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Macro-economic outlook for aviation related business in the Middle East

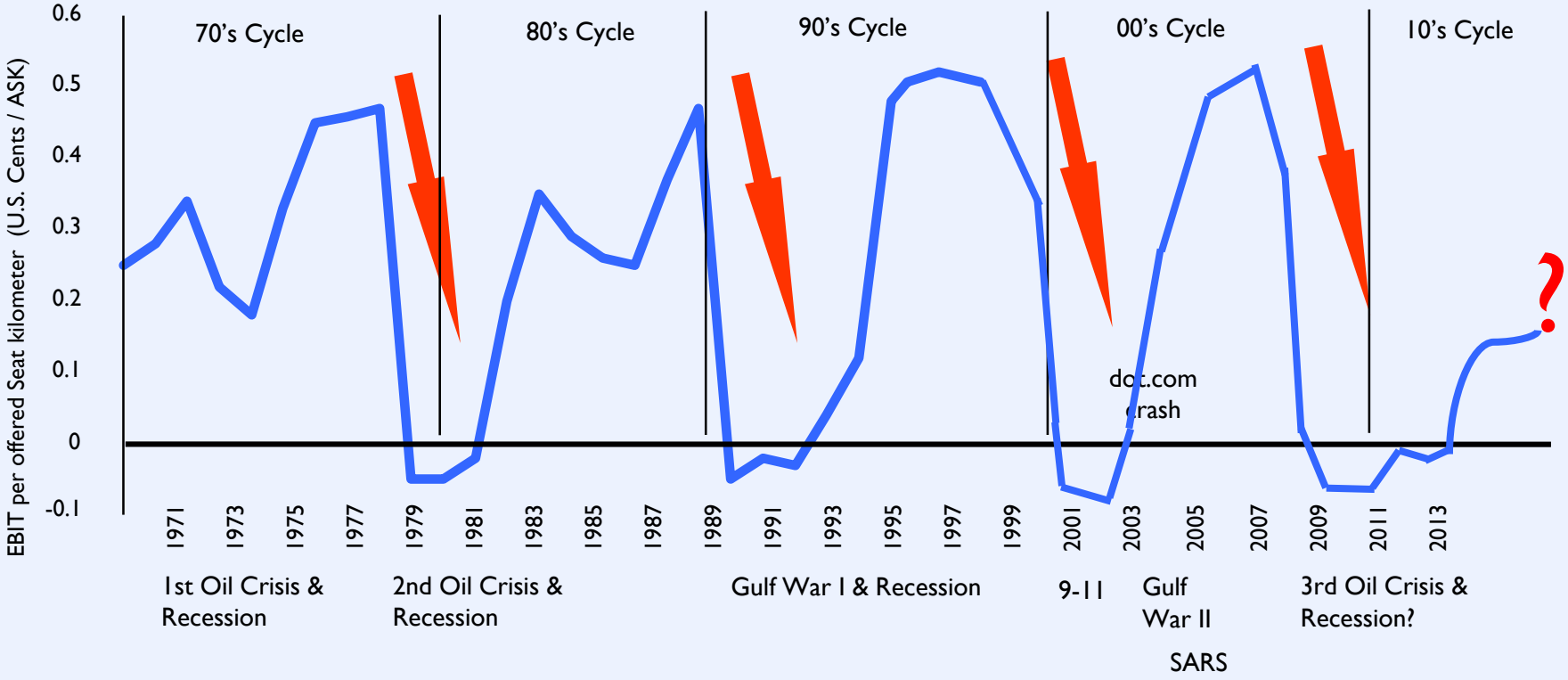
August, 30 2016

Erik Linden

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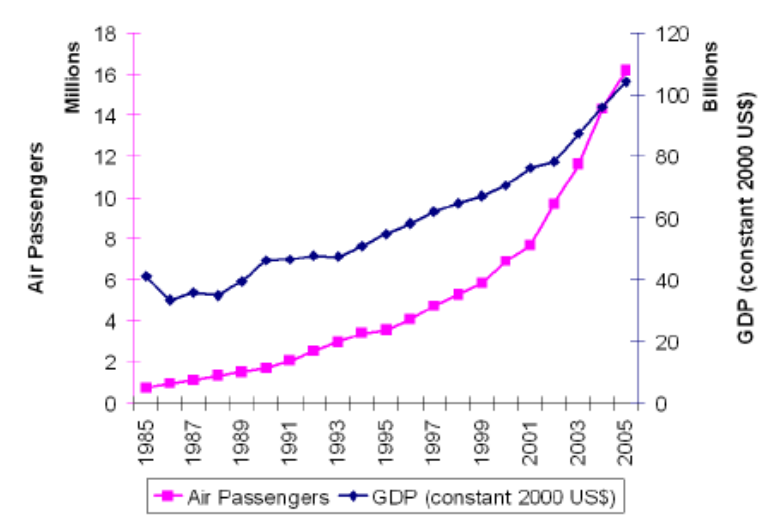
The airline business is very cyclic



