International Civil Aviation Organization
ICAO South American Regional Office
Seventeenth Meeting of the Civil Aviation Authorities of the SAM Region (RAAC/17)
(Santiago, Chile, 10 to 14 April 2023)

Agenda Item 5A: **Other business**

ECONOMIC OUTLOOK AND THE VALUE OF AVIATION

(Presented by the International Air Transport Association (IATA))

SUMMARY

This information paper presents an economic outlook, the current situation, the projection of air transport connectivity and growth of aviation in the SAM region, as well as the possible actions that governments should adopt (through ICAO) to promote and support the strong recovery process seen by the SAM region.

Actions: The meeting is invited to:

a) Take note of the information contained in this paper.
b) take note of the importance of a steady recovery process and the measures that governments in the region could provide to promote the improvement of connectivity of air transport throughout the Latin America and Caribbean Region, to facilitate the benefits that could arise from the aviation industry to the betterment of states economies; and
c) Support collaboration between states and industry to foster the value of aviation in the region.

References:

- A41-27 Consolidated statement of continuing ICAO policies in the air transport field
- Declaration to Promote Connectivity through the Development and Sustainability of Air Transport in the Pan American Region - Vision 2020-2035.

ICAO Strategic Objectives:	This working paper relates to Strategic Objective • Capacity and Efficiency • Economic Development

1. Introduction

1.1 The global economy has slowed from the strong rebound in 2021 of 6% world GDP growth to around 3.4% in 2022, and 2023 might end in the vicinity of 2.9%, according to the IMF in their updated January forecast. This rather dramatic slowdown can certainly feel recessionary to many. Moreover, while we do not anticipate a global recession, individual countries might indeed experience two consecutive quarters of reduced economic activity in 2023.

1.2 The global surge in inflation has been driven mostly by energy and food prices. Excluding food and energy prices, other, or core, inflation has still risen above most central banks' targets, but generally represents less than half of headline inflation. Some countries in the region, such as Venezuela and Argentina, are tagged as part of the world's top ten countries with higher inflation rates.

1.3 Coming out of the worst of the COVID-19 pandemic, the war in Europe drove energy and food prices significantly higher, which prompted much policy tightening by central banks, in turn adding to the safe-haven status of the US dollar, all of which constitute important headwinds for the global economy and for aviation.

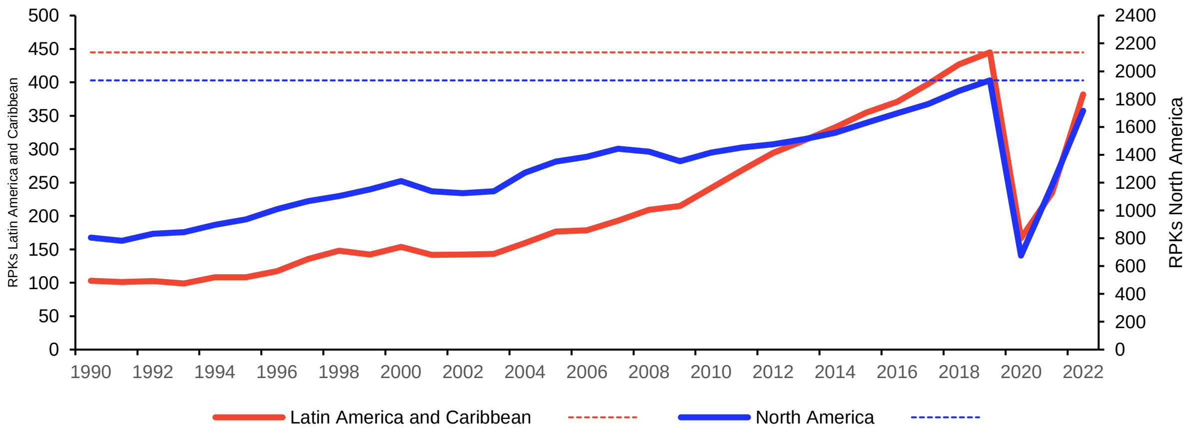
1.4 Nevertheless, 2022 testifies to the resilience of the air transport industry. After the largest shock in aviation's history, recovery is well underway. Traffic is forecast to grow at a record rate in 2022, and to continue to grow at a slower pace in 2023 and beyond.

