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The air transport paradox

Revenue growth¹

ROIC² excluding goodwill (average)

Industry total for each year, 2004 - 13 CAGR, percent

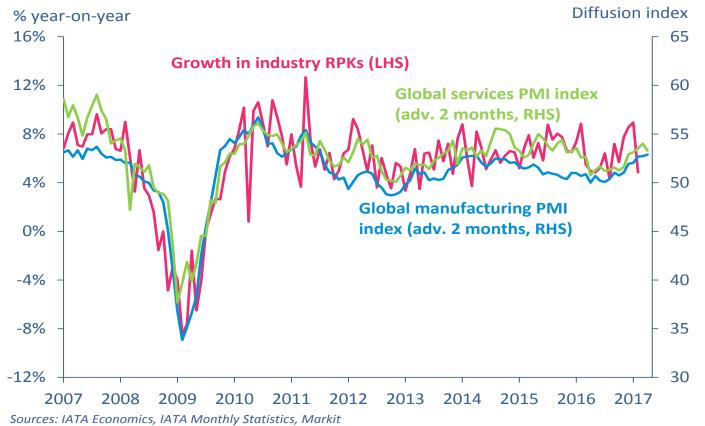
Healthcare equipment and services Rail	6.2 6.2	Software and services Pharma, biotech, and life
Airlines	6.1	Household and personal
Energy	6.0	Healthcare equipment an
Tech hardware and equipment	5.8	Media
Materials	5.2	Food, beverage, and toba
Software and services	4.7	Tech hardware and equip
Utilities	4.6	Communications and pro
Freight forwarding	4.5	Semiconductors and equi
Capital goods	4.3	Telecom
Economy	4.3	Postal/CEP
Pharma, biotech, and life sciences	4.0	Consumer services
Retailing	4.1	Retailing
Food, beverage, and tobacco	3.9	Consumer durables and a
Food and staples retail	3.8	Economy
Transportation & logistics	3.6	Capital goods
Trucking	3.4	Bus
Contract logistics	3.4	Food and staples retail
Household and personal	3.3	
Telecom	3.3	Energy Materials
	3.0	
Shipping		Contract logistics
Semiconductors and equipment	2.8	Freight forwarding
Communications and professional services	2.6	Rail
Consumer services	2.4	Shipping
Consumer durables and apparel	2.4	Transportation & logistics
Bus	2.2	Automobiles and compon
Automobiles and components	2.1	Trucking
Postal/CEP	1.6	Utilities
Media	1.4	Airlines

Industry aggregate, 2004 - 13 simple average, percent		
Industry aggregate, 2004 - 13 simple average Software and services Pharma, biotech, and life sciences Household and personal Healthcare equipment and services Media Food, beverage, and tobacco Tech hardware and equipment Communications and professional services Semiconductors and equipment Telecom Postal/CEP Consumer services Retailing Consumer durables and apparel Economy Capital goods Bus Food and staples retail Energy Materials Contract logistics Freight forwarding Rail Shipping	e, percent 45.7 36.4 33.9 30.7 26.8 24.7 21.9 21.5 20.6 16.6 15.7 15.7 15.6 13.9 13.6 13.6 13.6 13.6 13.3 12.7 12.4 12.3 8.1 7.7	
Shipping Transportation & logistics	7.7	
Automobiles and components Trucking	6.8 6.4	
Utilities Airlines	6.1 4.0	
AITII103	- T.U	

1 Real revenue growth, 2004 - 13 CAGR inflation adjusted, median for industry 2 ROIC after tax, excluding goodwill; excludes outliers

Source: McKinsey presentation to IATA

Still very much a growth story



IATA Economics <u>www.iata.org/economics</u>

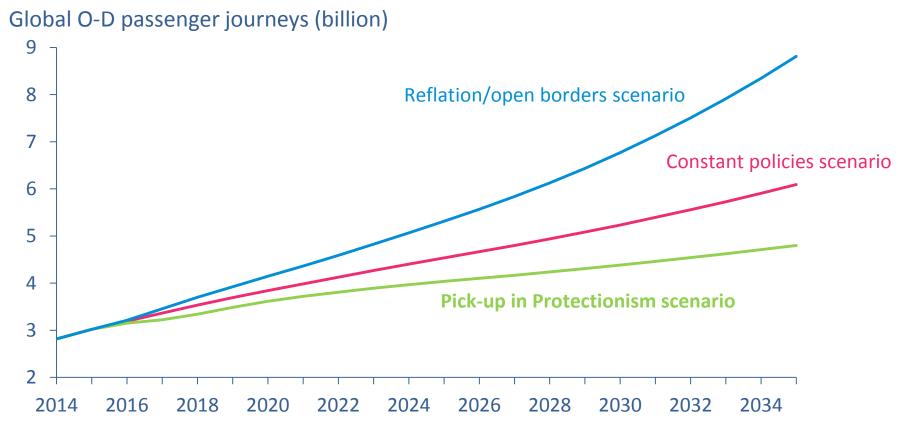
Though much variation by travel market

RPK growth by int'l route and dom. market (latest month, % year-on-year*) 20% *Note: int'l routes data are for January; domestic market data are for February Domestic India 15% - Middle East - North America **Domestic Russia** • Within Europe Europe - Middle East 10% Middle East - Asia **Domestic China** Within Asia - Asia - North America Asia - SW Pacific Europe - Asia 5% Europe- C. America Africa - Europe **Domestic Japan** Europe - North America 0% **Domestic US** Domestic Australia North - South America **Domestic Brazil** -5% 0% 2% 4% 6% 8% 10% 12% 14% 16% Share of total global RPKs (Year ended Jan 2017)

