Outlook for growth, traffic and airline profits

Brian Pearce,
Chief Economist,
IATA
www.iata.org/economics
Widespread revival of business confidence

Source: IATA Economics using data from Markit
Consumers have become more confident too

Source: IATA Economics using data from Datastream
Donald Trump Vows to Rip Up Trade Deals and Confront China

The New York Times
28 June 2016

Perhaps surprisingly given political shocks

Clamour for trade protectionism on rise:
Arun Jaitley
CNBC
13 October 2016

Across Europe, distrust of mainstream political parties is on the rise

Guardian
25 May 2016
Will the IMF economic growth forecast be right at last?

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

Source: IMF World Economic Outlook databases
Monetary policy effectiveness is exhausted

US federal funds target rate and balance sheet assets

Source: IATA Economics using data from Haver
But fiscal policies recently became a stimulus to growth.

Change in general government structural budget as % GDP

- US
- Euro area
- China

Tighter/deflationary fiscal policy
Looser/reflationary fiscal policy

Source: IATA Economics using data from the IMF World Economic Outlook
Changes in trade competitiveness spread the recovery

Real effective exchange rates

China
US
Germany
Brazil

Deteriorating competitiveness
Improving competitiveness

Source: IATA Economics using data from the World Bank
Economic growth converging in key regions and countries

Source: IATA Economics using data from Oxford Economics
Strong start to the year, though Americas travel lagging

Source: IATA Economics using data from IATA Statistics
Cargo also strong, but again Americas lagging

Source: IATA Economics using data from IATA Statistics
But profit margins are now being squeezed

Airline passenger yield and crude oil prices, indexed

Source: IATA using data from PaxIS+ and Haver
Industry profitability peaked a year ago

Source: IATA Economic Performance of the Airline Industry – end year 2016 report
Return on capital lower this year but still good

Source: IATA

Economic Performance of the Airline Industry, End-Year 2016 report

% of invested capital

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
It's partly fuel prices

Airline industry ROIC and jet fuel prices

ROIC
Jet fuel price

Source: IATA Economics using data from Platts and IATA
But also much better asset utilization

Breakeven and achieved weight load factor

Achieved LF

Breakeven LF

Source: IATA Economic Performance of the Airline Industry – end year 2016 report
And capital has become much more productive.

Source: IATA Economic Performance of the Airline Industry – end year 2016 report
But performance is very different between regions

Return on invested capital

EBIT adjusted for operating leases as %

Invested capital

North America
Europe
Industry average
Asia Pacific
Latin America
Middle East
Weighted Average Cost of Capital

Source: IATA Economics using data from The Airline Analyst
Balance sheets show divergent degrees of resilience

Source: IATA Economics using data from The Airline Analyst
This year divergence narrows, but not by much

Net post-tax profit margins

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