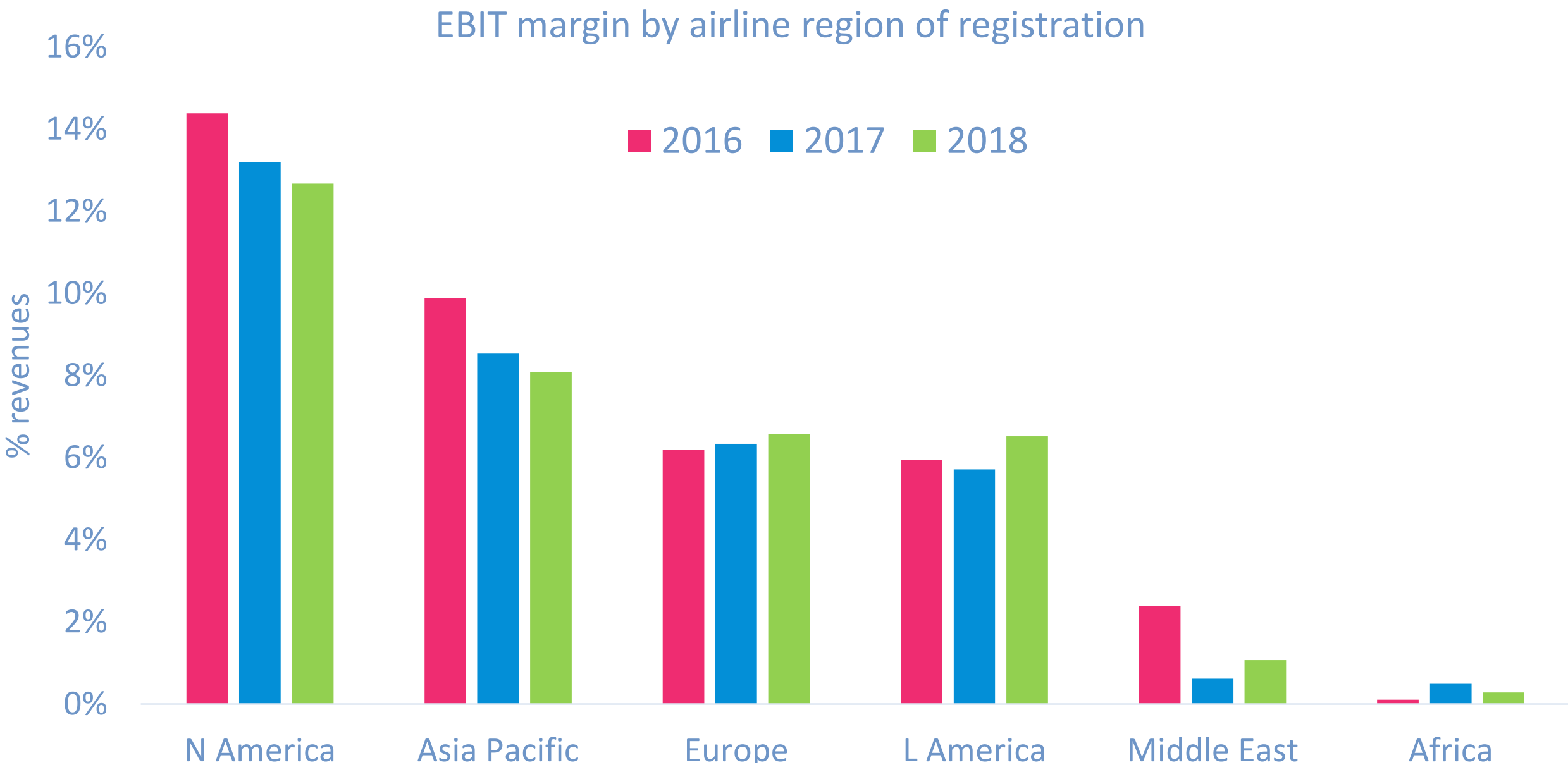
Source: IATA Economics using data from ICAO, McKinsey, The Airline Analyst, IATA forecasts

