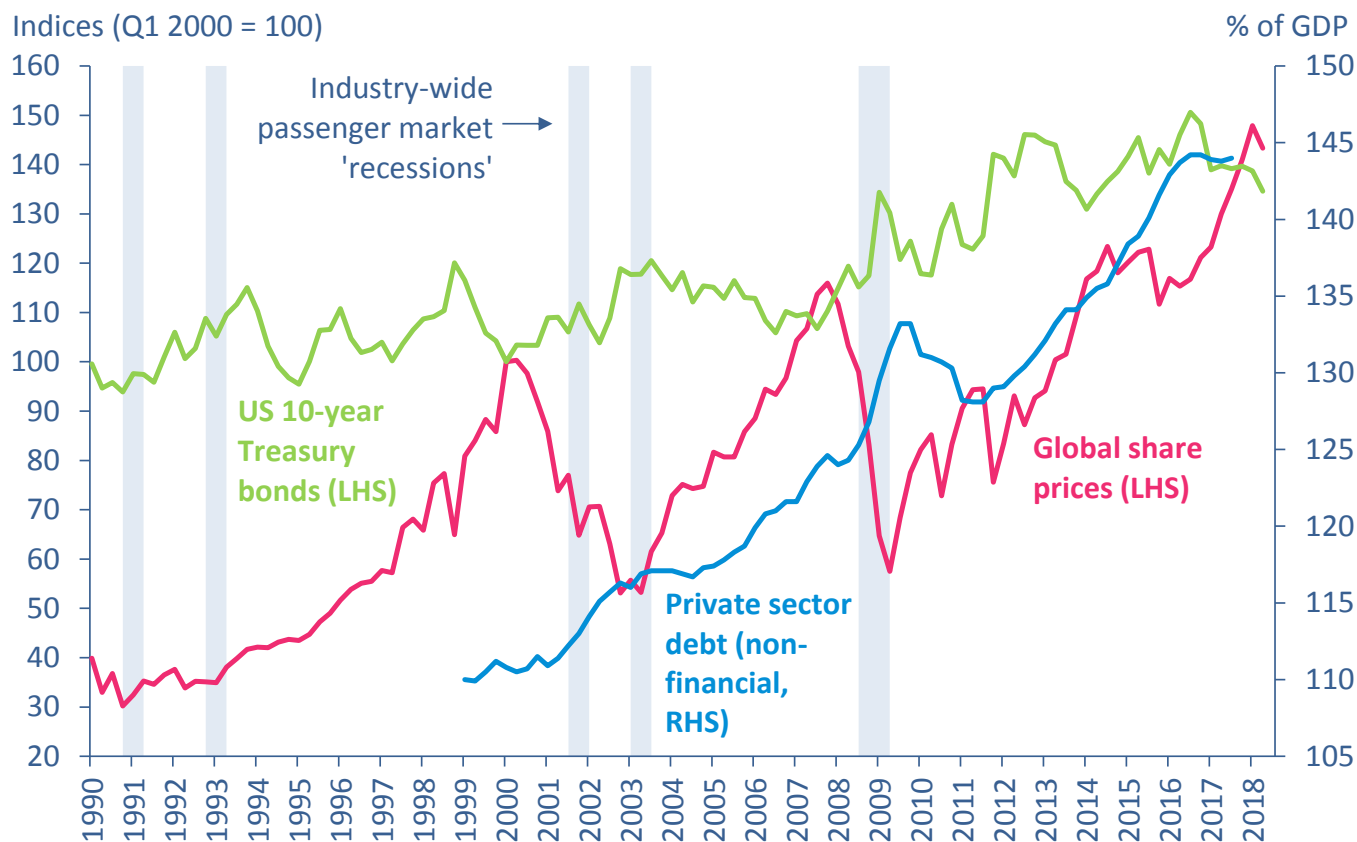




IATA ECONOMICS' CHART OF THE WEEK

27 APRIL 2018

WHERE IS THE NEXT PASSENGER MARKET SHOCK GOING TO COME FROM?



Sources: IATA, BIS, Thomson Reuters Datastream

- Air travel is currently growing strongly above trend, and we expect further solid growth in passenger traffic over the next year. However, this benign period will not last forever. The current cycle is already extended and shocks are by definition unexpected. So now is a good time to look at how solid are the foundations of the current strong growth of air travel.
- The end of previous cycles in passenger demand have tended to coincide with economic downturns (the Gulf War in 1991 and the SARS pandemic in 2003 are the two key exceptions). It is of course very difficult, if not impossible, to predict SARS-like events and/or geopolitical developments, and only arguably easier to predict economic prospects. However, many think that fragilities in the global financial system could be a key driver of the next economic downturn.
- Indeed, in its latest *Global Financial Stability Report*, the IMF once again argued that risks to financial stability remain elevated, with global asset price valuations in particular appearing stretched and global debt levels now much higher than they were before the global financial crisis. The worry is that faster than expected interest rate rises could trigger sharp falls in asset prices, and could ultimately lead to the type of economic shock that has ended passenger cycles in the past.
- Such is the nature of these risks, there is no obvious trigger on the horizon. The hope and expectation is that economic policymakers can continue to balance the need to support economic activity while also gradually helping to reduce medium-term financial fragilities. Indeed, it's worth noting that the IMF's latest *World Economic Outlook*, also released this month, underlined their view that global economic growth will continue to remain robust this year and into 2019.
- Nonetheless, the financial vulnerabilities that have built up over the past eight years or so highlight the risk of the type of low probability/high impact event that has coincided with previous passenger market 'recessions'. While passenger demand has proven **resilient** to shock events in the past, periods of turbulence are part of the business.

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IATA Economics
economics@iata.org