

North Atlantic Performance Trends

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Federal Aviation
Administration



Key NAT Performance Trends

Economic Outlook

- **Increased Global Uncertainty**

Policy Challenges

- **Divergent Monetary Policy**

Industry Challenges

- **Safety and Security**

Operational Outlook

- **Growth in Uncertain Times**

Economic Outlook





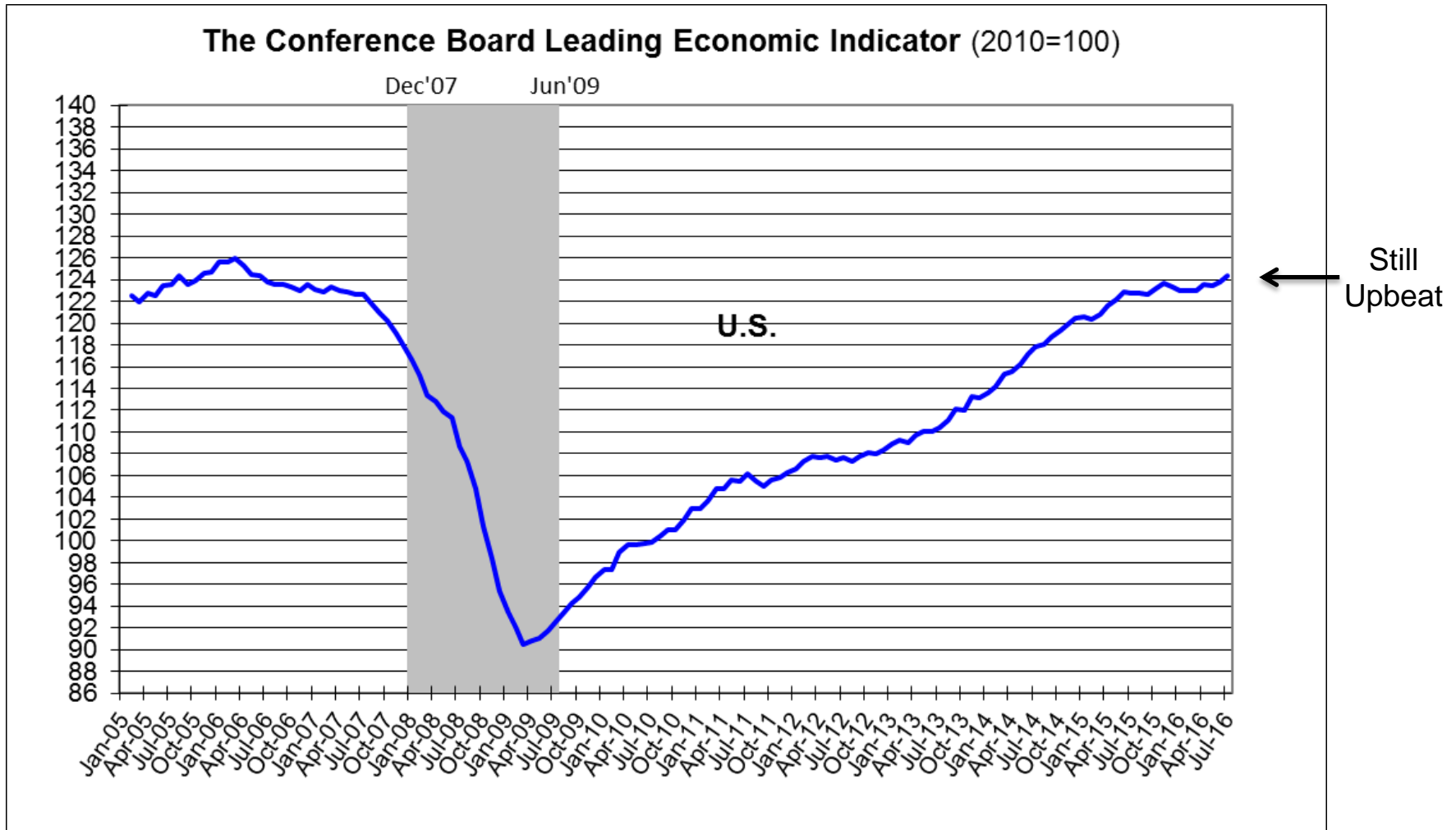
Increased Global Uncertainty

- June 23 “Brexit” vote surprised global financial markets
- Global outlook worsened for 2016-17, reflecting increased uncertainty (political and economic) that lowered business confidence and investment
- Negative GDP impact has been mostly on UK, selected European countries
- Impact is limited (so far) for U.S., China, and other emerging markets
- “Brexit” is still unfolding; downside risks (more severe outcomes) are possible

Real GDP Forecast (Annual Percentage Change)		
Country	2016	2017
<i>Canada</i>	1.4	2.1
Denmark	1.6	1.8
<i>France</i>	1.5	1.2
<i>Germany</i>	1.6	1.2
Iceland	4.2	3.2
Ireland	5.0	3.6
Norway	1.0	1.5
Portugal	1.4	1.3
UK	1.7	1.3
US	2.2	2.5
<i>Euro area</i>	1.6	1.4
World	3.1	3.4

