

2007 marks the peak of this cycle
– the outlook has become more
challenging

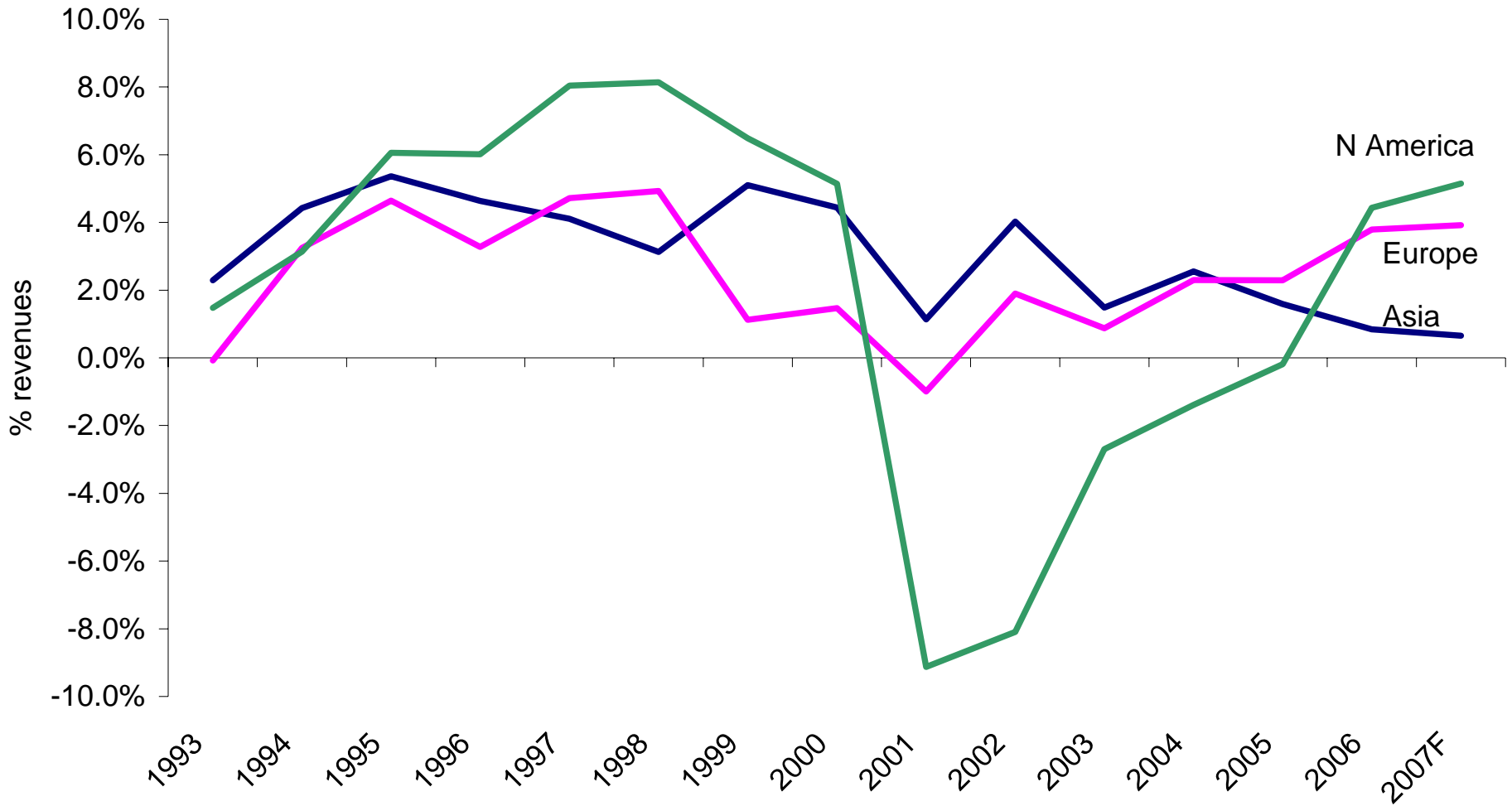
Brian Pearce
Chief Economist

www.iata.org/economics



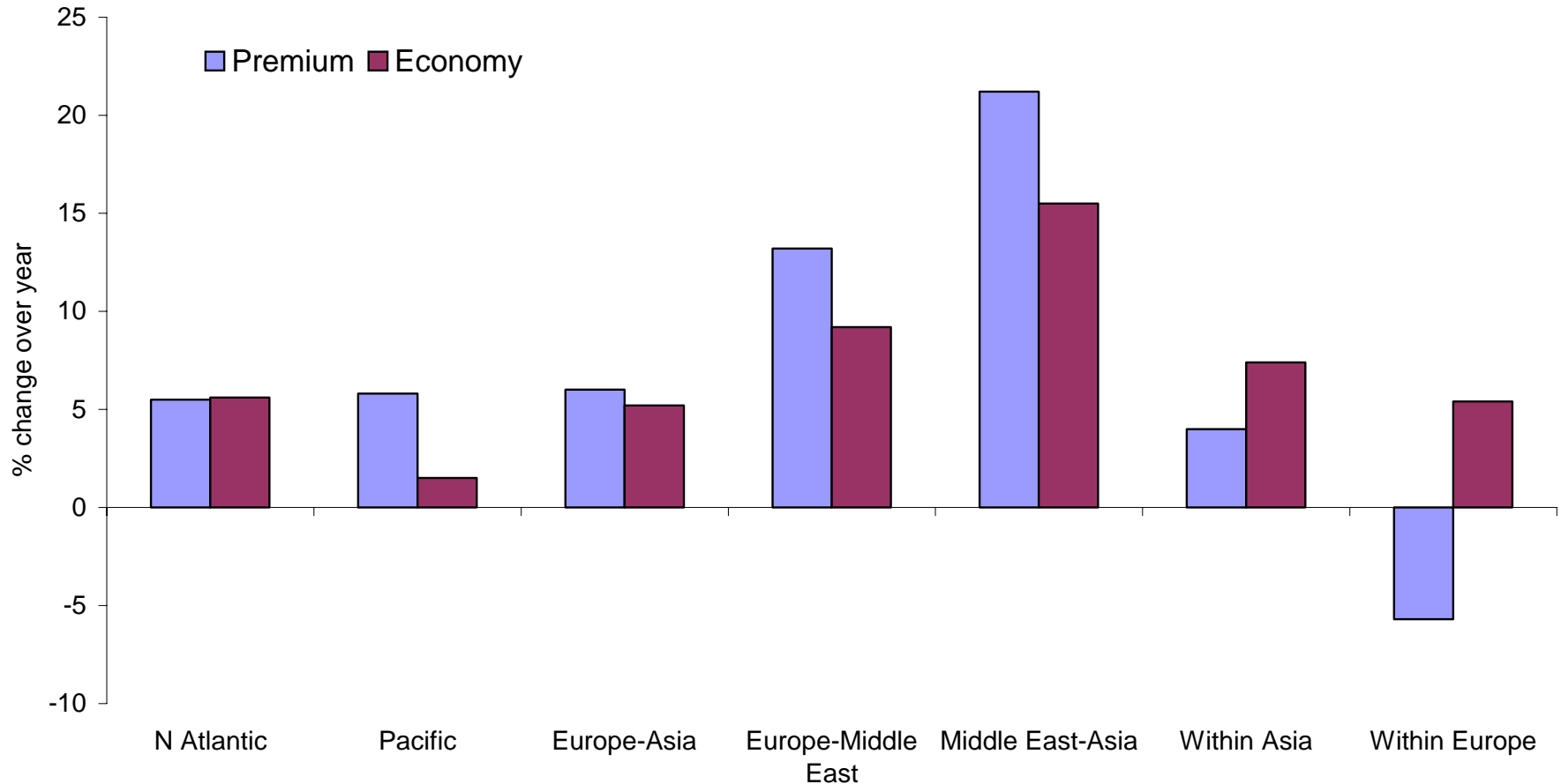
2007 has been a year of recovering profitability despite surging fuel costs

