

## Industry Outlook Presentation to annual ASA/AFRA Conference

Adam Pilarski, Senior Vice President, AVITAS, Inc. July 10<sup>th</sup>, 2017 Reston, VA

### 2 topics to be covered

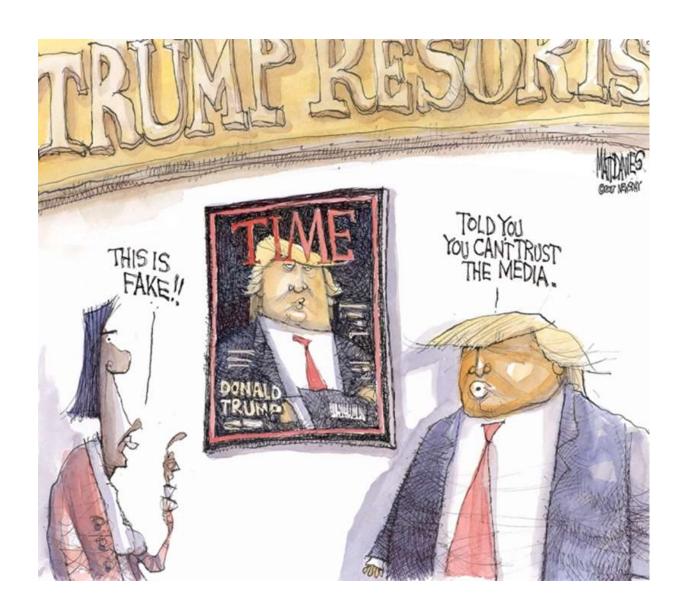
- World developments
- The forthcoming burst of a bubble



#### **World Developments**

- Using economics to understand them
- Implication on our life







## To help us understand reality we can use 4 economic concepts

- Trade offs
- Game Theory
- Principal/Agent dilemma
- Analytical thinking



## **Analytical Thinking**



"For every simple problem there is an answer that is murky, complex and wrong."

**Paul Krugman** 

"For every complex problem there is an answer that is clear, simple and wrong."

H. L. Mencken (1880-1965)

### **Trade-offs**



### Trade off

- Benefit economies of scale, lower costs (€)
- Cost bureaucrats far away tell you what to do



# Principal Agent Problem Can we find better implementers?



- Movement from central authority
  - Business people?
  - •Military?









### "Trump is CEO of the country"

Nikki Haley May 14<sup>th</sup>, 2017



- Judging by results (concentrate on efficiency)
  - Plethora of billionaires in cabinet
  - Use/acceptance of business principles to guide our life
    - Education Charter Schools
- Can military run better government (plethora of generals in cabinet)