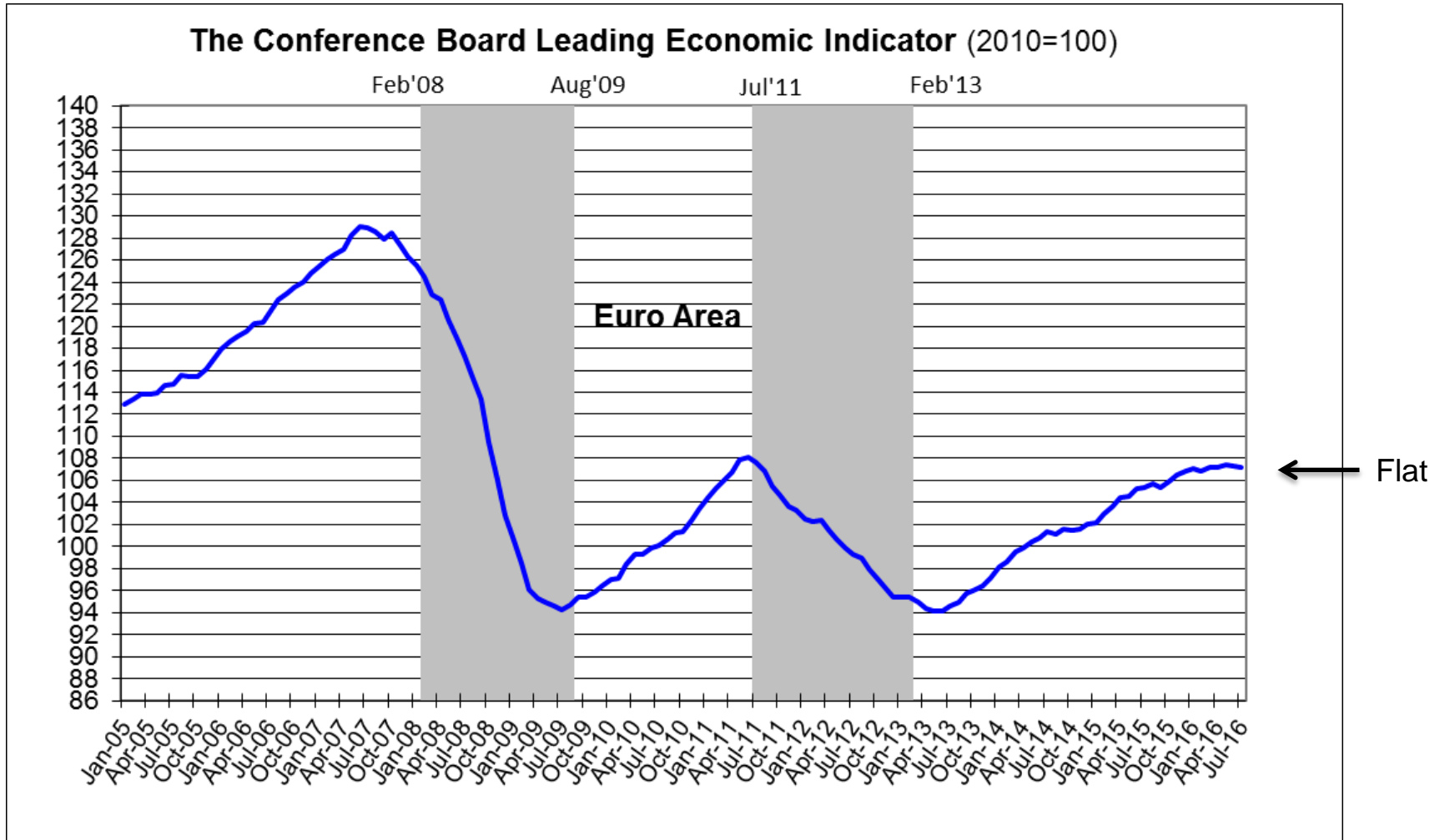
Source: IMF, World Economic Outlook – July 2016

Leading Economic Indicator – US



Source: The Conference Board, August 2016

Leading Economic Indicator – Euro Area



Source: The Conference Board, August 2016; *Last CEPR Meeting: October 2015**

Policy Challenges



Policy Challenges

- **U.S. Monetary Policies**

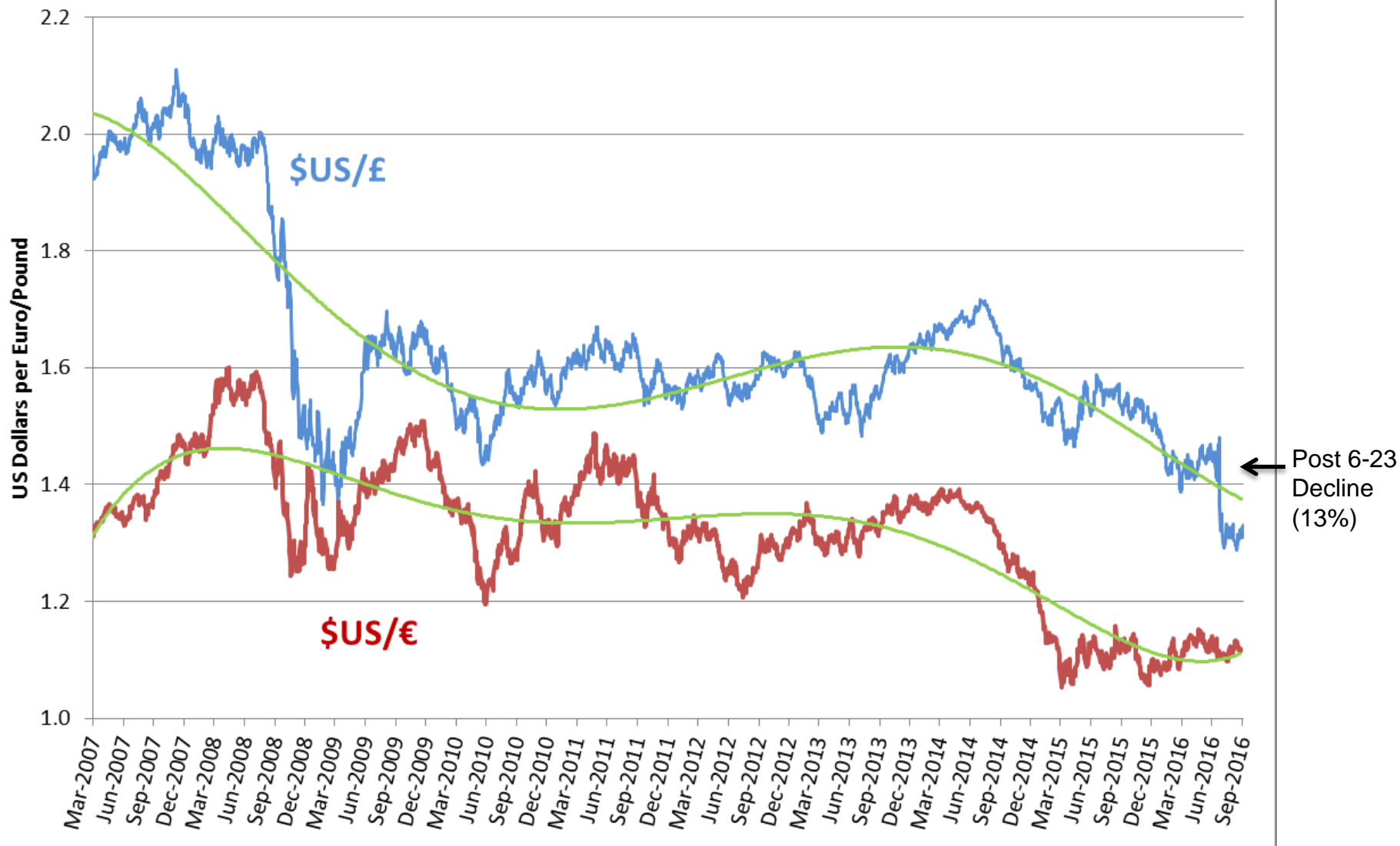
- 1st rate hike (since 2006) in Dec 2015
- None since then, complicated by:
 - ***Timing of U.S. Presidential election***
 - Volatility in financial markets (Jan/Feb, Jun)
 - Strength of the US dollar
- Softening economy: 2016Q2 GDP 0.3% (below expected)