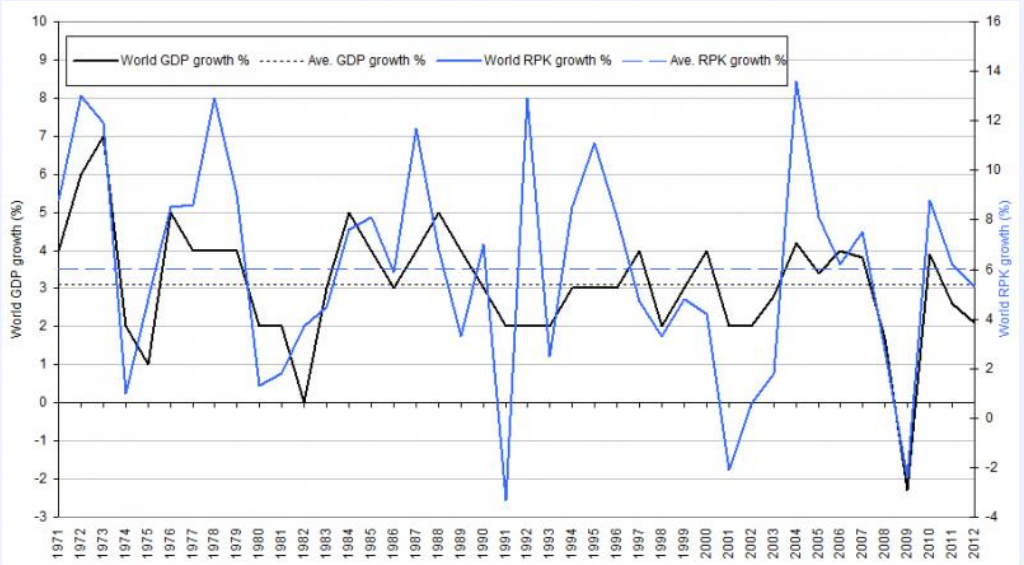
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GDP and Air Traffic are strongly correlated



Source: Ishutkina & Hansman, 2008: Analysis of Interaction between Air Transportation and Economic Activity – Case Study Dubai



Source: IATA, 2013

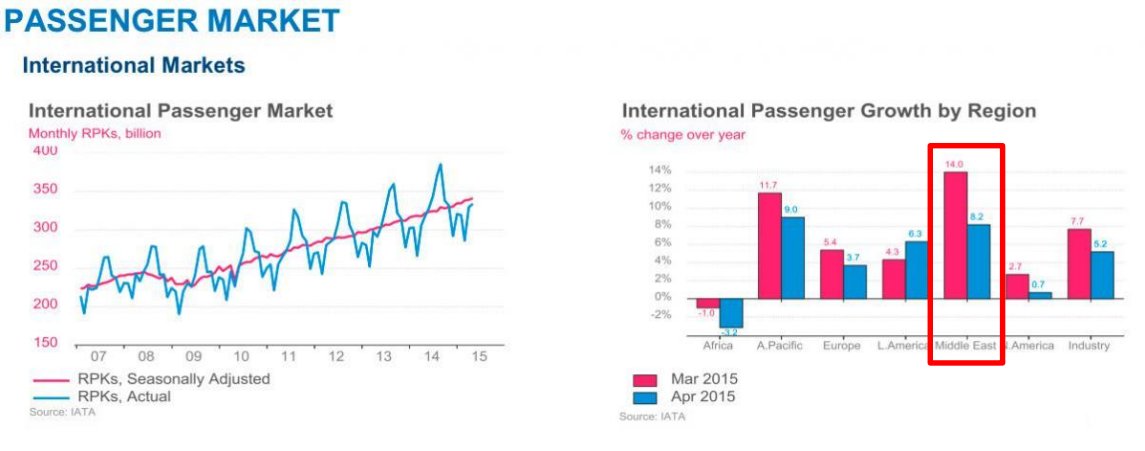
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In general: Income drives passenger demand

- Income depends on economic growth
- Increased income or increased income expectation
- Low prices of airline tickets

