State of the airline industry

April 2017

Brian Pearce, Chief Economist, IATA
www.iata.org/economics
Industry profitability peaked a year ago

Quarterly profile for airline industry operating profits (EBIT)

Operating margin
8.3% => 6.6%

Net profits
$39.6bn => $29.8bn

Source: IATA Economic Performance of the Airline Industry – end year 2016 report
Profit margins are now being squeezed

Airline passenger yield (constant fx) and crude oil prices, indexed

- Pax yield: -8% => 0%
- Oil price: 44.6 => 55 $/b

Source: IATA using data from The Airline Analyst
Return on capital is likely to be lower this year.

Source: IATA

Economic Performance of the Airline Industry, End-Year 2016 report

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
But investors should still see value created

Source: McKinsey, IATA

IATA Economics  www.iata.org/economics
Fuel prices were low but no simple impact on ROIC

Source: IATA, Platts
The emergence of this gap has driven better ROIC

Breakeven and achieved weight load factor

Source: IATA Economic Performance of the Airline Industry – end year 2016 report
Capital productivity matters as well as margins

Airlines' operating or EBIT margin and capital productivity

Source: IATA Economic Performance of the Airline Industry – end year 2016 report

IATA Economics  www.iata.org/economics
Asia Pacific airlines’ ROIC lagging Europe and US

Return on invested capital

EBIT adjusted for operating leases as % invested capital

North America
Europe
Industry average
Asia Pacific
Latin America
Middle East
Weighted Average Cost of Capital

Source: IATA Economics using data from The Airline Analyst
Free Cash Flow yield just positive in Asia Pacific

Source: IATA Economics using data from The Airline Analyst
Cash from operations and CAPEX have declined

Source: IATA Economics using data from ACI, ICAO, IATA and FAA [www.iata.org/economics](http://www.iata.org/economics)
Balance sheets still highly leveraged in Asia Pacific

Adjusted net debt/EBITDAR

- Latin America
- Asia Pacific
- Industry average
- Europe
- North America
- Middle East

Investment grade credits

Source: IATA Economics using data from The Airline Analyst
Business confidence and air travel up in last 6 months

Sources: IATA Economics, IATA Monthly Statistics, Markit

IATA Economics www.iata.org/economics
Though still much variation by air travel market

**Share of total global RPKs (Year ended Jan 2017)**

*Note: int'l routes data are for January; domestic market data are for February*

Source: IATA Economics, IATA Monthly Statistics by Route

IATA Economics [www.iata.org/economics](http://www.iata.org/economics)
Growth has returned to air cargo

Source: Markit, IATA Statistics

Sources: IATA Economics, IATA Monthly Statistics, Markit
Despite sluggish world trade,

Sources: IATA Economics, IATA Monthly Statistics, CPB

Indices (Jan 2012=100, seasonally adjusted)

Global FTKs

World trade volumes

Rising FTK share

Ratio of global FTKs to world trade volumes

Sources: IATA Economics, IATA Monthly Statistics, CPB
Headwind – continuing debt overhang

Outstanding debt of non-financial sector, % of GDP

Source: Bank for International Settlement database
Headwind – the retreat from globalization

World GDP and cross-border trade growth

% change over previous year

Source: IMF World Economic Outlook and the World Trade Organization
Headwind - poor demographics in some economies

Labour force growth

Note: Only +0.1% pa without net immigration

Source: Oxford Economics
Headwind - the exhaustion of monetary policies

US federal funds target rate and balance sheet assets

Source: Haver
Long-term expansion 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

IATA Economics  www.iata.org/economics
Trip frequency still low in many important markets

Source: IATA/Tourism Economics Air Passenger Forecasts, September 2016
Large potential in populous but (currently) poor markets

Airline passenger trips and GDP per capita

Source: IATA Economics using data from PaxIS+ and Oxford Economics
Demographics strong in some key markets, adverse in others.

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

Source: IATA/Tourism Economics Air Passenger Forecasts, September 2016

IATA Economics  www.iata.org/economics
Centre of gravity of air travel shifting fast towards China

Source: IATA Economics using data from PaxIS+
Some recent acceleration of Malaysia OD air travel

Source: IATA Economics using data from PaxIS+

International traffic (to/from)
Solid line = actual data
Dotted line = seasonally adjusted

Domestic traffic
Solid line = actual data
Dotted line = seasonally adjusted

IATA Economics  www.iata.org/economics
Growth rates back to double figures

Source: IATA Economics using data from PaxIS+
Middle East hubs dominating some connecting markets

% of total

Source: IATA Economics using data from PaxIS+
But KL has seen success in regional connecting market

Note: the data labels show the change in the proportion of total connecting passengers on each route passing through SIN and KUL between 2010 and 2016.

Source: IATA Economics using data from PaxIS+
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