- **Euro Area – post-Brexit Uncertainty**

- Economic Growth: 2016Q2 GDP 0.3% (decelerated)
- Inflation stable (low): 0.2% in August 2016
- ECB Stimulus: QE continue to Mar 2017, *beyond if needed*
- Impact of security threats and on-going refugee crisis

Daily Spot Exchange Rate: \$US/£ and \$US/€



Source: U.S. Federal Reserve Board, September 2016

Industry Outlook



Challenges for the Industry



- **Security Threats Persist**

- “Aviation security needs to evolve in step with changing threats.”

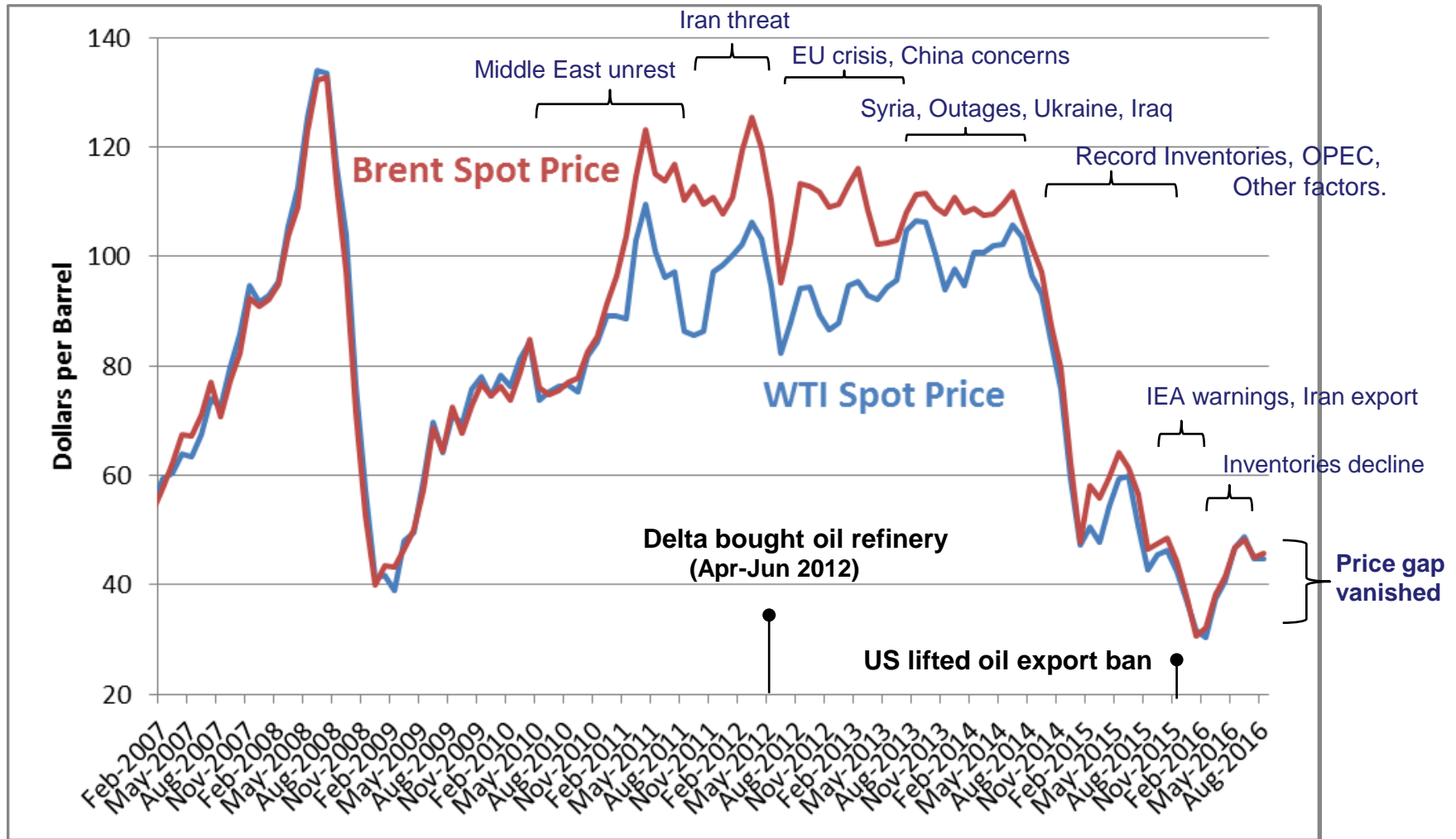
- Dr. Fang Liu, ICAO Secretary General (Sep 12, 2016)

- Airport security and threats; Notable tragic incidents
- Regional instabilities (Turkey in July, ongoing ME)

- **Economic Opportunities**

- Profits forecasted for 2016 is \$39 billion, following 2015 record of \$35 billion
- Earnings (ROI) in 2016 is 9.8%, another record
- Opportunities to invest; Lower airfares

US – European Crude Oil Price Spread



Source: Energy Information Administration, August 2016



Low Oil To Stay *A While Longer*

- **Oil prices** reached 13-year lows around \$30 in early 2016 before **recovering to around mid \$40 recently** (mid Sep) for both the WTI Cushing and European Brent.
- **EIA forecast remain low** - WTI at \$42 in 2016, \$51 in 2017.
- High volatility continues: Supply/demand factors, geopolitical events, exchange rate movements.
- **→ Expectation:** Low oil (<\$55/bbl) in the foreseeable future.
- **Airline fuel hedge:** Light hedging for now.