Demand for air travel increases



Source: IATA, 2016

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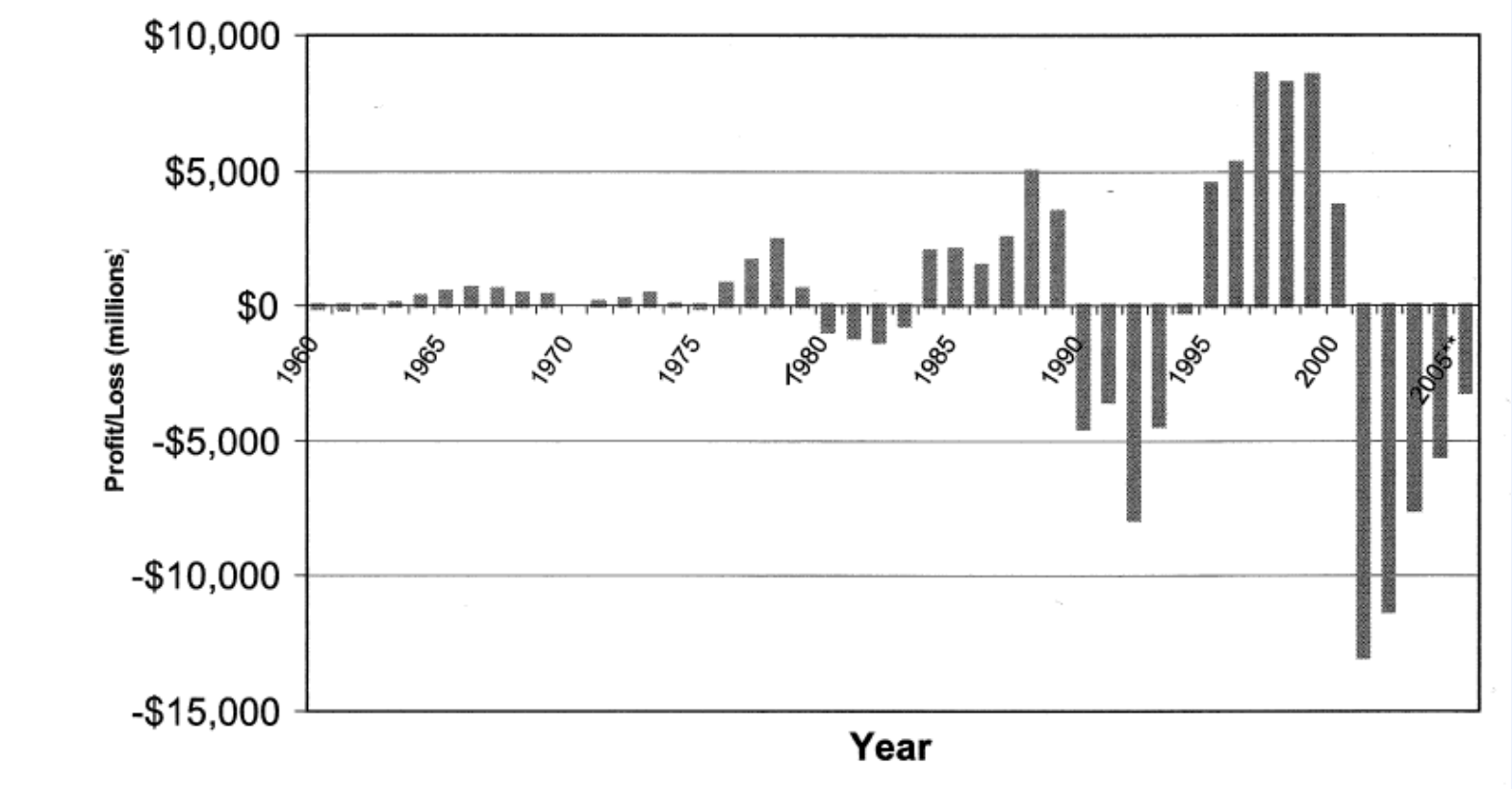
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Trade, financial industry and living standard very strong

- Annual trade growth rate above 11% ytd
- Dubai is an important trade hub for India and Iran
- Dubai has one of the largest financial centers worldwide (ahead of Shanghai, Paris and Melbourne)
- Dubai has highest standard of living in the ME

