



# Economic Performance of the Airline Industry

Airline Cost Conference  
25<sup>th</sup> August 2015

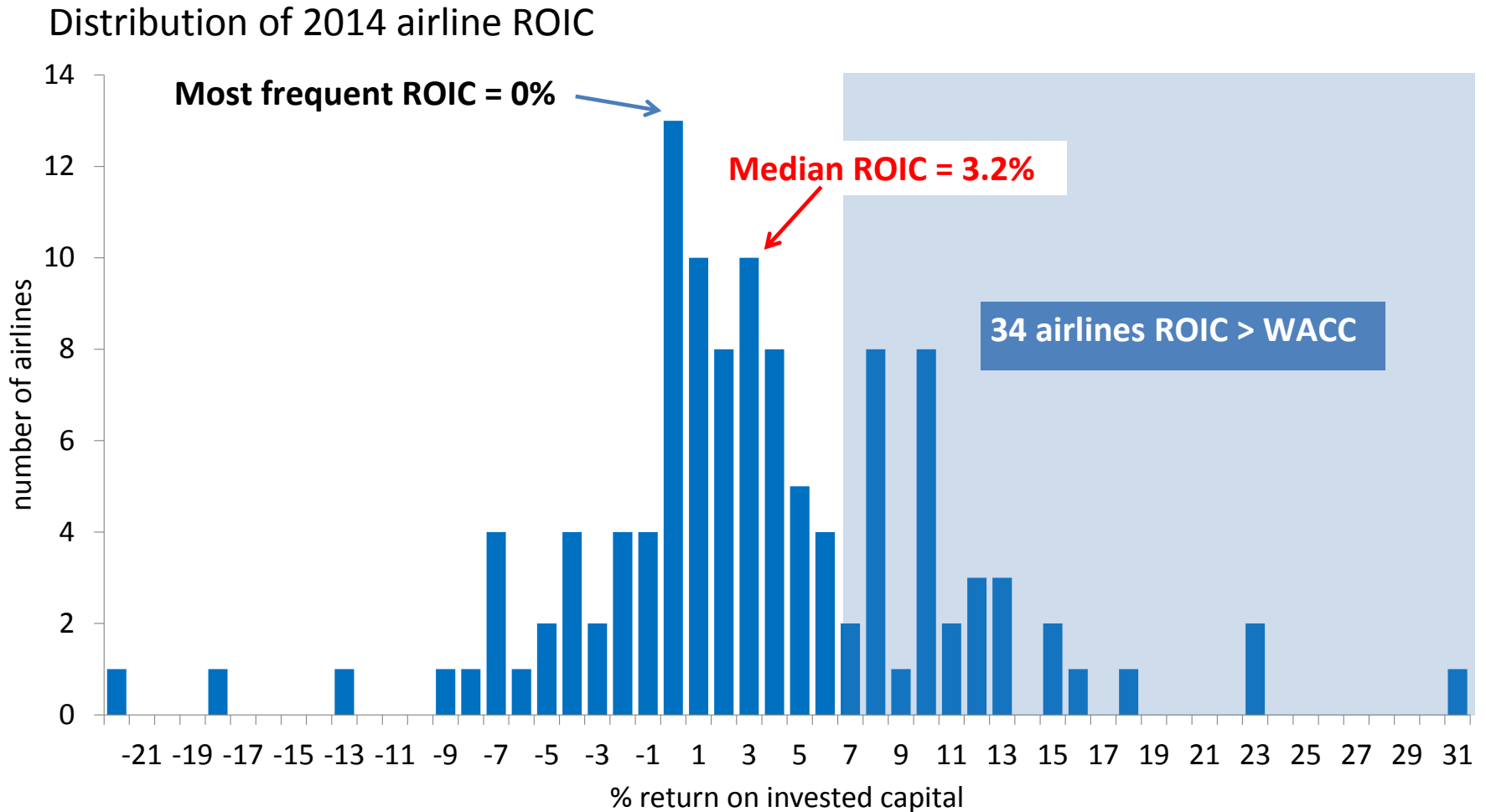
Brian Pearce, Chief Economist

[www.iata.org/economics](http://www.iata.org/economics)

