This week saw the release of our latest Economic Performance of the Airline Industry forecasts. The forecasts come at a time of heightened uncertainty and volatility in political and financial markets globally; there is no shortage of things to worry about! Looking through this uncertainty, however, the consensus view is still for robust, if a little slower, global economic growth. Coupled with lower oil and jet fuel prices, this should be a broadly positive environment for airlines.

In terms of the industry’s financial performance, 2019 is expected to be another robust year. The industry’s return of capital (ROIC) is forecast to exceed its cost of capital (WACC) – thereby generating a return for equity investors – for a 5th consecutive year.

The gap between ROIC and WACC is likely to narrow again in 2019, with ROIC unchanged from its estimated 2018 level of 8.6% but the cost of capital increasing further, on higher global interest rates and bond yields, to 7.9%. Even so, the narrowing ROIC-WACC gap makes it clear that continuing to generate the returns required by investors to attract the capital required for investment over the coming decades is likely to remain challenging.

Overall, the global air transport industry is forecast to generate a net post-tax profit of $35.5 billion next year. This will mark the 10th consecutive year of profit – a feat that has not been observed previously in the history of the industry. While that level of net profit represents a strong outcome for the industry, putting this into perspective, it represents just 4% of total revenues and equates to a modest $7.75 per passenger.