The importance of international air transport

Whitehall and Industry Group, London
10th May 2016
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www.iata.org/economics

To represent, lead and serve the airline industry
## The International Air Transport Association (IATA)

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>1944</td>
<td>Chicago Convention</td>
</tr>
<tr>
<td>1945</td>
<td>IATA is founded</td>
</tr>
<tr>
<td><strong>Today</strong></td>
<td>260 member airlines; 83% world traffic</td>
</tr>
</tbody>
</table>

- Network standard setting (passenger & cargo)
- Financial clearing house ($380 billion)
- Representation

Our mission is to represent, lead and serve the airline industry.
Presentation outline

1. Economic benefits
2. A paradox
3. Recent developments
Connecting UK cities to the world

Source: IATA’s SRS Analyser, May 2016, scheduled airport pairs to and from the UK
Connecting the world’s cities at decreasing cost

Unique city-pairs and real transport costs

Source: IATA from Boeing, OAG data
Modern global value chains made possible

Dell's global supply chain, made possible by air transport

1. Ram chips and CD-ROM drives from Japan
2. Power supplies from China
3. Monitors and cooling fans from Taiwan
4. Video cards and microprocessors from Hong Kong
5. SCSI cards and disk devices from Singapore
6. Sound cards from France
7. Keyboards from Mexico

Source: ATAG
World trade increasingly needs rapid air transport

Source: UNCTAD
Economic benefits

• Tourism
• Trade in goods and business services
• FDI
• Business clusters
• Innovation from face-to-face meetings
• And exposure to overseas competition
### The air transport paradox

<table>
<thead>
<tr>
<th>Revenue growth¹</th>
<th>ROIC² excluding goodwill (average)</th>
</tr>
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<tbody>
<tr>
<td>Industry total for each year, 2004 - 13 CAGR, percent</td>
<td>Industry aggregate, 2004 - 13 simple average, percent</td>
</tr>
<tr>
<td>Healthcare equipment and services</td>
<td>Software and services</td>
</tr>
<tr>
<td>Rail</td>
<td>Pharma, biotech, and life sciences</td>
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<td><strong>Airlines</strong></td>
<td>Household and personal</td>
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<td>Media</td>
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<td>Communications and professional services</td>
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<td>Freight forwarding</td>
<td>Semiconductors and equipment</td>
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<tr>
<td>Capital goods</td>
<td>Telecom</td>
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<tr>
<td>Economy</td>
<td>Postal/CEP</td>
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<tr>
<td>Pharma, biotech, and life sciences</td>
<td>Consumer services</td>
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<tr>
<td>Retailing</td>
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<td>Food, beverage, and tobacco</td>
<td>Consumer durables and apparel</td>
</tr>
<tr>
<td>Food and staples retail</td>
<td>Economy</td>
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<tr>
<td>Transportation &amp; logistics</td>
<td>Capital goods</td>
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<tr>
<td>Trucking</td>
<td>Bus</td>
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1 Real revenue growth, 2004 - 13 CAGR inflation adjusted, median for industry
2 ROIC after tax, excluding goodwill; excludes outliers

Source: McKinsey presentation to IATA

IATA Economics  [www.iata.org/economics](http://www.iata.org/economics)
Consumer and business demand extremely strong

World scheduled air travel, freight and world real GDP

Indexed to equal 1 in 1950

Air cargo (FTK) 212x
Air travel (RPK) 212x

GDP (constant prices) 10x

Source: IATA, ICAO, Haver
Aircraft fuel efficiency has improved dramatically

Source: Lee
Costs typically passed through to prices

Unit cost and the price of air transport

Boeing 707

1973 oil crisis

US deregulation

EU deregulation

US$ in 2013 prices per tonne kilometer

Price (US$/RTK)

Unit cost (US$/ATK)

Source: ICAO, IATA
In fact air transport prices have fallen further than costs.

Breakeven and actual load factors

Load factor achieved

Breakeven load factor

Source: IATA, ICAO
Other sectors do better

Return on capital across the air transport supply chain

% ROIC

- 0%
- 5%
- 10%
- 15%
- 20%
- 25%
- 30%

Return on capital across the air transport supply chain

Source: McKinsey for IATA
Airlines will need to raise $5 trillion capital

Airlines will need nearly 36,800 new airplanes valued at $5.2 trillion

Source: Boeing current market outlook
World economy stuck on low growth path

IMF forecasts of global economic growth

Source: IMF World Economic Outlook
But air travel apparently defying economic gravity

Source: IATA Economic Performance of the Airline Industry
Boosted temporarily by the fall in oil prices

Source: IATA Economics using PaxIS+ and Haver data
Exceptional returns – but really should be the norm

Source: IATA Economics forecasts using historic data from McKinsey
Warren Buffet may still need to be convinced!

Difference between investing in airlines and investing in similar assets elsewhere

Source: IATA Economics based on McKinsey analysis
Summary

- A vital enabler of economic growth
- Airlines cannot continue to destroy shareholder value
- Air travel growth (and profits?) defying economic gravity