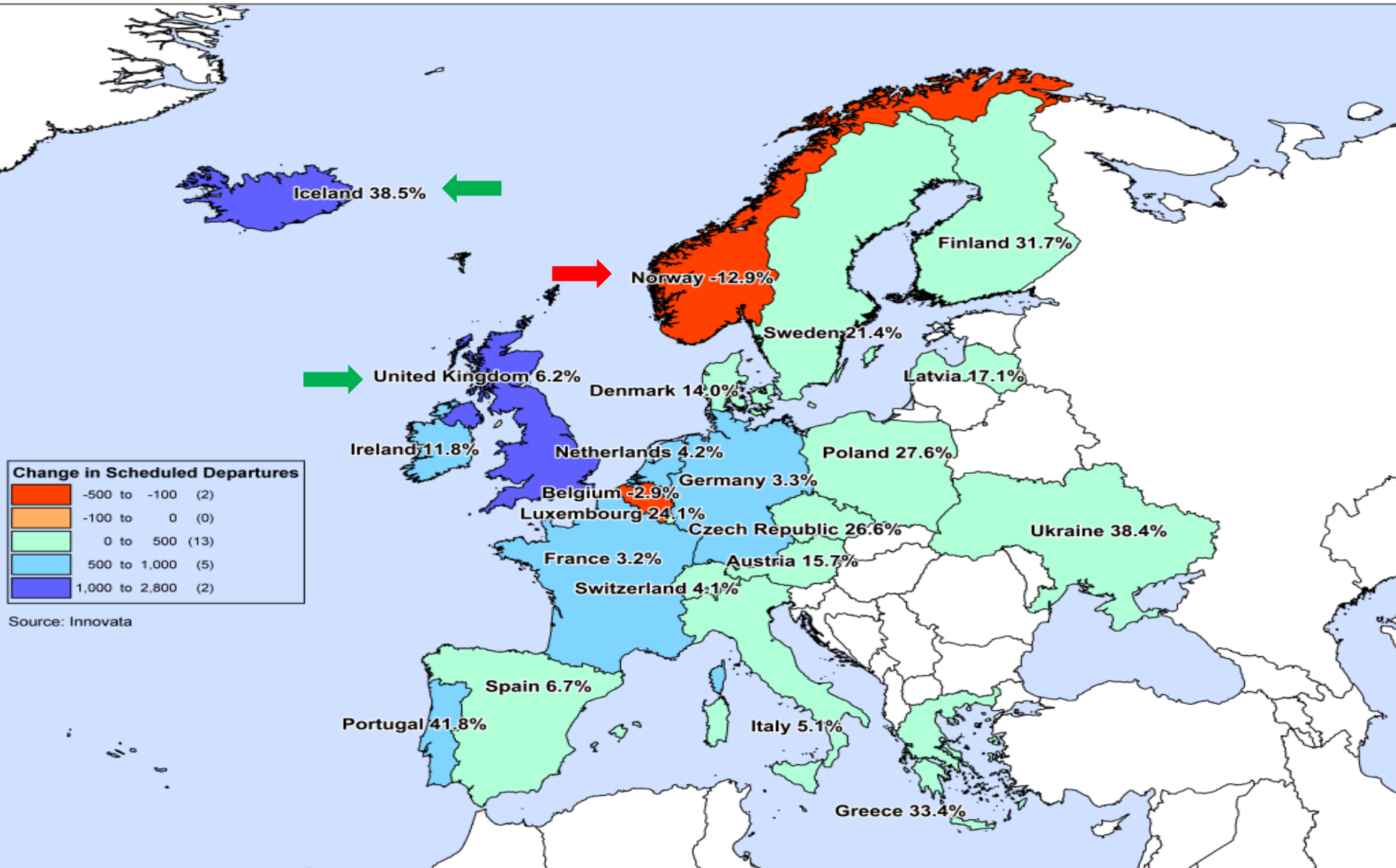
“As for the markets return to balance - It looks like we may have to wait a while longer.”