Operating profit margins

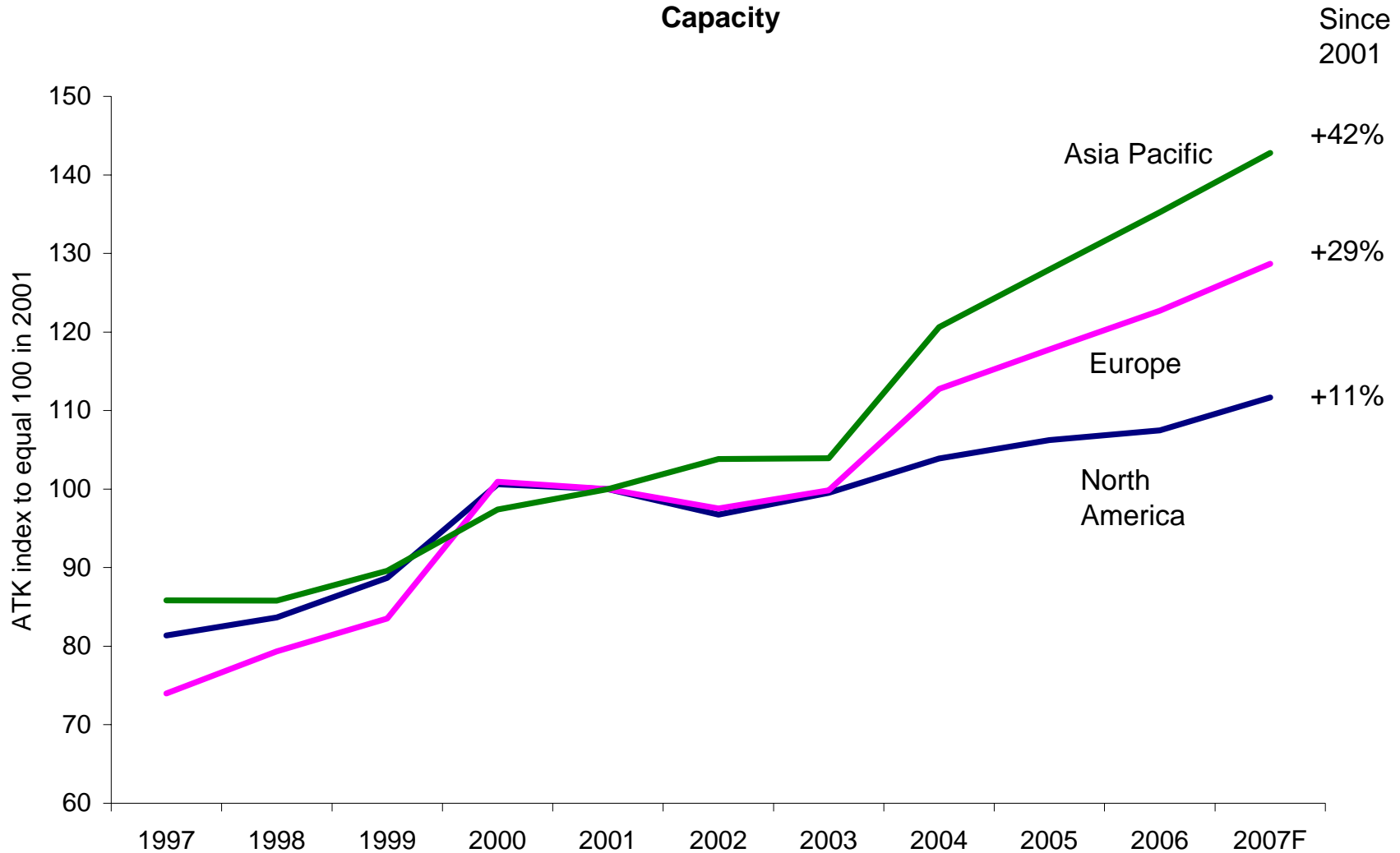


Business travel has been strong on long-haul markets

Premium and economy traffic growth, Jan-Sep 2007

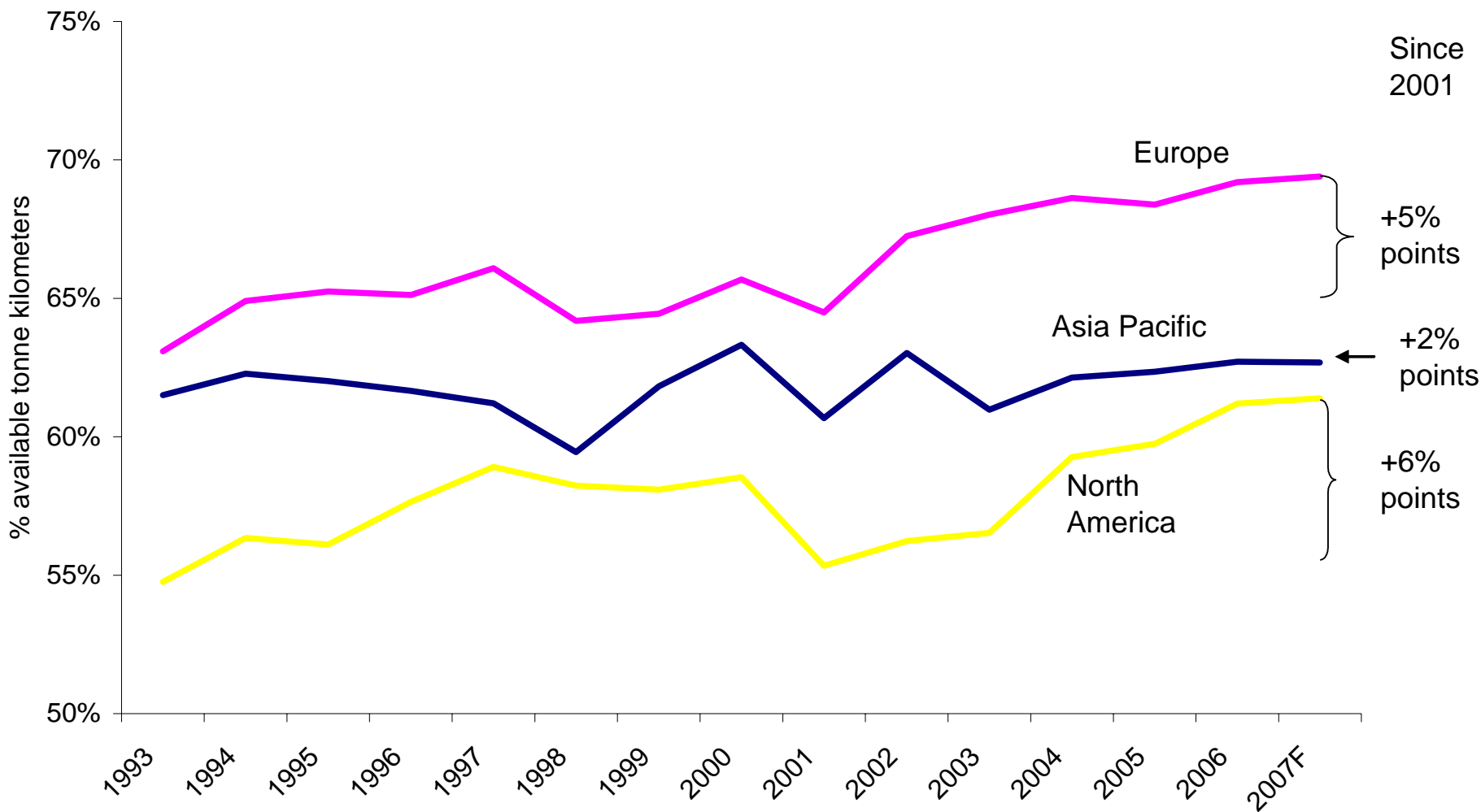


Restructuring has limited additions to capacity, particularly in the US



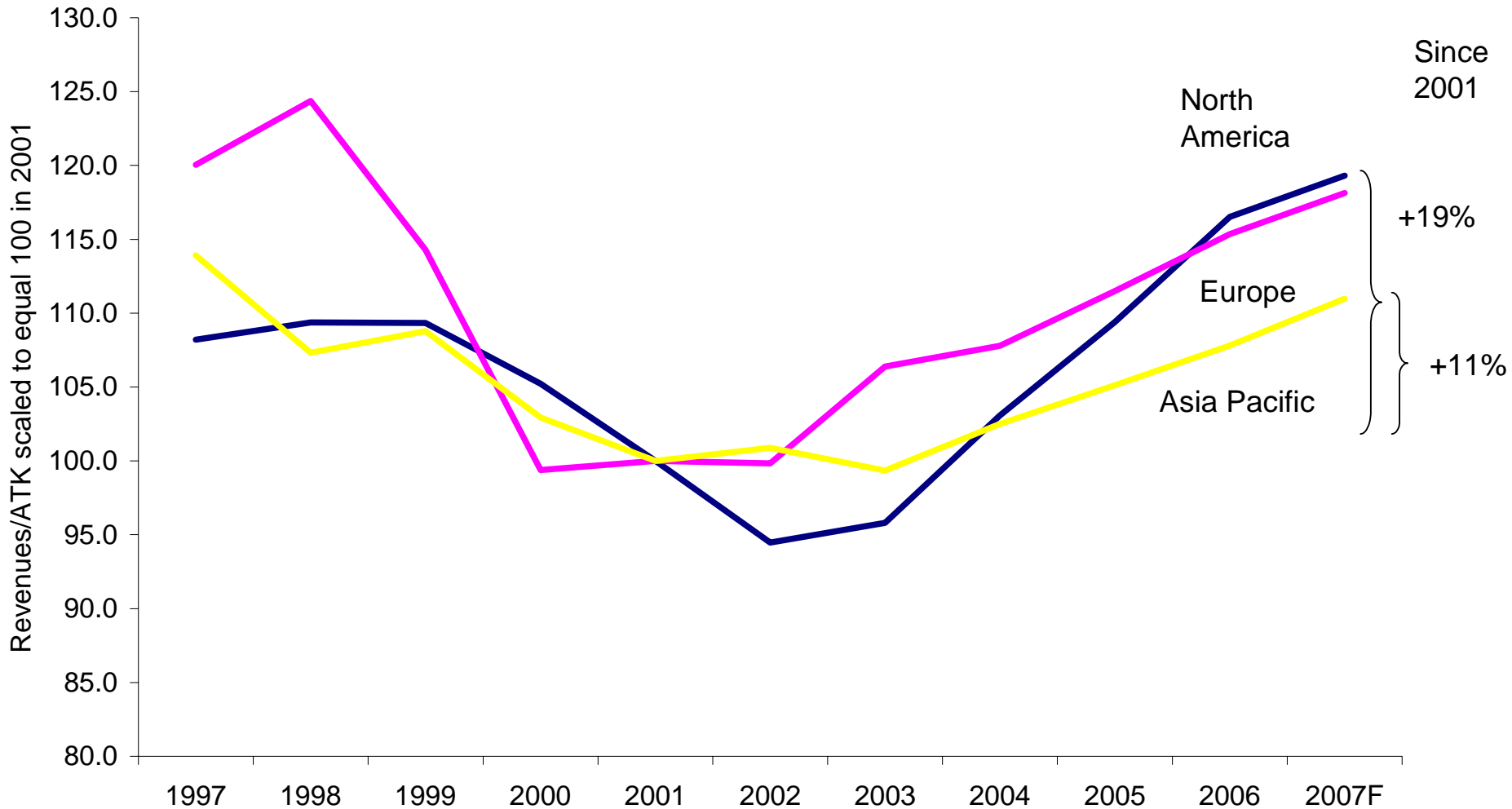
Sharply improving load factors

Weight load factors



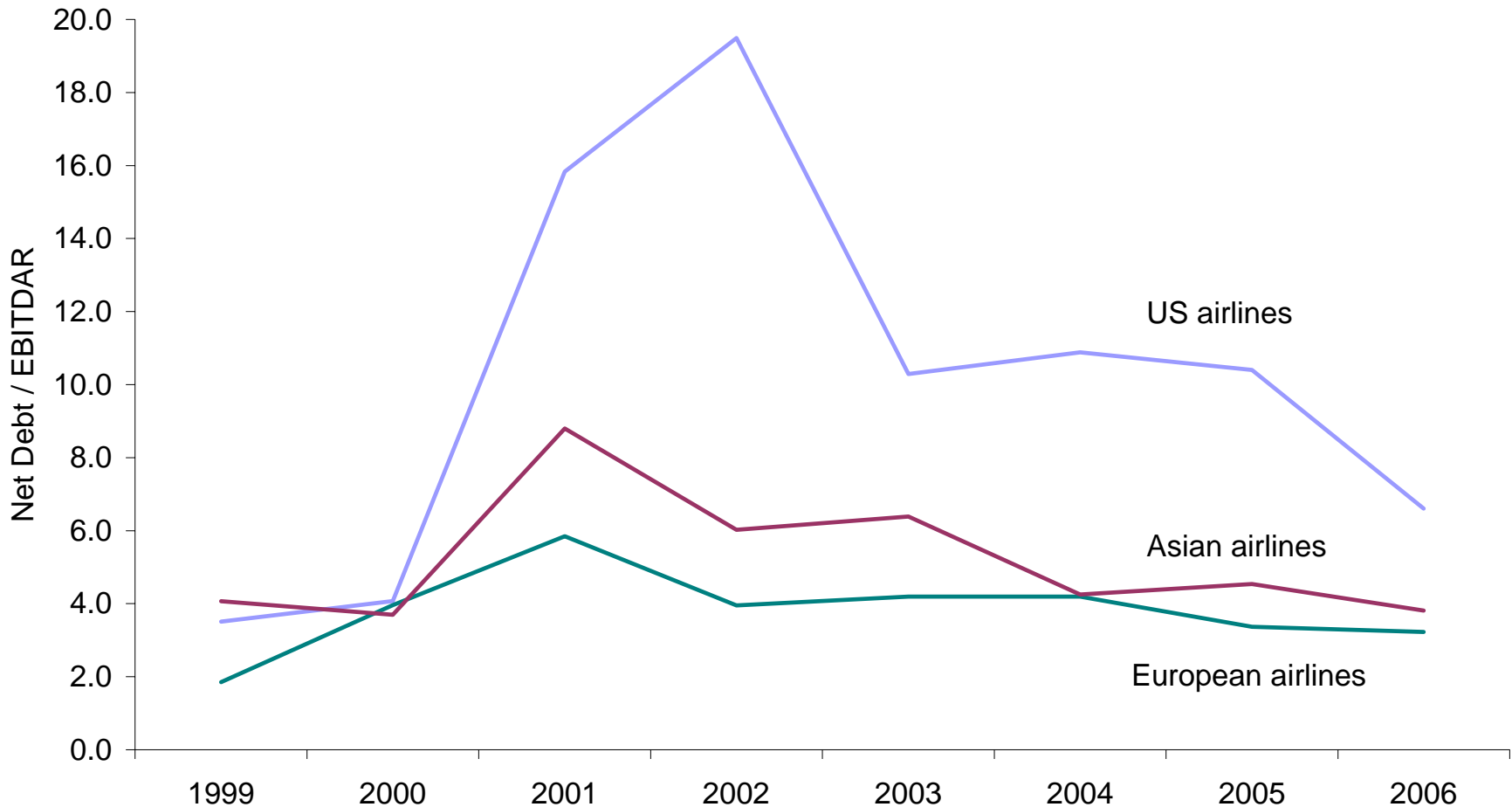