World airlines do not make money…

World airline operating profit

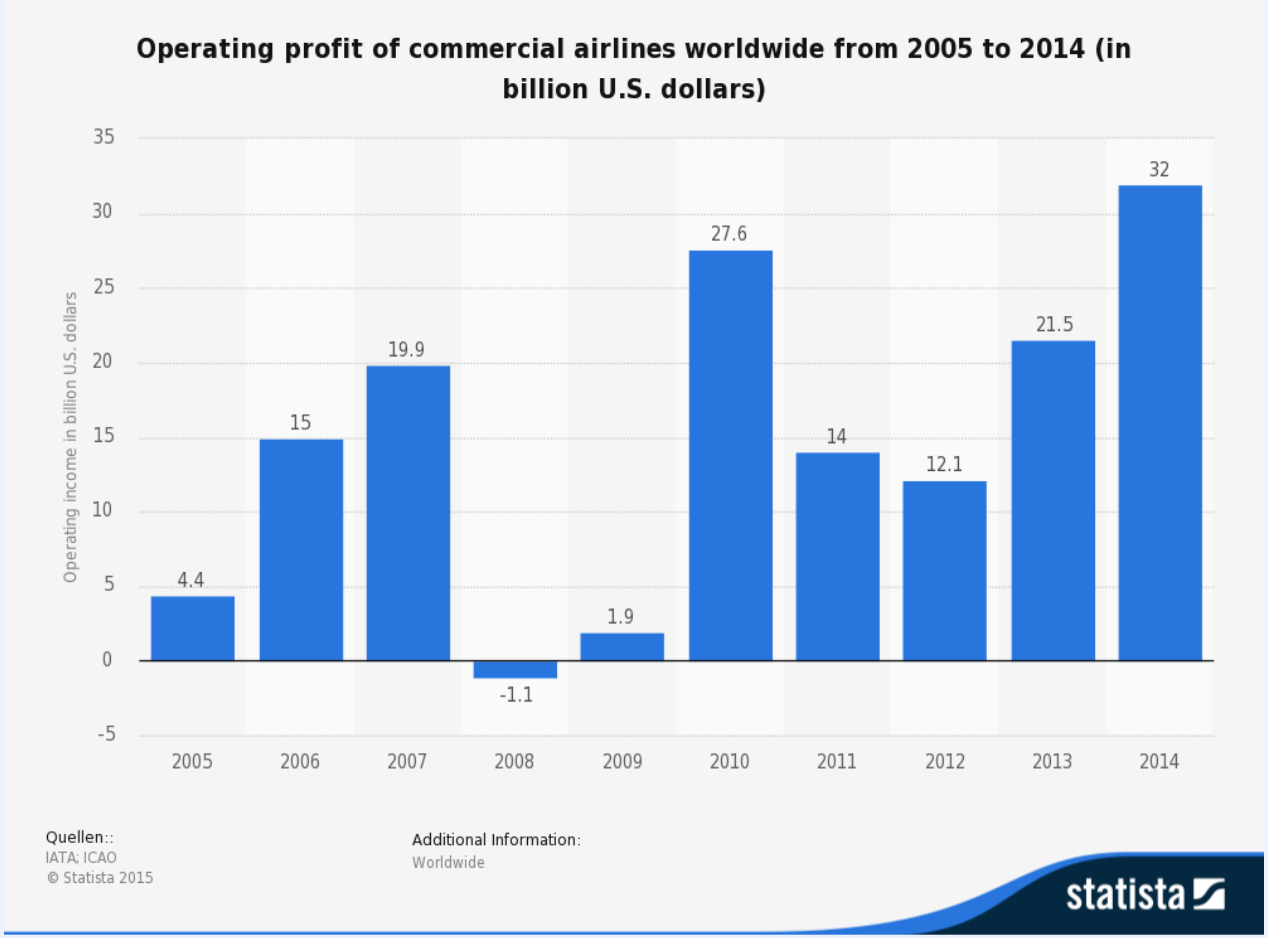


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… but obviously improve in recent years.

World airline operating profit



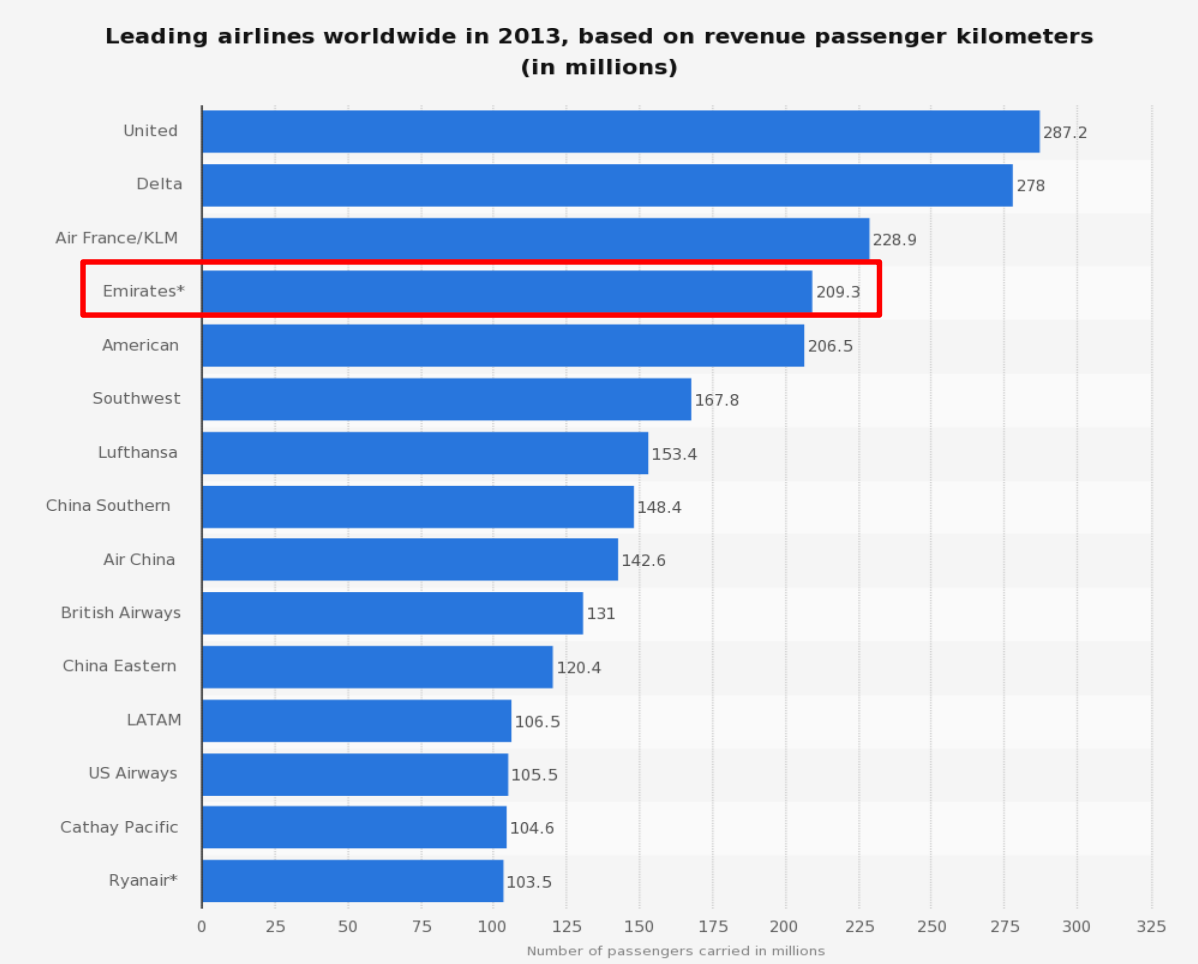
Source: Statista, 2015

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Emirates leading airline regarding revenue passenger kil.

