



The importance of international air transport

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www.iata.org/economics

To represent, lead and serve the airline industry



The International Air Transport Association (IATA)

1944

Chicago Convention

1945

IATA is founded

TODAY

260 member airlines; 83% world traffic

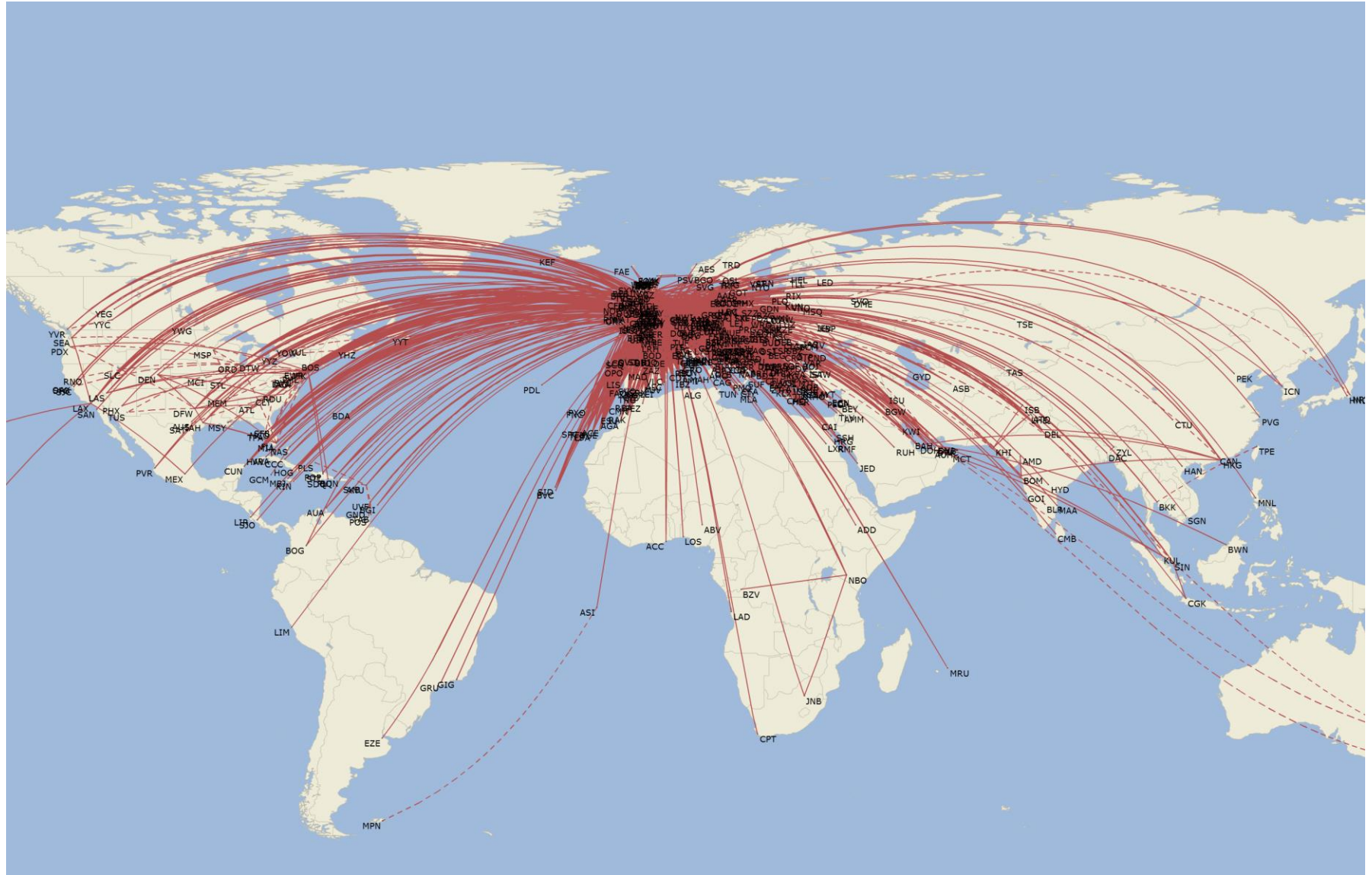
- Network standard setting (passenger & cargo)
- Financial clearing house (\$380 billion)
- Representation

Our mission is to represent, lead and serve the airline industry. 

Presentation outline

1. Economic benefits
2. A paradox
3. Recent developments

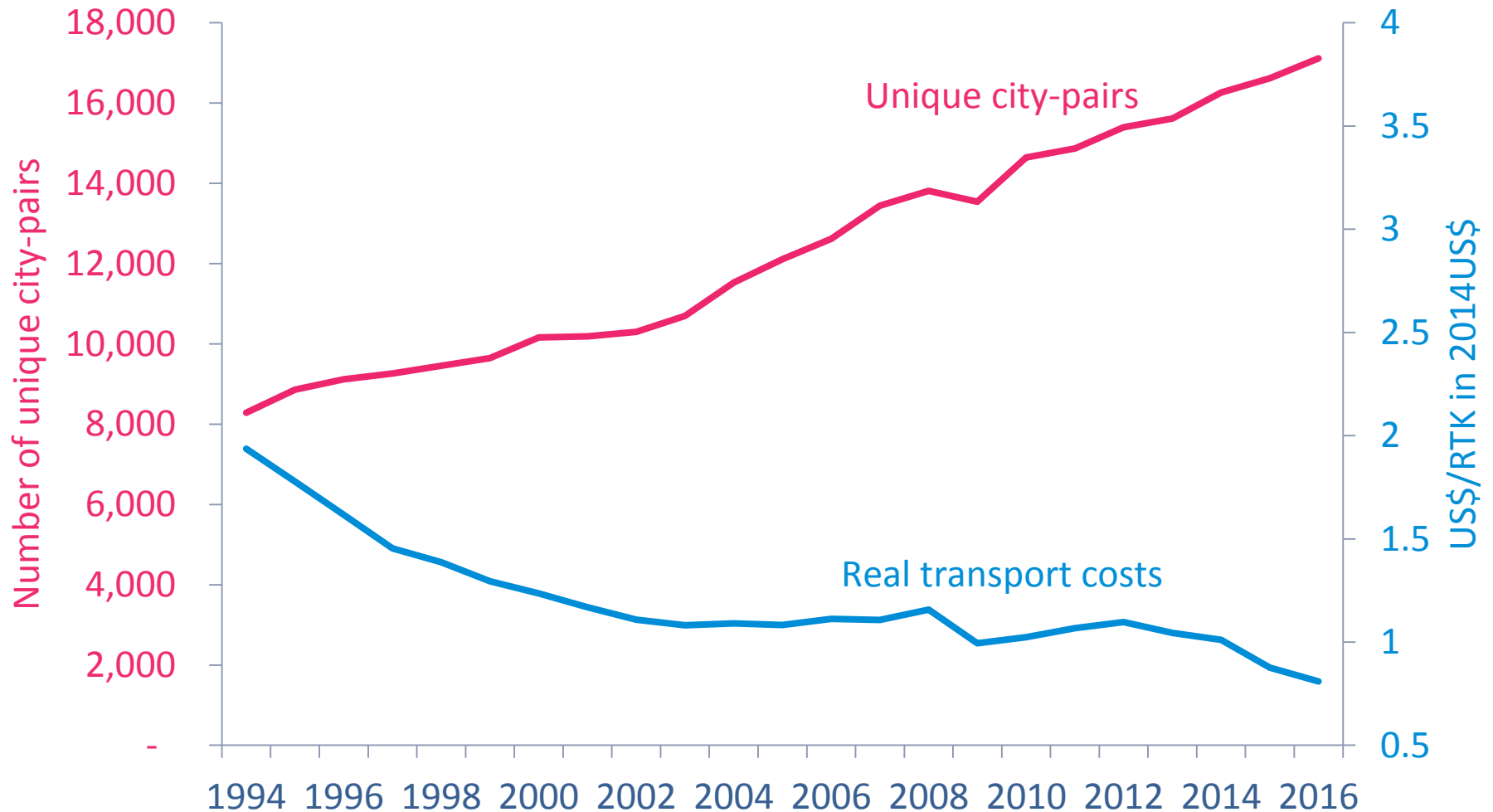
Connecting UK cities to the world



Source: IATA's SRS Analyser, May 2016, scheduled airport pairs to and from the UK