Signs of improvement being structural rather than transitory



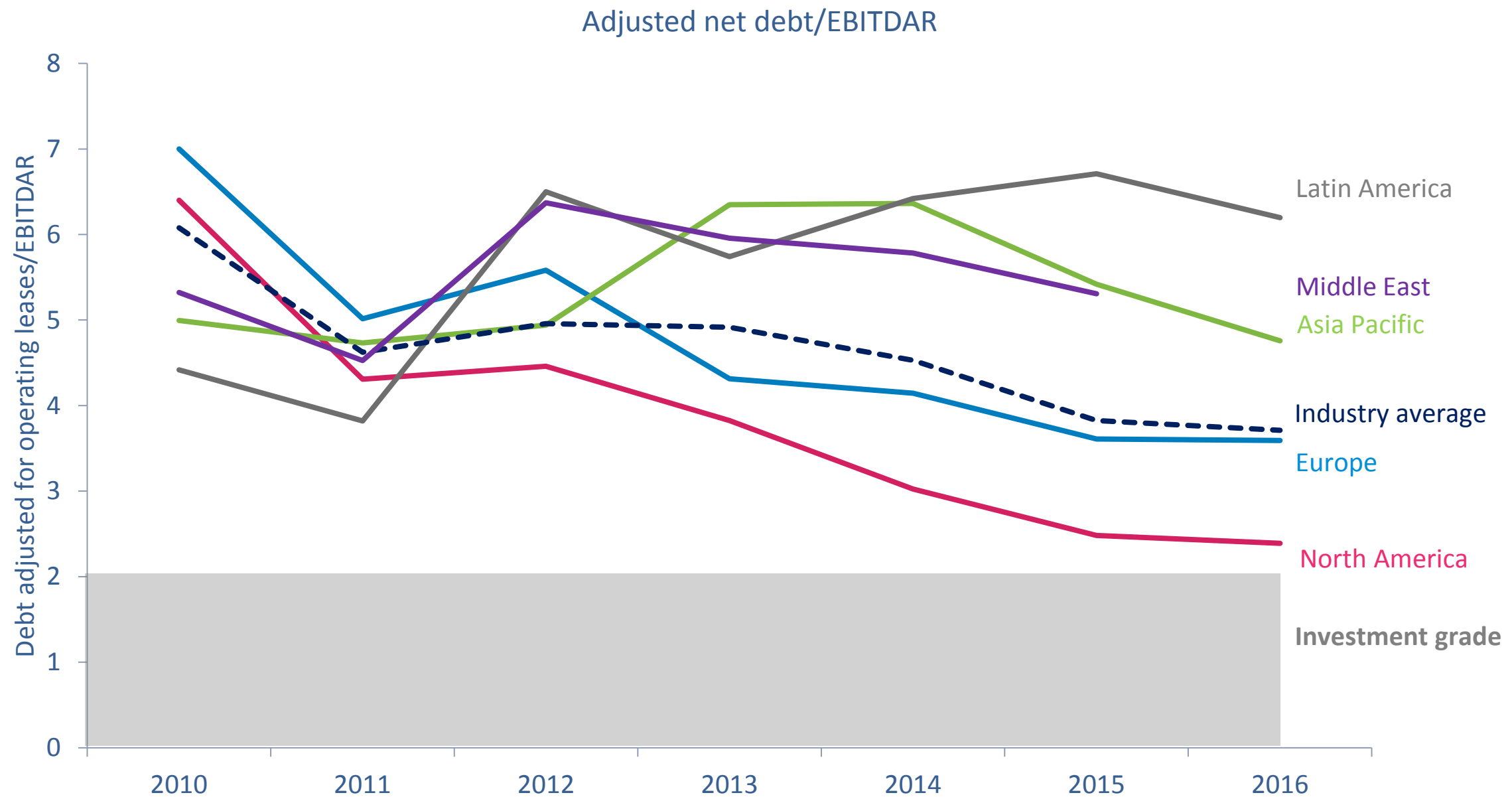
Source: IATA Economics using data from ICAO, IATA Statistics, IATA forecasts

But not all regions are equally good performers



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

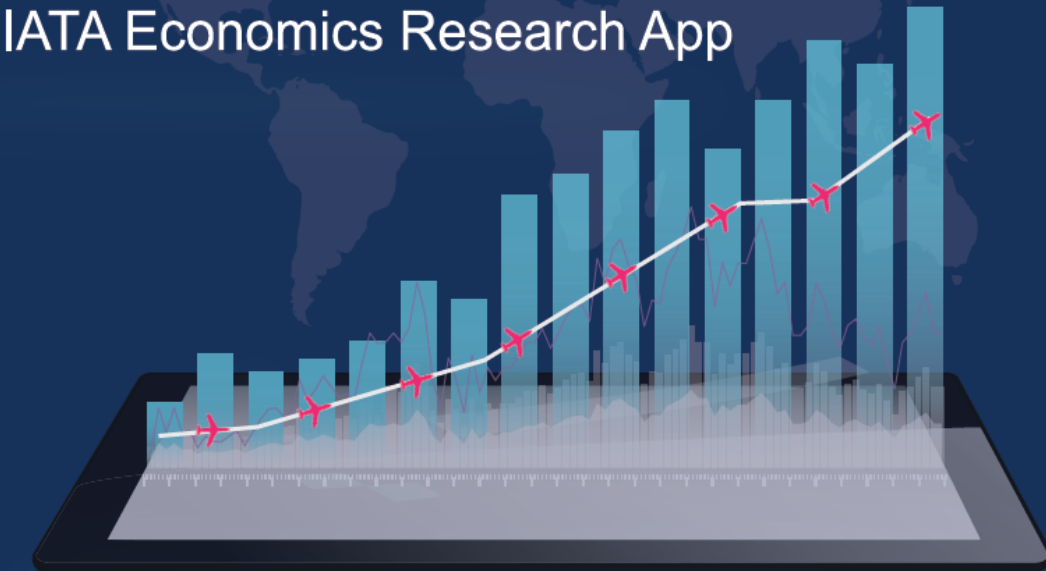
Strong balance sheets are key to resisting the next downturn



Source: IATA Economics using data from The Airline Analyst

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