## Make America Great Again not the same as America World Leader



## If not the U.S.....



#### The New World Leader?

The Washington Post

**CHINAWATCH** 

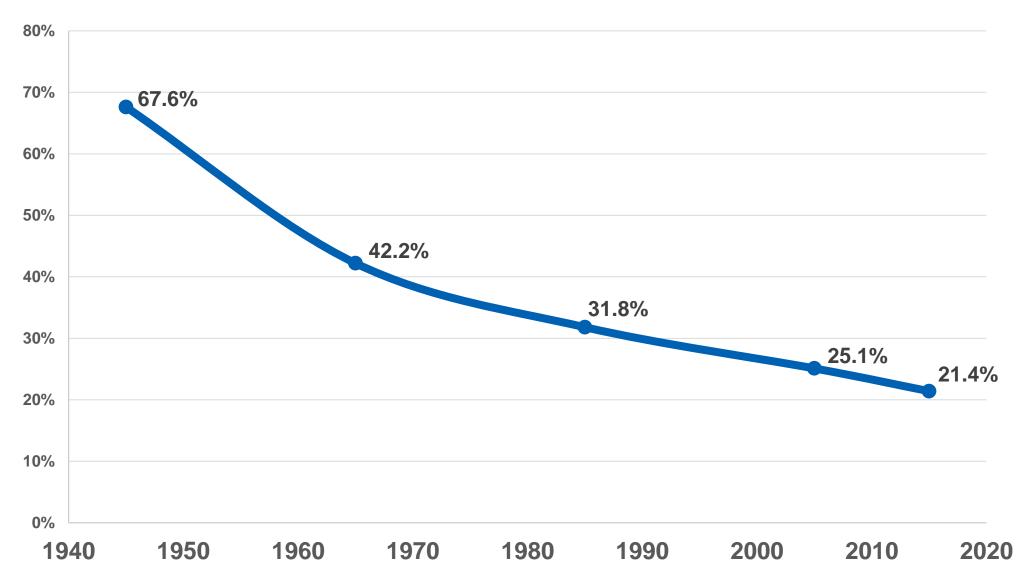




## Implications for business

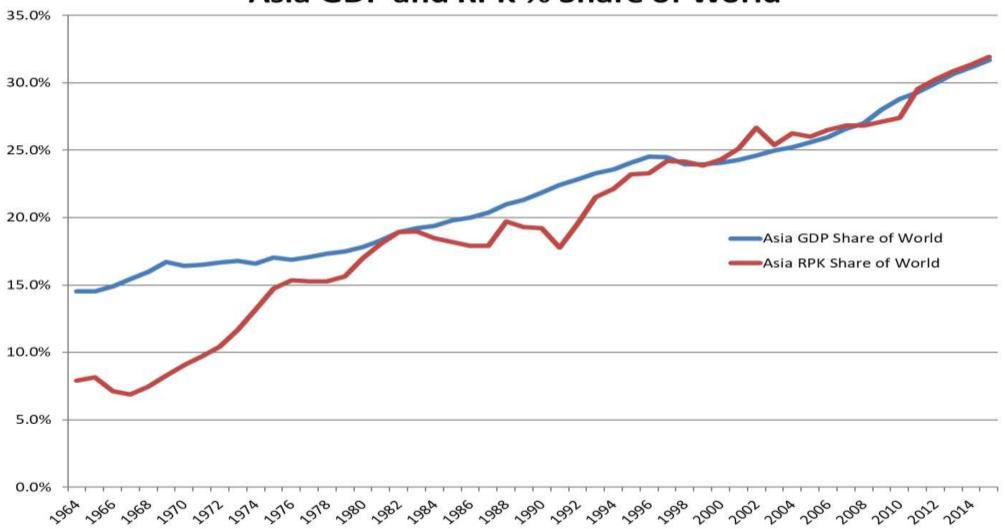


#### **U.S. Share of World Traffic**



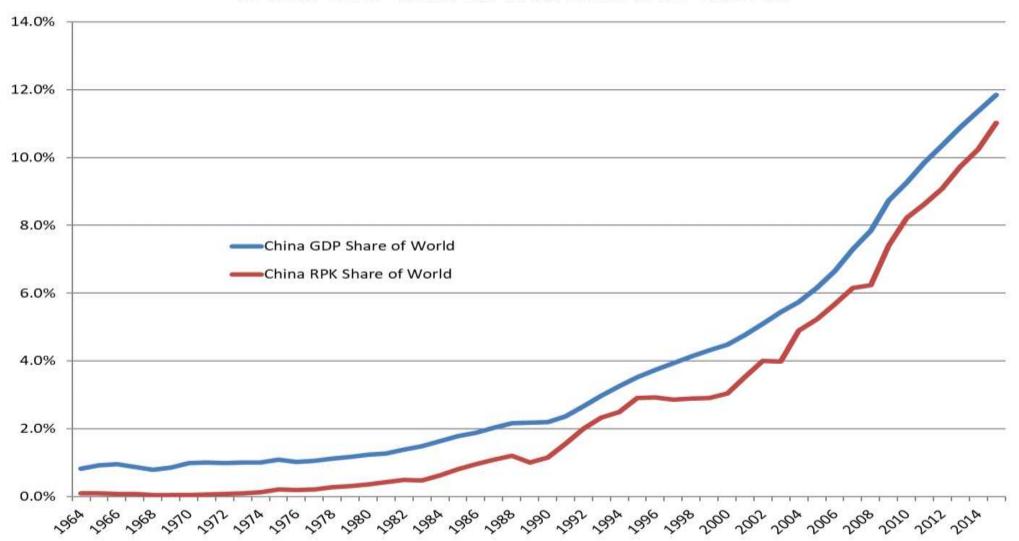


#### Asia GDP and RPK % Share of World





#### China GDP and RPK % Share of World





#### 2035 (Airbus/Boeing Forecasts)

#### World share of traffic

- Asia (38-40%)
- China 16.1% (B)