- The International Energy Agency, Sep 13, 2016

Operational Outlook



US to Europe Departures: Jan – Dec 2016

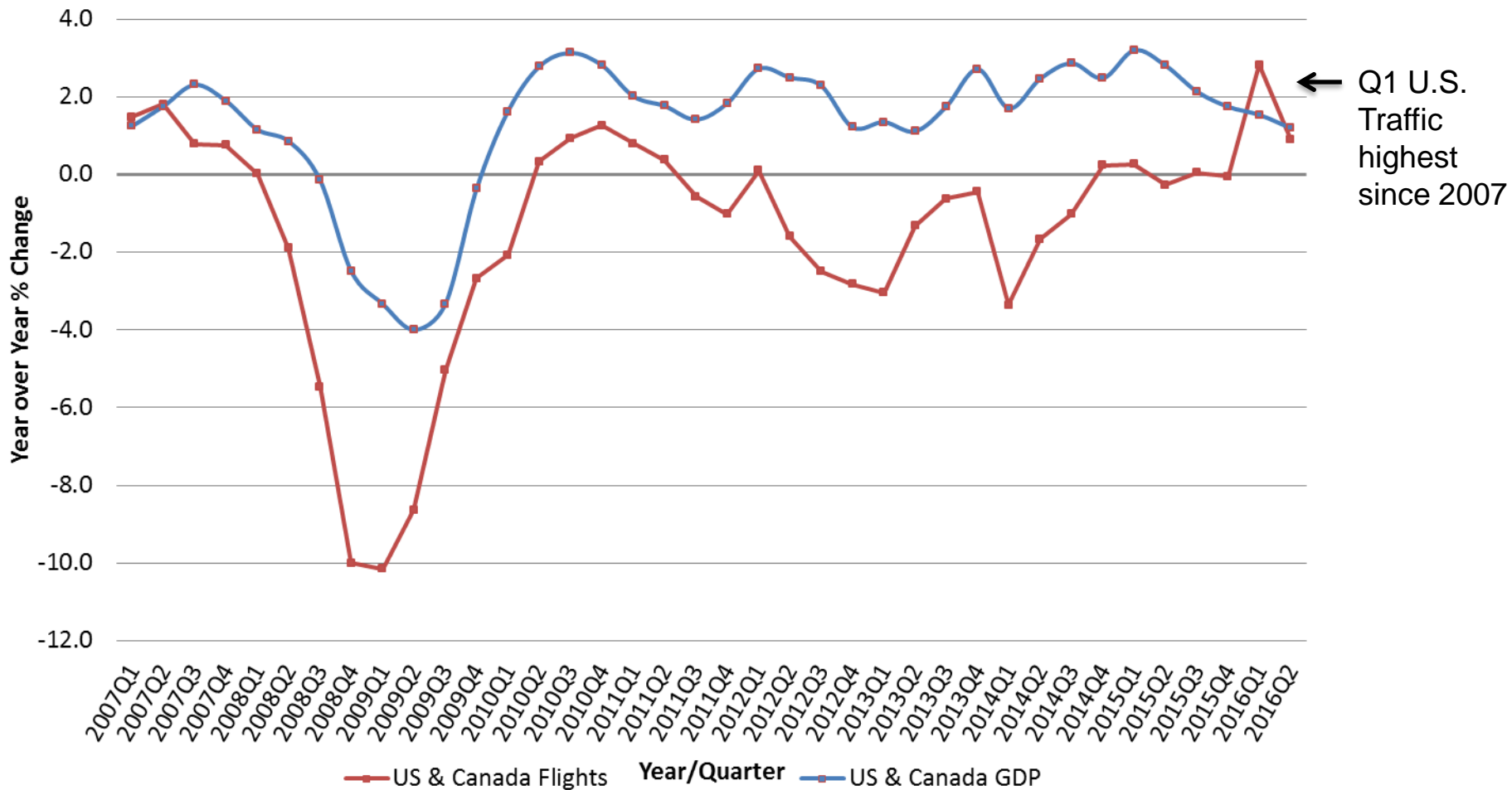


US to Europe: Top Ten Scheduled Departures (Jan – Dec 2016)

Destination Country	2015	2016	Change	% Change
United Kingdom	44,740	47,509	2,769	→ 6.2%
Germany	22,909	23,671	762	3.3%
France	15,840	16,350	510	3.2%
Netherlands	12,111	12,614	503	4.2%
Italy	7,471	7,853	382	5.1%
Spain	7,180	7,659	479	6.7%
Ireland	6,278	7,019	741	11.8%
Switzerland	6,025	6,275	250	4.1%
Iceland	3,412	4,724	1,312	→ 38.5%
Belgium	4,277	4,154	(123)	→ -2.9%
All US-Europe	143,775	153,163	9,388	6.5%

Source: Innovata, September 1, 2016

2007-2016Q2 Economy and Traffic, U.S. and Canada



Source: ICAO, BTS, Global Insight, August 2016

2007-2016Q2 Economy and Traffic, NAT*/Euro Area



Source: ICAO, Global Insight/Eurostat, September 2016

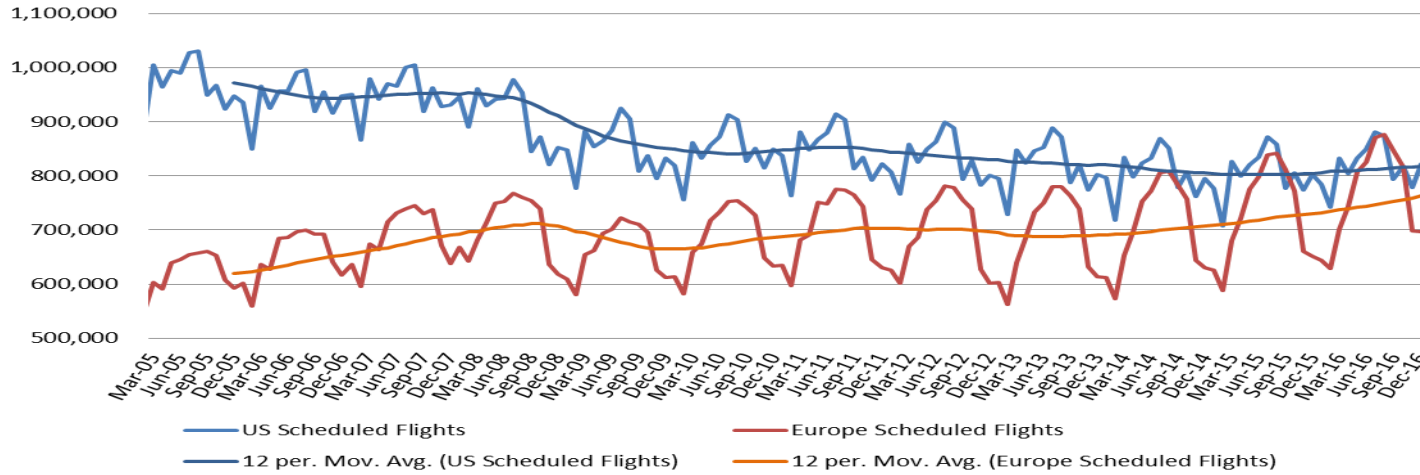
*Denmark, Ireland, Iceland, Norway, Portugal, UK, France, and Germany



