

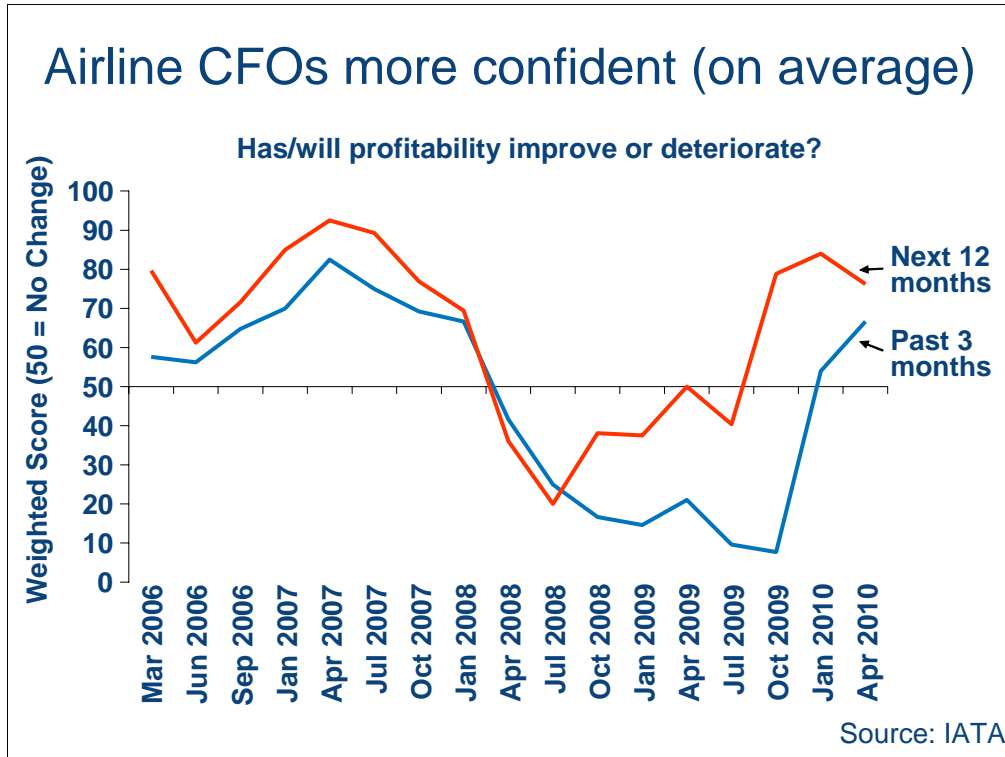


Back to profit in 2010  
but not in all regions  
and risks remain

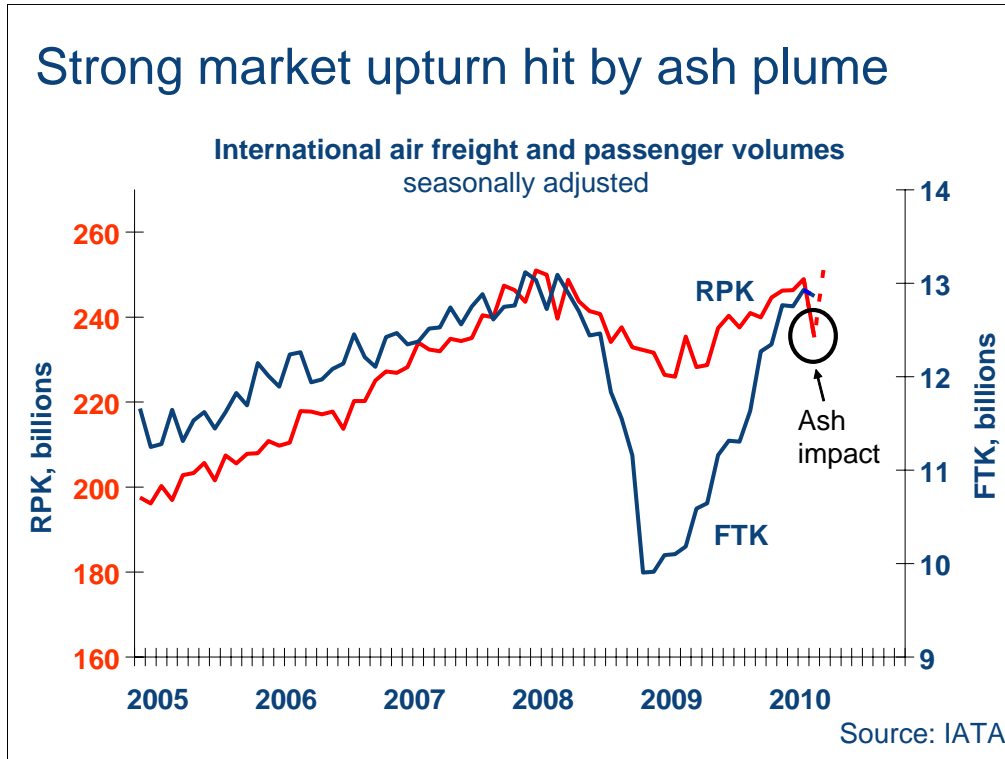
June 2010  
Brian Pearce  
[www.iata.org/economics](http://www.iata.org/economics)