To represent, lead and serve the airline industry

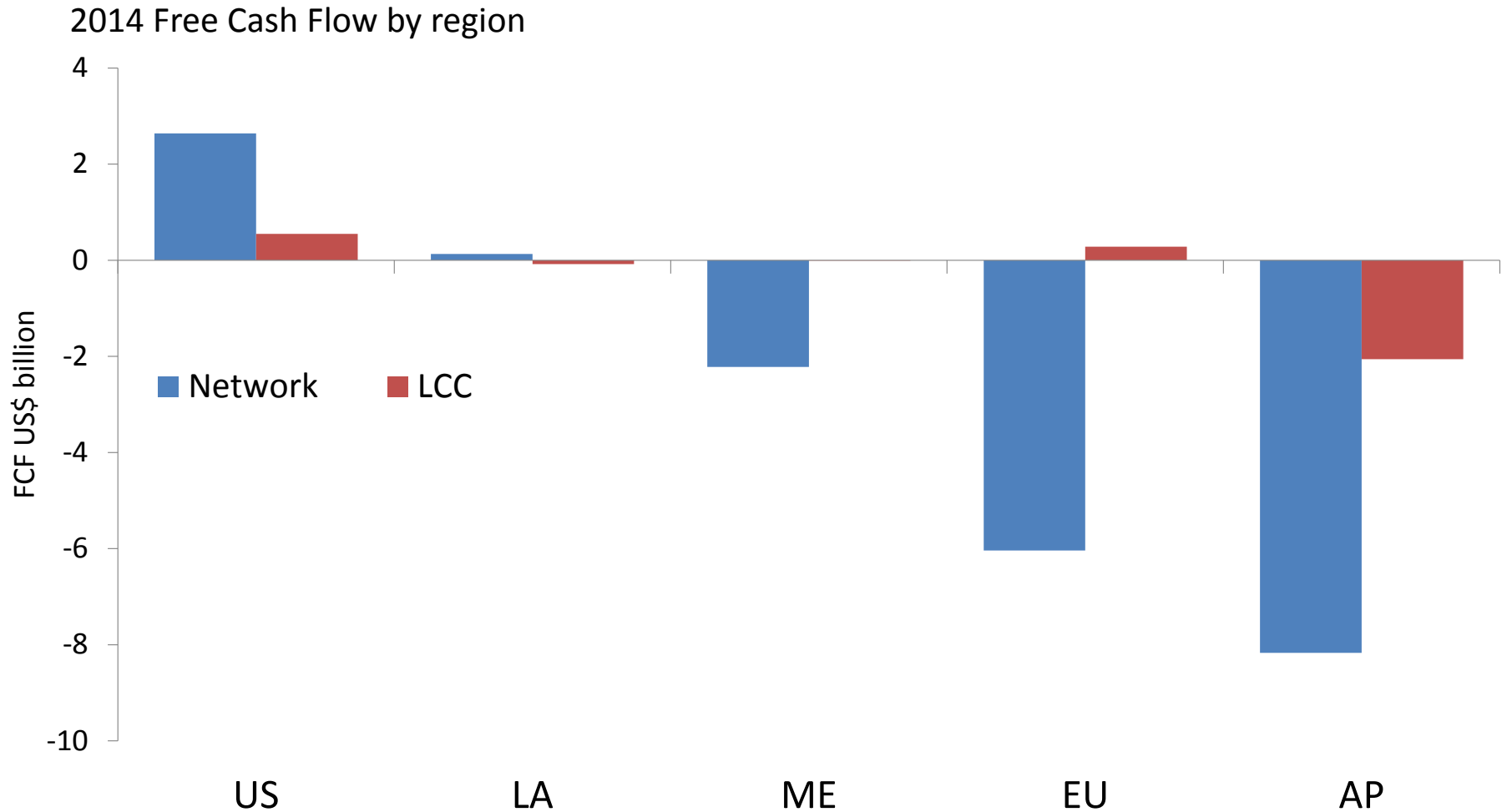


# ROIC gains driven by a subset of the industry



Source: The Airline Analyst, IATA

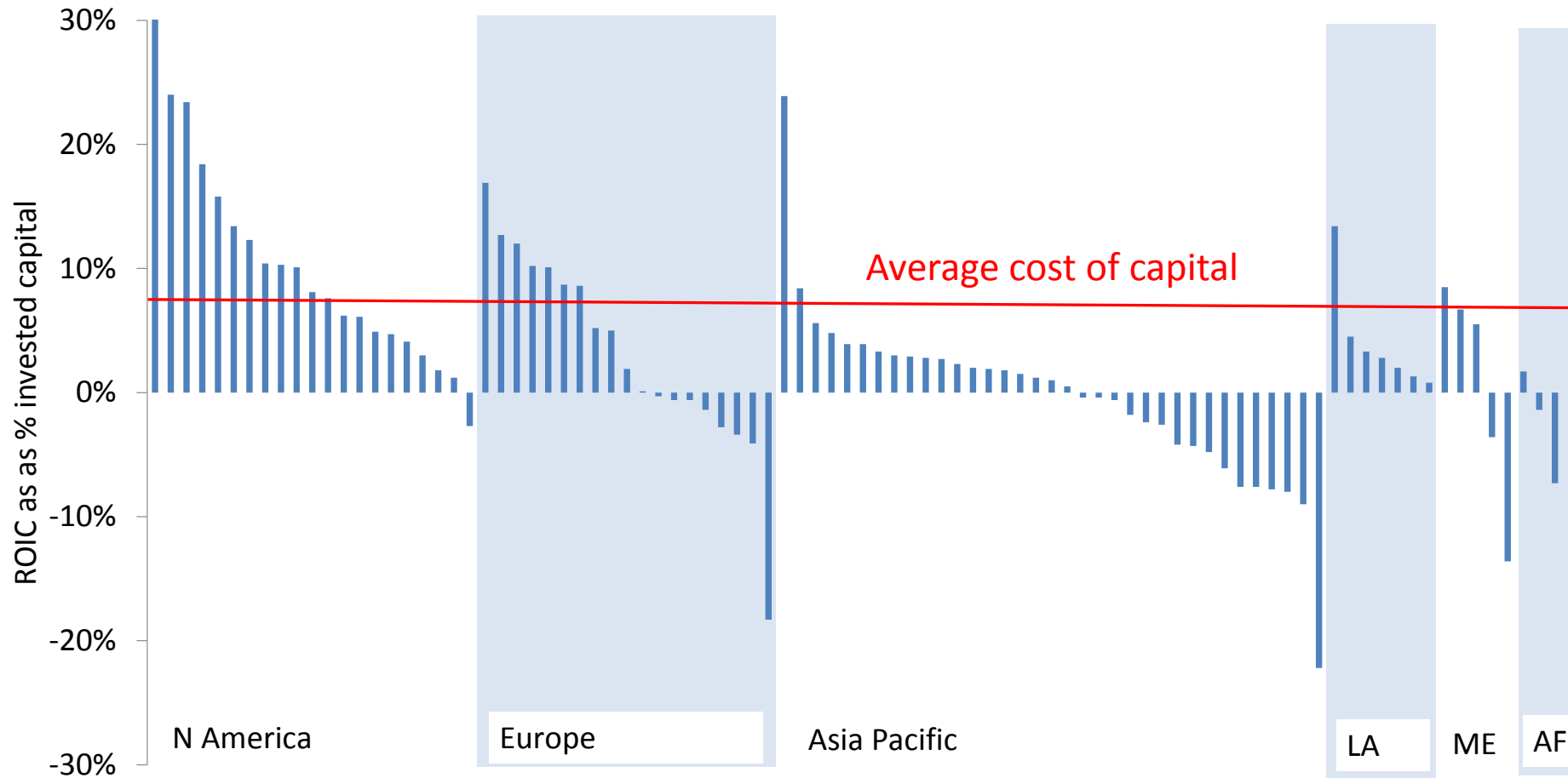
# FCF concentrated in the US



Source: The Airline Analyst, IATA

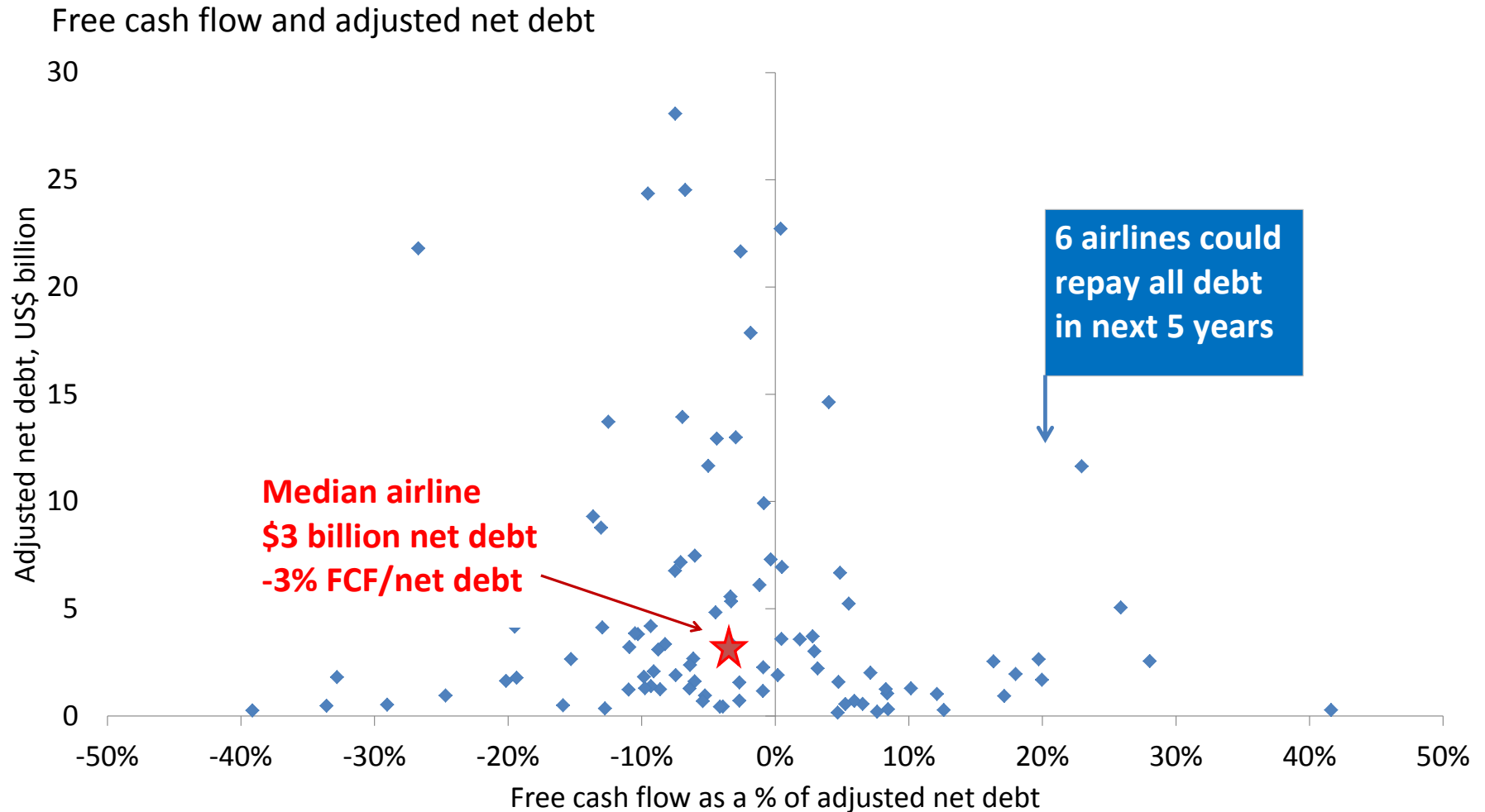
# But good ROIC performance in Europe as well