Scheduled Passengers Carried



Source: www.iata.org; WATS 58th edition, 2013

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… as well as scheduled freight tonne kilometers

Scheduled Freight Tonne - Kilometres
International and Domestic

Rank	Airline	Millions
1	FedEx	16,127
2	UPS Airlines	10,584
3	Emirates	10,459
4	Cathay Pacific Airways	8,241
5	Korean Air Lines	7,666
6	Lufthansa	7,218
7	Singapore Airlines	6,240
8	Cargolux	5,225
9	Qatar Airways	4,972
10	China Airlines	4,813

Source: www.iata.org; WATS 58th edition, 2013

Emirates in Top 10 of highest group net Revenues 2013

Ranking 2013	(2012)	Group/Airline	Country	Revenues ($m)
1	(2)	American Airlines Group	USA	40,419
2	(1)	Lufthansa Group	Germany	39,920
3	(3)	United-Continental Holdings	USA	38,279
4	(4)	Delta Air Lines	USA	37,773
5	(5)	Air France-KLM Group	France	33,940
6	(6)	FedEx Express	USA	27,121
7	(7)	IAG	UK	24,686
8	(8)	Emirates Group	UAE	23,895
9	(10)	Southwest Airlines	USA	17,699
10	(11)	Qantas	Australia	16,218

Source: Airline Business, 2013

World's Top Airline's origin is the ME

The World's Top 100 Airlines - 2016

		2015 Rating
1	Emirates	5
2	Qatar Airways	1
3	Singapore Airlines	2
4	Cathay Pacific	3
5	ANAs	7
6	Etihad Airways	6
7	Turkish Airlines	4
8	EVA Air	9
9	Qantas Airways	10
10	Lufthansa	12
11	Garuda Indonesia	8
12	Hainan Airlines	22
13	Thai Airways	19
14	Air France	15
15	Swiss Int'l Air Lines	14

Source: Skytrax, 2016

Passenger traffic and capacity grow fast in ME

System-wide global commercial airlines	Passenger traffic (RPK), % Year-on-Year							Passenger capacity (ASK) % Year-on-Year						
	2010	2011	2012	2013	2014	2015	2016F	2010	2011	2012	2013	2014	2015	2016F
Global	8.0	6.3	5.3	5.2	5.7	7.4	6.2	4.6	6.6	4.0	4.8	5.5	6.7	6.8
Regions														
North America	4.5	2.9	1.0	2.3	2.7	4.3	4.0	2.3	2.8	0.0	2.0	2.5	3.8	4.3
Europe	4.3	8.4	4.6	3.9	5.7	5.0	4.9	1.7	8.9	2.6	2.7	5.1	3.9	5.8
Asia-Pacific	11.8	6.6	6.1	7.2	6.9	8.7	8.5	6.3	7.0	5.3	7.1	7.4	6.7	9.1
Middle East	17.6	10.0	14.7	11.6	12.1	10.1	11.2	13.3	9.8	12.0	12.3	10.9	12.6	12.2
Latin America	12.4	11.3	9.4	6.3	7.0	6.8	4.2	6.8	9.3	7.3	4.5	4.7	6.5	3.7
Africa	12.3	1.6	7.5	4.6	0.3	3.1	4.5	9.3	3.2	6.3	4.0	2.5	1.4	5.3

Source: IATA, 2016

Dubai Internation one of the busiest Airports worldwide

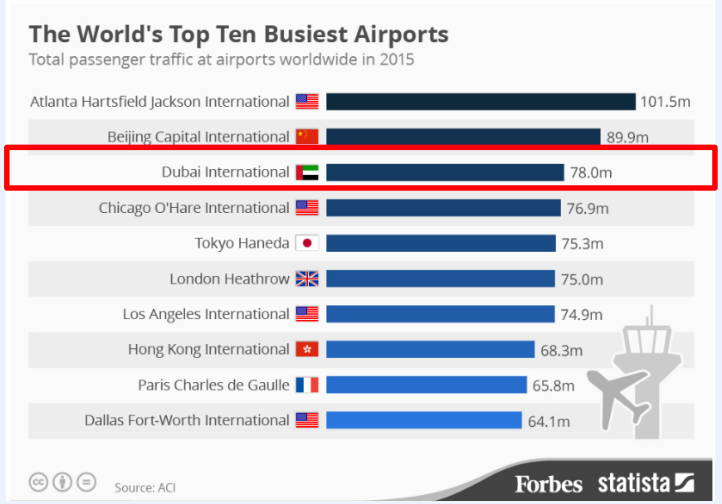


Table 2 – Total international passenger traffic 2015 (preliminary)

RANK 2015	RANK 2014	AIRPORT CITY / COUNTRY / CODE	INTL PASSENGERS (Enplaning and deplaning)	Percent change
1	1	DUBAI, AE (DXB)	77 453 466	10.7
2	2	LONDON, GB (LHR)	69 816 491	2.5
3	3	HONG KONG, HK (HKG)	68 071 282	8.2
4	4	PARIS, FR (CDG)	60 366 933	3.0
5	5	AMSTERDAM, NL (AMS)	58 245 545	6.0
6	6	SINGAPORE, SG (SIN)	54 836 000	2.9
7	7	FRANKFURT, DE (FRA)	53 994 154	2.4
8	8	INCHEON, KR (ICN)	48 720 319	8.5
9	10	BANGKOK, TH (BKK)	43 251 807	16.3
10	9	ISTANBUL, TR (IST)	42 302 859	11.1
11	11	TAIPEI, TW (TPE)	38 104 007	7.6
12	12	LONDON, GB (LGW)	36 667 769	6.4
13	13	KUALA LUMPUR, MY (KUL)	34 438 229	0.0
14	15	MADRID, ES (MAD)	33 765 583	14.1
15	14	MUNICH, DE (MUC)	31 313 329	3.5
16	20	DOHA, QA (DOH)	30 906 303	17.3
17	16	TOKYO, JP (NRT)	30 547 564	3.2
18	17	NEW YORK NY, US (JFK)	30 020 301	6.5
19	18	BARCELONA, ES (BCN)	29 067 531	6.7
20	19	ROME, IT (FCO)	28 280 267	5.4