#### World share of GDP

- Asia 40%
- China 18.1% (B)



- •Future role of dollar?
- Demise has been predicted many times
- Adam's theory of tallest midget
- Possible huge implication for our industry
  - Pricing of aircraft
  - Financing
  - Oil prices



## Possible bubble



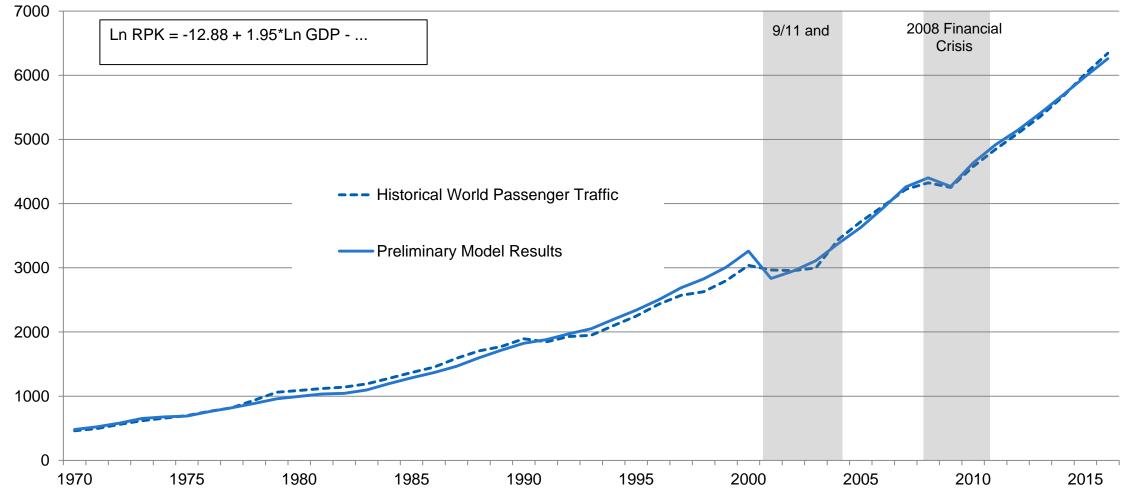
### Concept of bubble

- Irrational by definition
  - Both up and down
- Impossible to predict
- Burst usually caused by "wild developments"
  - •Wars, policy mistakes......