2005-2016 US and Europe Operations

US vs Europe: Total Scheduled Flights

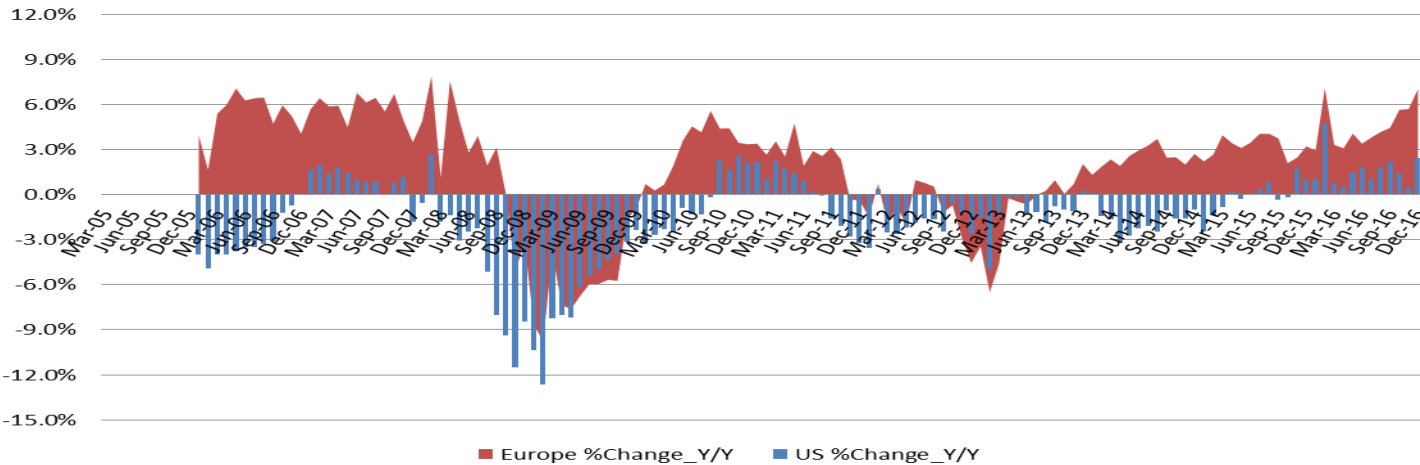
(Source: Innovata, Sep 1, 2016)



← Increase from “floor” (2016 growth)

US vs Europe: Percent Change in Scheduled Flights

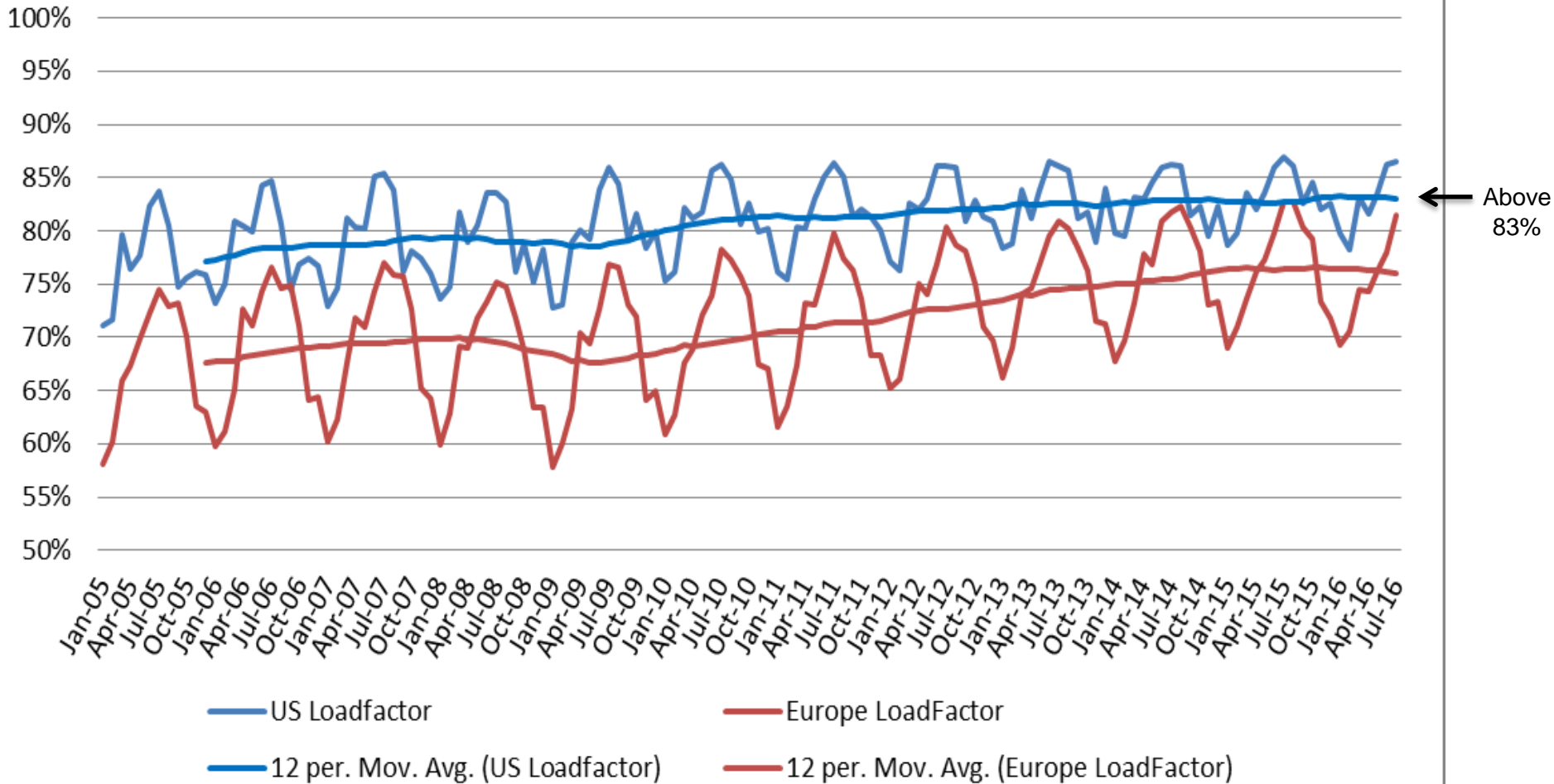
(Source: Innovata, Sep 1, 2016)