Sources: IATA Economics, IATA Monthly Statistics by Route

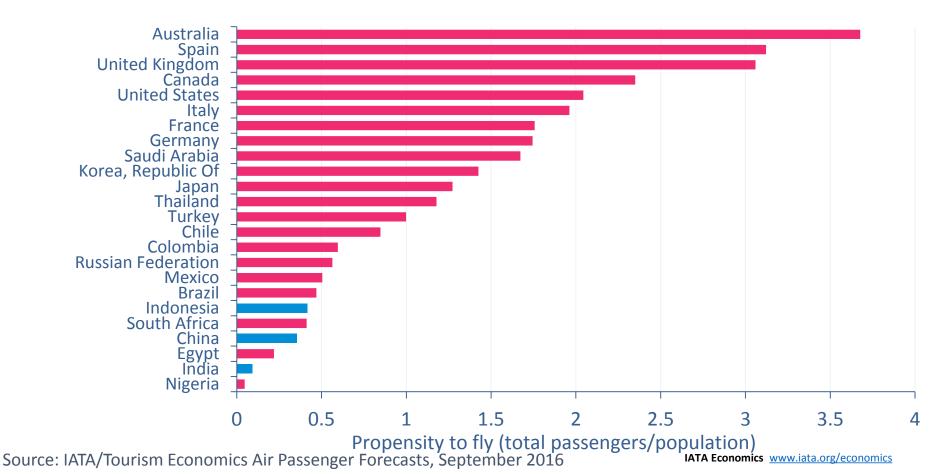
IATA Economics www.iata.org/economics

Long-term expansion even in gloomy macro scenario



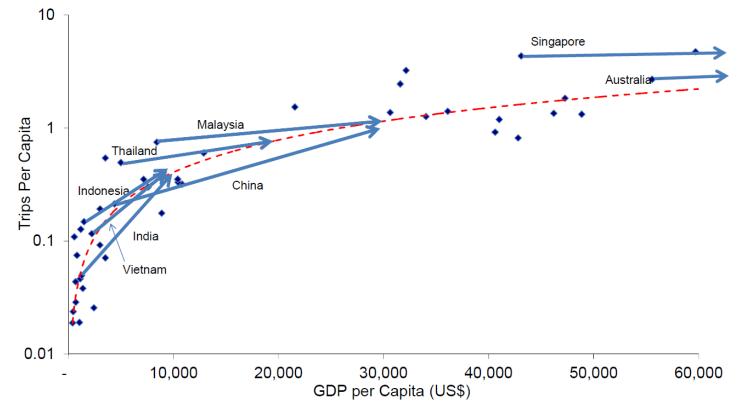
Source: IATA/Tourism Economics Air Passenger Forecasts, September 2016

Trip frequency still low in many important markets



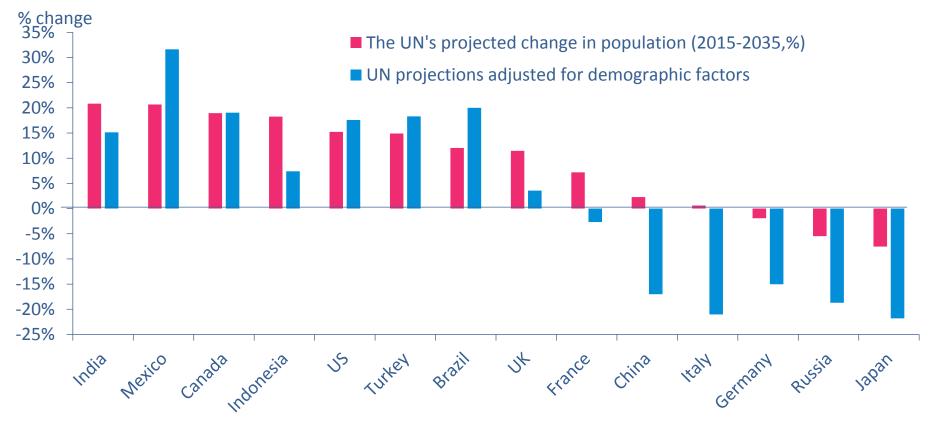
Large potential in populous but (currently) poor markets

