Southeast Asia aviation economic outlook – implications for infrastructure

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83% air traffic
1 voice

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Best practice
Global solutions

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Key points

• Traffic and financial performance expected to be strong this year
• Asia and ASEAN increasingly important in economy and aviation
• Airport infrastructure investment critical for industry, especially in Asia
• Airports are low risk investments when airlines consulted
• Availability of infrastructure key to unlocking economic benefits from aviation but should not lead to unsustainable increase in costs
• Policies that need to be pursued in tandem are smart regulation, facilitation of trade and travel
Robust growth in passenger and cargo continues

Pax on upward trend but has eased, cargo best year so far since 2010 rebound

Source: IATA Economics using data from IATA Statistics
Airline financial performance to 2016

Return on invested capital

Source: IATA Economics using data from The Airline Analyst
Airport financial performance to 2015
Return on capital vs weighted average cost of capital

![Bar chart showing ROIC for different regions: AsPac, Europe, LatAm, NorthAm.](chart)

- AsPac: Avg cost of capital recovered: 5.8%, Above normal returns: 1.7%
- Europe: Avg cost of capital recovered: 5.8%, Above normal returns: 1.9%
- LatAm: Avg cost of capital recovered: 7.5%, Above normal returns: 0.9%
- NorthAm: Avg cost of capital recovered: 4.2%

Source: IATA Economics, ACI, IMF, McKinsey & company
Contribution to GDP growth of major economies
Since 2006 ASEAN made larger contribution then US and EU (PPP adjusted)

Source: IATA Economics using data from IMF, Tourism Economics
Young population (ages 0-14) across key markets
ASEAN growingly important

Source: IATA Economics using data from Tourism Economics
Center of gravity of air travel shifting
ASEAN has and will continue to contribute significantly to this shift

Source: IATA Economics using data from PaxIS
Air travel demand forecasts robust for Asia
ASEAN has and will continue to significantly contribute to shift towards Asia
Aircraft in service and deliveries due
ASEAN has more deliveries due than aircraft in service

Source: IATA Economics using data from Flight Global
Airport Infrastructure investment needed

1.2 – 1.4 $trillion new capital needed till 2030, double current invested capital

Sources: IATA Economics, McKinsey, GIH
Airport Infrastructure investment needed by 2030

Almost 1 in 2 USD spent on airports needs to be spent in Asia

Europe
USD bn, 217

Asia
USD bn, 610

Americas
USD Bn, 455

Africa
USD bn, 36

Sources: IATA Economics using data from GIH
Infrastructure investment already critical in Asia
At top 100 airports in AsPac, 52% already need terminal capacity, 69% will need more runway capacity by 2030

Source: IATA Airport Capacity Database
Market characteristics differ across key markets
Travelers used direct services for travel within ASEAN, but still rely heavily on connections when traveling outside ASEAN

- India: 89% Within, 51% Outside
- China: 99% Within, 77% Outside
- ASEAN: 91% Within, 68% Outside
- EU: 93% Within, 61% Outside
- US: 72% Within, 52% Outside

Source: IATA DDS, PaxIS
Airports are low risk investments

Safe investment
Half as volatile as global equity markets

Natural diversification
Domestic and international air transport markets

Multitude of levers
- Opex
- Capex
- Contracts with suppliers
Airports investors should take a long term view

Asian airline RPKs
(Billions per month, seasonally adjusted)

Source: IATA Economics using data from IATA Monthly Statistics
Consultation with airlines best risk mitigation tool
Long term master plans agreed with users needed
Benefits of Aviation in Asia Pacific
Aviation supported 28.8 mn jobs and GDP of $626 bn in 2014

JOBS TOTAL
28.8 million

GDP TOTAL
$626 billion

19,900,000
Tourism catalytic

$261.8 bn

1,700,000
Induced

$72.9 bn

3,800,000
Indirect

$158.2 bn

3,300,000
Aviation direct

$133.3 bn

Source: ATAG
Infrastructure key to unlocking growth potential

Source: Intervistas
Travel and tourism competitiveness – the good

Source: IATA Economics using data from World Economic Forum’s Travel and Tourism competitiveness report 2017
Travel and tourism competitiveness – the bad?

Source: IATA Economics using data from World Economic Forum’s Travel and Tourism competitiveness report 2017
Overall competitiveness rank and tourism spend

ASEAN countries with better travel and tourism sector competitiveness rank have higher tourism spending.

Source: IATA Economics using data from World Economic Forum’s Travel and Tourism competitiveness report 2017
Air cargo connectivity and trade

Benefits economy - 1% increase in cargo connectivity associated with 6.3% increase in trade value, also key to boosting revenues for airports and airlines.

Air Connectivity Index (World Bank)

Value added trade data

$ 6

1

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ASEAN and region has top performers
Divergence across Asia significant, opportunities for improvement

Air Trade Facilitation Index

Source: IATA Economics

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Downside and upside risks

**Downside**
- Nationalism, regionalism and conflict
- Trade war
- Capital flight from EM

**Upside**
- ASEAN integration
- Balanced foreign policy
- Peace and demographics
What does this mean for airport development?

• Capacity investment needed otherwise benefits constrained
• Smart investment is key, based on need and delivered efficiently
• Avoid unsustainable increase in prices and smart regulation
• Travel and trade facilitation also has potential
• Airports, airlines and regulators need to work together with a long term mindset to unlock this vast potential that exists
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