Connecting the world's cities at decreasing cost

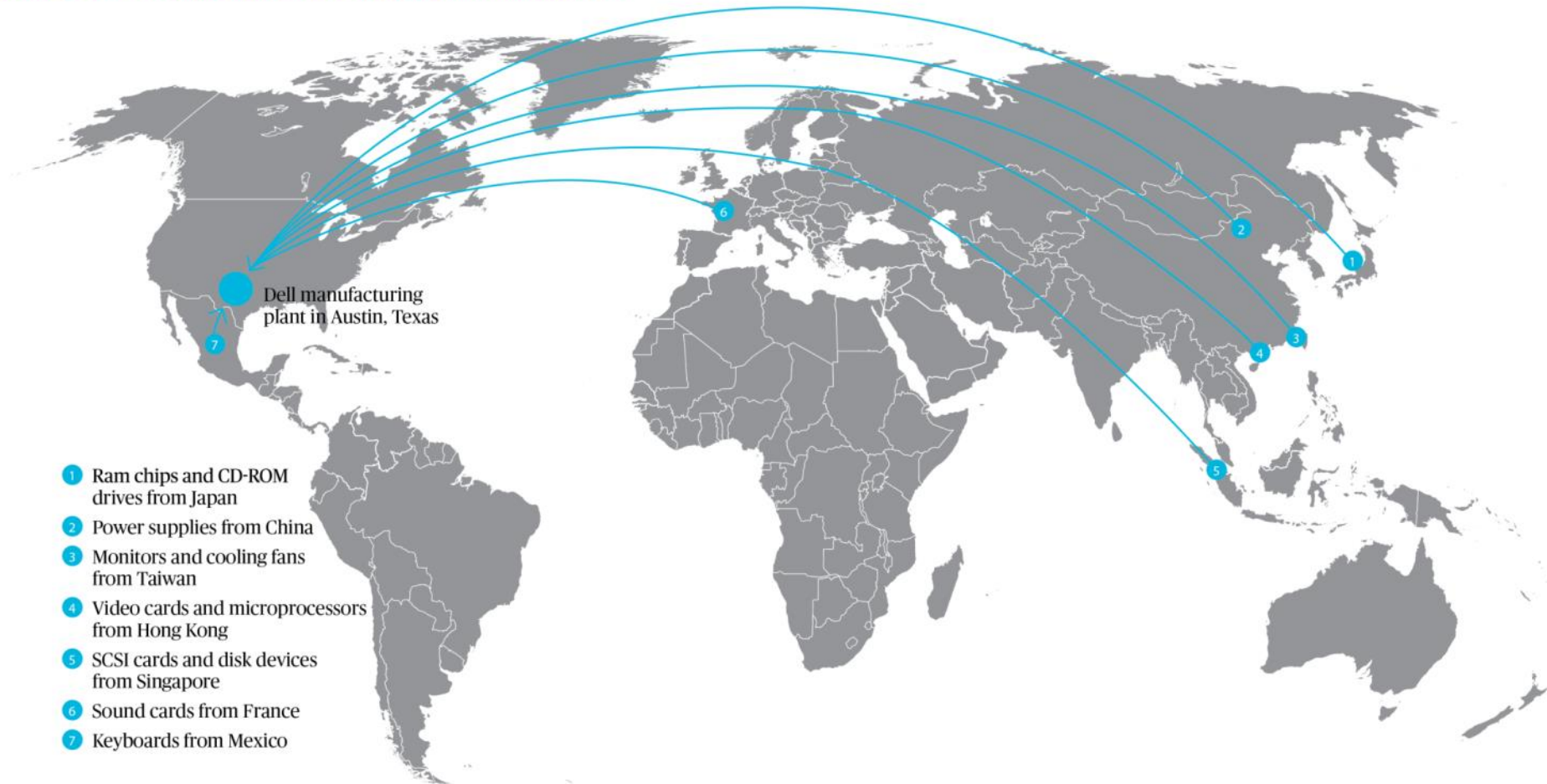
Unique city-pairs and real transport costs



Source: IATA from Boeing, OAG data

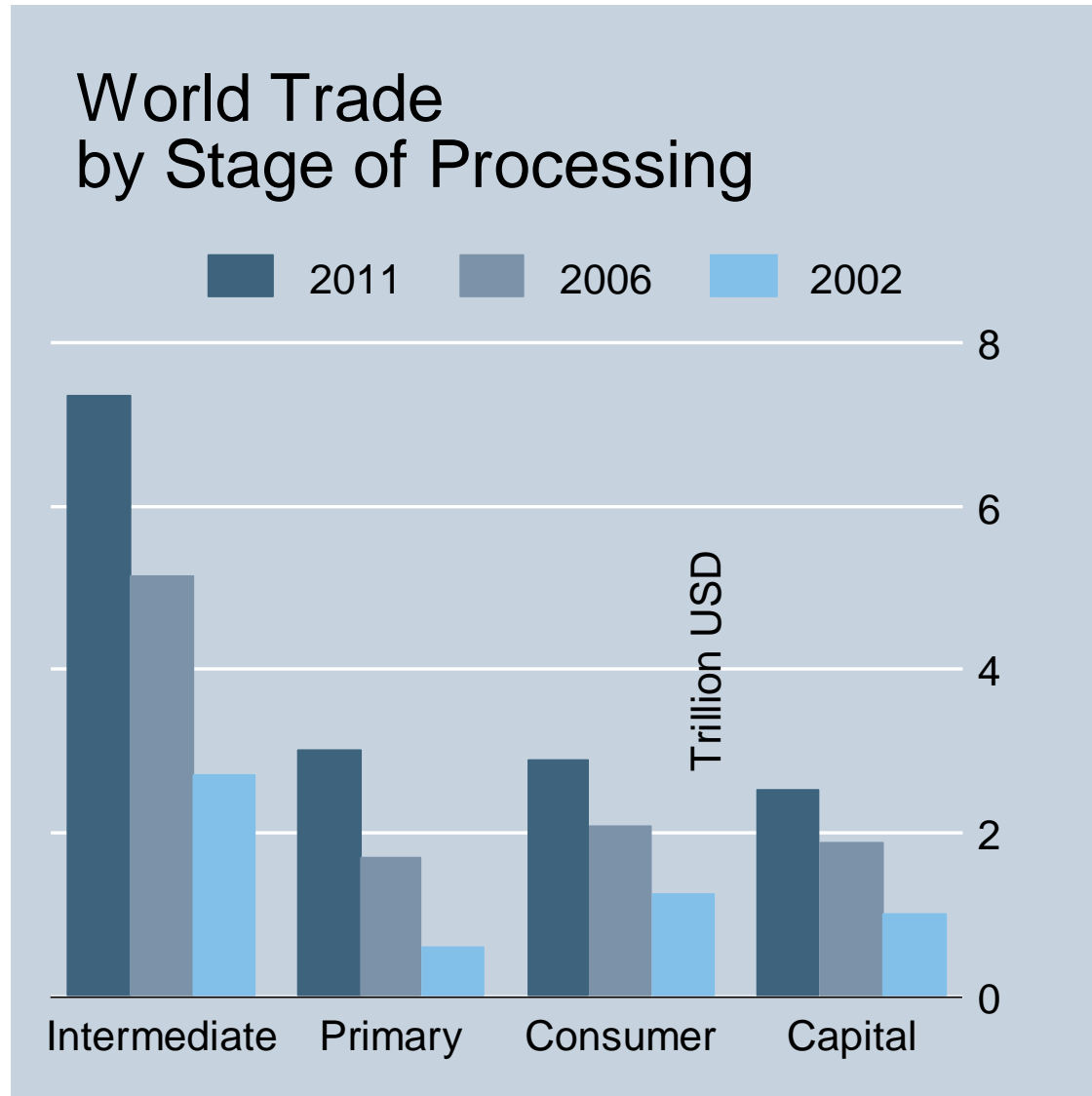
Modern global value chains made possible

