Airline industry outlook update

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More cities connected at lower real cost

Unique city-pairs and real transport costs

Source: IATA Economics using data from SRS Analyzer, ICAO, IATA statistics, IATA Economics forecast
Flows of trade and tourism boosted

Value of trade carried by air and the spending of tourists

Source: IATA Economics using data from UNWTO, Oxford Economics, IATA Economics forecast
Supporting more jobs and GDP

Airline industry jobs and value added (GDP) per employee

Source: IATA Economics using data from ATAG ABBB 2018 Appendix direct airline GVA and jobs
But airline industry profit margins under pressure

Airline industry operating margin

Source: IATA Economics using data from The Airline Analyst
As unit costs rise and cost recovery falters

Unit cost and unit revenue growth

Source: IATA Economics using data from The Airline Analyst
Air travel demand expanding but cargo shrinks

Worldwide FTKs and RPKs, seasonally adjusted

Revenue Passenger Kilometers flown

Freight Tonne Kilometers flown

Source: IATA Economics using data from IATA Statistics
The problem is with cross-border trade.

Source: IATA Economics using data from Netherlands CPB and Oxford Economics.
Cargo market stalls in 2019 while air travel slows

Source: IATA Economics forecast and IATA Statistics data

RPK and FTK growth versus trend

% change over previous year

RPK growth

FTK growth

20-year trend

source: IATA Economics forecast and IATA Statistics data
Air travel growth driven by the emerging markets

RPK growth 2018 vs 2017

<table>
<thead>
<tr>
<th>Country</th>
<th>% change year-on-year</th>
</tr>
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<tbody>
<tr>
<td>India</td>
<td>18.9</td>
</tr>
<tr>
<td>China</td>
<td>12.1</td>
</tr>
<tr>
<td>Russia</td>
<td>9.2</td>
</tr>
<tr>
<td>Brazil</td>
<td>4.8</td>
</tr>
<tr>
<td>US</td>
<td>5.4</td>
</tr>
<tr>
<td>Domestic</td>
<td>7.6</td>
</tr>
<tr>
<td>International</td>
<td>7.2</td>
</tr>
<tr>
<td>Total</td>
<td>7.4</td>
</tr>
</tbody>
</table>

Source: IATA Economics using data from IATA World Air Transport Statistics (WATS) 2019
We forecast the fastest growth this year in Asia

RPK growth by region of registration

Source: IATA Economics Economic Performance of the Airline Industry, Mid-Year 2019
Airlines announced slower growth in schedules

Airlines' RPK and ASK growth

Source: IATA Economics Economic Performance of the Airline Industry, Mid-Year 2019
But fares not expected to recover cost increases

Airlines' unit cost and base fare growth

% change year-on-year

% change year

Unit cost

Fare

Source: IATA Economics Economic Performance of the Airline Industry, Mid-Year 2019
So breakeven rises narrowing gap with load factor

Breakeven and achieved cargo + passenger weight load factors

Load factor achieved

Breakeven load factor

Source: IATA Economics Economic Performance of the Airline Industry, Mid-Year 2019
Reducing return on invested capital to 7.4%
Investor value creation continues, just

Difference between investing in airlines and investing in similar assets elsewhere

Source: IATA Economics Economic Performance of the Airline Industry, Mid-Year 2019
Net profits fall to $28 billion

Global commercial airline profitability

Source: IATA Economics Economic Performance of the Airline Industry, Mid-Year 2019
That’s $6 of net profit per passenger.

Worldwide airline net post-tax profit, US$ per departing passenger, 2019

<table>
<thead>
<tr>
<th>Revenue</th>
<th>Cost</th>
<th>Net profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fare</td>
<td>$188.98</td>
<td>$182.86</td>
</tr>
<tr>
<td>Cargo</td>
<td></td>
<td>$6.12</td>
</tr>
<tr>
<td>Ancillaries + surcharge</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fuel</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-fuel operating costs</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: IATA Economics Economic Performance of the Airline Industry, Mid-Year 2019
Vulnerability to cash flow shocks remains

Net post-tax profit margins

% change year-on-year

% change year

Source: IATA Economics Economic Performance of the Airline Industry, Mid-Year 2019
Particularly in regions with substantial debt

Source: IATA Economics using data from The Airline Analyst
10 features of the outlook

1. Airlines connect more cities at lower cost in real terms for consumers
2. Further boosting flows of trade, tourism, GDP and jobs
3. Value created for airline investors for 5th successive year in 2019
4. But only just: return on capital down to 7.4%, net profits $28bn or $6.12 per passenger
5. Trade wars damaging world trade: air cargo traffic forecast for zero growth
6. World economy avoids recession this year: passenger traffic growth slower but solid at 5%
7. Lengthy expansion creating shortages, rising costs and increased supplier market power
8. New challenge is diminished ability of airlines to recover those rising costs
9. Good industry level performance hiding wide regional differences
10. Airlines in some regions still vulnerable to cash flow shocks or rising interest rates
Thank you

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