



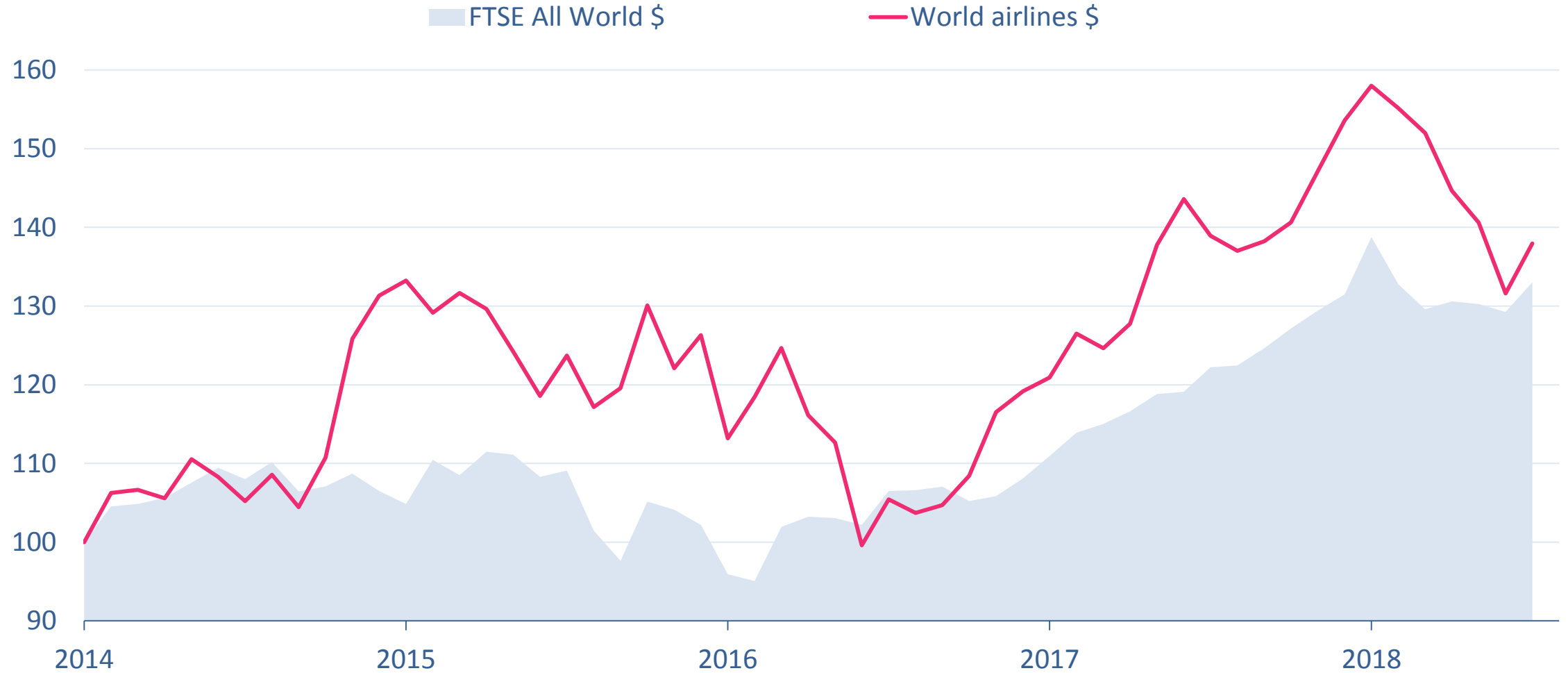
# The key issues facing airlines' financial performance

Brian Pearce,  
Chief Economist,  
IATA

[www.iata.org/economics](http://www.iata.org/economics)

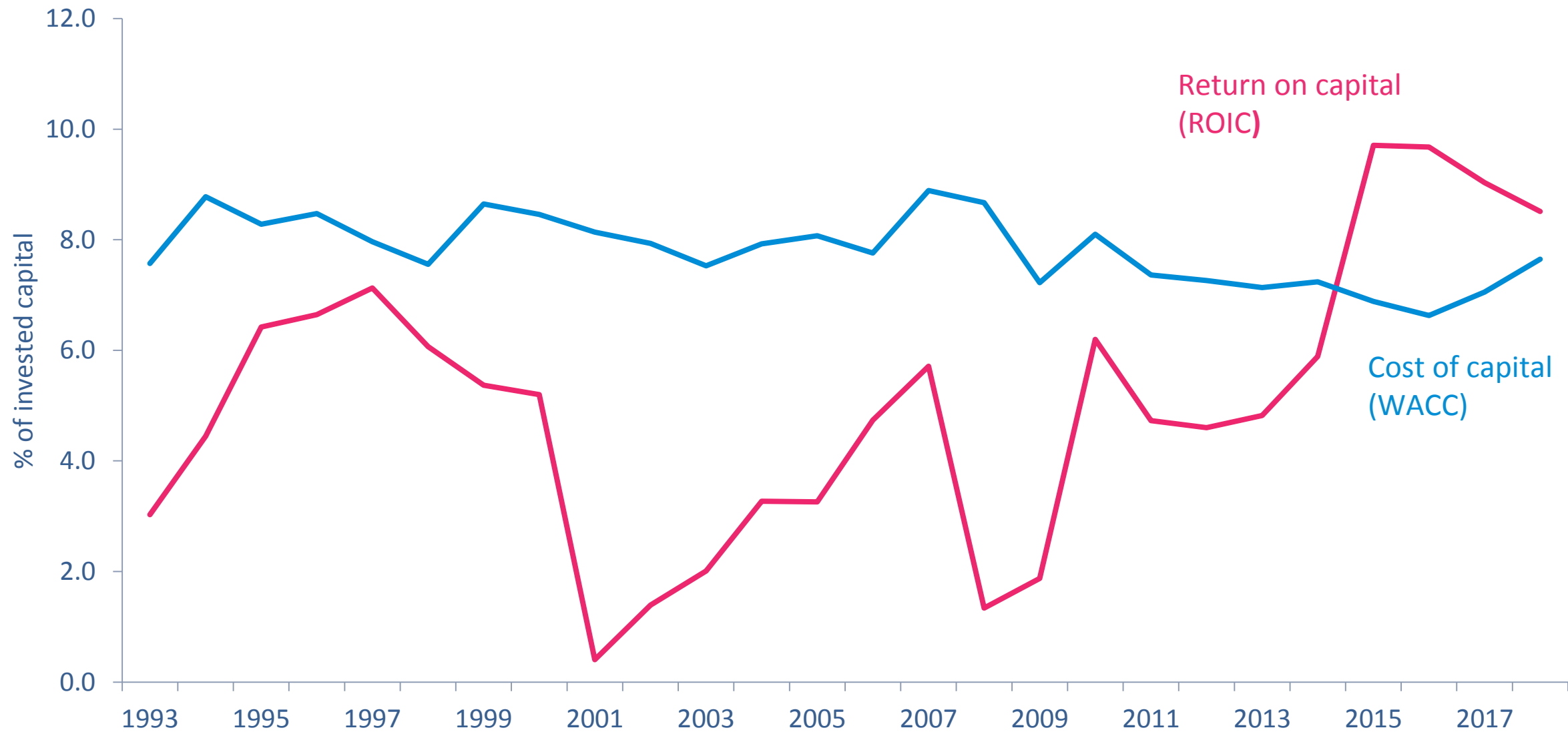
# Financial markets have been negative on airlines, so far this year

Index (Jan 2014=100)