Dell's global supply chain, made possible by air transport



Source: ATAG

World trade increasingly needs rapid air transport



Source: UNCTAD

Economic benefits

- Tourism
- Trade in goods and business services
- FDI
- Business clusters
- Innovation from face-to-face meetings
- And exposure to overseas competition

The air transport paradox

Revenue growth¹

Industry total for each year, 2004 - 13 CAGR, percent

Healthcare equipment and services	6.2
Rail	6.2
Airlines	6.1
Energy	6.0
Tech hardware and equipment	5.8
Materials	5.2
Software and services	4.7
Utilities	4.6
Freight forwarding	4.5
Capital goods	4.3
Economy	4.3
Pharma, biotech, and life sciences	4.2
Retailing	4.1
Food, beverage, and tobacco	3.9
Food and staples retail	3.8
Transportation & logistics	3.6
Trucking	3.4
Contract logistics	3.4
Household and personal	3.3
Telecom	3.3
Shipping	3.0
Semiconductors and equipment	2.8
Communications and professional services	2.6
Consumer services	2.4
Consumer durables and apparel	2.4
Bus	2.2
Automobiles and components	2.1
Postal/CEP	1.6
Media	1.4

ROIC² excluding goodwill (average)

Industry aggregate, 2004 - 13 simple average, percent

Software and services	94.7
Pharma, biotech, and life sciences	45.7
Household and personal	36.4
Healthcare equipment and services	33.9
Media	30.7
Food, beverage, and tobacco	26.8
Tech hardware and equipment	24.7
Communications and professional services	21.9
Semiconductors and equipment	21.5
Telecom	20.6
Postal/CEP	16.6
Consumer services	15.7
Retailing	15.7
Consumer durables and apparel	15.6
Economy	13.9
Capital goods	13.6
Bus	13.6
Food and staples retail	13.3
Energy	12.7
Materials	12.4
Contract logistics	12.4
Freight forwarding	12.3
Rail	8.1
Shipping	7.7
Transportation & logistics	7.5
Automobiles and components	6.8
Trucking	6.4
Utilities	6.1
Airlines	4.0

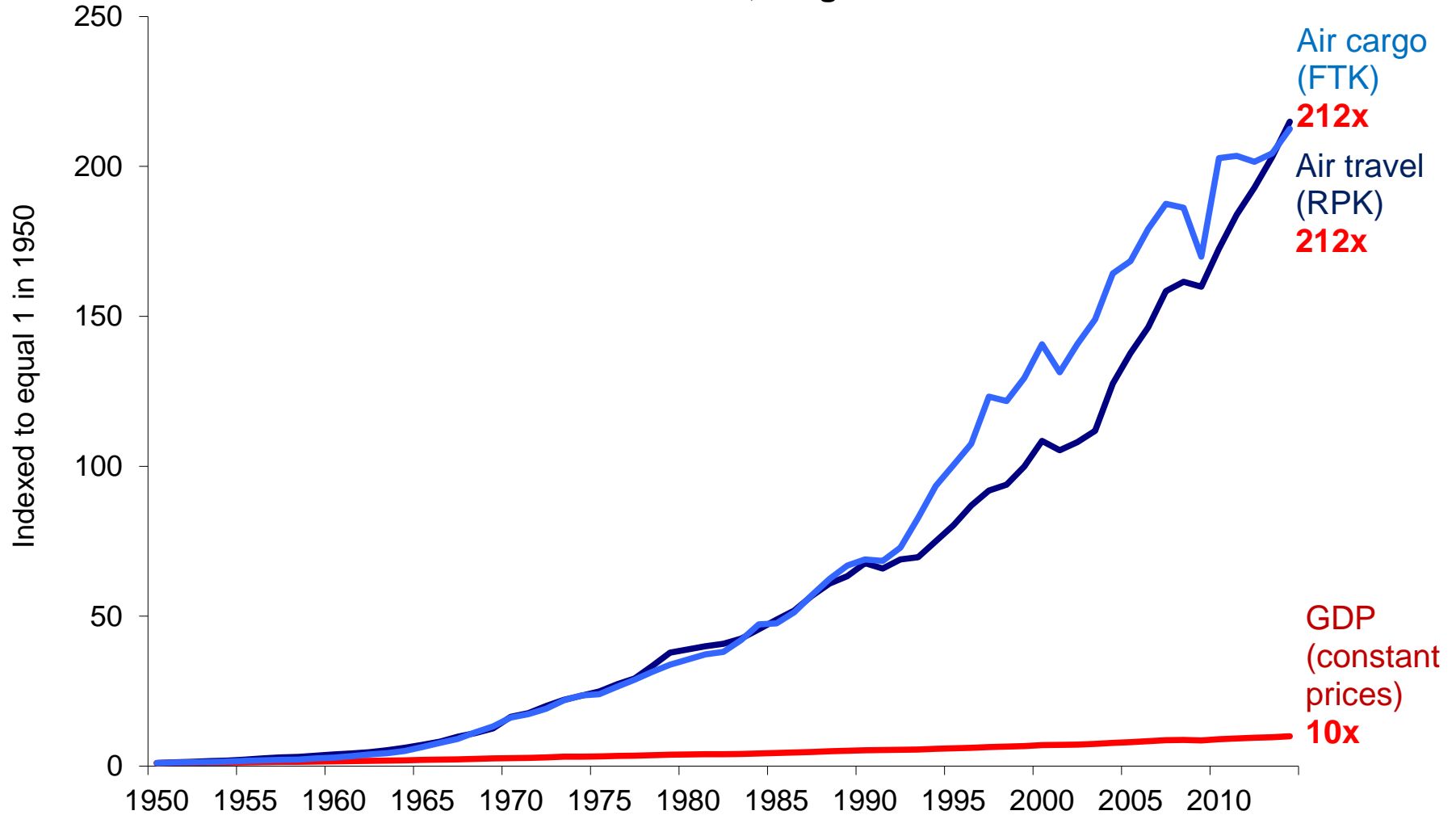
1 Real revenue growth, 2004 - 13 CAGR inflation adjusted, median for industry

