



Airline Industry Economics



AWG presentation
21 May 2015

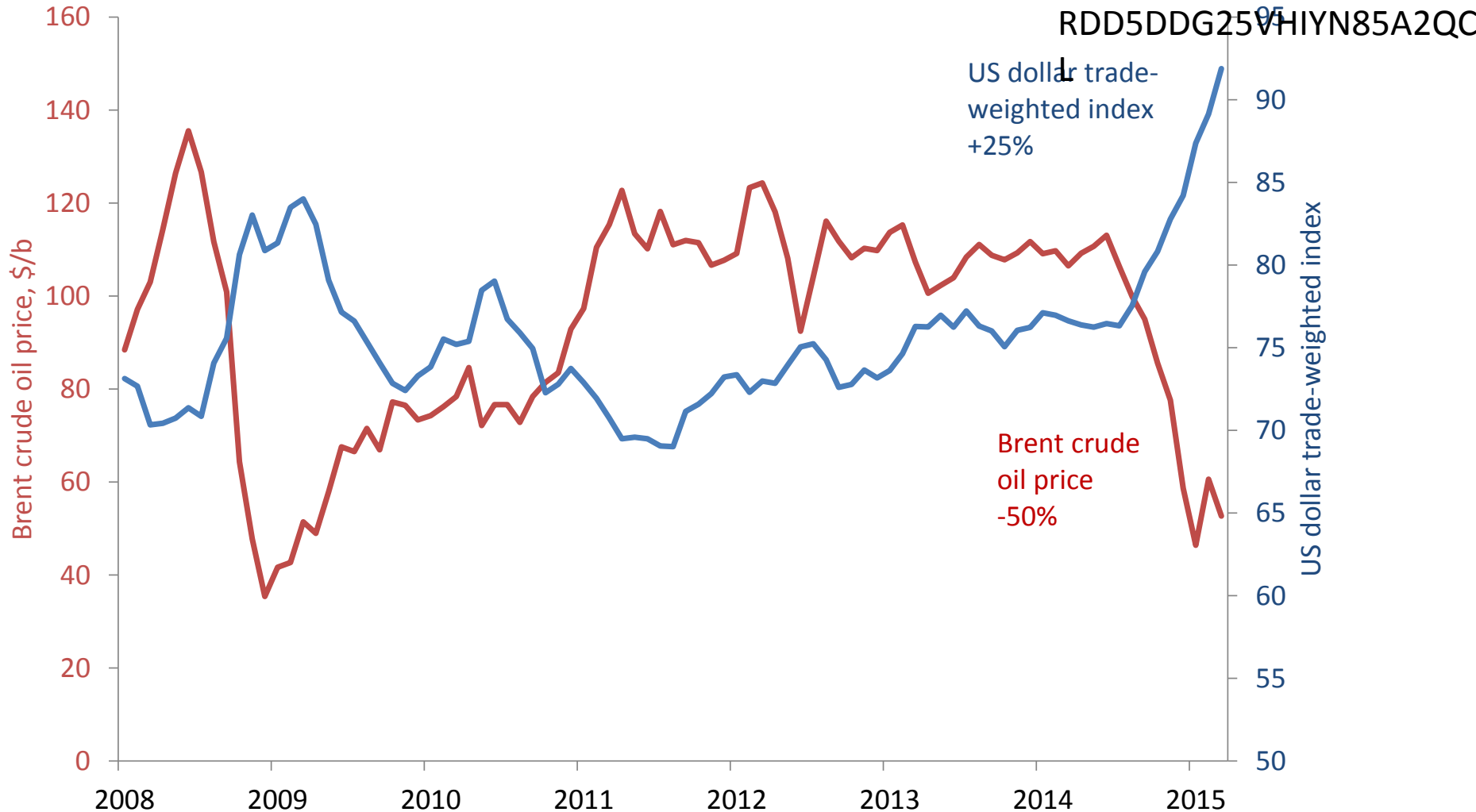
Brian Pearce, Chief Economist
www.iata.org/economics

To represent, lead and serve the airline industry



Two big changes in the business environment

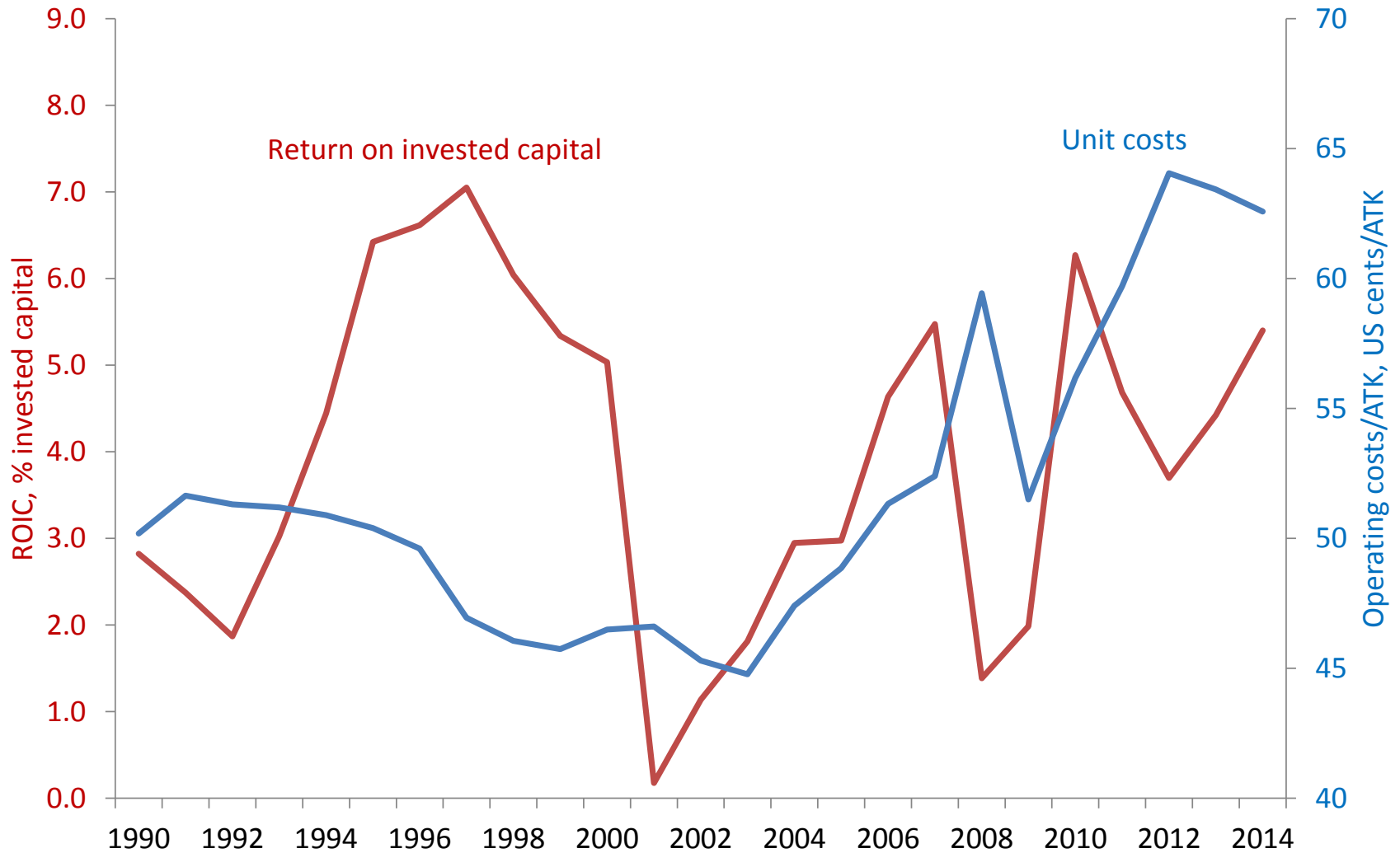
US dollar trade-weighted index and the price of oil