2. Discussion

2.1 The effects of COVID-19 on aviation were evident from the beginning of the health crisis. For 2021 in Latin America and the Caribbean, with the severe contracted demand, the industry's contribution to the regional GDP was reduced by 45%, generating the potential loss of 3.3 million jobs.

2.2 During 2022, North and South America registered the strongest recovery pattern among all regions globally. The fast and continuous recovery path of the Americas can be associated with the extensive vaccination rollout, relief measures provided by governments, and recently the easing of travel restrictions. The recovery of the US market played a vital part in restoring passenger flows and routes from South America and Europe to the region.

Figure 1:RPKs evolution in the region since 1990

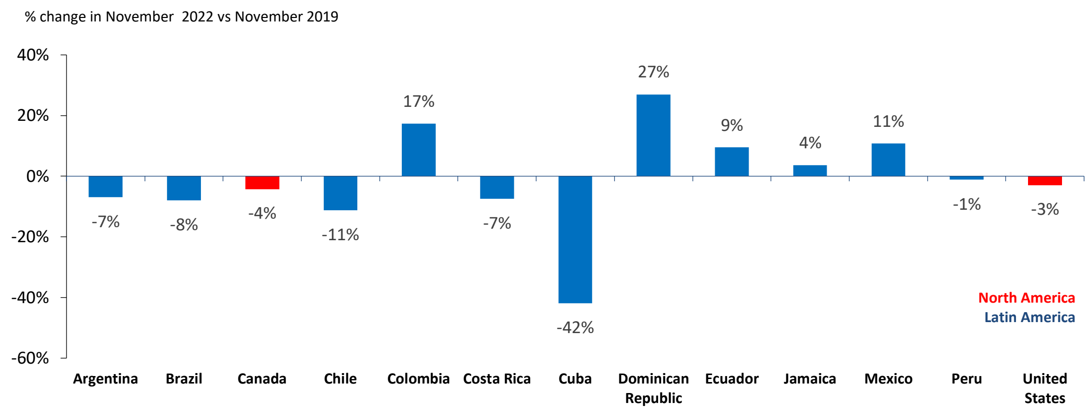


Source: IATA Monthly Statistics.

2.3 The US, acting as an open corridor for the region (to/from and within the US), and considering that it represents nearly 11% of the total international traffic originating in South America, has greatly facilitated the recovery in the latter region's markets. Countries such as Colombia, Mexico, and some Caribbean States that maintained or implemented flexible operational conditions have benefited from this situation, reporting in 2022 higher levels than those flown in 2019.

2.4 Another essential component exploited by the mentioned countries is the Intra-South American traffic, representing 77.9% and growing at an accelerated pace. Due to the above, Latin America and the Caribbean have recovered strongly and continue growing, with RPKs standing in 2022 at a mere 10,5% below their pre-pandemic level.

Figure 2:Growth in RPKs by region



Source: IATA Economics based on DDS data.

2.5 Despite the strong passenger traffic growth throughout 2022, achieving nearly 90% of their pre-pandemic RPKs due to the region's high heterogeneity, not all the countries have seen or followed the same recovery patterns. Some countries, including Colombia, Mexico, and Ecuador, have exceeded their 2019 traffic levels. In the case of Colombia, the country's tourism policies, depreciated currency, and limited travel restrictions have allowed this market to outperform 2019 traffic levels in 2022. Ecuador has also seen a remarkable recovery in 2022, partly due to the reduction of taxes by the government (ISD, EcoDelta and Potencia Turistica), which supported the aviation industry and created a more competitive market. As a result, traffic stood 9% above 2019 levels in Q4 2022.

2.6 Cargo traffic has been vital in restoring air transport connectivity. On one side, the region's carriers were less affected by the pandemic and have stayed close to or above their pre-pandemic levels. In December 2022, CTKs in Northern America stood 11% above the same month in 2019. This outcome may be attributed to the consolidation of the cargo processes in the United States for cargo flights to the Caribbean, Central, and South America, which were active markets during the pandemic. As the cargo business evolved during the pandemic, the possibility of retrofitting passenger aircraft for cargo operations, and the high revenue generated in the air cargo market, drove many airlines in the region (LATAM Airlines, Air Canada, and Wingo) to increase their cargo capacity, showing a solid recovery also over the past few months. As of December 2022, Latin American airlines' CTKs were only 3% below their pre-pandemic levels.

