



Thinking Logistics

International and National Aviation: Recovery, Stagnation or New Worlds?

(Prof) David Gillen
YVR Professor of Transportation Policy & Management
Director, Centre for Transportation Studies
Sauder School of Business
University of British Columbia, Vancouver, Canada

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Questions

- Where are we in the global economic upheaval?
- What forces are at work?
- What matters for aviation; Domestic ? International?
- What will world look like in the future?

Where are we in the global economic upheaval?

- Supply, demand, profit, network strategies in aviation
- Global activity declined 1.3% in 2009
- Increased protectionism in advanced (US) and emerging (China) economies
- Current recession will linger longer than previous recessions

Between January and June 2009, China's trade was (IMF World Outlook 2009):

	%Δ in Exports	%Δ in Imports
China trade overall	-21.8	-24.4
EU 27	-24.5	-13.1
EU 15	-24.8	-13.0
CIS	-38.5	-20.8
Europe (non-EU)	-23.3	-0.4
Africa	+0.8	-59.3

What forces are at work?

- Oil prices – short run \approx \$80 but upward trend
- Market restructuring – market power
- Vertical alliances – airlines & airports
- Security costs – direct, indirect
- Fiscal deficits – temper influence of fiscal policy
- Projected growth – assumed interest rates, commodity prices
- Output per capita projected to decline
- Write downs on US originating assets

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 or seen less of
 - Carbon strategies – tax and cap & trade
 - Technologies – fuel, aircraft, ATC
 - Industry and network restructuring
 - Security

Summary

- ‘Old’ variables are still important but drivers differ between international & domestic traffic growth, LCC vs Legacy carriers
- ETS will have small effect, technology may have a big effect,
- Future growth will be moderated as economies adjust and new markets will be in west Asia, Africa and Brazil not just SE Asia
- Air service agreements and industry restructuring are key factors