2 ROIC after tax, excluding goodwill; excludes outliers

Source: McKinsey presentation to IATA

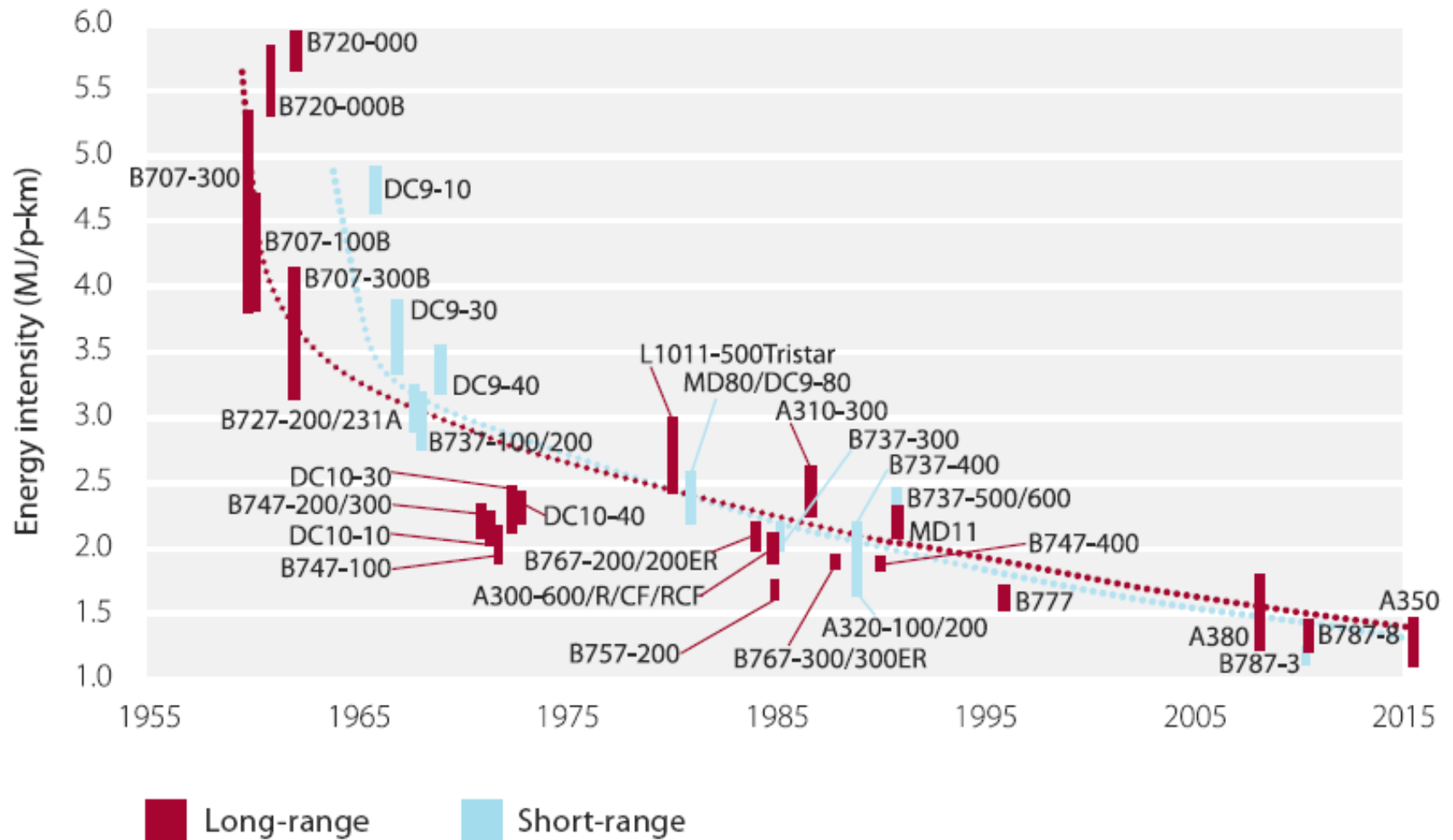
Consumer and business demand extremely strong

World scheduled air travel, freight and world real GDP



Source: IATA, ICAO, Haver

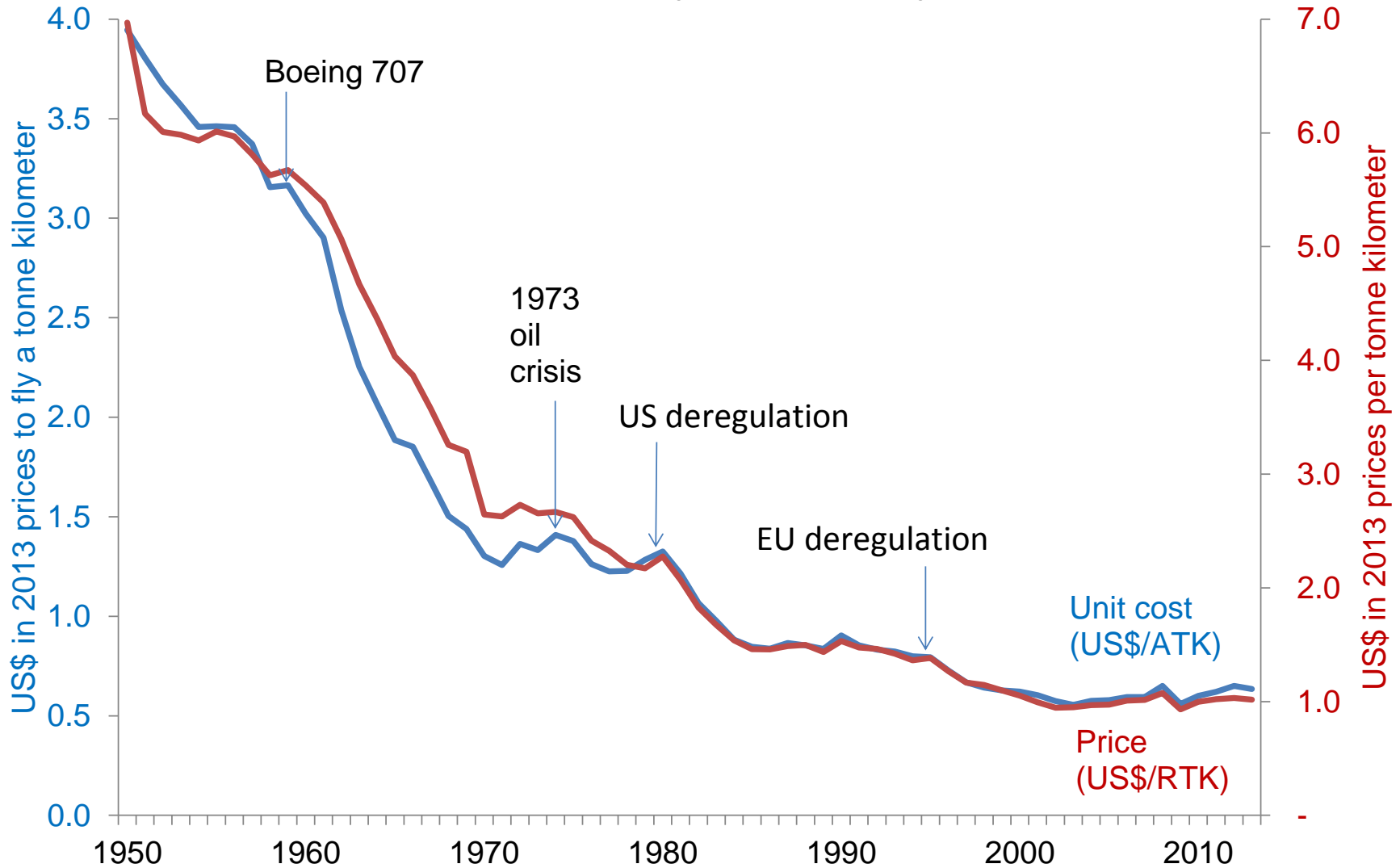
Aircraft fuel efficiency has improved dramatically