Source: Datastream

Impact of lower fuel prices not unambiguous

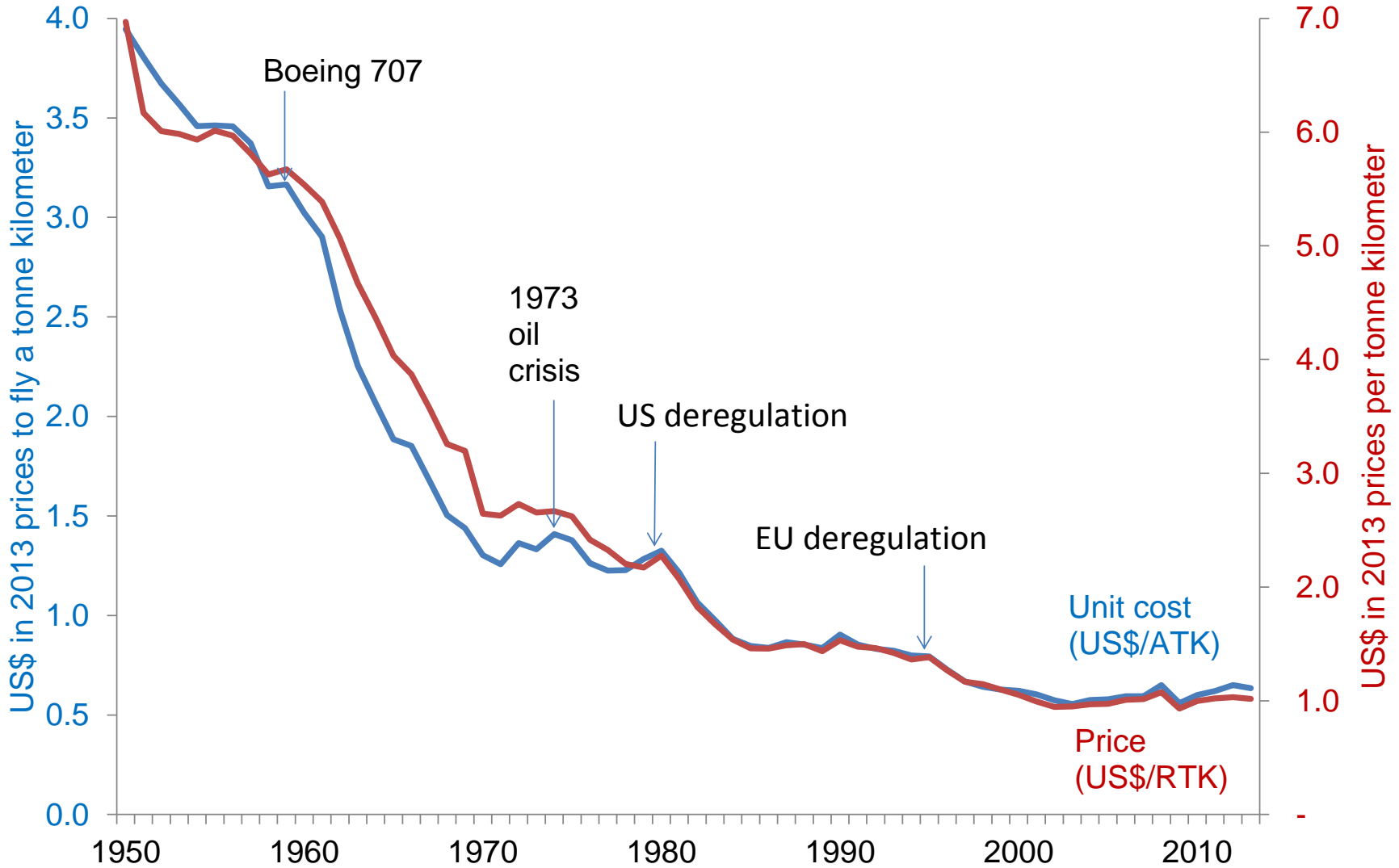
Return on invested capital and unit costs



Source: IATA, McKinsey

Costs typically passed through to prices

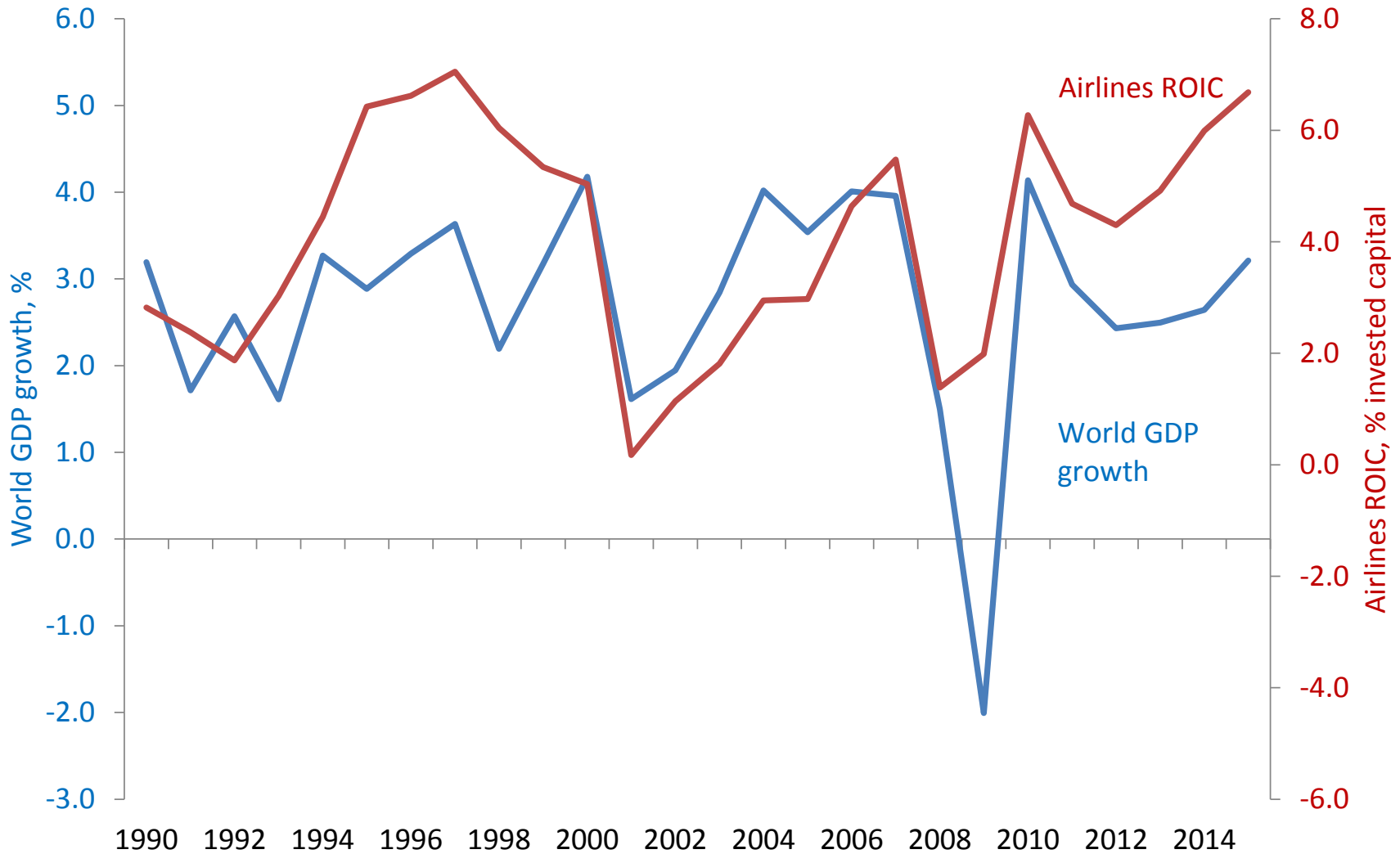
Unit cost and the price of air transport



