State of the Industry: Update & Outlook

Alternative Fuel Symposium
Singapore Nov. 2018

Andrew Matters
Head of Industry Analysis
Robust pax volumes growth but an easing for freight

Source: IATA
Industry confidence has dipped...

Weighted Score (50 = No Change)

Source: IATA
...as profitability comes under renewed pressure

Quarterly EBIT margins, global airline industry sample

- EBIT (actual)
- EBIT (seasonally adjusted)

Source: The Airline Analyst, IATA
Rising costs are (still) a key challenge…

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

- Unit cost growth
- Unit revenue growth

Source: IATA Economics using data from Platts, ICE
Fuel and oil is a key part of that story…

Source: IEA
…but it’s not only due to oil prices

Unit cost changes between 2016 Q1 and 2017 Q4

Source: IATA Economics using data from Datastream, Markit, Oxford Economics
Premium passenger yields are supporting revenues...

Indices (Jan 2011=100), seasonally adjusted

Global average passenger yield (US$ terms)

Premium-class yield

Source: IATA
...along with a pax load factor around record highs...

The shaded area shows the range of outcomes over time. The lines show the outcomes for selected years.

Source: IATA

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...and with an increasing contribution from ancillaries

Airline revenue per passenger

Source: IATA Economics using data from ICAO, IATA Statistics, IdeaWorks and our own forecasts
Industry profits under pressure in 2018, but still high

Global commercial airline profitability

Net post-tax profit (right axis)

EBIT margin (left axis)

Source: ICAO, IATA
Driven largely by N.America (again) plus Europe & Asia

Source: ICAO, IATA

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Producing good returns for investors for a 4th year

Return on capital invested in airlines and their cost of capital

% of invested capital

Cost of capital (WACC)

Return on capital (ROIC)

Source: IATA
Expansion cycles don’t last forever…

Worldwide RPKs and peak-to-peak cycle

- Oil crisis
- Gulf war
- dotcom bubble/ 9-11
- GFC

Source: IATA Economics using data from ICAO, IATA Statistics and our own forecast
Global growth remains supportive of air travel demand

Source: IMF

GDP growth (% per year)

- World
- Advanced
- Emerging


Source: IMF
... but late-cycle cost pressures are likely to continue

OECD unemployment and capacity shortage in the economy

Unemployment (right scale)
Capacity shortage in the economy (left scale)

Source: Datastream
Industry expects yields to help offset cost pressures

Source: IATA Business Confidence survey
What does a ‘rule of thumb’ approach suggest for 2019?

Based on past performance of the GDP multiplier approach, there is a:
- 30% chance that RPK growth will be between 5.5% and 7.1% in 2019...
- ...a 60% chance of growth between 2.4% and 7.9%...
- ...and a 90% chance that it will be between 0% and 8.5%.

The fan shows the range of outcomes that you would expect to see in 2019 if you applied the standard GDP multiplier approach to predict RPK growth using the IMF’s latest economic forecasts.

Source: IATA, IMF
Key downside global risks?

- Migration pressures fuel surge in EU populism
- Italian debt concerns trigger eurozone crisis
- Brexit-related uncertainty weighs heavily on Europe
- Market turmoil (e.g., amid G7 policy tightening, corporate sector distress)
- Oil prices rise towards $100 per barrel
- Geopolitical tensions (e.g., relating to Korea, Russia, Syria)
- Trade policy uncertainty weighs on growth
- Synchronised global growth falters in wake of US rate rises and tapering of QE in Eurozone
- Trade war hits global growth

Source: Oxford Economics
Demand for air travel to double over the next 20 years

Passengers (billion, O-D basis)

- Constant policies scenario
- Globalization in reverse scenario
- Policy stimulus and market liberalization

Source: IATA/Tourism Economics
Where’s the growth coming from?

- North America: 527m, 2.4%
- Europe: 611m, 2.0%
- Middle East: 290m, 4.4%
- Latin America: 371m, 3.6%
- Africa: 199m, 4.6%
- Asia Pacific: 2,351m, 4.8%

#s represent the additional O-D pax journeys in 2037 vs 2017
% represents the average annual pax growth rate (CAGR)

Source: IATA/Tourism Economics

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Asian travel markets rise up the Top-10 rankings

The 10 largest air passenger markets over time (ranked by passenger numbers, to/from and within each country)

Source: IATA/Tourism Economics
The markets of tomorrow

Source: IATA/Tourism Economics