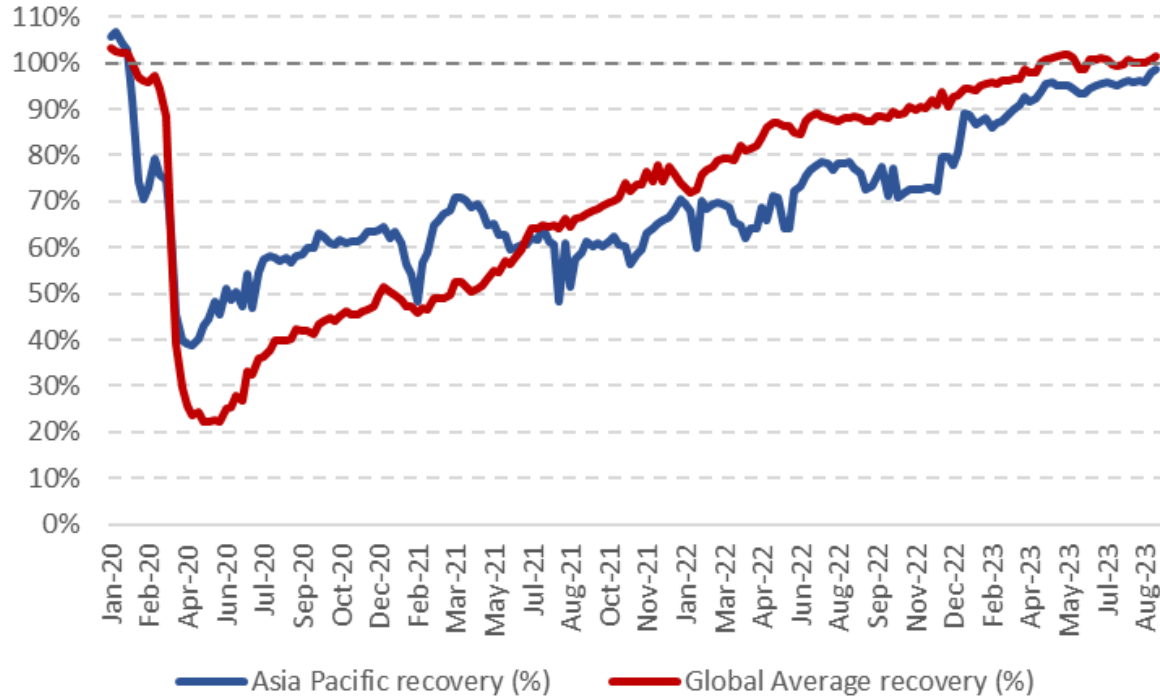


State of the Industry

CAPA – Centre for Aviation
Head of Research
Simon Elsegood

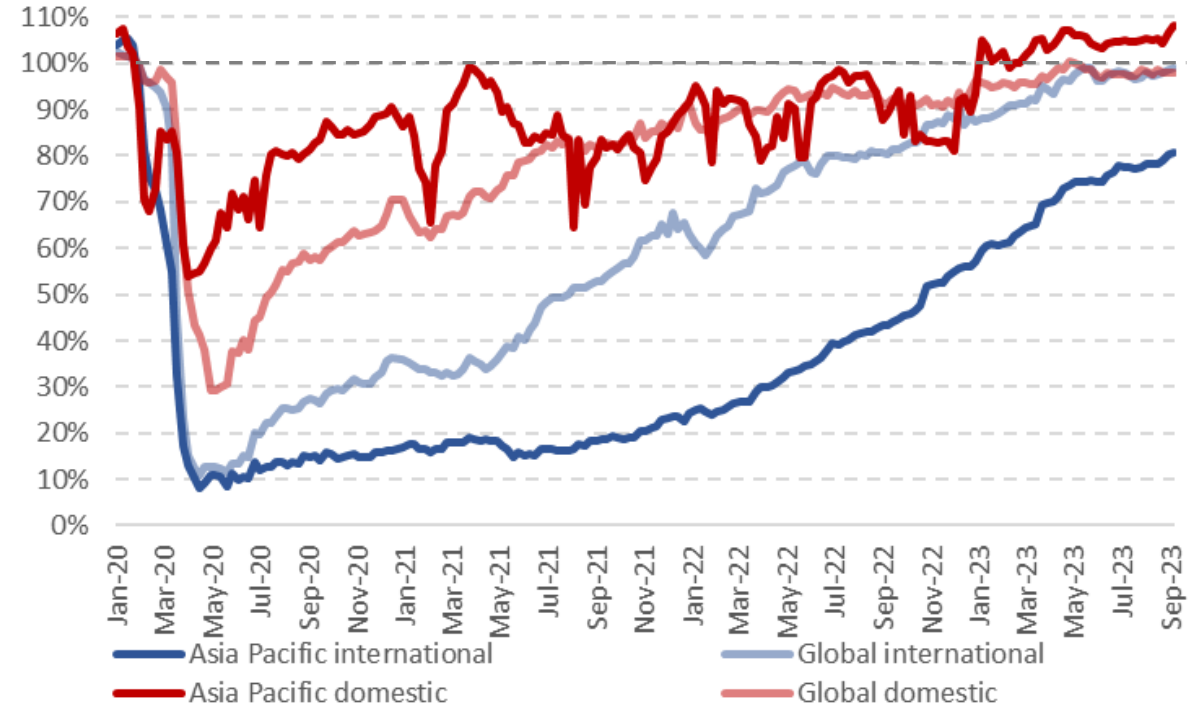
Global recovery is now complete in most regions