Airline passenger trips and GDP per capita



Source: IATA Economics using data from PaxIS+ and Oxford Economics

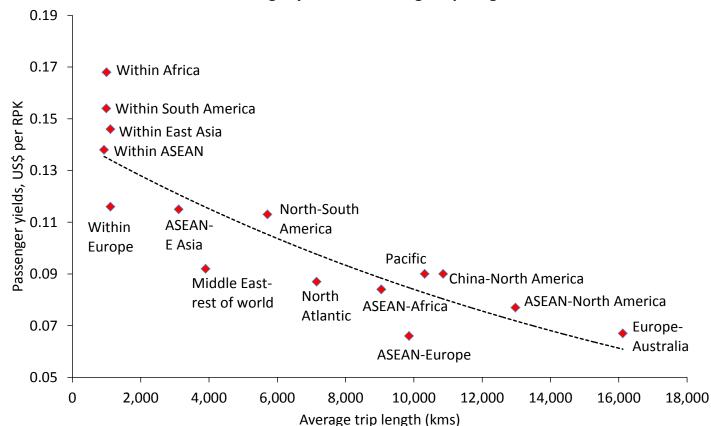
Demographics strong in some key markets, adverse in others



Source: IATA/Tourism Economics Air Passenger Forecasts, September 2016

Scope for large price change in short-haul markets

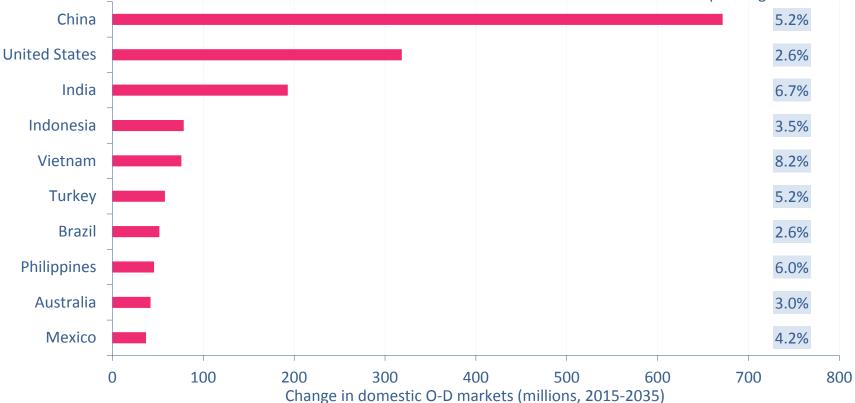
Passenger yields and average trip length



Source: IATA PaxIS+

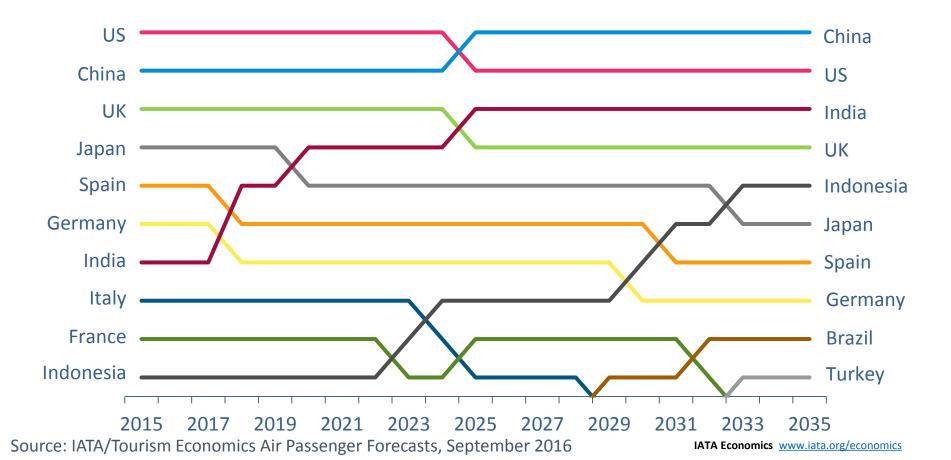
China largest increment, US remains important

Corresponding CAGR



Source: IATA/Tourism Economics Air Passenger Forecasts, September 2016

Significant change in top-10 markets over next 20 years



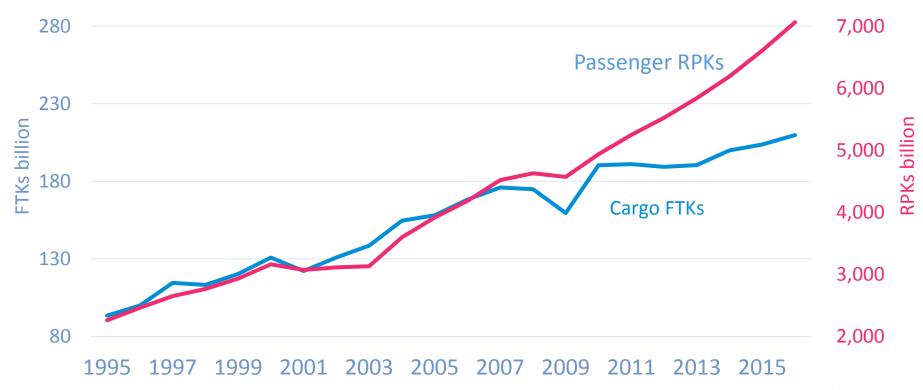
Centre of gravity of air travel shifting fast towards China



