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

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Brian Pearce
Chief Economist, IATA
Room to grow?

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

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

% CAGR (2015-2035)

4.8% 4.7% 3.9% 2.5% 1.5% 1.4% 1.3% 1.2% 0.9% 0.8% 0.8% 0.8% 0.7% 0.7% 0.7%

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

The UN's projected change in population (2015-2035,%)
UN projections adjusted for demographic factors

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

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

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

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

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

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

% year-on-year

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

Source: Haver
High fuel prices not always bad for airlines

Airline industry ROIC and jet fuel prices

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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The introduction of new longer range mid-size aircraft will connect many more city and country pairs and lead to considerable time savings for passengers. Future potential for reductions in travel times will also be driven by changes in regulatory regimes.

The death of air travel is definitely not on the agenda. The industry is vital to the UK economy and its propensity to travel. We therefore include Oxford Economics’ forecasts of trade expenditure on travel and tourism to the UK in the next 15 years.

In 2014, the UK’s travel and tourism trade balance was £19 billion. This is predicted to increase to £22 billion in 2024, and £25 billion in 2034, outpacing the overall growth in tourism receipts of 2.6% CAGR between 2014 and 2034. This will be driven by rising numbers of international visitors to the UK and an increased propensity to travel by residents, with the latter expected to grow by 2.5% CAGR from 2014 to 2034.

Whilst the United States domestic market is the largest market in 2014; the second largest market is Canada, accounting for 3% of total passengers, which is forecast to rise marginally to 3.2% in 2028.

The United States is forecast to gain an additional 559 million passengers by 2034, compared to 2014. This is driven by living standards, regulation, and demographic changes. Basic living standards are expected to increase 2.5% by 2034.

Population and demographics

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<td>United States</td>
<td>2.678 million</td>
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Passenger numbers ('000s)