And significantly improving yields

Regional yields



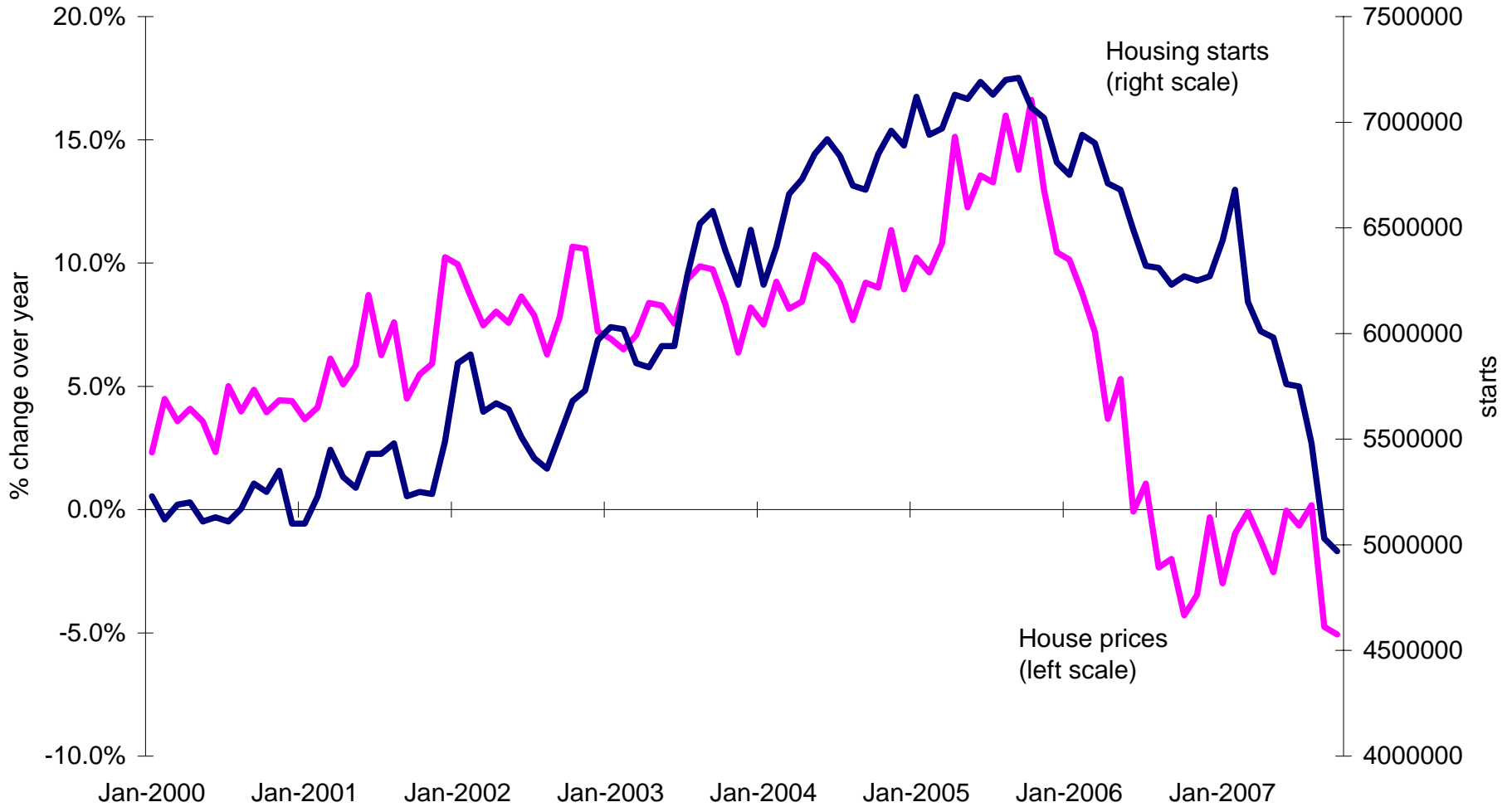
But there is further to go before balance sheets are fully repaired in the US

Net debt / EBITDAR



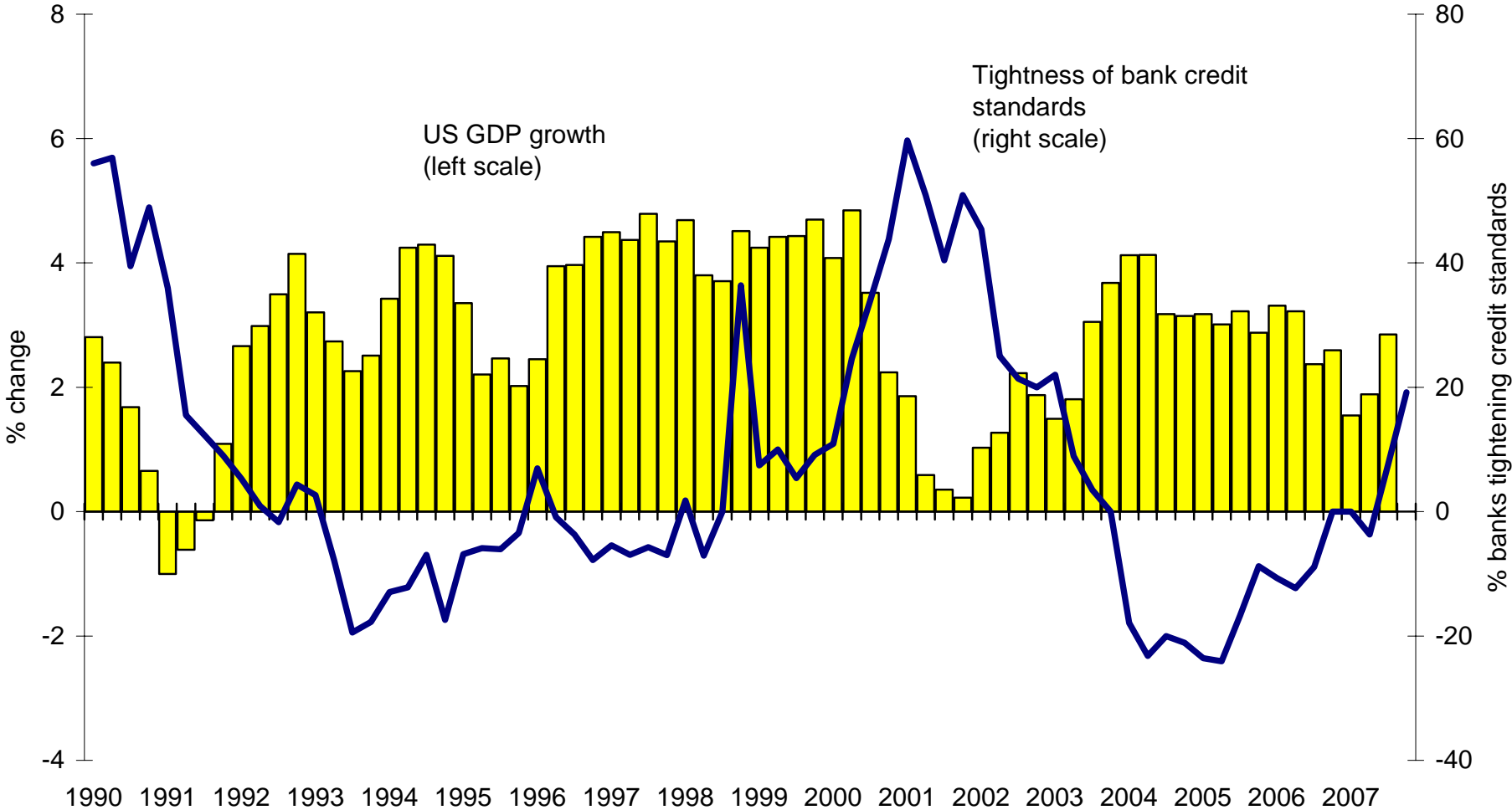
Now the US housing bubble has burst

US housing starts and existing house price inflation



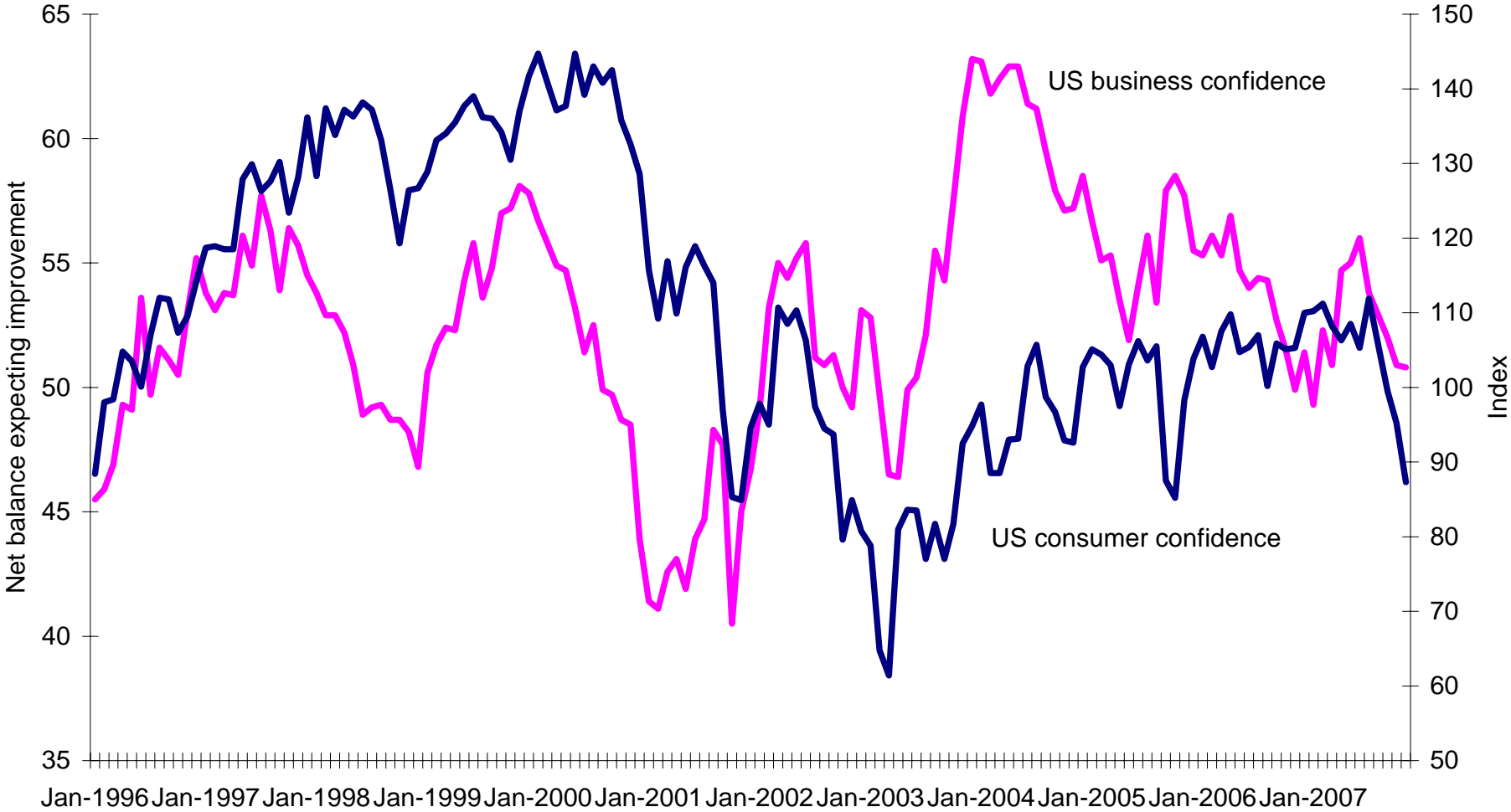
Causing banks to tighten credit conditions

