Airline Industry Economics

AWG presentation
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To represent, lead and serve the airline industry
Two big changes in the business environment

US dollar trade-weighted index and the price of oil

Source: Datastream

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Impact of lower fuel prices not unambiguous

Source: IATA, McKinsey
**Costs typically passed through to prices**

Unit cost and the price of air transport

*Source: IATA/Tourism Economics ‘Air Passenger Forecasts’*
A strong economic cycle would help airline returns

Airlines ROIC and world GDP growth

Source: IATA, McKinsey, IHS Global Insight

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Economic cycle but positive not very strong

Measures of the global economic cycle

Source: Datastream
But growth in demand for travel and cargo is solid

Source: IATA
Adverse structural change in air cargo

International trade compared to global industrial production

BEFORE: FTKs growth 6.4% p.a
AFTER: FTKs growth 3.2% p.a.

Source: Netherlands CPB, IATA
Much of the airline industry still highly fragmented

Market share of top-3 airlines/JVs

Source: SRS Analyser

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Commoditized product starting to be addressed

Source: IdeaWorks, Airline Analyst, IATA
All of which is leading to this…

Breakeven and achieved load factor

Source: IATA
So airline industry ROIC is improving significantly

Return on capital invested in airlines

Source: IATA, McKinsey
Improvement driven by a subset of the industry

Distribution of 2014 airline ROIC

Most frequent ROIC = 0%
Median ROIC = 3.2%
34 airlines ROIC > WACC

Source: The Airline Analyst, IATA
Median airline not as well placed as leaders

Free cash flow and adjusted net debt

Median airline $3 billion net debt -3% FCF/net debt

6 airlines could repay all debt in next 5 years

Source: The Airline Analyst, IATA
Financial markets recognized regional divergences

Airline share price indices, 2007 = 100

Source: Thompson Reuters Datastream
Performance gains mostly US and parts of Europe

2014 return on capital by region

Source: The Airline Analyst, IATA

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