# Yet performance is still vastly better than just 4 years ago

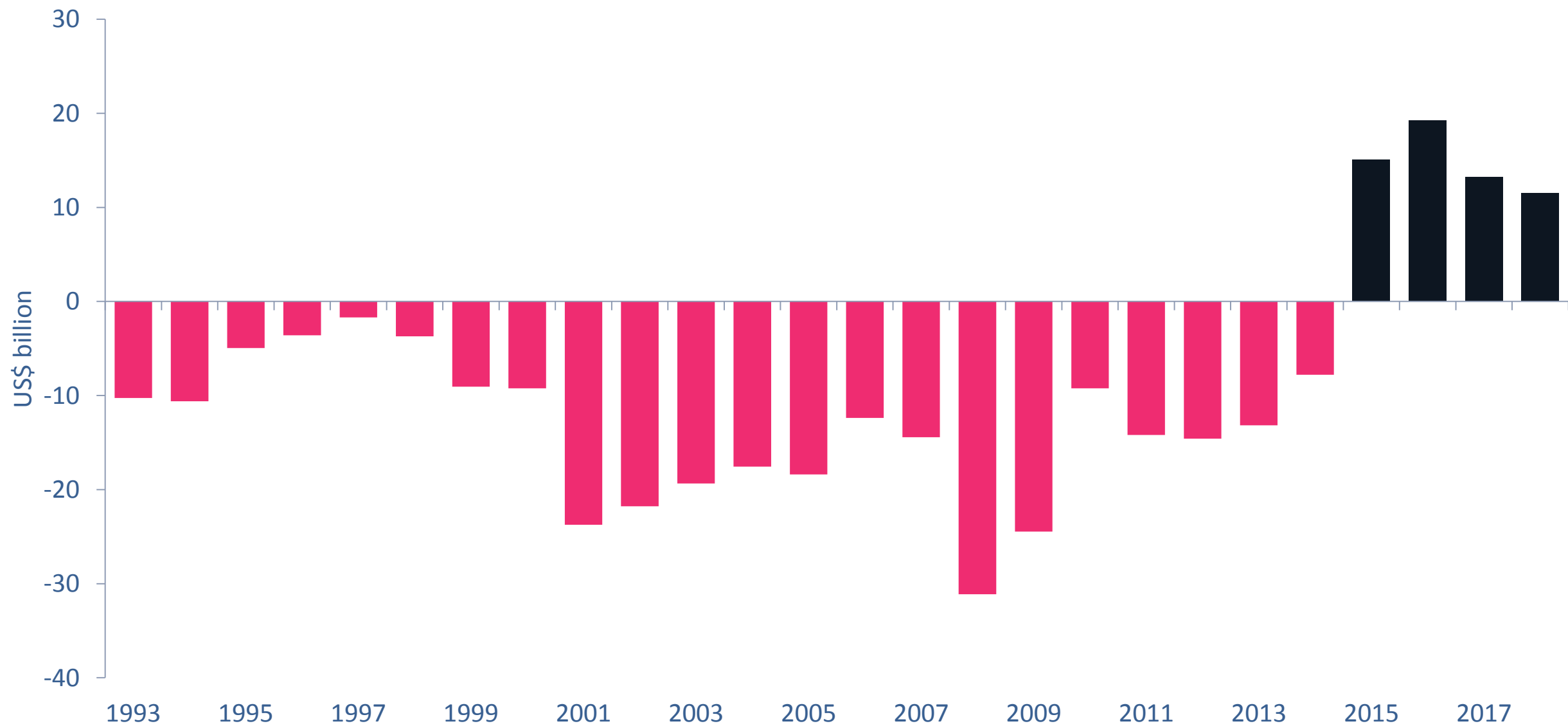
Return on capital invested in airlines and their cost of capital



Source: IATA Economics using data from McKinsey, The Airline Analyst and our own forecasts

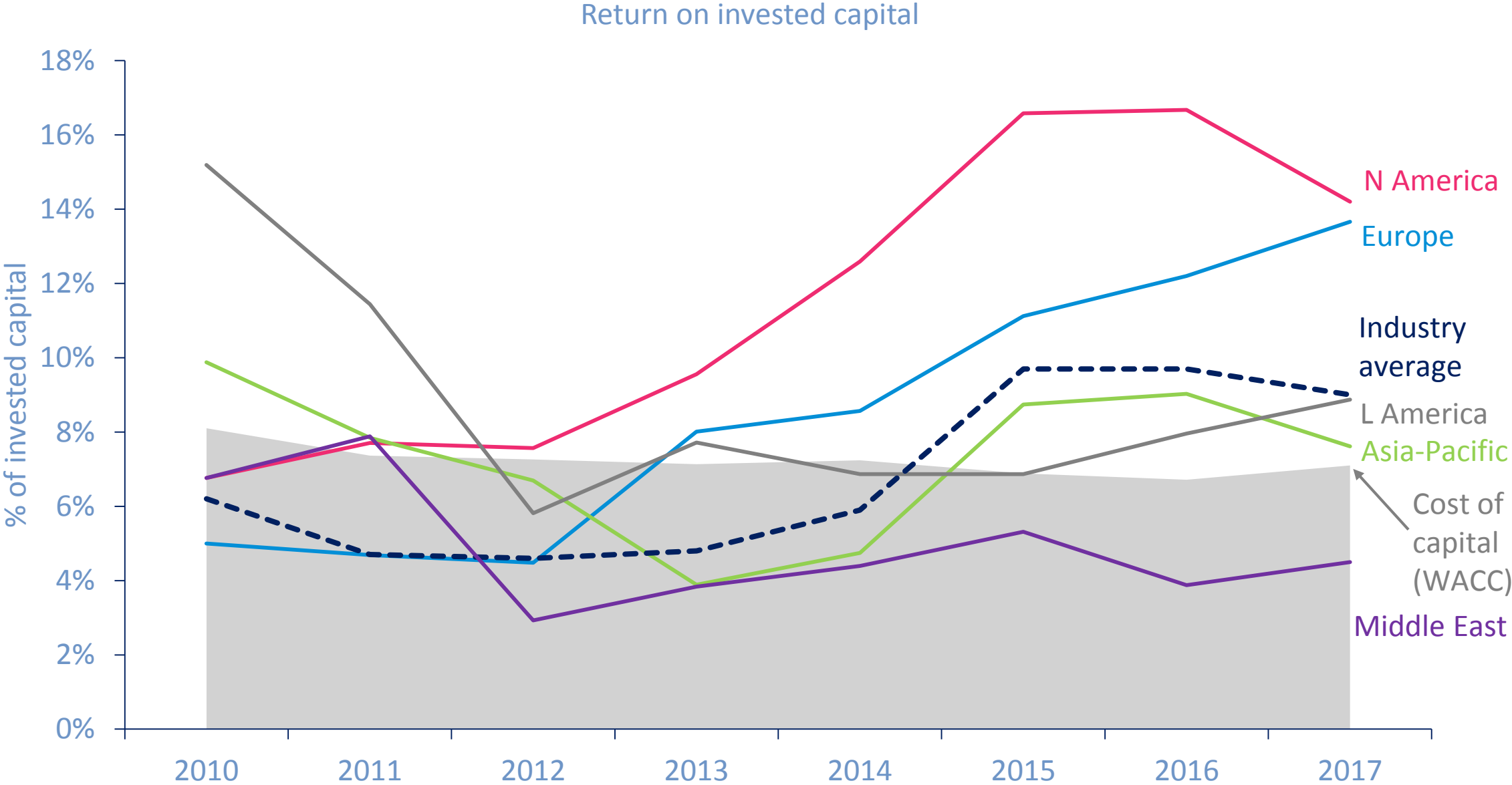
# No longer are we destroying investor value at a rate of \$20bn a year

Difference between investing in airlines and investing in similar assets elsewhere



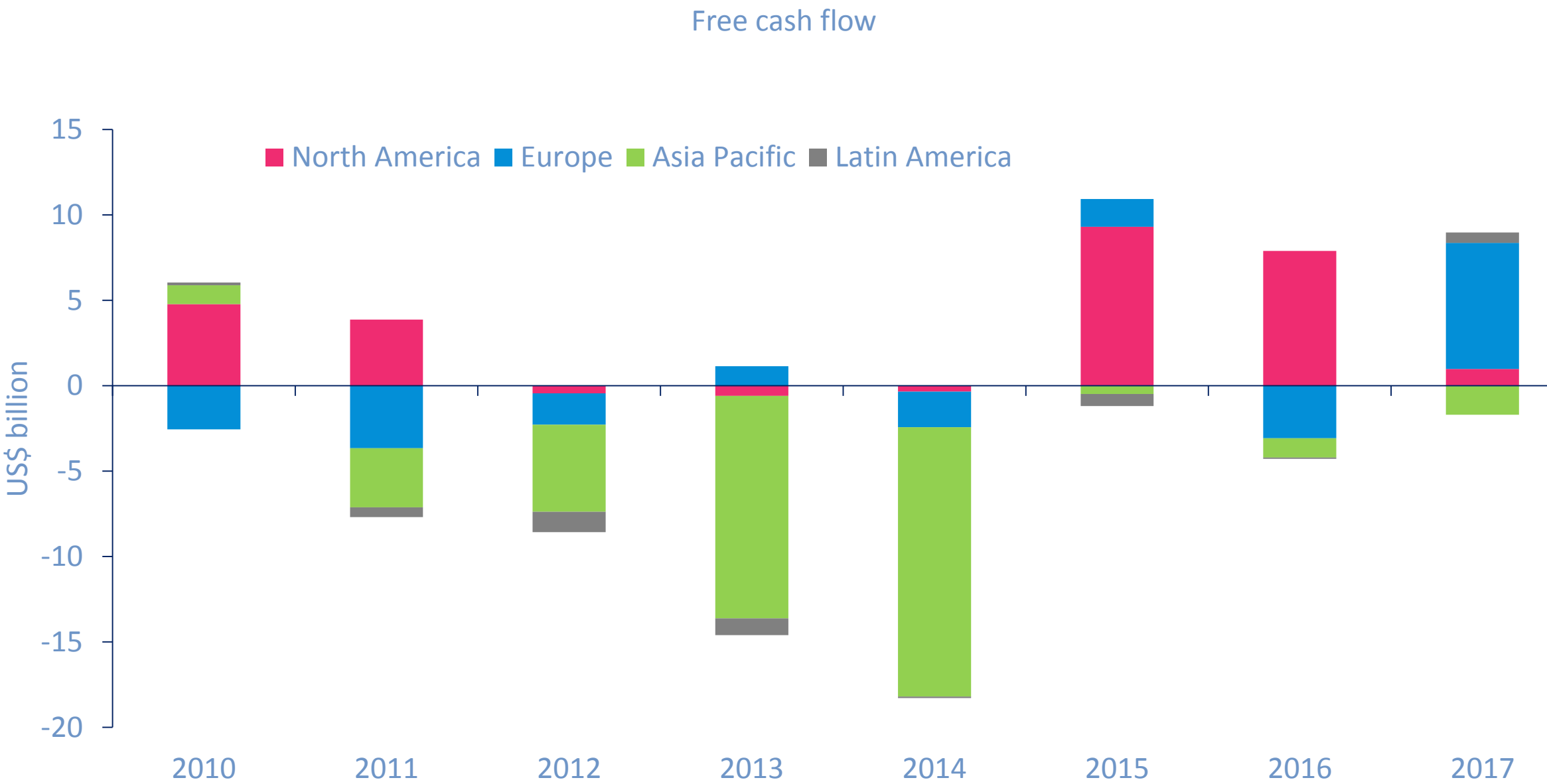
Source: IATA Economics using data from McKinsey, The Airlines Analyst, IATA forecasts