2014 return on capital by region



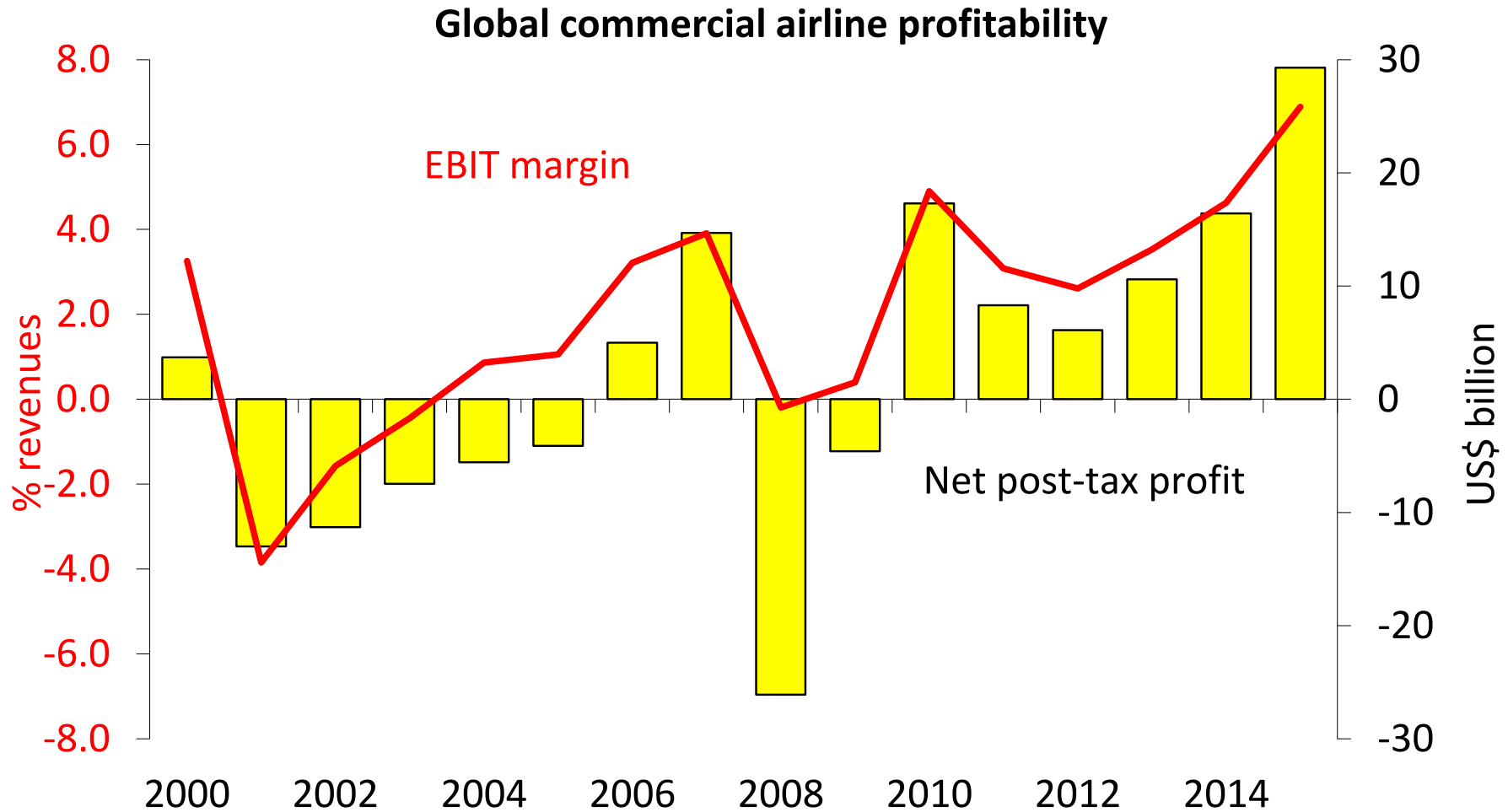
Source: The Airline Analyst, IATA

# Median airline balance sheet still deteriorating



Source: The Airline Analyst, IATA

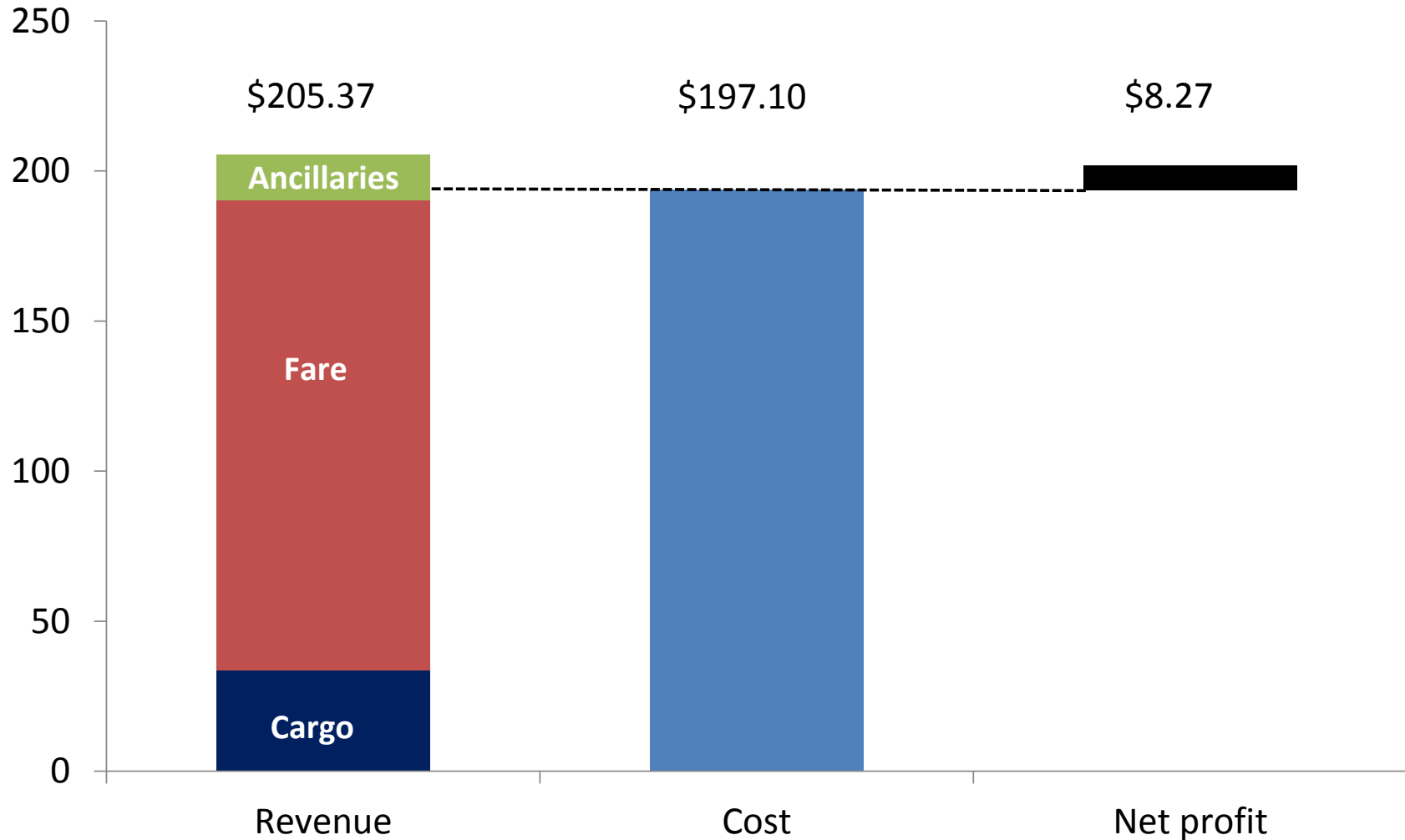
# 2015 should see record profits for the industry



Source: ICAO, IATA

# Though that's still only \$8.27 per passenger

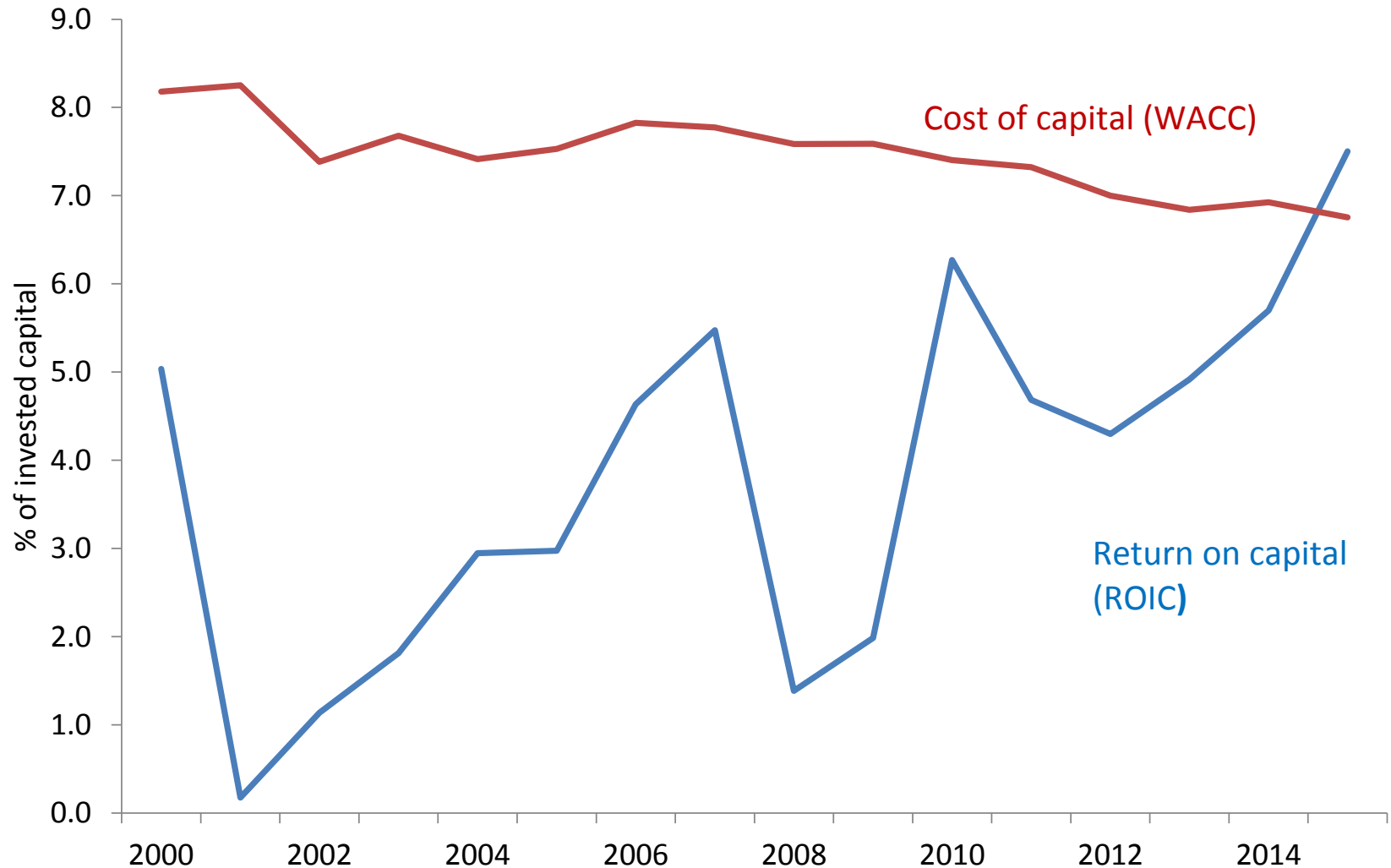
Worldwide airline net post-tax profit per departing passenger, 2015