Source: Lee

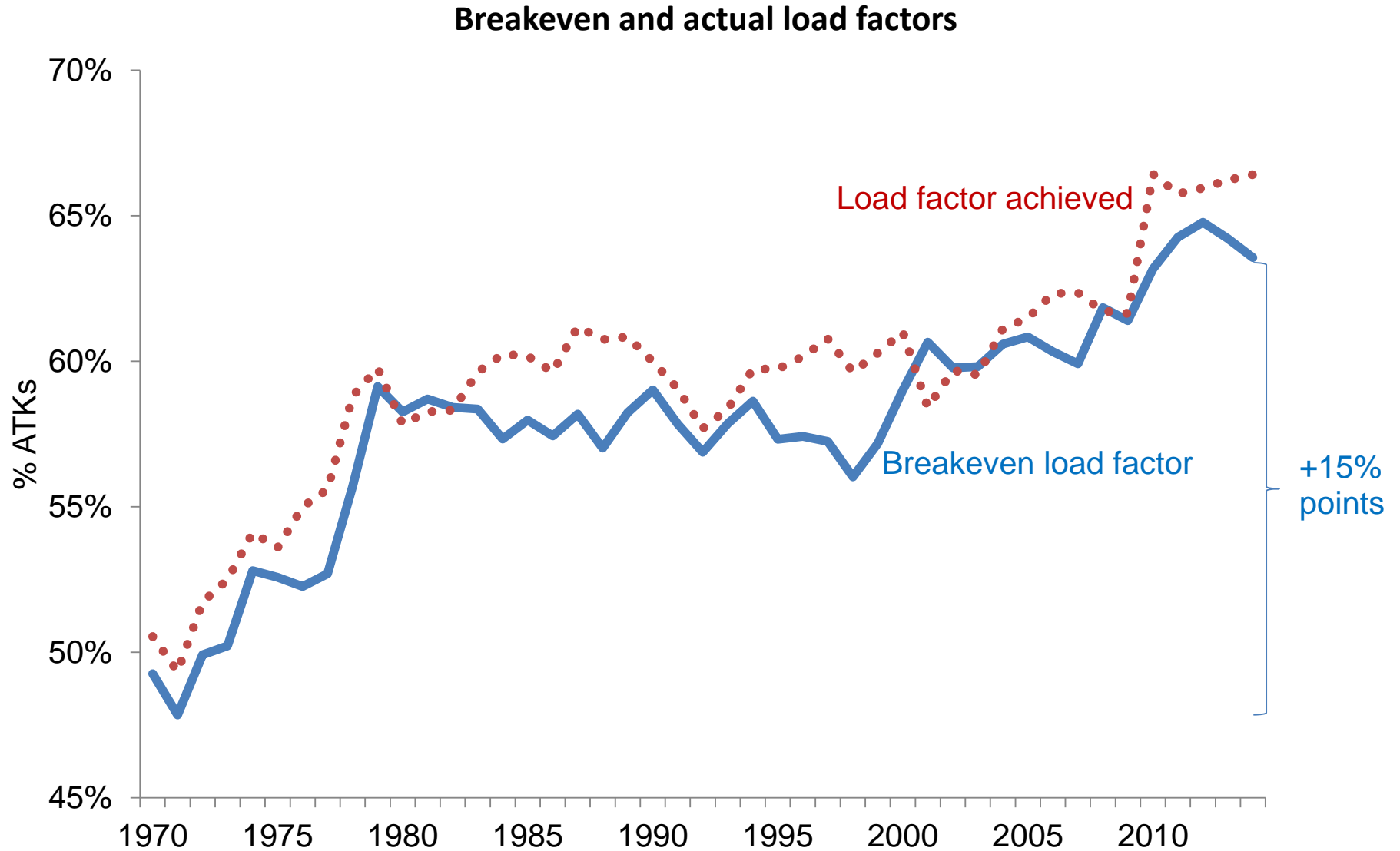
Costs typically passed through to prices

Unit cost and the price of air transport



Source: ICAO, IATA

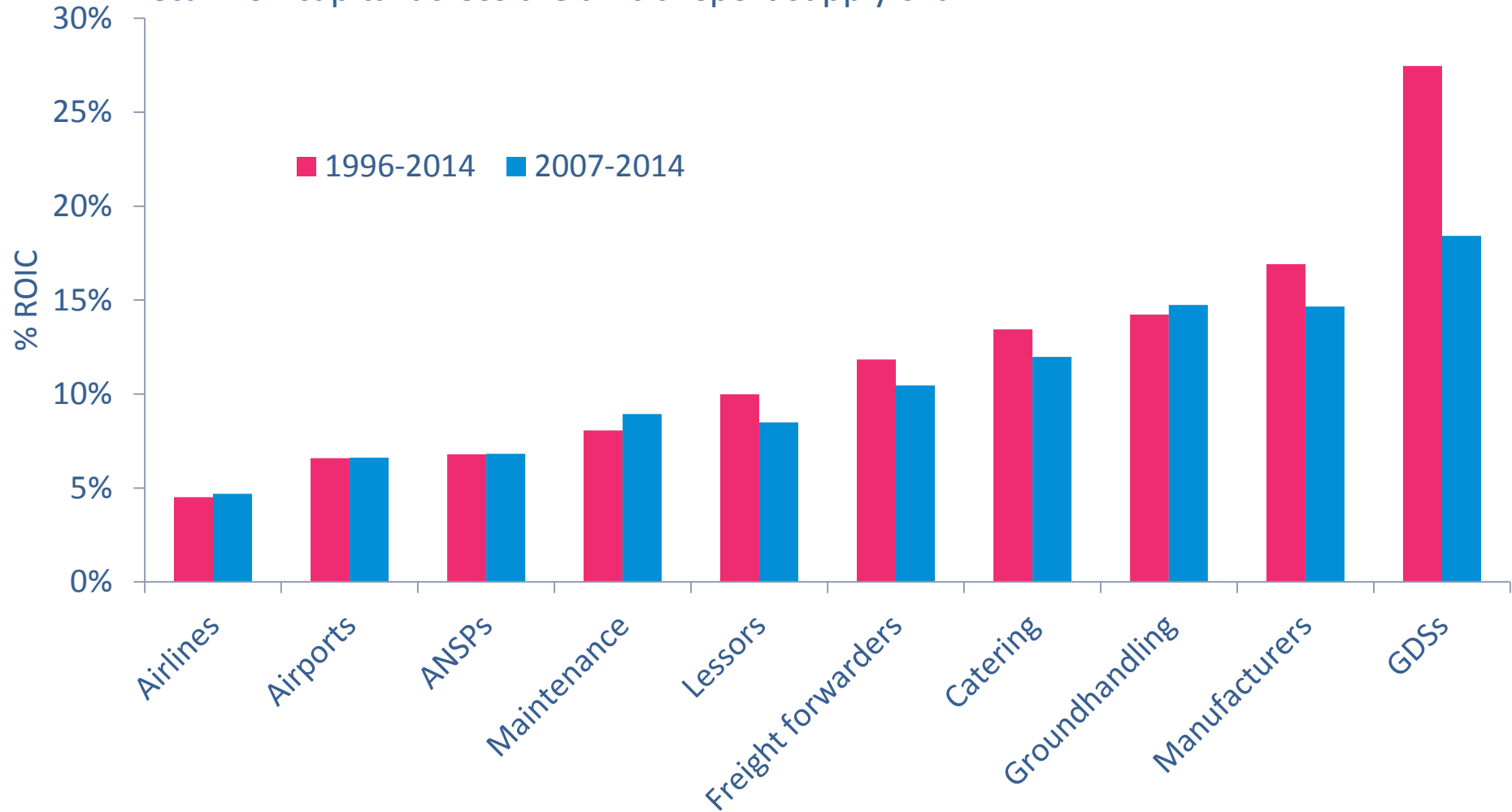
In fact air transport prices have fallen further than costs



