Trends and Developments in Inter-Urban Passenger Transport: International Air Transport in the Future

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Objective and Questions

Objective
Understanding “what will international air passenger travel will look like in five, ten or fifteen years and why does it look this way?

Arriving at the Answer:

1. what will be principal determinant of the growth in international air travel
2. what impact will they have on the growth rate?
Unemployment Rate With and Without the Recovery Plan

Maroon dots are actual unemployment data. 
Everything in blue was created by Obama’s economic team.
http://innocentbystanders.net
Themes

• What factors effect international air travel
• What do we observe – now
• What will the world look like
• Guesstimates
What Factors Affect Air Travel - Three groups

- Traditional sets of variables
  - GDP growth, trade growth, Direct Investment, market structure and behaviour (fares, route development, network), liberalization and alliances

- New Economy – Evolution or Revolution?
  - What if the new macroeconomic reality is different?
  - US savings rate up, China spending rate up

- New factors we have not seen
  - Carbon strategies – tax and cap & trade
  - Technologies – fuel, aircraft, ATC
  - Industry and network restructuring
Trends in GDP Growth and Swings about the Trend
• What is so striking is to compare the numbers in ‘Projected 2009’ with previous economic downturns.

• The 2009 values are orders of magnitude larger for every category.

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<tbody>
<tr>
<td>Output</td>
<td></td>
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<tr>
<td>Per capita output (PPP(^1) weighted)</td>
<td>-0.13</td>
<td>-0.89</td>
<td>-0.18</td>
<td>-2.50</td>
<td>-0.40</td>
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<tr>
<td>Per capita output (market weighted)</td>
<td>-0.33</td>
<td>-1.08</td>
<td>-1.45</td>
<td>-3.68</td>
<td>-0.95</td>
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<td>Other macroeconomic indicators</td>
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<tr>
<td>Industrial production</td>
<td>-1.60</td>
<td>-4.33</td>
<td>-0.09</td>
<td>-6.23</td>
<td>-2.01</td>
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<tr>
<td>Total trade</td>
<td>-1.87</td>
<td>-0.69</td>
<td>4.01</td>
<td>-11.75</td>
<td>0.48</td>
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<td>Capital flows(^2)</td>
<td>0.56</td>
<td>-0.76</td>
<td>-2.07</td>
<td>-6.18</td>
<td>-0.76</td>
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<tr>
<td>Oil consumption</td>
<td>-0.90</td>
<td>-2.87</td>
<td>0.01</td>
<td>-1.50</td>
<td>-1.25</td>
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<tr>
<td>Unemployment(^3)</td>
<td>1.19</td>
<td>1.61</td>
<td>0.72</td>
<td>2.56</td>
<td>1.18</td>
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<td>Components of output</td>
<td></td>
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<tr>
<td>Per capita consumption</td>
<td>0.41</td>
<td>-0.18</td>
<td>0.62</td>
<td>-1.11</td>
<td>0.28</td>
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<tr>
<td>Per capita investment</td>
<td>-2.04</td>
<td>-4.72</td>
<td>-0.15</td>
<td>-8.74</td>
<td>-2.30</td>
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Note: The 1991 recession lasted until 1993, using market weights; all other recessions lasted one year.

\(^1\)PPP = purchasing power parity.
\(^2\)Refers to change in the two-year rolling window average of the ratio of inflows plus outflows to GDP.
\(^3\)Refers to percentage point change in the rate of unemployment.
How the IMF (2009) sees Economies Changing

[Graph showing GDP growth scenarios for United States, Euro Area, and Emerging Asia]
What Should we look at?

Other estimates

- GDP elasticity: 1.54*
- Fuel price elas.: -0.06
- SARS, and 9/11 variables were significant
  - SARS: -0.98
  - 9/11: -0.067

Gillen Model

- GDP elasticity: 0.06
- Trade elasticity: 0.83
- FDI elasticity: 0.13
- Connectivity elas.: 0.22
- Jet Fuel elasticity: -0.27

* recognize not all GDP influence
Guesstimates

- Big question is any economic recovery involving a structural change for a new macroeconomics
- Best guess in medium term
  - FDI down 30% in 2010 – traffic down 3-4%
  - Trade down – 11% ≈ decrease of 1.0%
  - Connectivity index growth of 8% has led to 1.6 & traffic growth (If Route development down ≈ - .7 %
  - Cost (fuel and environmental taxes) – 1%
  - Best guess and worst case future growth 85% of past
    - Boeing says 5%, my guess around 1-2 % on average
Summary

- ‘Old’ variables are still important but they differ from domestic market growth
- New factors will have small effect, depending on carbon pricing
- Future growth will be moderated as economies adjust and new markets will be in Africa and Brazil not just SE Asia
- Air service agreements and industry restructuring are key factors
Thank you / Muchas Gracias