#### **Annual World Passenger Air Traffic**



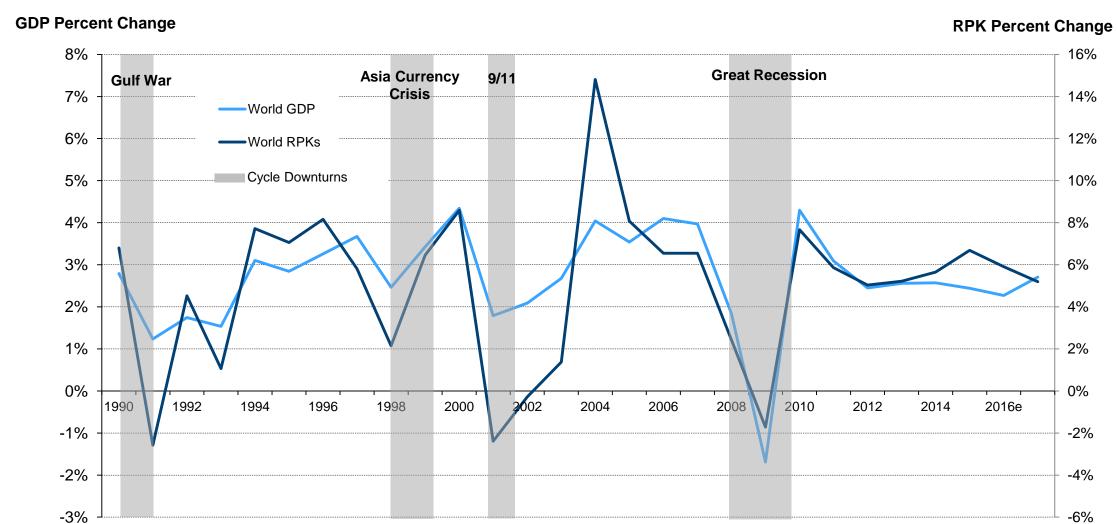


Sources: ICAO historical data and AVITAS forecast. Note: Model results are preliminary and may be subject to change.