Global & Asia Pacific system seat capacity



Source: CAPA – Centre for Aviation & OAG

Global & Asia Pacific domestic and international seat capacity



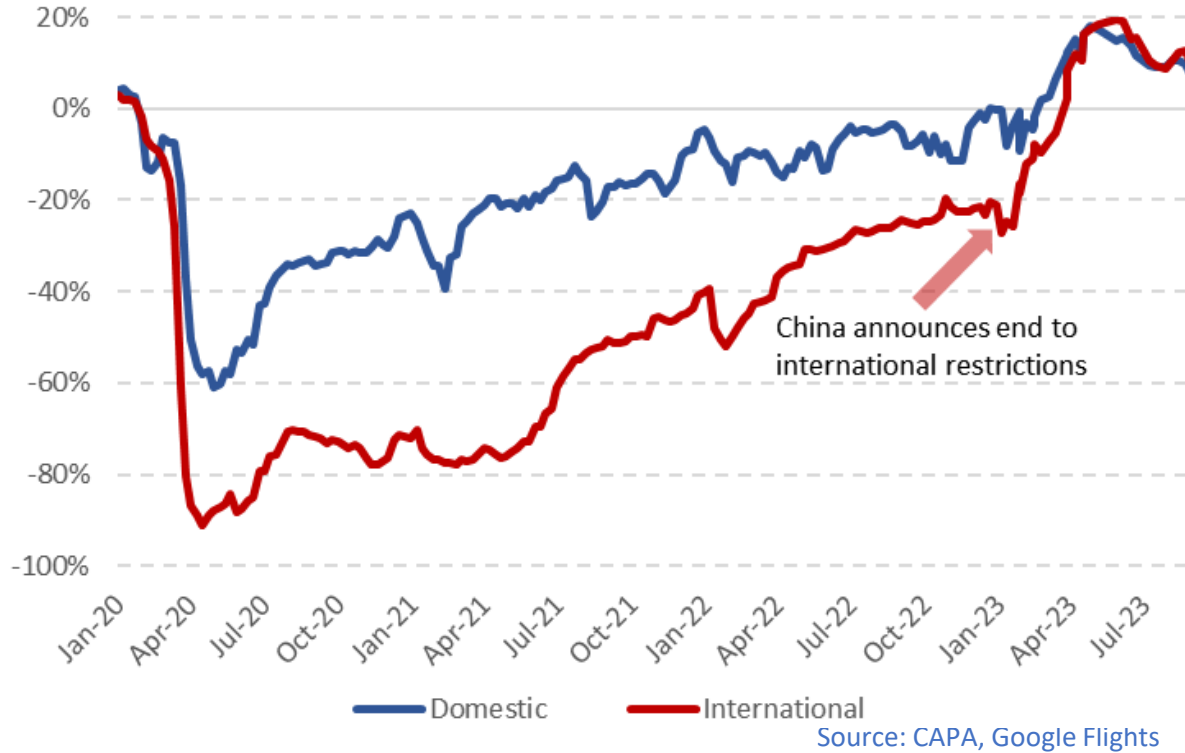
Source: OECD, US BLS, ABS, Eurostat

- Global capacity has fully recovered to the levels seen before the pandemic – mostly on the ongoing strength of large domestic markets
- Recovery is still significantly varied by region, type and reason for travel.
- The pandemic has change travel, but not produced some of the large-scale structural changes that were feared.