← 14 Consecutive US Growth (trend last seen during 2010-11 recovery)



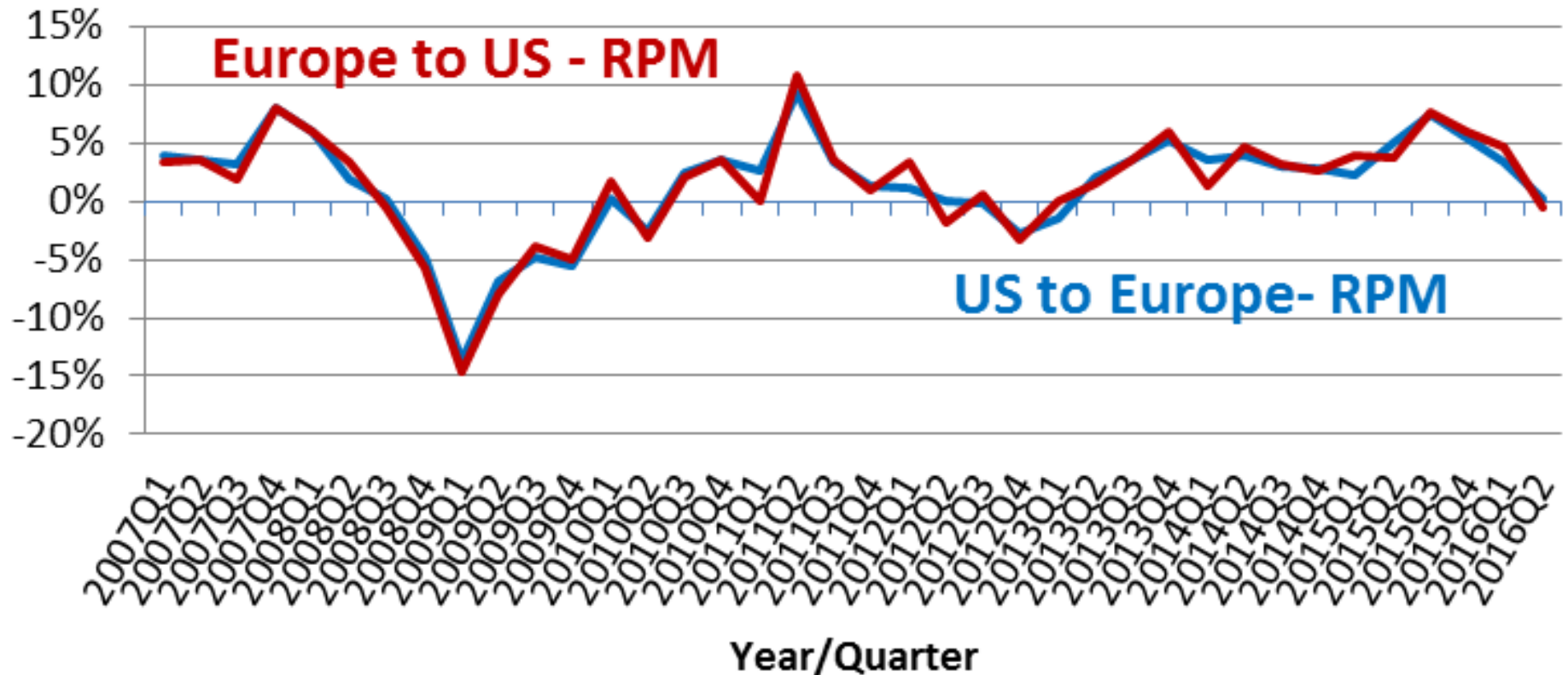
2005-2016 US and Europe Load Factors



Source: BTS and AEA (Association of European Airlines), September 2016

Passengers Demand (2007-2016Q2)