Source: IATA

# But paying investors 'normal' return for 1<sup>st</sup> time

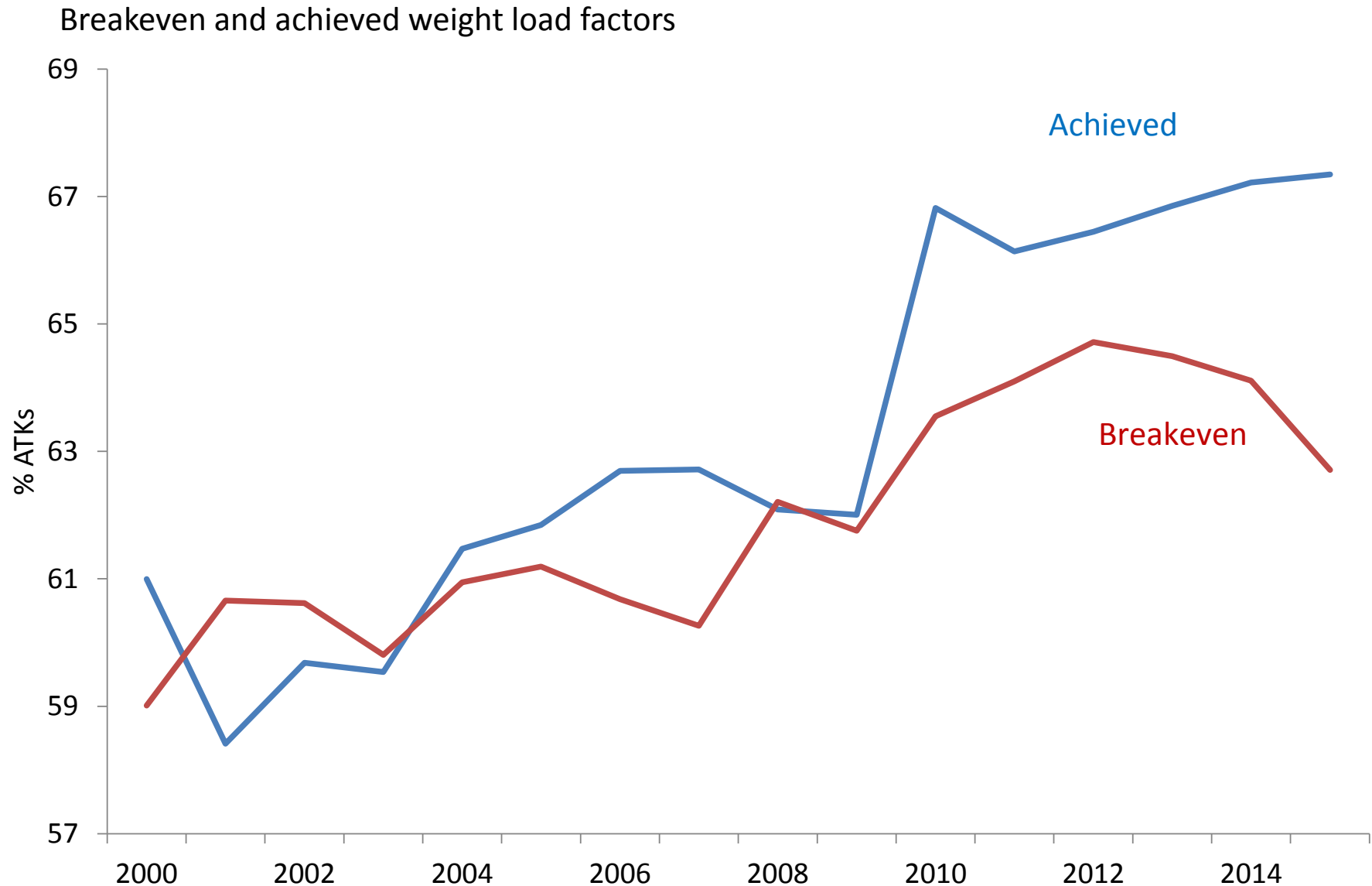
Return on capital invested in airlines



Source: IATA, McKinsey



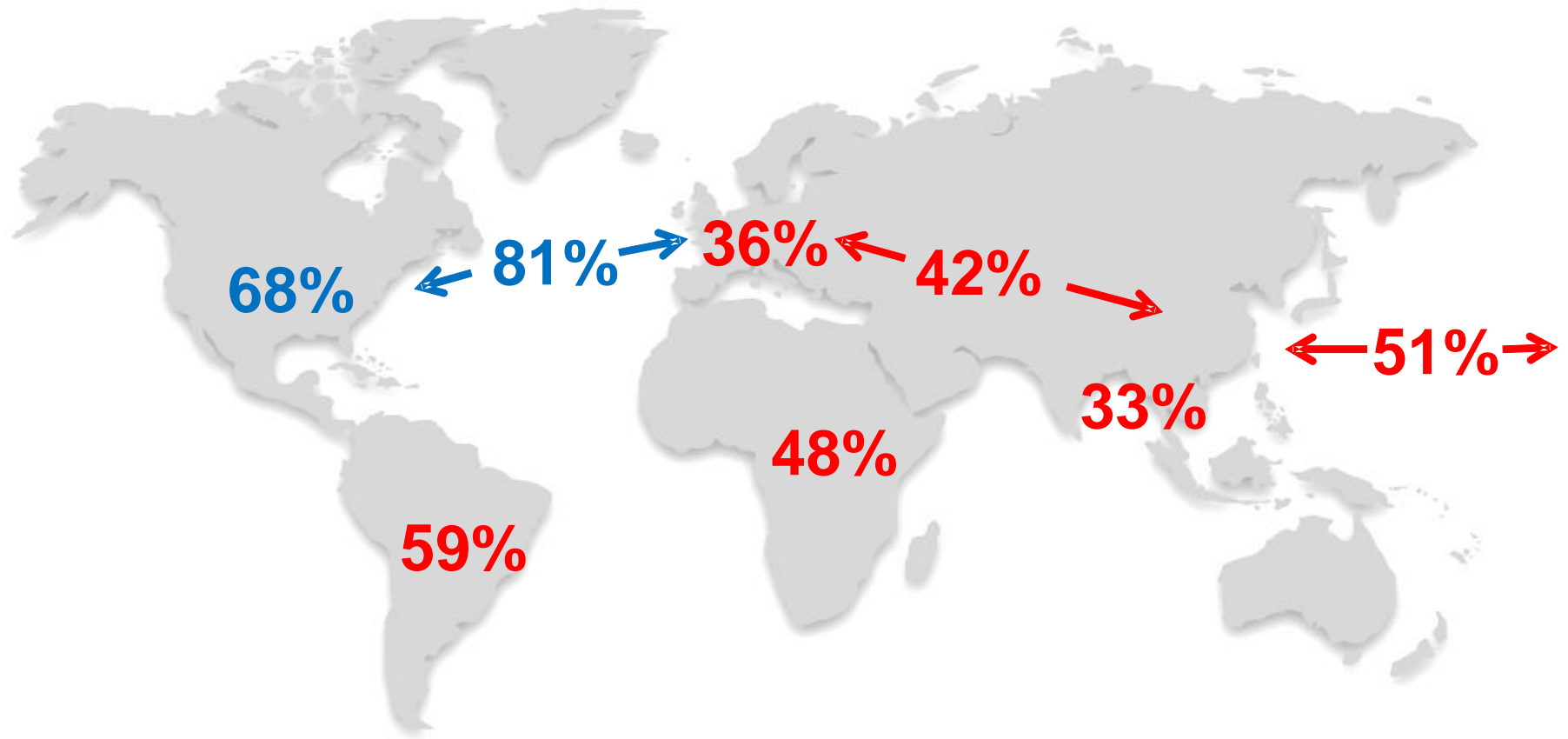
# Widening gap above breakeven driving returns