Table 3 – Total air cargo traffic 2015 (preliminary)

RANK 2015	RANK 2014	AIRPORT CITY / COUNTRY / CODE	CARGO (Metric tonnes) Loaded and unloaded	Percent change
1	1	HONG KONG, HK (HKG)	4 460 065	0.4
2	2	MEMPHIS TN, US (MEM)	4 290 638	0.8
3	3	SHANGHAI, CN (PVG)	3 273 732	2.9
4	5	ANCHORAGE AK, US (ANC)*	2 630 701	5.5
5	4	INCHEON, KR (ICN)	2 595 677	1.5
6	6	DUBAI, AE (DXB)	2 505 507	4.5
7	7	LOUISVILLE KY, US (SDF)	2 350 656	2.5
8	8	TOKYO, JP (NRT)	2 122 314	-0.6
9	11	PARIS, FR (CDG)	2 090 795	0.2
10	9	FRANKFURT, DE (FRA)	2 076 734	-2.6
11	10	TAIPEI, TW (TPE)	2 021 865	-3.2
12	12	MIAMI FL, US (MIA)	2 005 174	0.3
13	15	LOS ANGELES CA, US (LAX)	1 938 624	6.5
14	14	BEIJING, CN (PEK)	1 889 829	2.3
15	13	SINGAPORE, SG (SIN)	1 887 000	0.4
16	16	AMSTERDAM, NL (AMS)	1 655 354	-0.9
17	19	CHICAGO IL, US (ORD)	1 592 826	15.6
18	17	LONDON, GB (LHR)	1 591 637	0.2
19	18	GUANGZHOU, CN (CAN)	1 537 759	5.8
20	24	DOHA, QA (DOH)	1 454 952	46.0

*includes transit freight

Table 4 – Total international air freight traffic 2015 (preliminary)

RANK 2015	RANK 2014	AIRPORT CITY / COUNTRY / CODE	FREIGHT (Metric tonnes) Loaded and unloaded	Percent change
1	1	HONG KONG, HK (HKG)	4 380 139	0.1
2	3	DUBAI, AE (DXB)	2 505 507	4.5
3	2	INCHEON, KR (ICN)	2 489 539	0.6
4	4	SHANGHAI, CN (PVG)	2 379 322	2.0
5	6	TOKYO, JP (NRT)	2 035 968	-0.4
6	5	TAIPEI, TW (TPE)	2 005 277	-3.3
7	10	ANCHORAGE AK, US (ANC)	1 956 776	9.5
8	7	FRANKFURT, DE (FRA)	1 950 726	-2.8
9	8	PARIS, FR (CDG)	1 861 311	0.2
10	9	SINGAPORE, SG (SIN)	1 853 100	0.5
11	11	MIAMI FL, US (MIA)	1 737 618	-0.1
12	12	AMSTERDAM, NL (AMS)	1 620 970	-0.8
13	13	LONDON, GB (LHR)	1 494 886	-0.2
14	17	DOHA, QA (DOH)	1 443 532	47.3
15	14	BANGKOK, TH (BKK)	1 189 105	-0.2
16	18	CHICAGO IL, US (ORD)	1 176 906	21.0
17	15	LOS ANGELES CA, US (LAX)	1 141 981	9.0
18	16	NEW YORK NY, US (JFK)	993 312	-0.5
19	19	LEIPZIG, DE (LEJ)	915 308	8.8
20	21	DUBAI, AE (DWC)	890 883	13.0