To represent, lead and serve the airline industry

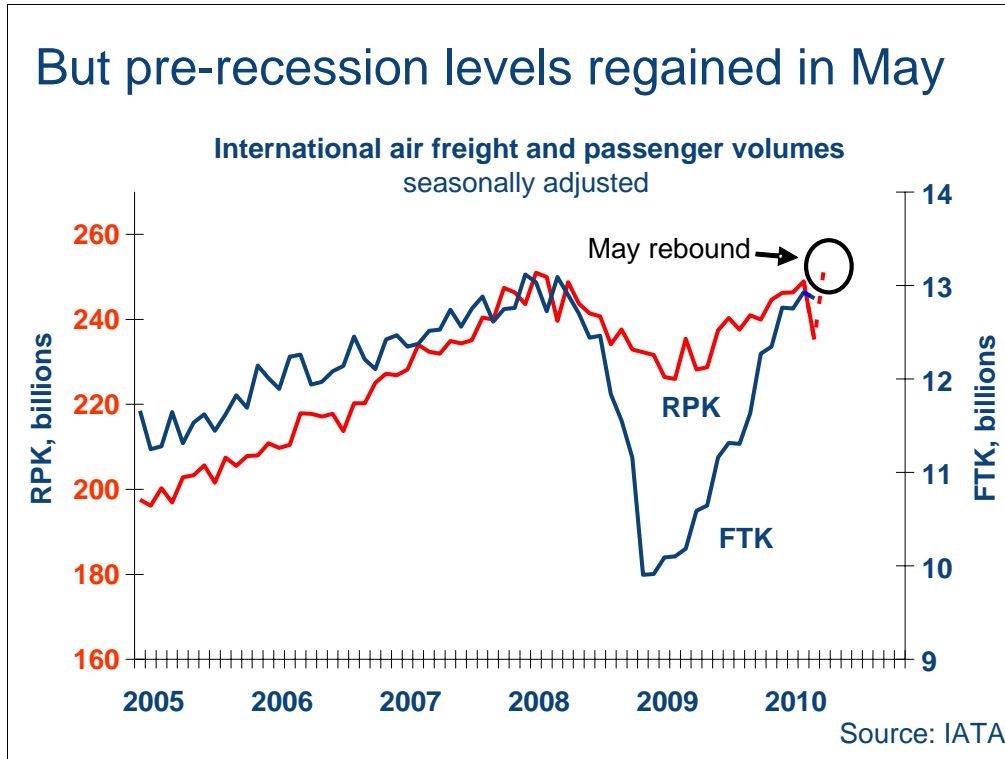




- CFOs reported that financial confidence improved significantly in 2009Q4 and 2010Q1 (blue line)
- For the past three of IATA's quarterly surveys airline CFOs have also said they were much more confidence about financial performance improving over the next year (red line)
- However there are big regional differences in that confidence



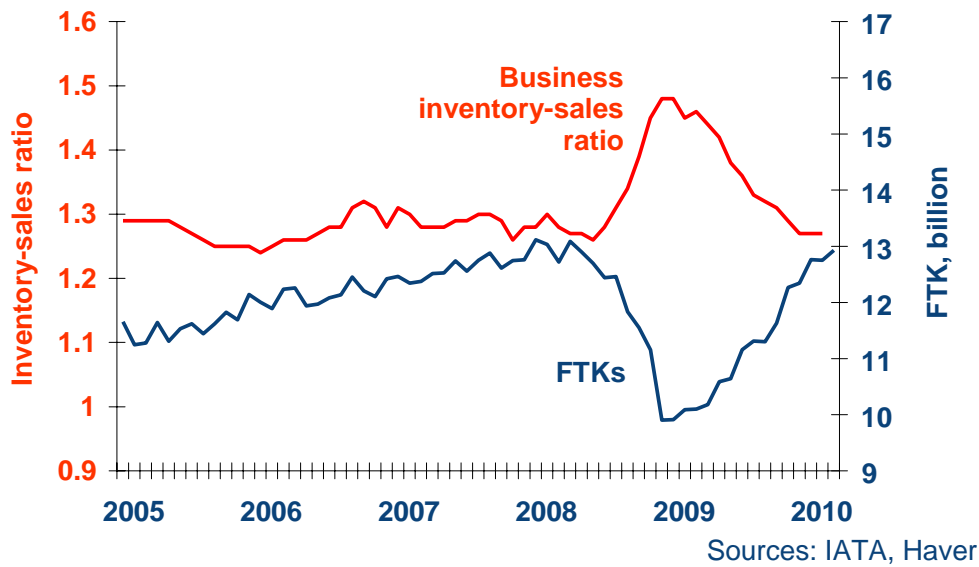
- V-shaped demand cycle with unexpectedly strong rebound in traffic
- Volcanic ash plume dented rebound in April with 5.5% m-o-m fall in air travel and 0.5% m-o-m.