Source: IATA Economics using data from PaxIS+

The GFC precipitated one key divergence

Air travel and cargo volumes



Source: ICAO, IATA

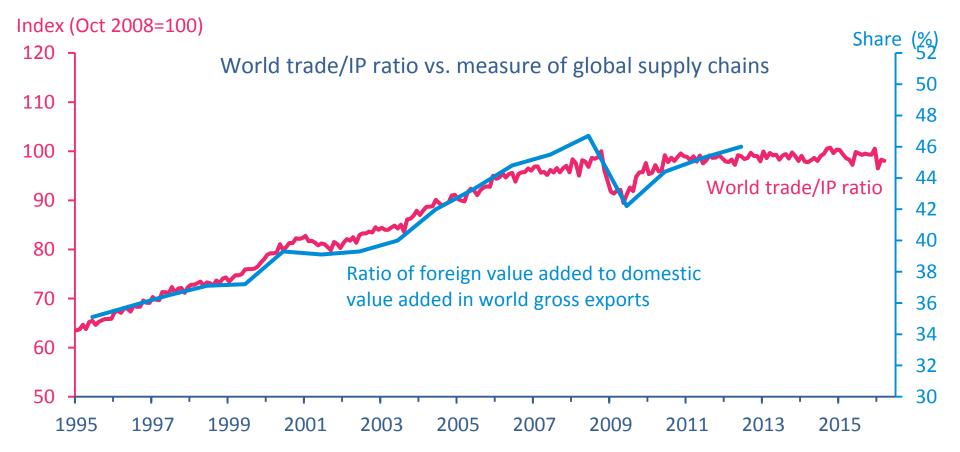
Retreat from globalization

World GDP and cross-border trade growth

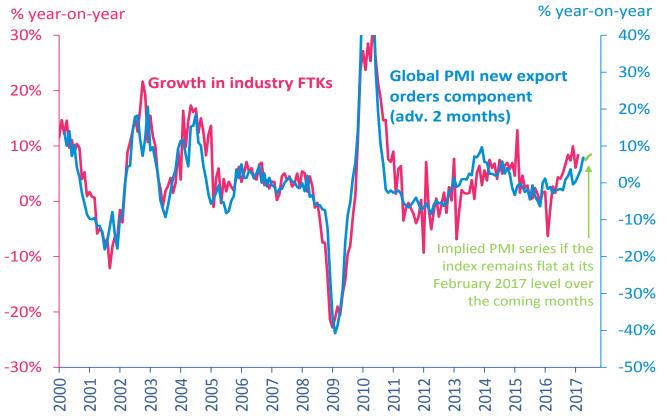


Source: IMF World Economic Outlook and the World Trade Organization

Supply chains have been shortened



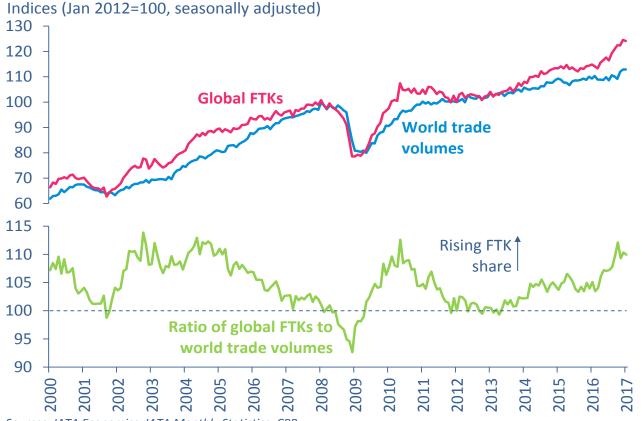
But growth has returned to cargo



Sources: IATA Economics, IATA Monthly Statistics, Markit

Source: Markit, IATA Statistics

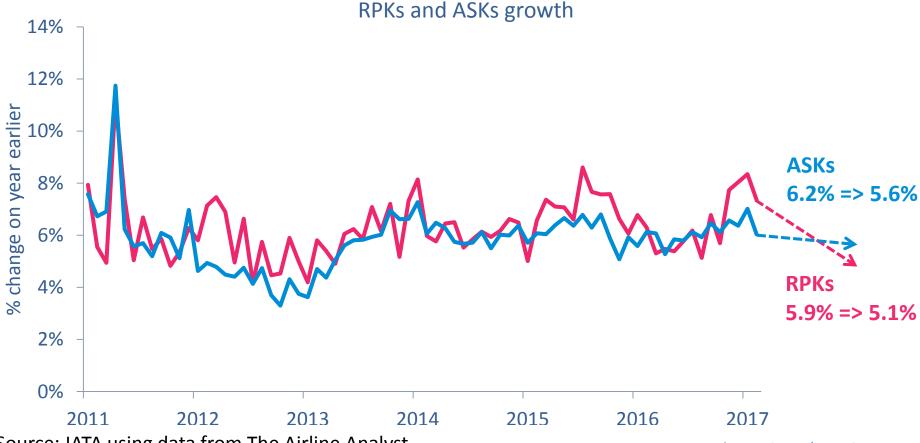