Tightening bank credit standards and US growth



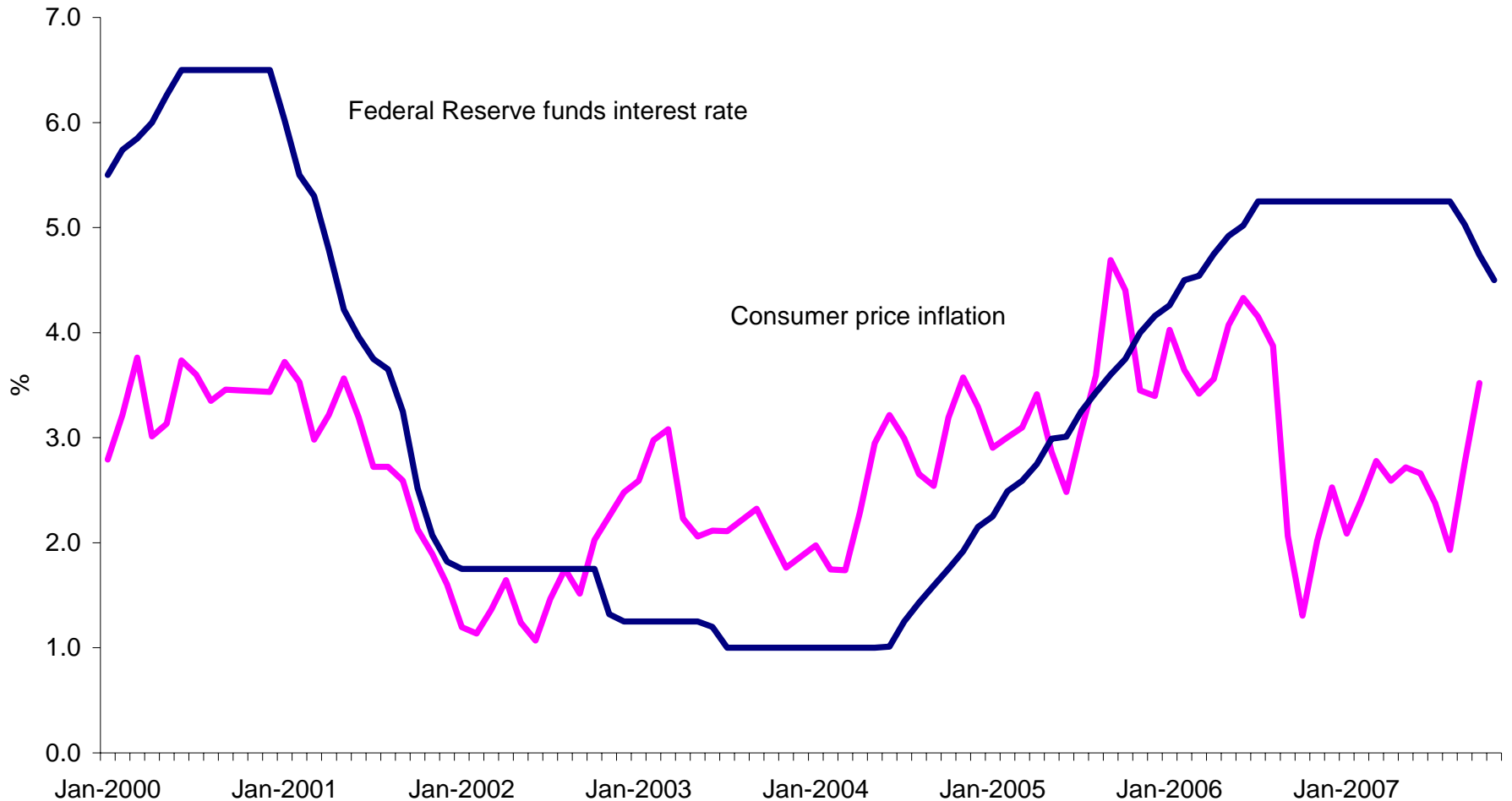
Confidence is now falling in the US

US consumer and business confidence



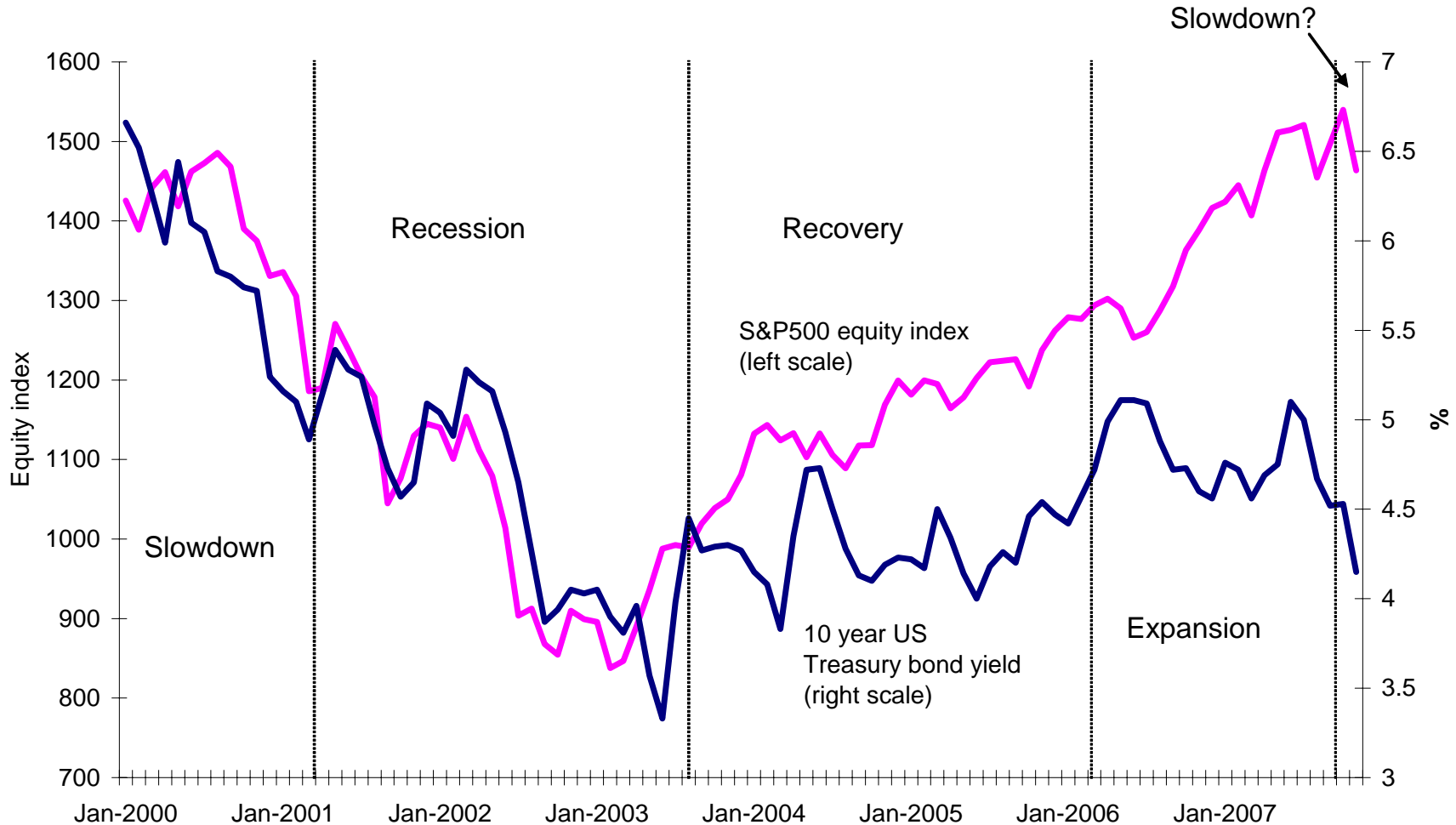
Central banks are cutting interest rates but rising inflation is restricting scope for action

US inflation and the Fed Funds rate



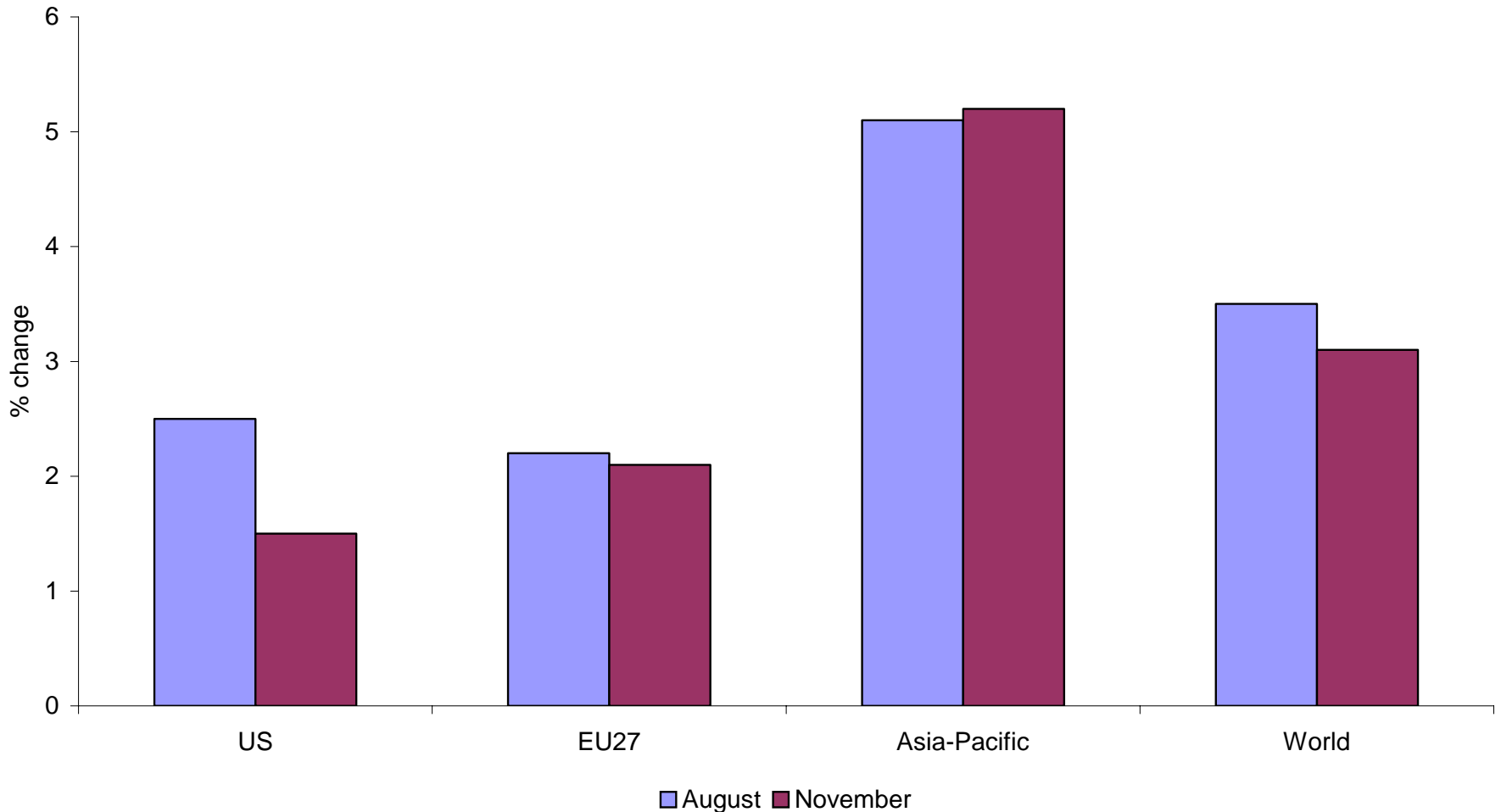
Financial markets have become pessimistic on growth

