The outlook: what we know, the known unknowns and the unknown unknowns

7 March 2017
World ATM Congress, Madrid

Brian Pearce, Chief Economist, IATA
www.iata.org/economics
World stuck on low-growth path (IMF consistently wrong)

IMF forecasts of global economic growth (using market exchange rates), % y-o-y

Source: IMF World Economic Outlook databases
Partly because of the debt overhang

Outstanding debt of non-financial sector, % of GDP

Developed economies

Developing economies

Source: Bank for International Settlement database
But also the retreat from globalization

World GDP and cross-border trade growth

Source: IMF World Economic Outlook and the World Trade Organization
Poor demographics in some major economies

Labour force growth

Note: Only +0.1% pa without net immigration

Source: Oxford Economics
The exhaustion of monetary policies

US federal funds target rate and balance sheet assets

Source: Haver
We got air travel wrong – but **under** not over-estimated

IATA forecasts of global RPK growth

Source: IATA Economic Performance of the Airline Industry
Partly because of price-stimulation from LCC entry

Sources: IATA using SRS Analyser data
And then because oil prices collapsed

Source: IATA using PaxIS+ and Haver data
Cargo was a very different story

Source: ICAO, IATA

Air travel and cargo volumes

- **Passenger RPKs**
- **Cargo FTKs**

**Source:** [ICAO, IATA](www.iata.org/economics)
The retreat from globalization was one cause

Source: IATA Economics using data from Netherlands CPB and UNCTAD
So air cargo is seeking new customer segments

Source: IATA Economics using data from Netherlands CPB and Haver

Growth in world trade and (US) e-commerce sales

Growth in world trade

Growth in e-commerce sales

Source: IATA Economics using data from Netherlands CPB and Haver
Still plenty of potential for growth in air travel

Propensity to fly (total passengers/population)

Australia, Spain, United Kingdom, Canada, United States, Italy, France, Germany, Saudi Arabia, Korea, Republic Of, Japan, Thailand, Turkey, Chile, Colombia, Russian Federation, Mexico, Brazil, Indonesia, South Africa, China, Egypt, India, Nigeria

Source: IATA/Tourism Economics Air Passenger Forecasts, September 2016
As living standards rise trip frequency multiplies

Frequency of air travel and living standards

- Trip frequency
- Months before next trip

Source: IATA/Tourism Economics Air Passenger Forecasts, April 2016
Expect large rises in trip frequency in some key markets

Airline passenger trips and GDP per capita

Source: IATA Economics using data from PaxIS+ and Oxford Economics
Of course demographics will also make a big difference.
Biggest incremental growth on domestic markets

China: 6.7% 5.2%
United States: 8.2% 2.6%
India: 3.5% 6.7%
Indonesia: 5.2% 3.5%
Vietnam: 8.2% 5.2%
Turkey: 2.6% 5.2%
Brazil: 2.6% 6.0%
Philippines: 6.0% 3.0%
Australia: 3.0% 4.2%
Mexico: 4.2% 5.2%

Change in domestic O-D markets (millions, 2015-2035)

Source: IATA/Tourism Economics Air Passenger Forecasts, September 2016
Significant change in top-10 in air travel in next 20 years

Source: IATA/Tourism Economics Air Passenger Forecasts, September 2016
Centre of gravity of air travel shifting fast towards China

Source: IATA Economics using data from PaxIS+
But world could follow quite different paths

Global O-D passenger journeys (billion)

- Reflation/open borders scenario
- Constant policies scenario
- Pick-up in Protectionism scenario

Source: IATA/Tourism Economics Air Passenger Forecasts, September 2016
What could go wrong – protectionism?

Donald Trump Vows to Rip Up Trade Deals and Confront China

The New York Times
28 June 2016

Across Europe, distrust of mainstream political parties is on the rise

Guardian
25 May 2016

Clamour for trade protectionism on rise:
Arun Jaitley

CNBC
13 October 2016
What could go wrong – Brexit and EU instability?

How attached do you feel towards the European Union?

Source: Schroders
What could go wrong – US economic policies?

