Airline industry performance issues

Brian Pearce
Chief Economist

18th September 2019
De-coupled from the cycle, or not?

Airline industry operating profit margin and global GDP growth

Source: IATA Economics using data from ICAO, IATA and the IMF World Economic Outlook
This raises several questions

Airline industry operating profit margin and global GDP growth

Source: IATA Economics using data from ICAO. IATA and the IMF World Economic Outlook
First – the risk of recession

Rearranged, business confidence & the yield curve

Recessions (10-2 year) US Treasury yield curve

Business confidence (global PMI composite)

Source: IATA Economics using data from IATA Statistics, Markit and Thompson Reuters Datastream
Oil prices can be a trigger

Source: IATA Economics using data from IATA Statistics, Markit and Thompson Reuters Datastream

Recessions and the price of oil

Brent crude oil price

Drone attack on Saudi oil production

Source: IATA Economics using data from IATA Statistics, Markit and Thompson Reuters Datastream
Cargo volumes and yields down substantially

Source: IATA Economics using data from IATA Statistics, CargoIS
Air travel volumes have slowed not shrunk

Growth in global RPKs and ASKs

Source: IATA Economics using data from IATA Statistics
Reflecting the macro situation

Global GDP and world trade growth

- Start of US-China tariff increases
- World GDP growth
- World trade growth

Source: IATA Economics using data from Netherlands CPB and Oxford Economics
Within Asian trade lanes hit most severely

Int'l FTK by route (segment-basis, billion)

- **Asia - North America**
- **Europe-Asia**
- **Europe-North America**
- **Within Asia**

(\% year-on-year)

- **US west coast seaport disruption**

*Rolling 3 month periods*

Source: IATA Economics using data from IATA Statistics Route Area Statistics
Further damage to air cargo expected

Cumulative Impact of US Import Tariffs on Air Cargo (billion US$)

- Share of Air Cargo in total imports

Source: IATA Economics using data from public sources
Second – have we seen a US-only improvement?

Net post-tax profit margins

% change year-on-year

N America
Europe
Asia Pacific
L America
Africa
Middle East

Source: IATA Economics Economic Performance of the Airline Industry, Mid-Year 2019
Balance sheets are a key differentiator.

Source: IATA Economics using data from The Airline Analyst.
Third – are earnings underpinned in a downturn?

Source: IATA Economics using data from The Airline Analyst

Unit cost and unit revenue growth

Unit cost growth

Unit revenue growth

Source: IATA Economics using data from The Airline Analyst
Temporary problem?

Growth in announced scheduled seats as a ratio of market GDP growth

Source: IATA Economics using data from SRS Analyzer, Oxford Economics
Consolidation playing a role

Breakeven and achieved cargo + passenger weight load factors

Load factor achieved

Breakeven load factor

Source: IATA Economics Economic Performance of the Airline Industry, Mid-Year 2019
Ancillaries changing nature of airline product

Airline revenue per passenger, US$

- Ancillaries: 11.9%
- Cargo: 12.9%
- Surcharges: 7.2%
- Base fare: 68%

Source: IATA Economics Economic Performance of the Airline Industry, Mid-Year 2019,
Thank you
economics@iata.org
www.iata.org/economics