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The Global Economic Outlook

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Global Economic Outlook



Global Economic Outlook - Highlights

- A moderation in global growth is currently under way
- No other G7 nation will feel the economic slowdown more than the US
- Canada will be impacted by weakening U.S. demand
- Japan and Europe to experience moderate, sustainable growth
- China, India and Latin America will exceed the performance of G7 nations by a significant margin

World Economic Outlook

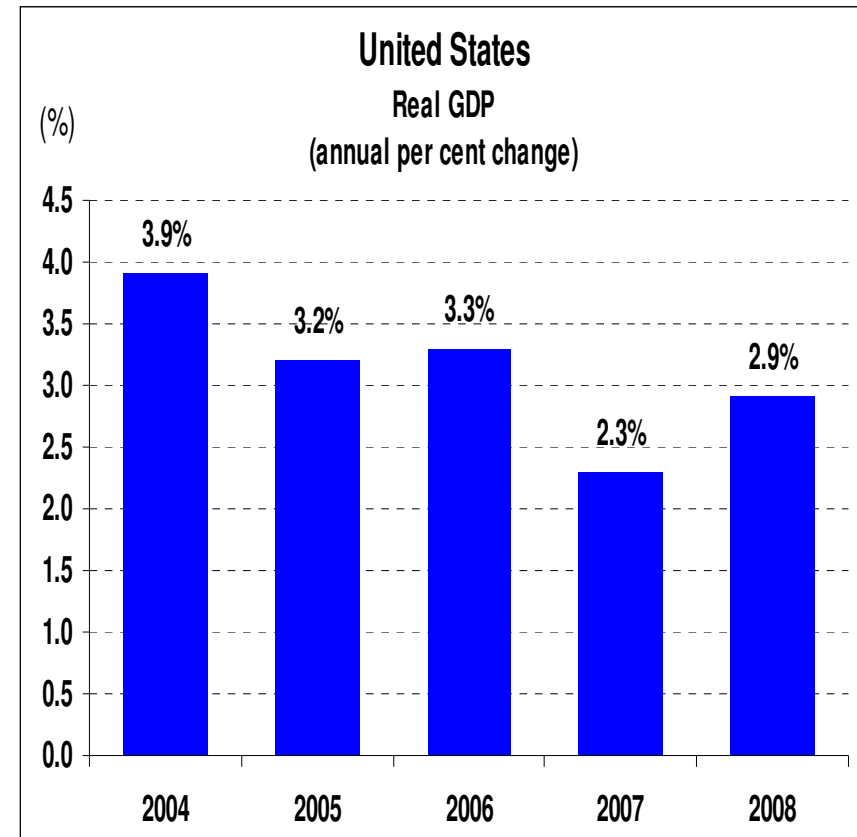
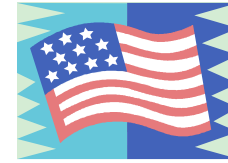
Real GDP (annual per cent change)

	2006	2007 f	2008 f
World	5.4	4.9	4.9
Canada	2.7	2.4	2.9
United States	3.3	2.3	2.9
Mexico	4.8	3.4	3.2
Euro-zone	2.6	2.4	2.3
Germany	2.7	1.8	2.0
France	2.0	2.0	2.2
United Kingdom	2.7	2.8	2.6
Japan	2.2	2.2	2.0
China	10.7	9.8	9.5
India	9.2	8.2	7.8
South America	5.3	4.6	4.2
Argentina	8.5	7.5	6.0
Brazil	3.7	4.0	4.0