Source: IATA/Tourism Economics 'Air Passenger Forecasts'

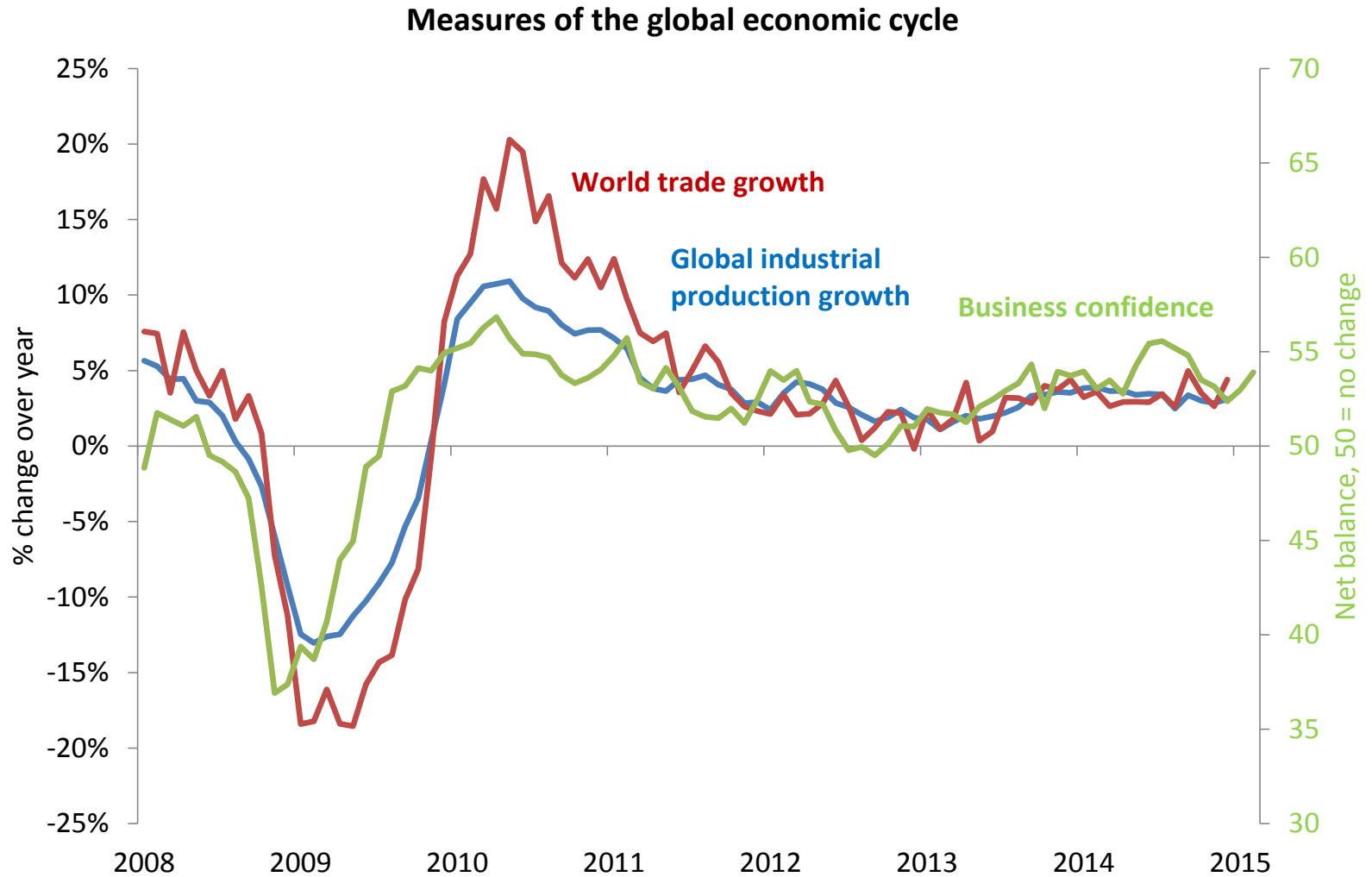
A strong economic cycle would help airline returns