# It is true that performance is not evenly spread by region



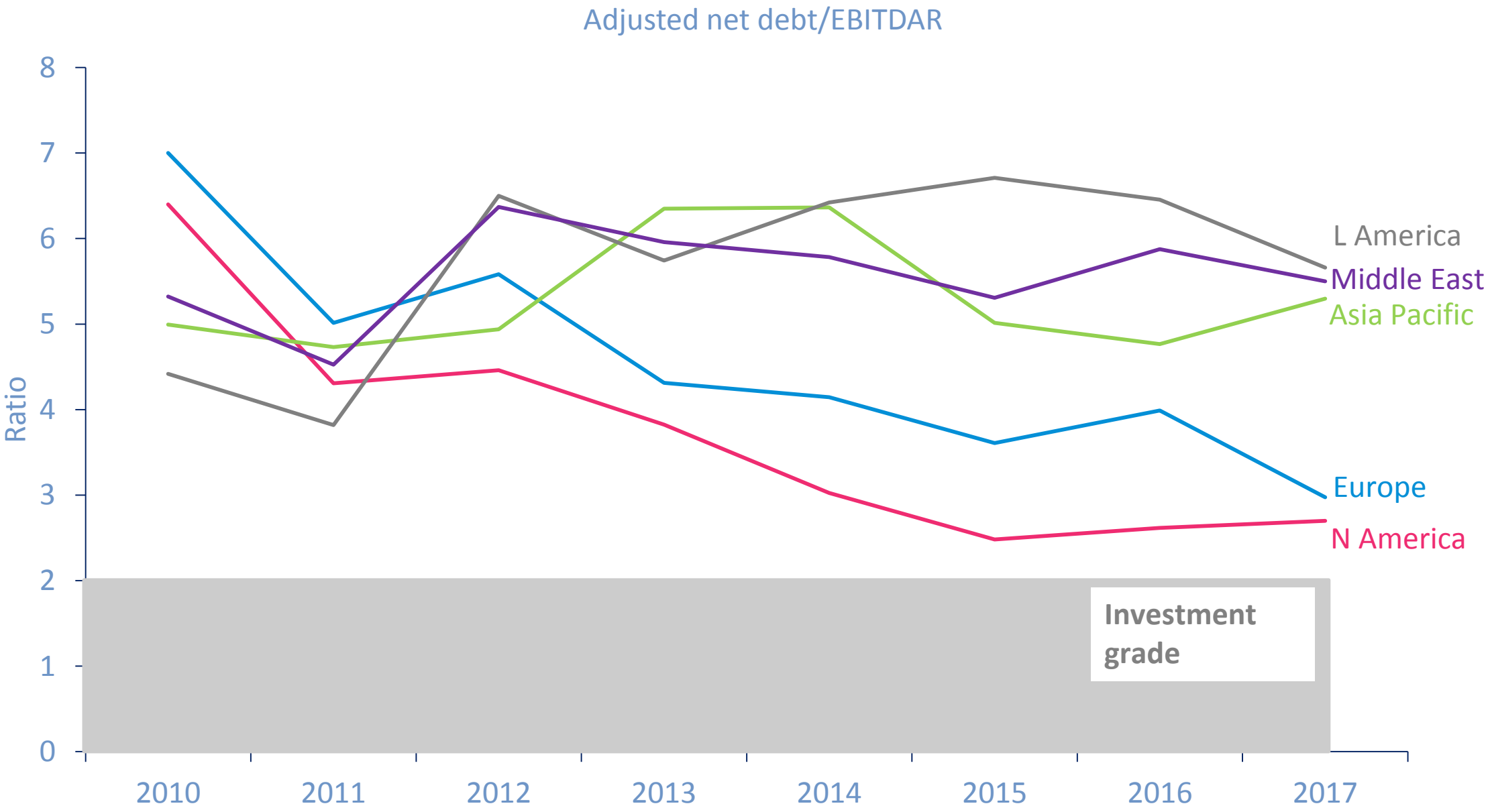
Source: IATA Economics using data from The Airline Analyst

# Free cash flows have been strong, but just in N America and Europe



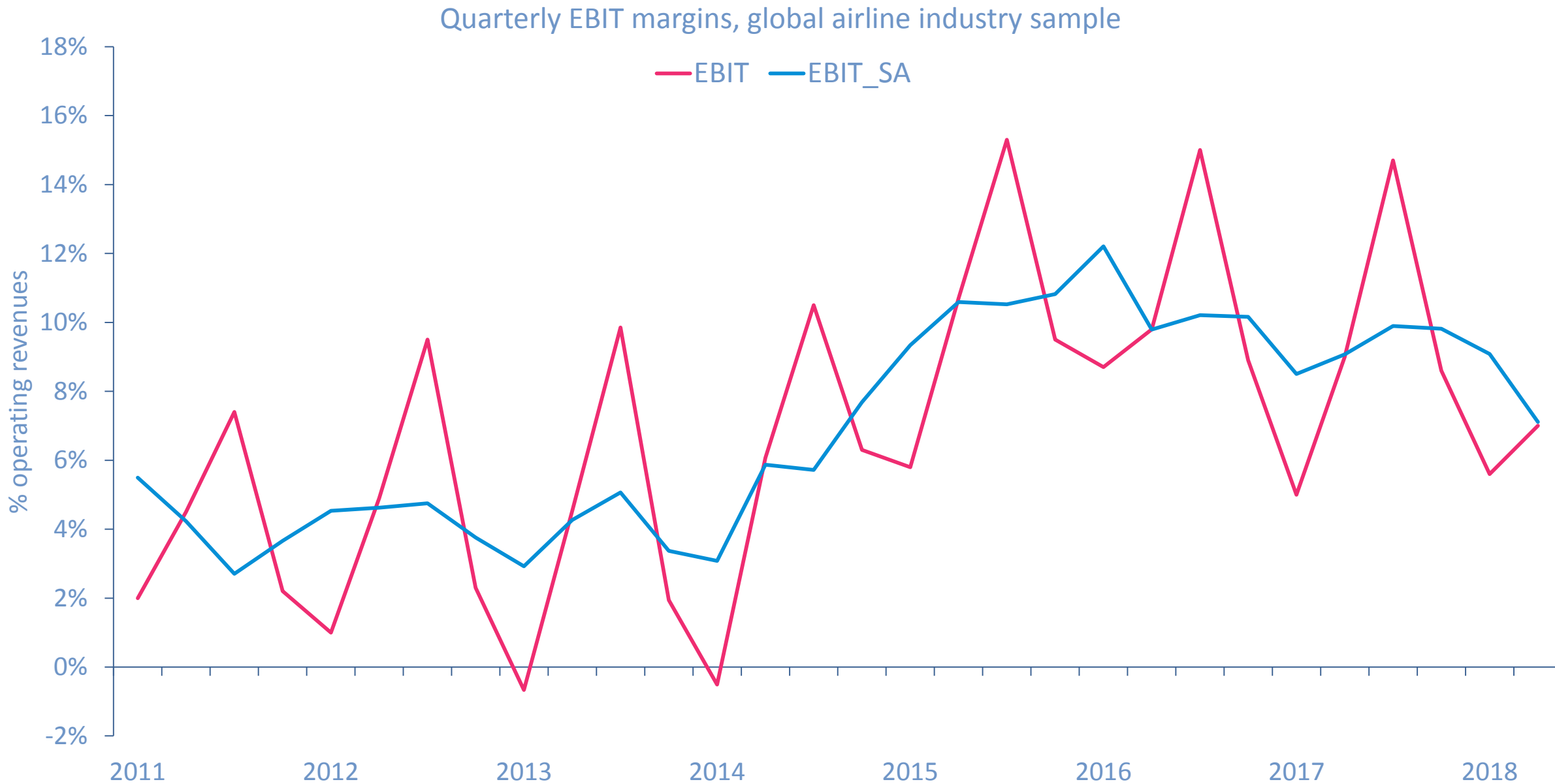
Source: IATA Economics using data from The Airline Analyst

