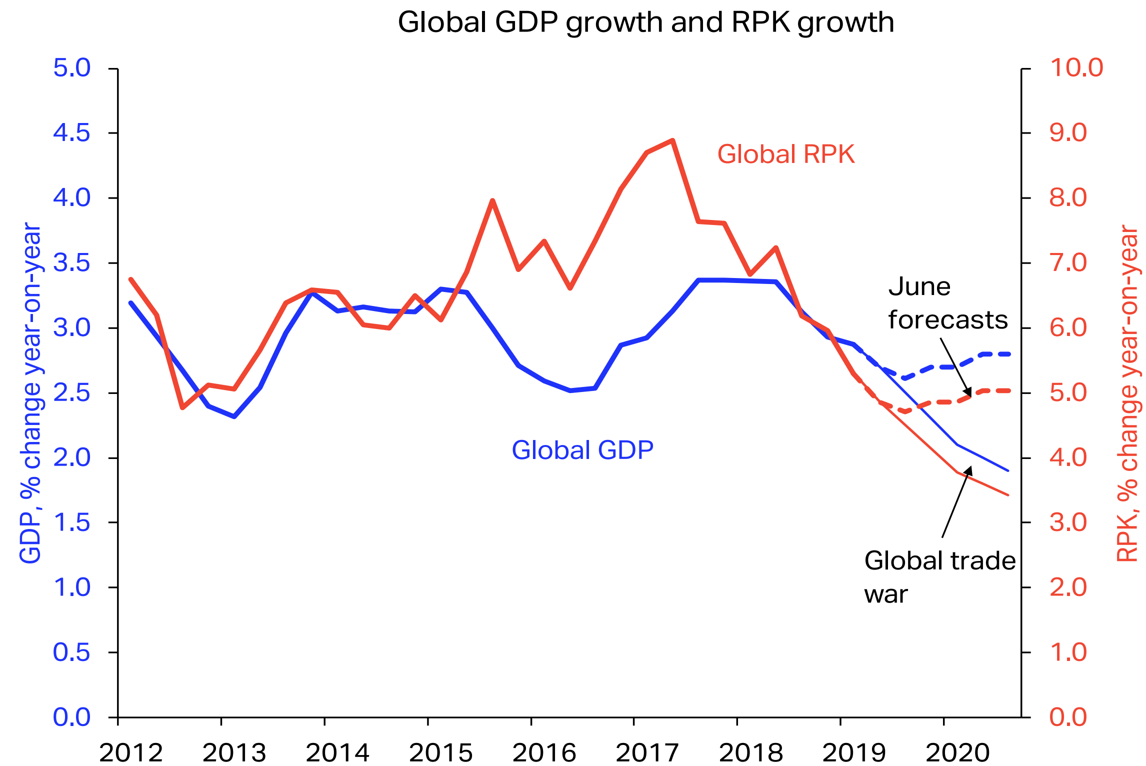
IATA Economics Chart of the Week

21 June 2019

Quantifying the risk to air travel growth from a global trade war



Source: IATA Economics using Citi/Oxford Economics global trade war scenario

- The trade tariffs imposed by the US on some of its trading partners and retaliatory tariff increases have already caused substantial damage to air cargo, but air travel continued to grow at a solid pace. We examine here the wider impact of an escalation of trade tensions. The chart shows that from 2012-2015 air travel (measured here by global Revenue Passenger Kilometers or RPKs flown) fluctuated with GDP. From 2015-2017 RPKs grew much faster as the fall in oil and jet fuel prices led to a 20% fall in average fares. We are now back with RPKs growing in line with or a little below the global economy. So, what happens to global GDP growth will be the key driver of air travel.
- Our baseline forecast of 5% RPK growth this year uses the IMF's April view of the world, which sees a period of economic weakness in Q2 but then some stability from the second half. This could be wrong. It is contingent on some sort of trade war ceasefire following next week's G20 meeting, though no reversal of tariffs. Instead, it is possible that the trade situation could deteriorate further. To explore the downside to our forecasts we have used the recently published global trade war scenario by Citi and Oxford Economics. This global trade war scenario predicts global GDP growth would slow to 2% by the third quarter of 2020, because of 25% tariffs on the remaining $300 billion of Chinese imports into the US, a reciprocal response by China, 25% tariffs on autos and autos parts from the EU and Japan, a 10% decline in global equity markets and a drag on investment.
- The impact on air travel would be to slow growth in line with the impact on the global economy. This suggests there is a downside from this risk of trade war of around -0.5% points to our 2019 RPK growth forecast of 5%. But most of the damage would be felt in 2020, slowing our RPK forecast to 3.7%. That's a much weaker growth environment that the industry has enjoyed in recent years, but it's still quite some way from a recession.

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