Despite sluggish world trade



Sources: IATA Economics, IATA Monthly Statistics, CPB

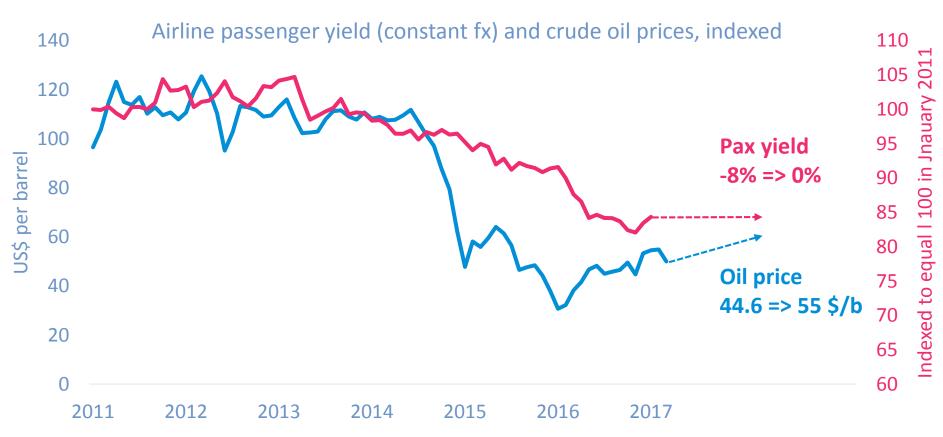
Source: IATA Statistics, Netherlands CPB

Traffic accelerating ahead of capacity growth



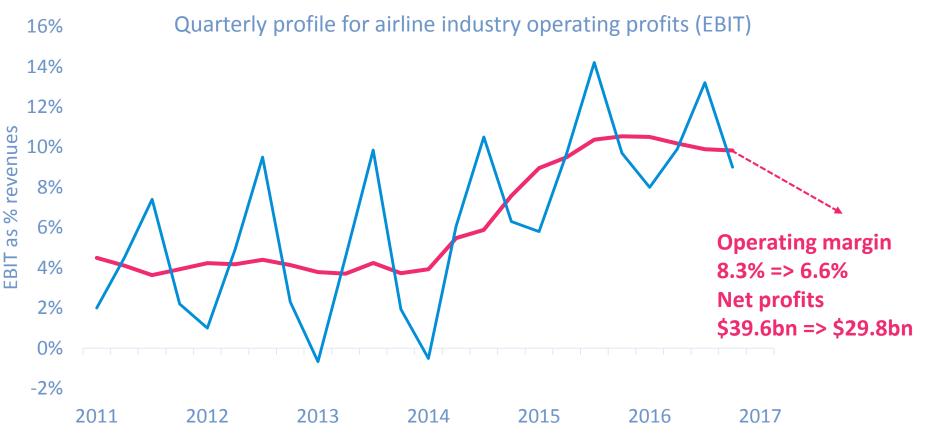
Source: IATA using data from The Airline Analyst

Margin squeeze signs of easing?



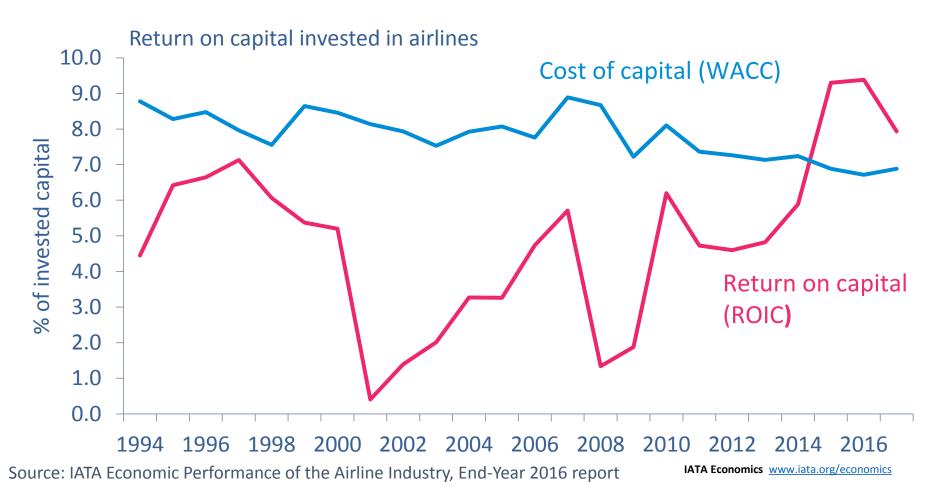
Source: IATA using data from The Airline Analyst

Industry profitability declining but how fast?



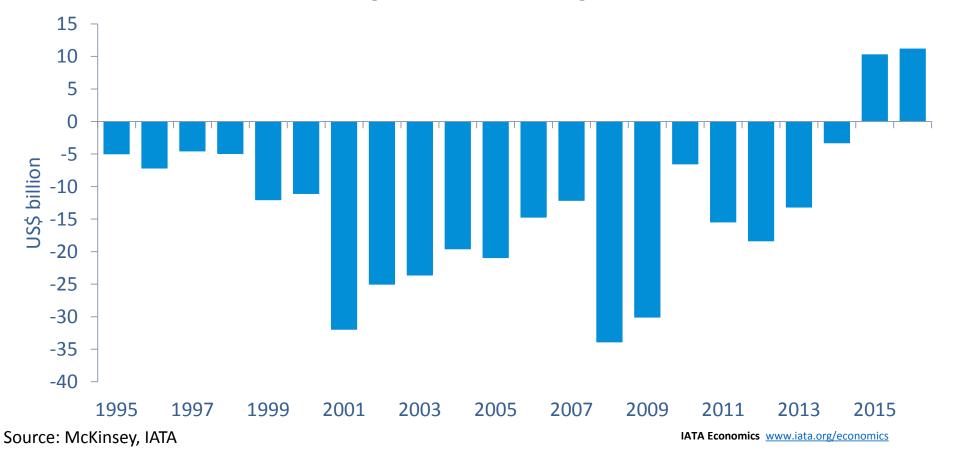
Source: IATA Economic Performance of the Airline Industry – end year 2016 report