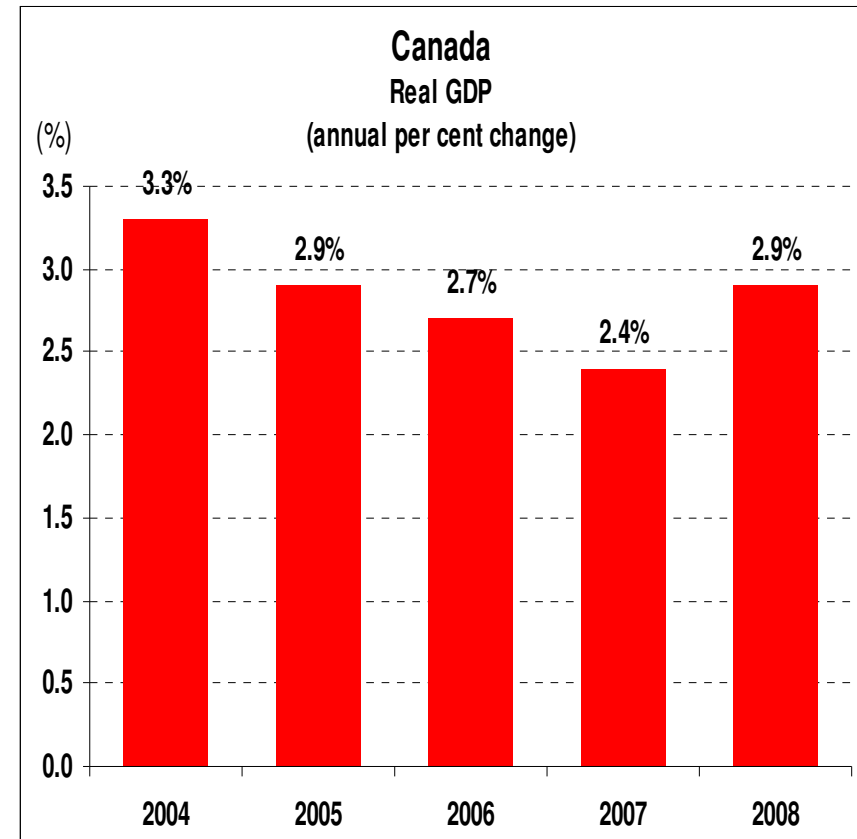
U.S. - Many Challenges Remain

- Housing market correction presents the most pressing downside risk to the U.S. economy
- More tempered consumer spending
- Bloated inventories present a downside risk
- Corporate investment in plant and equipment has softened
- Exports to hold strong
- Inflation pressures persist despite below trend growth
- Continued dollar weakness in the face of a huge current account deficit



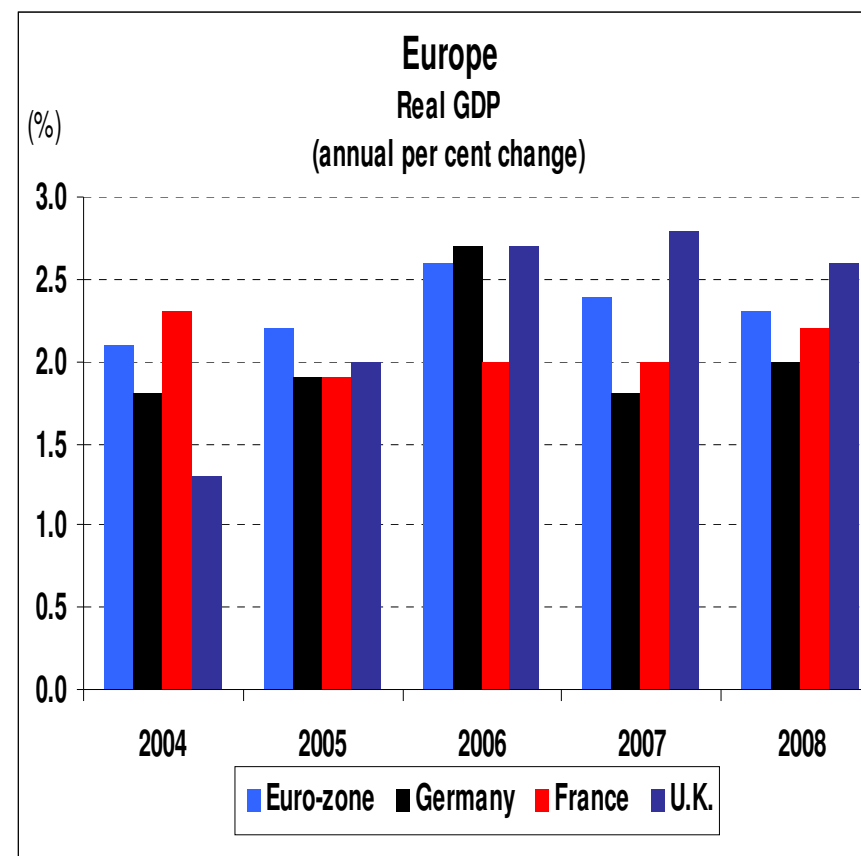
Canada – Remarkably Resilient

- Job creation continues to impress
- Consumer spending to remain healthy albeit moderate
- Housing market not at risk of a steep correction
- Business spending and investment to remain solid
- Weakness largely concentrated in Canada's export-oriented manufacturing sector
- Regional disparities will persist
- Inflation is of some concern, but will moderate by mid-year
- Canadian dollar to trade within a relatively narrow range