# So balance sheets are in two groups, one still vulnerable to shocks



Source: IATA Economics using data from The Airline Analyst

# And margins came under greater pressure in 2018 Q2

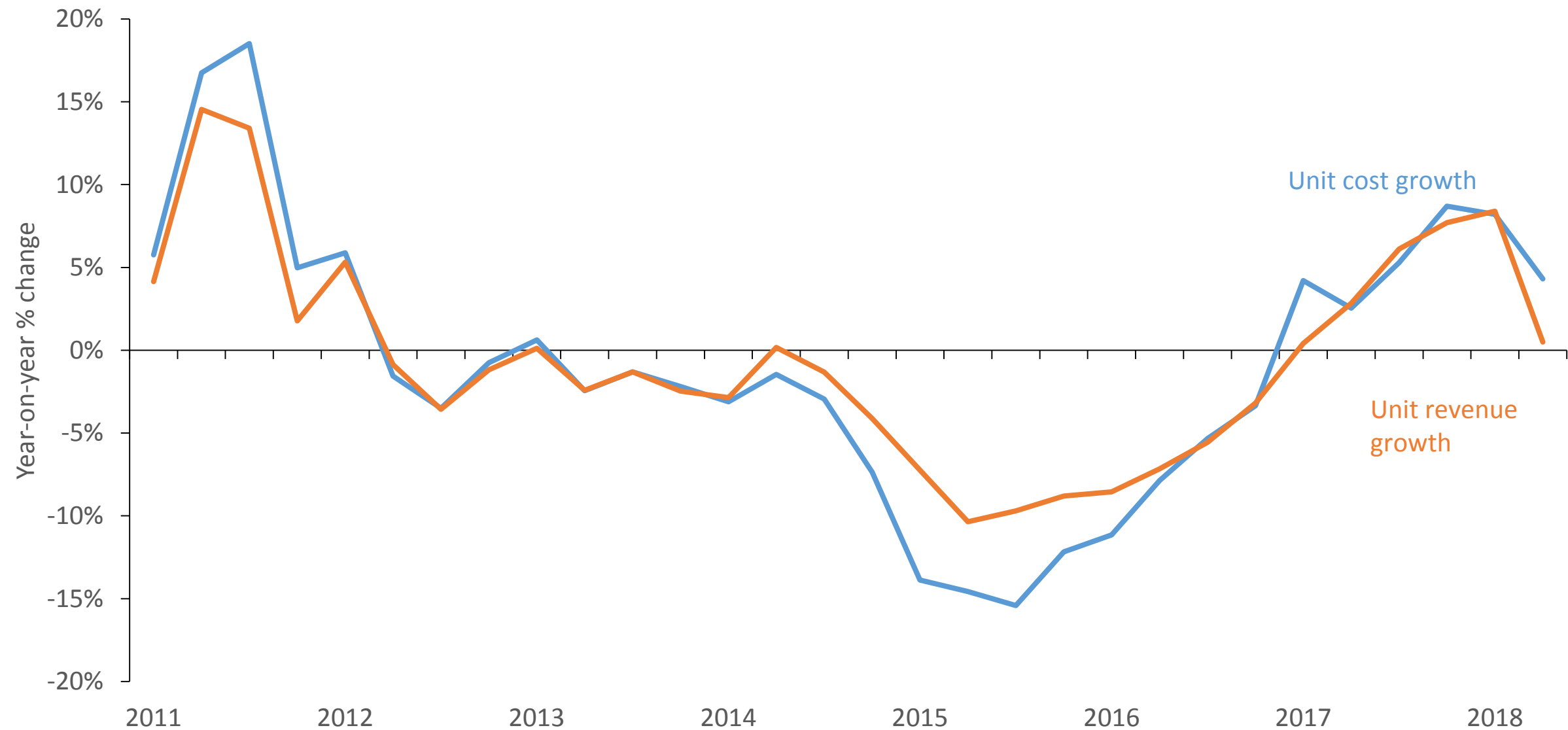


Source: IATA Economics using data from The Airline Analyst, airline releases. Note: This data is from airlines report quarterly only



# Because unit costs are now rising faster than unit revenues

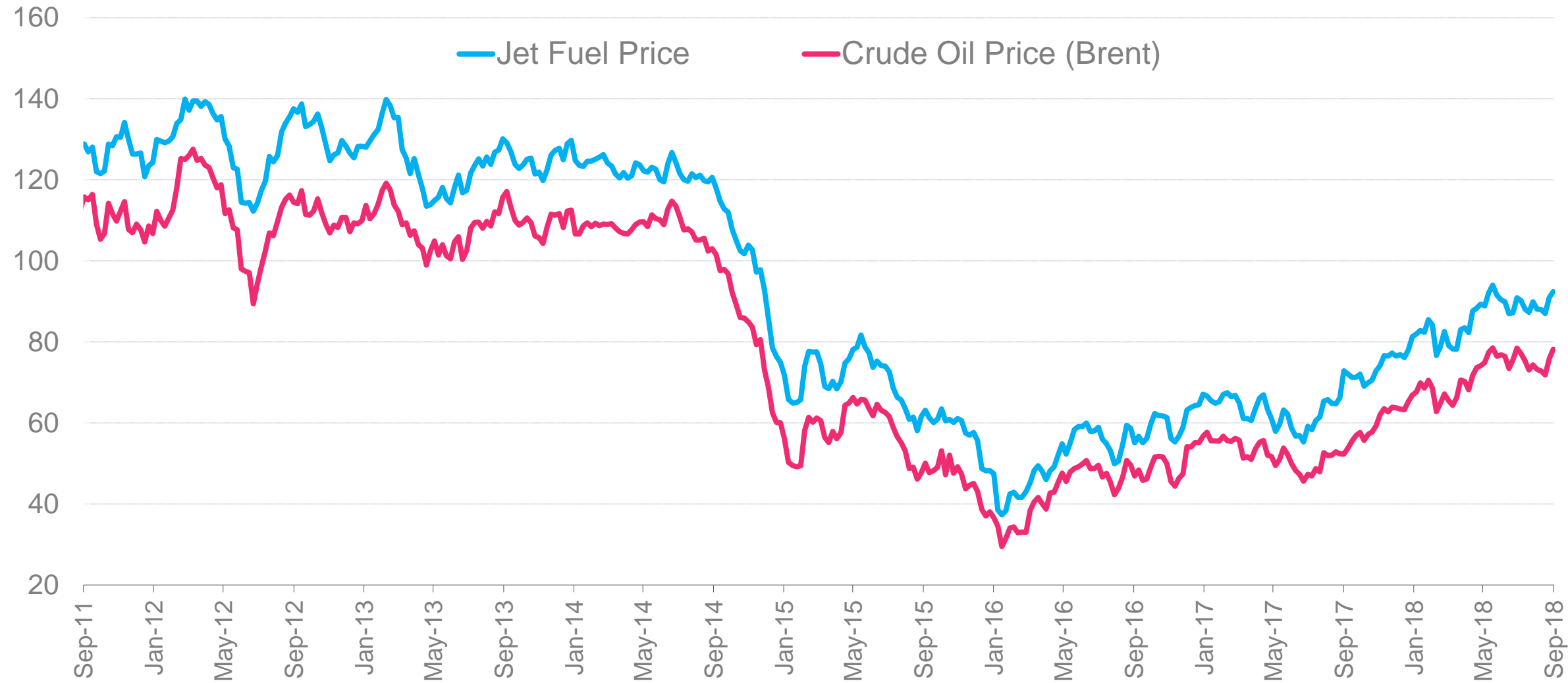
Industry wide growth in unit revenues and unit costs, in US\$