At last investors are getting a 'normal' return

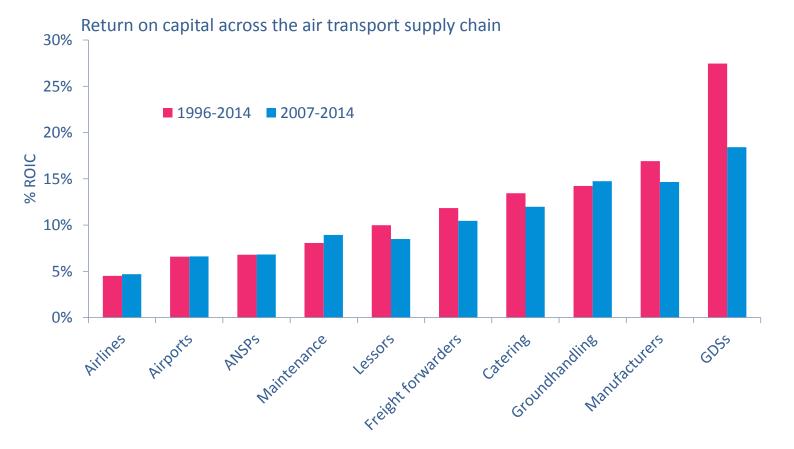


Ending decades of investor capital destruction (?)

Difference between investing in airlines and investing in similar assets elsewhere

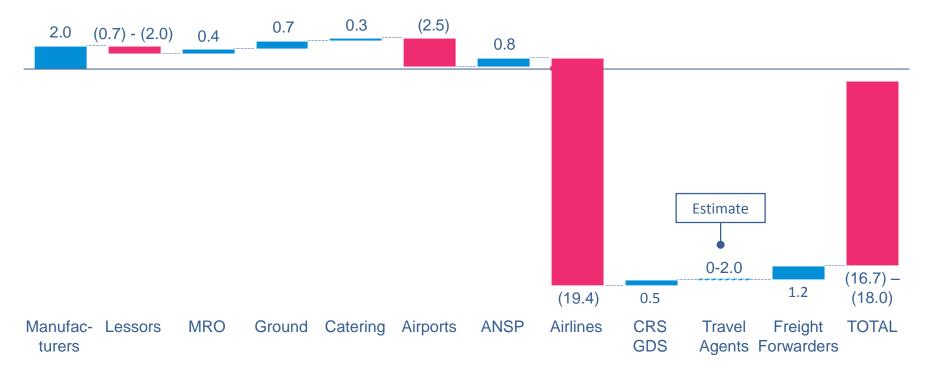


Other sectors do better



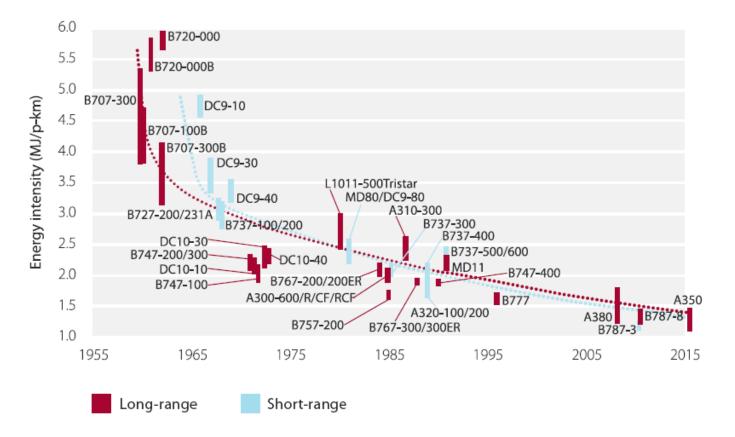
But this is not the main issue for airline earnings