Airline industry ROIC and world GDP growth



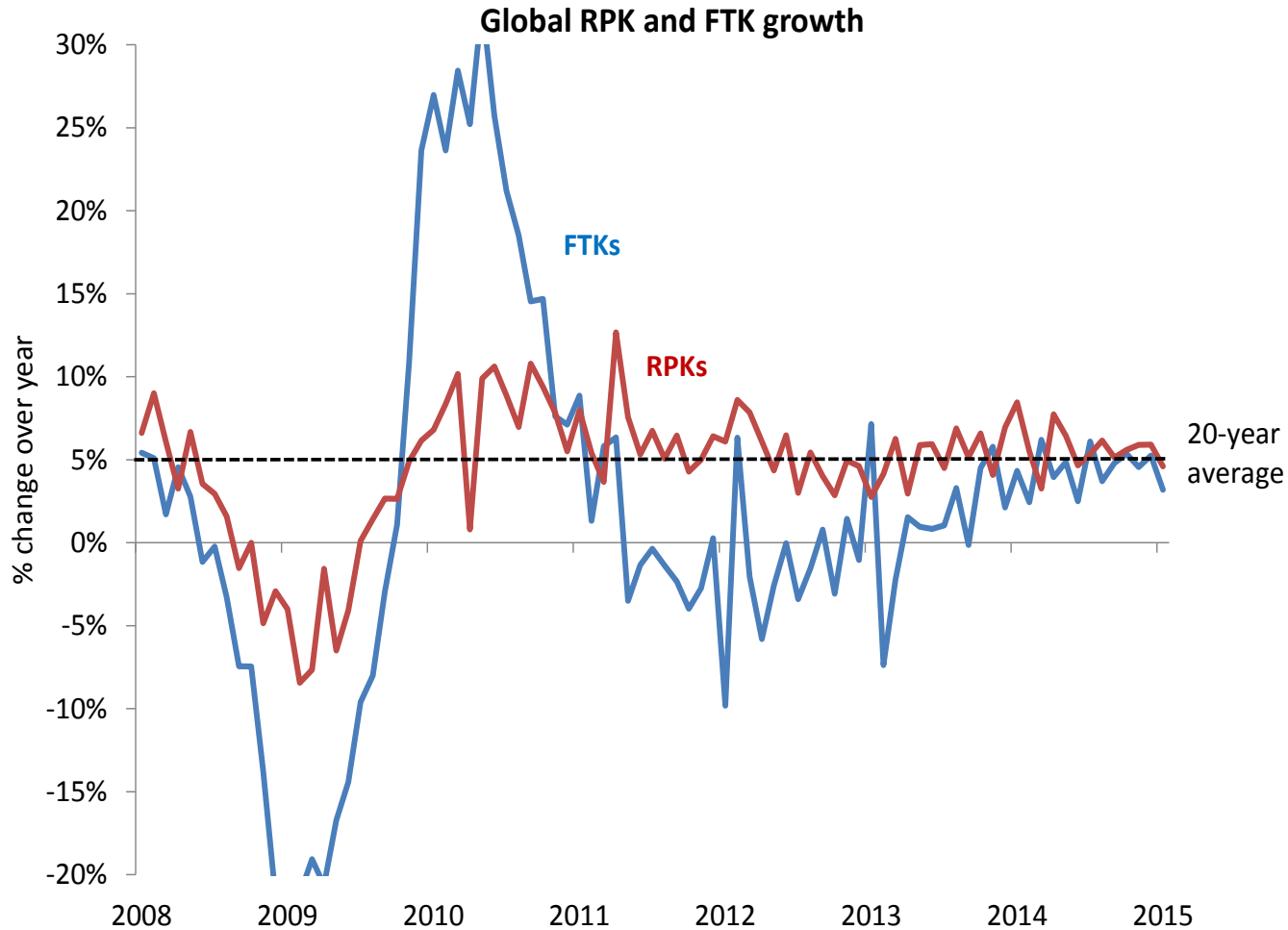
Source: IATA, McKinsey, IHS Global Insight

Economic cycle but positive not very strong



Source: Datastream

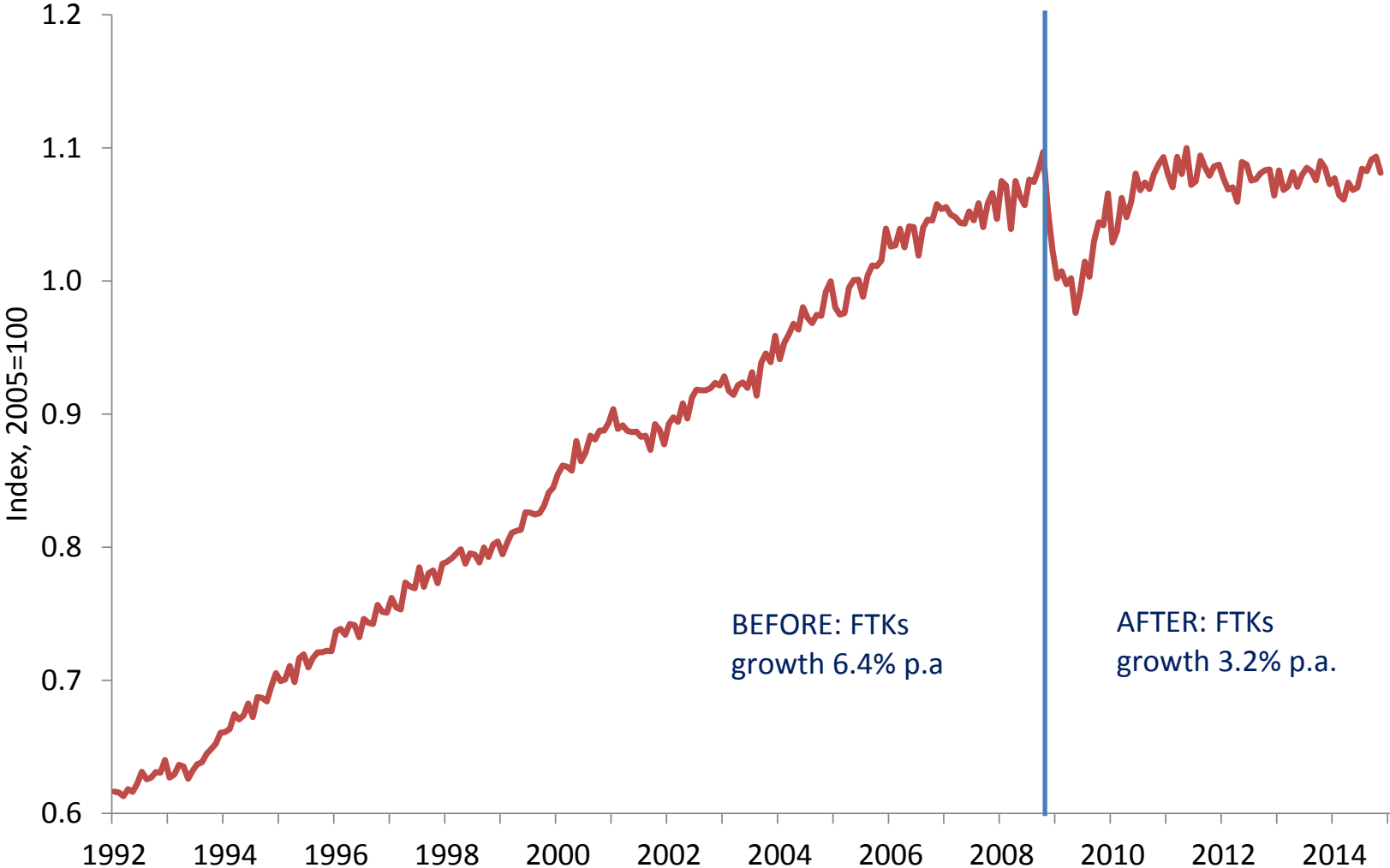
But growth in demand for travel and cargo is solid