S&P500 equity index and the yield on US Treasury bonds



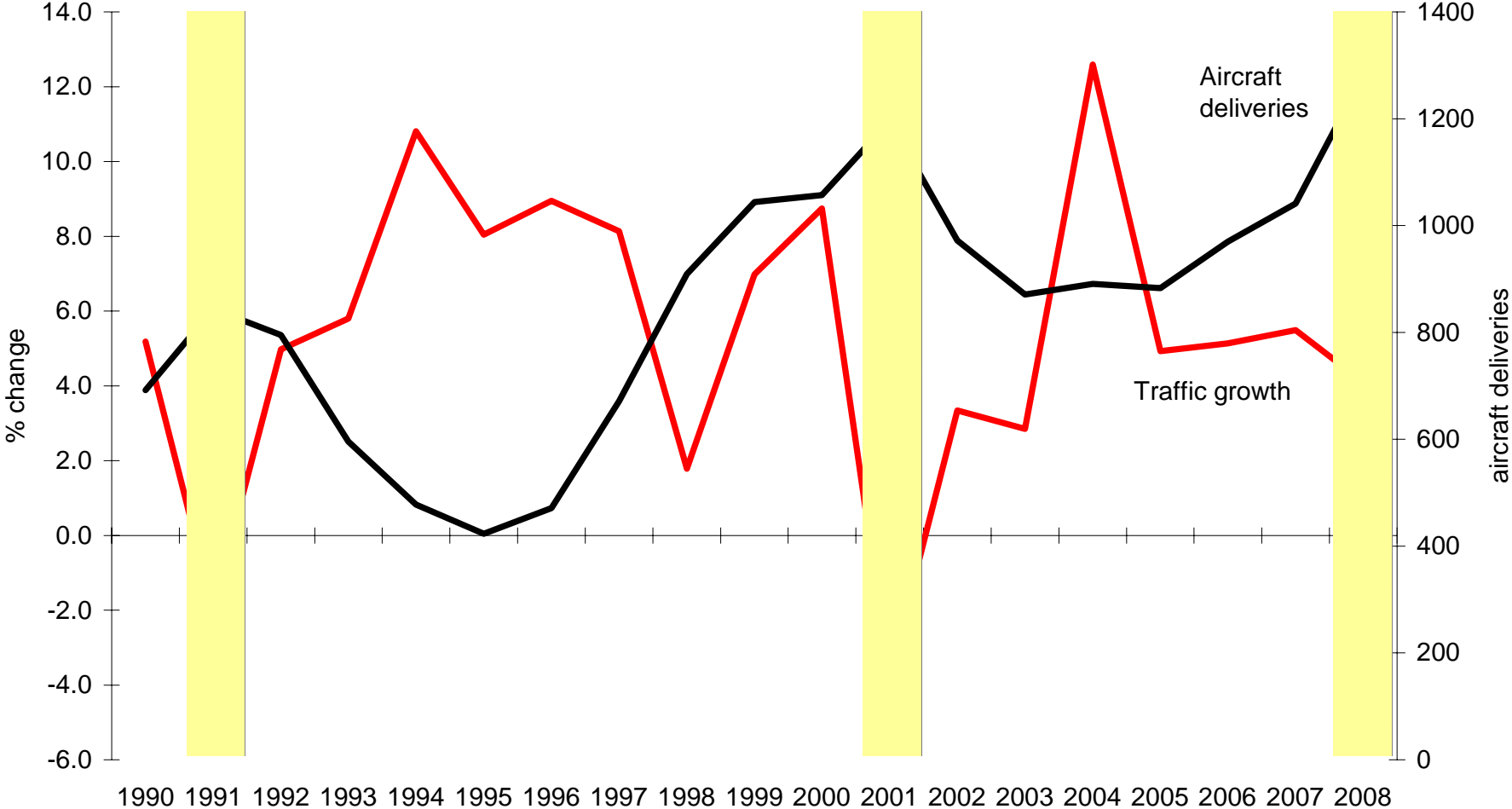
Economists have also cut their forecasts for growth, at least for the US

Economic forecasts for GDP growth in 2008

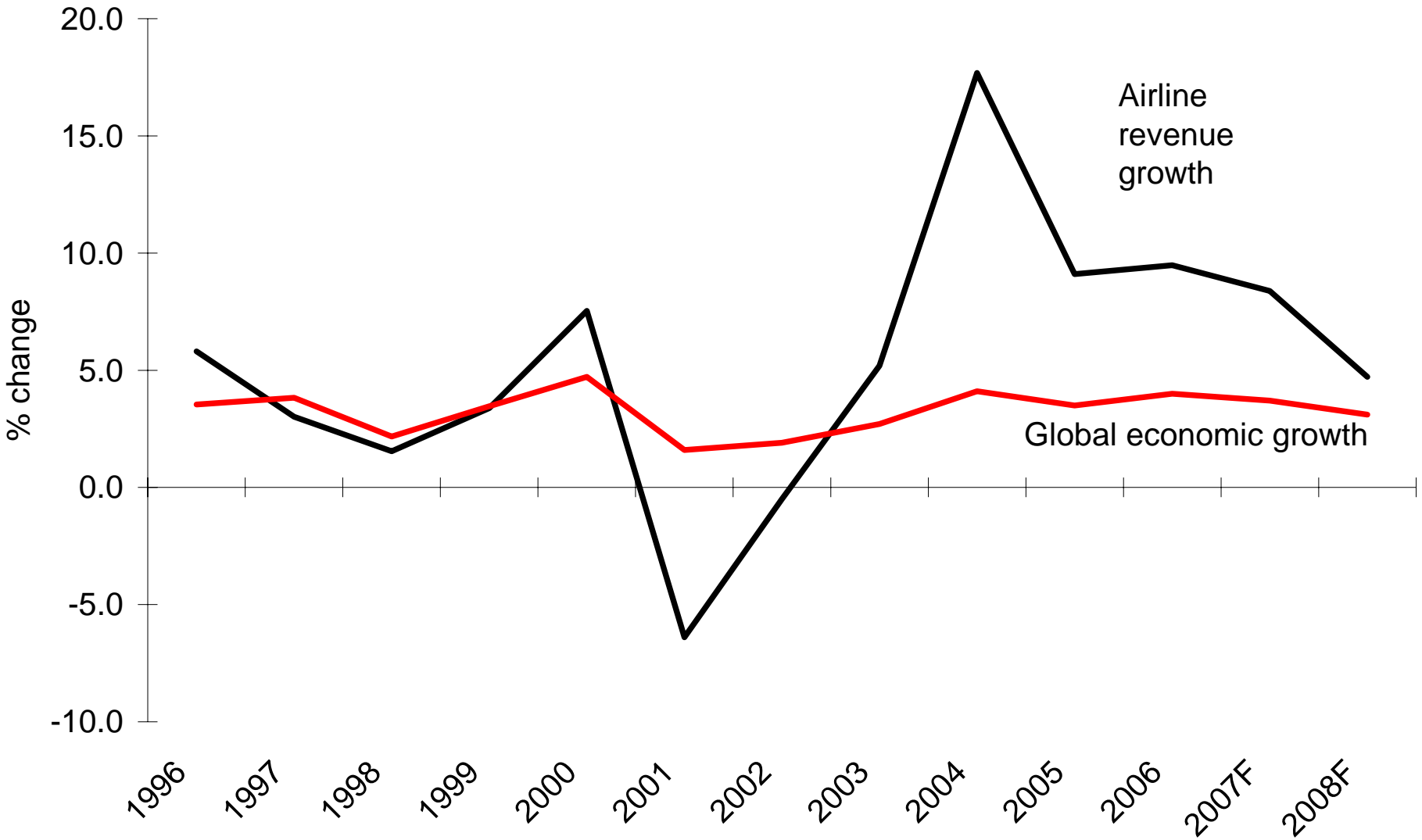


Aircraft deliveries will still be rising as traffic slows next year

Aircraft deliveries and traffic growth

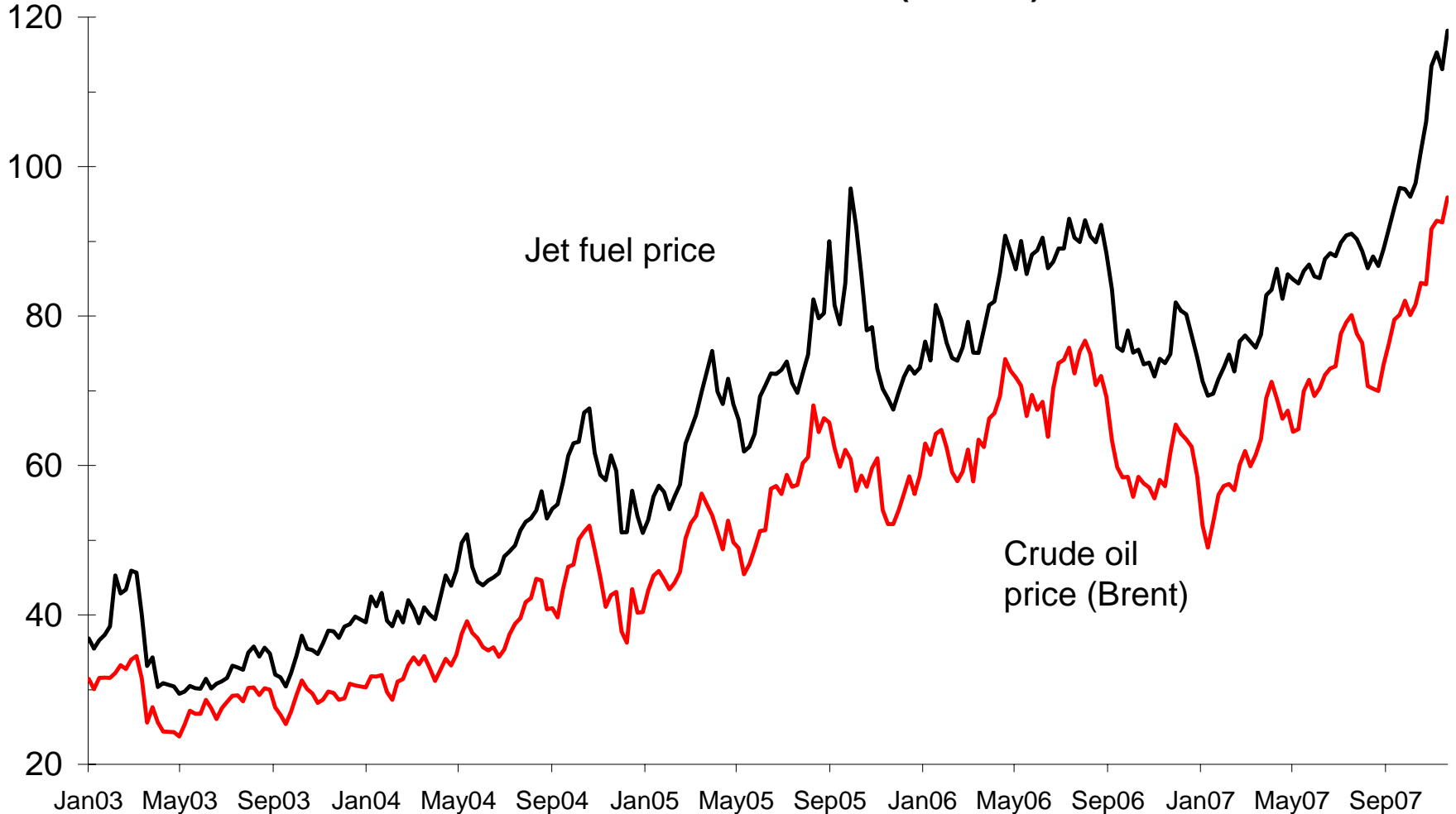


Causing a sharp slowdown in revenue growth in 2008



At the same time fuel prices have hit record highs

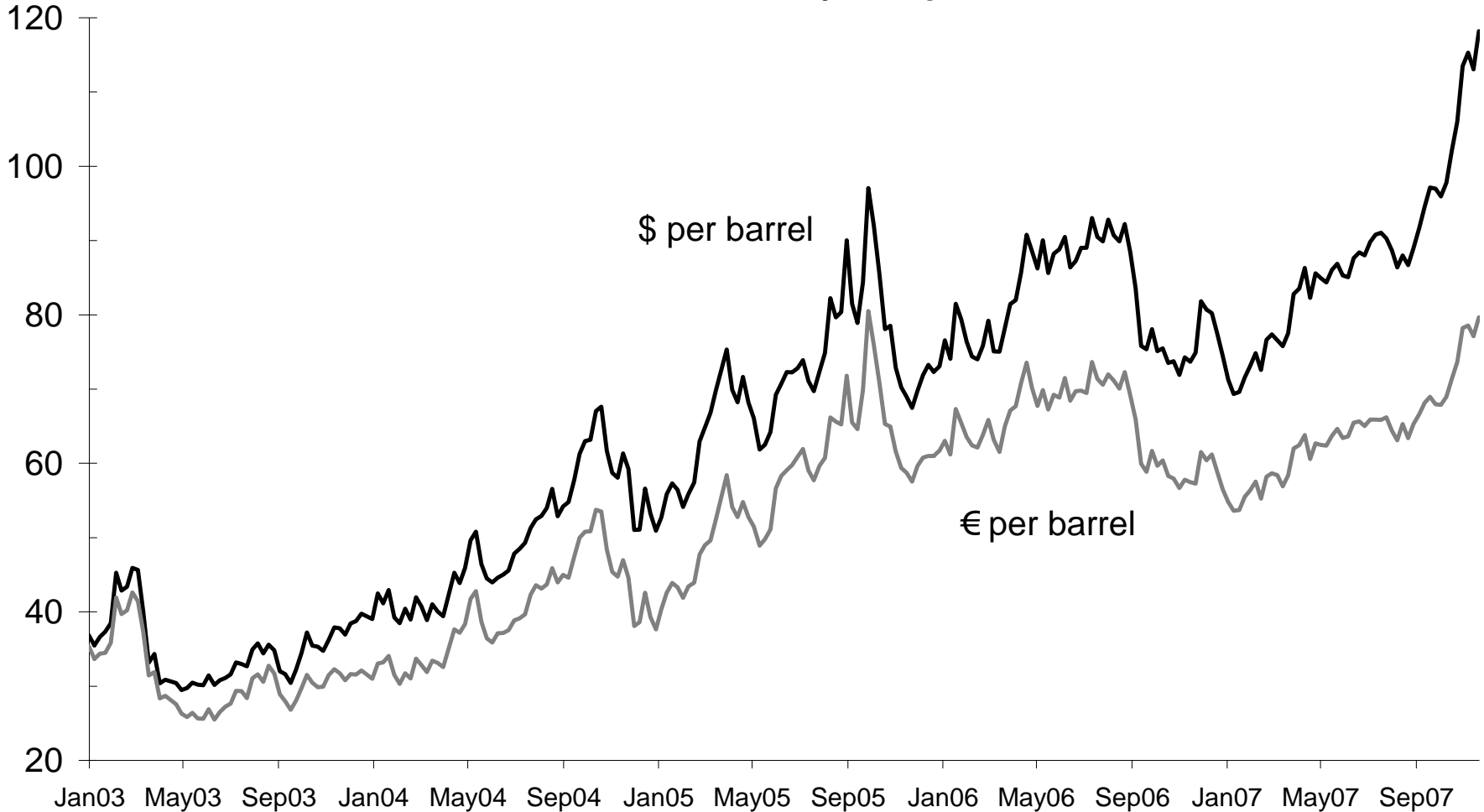
Jet Fuel and Crude Oil Price (\$/barrel)



