State of the global airline industry

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Bangkok

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www.iata.org/economics
Is the industry cycle about to end...and does it matter?

Source: IATA Economics using data from ICAO, IATA Statistics and our own forecast
The economic cycle is critical for air travel

Global GDP and RPK growth

Source: IATA Economics using data from ICAO, IATA Statistics, IMF and our own forecasts
But how important is the cycle (now) for airline financial performance?

Source: IATA Economics using data from ICAO, IATA Statistics, IMF and our own forecasts
What could go wrong – geopolitics?

“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
Protectionism is one issue that has already gone wrong.
Damage to cargo obscured by restocking cycle

Source: IATA Economics using data from IATA Statistics and Datastream
Brexit is also symptomatic

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

<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>
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<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
What (else) could go wrong – debt?

Outstanding debt held by non-financial private sector, % GDP

Developing economies

Developed economies

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

Source: IATA Economics using data from Datastream, IMF
Central banks only just starting to unwind QE/their asset mountains

Source: Datastream
What could go wrong – an inflation shock from the US?

GDP and potential GDP in the US

Source: Datastream
Rising costs are the biggest immediate challenge for airlines

Jet fuel price and growth in unit costs

Source: IATA Economics using data from The Airline Analyst, Platts, IATA forecasts
Industry profitability squeezed but now stabilizing

Source: IATA Economics using data from The Airline Analyst and airline releases
Investor returns falling but above cost of capital for a 4\textsuperscript{th} year

Return on capital invested in airlines and their cost of capital

From value destruction to value creation...to a ‘normal’ industry

Difference between investing in airlines and investing in similar assets elsewhere

Successfully sweating assets as well as improving margins

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Signs of improvement being structural rather than transitory

Source: IATA Economics using data from ICAO, IATA Statistics, IATA forecasts
But not all regions are equally good performers

Source: IATA Economics using data from ICAO, The Airline Analyst, IATA forecasts
Strong balance sheets are key to resisting the next downturn

Source: IATA Economics using data from The Airline Analyst
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