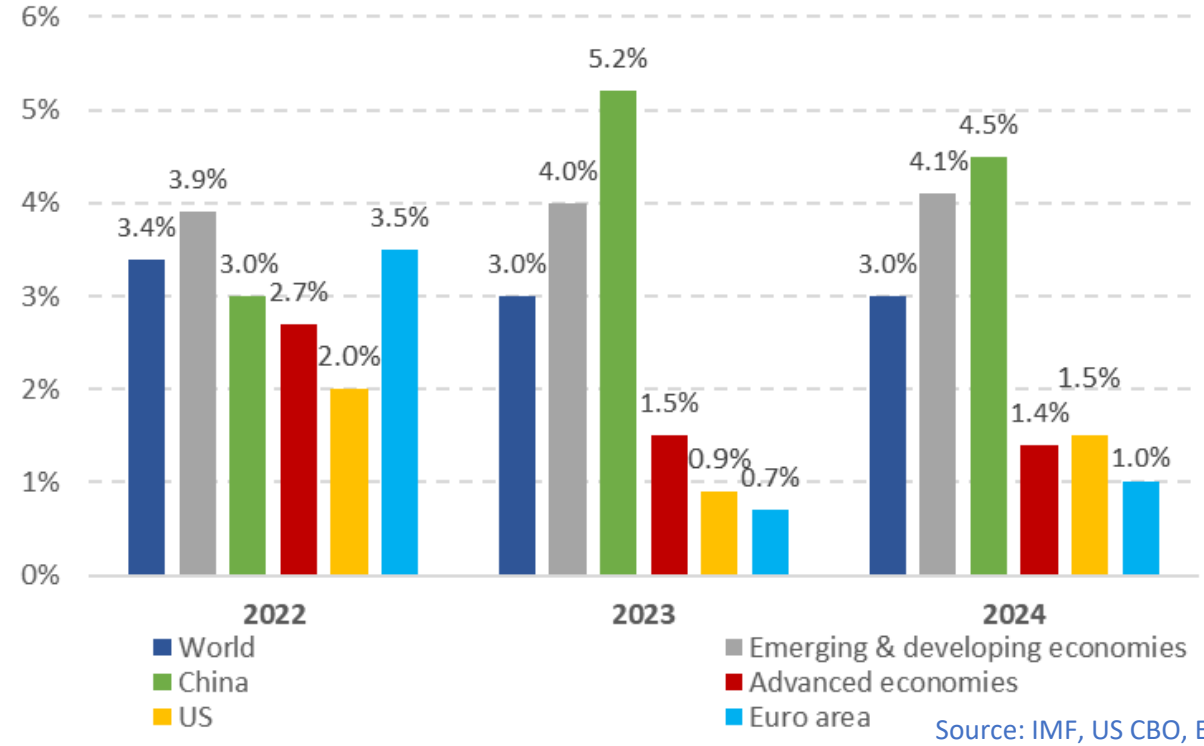
- Asia Pacific airlines have enjoyed rapid growth in 2023, after the region suffered delayed recovery due to sluggishness in ending border closures and travel restrictions
- International travel has accelerated since early 2022, with the re-opening of Japan & Sth Korea, followed by China in early 2023
- Chinese outbound travel is not yet recovering rapidly

Travel interest remains elevated for the time being, but the economic slowdown is being felt

Google air travel searches (% vs 2019)



Global economic outlook



- Global travel interest remains elevated, with domestic and international searches up compared to 2019
- Consumers are increasingly sensitive to prices, and are more concerned about value across the whole journey
- Pandemic period savings are still being spent, while the 'revenge' travel phenomenon is fading

- Global economic growth is forecast to slow through 2H2023, with advanced economies recovering in early 2024
- Inflation remains persistently high - with elevated rates likely to continue into 2025 - which has important implications for wages and consumer spending
- Signals are mixed from China's post-lockdown economy, which raises concerns for global growth

