Despite ongoing risks, airline industry seeing strong growth and profits

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Worrying legacies of the GFC: Unstable politics

“Old” Geopolitics
- State to state conflict
- Military build-up
- Nuclear proliferation
- Proxy wars
- Disputes over borders + territory
- Weak + failing states

“New” Socio-Economics
- Vox Populi Risk
- Support for non-mainstream parties/mass protests
- “Flash mob” mass protests
- Declining trust in elites
- Income inequality concerns
- Referenda, constitutional crises

Weak global governance
Shifting alliances
Isolationism

Developed market political risk
Terrorism
Refugee crisis

Source: Tina Fordham, Chief Political Strategist, Citi
Worrying legacies of the GFC: ‘soft’ protectionism

Source: Netherlands CPB
Worrying legacies of the GFC: private debt overhang

Outstanding debt in the private non-financial sector

Source: BIS
Worrying legacies of the GFC: Central bank assets / QE

US Federal Funds Policy Rate and Assets

Source: Thompson Reuters Datastream
Despite this we have a strong cyclical economic upturn

Business confidence as measured by the purchasing managers indices (PMIs)

Source: Markit
Driven partly by fiscal policies switching from austerity to stimulus

Change in general government structural budget as % GDP

-2.5
-2
-1.5
-1
-0.5
0
0.5
1
1.5
2
2.5

US
Euro area
China

Tighter/
deflationary
fiscal policy

Looser/
reflationary
fiscal policy

Source: IATA Economics using data from the IMF World Economic Outlook
Oil prices now expected to trend sideways

Brent crude oil spot price and futures curve (as at 26/09/2017)

Source: Thompson Reuters Datastream
All together generating very strong traffic growth

Growth in Tonne Kilometers Flown worldwide and GDP

Average GDP 'multiplier': 1.6x

7.4% forecast

4-5% if just 1.6x GDP

Source: IATA Economic Performance of the Airline Industry, Mid-Year 2017
But industry profitability is down from its peak

Source: IATA Economics using data from The Airline Analyst and airline releases
Unit costs have accelerated

Source: IATA Economics using data from The Airline Analyst

Unit revenues and unit costs, % change over previous year

% change over previous year

% change over previous year


Source: IATA Economics using data from The Airline Analyst
Breakeven rising but it’s the gap that drives profitability

Source: IATA Economic Performance of the Airline Industry, Mid-year 2017 report
Sweating assets matters for ROIC as well as margins

Source: IATA Economic Performance of the Airline Industry, Mid-year 2017 report
Another year of creating value for investors

Source: IATA Economic Performance of the Airline Industry, Mid-year 2017 report
Good performance on ROIC is widespread

Return on invested capital

EBIT adjusted for operating leases as % invested capital

North America
Europe
Industry average
Latin America
Asia Pacific
Middle East

Weighted Average Cost of Capital

Source: IATA Economics using data from IATA and The Airline Analyst
But there is still a balance sheet challenge in some regions

Source: IATA Economics using data from IATA and The Airline Analyst
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