Source: IATA Economics using data from The Airline Analyst

# Fuel prices continue to trend upwards

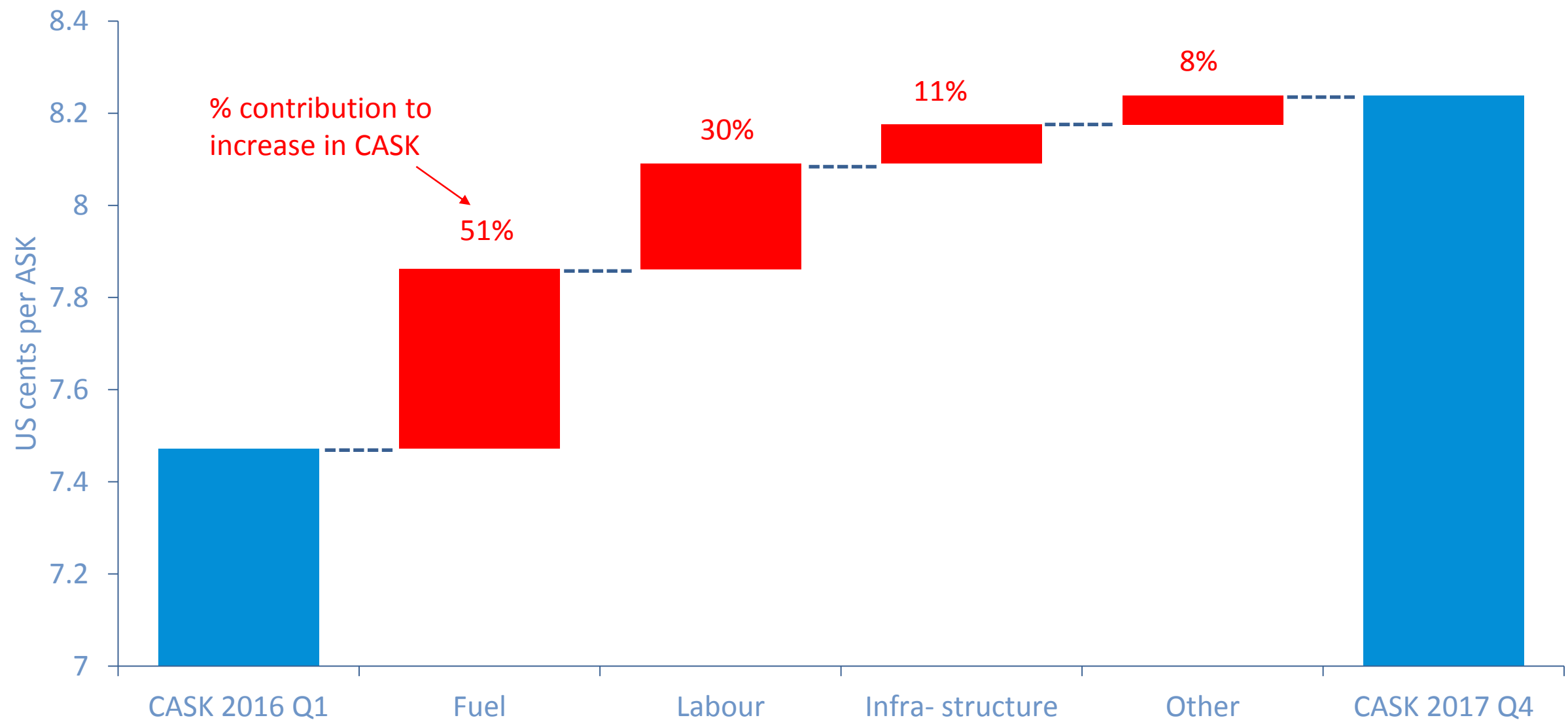
Jet Fuel and Crude Oil Price (\$/barrel)



Source: IATA Economics using data from Platts

# And cost pressures have emerged across most inputs

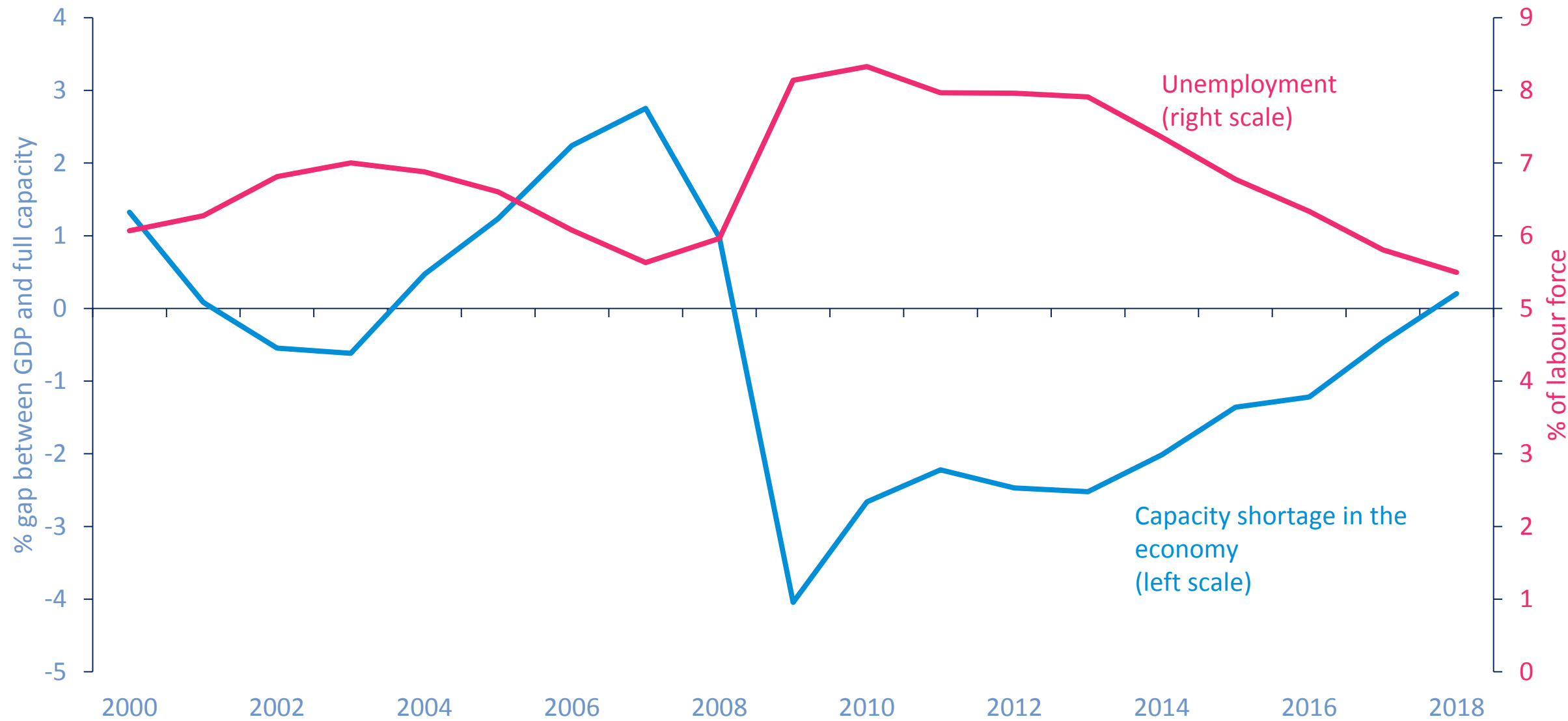
Unit cost changes between 2016 Q1 and 2017 Q4