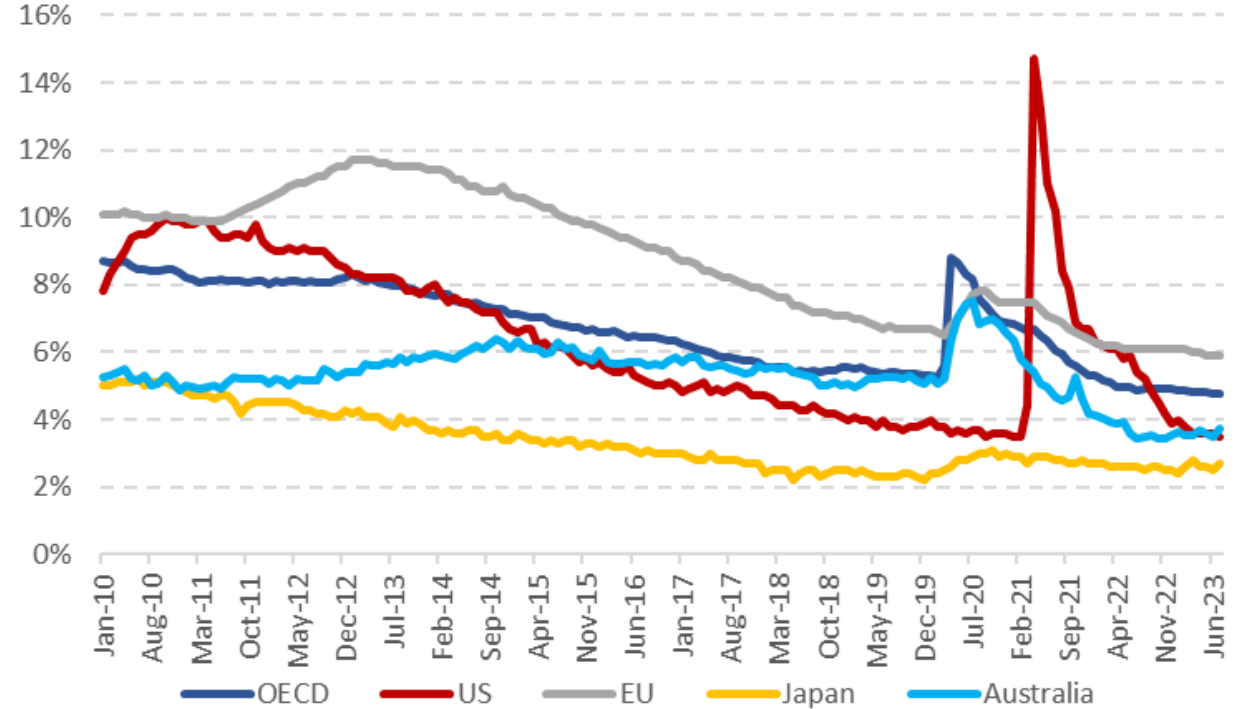
Airlines are facing ongoing cost pressures, and 2024 will be worse

Average global jet fuel price (USD per barrel)



