The outlook: what we know, the known unknowns and the unknown unknowns

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Seoul

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World stuck on low-growth path (IMF consistently wrong)

IMF forecasts of global economic growth (using market exchange rates), % y-o-y


Source: IMF World Economic Outlook databases
Partly because of the debt overhang

Source: Bank for International Settlement database
But also the retreat from globalization

Source: IMF World Economic Outlook and the World Trade Organization
Poor demographics in some major economies

Labour force growth

US
China
Japan
Germany

Note: Only +0.1% pa without net immigration

Source: Oxford Economics
The exhaustion of monetary policies

US federal funds target rate and balance sheet assets

US Federal Reserve
Bank assets

US fed funds

Source: Haver
We got air travel wrong – but under not over-estimated

Source: IATA Economic Performance of the Airline Industry
Partly because of price-stimulation from LCC entry

Sources: IATA using SRS Analyser data
And then because oil prices collapsed

Source: IATA using PaxIS+ and Haver data
Still plenty of potential for growth in air travel

Source: IATA/Tourism Economics Air Passenger Forecasts, September 2016
Expect large rises in trip frequency in some key markets

Source: IATA Economics using data from PaxIS+ and Oxford Economics
Of course demographics will also make a big difference

The UN's projected change in population (2015-2035, %)
UN projections adjusted for demographic factors

Source: IATA/Tourism Economics Air Passenger Forecasts, September 2016
Biggest incremental growth on domestic markets

China: 600 million, 5.2% CAGR
United States: 400 million, 2.6% CAGR
India: 300 million, 6.7% CAGR
Indonesia: 200 million, 3.5% CAGR
Vietnam: 150 million, 8.2% CAGR
Turkey: 100 million, 5.2% CAGR
Brazil: 80 million, 2.6% CAGR
Philippines: 70 million, 6.0% CAGR
Australia: 60 million, 3.0% CAGR
Mexico: 50 million, 4.2% CAGR

Source: IATA/Tourism Economics Air Passenger Forecasts, September 2016
Significant change in top-10 in air travel in next 20 years

Source: IATA/Tourism Economics Air Passenger Forecasts, September 2016
But world could follow quite different paths

Source: IATA/Tourism Economics Air Passenger Forecasts, September 2016
What could go wrong – protectionism?

Donald Trump Vows to Rip Up Trade Deals and Confront China
The New York Times
28 June 2016

Across Europe, distrust of mainstream political parties is on the rise
Guardian
25 May 2016

Clamour for trade protectionism on rise: Arun Jaitley
CNBC
13 October 2016
What could go wrong – Brexit and EU instability?

How attached do you feel towards the European Union?

Source: Schroders
What could go wrong – US economic policies?

**Positives**
- Tax cuts
- Increased spending on infrastructure & defense
- Less regulation

**Negatives**
- Policy uncertainty
- Trade protectionism – possibly trade wars
- Fiscal orthodoxy on behalf of Congress
What could go wrong – Chinese property prices

* Large cities. Note: The 2000-05 data for China are VERY tentative.
What could go wrong – debt crisis?

Outstanding debt of non-financial sector, % of GDP

Developed economies

Developing economies

Source: IATA using data from BIS
What could go wrong – rising interest rates?

US 10-year Treasury Bond Yield

Source: IATA using data from Haver
What could go wrong – oil prices?

OPEC spare capacity and OECD crude oil inventories

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

Source: Haver
What could go wrong – inflation?

Central bank assets

Bank of Japan
US Federal Reserve

Source: IATA using data from Haver
What we were forecasting 20-30 years ago!
Radical uncertainty

The importance of things we do not know we do not know

- LCCs in Europe 20 years ago?
  - 9/11 15 years ago?
  - Dubai No 1 10 years ago?
  - Brexit 5 years ago?
  - Commercial drones?
  - Virtual reality?
  - Data aggregators?
What to do in the face of radical uncertainty?

- Create options
- Create flexibility
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