Source: IATA Economics using data from The Airline Analyst

# As spare capacity disappears at the late stages of the cycle

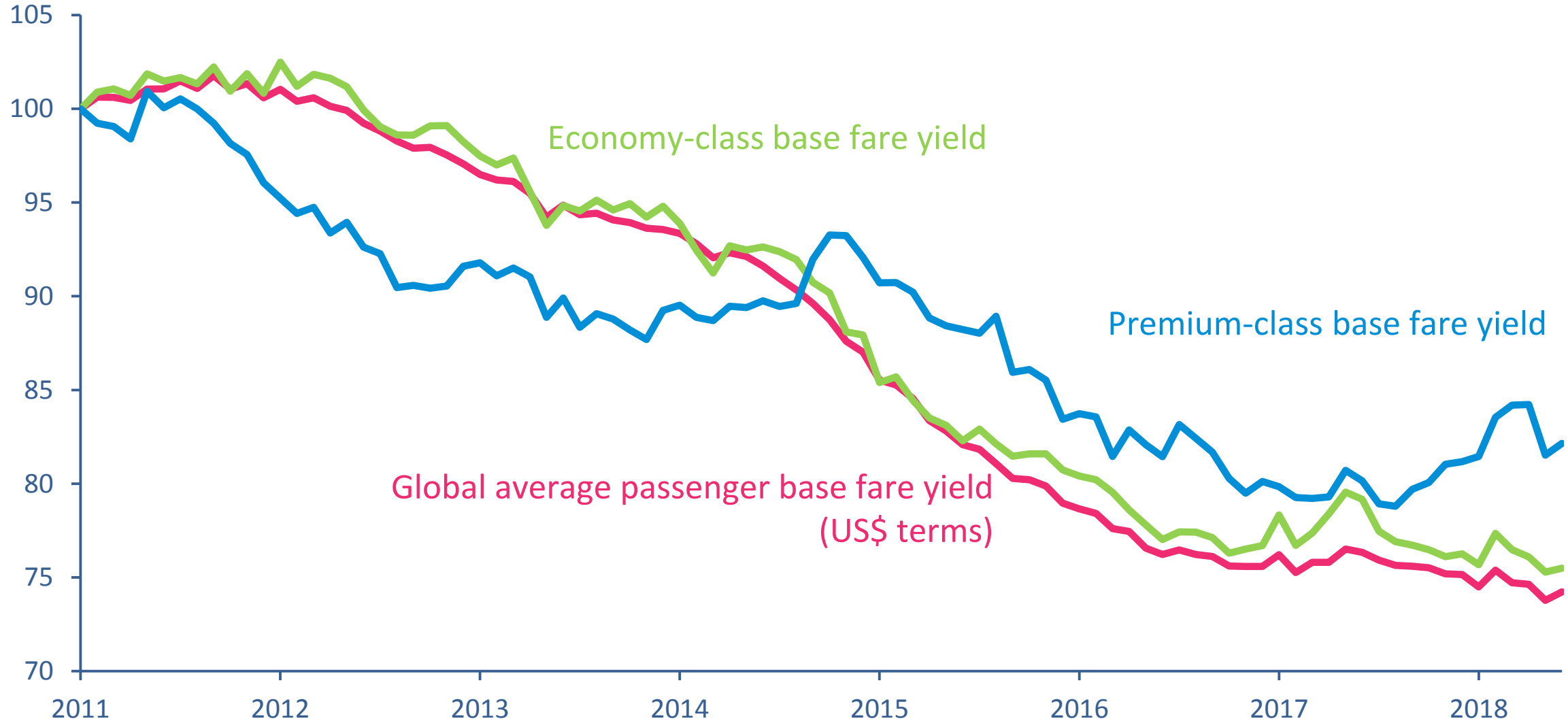
OECD unemployment and capacity shortage in the economy



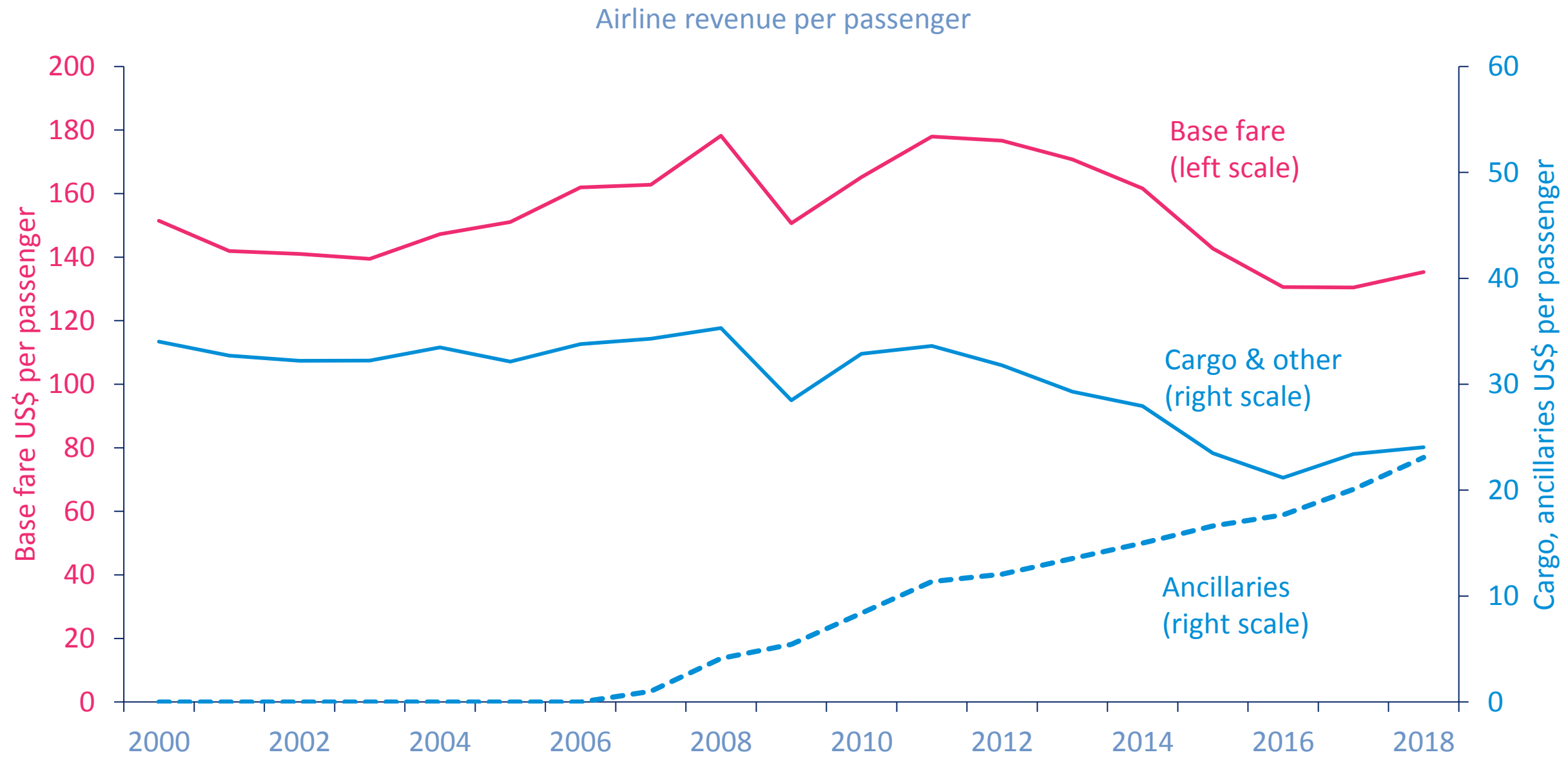
Source: IATA Economics using data from Datastream