Source: CAPA, US EIA & International Energy Agency

Unemployment rates for major economies



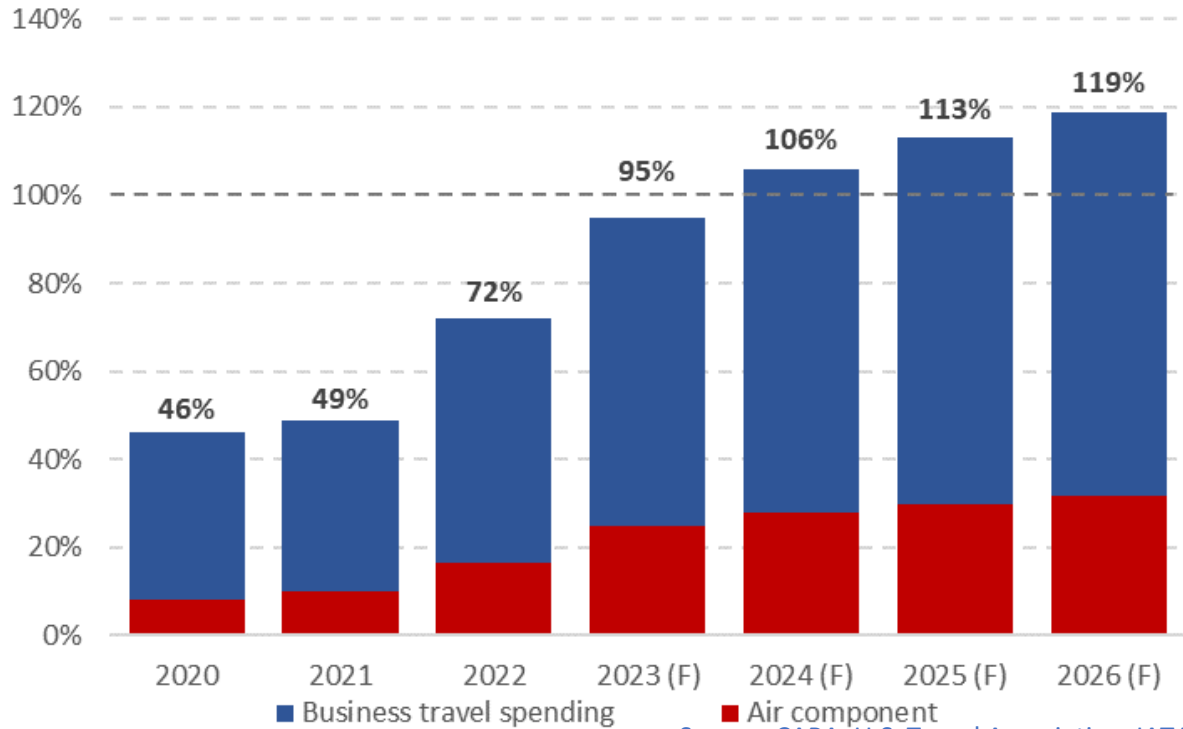
Source: OECD, US BLS, ABS, Eurostat

- A large majority of airlines expect their input costs will grow over the year ahead.
- Global oil demand is reaching record highs and supply isn't keeping up, sending prices up in recent months.
- Outlook is for continued price growth in 2023/2024.

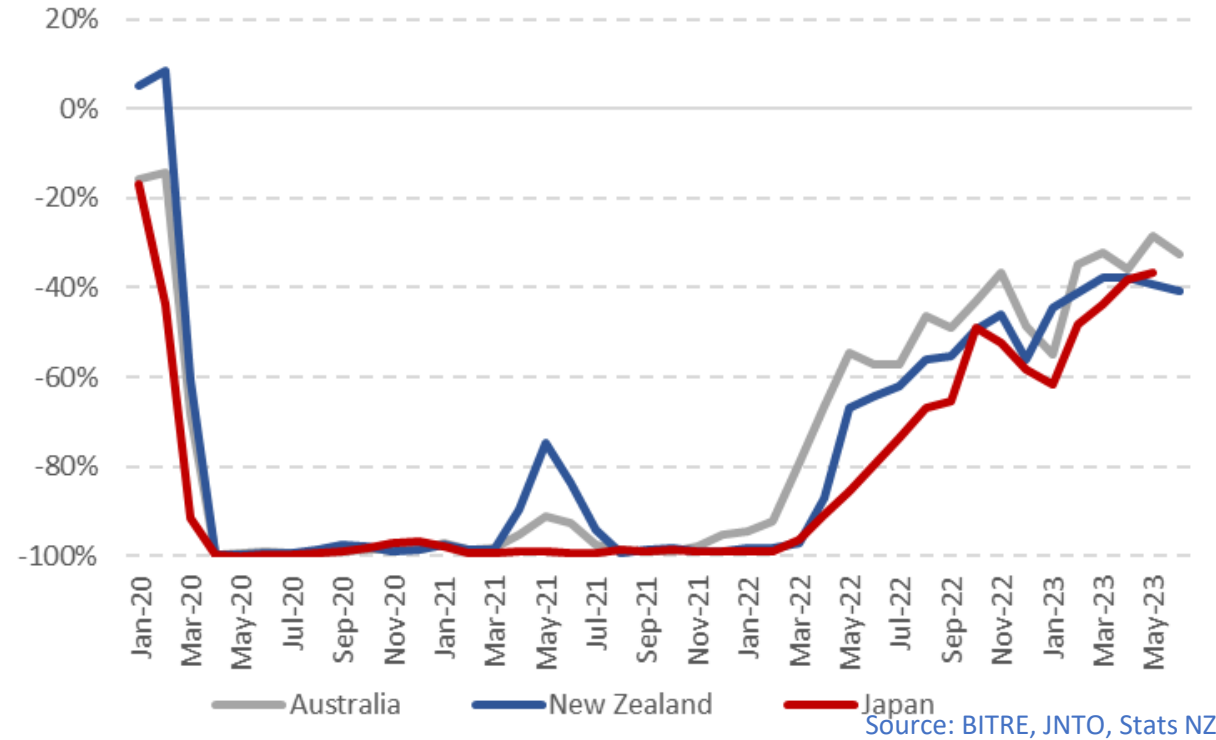
- Labour markets remain tight, with low unemployment, elevated mobility and upwards wage pressure
- Aviation faces skill shortages, which are only amplifying cost pressures
- Financing costs are elevated compared to recent years
- Sustainability is incrementally adding to airline costs