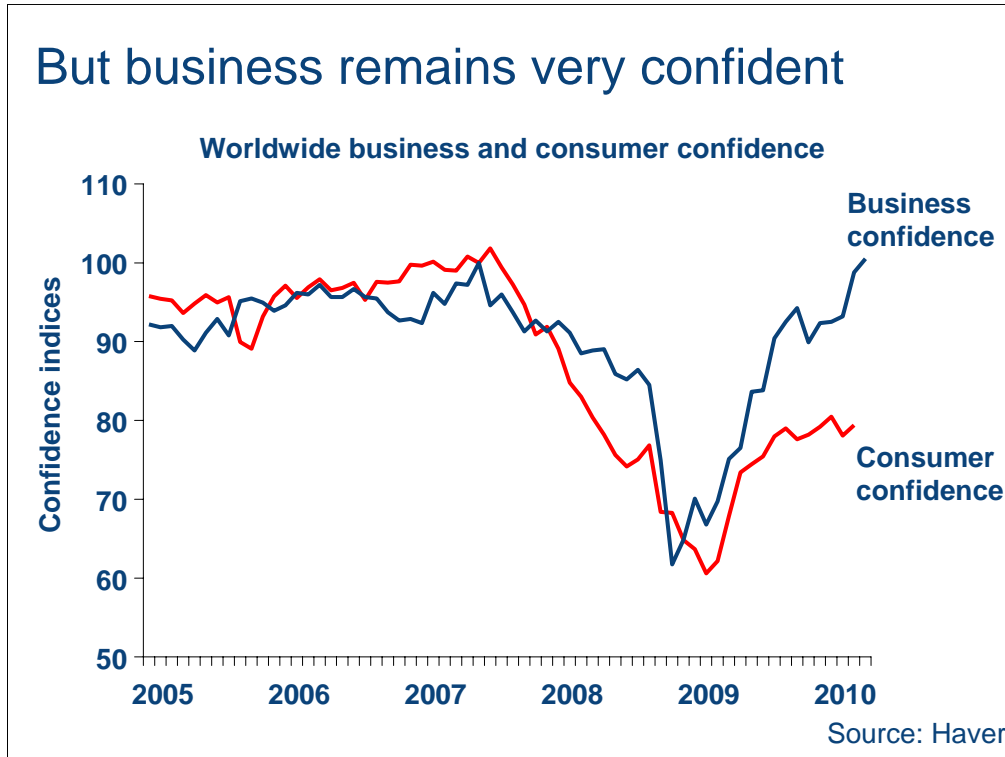
- Data on the first three weeks of May suggests air travel has rebounded from the ash plume affected levels in April
- This provisional data suggests that May marked markets regaining pre-recession levels.

## Business inventory boost to cargo is over

Air freight FTKs and business inventory-sales ratio

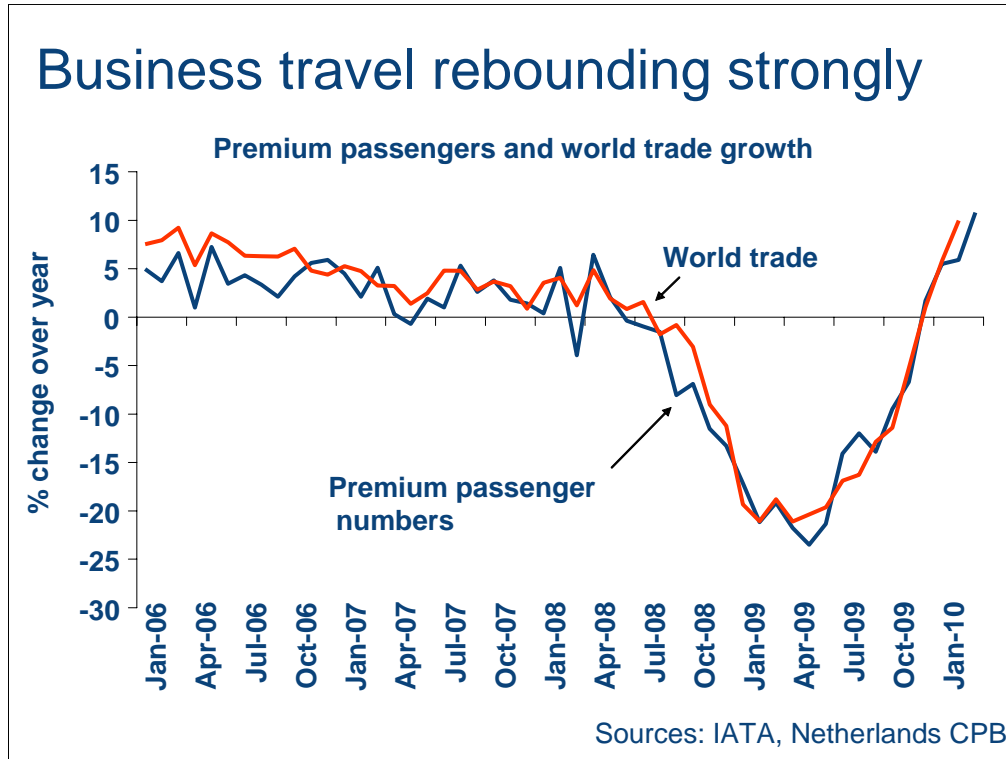


- But the reason behind the surge in air freight is the business inventory cycle.
- The onset of recession led to the emergence of a huge inventory overhang with manufacturers and retailers. They sharply cut air shipments as a result
- As the inventory overhang has been reduced air shipments have recovered
- However, once that inventory cycle has run its course. Inventory-sales levels are almost back to 'normal' this large boost to air freight will end.
- Growth in the second half of this year is likely to be much slower and in line with growth of world trade (6-7%)