Average yearly economic profit, USD billion, 2007-2014



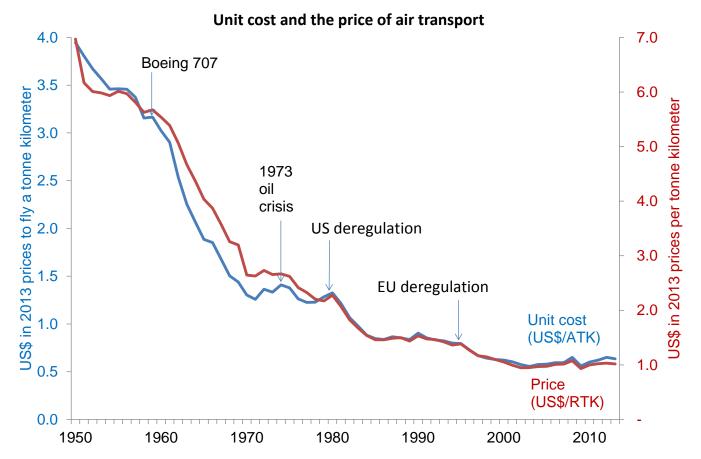
Source: McKinsey for IATA

Aircraft fuel efficiency has improved dramatically



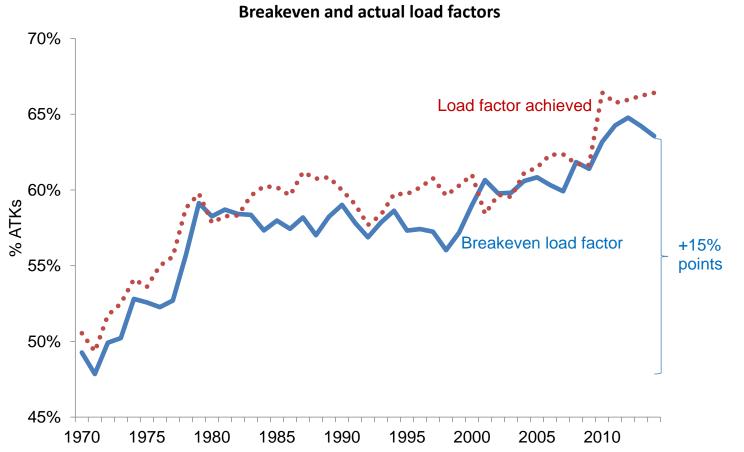
Source: Lee

But costs typically passed through to prices



Source: ICAO, IATA

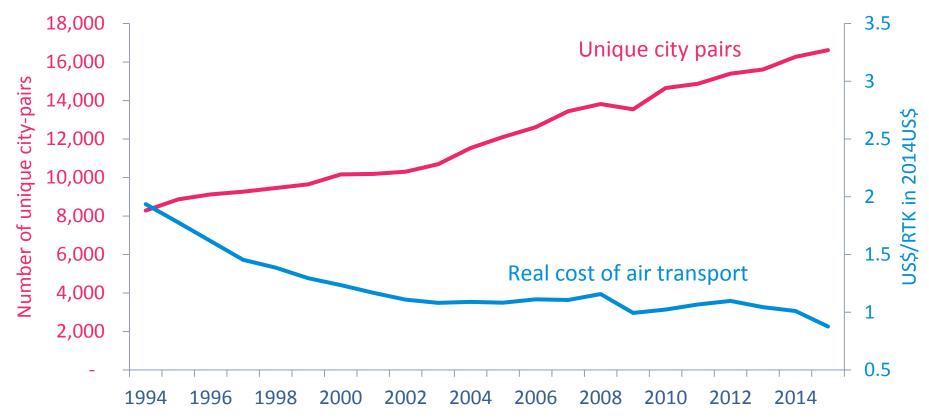
In fact prices have fallen further than costs



Source: IATA, ICAO

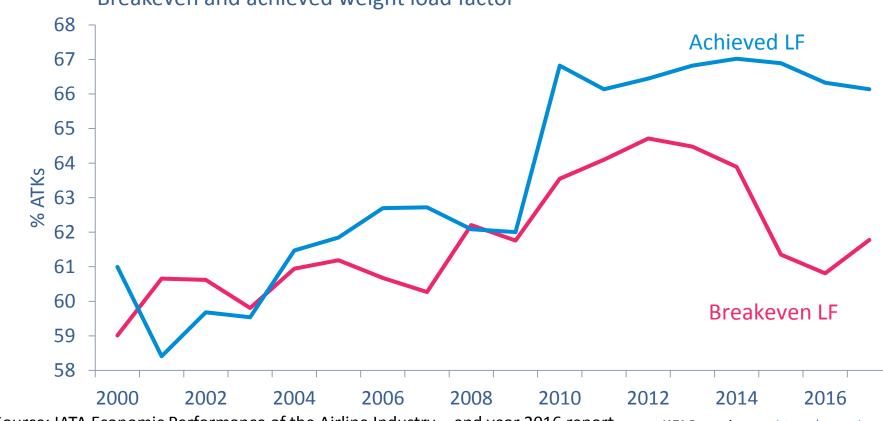
Consumers have been the major beneficiaries

Unique city-pairs and real transport costs



Source: ICAO, Boeing, OAG, IATA

Structural change?



Breakeven and achieved weight load factor

Source: IATA Economic Performance of the Airline Industry – end year 2016 report IATA Economics <u>www.iata.org/economics</u>

High fuel prices not always bad for airlines

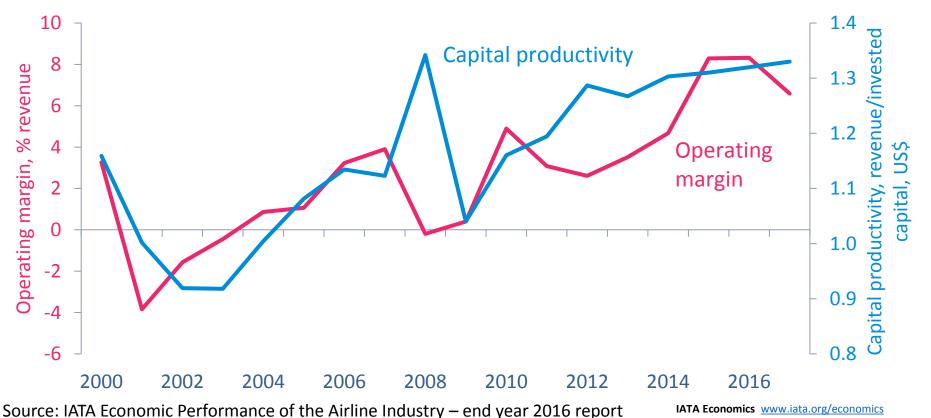
Airline industry ROIC and jet fuel prices



