Cyclical gains but structural challenges

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To represent, lead and serve the airline industry
Economic conditions are improving

Global industrial production, trade and business confidence

Source: Datastream
Though volatility and risk remains high, the Russian ruble exchange rate and the Brent crude oil price fluctuate significantly. The graph shows a sharp decline in both metrics during March, indicating increased volatility.

Source: Datastream
Fuel prices stuck in (high) range

Jet kerosene and crude oil price, $/barrel

Jet kerosene price
Brent crude oil price

Source: IATA, Platts

IATA Economics  www.iata.org/economics
Growth in air travel accelerating

Global industrial production and RPK growth

Source: IATA, Datastream
Cyclical upturn in demand for air cargo

Source: IATA, Markit
Even Asia is now seeing some growth

FTKs by region of airline registration

Indexed to 100 in May 2010

Cycle peak for market total

Middle East (+45%)

Africa

Latin America

Europe

North America

Asia-Pacific (-12%)

Source: IATA
But trade growth much weaker than normal

World trade and industrial production growth

<table>
<thead>
<tr>
<th>Year</th>
<th>World trade growth (avg. 5.6% pa)</th>
<th>Industrial production growth (avg. 2.8% pa)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1992</td>
<td>5%</td>
<td>1%</td>
</tr>
<tr>
<td>1994</td>
<td>-2%</td>
<td>0%</td>
</tr>
<tr>
<td>1996</td>
<td>-5%</td>
<td>-2%</td>
</tr>
<tr>
<td>1998</td>
<td>-10%</td>
<td>-4%</td>
</tr>
<tr>
<td>2000</td>
<td>-15%</td>
<td>-6%</td>
</tr>
<tr>
<td>2002</td>
<td>-20%</td>
<td>-8%</td>
</tr>
<tr>
<td>2004</td>
<td>-15%</td>
<td>-2%</td>
</tr>
<tr>
<td>2006</td>
<td>0%</td>
<td>2%</td>
</tr>
<tr>
<td>2008</td>
<td>5%</td>
<td>4%</td>
</tr>
<tr>
<td>2010</td>
<td>10%</td>
<td>6%</td>
</tr>
<tr>
<td>2012</td>
<td>15%</td>
<td>8%</td>
</tr>
</tbody>
</table>

Source: Datastream
On-shoring?

International trade volumes relative to domestic industrial output (WT/IP)

Globalization / off-shoring

On-shoring / protectionism?

Source: IATA, Datastream
Resist protectionism/ implement Bali

Almost 500 protectionist measures taken in 2012

Source: Global Trade Alert
But some on-shoring permanent

China's labour costs and US gas prices

Source: Haver
Asset utilization bottoming out

Air cargo asset utilization

Source: IATA, Boeing, all data seasonally adjusted by IATA
Pressure on cargo yields may not be over

Tonnes of new cargo capacity from aircraft deliveries

Source: IATA, Ascend

IATA Economics  www.iata.org/economics
Structural improvements helping

Breakeven and actual weight load factor

% of ATKs

Weight load factor

Breakeven weight load factor

Source: IATA, ICAO
Improving net profits and EBIT margins

Source: IATA (forecast), ICAO (history)
Average airline margins remain fragile

Forecast 2014 worldwide airline results per departing passenger

Revenues
- Air fare: $180.96
- Cargo & other: $30.69
- Ancillary: $13.93

Costs: $219.93

Net profit: $5.65

Source: IATA
Returns on capital still too low

Return on capital invested in airlines and their cost of capital

Inadequate returns

Cost of capital (WACC)

Return on capital (ROIC)

Source: IATA, McKinsey
Regional divergence persists

Airline net post-tax profit margins

Net post-tax profit as % revenue

Source: IATA (forecast), ICAO (history)