Great industry performance – but narrowly based and facing challenges

August 2016

Brian Pearce
Chief Economist, IATA
Record profits of $39.4 billion forecast this year

Global commercial airline profitability

Source: ICAO, IATA
2016 another year of above WACC returns

Return on capital invested in airlines

Cost of capital (WACC)

Return on capital (ROIC)

Source: McKinsey, IATA
Margins now less leveraged to economic cycle?

World airline EBIT margin and global GDP growth

% change over previous year, EBIT as %

ΔEBIT/ΔGDP


Source: IMF World Economic Outlook

www.iata.org/economics
Profits rising in 2016Q1 despite falling unit revenues

Average return fare and Brent crude oil prices

Source: IATA using PaxIS+ and Haver data
Widening asset utilization gap driving returns

Breakeven and achieved weight load factor

% ATKs

Achieved LF

Breakeven LF

Source: ICAO, IATA
Better capital productivity also driving returns

Source: McKinsey, ICAO, IATA
But industry totals hide enormous diversity

2015 ROIC = adjusted EBIT/revenue * revenue/invested capital

Increasing return on capital (ROIC)

Source: IATA calculations from The Airline Analyst
It’s largely N America driving industry results

Net post-tax profit margins

-10% -5% 0% 5% 10% 15%

N America Europe Asia Pacific Midle East L America Africa

2015 2016
Parts of Europe also performing well but not elsewhere

Return on invested capital by region

% of invested capital

North America
Europe
Asia Pacific
Latin America

Source: IATA calculations from The Airline Analyst
Balance sheets show the diversity of financial health

Adjusted net debt/EBITDAR by region

- Latin America
- Asia Pacific
- Europe
- North America

Source: IATA calculations from The Airline Analyst
And performance is uneven across markets

Revenues from passengers and cargo

Passenger revenue

Cargo revenue

Source: ICAO, IATA
Globalization paused and threatened?

World trade/IP ratio vs. measure of global supply chains

Index (Oct 2008=100)

World trade/IP ratio

Ratio of foreign value added to domestic value added in world gross exports

Sources: IATA, Netherlands CPB, OECD-WTO TiVA database
Air travel growth has remained strong

IATA forecasts of global RPK growth

Source: IATA Economic Performance of the Airline Industry
But world is stuck in a low economic growth path

IMF forecasts of global economic growth (using market exchange rates)

Source: IMF World Economic Outlook
In this environment lower operating leverage preferable

'Fixed' costs (opex exc. fuel, landing fees, selling costs) as % total cost

Source: IMF World Economic Outlook
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