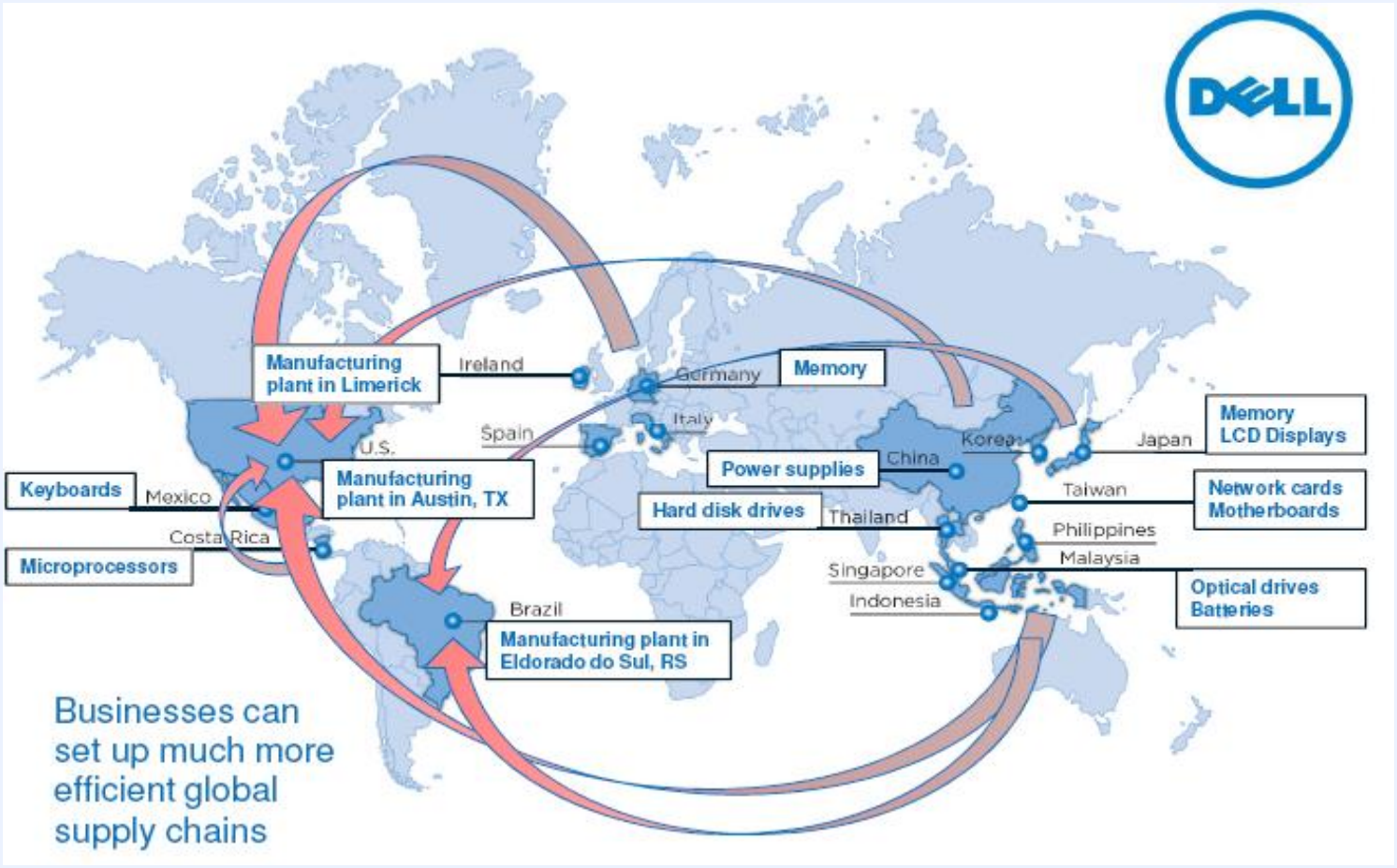
Source: Forbes, 2016; Statista, 2016; ACI, 2016

6% projected annual growth rate for int. traffic until 2034



Source: Air Transport Action Group, 2016

Air connectivity is vital for modern economys



Source: Dell, 2015

Connection of Dubai is ideal

- Geography has perfect strategic location as a “hub“ between Asia, Europe, Africa and America
- Destination of more than 150 airlines
- Direct flights to more than 220 destinations
- Also strong connection by ship (120 ship lines)