Global business travel is coming back faster than expected (sort of)

Global business travel spending



International arrivals for business purposes

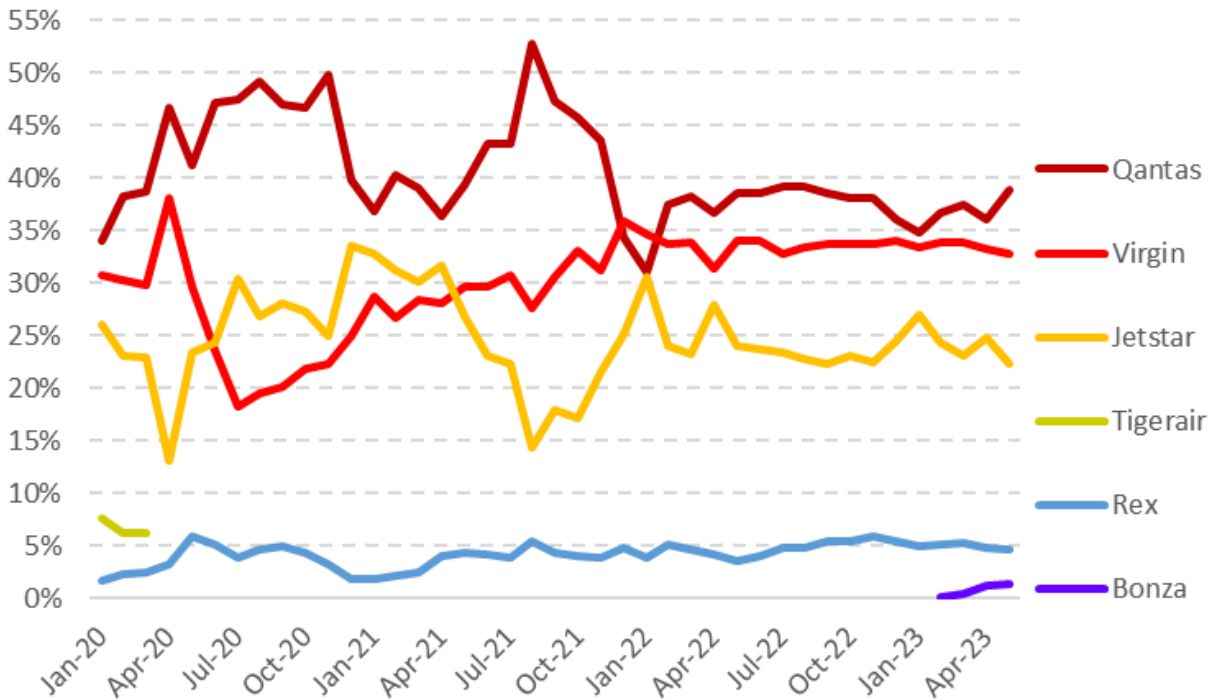


- Global business spending accelerated in 2022 and 2023
- Global business travel volumes still lag well behind the broader recovery, regardless of trip type
- Full recovery in global corporate travel spending is forecast for 2024, but thanks to inflation tracking value alone doesn't give a full picture

- International business travel is still only 60-70% of 2019 levels, and the return of travellers is slowing
- Some of this seasonal, some of this is situation, but some of it is structural (technology, sustainability and budgets)
- There are encouraging signs emerging around MICE and hybrid working arrangements
- Cost remains the major concern, followed by safety

Australian domestic market is seeing new competition ...