Source: Platts, RBS

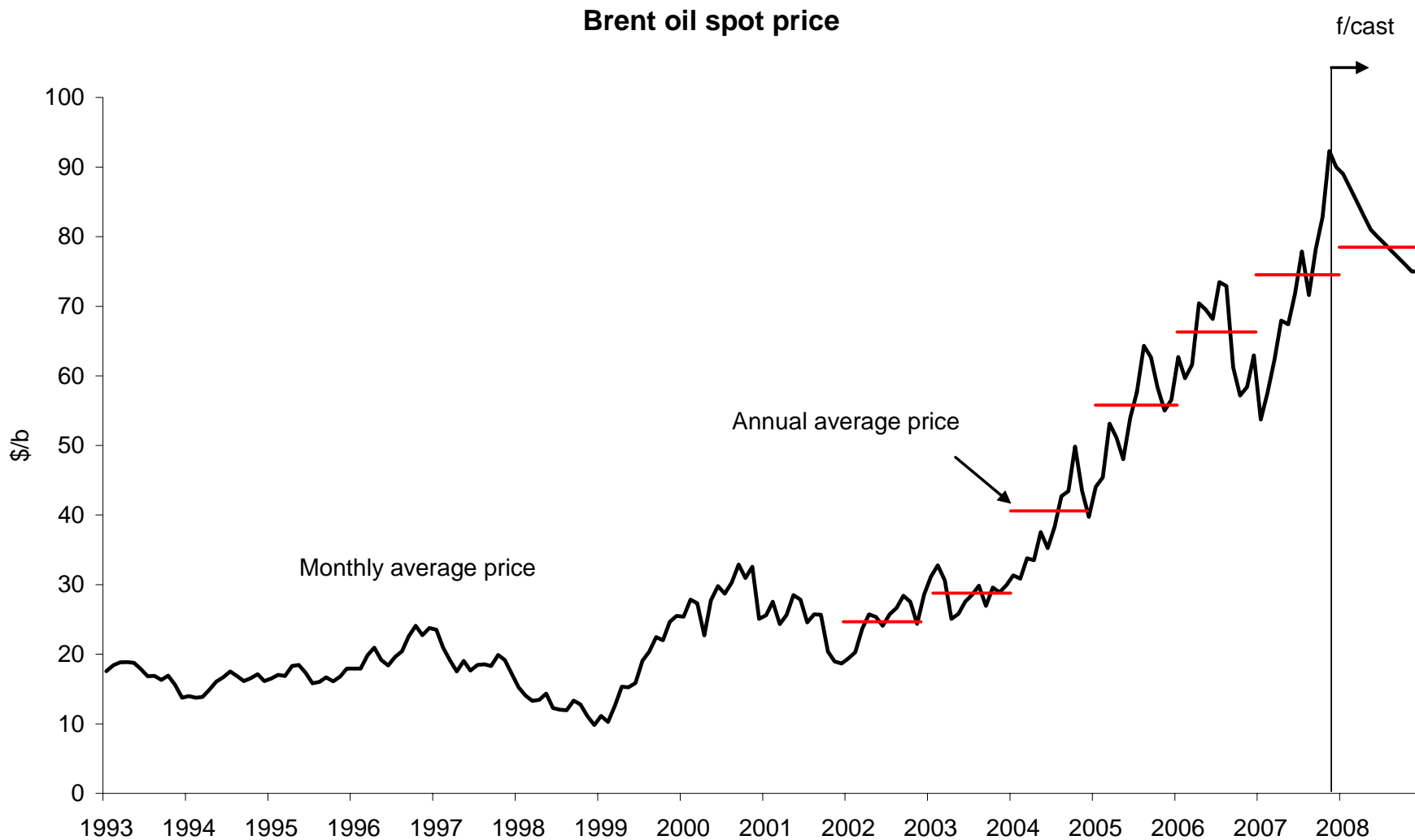
The fall in the US\$ provides some offset outside the US but has itself pushed prices

Jet Fuel Price Currency Comparison

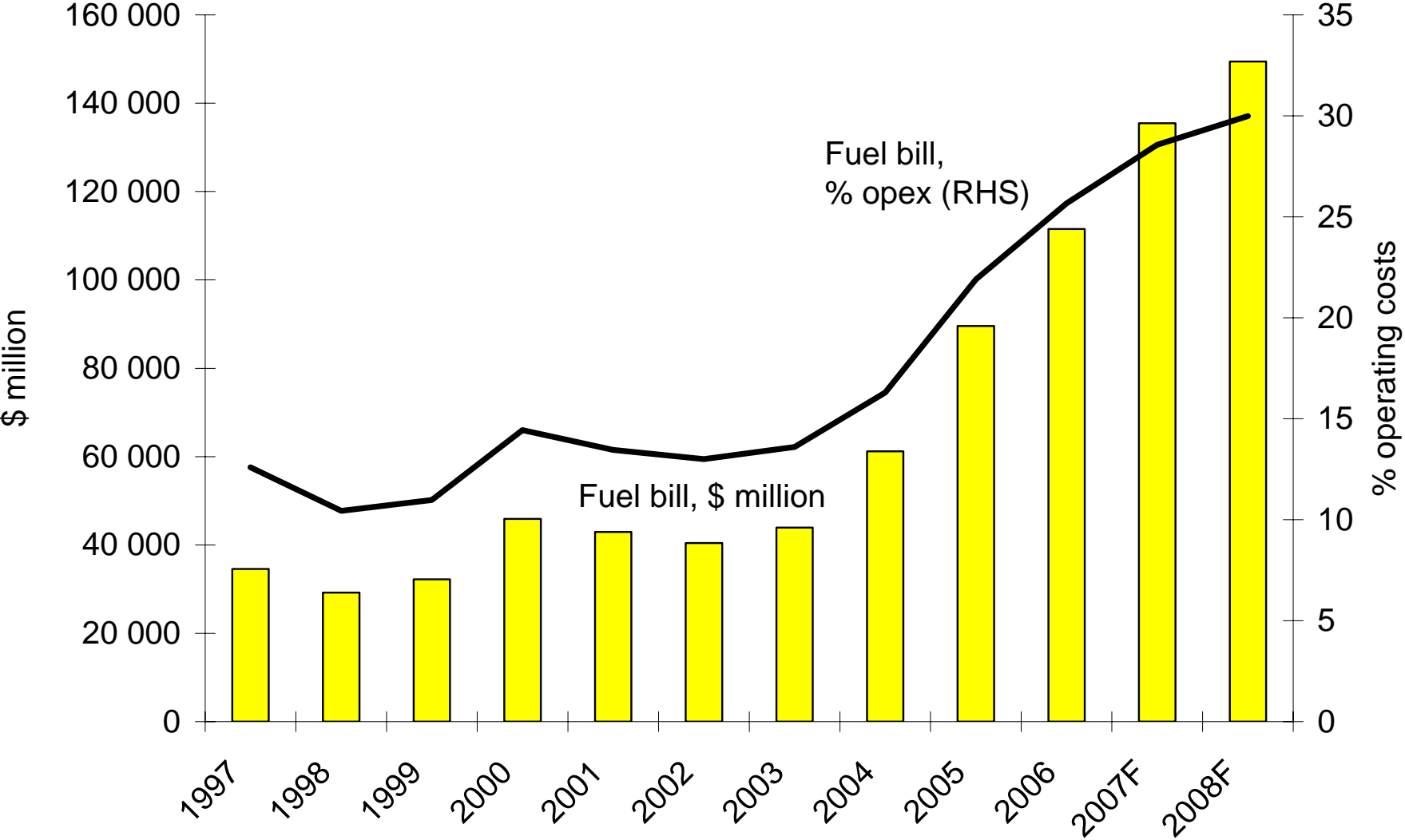


Source: Platts, RBS

A fall in oil prices is forecast but that still leaves the 2008 average at \$78/b

