Airlines, the economy and air transport demand

Brian Pearce,
Chief Economist,
IATA
www.iata.org/economics
Returns for airlines investors lower this year; still good

Source: IATA Economic Performance of the Airline Industry, End-Year 2016 report
But performance is very different between the regions.

Source: IATA Economic Performance of the Airline Industry – end year 2016 report
Industry profitability peaked a year ago

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

Airline passenger yield and crude oil prices, indexed

Indexed to equal 100 in January 2011
US$ per barrel

Oil price
Passenger yield

Source: IATA using data from PaxIS+ and Haver
But volumes are up with a revival in air travel

<table>
<thead>
<tr>
<th>Region</th>
<th>YTD Feb 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industry</td>
<td>7.0%</td>
</tr>
<tr>
<td>Middle East</td>
<td>11.4%</td>
</tr>
<tr>
<td>Asia Pacific</td>
<td>9.5%</td>
</tr>
<tr>
<td>Europe</td>
<td>7.3%</td>
</tr>
<tr>
<td>Africa</td>
<td>5.4%</td>
</tr>
<tr>
<td>L. America</td>
<td>3.9%</td>
</tr>
<tr>
<td>N. America</td>
<td>1.7%</td>
</tr>
</tbody>
</table>

Source: IATA Economics using data from IATA Statistics
And a strong performance from air cargo

Source: IATA Economics using data from IATA Statistics
Part of cargo revival is improved share of world trade

Sources: IATA Economics, IATA Monthly Statistics, CPB

Source: IATA Statistics, Netherlands CPB
But there is also a broad revival of business confidence.

Source: IATA Economics using data from Markit
Consumers have become more confident too

Source: IATA Economics using data from Datastream
Perhaps surprisingly given political shocks

**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
Will the IMF economic growth forecast be right at last?

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

Source: IMF World Economic Outlook databases
Monetary policy effectiveness is exhausted

Source: IATA Economics using data from Haver
But fiscal policies recently became a stimulus to growth

Change in general government structural budget as % GDP

Tighter/deflationary fiscal policy

Looser/reflationary fiscal policy

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

Source: IATA Economics using data from the World Bank
Economic growth converging in key regions

Source: IATA Economics using data from Oxford Economics
Rising demand to travel even under gloomy scenarios

Source: IATA/Tourism Economics Air Passenger Forecasts, September 2016
Centre of gravity of air travel shifting fast towards China

Source: IATA Economics using data from PaxIS+
Change in top-10 air travel markets over next 20 years

The 10 largest air passenger markets over time
(rank by passenger numbers, to, from and within each country)

US
China
UK
Japan
Spain
Germany
India
Italy
France
Indonesia


Source: IATA/TE Passenger Forecast service
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