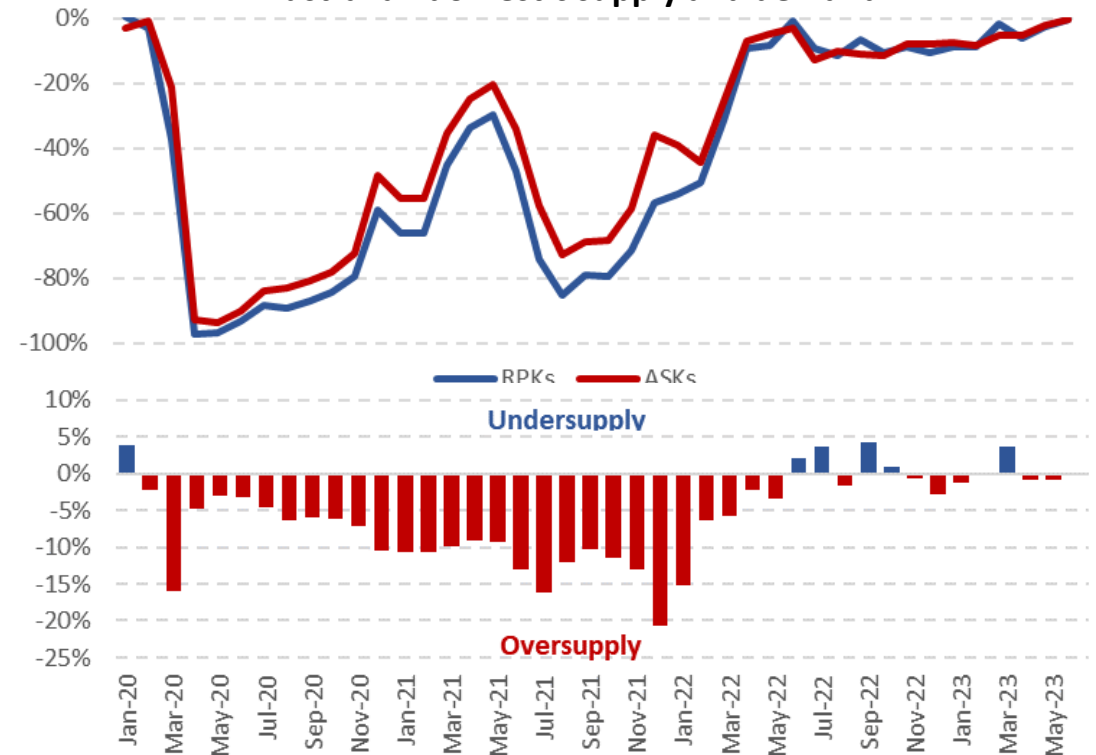
Australian domestic market share



Source: ACCC

- Australia's has seen more action in the domestic market than any period since the Ansett collapse – but it remains an imbalanced duopoly with slow growth.
- Rex going mainline and the launch of Bonza bring welcome competition – but with limited impact so far across a small number of routes.
- Re-fleeting at Qantas and Virgin will maintain the duopoly.