Source: IATA

# Consolidation has played an important role

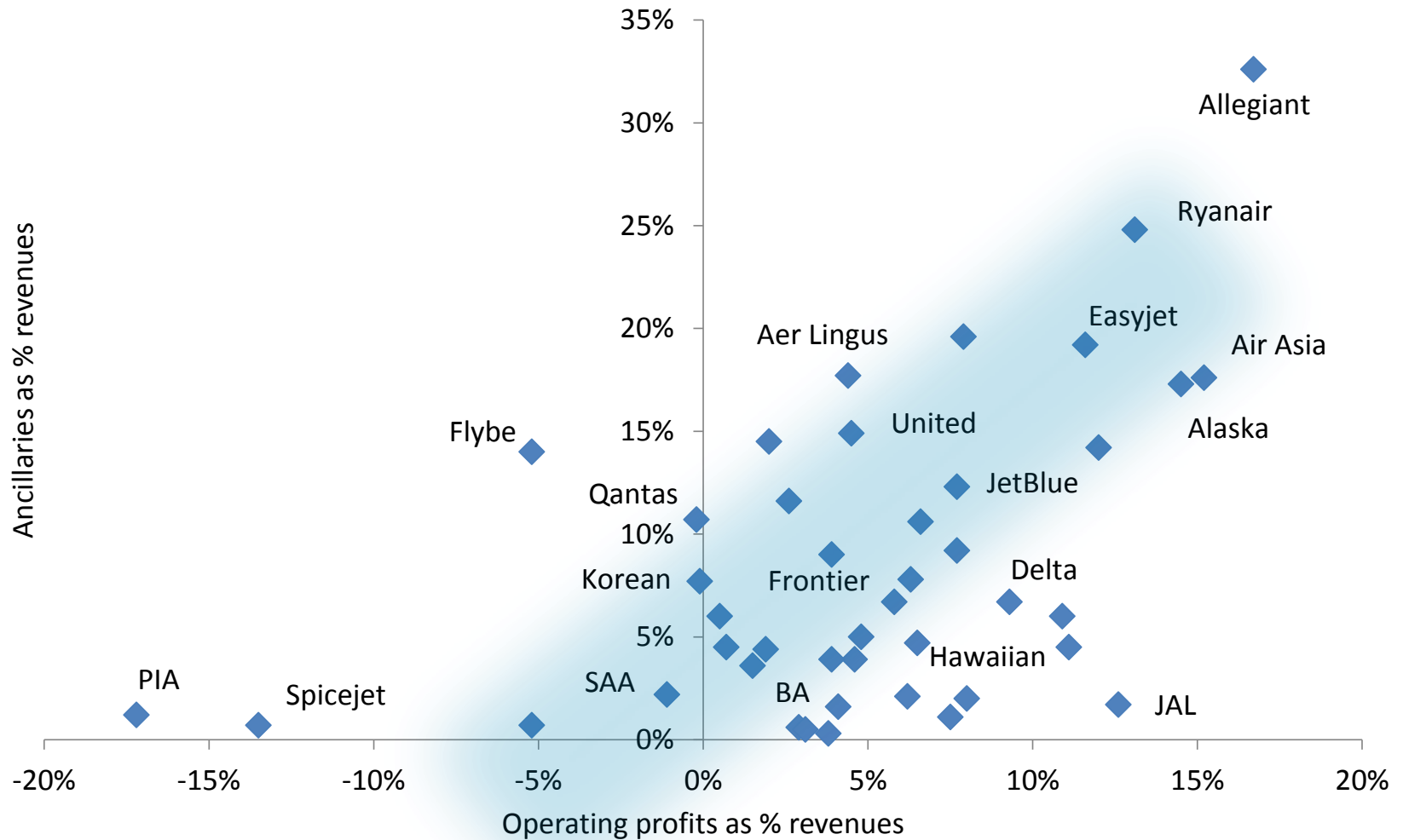
## Market share of top-4 airlines/JVs



Source: SRS Analyser

# The product structure is changing too

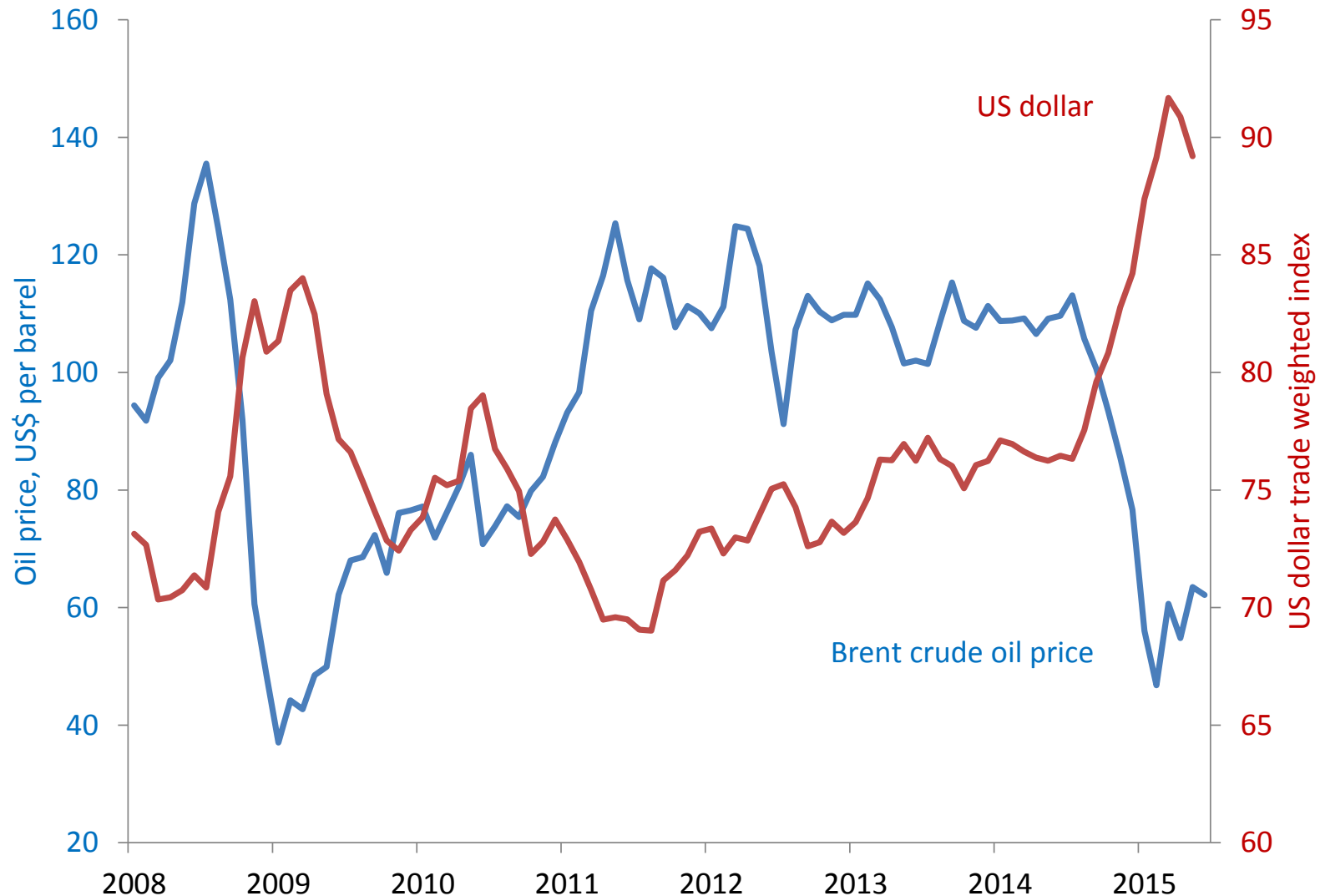
2013 ancillaries and operating profits, % revenues