Source: IATA, ICAO

Other sectors do better

Return on capital across the air transport supply chain



Source: McKinsey for IATA

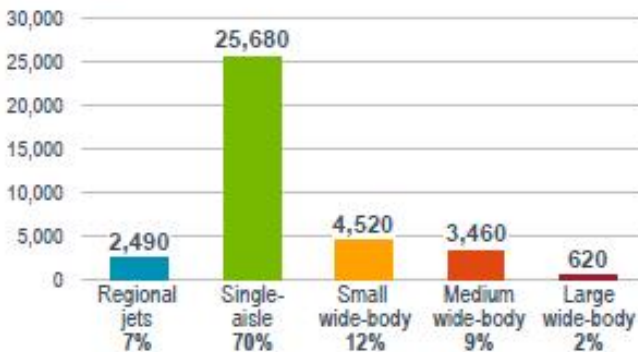
Airlines will need to raise \$5 trillion capital

Airlines will need nearly 36,800 new airplanes valued at \$5.2 trillion



Airplane deliveries: 36,770

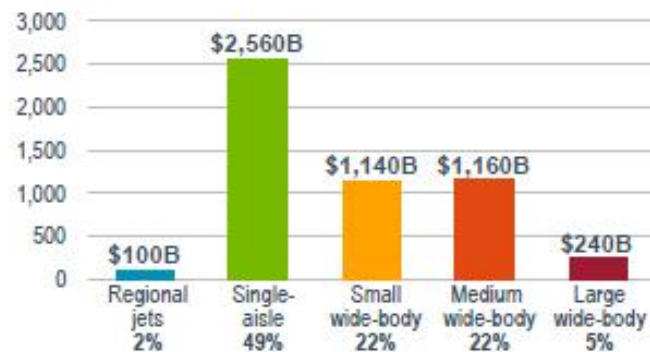
2014 - 2033