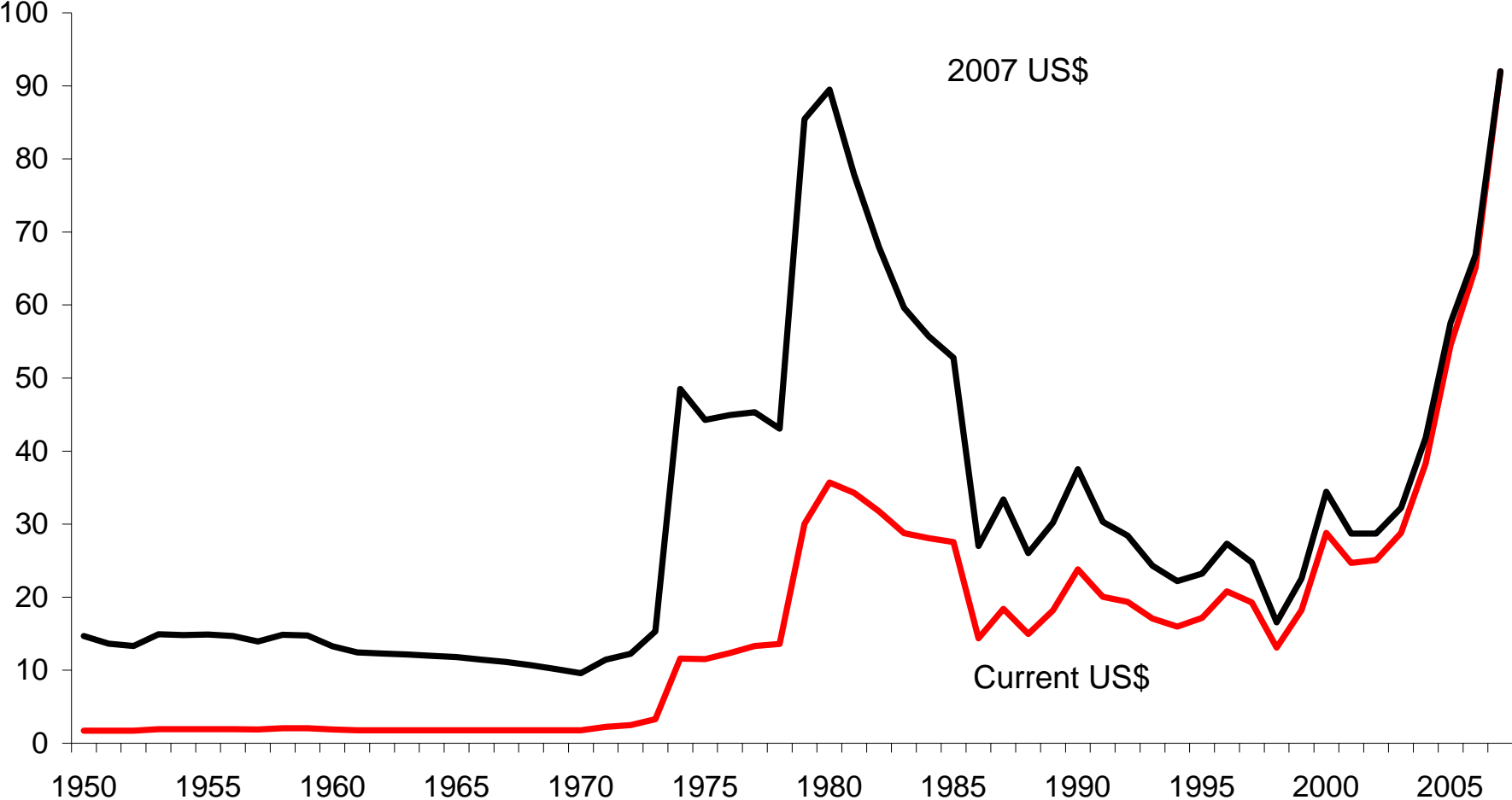


Pushing the fuel bill to almost \$150 billion and 30% of operating costs

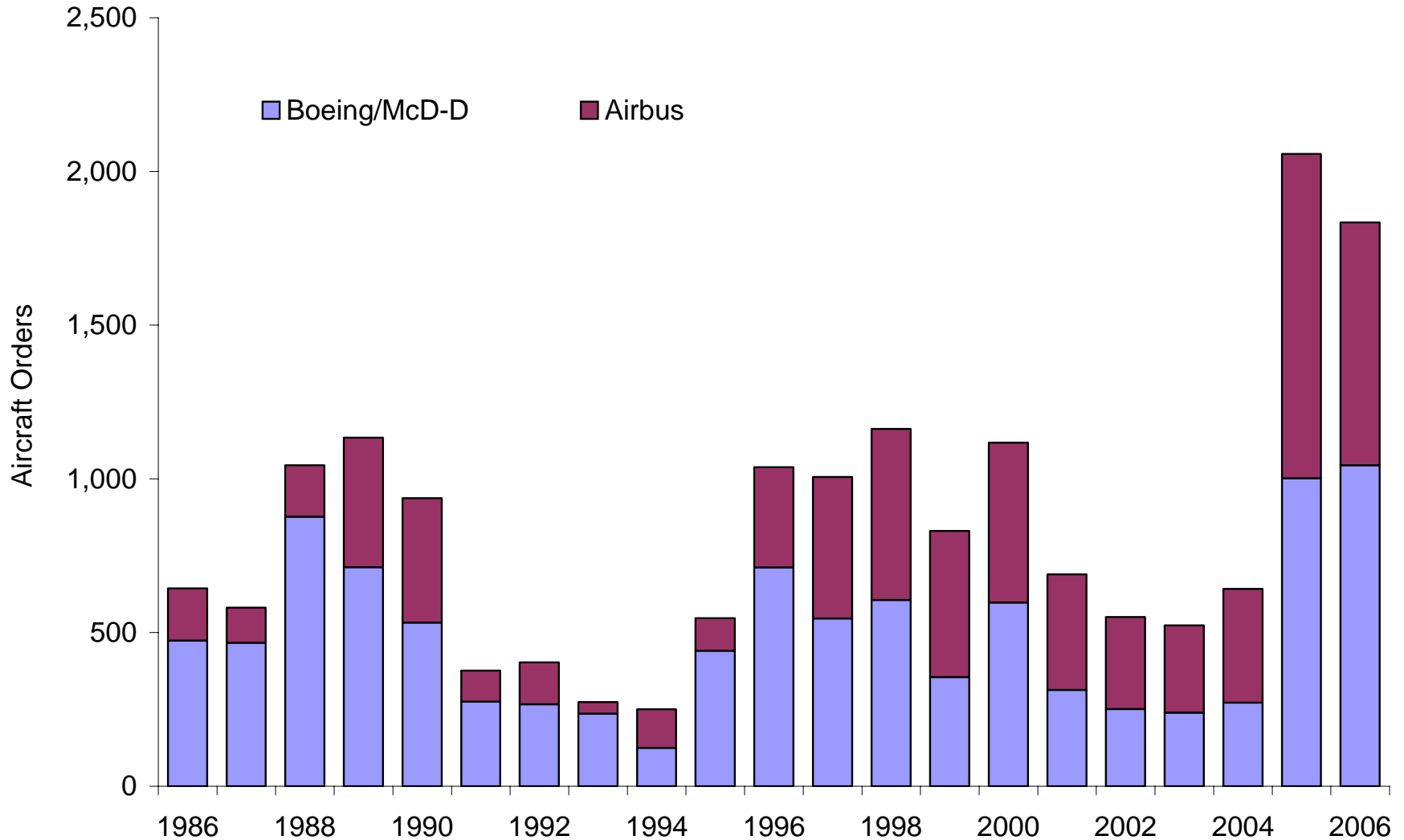


Oil prices are as high as during early-80s in real terms

Brent oil price, in current and 2007 US\$/b

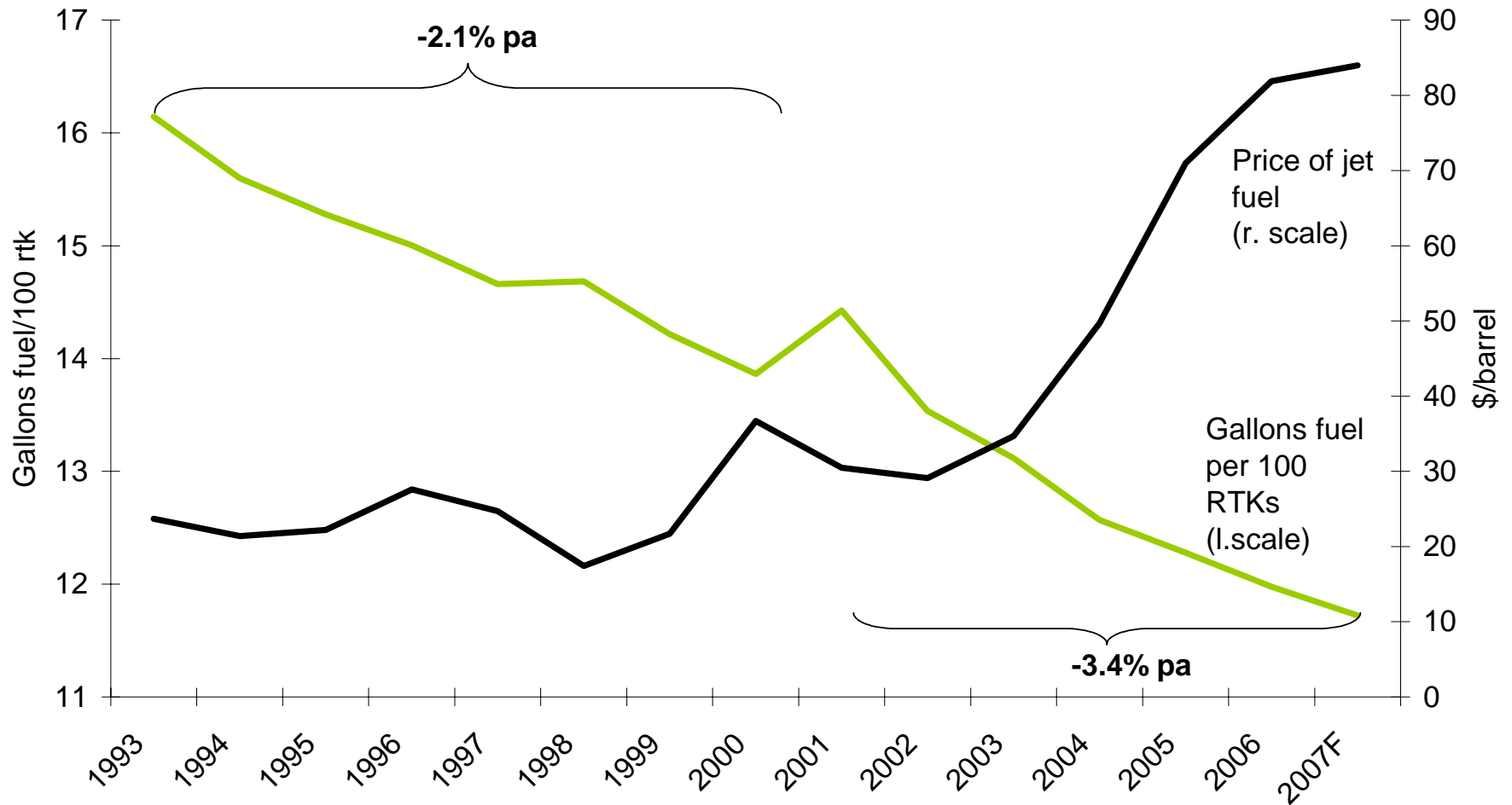


Accelerating orders for fuel efficient aircraft



And pushing fuel efficiency to a new trend

The price of jet fuel and fuel intensity

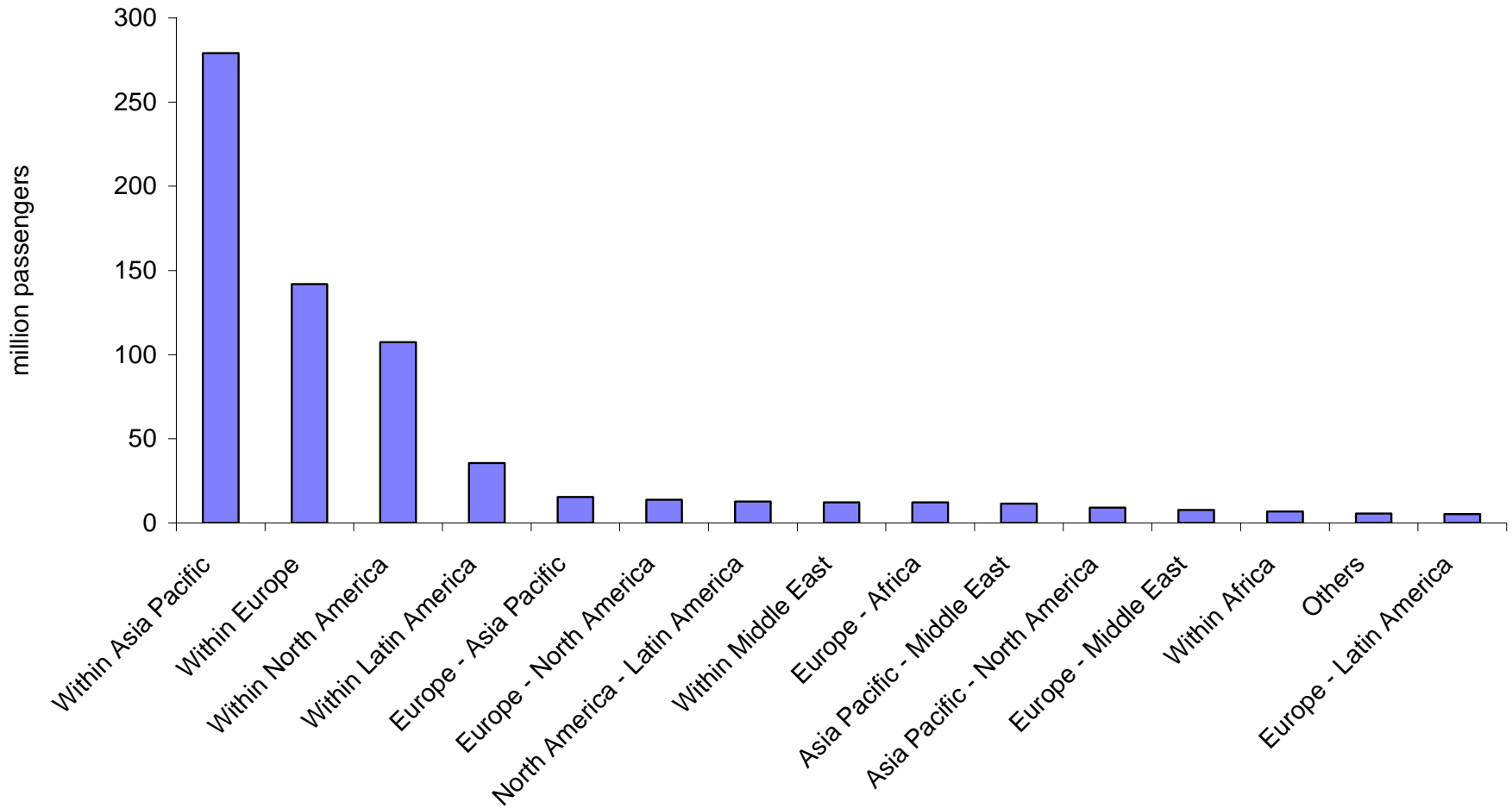


But at present travel demand growth still more than offsets jet fuel efficiencies