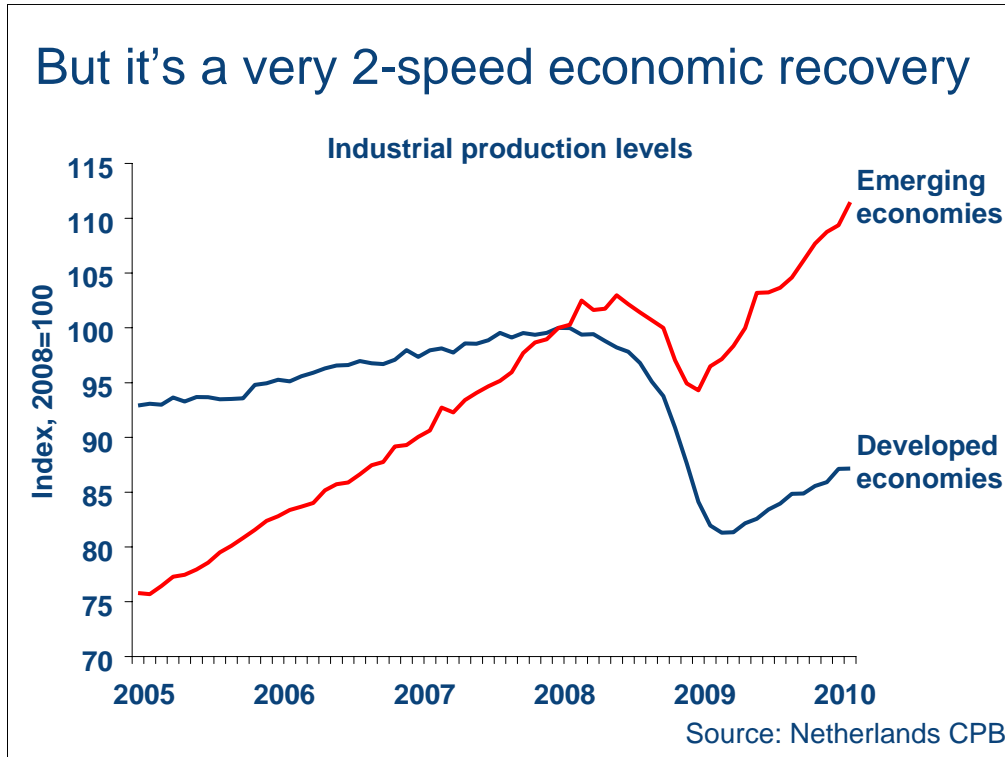


- JP Morgan index of purchasing managers confidence reached its second highest level ever in April. This is boosting business travel sharply.
- Consumer confidence in the major economies by contrast has failed to regain pre-recession levels, having risen in mid-2009. High unemployment and consumer debt in Western economies is preventing confidence and leisure travel from recovering,