Source: IATA

Adverse structural change in air cargo

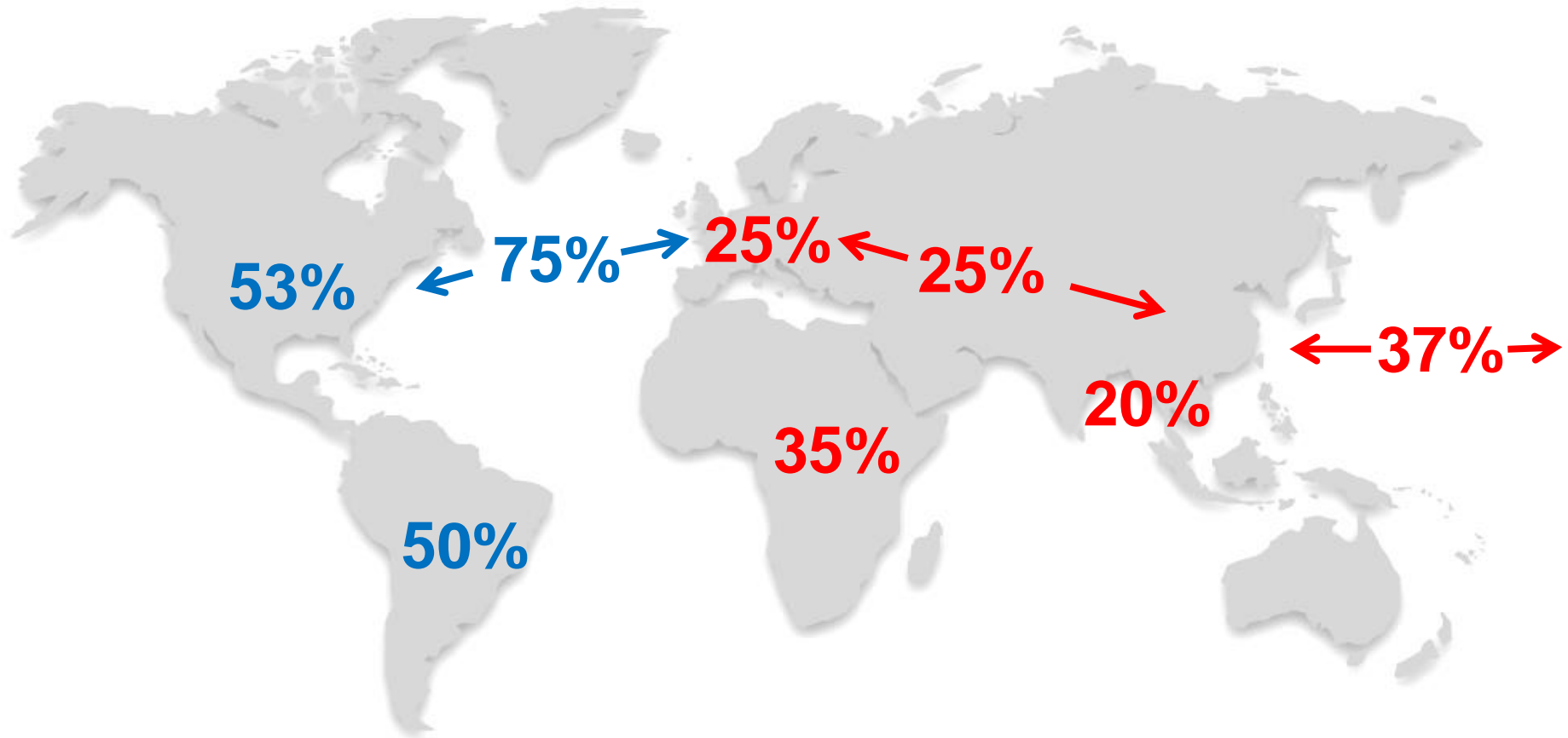
International trade compared to global industrial production



