Airline financial performance and long-term developments in air travel markets

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www.iata.org/economics
Investor returns falling but above cost of capital for a 4th year

From value destruction to value creation...to a ‘normal’ industry

Fuel costs are down but it’s not a simple link with profitability

Airline industry ROIC and jet fuel prices

Return on capital (ROIC)

Jet fuel price

Source: IATA Economics using data from McKinsey, Platts and own forecasts
And the correlation with the economic cycle has broken down

Source: IATA Economics using data from ICAO, IATA Statistics, IMF and our own forecasts
Signs of improvement being structural rather than transitory

Source: IATA Economics using data from ICAO, IATA Statistics, IATA forecasts
Airlines are sweating assets as well as improving margins

Components of return on capital

Operating margin

Capital productivity

But within the industry totals there is still much variation.

Source: IATA Economics using data from The Airline Analyst
Air travel outlook will depend on economics and geopolitics.

Global passengers (O-D basis, billion)

- **Policy Stimulus and Market Liberalization**
- **Constant policies scenario**
- **A Pick-up in Protectionism**

Average rates of passenger growth per year in each scenario:
- **Policy Stimulus and Market Liberalization**: 5.7%
- **Constant policies scenario**: 3.6%
- **A Pick-up in Protectionism**: 2.7%

Source: IATA/TE Passenger Forecasts
Trip frequency and living standards is a key driver in our model.

Source: IATA/Tourism Economics Air Passenger Forecasts, April 2016
Trip frequency still low in many populous countries

Source: IATA/Tourism Economics Air Passenger Forecasts, September 2016
Living standards still have much room for catch-up

Growth in per capita incomes over the long run

<table>
<thead>
<tr>
<th>Country</th>
<th>% CAGR (2015-2035)</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>4.8%</td>
</tr>
<tr>
<td>China</td>
<td>4.7%</td>
</tr>
<tr>
<td>Indonesia</td>
<td>3.9%</td>
</tr>
<tr>
<td>Turkey</td>
<td>2.5%</td>
</tr>
<tr>
<td>Russia</td>
<td>1.5%</td>
</tr>
<tr>
<td>Mexico</td>
<td>1.4%</td>
</tr>
<tr>
<td>Brazil</td>
<td>1.3%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>1.2%</td>
</tr>
<tr>
<td>United States</td>
<td>0.9%</td>
</tr>
<tr>
<td>Germany</td>
<td>0.8%</td>
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<tr>
<td>Canada</td>
<td>0.8%</td>
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<tr>
<td>France</td>
<td>0.8%</td>
</tr>
<tr>
<td>Japan</td>
<td>0.7%</td>
</tr>
<tr>
<td>Italy</td>
<td>0.7%</td>
</tr>
</tbody>
</table>

Source: IATA/Tourism Economics Air Passenger Forecasts, September 2016
This is one of the key relationships driving our air travel forecasts.

Source: IATA Economics using data from PaxIS+ and Oxford Economics
Population, adjusted for age structure, is another key driver.
And price is driven by efficiency gains and liberalization trends

Source: World Trade Organization QASAR database
Scope for large price change in short-haul markets

Passenger yields and average trip length

- Within Africa
- Within South America
- Within East Asia
- Within ASEAN
- Within Europe
- Middle East-rest of world
- North Atlantic
- ASEAN-Africa
- ASEAN-Europe
- ASEAN-North America
- China-North America
- ASEAN-North America
- Pacific
- North-South America
- ASEAN-North America
- Europe-Australia

Source: IATA Economics using data from PaxIS+
Emerging countries dominate the fastest growing passenger markets...

Source: IATA/TE Passenger Forecasts
Leading to a re-ranking of the top-10 air travel markets

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

- US (1)
- China (2)
- UK (3)
- Japan (4)
- Spain (5)
- Germany (6)
- India (7)
- Italy (8)
- France (9)
- Indonesia (10)

Source: IATA/TE Passenger Forecasts
Aviation’s centre of gravity shifts further eastwards

Source: IATA/TE Passenger Forecasts
October 2014

Air Passenger Forecasts

United States - Passenger Market Overview

Decomposition of growth, 2014-2034

- Domestic passengers will represent 68.6% of total growth over this period, accounting for 384 million additional passengers.
- Foreign passengers will contribute less to overall growth, representing 31.4% of total growth, equal to 175 million additional passengers.

Trade flows

Population and demographics

- Favourable population and demographic factors are forecast to contribute 0.8 percentage points to annual growth.

Regulatory regime

- Future potential for reductions in travel times will also be driven by changes in regulatory regimes.

Passenger flows

- Passengers by Country Pair

Top US country pairs ranked by passenger numbers, 2014-2034

- We proxy a country's standard of living by its level of Gross Domestic Product per capita (ie, the total amount of goods and services produced by a country in one year divided by its population).

Top categories of countries ranked by passenger numbers, 2014-2034
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