Key issues facing the industry outlook

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The next aviation recession is overdue, or is it?

Global passenger kilometers flown (RPKs)

- Inflation emerges
- Oil crisis
- Gulf war
- dot.com/9-11
- GFC
- 9 years
- 11 years
- 8 years
- 10 years

Source: IATA Economics using data from ICAO, IATA Statistics and our own forecast
Cargo is shrinking, but travel has strong momentum

Worldwide RPKs and FTKs, seasonally adjusted

- Freight tonne km flown
- Passenger km flown

Source: IATA Economics using data from IATA Statistics
Cross-border trade weak, but GDP growth looks OK

Global GDP and world trade growth

Source: IATA Economics using data from Oxford Economics and the Netherlands CPB
Trade wars damaging but not expansion stoppers

Global GDP growth

Source: IATA Economics using data from IMF, Citi ‘US-China Tariffs-Limbo on the Verge of Trade Wars’ 3 December 2018
Brexit damaging but would slow not stop the UK

Source: IATA Economics using data from Oxford Economics, NIESR Brexit Impacts Report 26th November 2018
Financial markets appear to be signalling recession

FTSE World equity index, US 2-10 year yield curve, US recessions

Source: IATA Economics using data from Thompson Reuters Datastream
But these are extraordinary times

Central bank assets

US$ 6 trillion of bonds, assets purchased by Fed and ECB

Source: IATA Economics using data from Thompson Reuters Datastream
Most expect growth to continue in 2019

Source: IATA Economics using data from Markit, IMF World Economic Outlook January 2019
However, that means we face rising costs

Spare capacity in the OECD economies and labour markets

Source: OECD Economic Outlook October 2018
Shortages and increasing supplier market power

Return on invested capital, 2007-2014 average, %

Source: IATA Economics using data provided by McKinsey
Lower jet fuel costs will help US oil supply

Source: IATA Economics using data from Datastream, Platts
Mid-2018 recovering those costs became harder

Airline industry growth in unit costs and unit revenues

Source: IATA Economics using data from The Airline Analyst
Unbundling has been central to improvement

Airline revenue per passenger

Source: IATA Economics using data from ICAO, IATA Statistics, IATA forecasts
A more rational industry structure has also helped

Breakeven and achieved load factor

Source: IATA Economics using data from ICAO, IATA Statistics, IATA forecasts
Value creation for investors continues, just

Return on capital invested in airlines and their cost of capital

- **Return on capital (ROIC)**
- **Cost of capital (WACC)**

Source: IATA Economics using data from ICAO, IATA Statistics, IATA forecasts
But there are problems even in successful regions.
Consumers benefit from liberal EU markets

Source: IATA Economics using data from DDS
But there is an increasing tax & charges ‘wedge’

Average price of an one-way all-in air ticket departing an EU28 airport, 2006 vs 2016

- **2006**
  - Base fare: €176
  - Fuel surcharge + fees: €23
  - Airport passenger charges: €16
  - Tax: €6

- **2016**
  - Base fare: €138
  - Fuel surcharge + fees: €33
  - Airport passenger charges: €14
  - Tax: €14

Source: IATA Economics using data from DDS, the Airline Analyst, ACI and IATA’s TTBS database
Connectivity big prize from an African single market

Source: Transforming Intra-African Connectivity. 2014 study by InterVISTAS for IATA
Thank you

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