The outlook for the airline industry

December 2016

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Connecting more cities at lower prices

Unique city-pairs and real transport costs

Source: IATA Economic Performance of the Airline Industry – end year 2016 report
Creating value for the wider economy

Tax revenues paid and global supply chain jobs supported

Source: IATA Economic Performance of the Airline Industry – end year 2016 report
Boosting trade and tourism

Value of trade carried by air and the spending of tourists

- Spending by tourists carried by air
- Value of traded goods carried by air

Source: IATA Economic Performance of the Airline Industry – end year 2016 report
Now creating value for investors

Return on capital invested in airlines

Cost of capital (WACC)

Return on capital (ROIC)

Source: IATA Economic Performance of the Airline Industry – end year 2016 report
2017 less profitable but still value creating

Difference between investing in airlines and investing in similar assets elsewhere

Source: IATA Economic Performance of the Airline Industry – end year 2016 report
Industry level profits momentum has weakened.

Airline industry average EBIT margin

-2% 0% 2% 4% 6% 8% 10% 12% 14% 16%
% of revenue

Airline industry average EBIT margin
Unadjusted data
Adjusted for seasonality

Source: IATA seasonal adjustment of data from The Airline Analyst and airline public reports
As unit costs and unit revenues crossed over

Growth in unit revenues and unit costs

% change over year earlier

% change over year earlier


Source: IATA using data from The Airline Analyst
Industry profitability is more resilient to the cycle

EBIT or operating margins and global GDP growth

Source: IATA using data from ICAO, the IMF and our own forecasts
And it’s not just about low fuel prices

OPEC spare capacity and OECD crude oil inventories

OECD crude oil inventories (right scale)
OPEC spare capacity (left scale)

Source: IATA using data from Haver
Structural changes in asset utilization

Breakeven and achieved weight load factor

Source: IATA Economic Performance of the Airline Industry – end year 2016 report
Structural changes in the product

Airlines' operating or EBIT margin and capital productivity

Source: IATA Economic Performance of the Airline Industry – end year 2016 report
Some regions doing much better than others

ROIC in 2016 (part year) by region and airline

Source: IATA using data from The Airline Analyst
There is a wide range of business models

$2015 \text{ROIC} = \frac{\text{adjusted EBIT}}{\text{revenue}} \times \frac{\text{revenue}}{\text{invested capital}}$

Source: IATA using data from The Airline Analyst
Balance sheet metrics remain divergent

Adjusted net debt/EBITDAR by region

- Latin America
- Asia Pacific
- Europe
- North America

Source: IATA using data from The Airline Analyst
Where now for the fragile economic cycle?

Indicators of the economic cycle

- World trade growth (left scale)
- Industrial production growth (left scale)
- Business confidence (right scale)

Source: IATA using data from Markit, Haver, Netherlands CPB
This time is different for global GDP growth?

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

Source: IATA using data from the IMF’s World Economic Outlook
The problem with world trade remains

Index (Oct 2008=100)

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

Source: IATA using data from the Netherlands CPB
Travel demand has been strong

Growth in RPKs and the level of business confidence

Source: IATA using data from IATA statistics and Markit
Over the next two decades considerable growth

- **China**: Change in domestic O-D markets (millions, 2015-2035) = 670, Corresponding CAGR = 5.2%
- **United States**: Change in domestic O-D markets (millions, 2015-2035) = 200, Corresponding CAGR = 2.6%
- **India**: Change in domestic O-D markets (millions, 2015-2035) = 220, Corresponding CAGR = 6.7%
- **Indonesia**: Change in domestic O-D markets (millions, 2015-2035) = 110, Corresponding CAGR = 3.5%
- **Vietnam**: Change in domestic O-D markets (millions, 2015-2035) = 90, Corresponding CAGR = 8.2%
- **Turkey**: Change in domestic O-D markets (millions, 2015-2035) = 70, Corresponding CAGR = 5.2%
- **Brazil**: Change in domestic O-D markets (millions, 2015-2035) = 50, Corresponding CAGR = 2.6%
- **Philippines**: Change in domestic O-D markets (millions, 2015-2035) = 30, Corresponding CAGR = 6.0%
- **Australia**: Change in domestic O-D markets (millions, 2015-2035) = 25, Corresponding CAGR = 3.0%
- **Mexico**: Change in domestic O-D markets (millions, 2015-2035) = 10, Corresponding CAGR = 4.2%

Source: IATA using data from TE/IATA Air Passenger Forecasts, October 2016
Next year will be slower but still close to trend

Global RPK growth and passenger numbers

% change over previous year


Passenger numbers

Growth in global RPKs

20-year trend growth rate

Source: IATA Economic Performance of the Airline Industry – end year 2016 report
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