## Business travel rebounding strongly

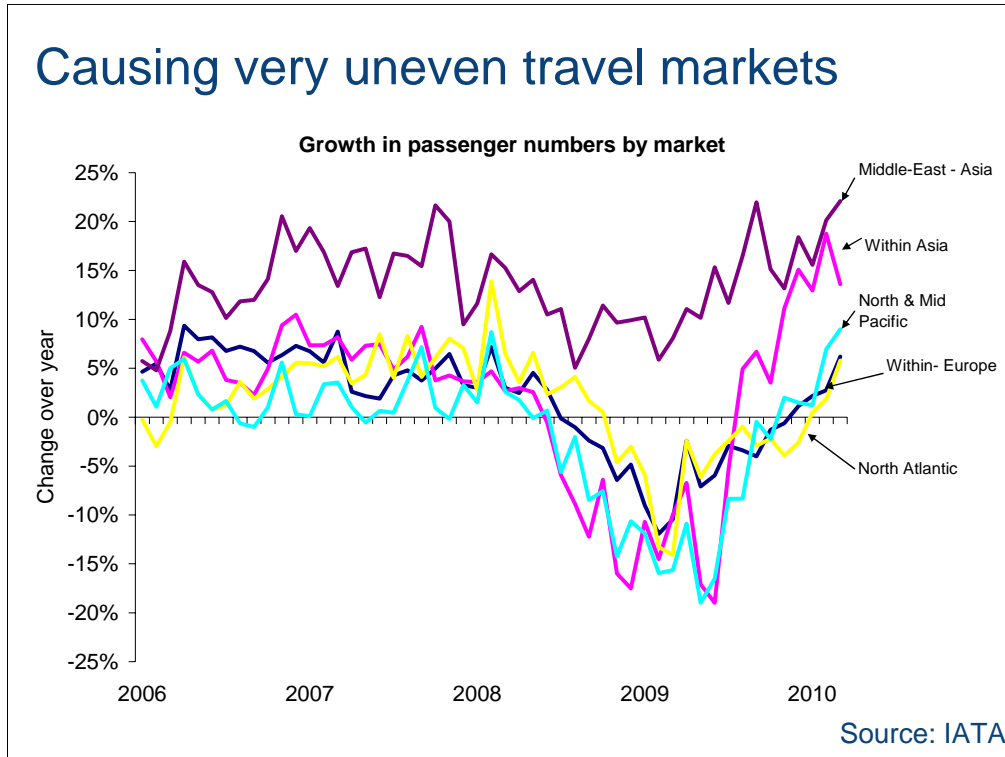


- Fears that premium travel had declined permanently seem unfounded as strong cyclical rebound taking place.
- This reflects return of business travel.



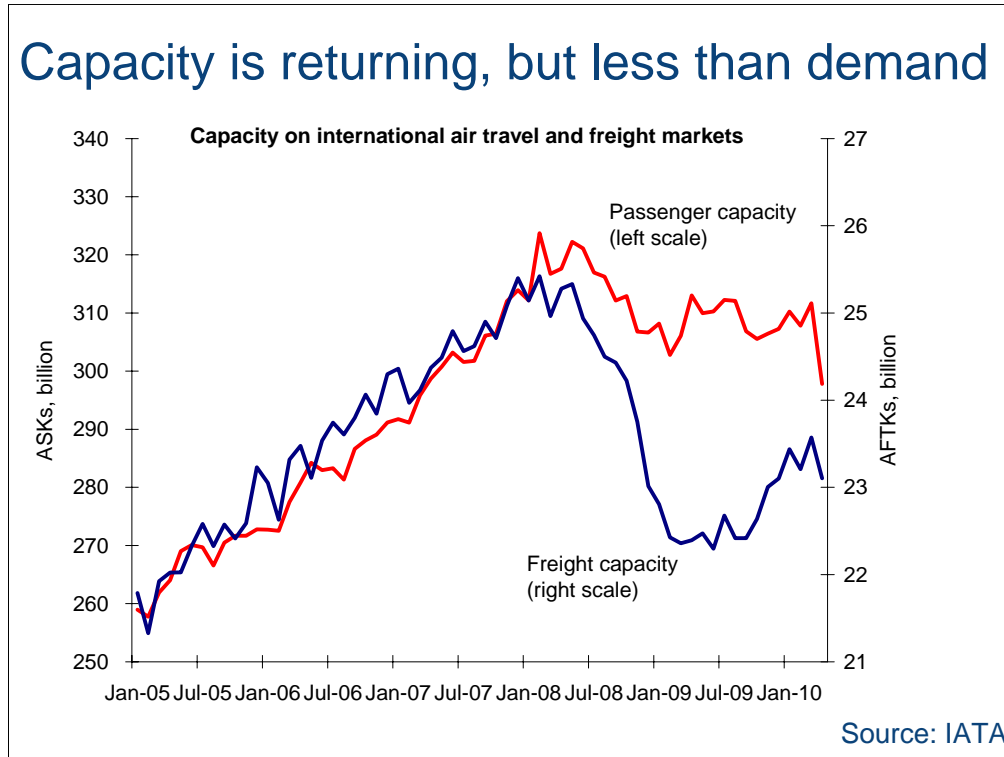
- Industrial production levels in the so-called developing economies and the developed economies shows both the severity of the 2008/09 ‘Great Recession’ and the 2-speed nature of the economic recovery.
- This is driving both air travel and freight markets

## Causing very uneven travel markets



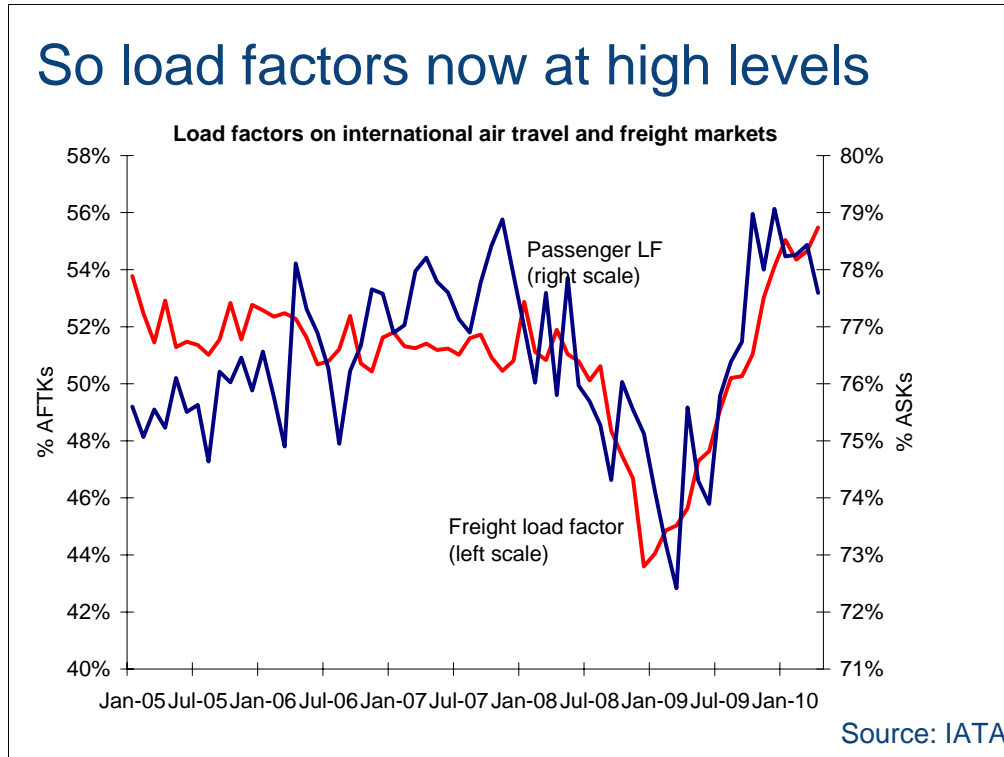
- Very broadly the emerging markets are seeing strong travel growth
- The more mature markets of within Europe and transatlantic are barely up on last year, reflecting the weakness of economic growth here