Source: Netherlands CPB, IATA

Much of the airline industry still highly fragmented

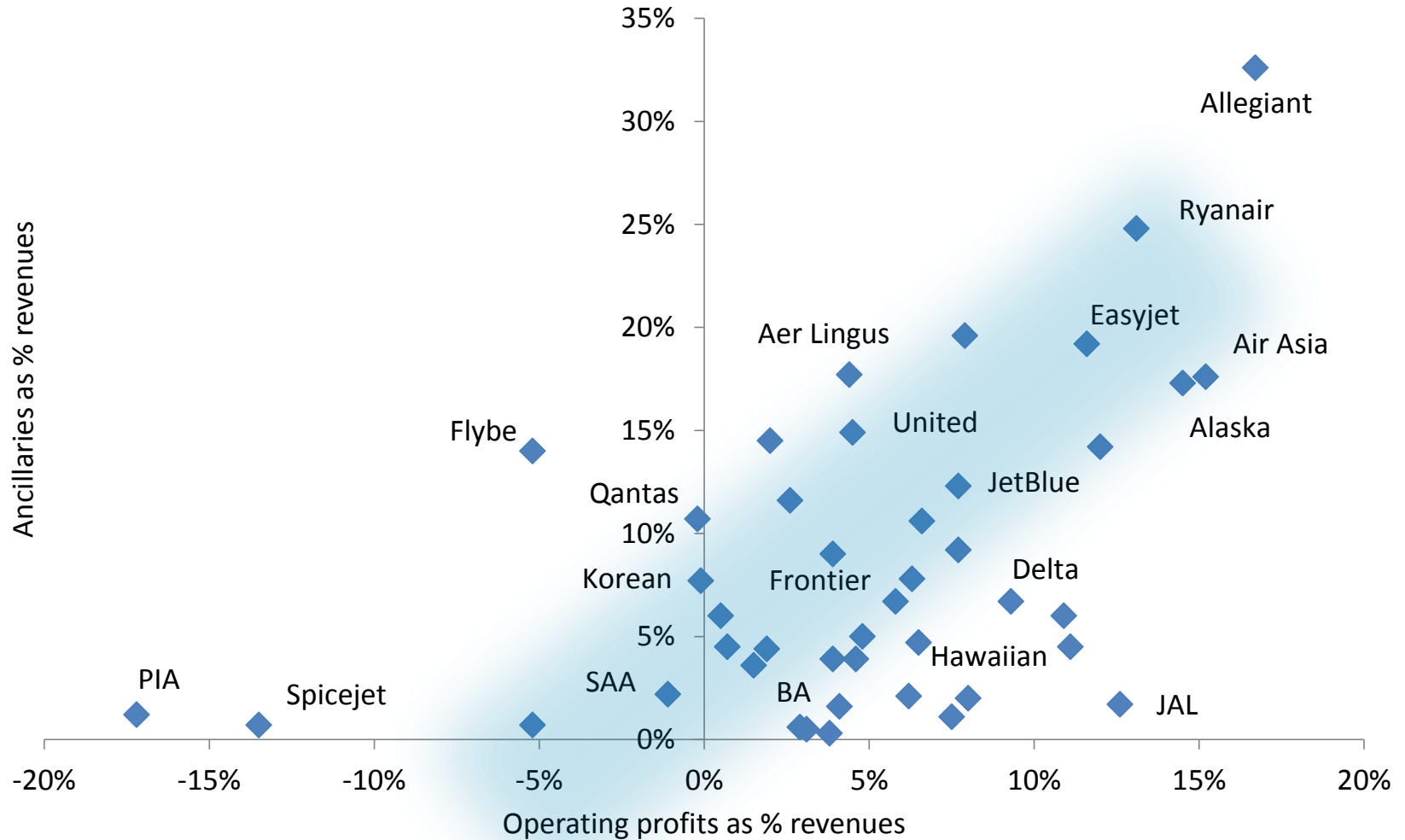
Market share of top-3 airlines/JVs



Source: SRS Analyser

Commoditized product starting to be addressed

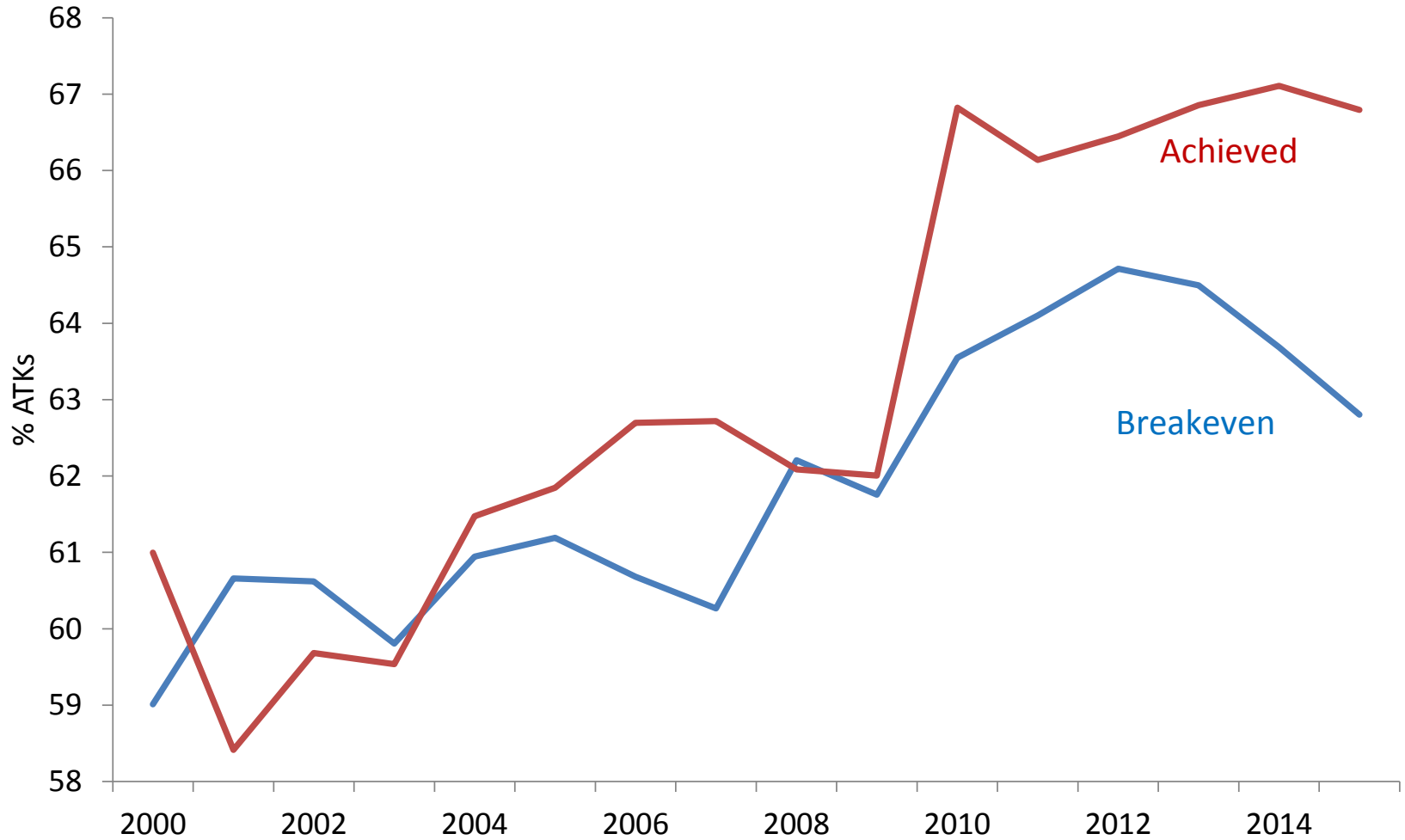
2013 ancillaries and operating profits, % revenues



Source: IdeaWorks, Airline Analyst, IATA

All of which is leading to this...