**Positives**
- Tax cuts
- Increased spending on infrastructure & defense
- Less regulation

**Negatives**
- Policy uncertainty
- Trade protectionism – possibly trade wars
- Fiscal orthodoxy on behalf of Congress
What could go wrong – Chinese property prices

* Large cities. Note: The 2000-05 data for China are VERY tentative.
What could go wrong – debt crisis?

Outstanding debt of non-financial sector, % of GDP

Source: IATA using data from BIS
What could go wrong – rising interest rates?

US 10-year Treasury Bond Yield

Source: IATA using data from Haver
What could go wrong – oil prices?

OPEC spare capacity and OECD crude oil inventories

Source: Haver
What could go wrong – inflation?

Central bank assets

Source: IATA using data from Haver
What we were forecasting 20-30 years ago!
Radical uncertainty

The importance of things we do not know we do not know

- LCCs in Europe 20 years ago?
  - 9/11 15 years ago?
  - Dubai No 1 10 years ago?
  - Brexit 5 years ago?
  - Commercial drones?
    - Virtual reality?
  - Data aggregators?
What to do in the face of radical uncertainty?

• Create options
• Create flexibility
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Main drivers

Ireland 2,298       2,678       3,315         4,350         3.1% 3.7% 3.2%

2019

Italy 4,344       4,865       5,537         7,103         2.3% 2.5% 2.5%

France 6,026       7,166       8,284         11,005      3.5% 3.2% 3.1%

2024

and its propensity to travel. We therefore include Oxford Economics' forecasts of trade

2026

UK 13,946     18,283     20,628       26,145      5.6% 4.0% 3.2%

2031

Population & Demographics

has been a notable feature of the industry over the past 60 years or so. We expect the downward

2033

Switzerland 2,233       2,572       2,930         3,796         2.9% 2.8% 2.7%

2016

China 6,334       7,004       8,423         12,358      2.0% 2.9% 3.4%

2027

Country

Mexico 21,011     24,531     28,762       41,011      3.1% 3.2% 3.4%

2023

Australia 2,813       3,125       3,423         4,106         2.1% 2.0% 1.9%

2032

Bahamas 2,536       3,265       3,930         5,513         5.2% 4.5% 4.0%

2022

2021

2020

US Domestic 438,252   554,280   636,662     822,051    4.8% 3.8% 3.2%

2015

Canada 23,733     27,166     30,809       39,084      2.7% 2.6% 2.5%

2018

Germany 8,369       9,726       10,997       13,975      3.1% 2.8% 2.6%

2017

Japan 9,557       10,214     10,550       11,485      1.3% 1.0% 0.9%

2014

2016

2018

2020

The United States domestic market is ranked 1st in 2014, and is forecast to remain as the largest market in 2034; taking 70.6% of the total market in 2034, down from 76.5% in 2014.

The United States is in the 28th percentile in terms of fastest growing markets over the next 20 years, it is forecast to be

The United States is forecast to gain an additional 559 million passengers by 2034, compared to 2014.

Price and liberalisation

The introduction of new longer

Trade flows

trend in the unit cost of air travel to resume in the future, mainly reflecting new technologies and efficiencies being reali

by more direct routes

headwinds.

standard of living.

output produced in an economy each year divided by its population). The living standards channel captures the clear

A high correlation is observed between a country's trade openness

– A range of 1 to 1

It is forecast that living standards will contribute 1.4 percentage points to annual growth. The price and liberalisation channel is forecast to contribute 0.8 percentage points per year.

Overall, the United States is forecast to grow at an average annual growth rate of 3.2% per annum over the next 20 years.

Improvements in livings standards contribute 1.4 percentage points to annual growth.

 Whilst the United States domestic market is the largest market in 2014; the 2nd largest market is Canada, accounting for 3% of total passengers which is forecast to rise marginally to

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 whilst the decline in the price of air travel

Other factors, mainly future technological gains, will contribute 0.8 percentage points per year.

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The United States is in the 28th percentile of fastest growing markets in our forecast during the period 2014-2034.

years.

The United States air passenger market is forecast to grow at an average annual growth rate of 3.2% per annum over the next 20

Air Passenger Forecasts

Global Report

Country Reports

Online database/webtool