Europe – Moderate, Sustainable Growth

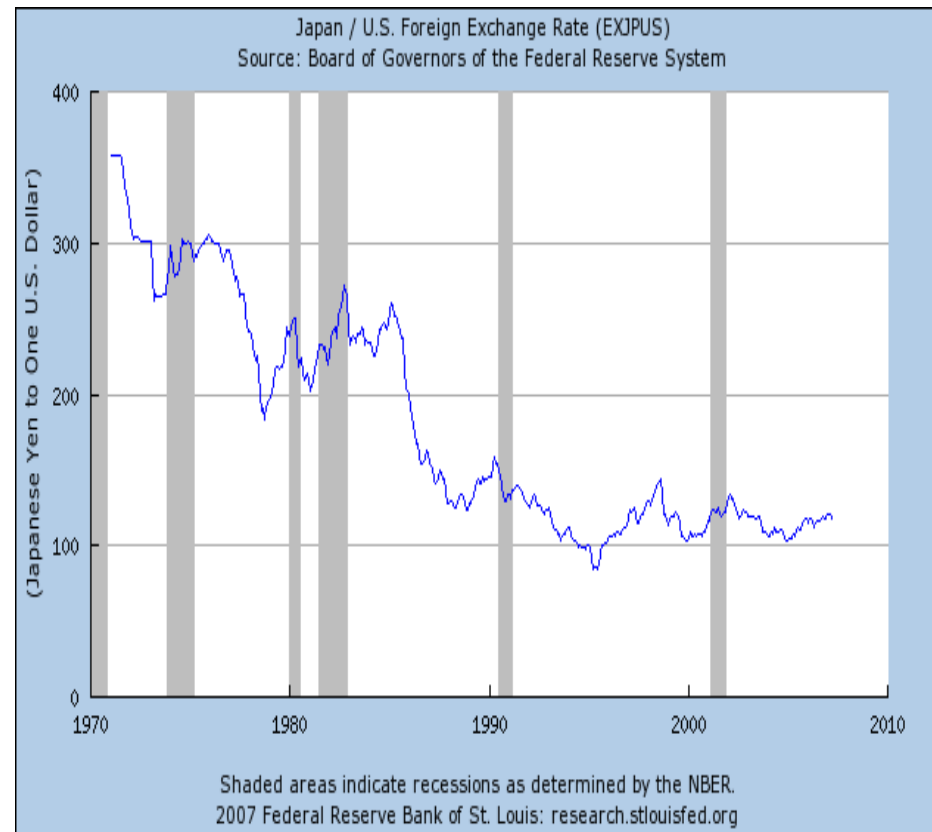
- Euro-zone economies feeling the hangover of past interest rate hikes and currency appreciation
- Price pressures within the Euro-zone have eased but still remain an area of concern
- Germany to experience a dramatic slowdown in growth
- French economy in gradual expansion mode
- Moderate deceleration in growth in the UK



Japan – Expansion Remains On Track

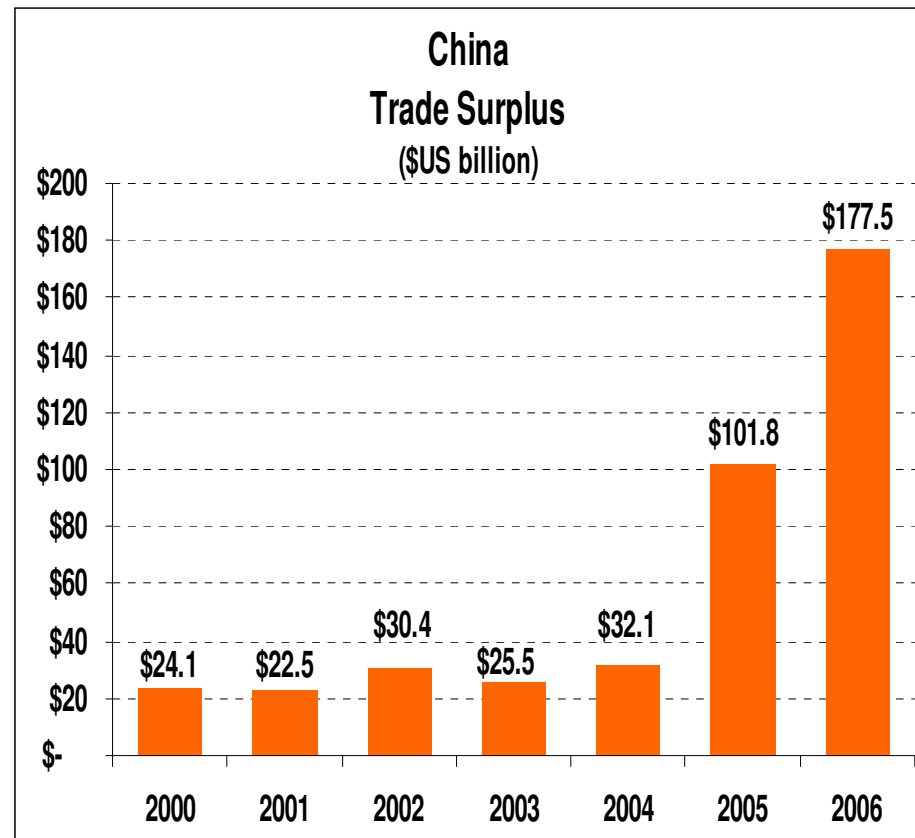
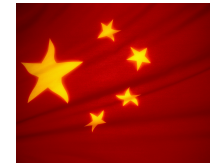


