“State of the Aviation Industry”

Presentation to the ACI Airport Economics & Finance

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Before Credit Crisis

Ongoing Credit Crisis
Introduction to Mott MacDonald/Aviation Services

Key Issues facing the industry

Examples in the UK and Europe

Demand

Congestion

Low Cost Carrier growth

Environment

Summary

Conclusions

Questions
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Recent Developments

- 30 + airlines failed during 2008
- Fuel price fluctuation
- Market downturn
- Recession
- Industry losses mounting
- Calls for consolidation but regulatory issues
- Environmental militancy
- The Thai experience
- Taxation
High Fuel Prices Have Caused Losses Forecast at USD5 billion for 2008

Source: IATA
Recession Reducing Business and Consumer Confidence has hit the Aviation Markets Hard

International RPKs and FTKs

Passenger RPKs

Air freight FTKs

Source: IATA
Brent Oil Price, US$ per Barrel

Source: RBS
High Level of Aircraft Grounding

Source: Ascend
**Cut Backs in Capacity, Particularly in US**

Growth in planned scheduled ASKs

- **Within Asia Pacific**
- **Global capacity**
- **Within US**

% change over year

- Feb-07
- Apr-07
- Jun-07
- Aug-07
- Oct-07
- Dec-07
- Feb-08
- Apr-08
- Jun-08
- Aug-08
- Oct-08
- Dec-08
- Feb-09

Source: SRS Analyser
Passenger Markets Likely to Fall 3% in 2009

Global passenger kilometres flown (left scale)

% change over year

World GDP (right scale)

% change over year

Source: EIU/IATA
CO₂ Emissions From Aviation Will Fall Due to Recession and Fleet Changes
Worst ever 2-year Revenue Outlook

Airline revenue growth, adjusted for inflation

Source: EIU/IATA
Fall in Revenues Offsets Fuel Cost Reduction in 2009

Source: IATA
Losses Likely to Worsen in 2009 in All Regions, Except the US

Net profit margins by region

Source: IATA
Propensity to Fly and Economic Output

The graph illustrates the relationship between GDP per capita ($US) and trips per capita for various countries. The data is sourced from Mott MacDonald analysis of ACI and World Bank data.
20-year Forecast: Strong Long-Term Growth

Source: Boeing current market outlook 2007
Terminal Passengers at UK Airports
Annual Growth Rates

Note: Historic oil price shown in US$ and the exchange rates between USD and GBP were not considered

Source: CAA Airport Statistics, OPEC
The unmet demand by 2035/36 is in the region of 1.2 million slots – almost as big as the capacity of the 5 London airports today.

Source: CAA, Future of Air Transport White Paper and supporting documents
Capacity and Demand Forecast in SE England (Assuming new Runways at LHR, STN and LGW)

Even with new runways at Heathrow, Stansted and Gatwick, there is unmet demand of 540,000 slots by 2035/36.

Source: CAA, Future of Air Transport White Paper and supporting documents
Change in the Market Impacts
Infrastructure Requirements

Regional airline growth
- Smaller aircraft
- Lower Pax per ATM
- More ATMs

Low cost carriers
- Increased utilisation
- Lower costs
- More slot demand

Each new LC based aircraft requires up to 2500 slots.
EU Low Cost Market Share

Low-cost market share (left-hand scale)

Low-cost traffic (right-hand scale)
• **EC Study found:**
  
  – Air traffic forecast to grow by 2.3 times between 2003 and 2025
  
  – More than 60 EC airports will be congested by 2025
  
  – Top 20 saturated for 10 hours a day
  
  – Planned capacity increases will **not** meet forecast demand

• **Situation in the UK is already critical in the South East of England**
Aviation Environmental Impact

- Aviation misjudged
- Air transport now carrying more passengers and freight with:
  - Less noise
  - Less emissions
  - Less fuel
  - Less cost
Air Travel Increasingly Fuel Efficient

Fuel consumption (Litres/100 revenue passenger kilometres)

Source: Airbus Global Market Forecast 2006-2025
EU CO2 Emissions
Aviation Just 2%!!!

Source: European Environment Agency
Summary

- Demand will return
- Increasing segmentation
- Increasing consolidation
- Increasing congestion
- Regulators not keeping pace
- Poor record in promoting aviation positive record on environmental impact
- Infrastructure investment remains key – runway, ATM, surface access
Any Questions?