Source: IdeaWorks, Airline Analyst, IATA

# Low fuel prices important but US\$ major offset

The Brent crude oil price and the US dollar



Source: Datastream

# Driving further divergence in performance this year

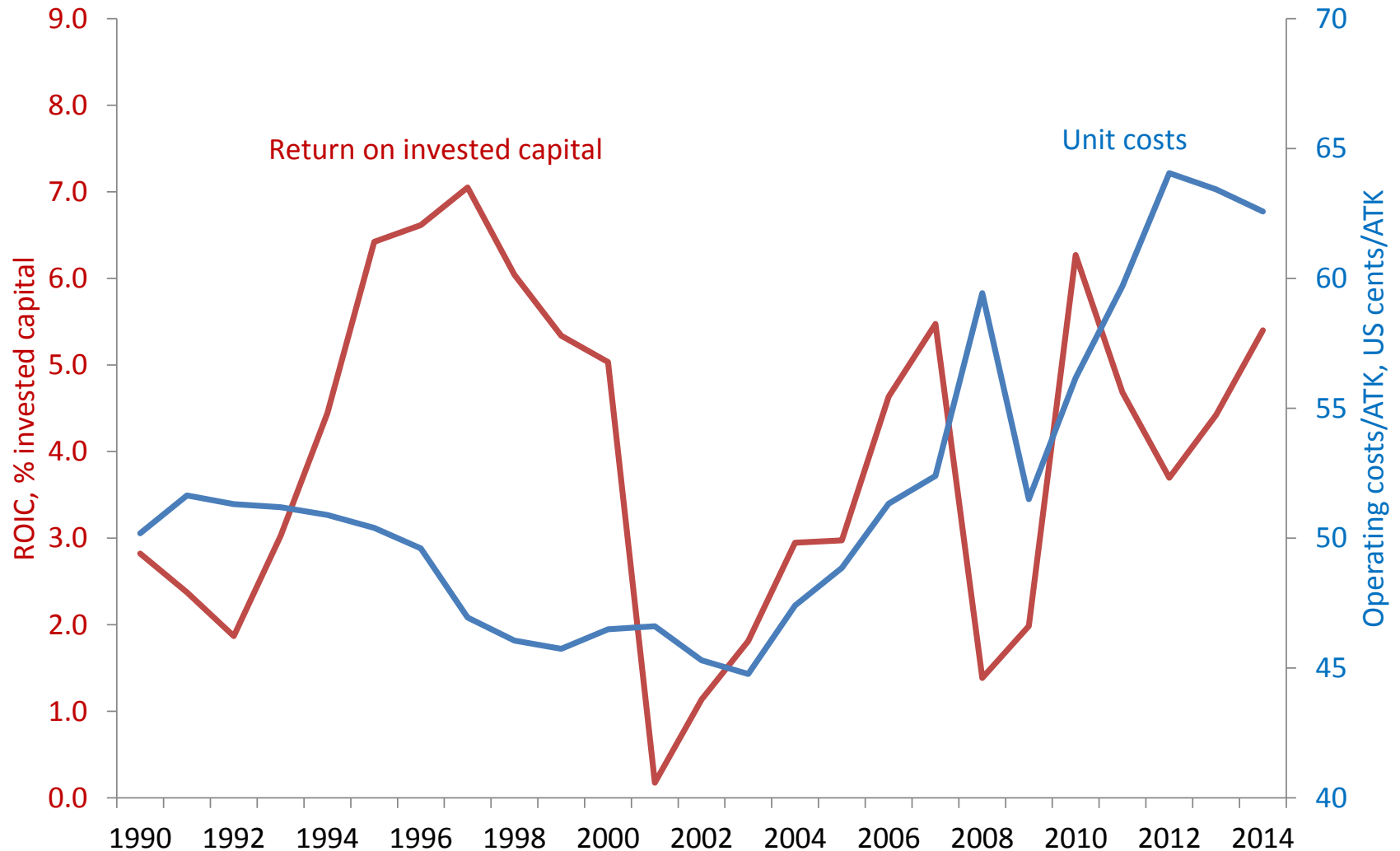
Airline net post-tax profit margins



Source: ICAO, IATA

# Longer-term impact of lower fuel prices not clear

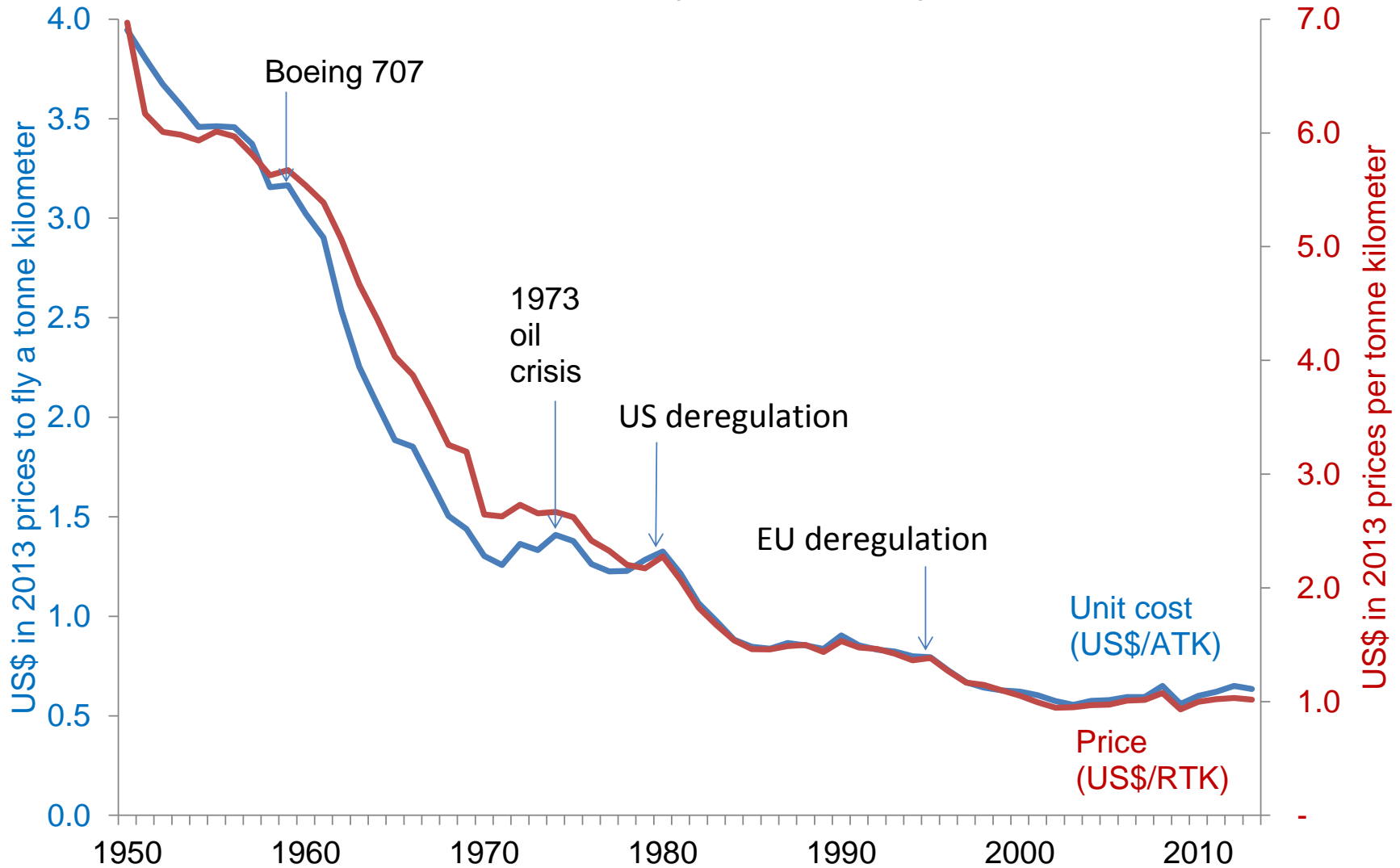
Return on invested capital and unit costs



Source: IATA, McKinsey

# Costs typically passed through to prices

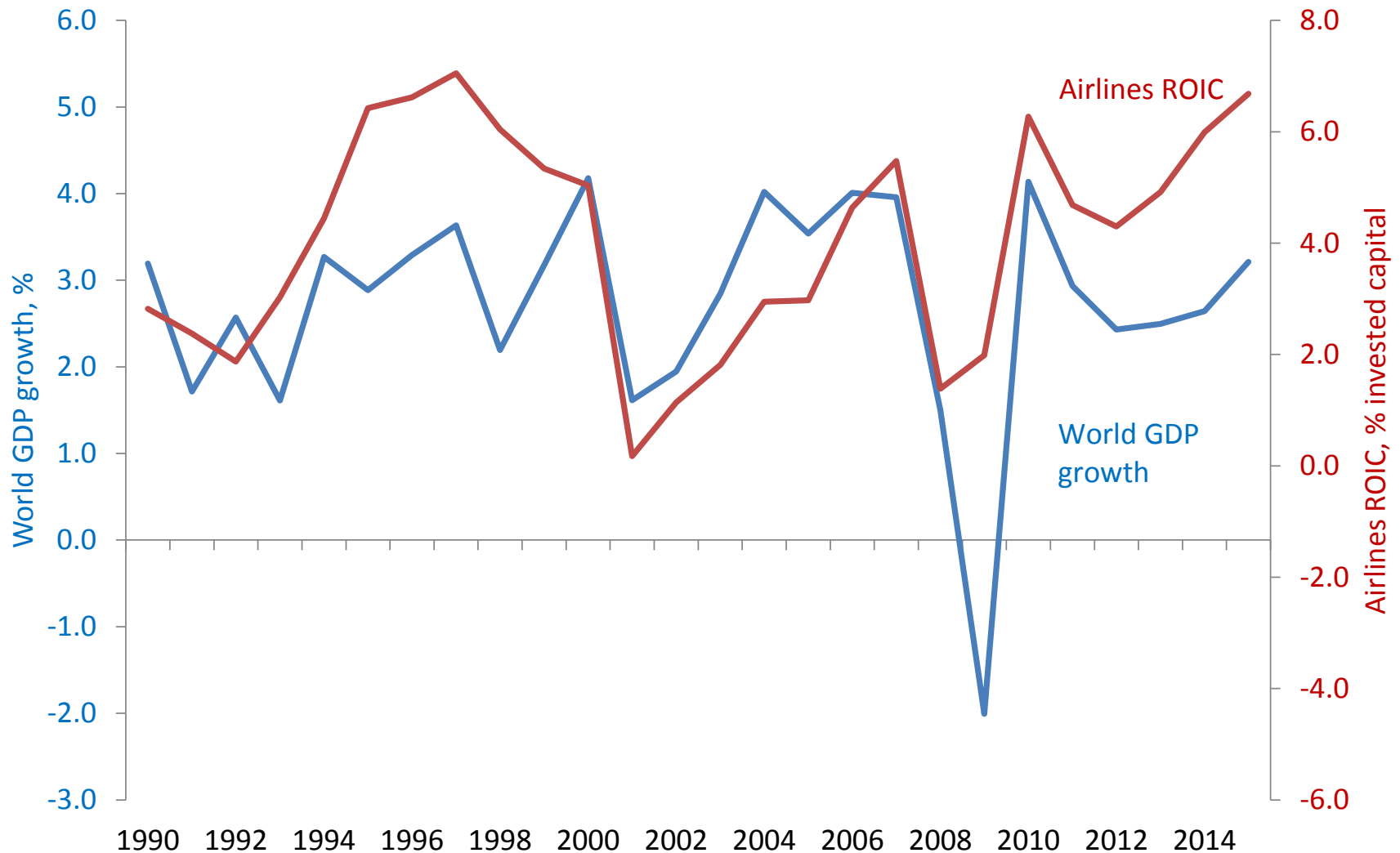
Unit cost and the price of air transport