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Market value: \$5.2T

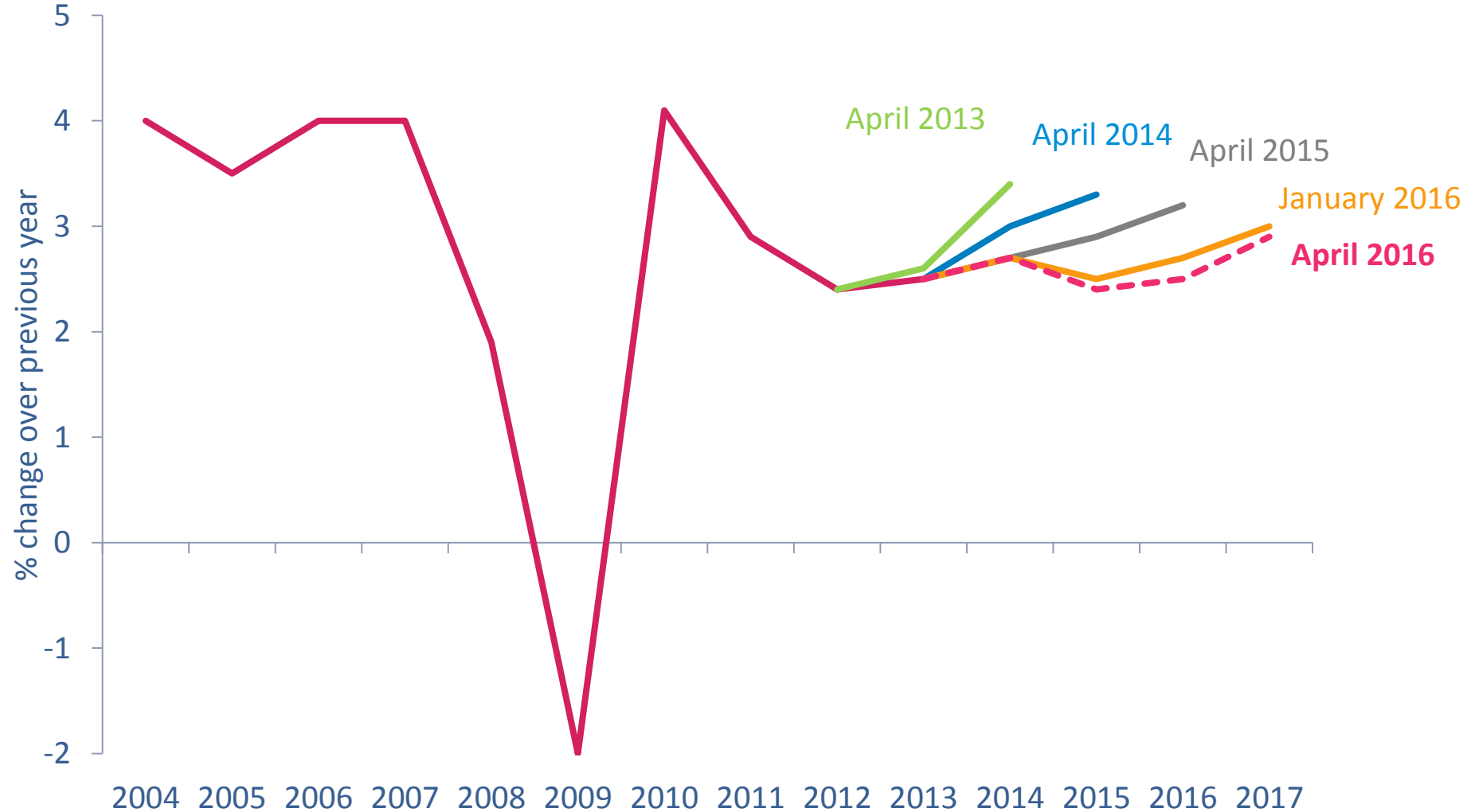
2014 - 2033



Source: Boeing current market outlook

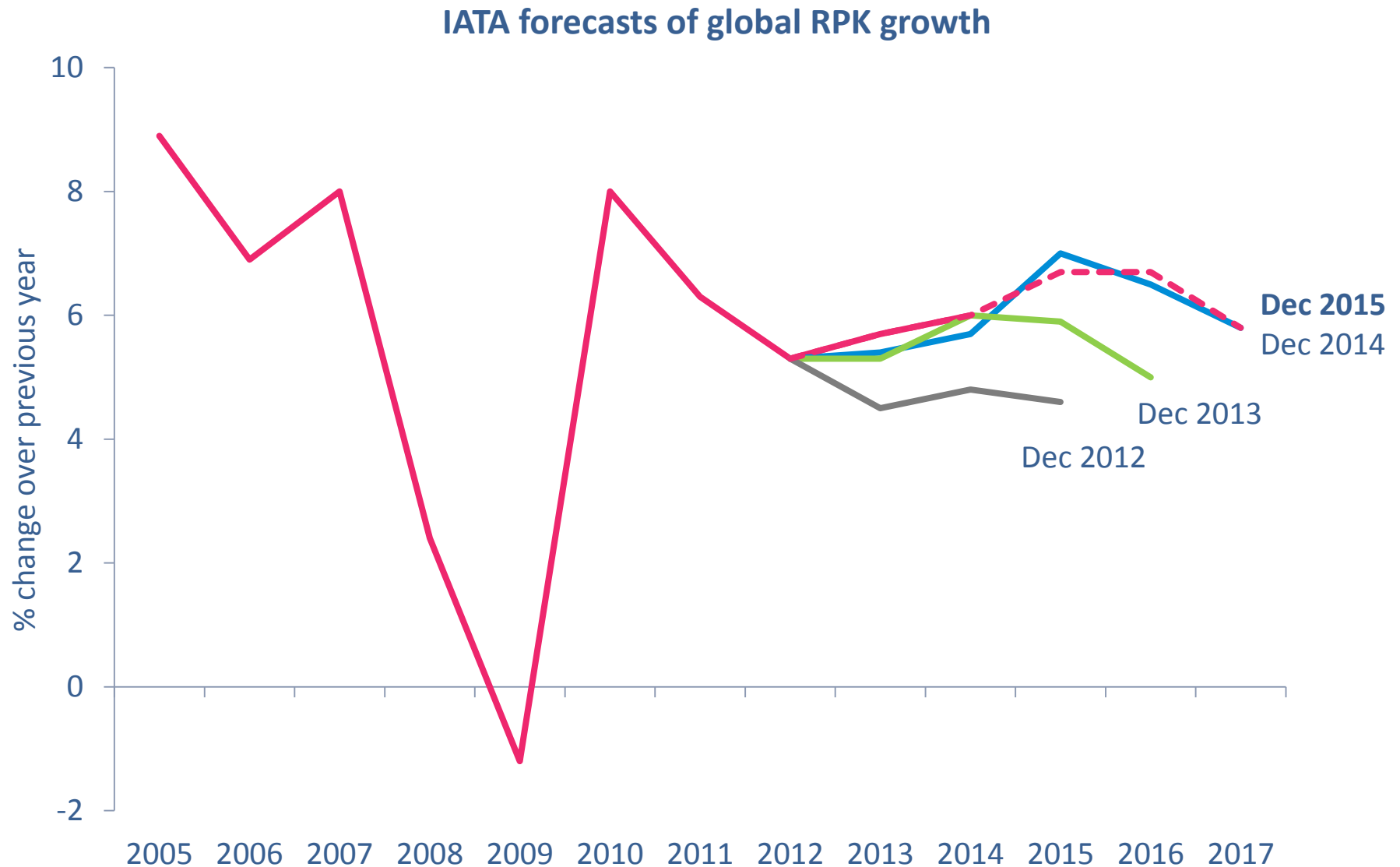
World economy stuck on low growth path

IMF forecasts of global economic growth



Source: IMF World Economic Outlook

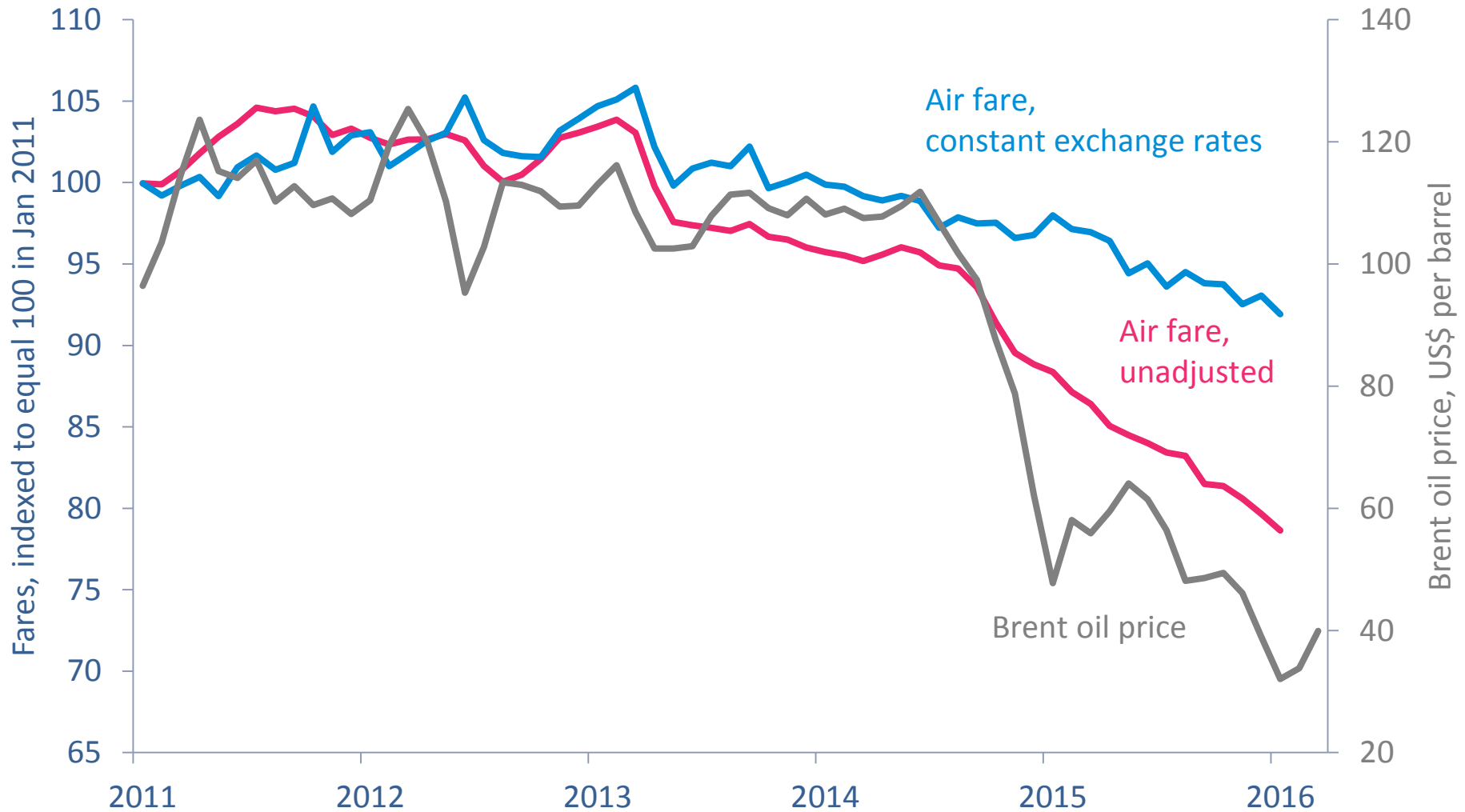
But air travel apparently defying economic gravity