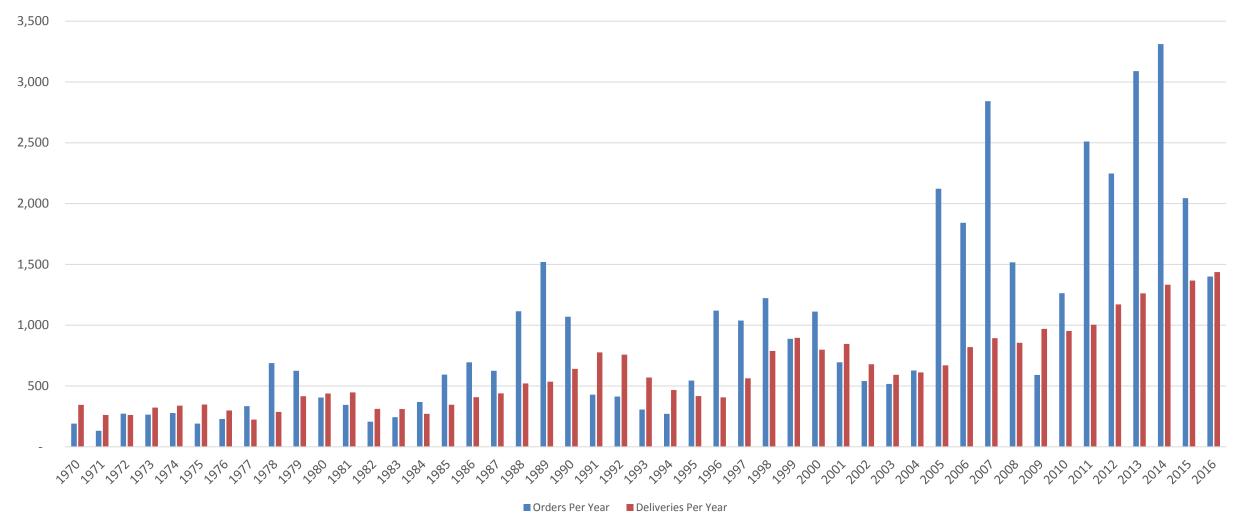


#### World GDP Growth & World RPK Growth

1990 - 2017f

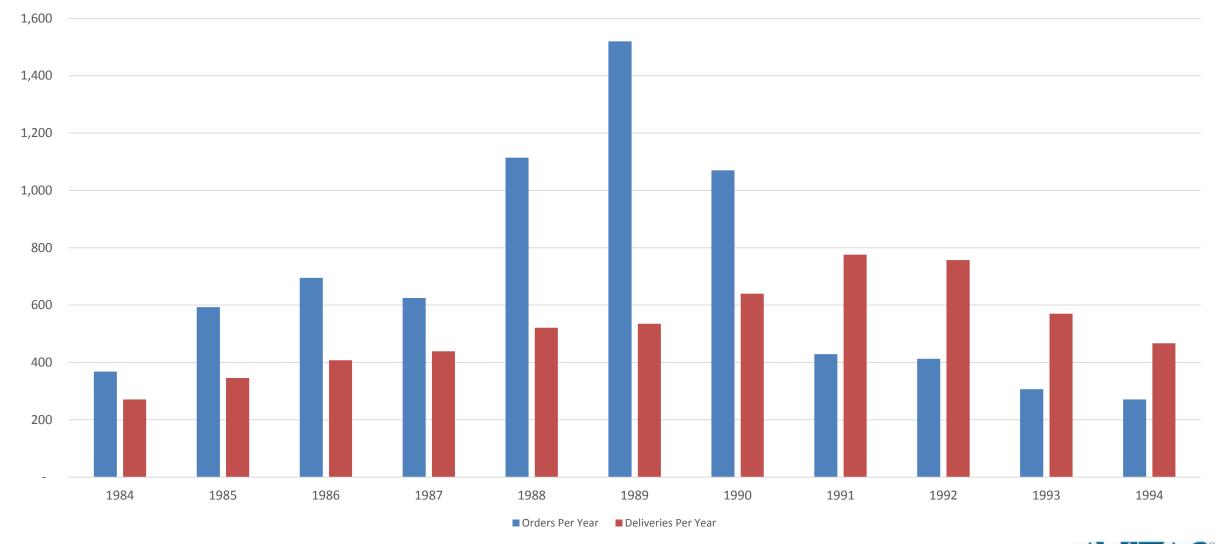


#### Historical Orders vs Deliveries 1970-2016



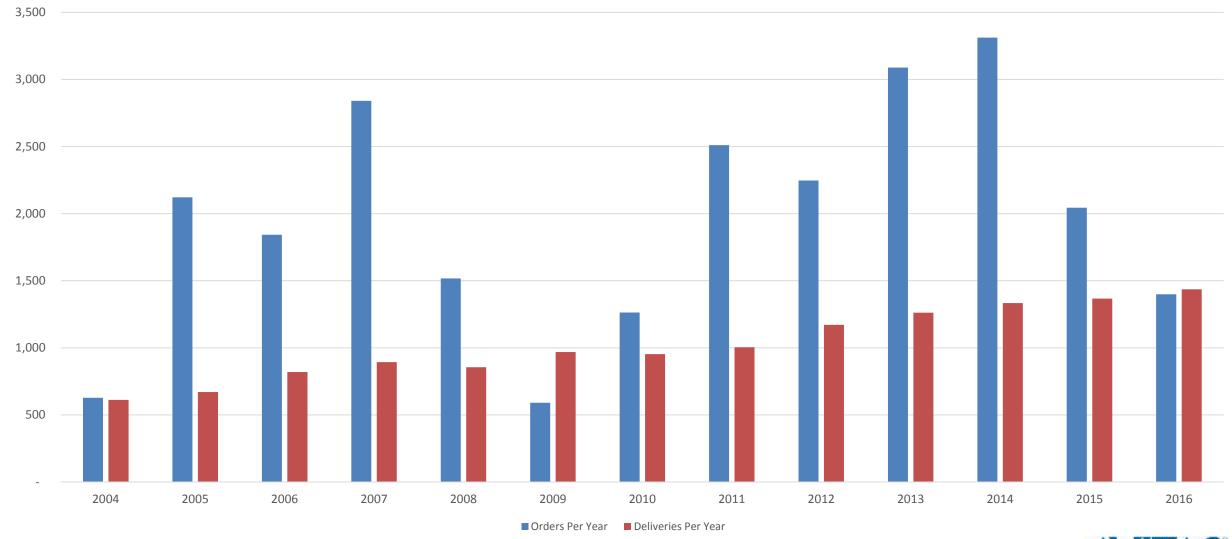


#### Historical Orders vs Deliveries 1984-1994





#### Historical Orders vs Deliveries 2004-2016





### Why large orders

- Double counting
- Low interest rates
- High oil prices
- Proliferation of new narrow body models



## This time possible bubble pricks can be identified

- Stage One : Middle East
- Stage Two: Leasing companies, especially in China



#### **Summary**

"May you live in interesting times" is becoming reality

Heightened uncertainties may produce new opportunities

Coming to peak of cycle, though still positives likely



## What to do?



## 危机 Crisis

Danger

Opportunity



## 喂鸡

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