Source: ICAO, IATA

# A strong economy is unambiguously positive

Airline industry ROIC and world GDP growth

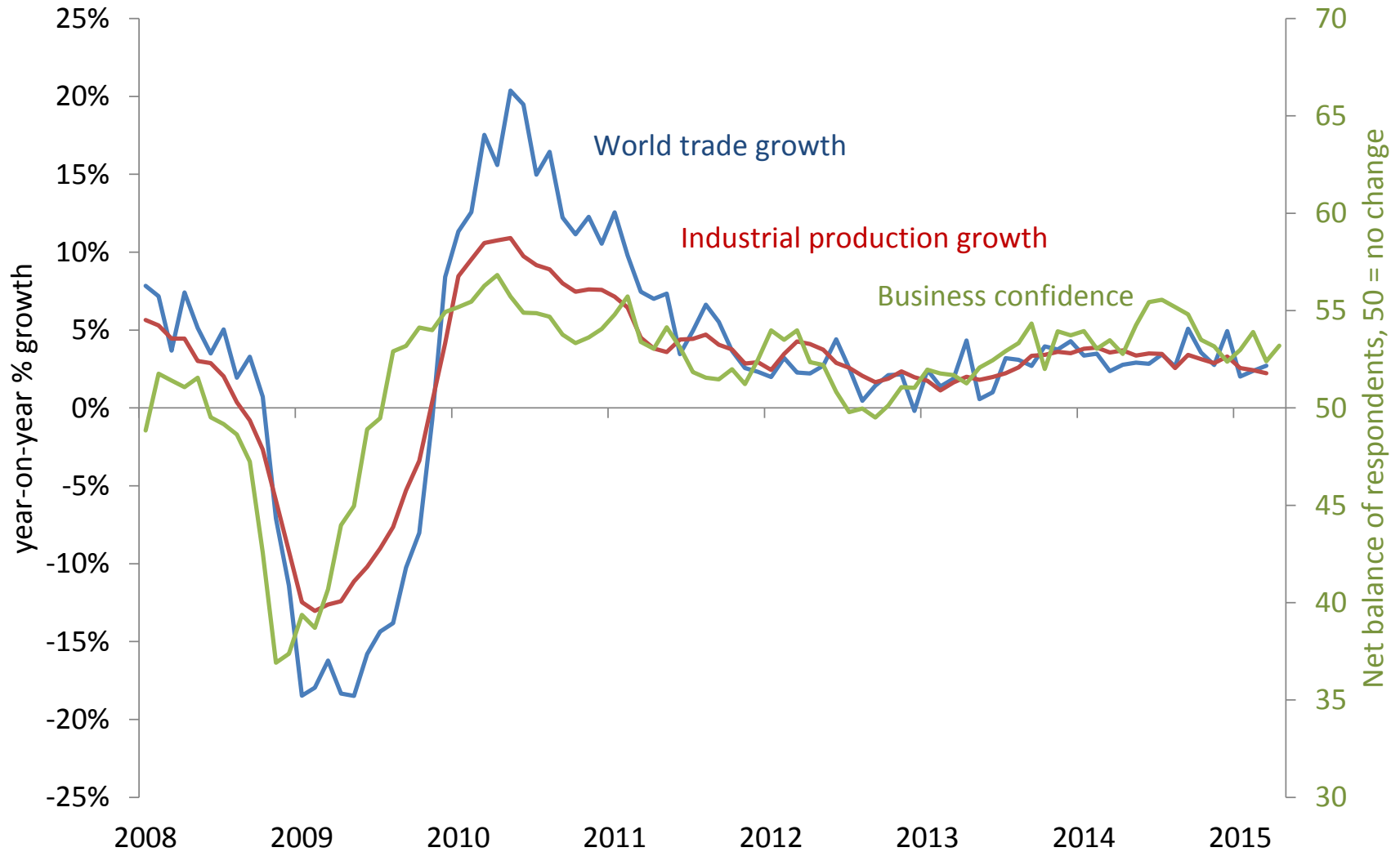


Source: IATA, McKinsey, IHS Global Insight



# Economic cycle positive but not very strong

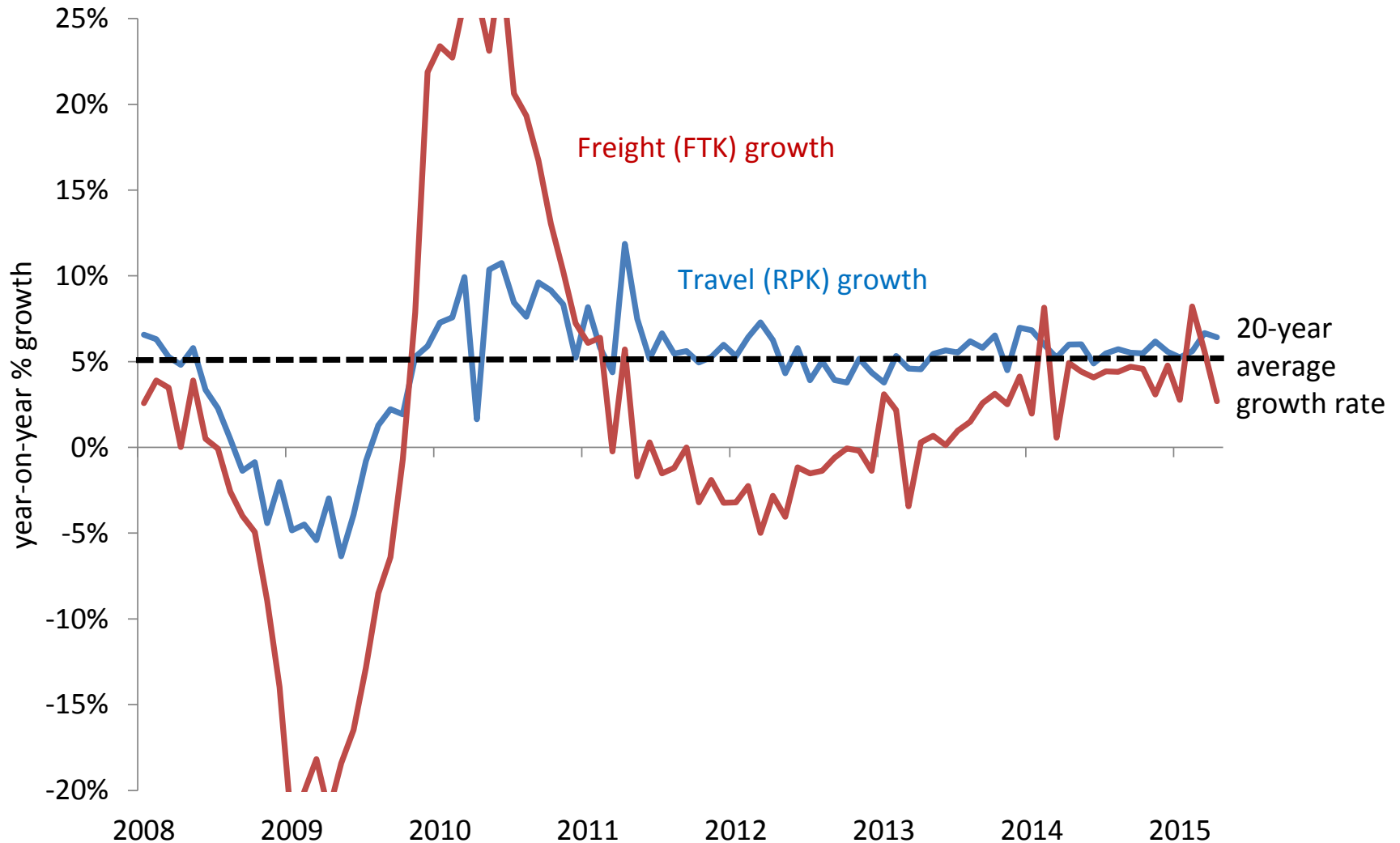
Indicators of the global economic cycle



Source: Datastream

# But growth in demand for travel and cargo looks OK

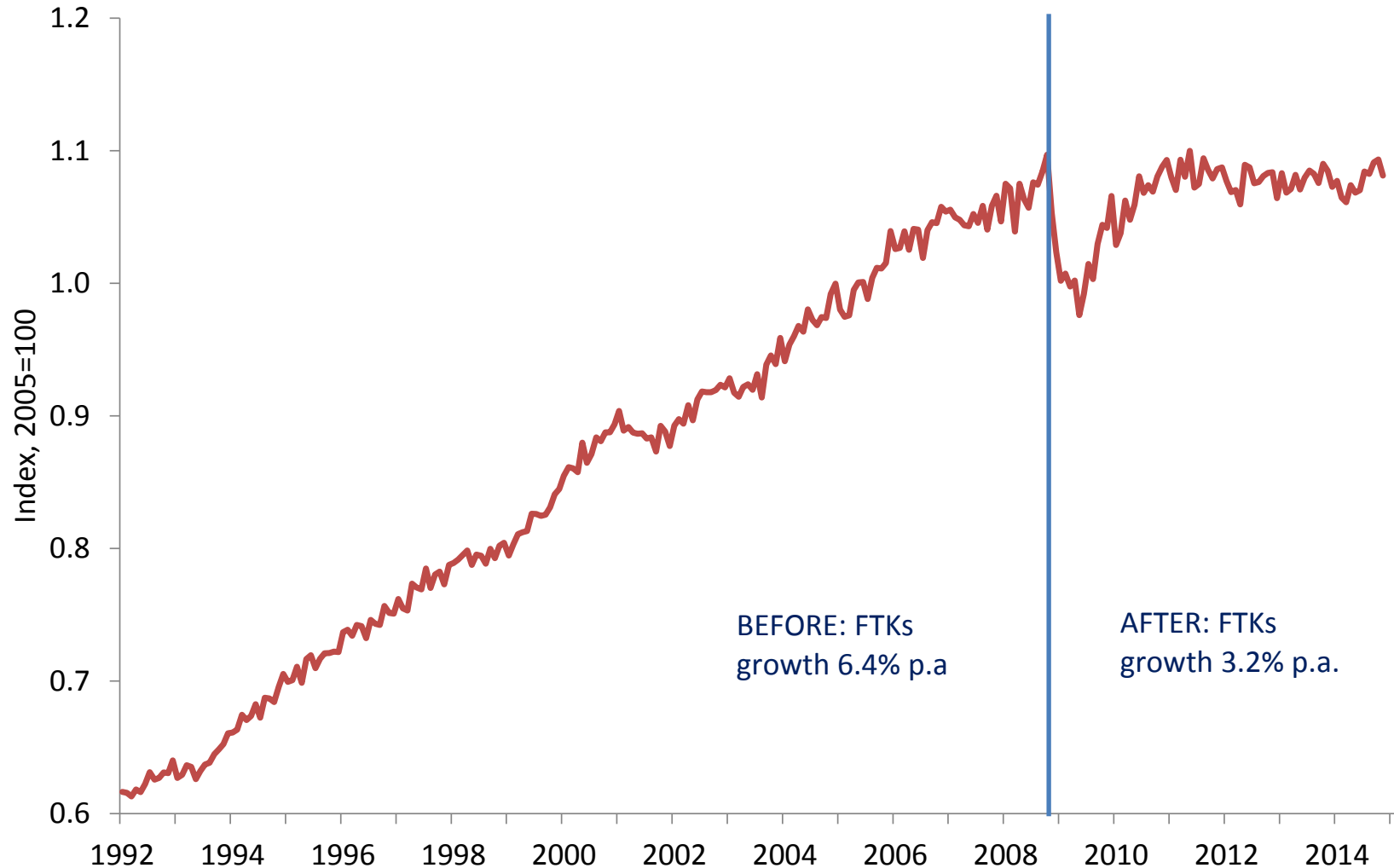
Growth of air travel and air freight



Source: IATA

# Though cargo growth should be much stronger

International trade compared to global industrial production