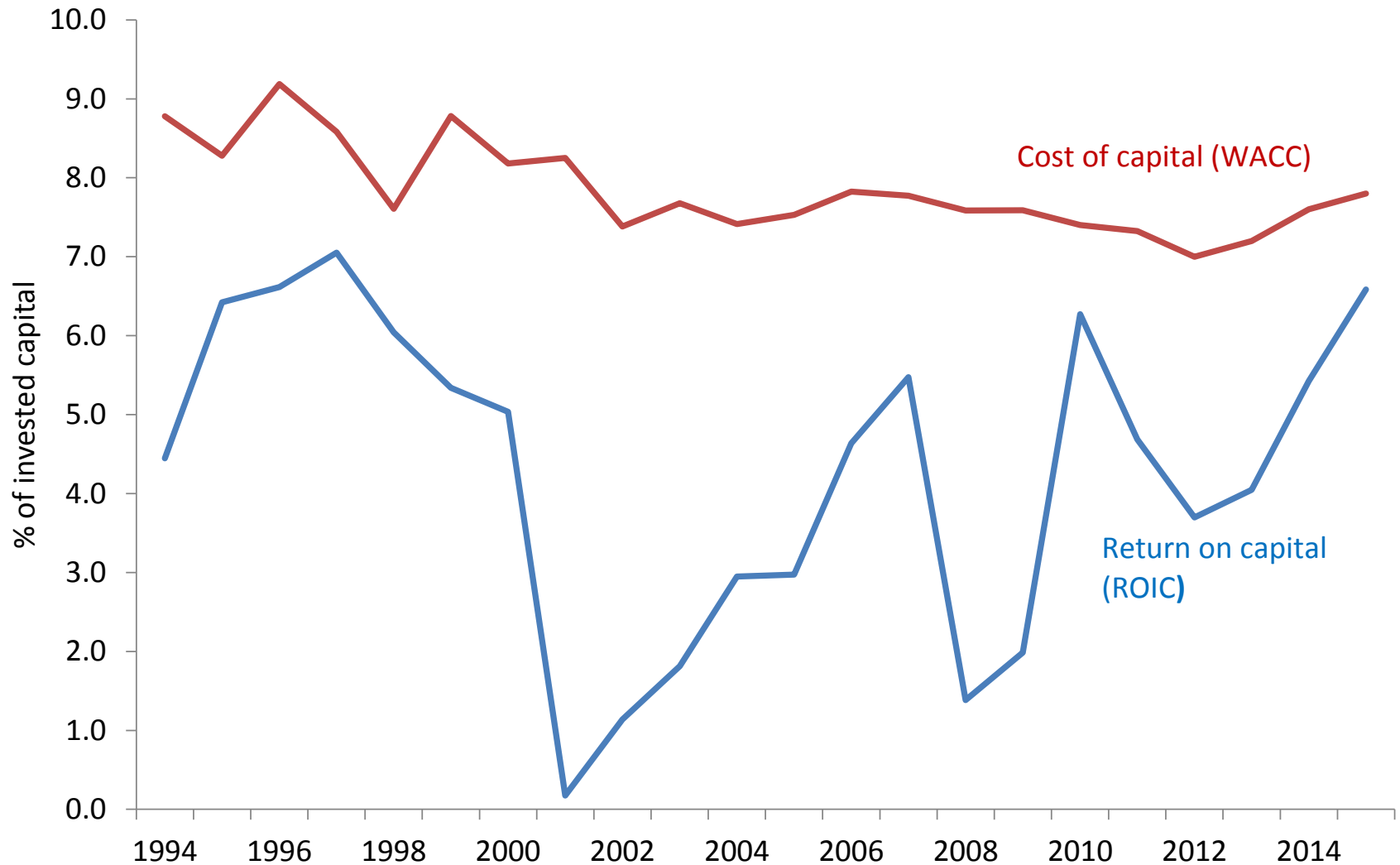
Breakeven and achieved load factor



Source: IATA

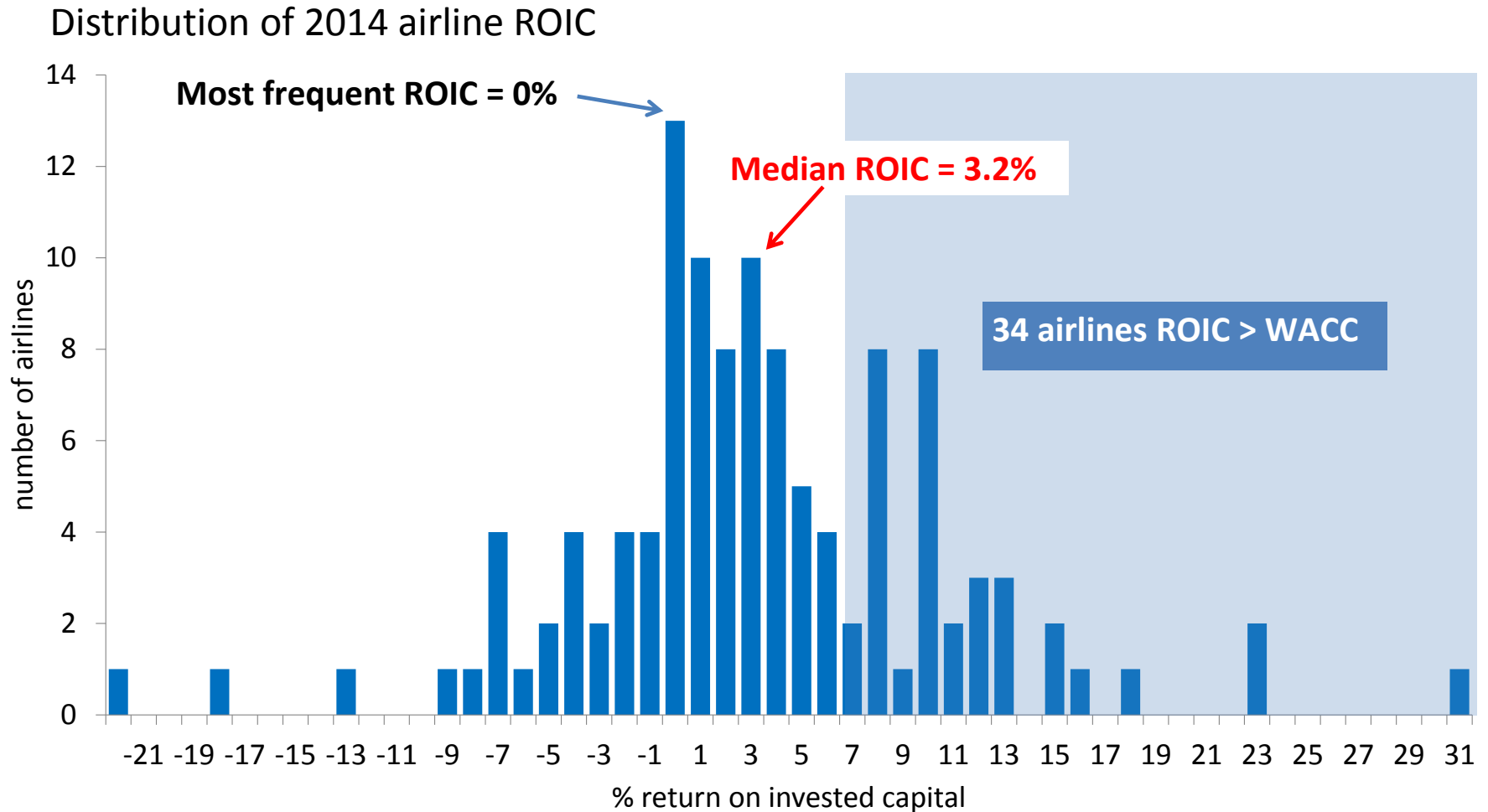
So airline industry ROIC is improving significantly

