Chief Economist’s Report

22 February 2017
IATA Legal Symposium, Washington

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Themes

1. World economy still stuck on low-growth path
2. Demand for air travel strong but cargo challenged
3. Still great value for consumers and the wider economy
4. Investors seeing value created for 1st time, but not everywhere
5. Industry facing threat of disruption
World economy stuck on low-growth path

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

April 2013
April 2014
April 2015
April 2016
January 2017

Latest data point

Source: IMF World Economic Outlook databases
Partly because of the debt overhang

Source: Bank for International Settlement database
But also the retreat from globalization

Source: IMF World Economic Outlook and the World Trade Organization
Poor demographics in some major economies

Source: Oxford Economics

Note: Only +0.1% pa without net immigration
The exhaustion of monetary policies

US federal funds target rate and balance sheet assets

US Federal Reserve
Bank assets

US fed funds

Source: Haver
And, until 2015, fiscal austerity policies

Change in structural government deficit, as % GDP

Fiscal tightening

Fiscal relaxation

Source: IMF World Economic Outlook databases
Demand for air travel strong, but cargo challenged

Airline revenues, tickets, cargo and ancillaries

- Passenger ticket revenue
- Ancillary revenue
- Cargo revenue

Source: IATA Economics using data from PaxIS+, IdeaWorks, CargoIS, ICAO and IATA Statistics
Large potential in populous but (currently) poor markets

Source: IATA Economics using data from PaxIS+ and Oxford Economics
Centre of gravity of air travel shifting fast towards China

Source: IATA Economics using data from PaxIS+
Chinese tourist outflows begin to dominate

Tourist departures, million

China
Germany
US
Japan

Source: IATA Economics using data from Tourism Economics’ Decision Metrics database
Cargo faces weak world trade but boom in e-commerce

Source: IATA Economics using data from Netherlands CPB and Haver
Air travel delivering increasing value for consumers

Source: IATA using data from PaxIS+ and Oxford Economics
Connections and low costs benefit the wider economy

Unique city-pairs and real transport costs

Number of unique city-pairs vs. Real transport costs in US$/RTK in 2014

Source: IATA Economic Performance of the Airline Industry, End-Year 2016 report
At last investors are getting a ‘normal’ return

Source: IATA Economic Performance of the Airline Industry, End-Year 2016 report
But airline profitability still challenged outside the US

Net post-tax profit margins

N America  Europe  Asia Pacific  Midle East  L America  Africa

Source: IATA Economic Performance of the Airline Industry, End-Year 2016 report
Balance sheets in some regions remain weak

Adjusted net debt/EBITDAR by region

Source: IATA Economic Performance of the Airline Industry, End-Year 2016 report
Is the future more ‘normality’ or disruption?

• Replicability of the US and North Atlantic experience
• Ownership & control ‘barriers’ under pressure
• Empowered consumers and the ‘data aggregators’
Replicability of the US and N Atlantic experience

• Consolidation?
• Open Skies allowing ATI-JVs?
• Focus on ROIC and capital productivity?
• Move away from commoditized seat/schedule product?
Ownership & control ‘barriers’ under pressure

- Cross-border JVs in Asia and Latin America
- Minority shareholding in foreign airlines
- Chinese acquisitions and tourism/economic interests
Empowered consumers and the ‘data aggregators’

• Hand-held information availability + social media platforms
• Transparency
• Personalization
• Opportunity - NDC/FFP data
• Challenge – GDSs or is it the ‘data aggregators’?
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