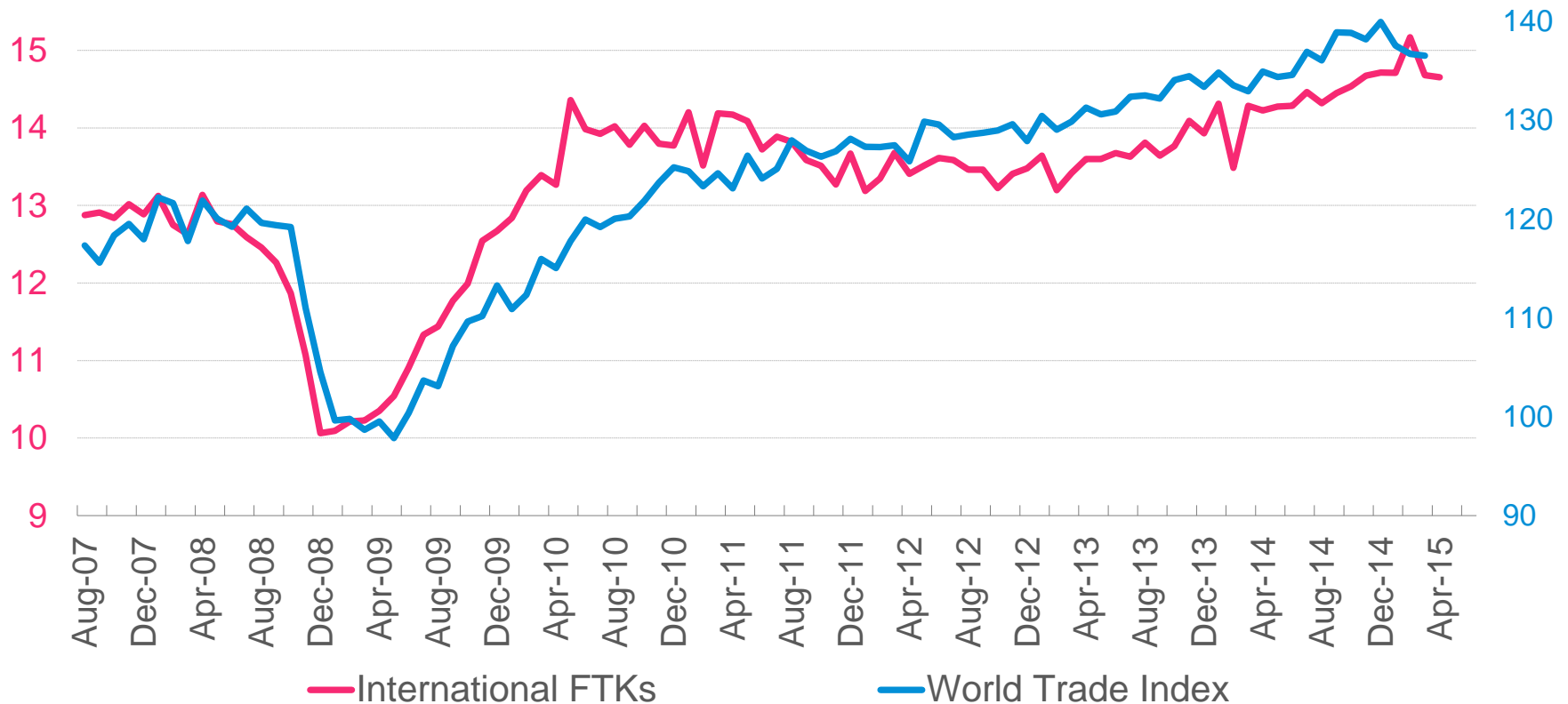
Source: Netherlands CPB, IATA

# Trade and cargo markets appear to have peaked

## 7. World trade in goods and air FTKs

Billion FTKs  
(seasonally adjusted)

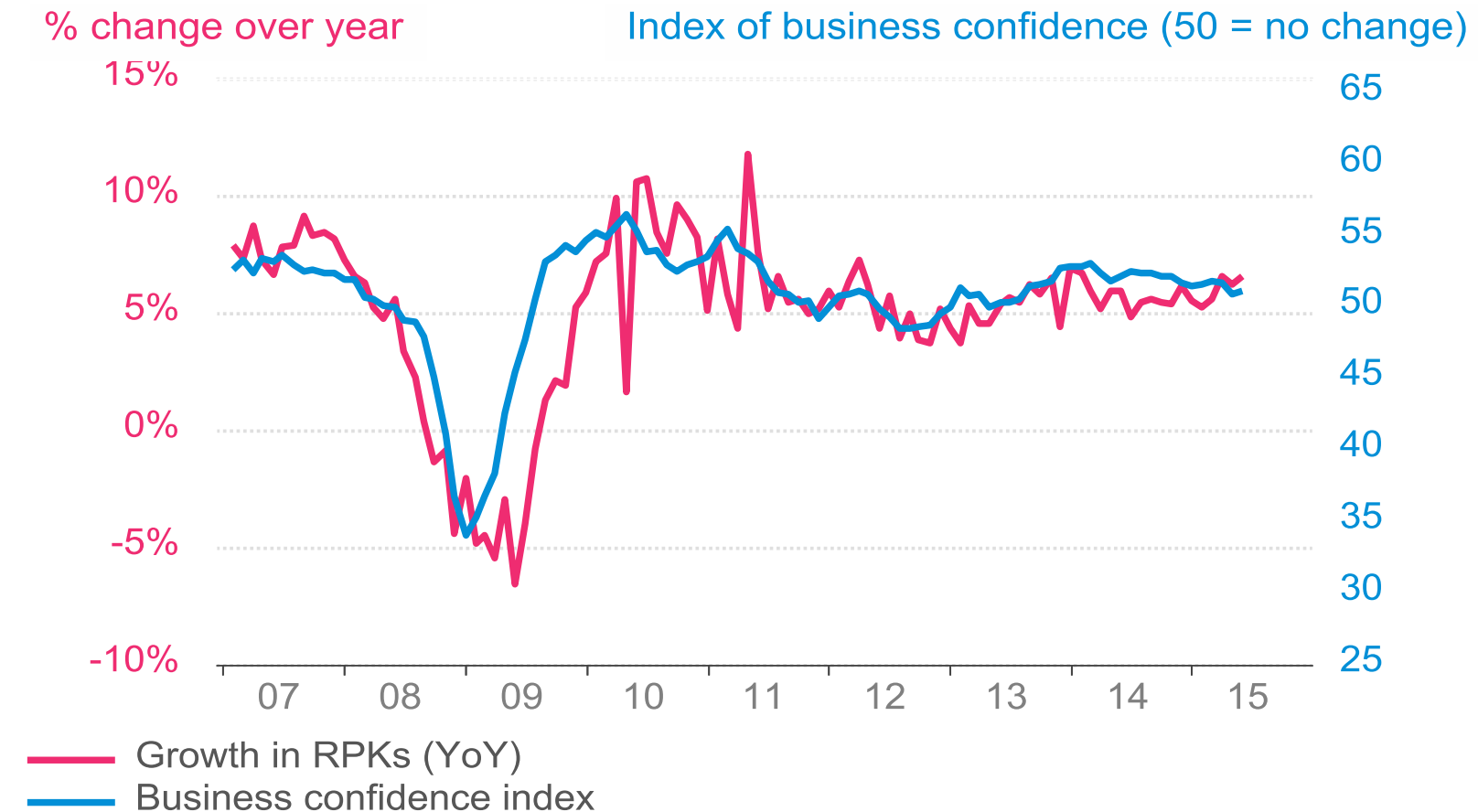
Index of world trade, 2005=100  
(seasonally adjusted)



Source: Netherlands CPB, IATA

# Business confidence has been diminishing

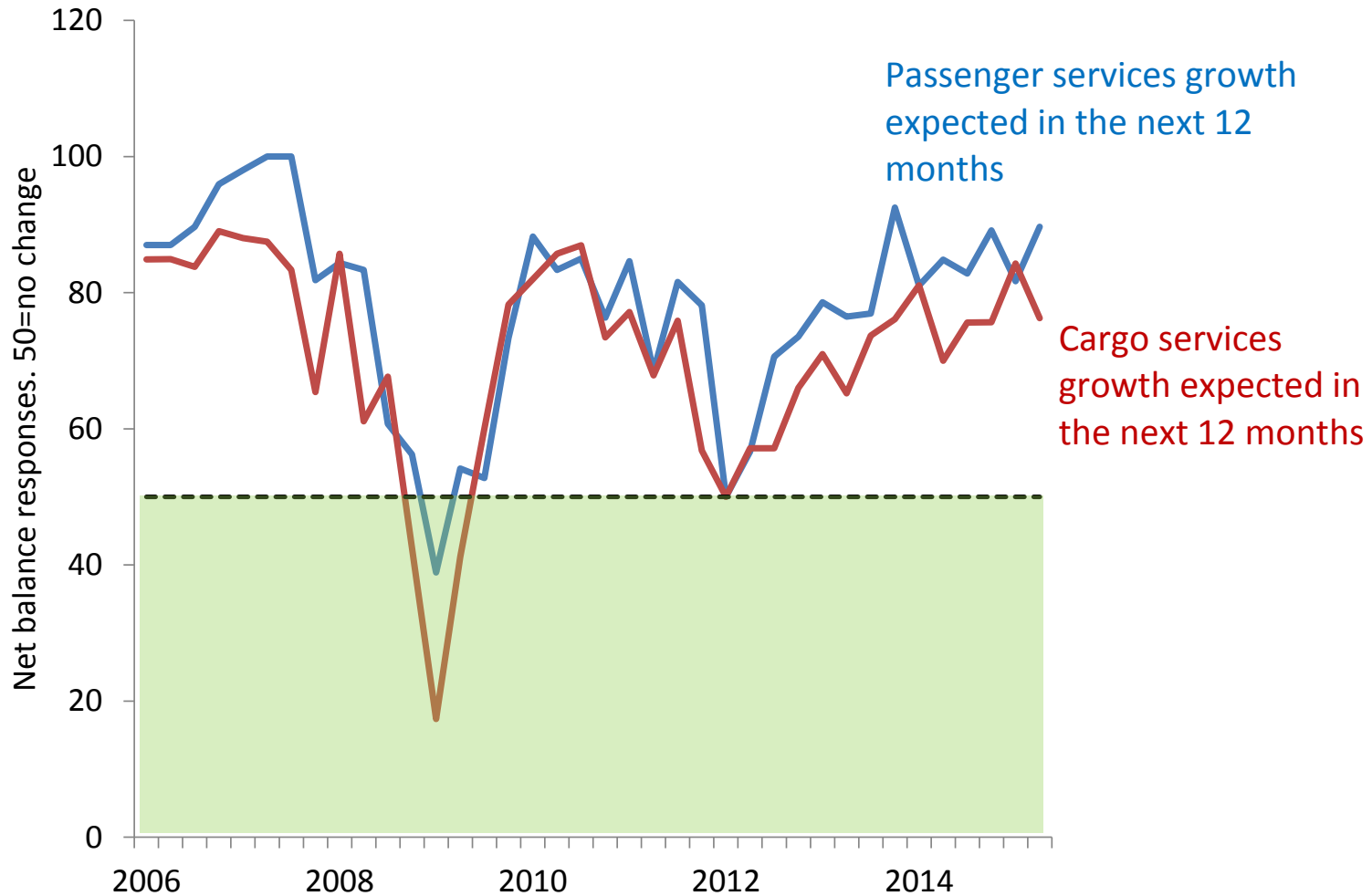
## Worldwide growth in air travel and business confidence



Source: IATA, Markit/PMI

# Risk that growth expectations now too high

IATA survey of airline CFOs and heads of cargo



Source: IATA Business Confidence survey