Source: IATA Economic Performance of the Airline Industry

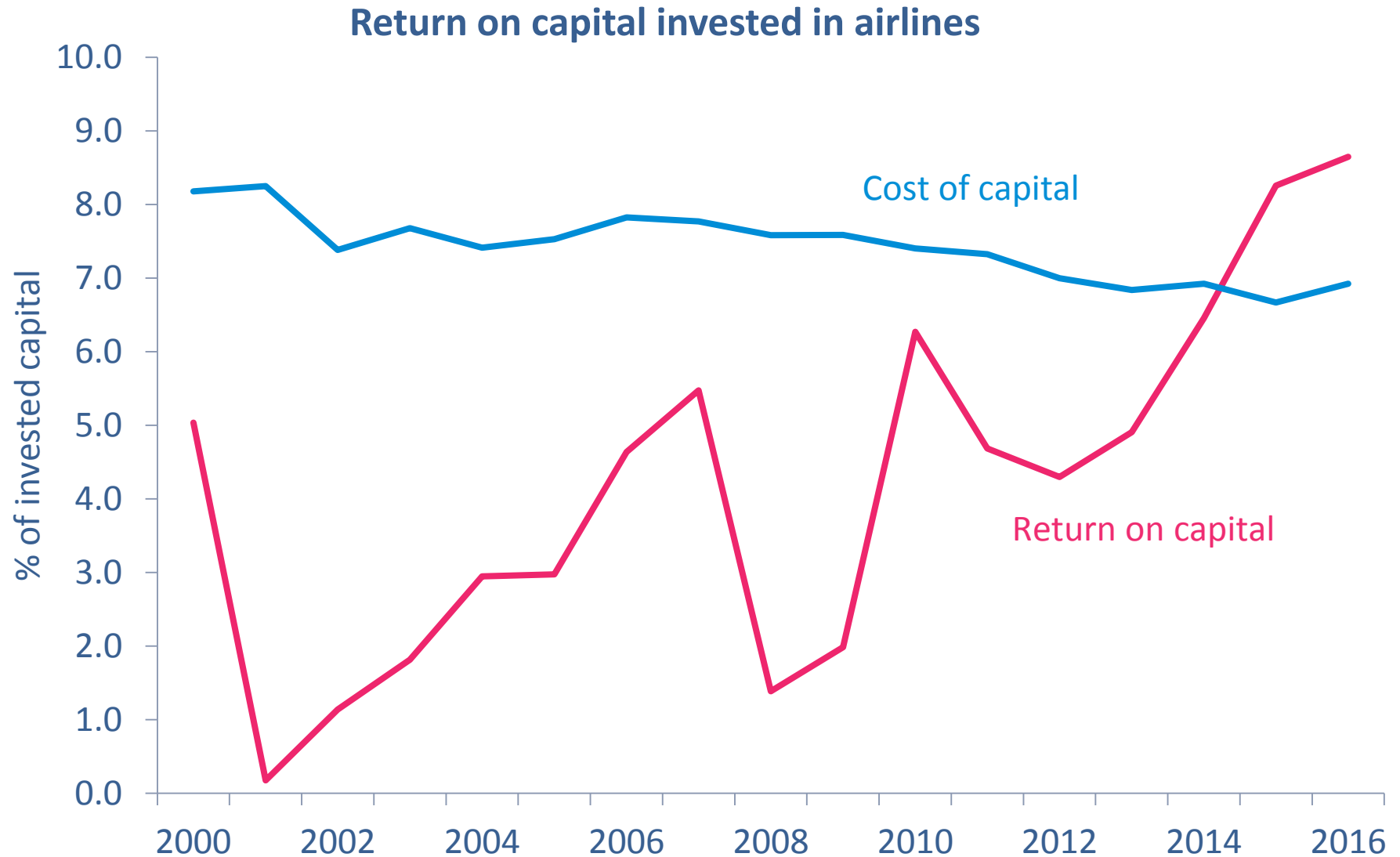
Boosted temporarily by the fall in oil prices

Worldwide average air fare and oil prices



Source: IATA Economics using PaxIS+ and Haver data

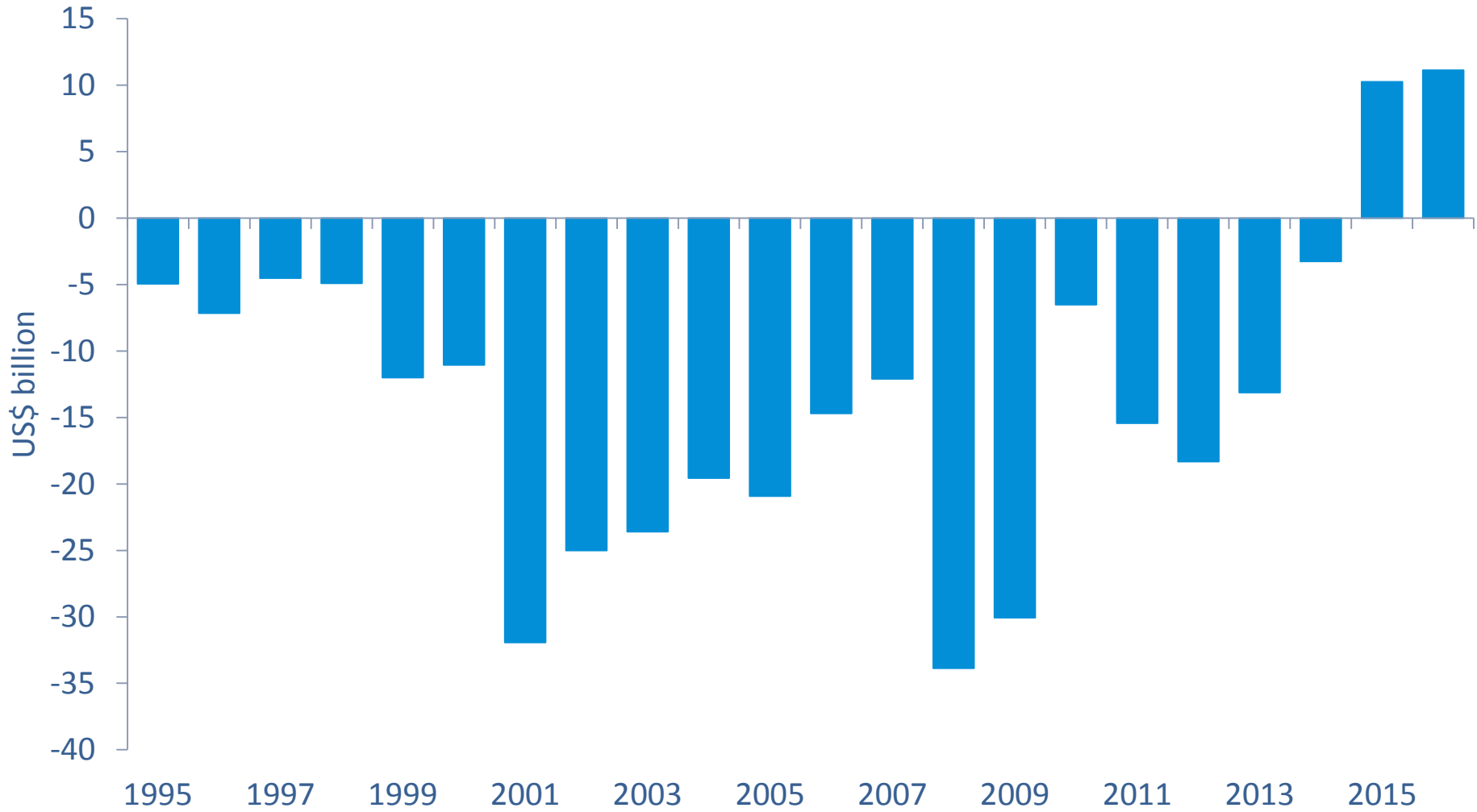
Exceptional returns – but really should be the norm



Source: IATA Economics forecasts using historic data from McKinsey

Warren Buffet may still need to be convinced!

Difference between investing in airlines and investing in similar assets elsewhere



Source: IATA Economics based on McKinsey analysis

Summary

- A vital enabler of economic growth
- Airlines cannot continue to destroy shareholder value
- Air travel growth (and profits?) defying economic gravity