Year-over-Year Change

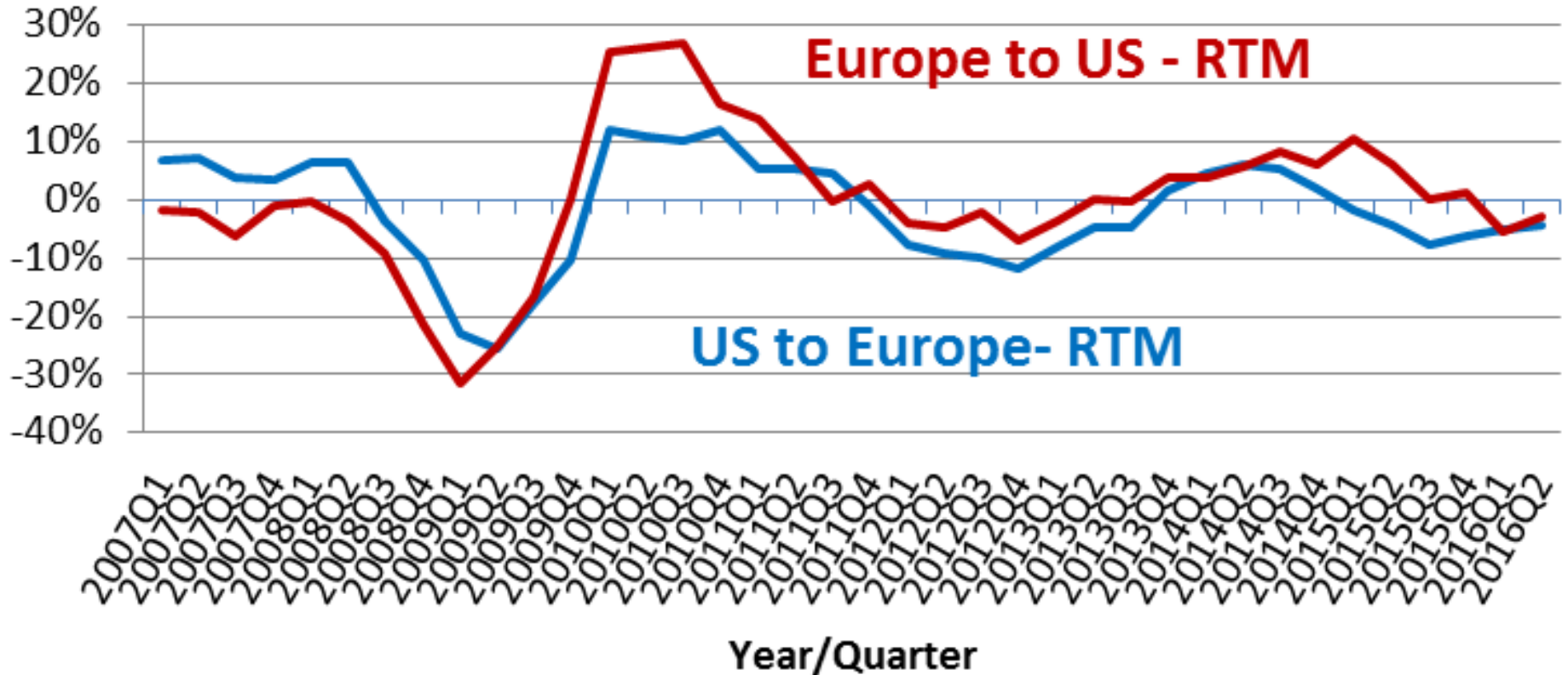


Source: BTS, T100-Segment Data, September 2016



Air Cargo Demand (2007-2016Q2)

Year-over-Year Change

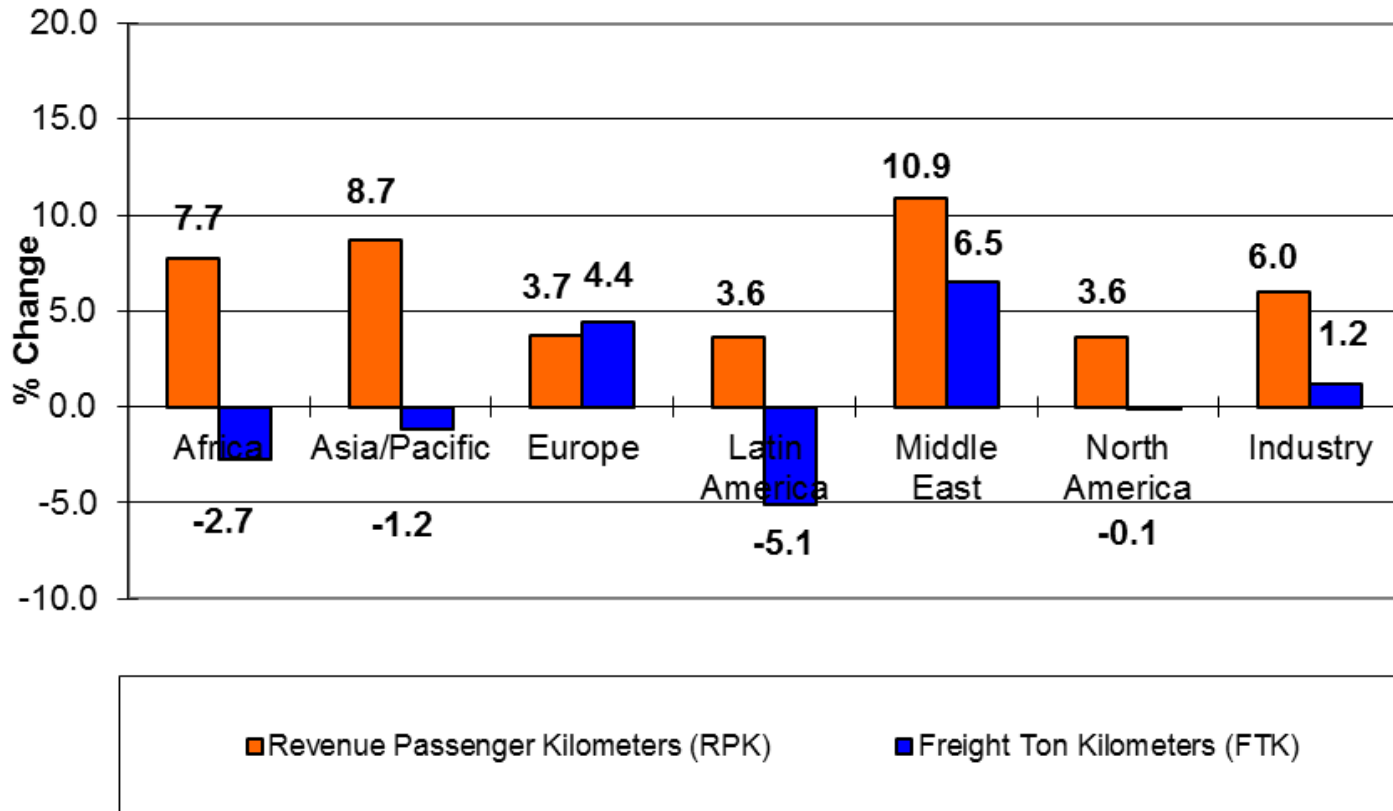


Source: BTS, T100-Segment Data, September 2016

2016 Global Regional Trends (Year-to-Date July)

Regional Traffic Statistics

Change in RPK and FTK: (Jan-Jul) 2016 vs. 2015



Source: IATA, August 2016

The Challenges Continue:

- Global outlook for 2016-2017 worsened among uncertainties following the “Brexit” vote
- Volatility in oil and financial markets continues
- Divergent monetary policies (U.S. vs. Europe)
- *How long will low fuel prices stay?*
- Aviation security threats persist, among global security and terrorism concerns
- Operational trends: Will both US and Europe continue recent growth?
- Passenger and air cargo demand growth:
 - Both face headwinds, among uncertain global outlook