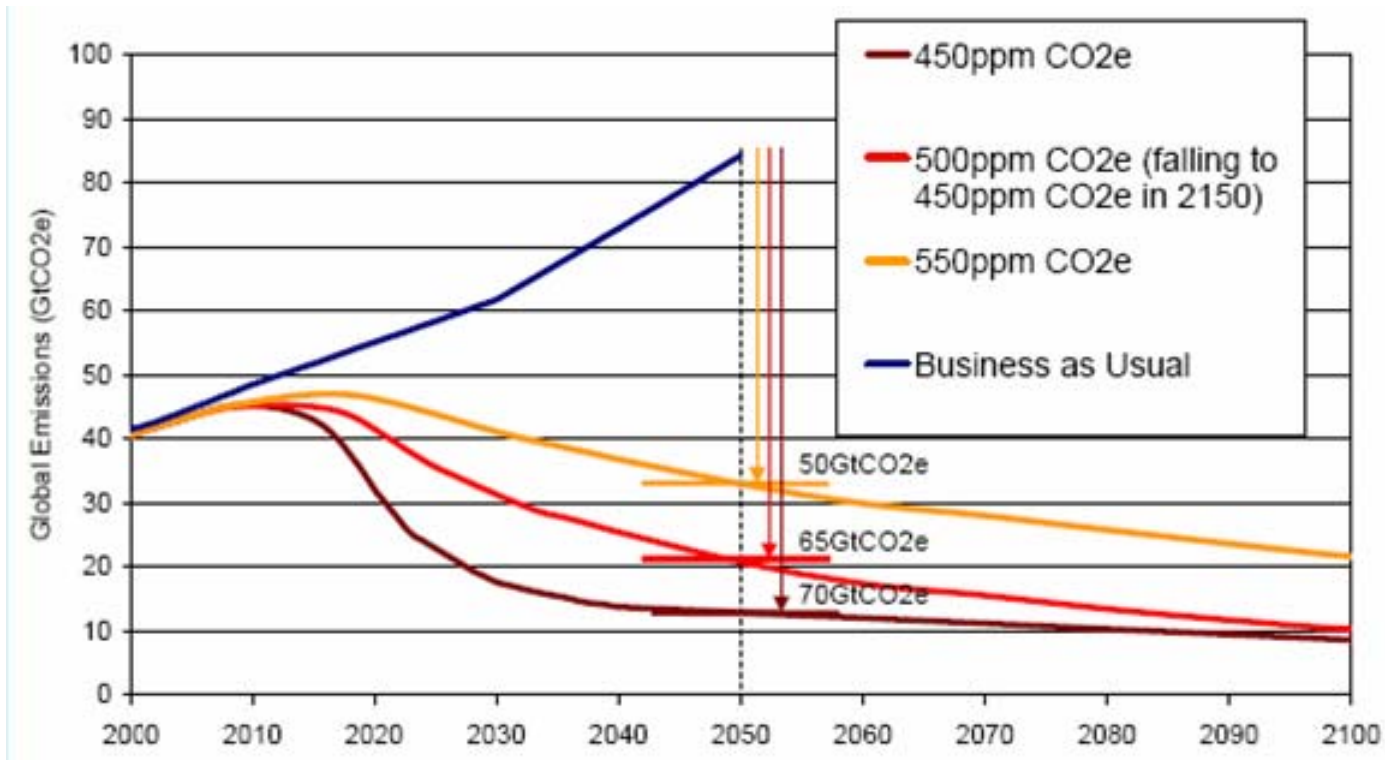
And in the next 5 years we expect demand from 600-700 million new passengers

Additional passengers 2006-2011

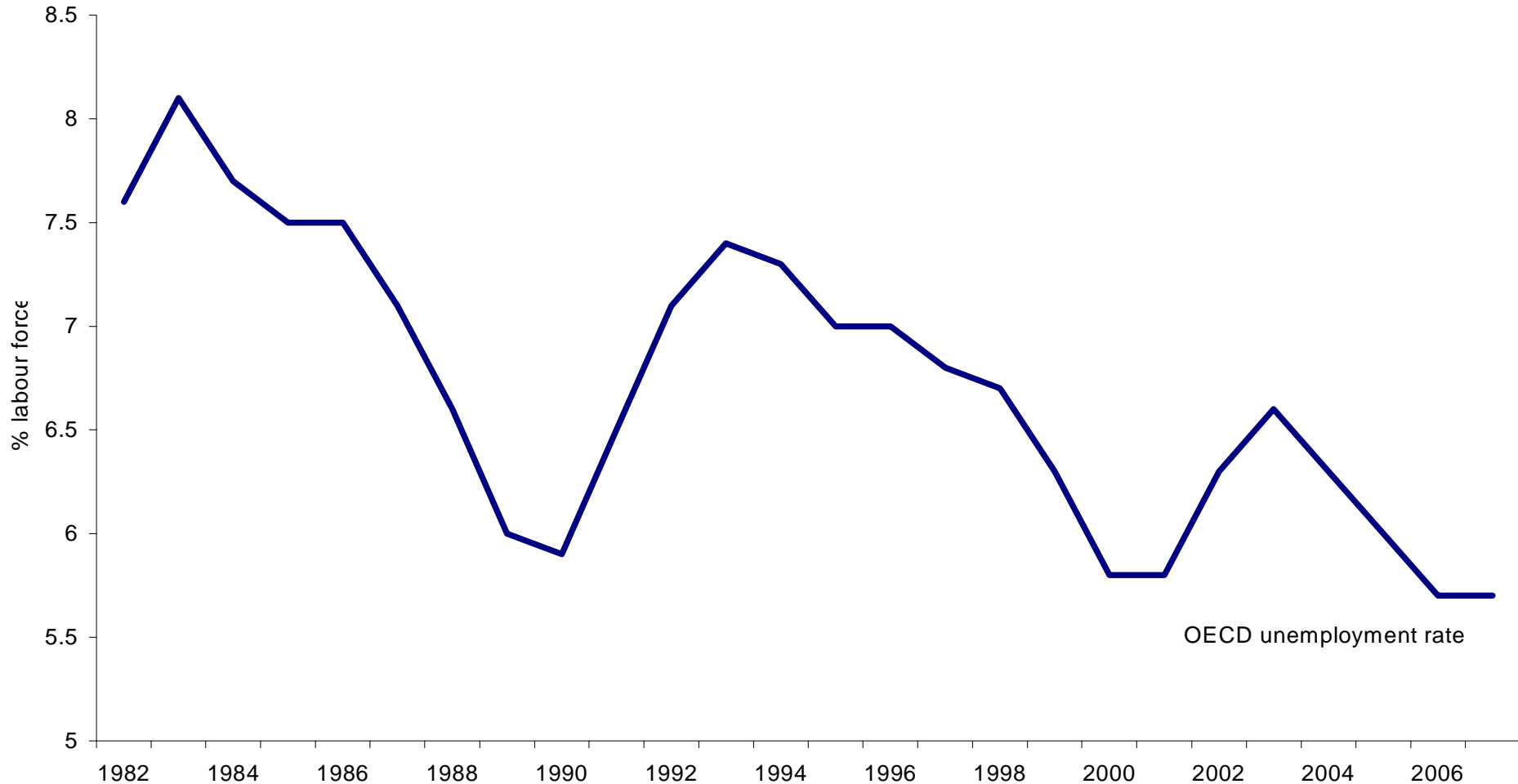


So climate change policies represent a serious threat to further expansion

Stern Review showing need for fuel use/CO2 emissions to peak in 10-20 years

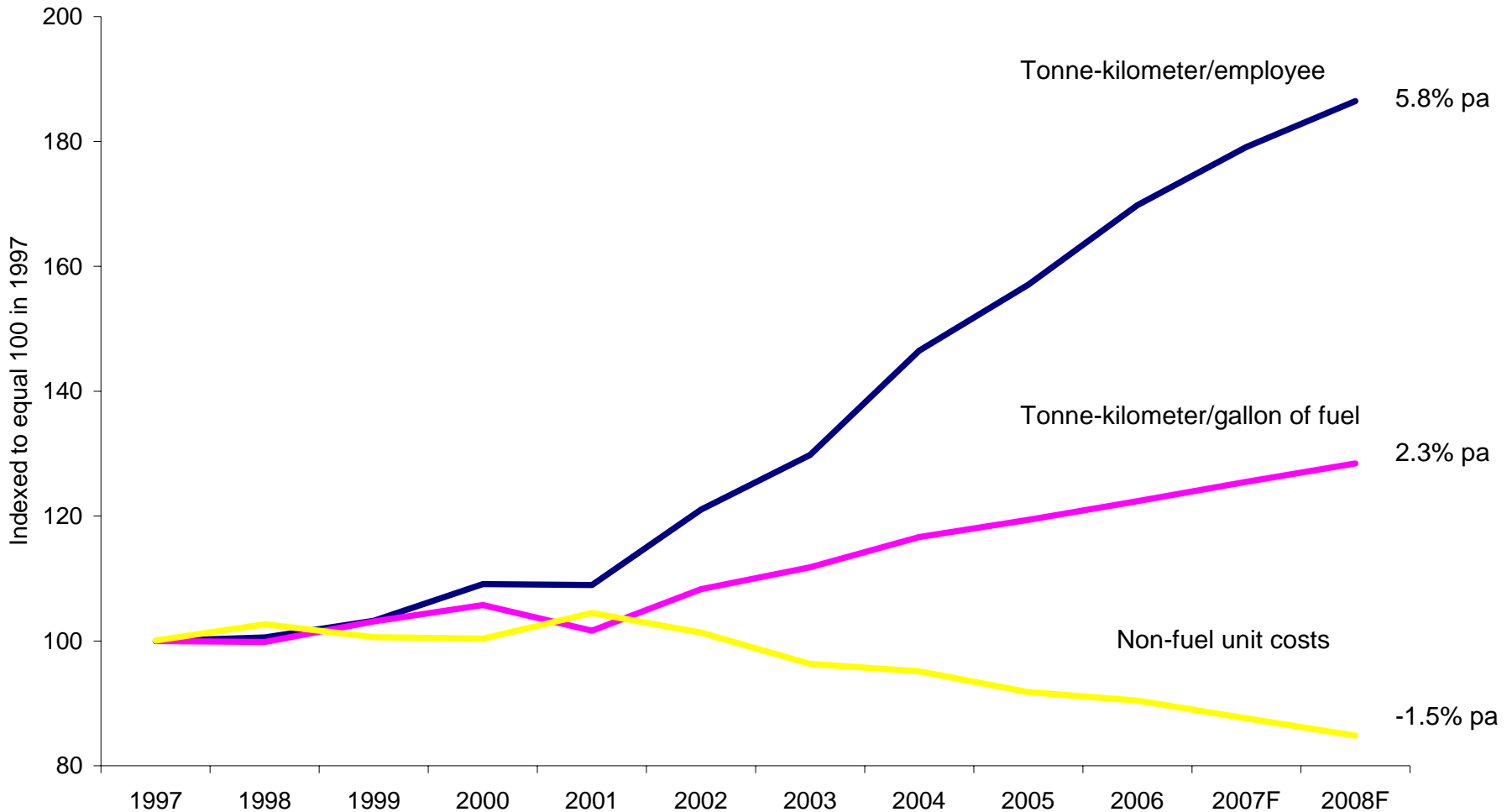


And growing shortages of labour and other inputs makes cutting costs challenging



Airlines will have to achieve further efficiency improvements

Non-fuel unit costs, labour and fuel productivity



But airlines are not expected to be able to prevent a decline in profits during 2008