# The question is can these costs be recovered?

Indices (Jan 2011=100), seasonally adjusted



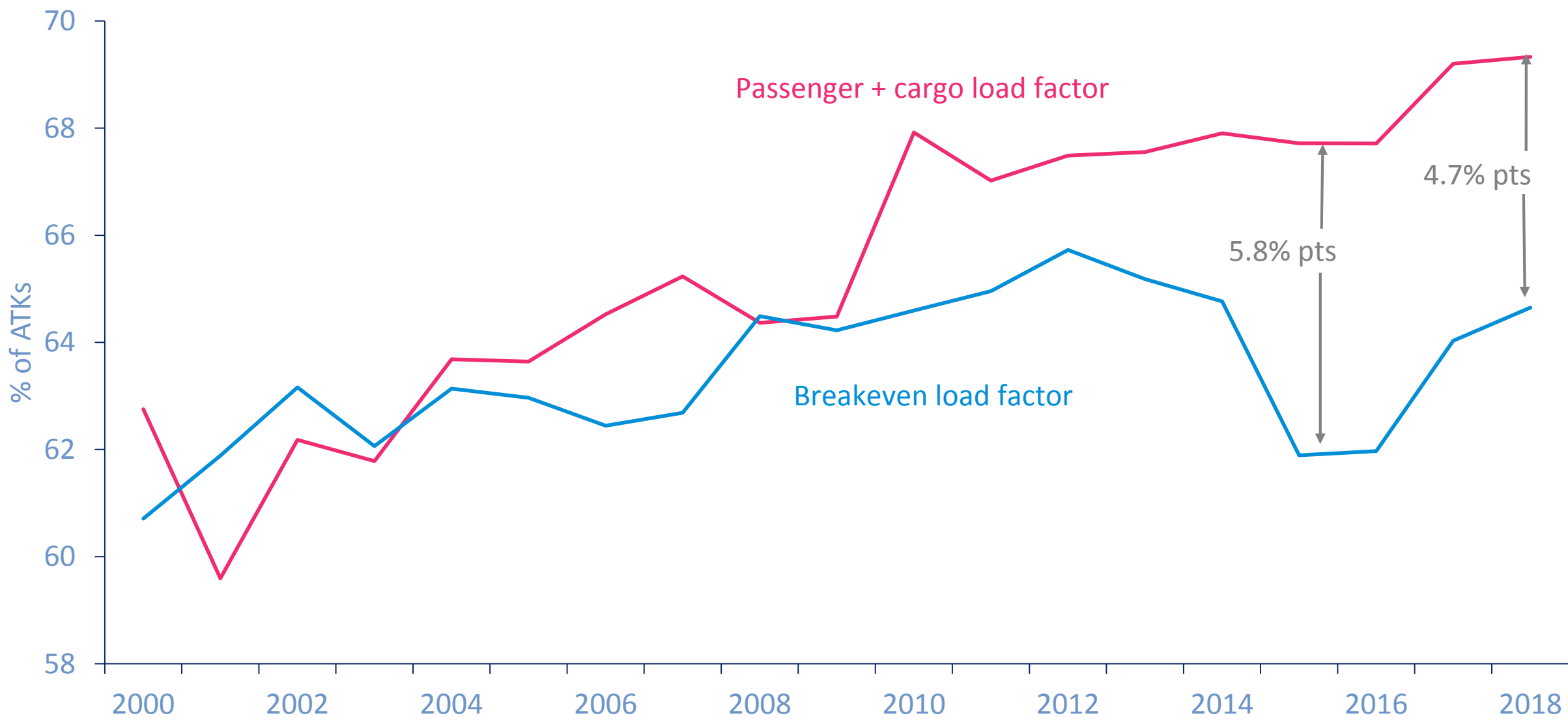
# Ancillaries are helping



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

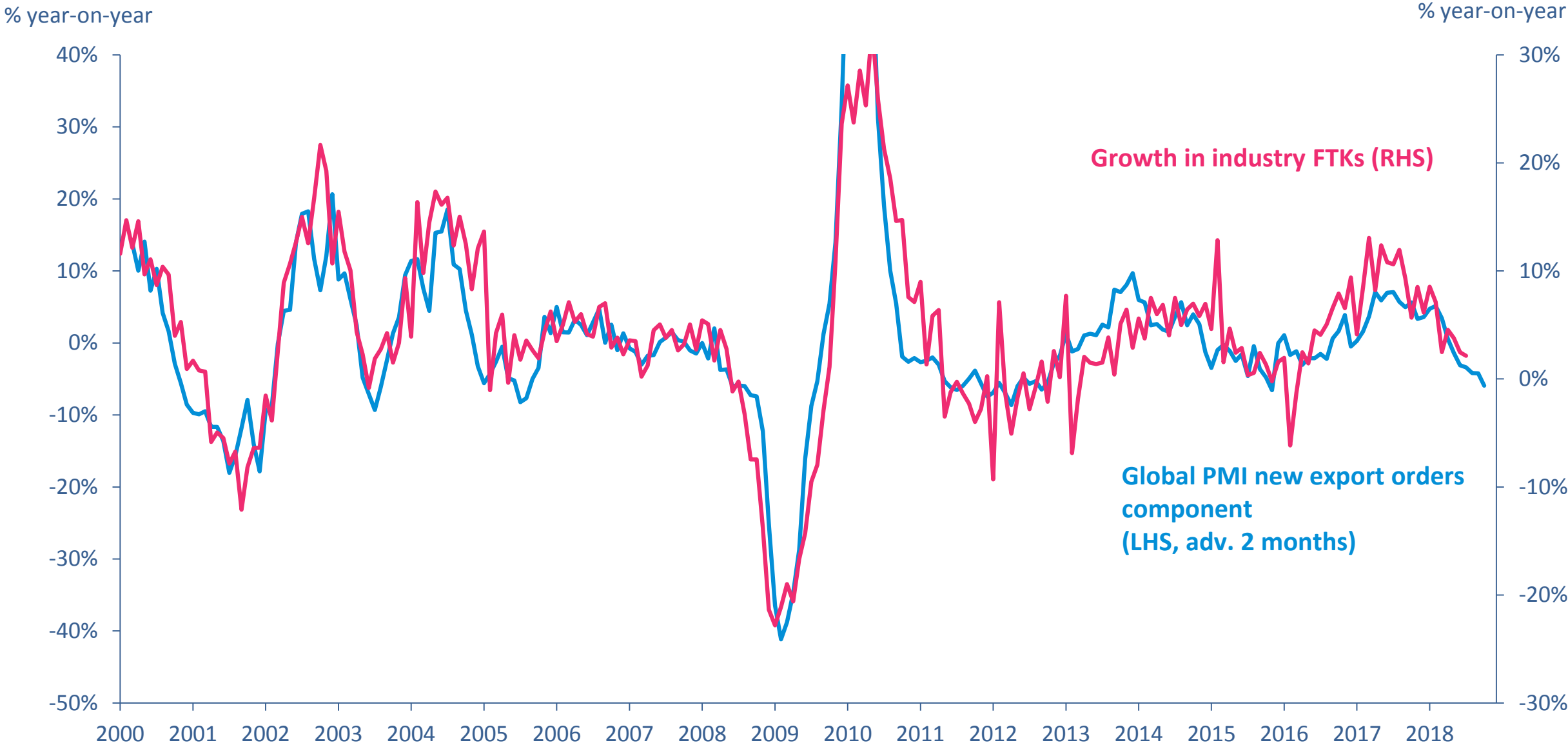
# More rational asset utilization is also helping

Load factor (passenger + cargo) versus breakeven



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

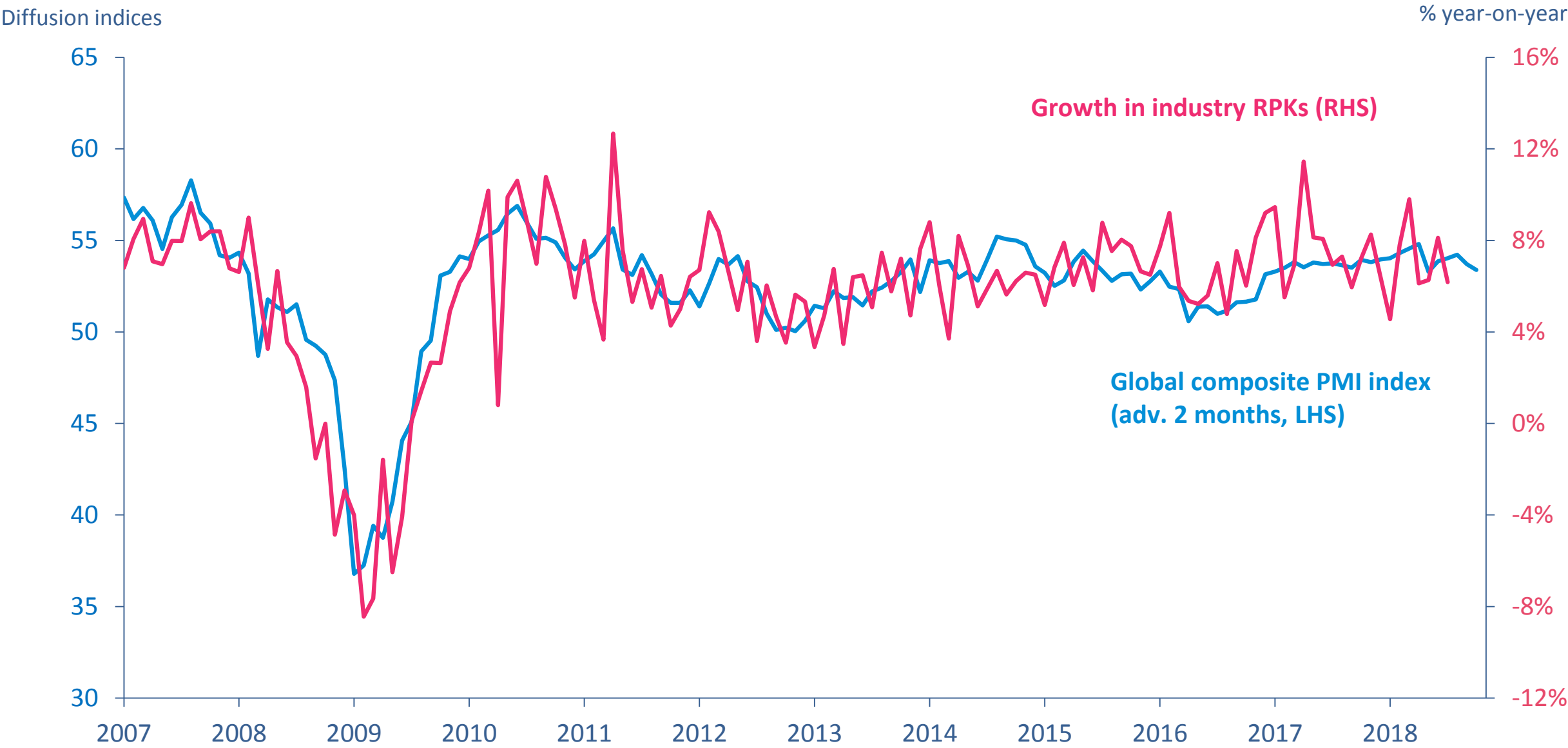
# The key will be the strength of demand...cargo reflects inventory cycle