Australian domestic supply and demand

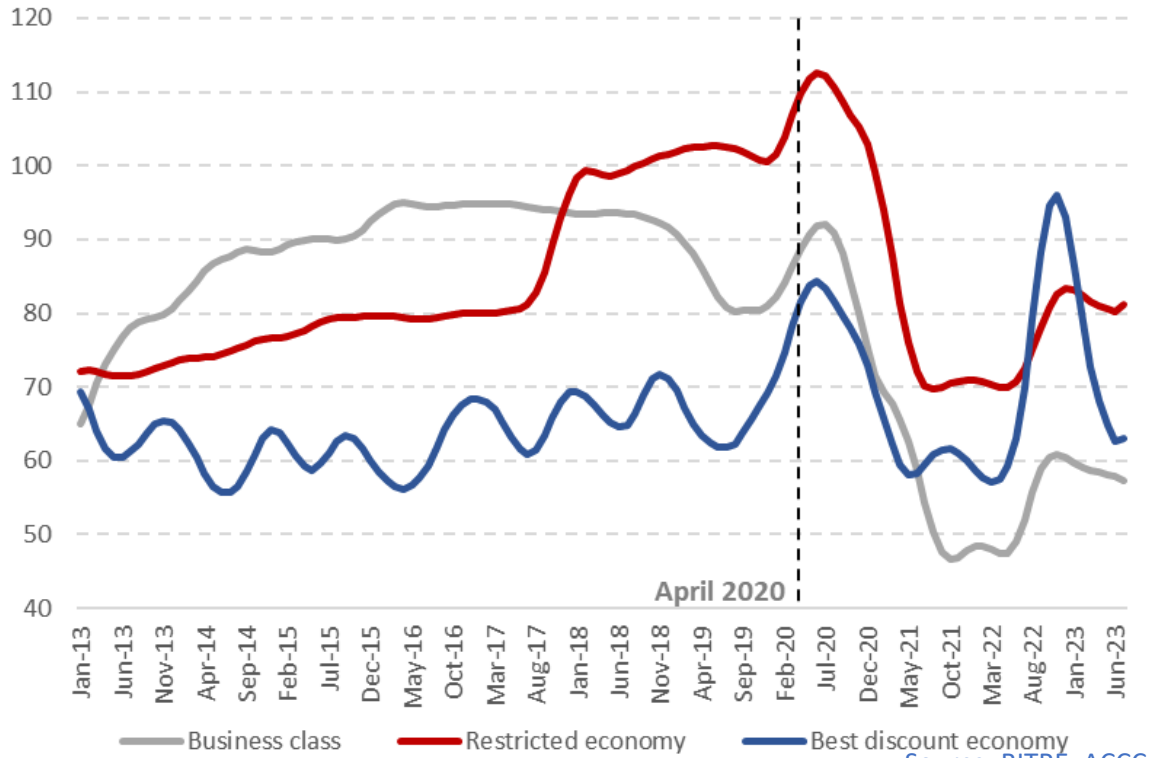


Source: CAPA & OAG

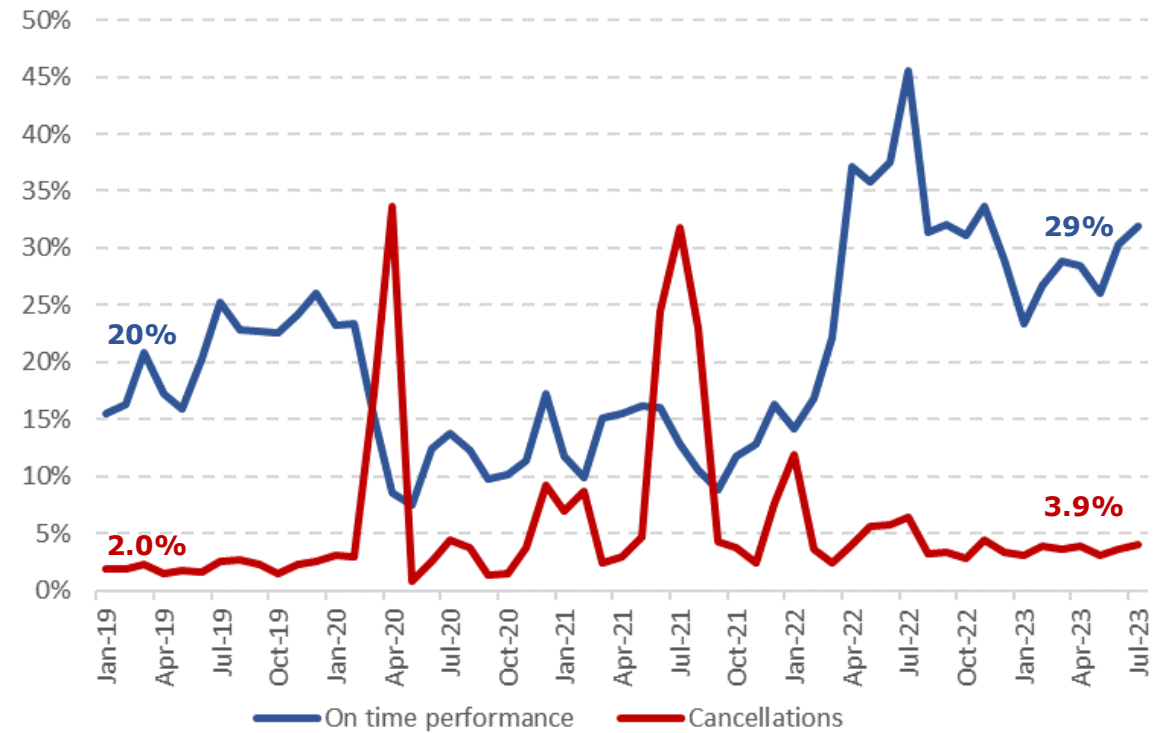
- Airlines have improved their operational performance, but they aren't back to pre-pandemic levels yet.
- Cancellations & delays, long queues, customer service standards, fares and a host of other issues are seeing consumer attitudes to some airlines shift quickly.
- Winning back trust and rehabilitating a brand is not something that can be solved overnight.

... but the incumbent carriers haven't done themselves many favours in recent history

Australian domestic airfares, inflation adjusted (2003 = 100)



Australian domestic on time performance and cancellations



- Australian domestic demand and supply have largely come back into alignment
- This has brought fares back down somewhat from recent highs, although not back to pre-pandemic levels
- Some fare classes have increased in price over the last decade

- Fares are well below pre-pandemic levels, but some fare classes have increased in price over the last decade
- The industry faces shortages when it comes to pilots & engineers, as well as delays in aircraft deliveries.
- More capacity will only come in slowly