Global economy and aviation – do we have room to grow?

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Room to grow?

• Looking through the cycle
• Potential constraints
• The cycle
Trip frequency still low in many important markets

![Bar chart showing propensity to fly (total passengers/population) for various countries.](Source: IATA/Tourism Economics Air Passenger Forecasts, September 2016)
Living standards still have much room for catch-up

Source: IATA/Tourism Economics Air Passenger Forecasts, September 2016
Multiplier effect of development on some key travel markets

Airline passenger trips and GDP per capita

Source: IATA/Tourism Economics Air Passenger Forecasts, September 2016
Demographics strong in some key markets, adverse in others

Source: IATA/Tourism Economics Air Passenger Forecasts, September 2016
Long-term travel growth even in gloomy macro scenario

Global O-D passenger journeys (billion)

- Reflation/open borders scenario
- Constant policies scenario
- Pick-up in Protectionism scenario

Source: IATA/Tourism Economics Air Passenger Forecasts, September 2016
Centre of gravity for aviation moving rapidly East

Source: IATA/Tourism Economics Air Passenger Forecasts, September 2016
Biggest growth is in EM-EM travel

% of total O-D journeys (12m rolling sum)

- **Within developed markets**
- **Within emerging markets**
- **Between developed and emerging markets**

Source: IATA/Tourism Economics Air Passenger Forecasts, September 2016
China largest increment, but don’t dismiss the US

China  China
United States  United States
India  India
Indonesia  Indonesia
Vietnam  Vietnam
Turkey  Turkey
Brazil  Brazil
Philippines  Philippines
Australia  Australia
Mexico  Mexico

Change in domestic O-D markets (millions, 2015-2035)
Corresponding CAGR

0 100 200 300 400 500 600 700 800

Source: IATA/Tourism Economics Air Passenger Forecasts, September 2016
Significant change in top-10 in air travel over next 20 years

Source: IATA/Tourism Economics Air Passenger Forecasts, September 2016
Surely infrastructure will not be a long-run constraint

US 10 year Treasury yield and 10 year TIPS real yield

Source: Haver
Climate change policy more of a potential constraint

- ICAO agreement for cap on ‘net’ CO$_2$ is good progress
- Longer-term low carbon fuels need to succeed
Airlines financial health less of a constraint

Return on capital invested in airlines

Cost of capital (WACC)

Return on capital (ROIC)

Source: IATA Economic Performance of the Airline Industry – end year 2016 report
Structural change in approach to asset utilization

Breakeven and achieved weight load factor

![Graph showing the change in % ATKs and load factors from 2000 to 2016.]

Source: IATA Economic Performance of the Airline Industry – end year 2016 report
Solid improvement in capital productivity

Airlines' operating or EBIT margin and capital productivity

Source: IATA Economic Performance of the Airline Industry – end year 2016 report
Still a wide spread of performance by region

Adjusted net debt/EBITDAR by region

- Latin America
- Asia Pacific
- Europe
- North America

Source: IATA calculations using data from The Airline Analyst
Short-run economic momentum has turned up

Growth in RPKs and the level of business confidence

Growth in industry RPKs

Global PMI index (adv. 2 months)

Source: IATA statistics, Markit
But which direction now for the global economic cycle?

IMF forecasts of global economic growth (using market exchange rates)

Source: IMF World Economic Outlook
How strong will up-trend in oil prices be?

OPEC spare capacity and OECD crude oil inventories

OECD crude oil inventories (right scale)

OPEC spare capacity (left scale)

Source: Haver
High fuel prices not always bad for airlines

Airline industry ROIC and jet fuel prices

ROIC, % of invested capital

Jet fuel price, US$/barrel

Source: IATA, Platts
To sum up

• A look through the cycle is positive, even with gloomy macro
• Potential for multiplier on trip frequency, for some
• Good demographics, for some
• Centre of gravity moving rapidly East
• Some potential constraints to overcome
• Airline financial health better overall but patchy
• Near-term turbulence from the economic cycle and oil prices
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## Decomposition of growth, 2014-2034

<table>
<thead>
<tr>
<th>Period</th>
<th>Total Passenger Market Growth</th>
<th>Total Passenger Absolute Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>19.0%</td>
<td>220 million passengers</td>
</tr>
<tr>
<td>2019</td>
<td>18.0%</td>
<td>232 million passengers</td>
</tr>
<tr>
<td>2024</td>
<td>16.5%</td>
<td>245 million passengers</td>
</tr>
<tr>
<td>2029</td>
<td>15.0%</td>
<td>259 million passengers</td>
</tr>
<tr>
<td>2034</td>
<td>13.5%</td>
<td>275 million passengers</td>
</tr>
</tbody>
</table>

### Foreign and Domestic Passenger Flows

- **Domestic** passengers will contribute more to overall growth, representing 68.6% of total growth, equal to 384 million additional passengers.
- **Foreign** passengers will contribute less to overall growth, representing 31.4% of total growth, equal to 175 million additional passengers.

### Key Economic Factors

- **Population and Demographic Factors**: Forecast to contribute 0.8 percentage points to annual growth.
- **Improvements in Living Standards**: Contribute 1.4 percentage points to annual growth.
- **Technological Gains**: Expected to contribute 0.8 percentage points per year.
- **Favourable Population and Demographic Factors**: Recognized as a key driver of future growth.
- **Global Trade Flows**: Significant impact on passenger volumes.
- **Price and Liberalization**: Key drivers for passenger growth.
- **Consumer Confidence**: A high correlation is observed between a country's trade openness and consumer confidence.

### Economic Impact

- **Trade Flows**: Considerable time savings for passengers. Future potential for reductions in travel times will also be driven by changes in an economy's total output.

### Future Prospects

- **United States**: In the 28th percentile of fastest growing markets in our forecast during the period 2014-2034.

### International Flights

- **Ireland**: Ranked as the 2nd largest market based on the total number of passengers in 2034.

### Airline Industry Economics

- **October 2014**

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For more detailed forecasts and analysis, please visit [www.iata.org/pax-forecast](http://www.iata.org/pax-forecast).