## Capacity is returning, but less than demand



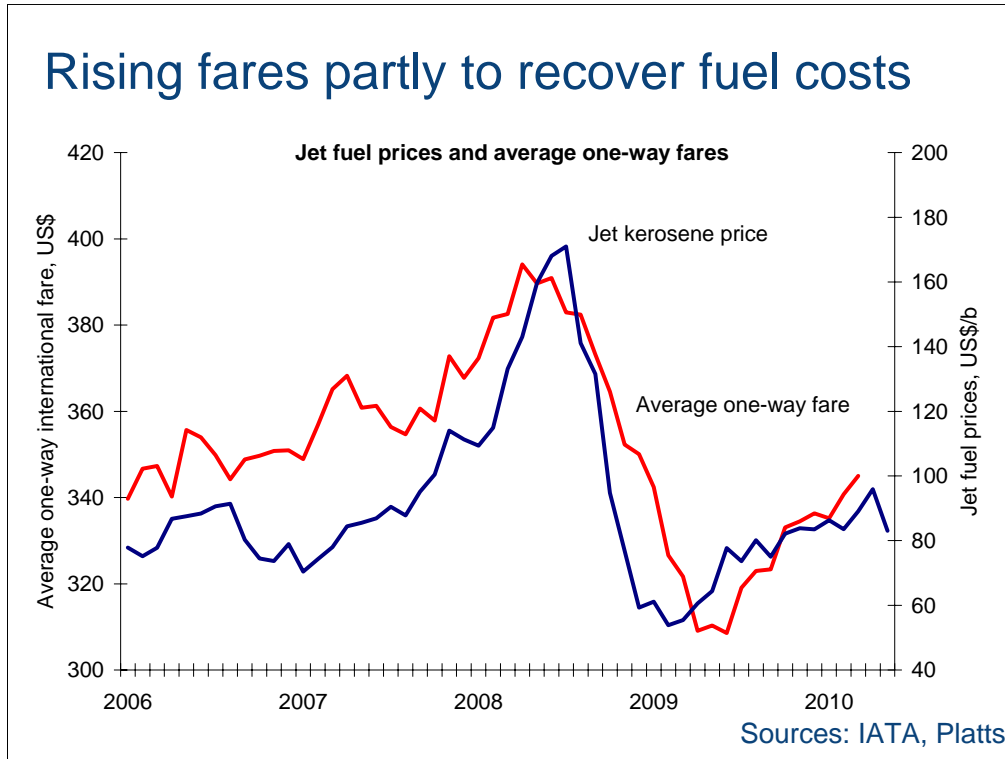
- In response to the collapse in travel and freight demand the industry responded by unusually large and durable cuts in capacity for both passenger and freight markets
- Capacity is now coming back but at a much slower rate than the rebound in demand

