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

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

Change in general government structural budget as % GDP

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

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

Economic growth in key regions and countries

China
Brazil
United States
European Union

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

<table>
<thead>
<tr>
<th>Region</th>
<th>Revenue passenger kilometres (YTD, % year-on-year)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industry</td>
<td>7.0%</td>
</tr>
<tr>
<td>Middle East</td>
<td>11.4%</td>
</tr>
<tr>
<td>Asia Pacific</td>
<td>9.5%</td>
</tr>
<tr>
<td>Europe</td>
<td>7.3%</td>
</tr>
<tr>
<td>Africa</td>
<td>5.4%</td>
</tr>
<tr>
<td>L. America</td>
<td>3.9%</td>
</tr>
<tr>
<td>N. America</td>
<td>1.7%</td>
</tr>
</tbody>
</table>

YTD Feb 2017
Cargo also strong, but again Americas lagging

<table>
<thead>
<tr>
<th>Region</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industry</td>
<td>8.4%</td>
</tr>
<tr>
<td>Asia Pacific</td>
<td>11.8%</td>
</tr>
<tr>
<td>Africa</td>
<td>10.6%</td>
</tr>
<tr>
<td>Europe</td>
<td>10.5%</td>
</tr>
<tr>
<td>N. America</td>
<td>5.8%</td>
</tr>
<tr>
<td>Middle East</td>
<td>3.4%</td>
</tr>
<tr>
<td>L. America</td>
<td>-4.9%</td>
</tr>
</tbody>
</table>

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

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

Quarterly profile for airline industry operating profits (EBIT)

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
It’s partly fuel prices

Airline industry ROIC and jet fuel prices

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

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

Adjusted net debt/EBITDAR

Latin America
Asia Pacific
Middle East
Industry average
Europe
North America
Investment grade credits

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

Source: IATA Economic Performance of the Airline Industry – end year 2016 report
LOOKING FOR INSIGHTS INTO AIR TRANSPORT MARKETS AND ISSUES?

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