Air transport: performance, outlook and economic benefits

Brian Pearce,
Chief Economist,
IATA
www.iata.org/economics
Connectivity is key to economic success

Source: SRS Analyser database direct routes to/from Germany May 2017
Ingredients for economic success

**Connections** to key cities and trading partners
...few delays
...**cost-efficient** for users
...**frequencies** that business need
...vital **infrastructure** for the economy
...generating **flows** of goods, people, investment, competition and ideas
...boosting **non-inflationary economic growth** potential
The industry has seen considerable success globally.

Unique city-pairs and real transport costs

Unique city-pair connections

Transport costs adjusted for inflation

Source: IATA Economic Performance of the Airline Industry, End-Year 2016 report
But infrastructure costs have diverged

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

Unit cost of infrastructure & airline non-fuel expenses

Unit cost of infrastructure use

Airline non-fuel unit cost

Source: IATA Economic Performance of the Airline Industry, End-Year 2016 report
And delays are a big cost to Europe and Germany

Germany would be a major beneficiary:
• GDP up €45 billion
• Jobs up 158,000
• Passengers +13 million

Source: IATA Economics using data from SEO study on European Airspace Modernization
The wider economic situation is now improving

Source: IATA Economics using data from Markit
Businesses and consumers more confident

Source: IATA Economics using data from Datastream
Donald Trump Vows to Rip Up Trade Deals and Confront China
The New York Times
28 June 2016

Across Europe, distrust of mainstream political parties is on the rise
Guardian
25 May 2016

Clamour for trade protectionism on rise:
Arun Jaitley
CNBC
13 October 2016

Perhaps surprisingly given political shocks
The IMF economic growth forecast may be right at last

IMF forecasts of global economic growth (using market exchange rates), % y-o-y

Source: IMF World Economic Outlook databases
But revival has not been because of monetary policy

US federal funds target rate and balance sheet assets

Source: IATA Economics using data from Haver
Nor has the debt overhang been resolved

Source: Bank for International Settlement database
But fiscal policies recently became a stimulus to growth

Change in general government structural budget as % GDP

Source: IATA Economics using data from the IMF World Economic Outlook
Changes in trade competitiveness spread the recovery

Real effective exchange rates

- China
- US
- Germany
- Brazil

Deteriorating competitiveness

Improving competitiveness

Source: IATA Economics using data from the World Bank
Economic growth converging and stronger overall

Economic growth in key regions and countries

- China
- Brazil
- United States
- European Union

Source: IATA Economics using data from Oxford Economics
Giving a strong start to the year for European air cargo

Freight tonne kilometres (% year-on-year) February 2017

- Industry: 8.4%
- Asia Pacific: 11.8%
- Africa: 10.6%
- Europe: 10.5%
- N. America: 5.8%
- Middle East: 3.4%
- L. America: -4.9%

Source: IATA Economics using data from IATA Statistics
European air travel growth is also strong

Source: IATA Economics using data from IATA Statistics
But longer-term prospects look like relative decline
Air travel still has lots of potential to grow globally

Global O-D passenger journeys (billion)

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

Source: IATA Economic Performance of the Airline Industry, End-Year 2016 report
But air trip frequency already high/mature in Germany.

Source: IATA Economic Performance of the Airline Industry, End-Year 2016 report
And Germany’s demographics are poor

The UN’s projected change in population (2015-2035, %)

Source: IATA Economic Performance of the Airline Industry, End-Year 2016 report
Centre of gravity of air travel shifting away from Europe

Source: IATA Economics using data from PaxIS+
More is needed to preserve wider economic benefits

Connections to key cities and trading partners
...few delays
...cost-efficient for users
...frequencies that business need
...vital infrastructure for the economy
...generating flows of goods, people, investment, competition and ideas
...boosting non-inflationary economic growth potential
Including 1m high quality jobs and $85bn value added

Source: The Importance of Air Transport to Germany, 2017, IATA/Oxford Economics
LOOKING FOR INSIGHTS INTO AIR TRANSPORT MARKETS AND ISSUES?

Download the new IATA Economics Research App

NEW IATA ECONOMICS RESEARCH APP

Keep up to date with IATA Economics’ latest analysis on key aviation issues and market trends.

Receive personalised notifications when new research is available, share content through social media and email, and read your favourite content off-line, perfect for people on the go!

Access industry-leading economic analysis on key aviation issues and market trends through:

- Reports
- Charts
- Presentations
- Videos and more.

To find out more visit:
www.iata.org/econapp
BACK UP SLIDES
But airline profit margins are now being squeezed

Airline passenger yield and crude oil prices, indexed

Oil price
Passenger yield

Source: IATA using data from PaxIS+ and Haver
So airline industry profitability peaked a year ago

Source: IATA Economic Performance of the Airline Industry – end year 2016 report
Airlines’ return on capital lower this year but still good

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
It’s partly fuel prices

Airline industry ROIC and jet fuel prices

Source: IATA Economics using data from Platts and IATA
But also better asset utilization relative to break-even.

Breakeven and achieved weight load factor

Source: IATA Economic Performance of the Airline Industry – end year 2016 report
And airlines are trying to sweat their assets more

Airlines’ operating or EBIT margin and capital productivity

Source: IATA Economic Performance of the Airline Industry – end year 2016 report
But good airline profits driven almost entirely by US

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