## So load factors now at high levels

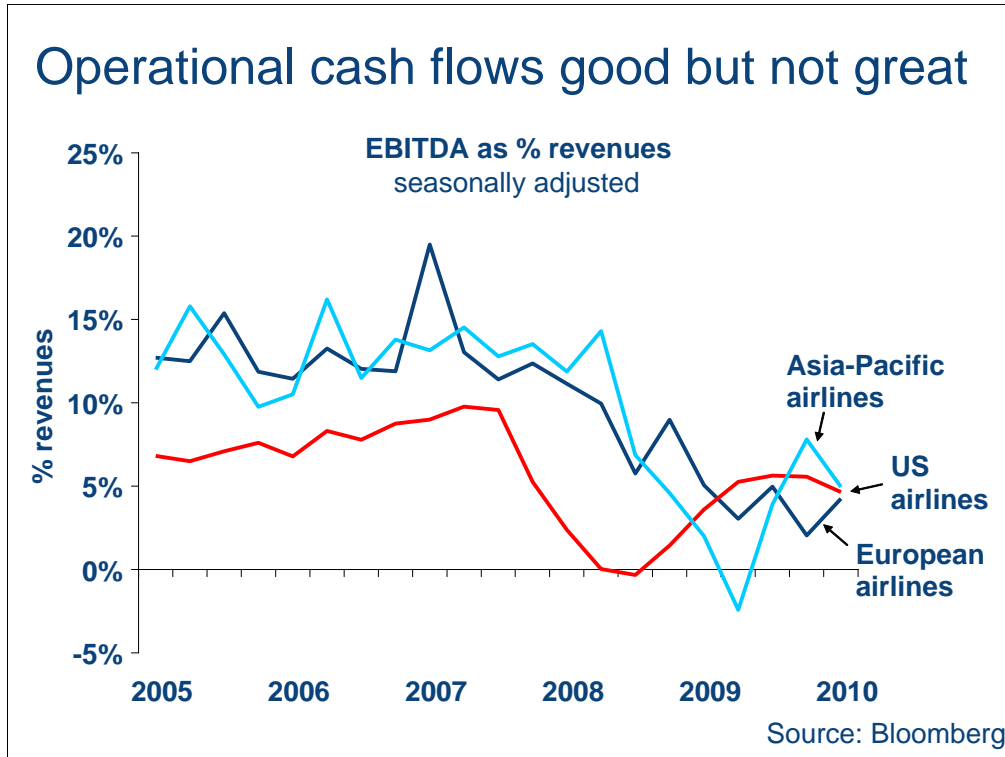


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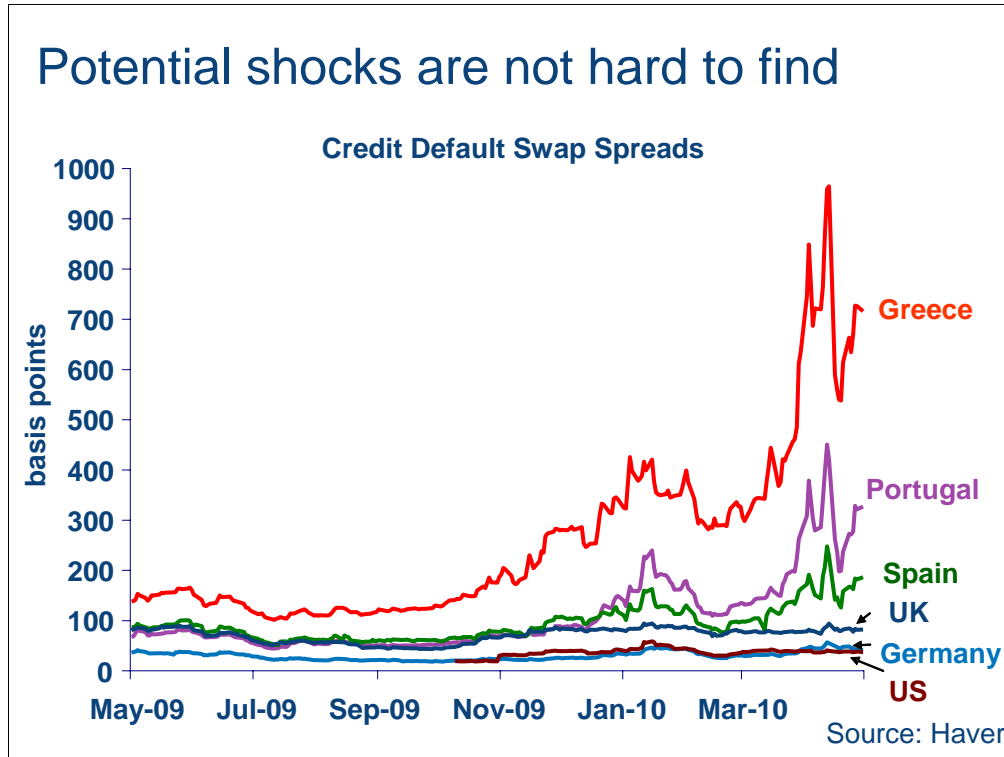
## Rising fares partly to recover fuel costs



