

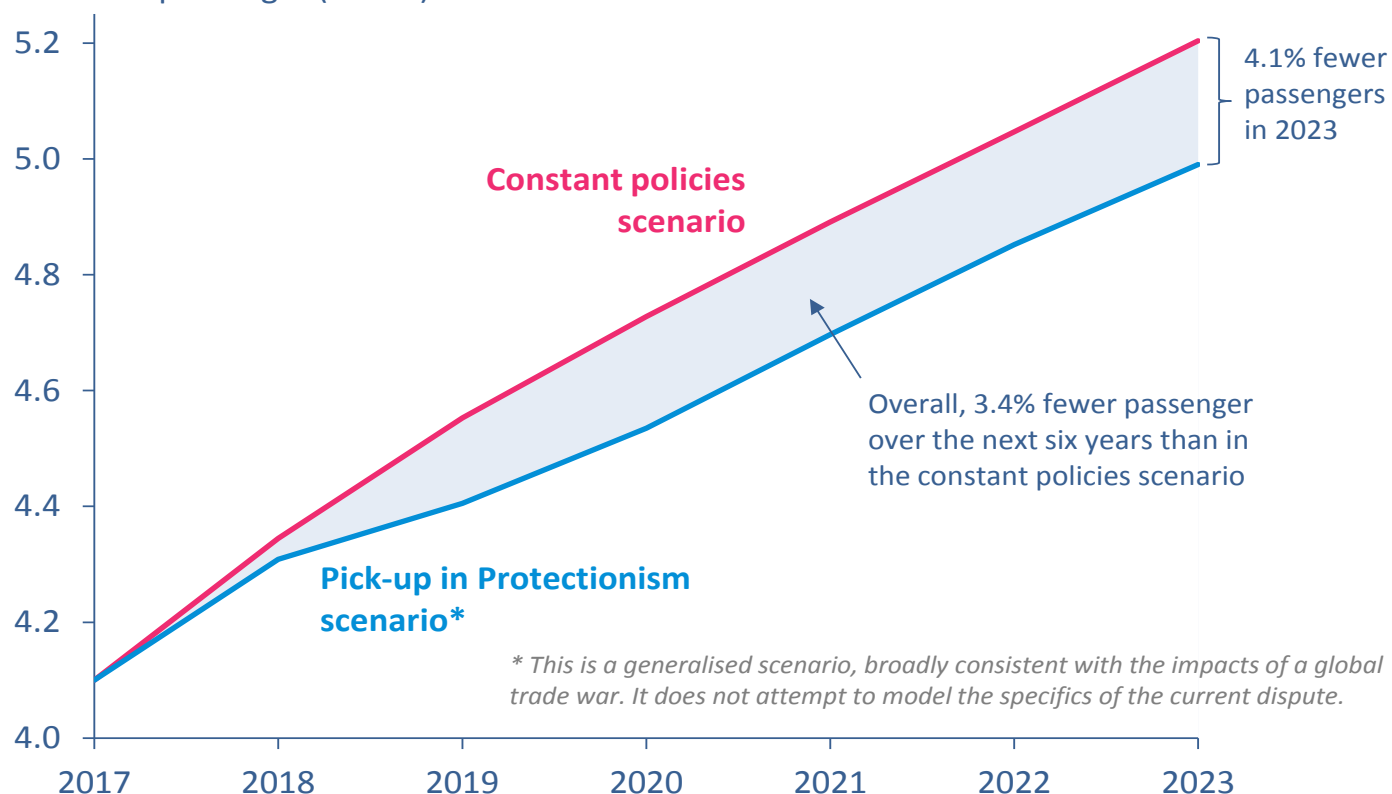


IATA ECONOMICS' CHART OF THE WEEK

03 AUGUST 2018

TRADE RESTRICTIONS WEIGH ON THE OUTLOOK FOR AIR TRANSPORT

Global air passenger (billion)



Source: IATA/TE Passenger Forecasts

- After decades of globalization and the opening of borders, recent trade policy developments – most notably to date between the US and China – have begun to unwind this position. This week, we released a research [note](#) looking at the impacts of an escalation in tariffs on the air transport industry.
- With tariffs directly impacting the price of goods and reducing the demand for trade, there appears to be a clear link with the demand for air cargo services. However, for the most part, US import tariffs implemented to date have excluded many of the consumer goods typically transported by air; tariffs on steel and aluminium for example will have little or no direct impact on air freight demand. Having said that, the latest proposals are more industry-relevant as they extend to items such as semiconductors and motor vehicle parts. Indeed, around ¼ of the proposed 10% tariffs on US\$200bn worth of US imports from China fall on these two items specifically.
- Air passenger demand is also likely to be adversely impacted by the trade dispute, although the link here is less obvious. This impact depends on the sensitivity of passenger demand to changes in incomes, which, in turn, reflect the effect of the trade restrictions on incomes, consumer spending and jobs. Our analysis suggests that on the passenger side, the initial impact is likely to be seen in airline finances, as a reduction in business travel disproportionately dampens the demand for travel in the premium cabin, which accounts for around 25% of total airline revenues.
- Our overall conclusion is that, at this stage, the impact of the current trade skirmish on the air transport industry is likely to be relatively moderate. However, further escalation could result in a much more material impact on both cargo & passenger demand. While a full-blown global trade war does not form part of our central outlook, it represents an important risk.

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