Source: IATA Economics using data from IATA Statistics, Markit

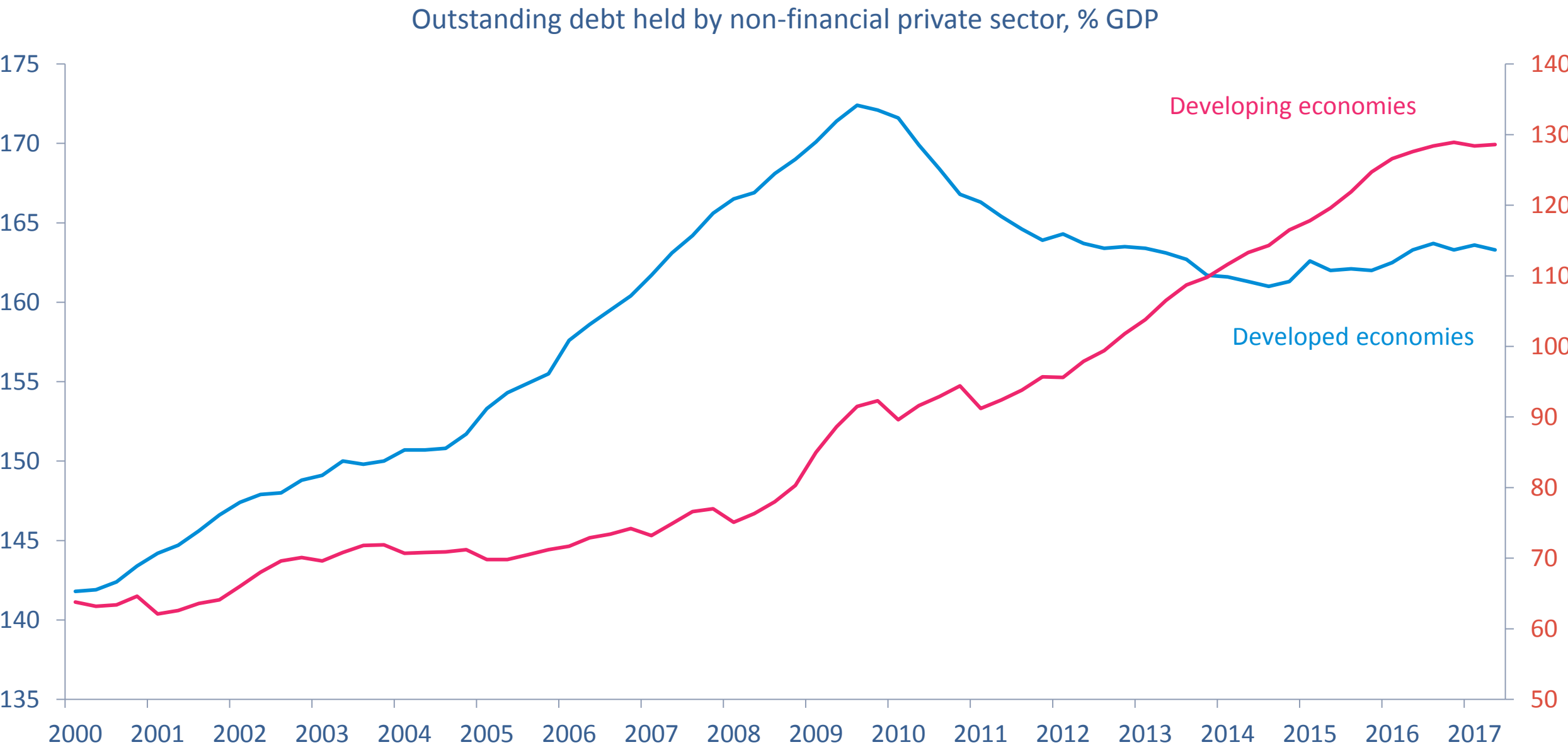


# Air travel demand is buoyant at present...



Source: IATA Economics using data from IATA Statistics, Markit

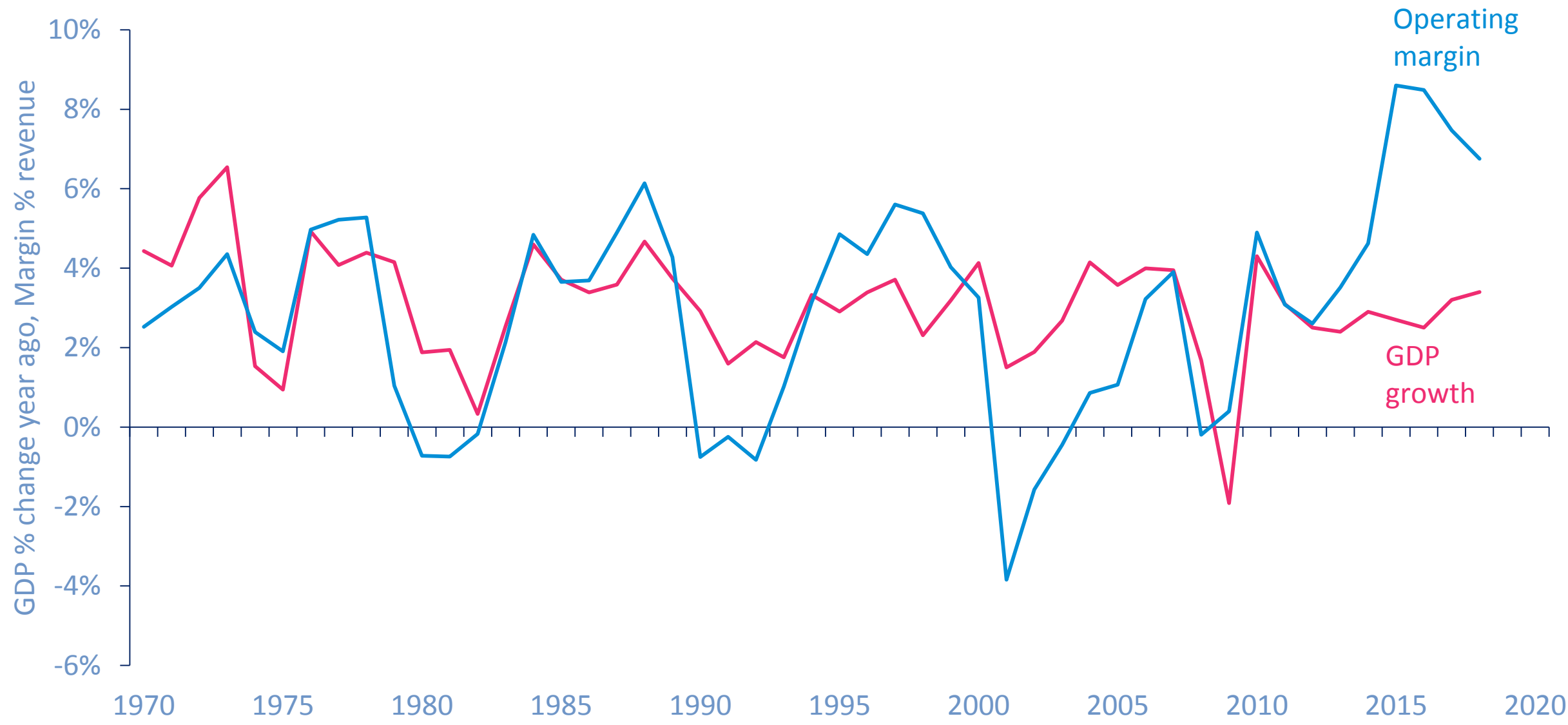
# ...But risks are building in the wider economy



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

# Need to reinforce structural gains - economic upcycle unlikely to last

Global GDP growth and average airline operating margin



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

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