- Part of fare rise due to need to recoup rising fuel costs

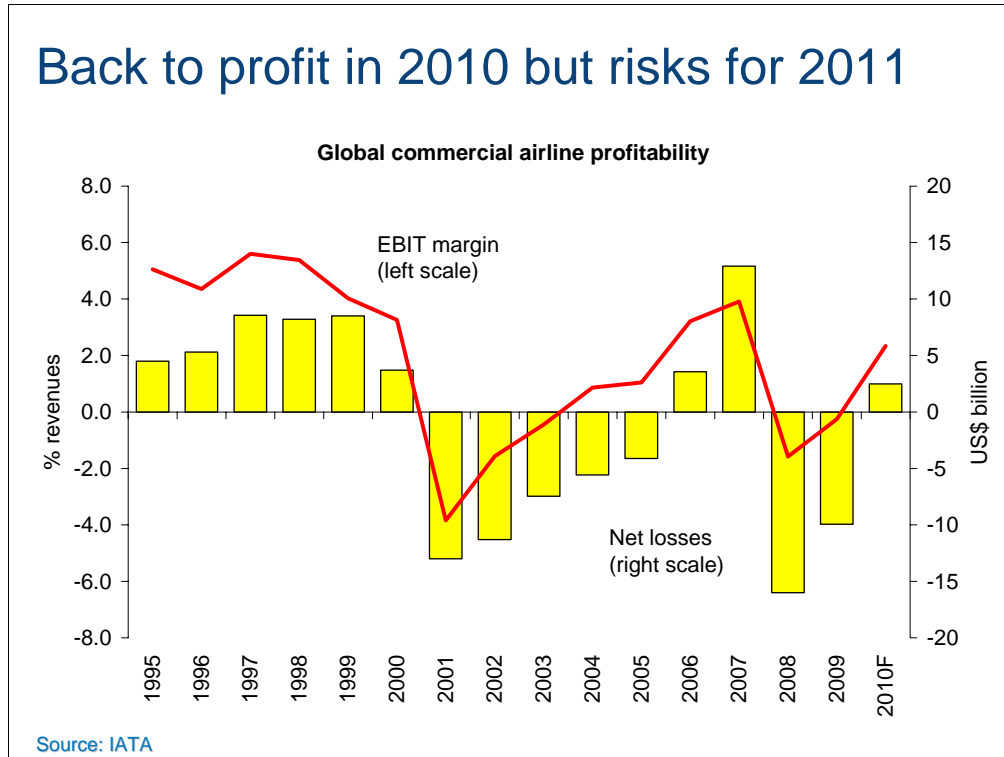


- Operational cash flows boosted sharply in Asia-Pacific where revenue rebound the strongest
- US airlines now benefiting from stronger revenues but also from earlier cuts in capacity
- European airlines stand out as having not seen any improvement in cash flows – even before impact of ash plume – reflecting the relative weakness of economies in this region



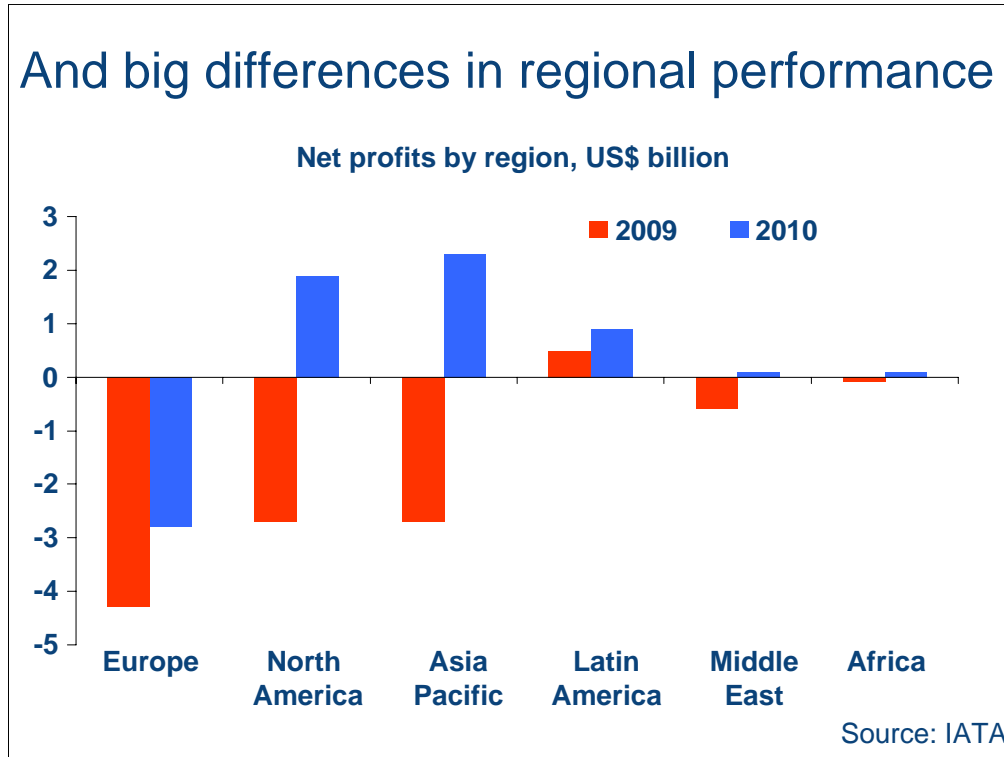
- Perhaps one of the biggest threats in the business environment ahead is tax.
- In order to close massive budget deficits in western economies (Greece) government will have to cut government spending and raise taxes
- This will slow economic growth, particularly in Europe
- It will also mean the industry is a target for revenue raising taxes

## Back to profit in 2010 but risks for 2011



- The macro risks are more likely to damage growth and market prospects in 2011.
- There seems to be a lot of momentum behind growth, outside Europe in 2010, and so we expect double figure growth in airline revenues.
- As a result we have upgraded our forecast to now expect a \$2.5 billion net profit in 2010

## And big differences in regional performance



- However, there will be big regional differences.
- Asia-Pacific airlines are expected to generate the largest profits due to the boom in regional revenues
- AT the other extreme we are less positive on Europe. European airlines are expected to reduce losses but not as much as previously expected due to the ash plume damage and weaker economic growth in the region