Source: IATA, Platts

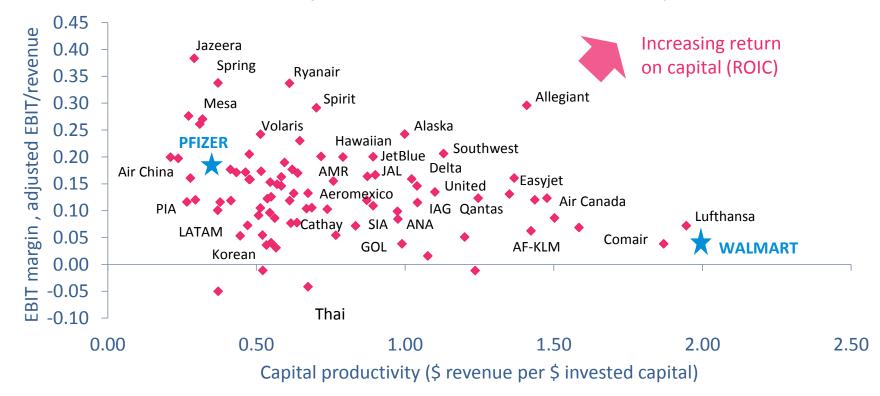
Solid improvement in capital productivity

Airlines' operating or EBIT margin and capital productivity



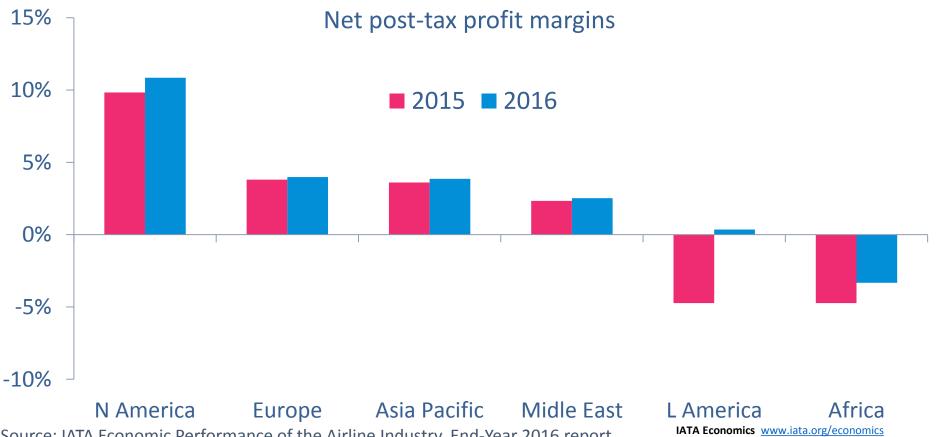
Very wide variety of business models

2015 ROIC = adjusted EBIT/revenue * revenue/invested capital



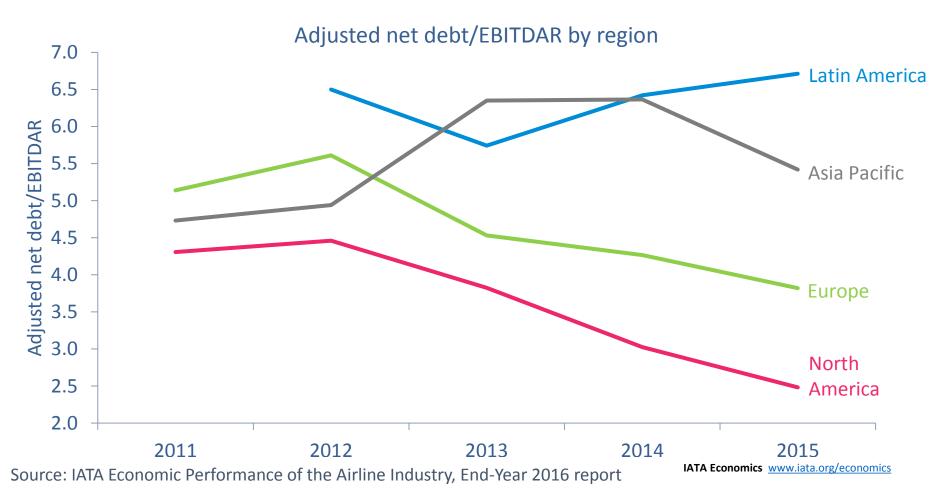
Source: IATA using data from The Airline Analyst

US performance dominating industry totals



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

Wide variation in balance sheet performance



LOOKING FOR INSIGHTS INTO AIR TRANSPORT **MARKETS AND ISSUES?**

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