Air transport is the key to success in the ME

173
million passengers

1,009,133
flights

555.2
billion RPKs

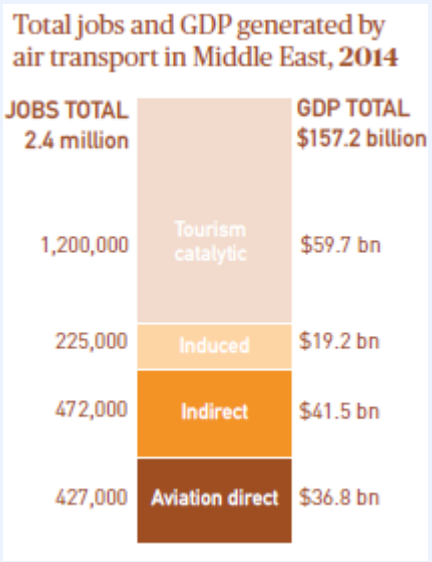
118
commercial airports

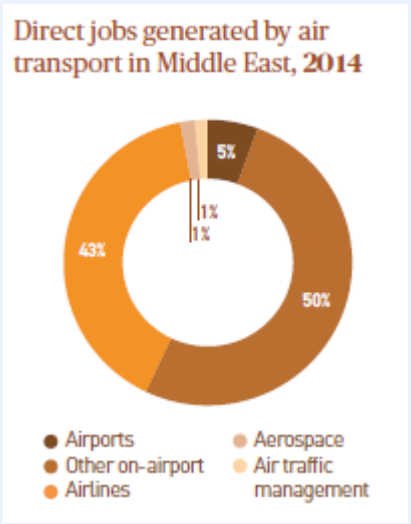
59
airlines

1,210
aircraft in service

14
air navigation service providers

78%
Average regional load factor



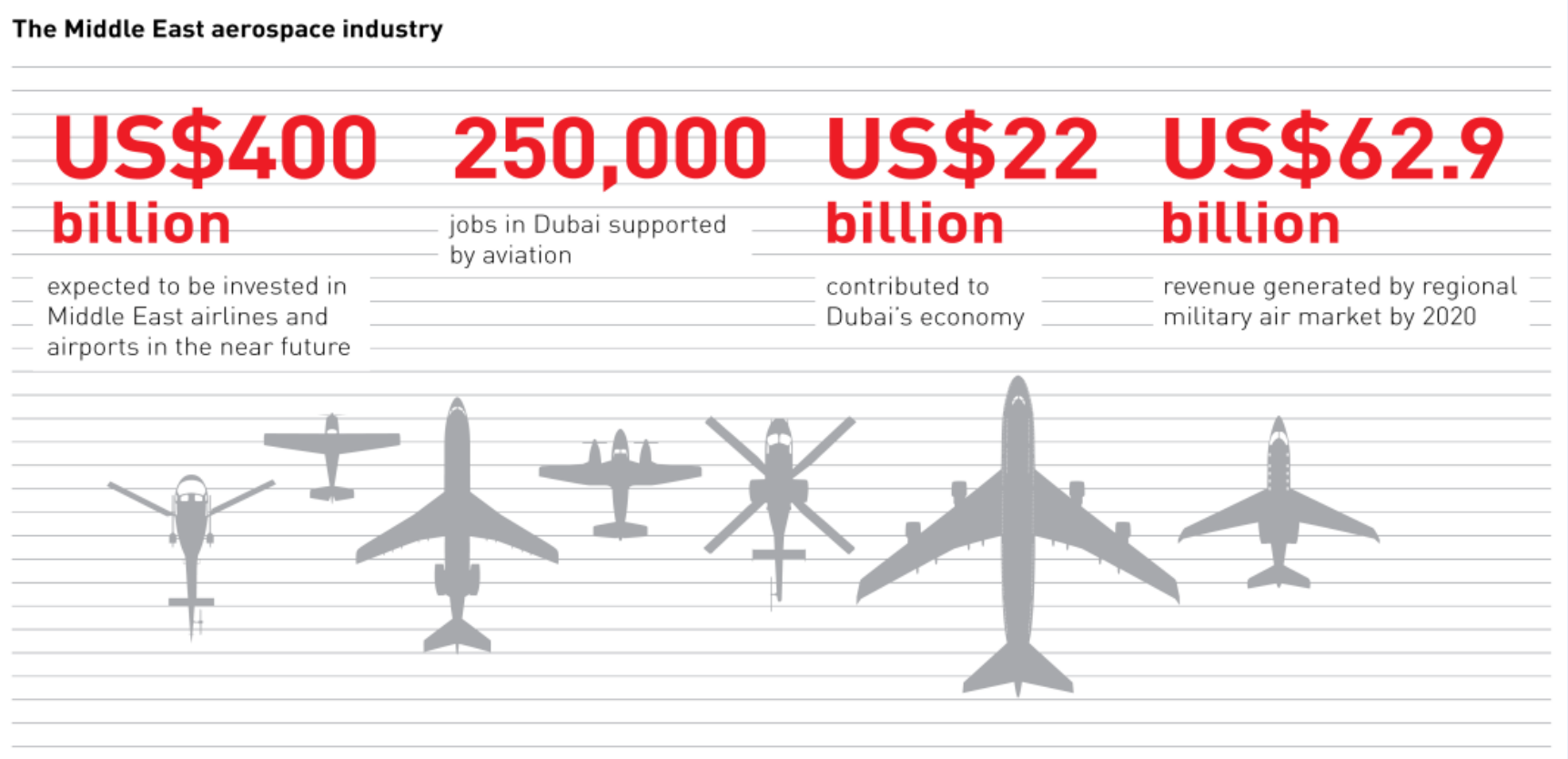


Source: Air Transport Action Group, 2016

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Huge Aerospace potential in Dubai



Source: Switzerland Global Entreprises, 2016

There are several challenges…

Oil market volatility threatens MENA's growth

Weak global demand, spillovers from the low oil price environment and challenging domestic conditions continued to weigh on economic activity in the Middle East and North Africa (MENA) at the outset of the year, though some tentative signs of improvement have since emerged. According to a more complete set of data, GDP for the region expanded 2.0% annually in Q1, which matched the result tallied in Q4. Although GDP figures for Q2 are not yet available in the region, the gradual recovery in oil prices observed from April to June may have supported growth among oil-export-driven nations. Moreover, strong growth in the United States and still positive dynamics in the Euro area bode well for the region's external sector.

Source: Focus Economics, 2016

United Arab Emirates

The United Arab Emirates (UAE) often uses its affluence to mask the government's serious human rights problems. The government arbitrarily detains, and in some cases forcibly disappears, individuals who criticized the authorities, and its security forces face allegations of torturing detainees. A new anti-discrimination law further jeopardizes free speech and is discriminatory, as it excludes references to gender and sexuality. Authorities denied access to the country to activists who criticized the UAE's mistreatment of migrant workers. Labor abuses persist, as migrant construction workers facing serious exploitation. Female domestic workers are excluded from regulations that apply to workers in other sectors. ■

Source: Human Rights Watch, 2016

News › World › Middle East

United Arab Emirates: Revealing the dark face of the Gulf state where human rights abuses are a daily occurrance

Behind the glittering facade, arrests, imprisonments and torture go largely unchallenged by countries keen to secure business deals. Now an award-winning activist says Britain must take a stand. Bill Law lifts the veil on life in the UAE

Bill Law | @billlaw49 | Tuesday 6 October 2015 | 21 comments

Source: Independent, 2015



"The Middle East's travel industry is under pressure to deliver a more customised and "remarkable" travel experience"
IBM, 2016

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…but there is huge potential!

- Multicultural setup has impact on dynamic development
- Strong trade and financial industry
- Strongest growth in the Aviation industry in Asia and Middle East markets
- Enormous passenger capacity growth in the ME
- Economic growth and high living standard are pushing passenger demand
- Connectivity very strong in the Middle East region

  → "hub" between Asia, Europe, Africa and America
- World's Top Airline's origin is the Middle East
- Huge Aerospace potential in general

"The success is Dubai's location – it's Europe's most easterly hub and Asia's most westerly hub"
Forbes, 2014

"The UAE government wants to see the country become a global aviation hub"
Computerweekly, 2016

Thank you for your attention!



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Aviation System

