Are the markets signalling recession ahead?

Source: Datastream, Markit
Trade wars damaging but not expansion stoppers

Source: IMF, Citi ‘US-China Tariffs-Limbo on the Verge of Trade Wars’ 3 December 2018
Brexit chaotic but slows rather than stops long-term

£ trillion, 2016 prices

- No Brexit
- Deal + Backstop -2.8%
- Deal + FTA (proposal) -3.9%
- Orderly No Deal -5.5%

Source: Oxford Economics, NIESR Brexit Impacts Report 26th November 2018
Forecasters still expect economic growth in 2019

Source: Markit, IMF World Economic Outlook October 2018
Air travel has certainly got a lot of momentum

Source: IATA Statistics
Expect slower travel growth, but still above trend

Source: IATA Statistics, IATAs own forecasts
Jet fuel price lower as market over-supplied
Relieving the downward pressure on margins

Airline industry operating margin

Seasonally adjusted

As reported

Source: IATA Economics using data from The Airline Analyst
Breakeven stabilizing and asset utilization rising

Breakeven and achieved load factor

Source: ICAO, IATA Statistics, IATA forecasts
Airlines’ return on capital should stabilize in 2019

Return on capital invested in airlines and their cost of capital

Stable margins and 10th consecutive year of profit

Global commercial airline profitability

Net post-tax profit

EBIT margin

Source: ICAO, IATA Statistics, IATA forecasts
Increasing value for consumers and businesses

Unique city-pairs and real transport costs

Unique city-pairs

Inflation-adjusted airline yield

Source: SRS Analyser, ICAO, IATA Statistics, IATA forecasts
More revenues for governments and more jobs

Tax revenues and global supply chain jobs supported

Source: ATAG Benefits Beyond Borders 2018, Oxford Economics, IATA forecasts
However, rising non-fuel costs are a challenge.

Airline industry growth in unit costs and unit revenues

Source: The Airline Analyst
It will take a recession to stop cost pressures rising

Spare capacity in the OECD economies and labour markets

Source: OECD Economic Outlook October 2018
Interest rates will be pushed higher

10 year government bond yields, %

- China
- US
- Eurozone

Source: Datastream
Problems from a strong US$ likely to continue

Exchange rates, US$ per unit of local currency

Index to equal 1 in 2008Q1

Source: Datastream
Debt remains an issue for airlines in some regions

![Graph showing adjusted net debt to EBITDAR for different regions over the years 2010 to 2017. The regions include Latin America, Middle East, Asia Pacific, Europe, North America, and Investment grade. The graph indicates that the debt levels have fluctuated across these regions over the years.](image)

Source: The Airline Analyst
Performance will continue to diverge by region

Net profit margin by region

- N America
- Asia Pacific
- Europe
- L America
- Middle East
- Africa

Source: ICAO, IATA Statistics, The Airline Analyst, IATA forecasts
Thank you

Brian Pearce
pearceb@iata.org
www.iata.org/economics