Above-trend growth, Airlines making money: What could go wrong?

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Airlines creating investor value for 1\textsuperscript{st} time since mid-1960s

Source: IATA Business Confidence Survey

Return on capital invested in airlines

Cost of capital (WACC)

Return on capital (ROIC)

Source: IATA Business Confidence Survey
Passenger and cargo growth well ahead of trend and GDP

Average GDP 'multiplier': 1.6x

Growth in Tonne Kilometers Flown worldwide and GDP

Source: IATA Economic Performance of the Airline Industry, Mid-Year 2017
Passenger market could grow 3x in next 20 years

Source: IATA/Tourism Economics 20-year passenger forecasts, April 2017

Scenarios for O-D passenger numbers, billions

- Open-borders, liberal policies scenario
- BAU scenario
- Closing-borders, nationalistic policies scenario

- 3x growth
- 2x growth
- 1.5x growth

What could go wrong?
Monetary policy accident?

US Federal Funds Policy Rate and Assets

Source: Thompson Reuters Datastream
Inflation shock?

Consumer price inflation

% change over year


Source: Thompson Reuters Datastream
Private debt deflation?

Outstanding debt in the private non-financial sector

Developed economies

Developing economies

Source: BIS
Protectionism?

World trade as a ratio of world industrial production

Source: netherlands CPB
### Brexit

Table 3.D: Annual impact of leaving the EU on the UK (difference from being in the EU after 15 years)

<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>
</tr>
<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
Short-lived airline value creation?

Breakeven and achieved weight load factors

![](chart)

Source: IATA Economic Performance of the Airline Industry, Mid-Year 2017
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