Return on capital invested in airlines



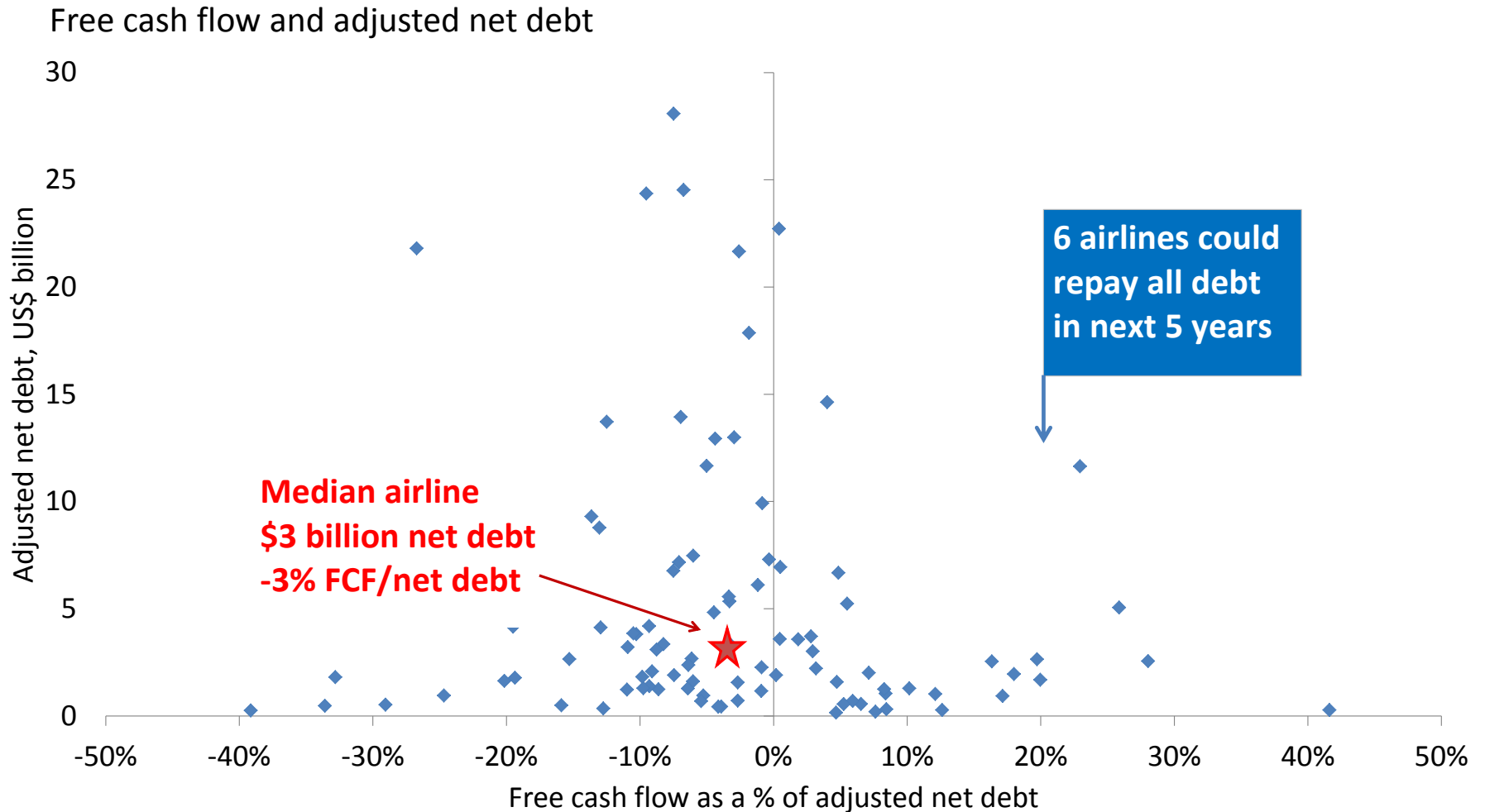
Source: IATA, McKinsey

Improvement driven by a subset of the industry



Source: The Airline Analyst, IATA

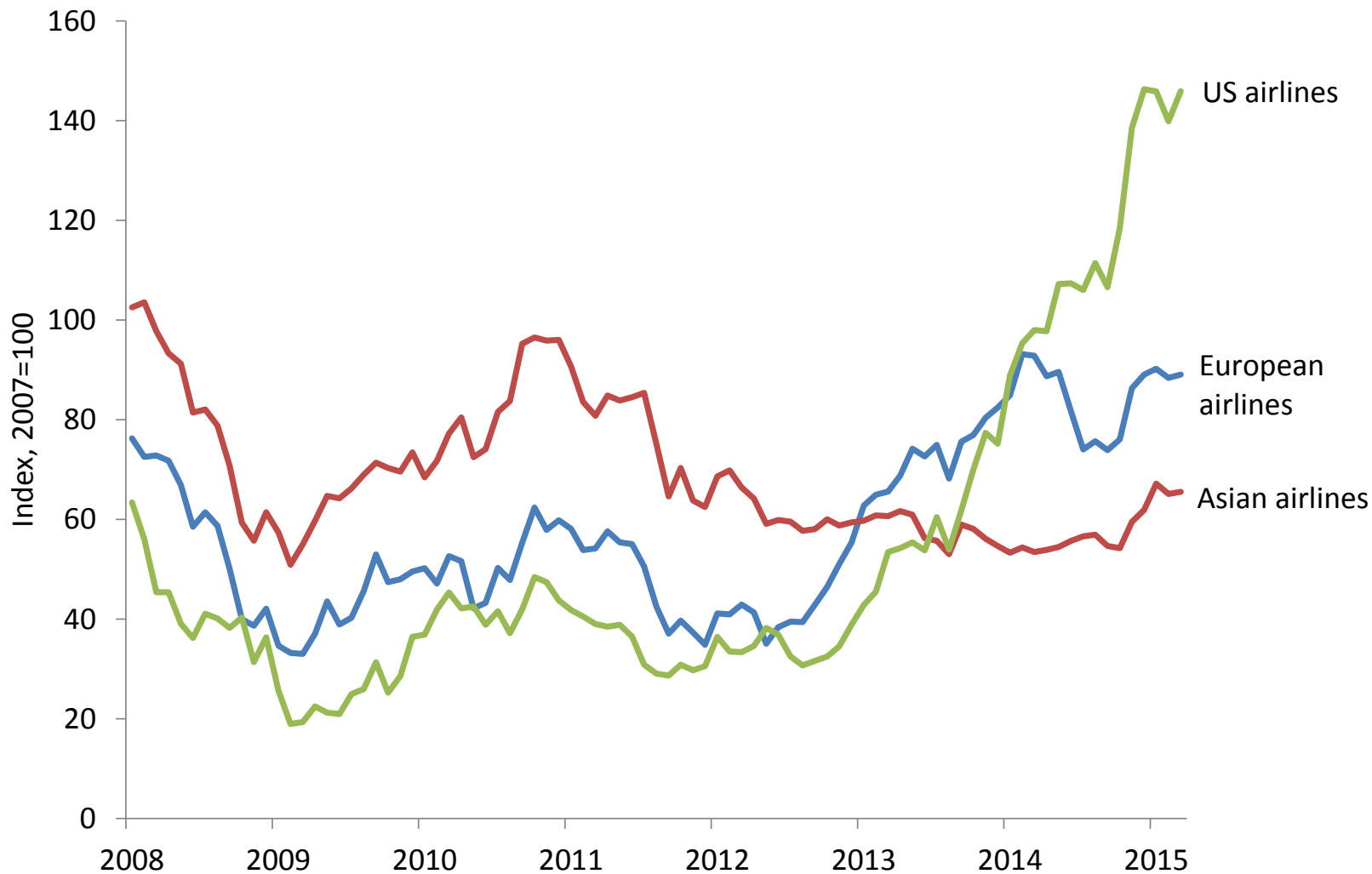
Median airline not as well placed as leaders



Source: The Airline Analyst, IATA

Financial markets recognized regional divergences

Airline share price indices, 2007 = 100



Source: Thompson Reuters Datastream

