Source: IATA Economics using data from ICAO, IATA Statistics, IMF and our own forecasts
Peak-to-peak cycles lasted 8-11 years; but are downturns predictable?

Global passenger kilometers flown (RPKs)

- Source: IATA Economics using data from ICAO, IATA Statistics and our own forecast

- Inflation emerges
- Oil crisis
- Gulf war
- dot.com/9-11
- GFC

Billions of passenger kilometers flown

Years:
- 1950
- 1955
- 1960
- 1965
- 1970
- 1975
- 1980
- 1985
- 1990
- 1995
- 2000
- 2005
- 2010
- 2015
I used to be an economic forecaster but it was all so hit and miss.
Macro-economic forecasts fail just when you need them

Source: IATA Economics using data from the US Fair Model and Datastream
The same is true in forecasting air travel

Source: UK DfT, UK Aviation Forecasts, October 2017
What can be done?

- Turning points can’t be forecast consistently
  - Too many unknown unknowns
  - We don’t even try
  - We focus on how the trend is evolving
  - ...but listen to Adam
  - Consider the known unknowns
  - Stress-test with scenarios
  - Build flexible, robust, business models

- Long-term trends may be predictable for some aviation variables
  - IATA/TE 20-year country-pair passenger forecast service
What are the known unknowns? 1. Geopolitical risk is at a 25 year high

**“Old” Geopolitics**
- State to state conflict
- Military build-up
- Nuclear proliferation
- Proxy wars
- Disputes over borders + territory
- Weak + failing states

**“New” Socio-Economics**
- Vox Populi Risk
- Support for non-mainstream parties/mass protests
- “Flash mob” mass protests
- Declining trust in elites
- Income inequality concerns
- Referenda, constitutional crises

Weak global governance
Shifting alliances
Isolationism

Developed market political risk
Terrorism
Refugee crisis

Source: Tina Fordham, Chief Political Strategist, Citi
But political shocks of 2016 did not end the cycle

Donald Trump Vows to Rip Up Trade Deals and Confront China
The New York Times
28 June 2016

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

Across Europe, distrust of mainstream political parties is on the rise
Guardian
25 May 2016
In fact confidence rose to new highs

Source: IATA Economics using data from Datastream, Markit
Liquidity helps; central banks have not yet started to unwind QE

Source: Datastream
Asset prices near all time highs – bubbles about to burst?

Source: IATA Economics using data from Datastream, IMF
If so, high debt ratios could be the source of a downward shock.

Source: Datastream
But asset prices don’t look exceptionally high compared to nominal GDP.
‘Normal’ bond yields should be closer to trend growth in nominal GDP

Source: Datastream
The interest rate cycle is finally turning up.
So far there is no sign yet of an inflation problem

Source: Datastream
But an inflation shock may come from the US, now out of spare capacity.

Source: Datastream
Hard Brexit looking more likely – damaging not disastrous

The Treasury View: 3-4 years worth of GDP growth lost

Table 3.D: Annual impact of leaving the EU on the UK (difference from being in the EU after 15 years)

<table>
<thead>
<tr>
<th></th>
<th>EEA</th>
<th>Negotiated bilateral agreement</th>
<th>WTO</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP (%) – central</td>
<td>-3.8</td>
<td>-6.2</td>
<td>-7.5</td>
</tr>
<tr>
<td>GDP (%)</td>
<td>-3.4 to -4.3</td>
<td>-4.6 to -7.8</td>
<td>-5.4 to -9.5</td>
</tr>
<tr>
<td>GDP per capita(^a) – central</td>
<td>-£1,100</td>
<td>-£1,800</td>
<td>-£2,100</td>
</tr>
<tr>
<td>GDP per capita(^a)</td>
<td>-£1,000 to -£1,200</td>
<td>-£1,300 to -£2,200</td>
<td>-£1,500 to -£2,700</td>
</tr>
<tr>
<td>GDP per household(^a) – central</td>
<td>-£2,600</td>
<td>-£4,300</td>
<td>-£5,200</td>
</tr>
<tr>
<td>GDP per household(^a)</td>
<td>-£2,400 to -£2,900</td>
<td>-£3,200 to -£5,400</td>
<td>-£3,700 to -£6,600</td>
</tr>
</tbody>
</table>

\(^a\)Expressed in terms of 2015 GDP in 2015 prices, rounded to the nearest £100.

Source: UK Treasury ‘The Long Term Impact of EU Membership and the Alternatives
Airlines have been using strong cash flows to reduce debt

Source: IATA Economics using data from The Airline Analyst
Focus remains on sweating assets as well as protecting margins

Components of return on capital

- EBIT margin
- Capital productivity

The evolving trend for 2018 points to a 4th year of good returns.

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