2.7 The number of routes operated in the region during 2022 has been restored and is above 2019 levels. However, the number of frequencies is still below, awaiting the full recovery of the demand.

Table 1: Connectivity (routes and frequencies)

Region		2019	2022
NorthAmerica	Routes	10,232	10,541 (+3,02%)
	Frequencies	10,580,273	8,938,638 (-15,5%)
LATAM	Routes	3,588	3,639 (+1,42%)
	Frequencies	2,892,533	2,548,646 (-11,9%)
Caribbean	Routes	1,151	1,095 (-4,87%)
	Frequencies	542,120	419,746 (-22,6%)

Source: IATA using OAG data.

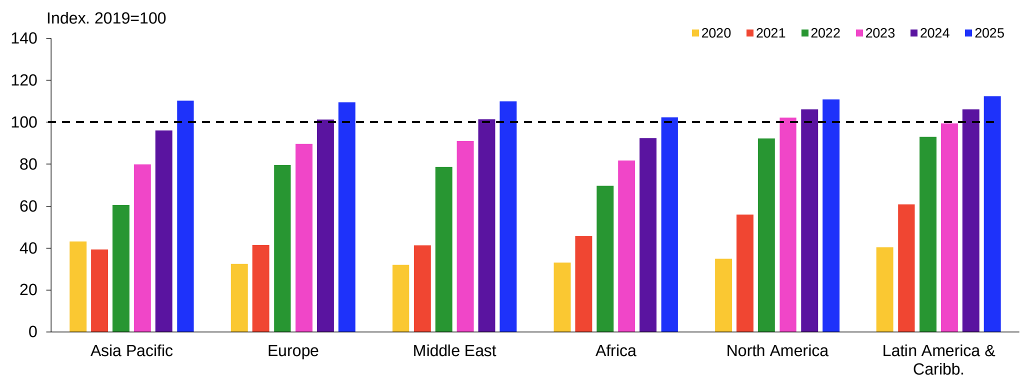
2.8 While the new year is still young, the following key risks have been identified to the global economy, to air transportation, and the possibility to maintain the positive recovery process:

- War and further looming risks of military conflict (North Korea, Taiwan, and Iran)
- Macroeconomic turmoil
- Inflation, Global Recession, Exchange rates, Trade Wars
- Oil and Jetfuel
- Elections
- Travel Restrictions
- Climate Change
- Blocked Funds

2.9 Most of the headwinds from 2022 are likely to remain with us also in 2023, though overall they may be unlikely to intensify. This nevertheless implies that airlines will face elevated costs on virtually all fronts. The upside potential in our forecasts therefore looks capped, and the balance of risks remains tilted to the downside. The main positive surprises which could produce significant upside in economic activity and air transportation would be an end to the war in Ukraine, and an end to all travel restrictions.

2.10 The near-term outlook is adjusted to accommodate the macroeconomic and geopolitical changes that have recently impacted our global economy and industry. Nonetheless, it is expected that the number of global passengers to reach those of 2019 will be in 2024 and continue to expand over the following years. For Latin America and the Caribbean, it is expected that the number of domestic and international passengers will recover to 2019 levels by 2024.

Figure 3: IATA´s Regional Passenger Forecast



Source: IATA/Tourism Economics

3. **Conclusion**

3.1 The aviation industry is still recovering from its deepest crisis and most challenging years. Our industry has remained resilient to all the headwinds over the past few years. Airlines showed great strategic courage and flexibility to maximize their revenue over this challenging time.

3.2 The public sector provided critical support to prevent bankruptcies in our industry during the pandemic. It became evident that a collaborative work between governments and the industry is key and it is the most efficient way to safeguard the economic and social benefits brought by the industry.

3.3 In that sense, the industry considers important to define an agenda and work collaboratively with the Governments of the SAM region towards advancing the priorities of the air transport, so that the SAM population can enjoy the benefits of air transport, greater connectivity, optimal security conditions, better access to air transport, addressing the economic, social and environmental dimensions of sustainable development.

4. Suggested Action

4.1 The RAAC17 meeting is invited to:

a) Take note of the information contained in this paper.
b) take note of the importance of a steady recovery process and the measures that governments in the region could provide to promote the improvement of connectivity of air transport throughout the Latin America and Caribbean Region, to facilitate the benefits that could arise from the aviation industry to the betterment of states economies; and
c) support collaboration between states and industry to foster the value of aviation in the region.

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