- Moderate but sustainable growth
- Impetus will come largely from business investment and foreign trade
- Recovery in consumption supported by rising employment and real wages
- Massive trade and current account surpluses
- Yet the value of the yen has fallen to near 20-year lows



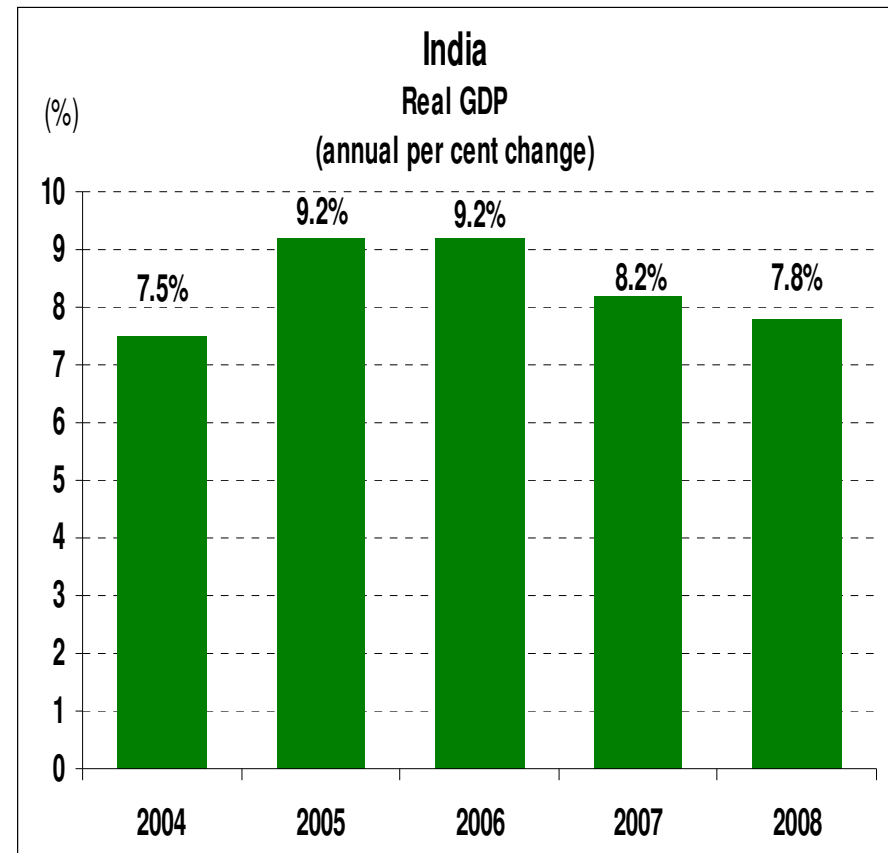
China – Expanding At A Brisk Pace

- Growth rate reached 10.7% in 2006 driven by investment and exports
- Focus is on balancing the near-term risk of overheating with the long-term need for economic balance
- Efforts to ease the pace of capital expenditures are slowly taking effect
- Trade and current account surpluses will remain massive
- Going forward, China's economy will continue to be one of the world's more robust



India – Solid Expansion Underway

- Expansion picked up further momentum in last two years with real GDP rising 9.2%
- Focus is on balancing the near-term risk of overheating with the long-term need for economic balance
- Industrial activity, consumer spending and business investment remain robust. Exports offering an additional boost
- Knowledge-based and service sector industries are strong and growing rapidly
- Strong inflationary pressures remain



South America – Reforms Have Helped Reduce Vulnerabilities

- Economies of most South American countries will continue to exceed the performance of mature G7 nations
- Reforms to help reduce inflation, strengthen fiscal positions, and reduce foreign debt and exchange rate fluctuations have contributed to greater stability and investor confidence
- Building on these reforms is key to sustaining growth



Real GDP (annual per cent change)

	2006	2007 f	2008 f
Argentina	8.5	7.5	6.5
Brazil	3.7	4.0	4.0
Chile	4.0	5.3	5.3
Venezuela	10.3	6.5	5.0

- Emergence of resource nationalism is reshaping the political landscape
- Direction of commodity prices important to economic outlook



Other Regions

- Australia – economy sifting towards stable growth of around 3% through 2008
- Middle East – expanding rapidly at about 5.5% through 2008
- Emerging Europe – growing in excess of 5% through 2008
- Emerging Asia – expanding close to 6% through 2008
- Africa – expected to post strong economic growth of about 6% through 2008



Implications for Air Travel



Air Travel Is Highly Correlated With Real GDP

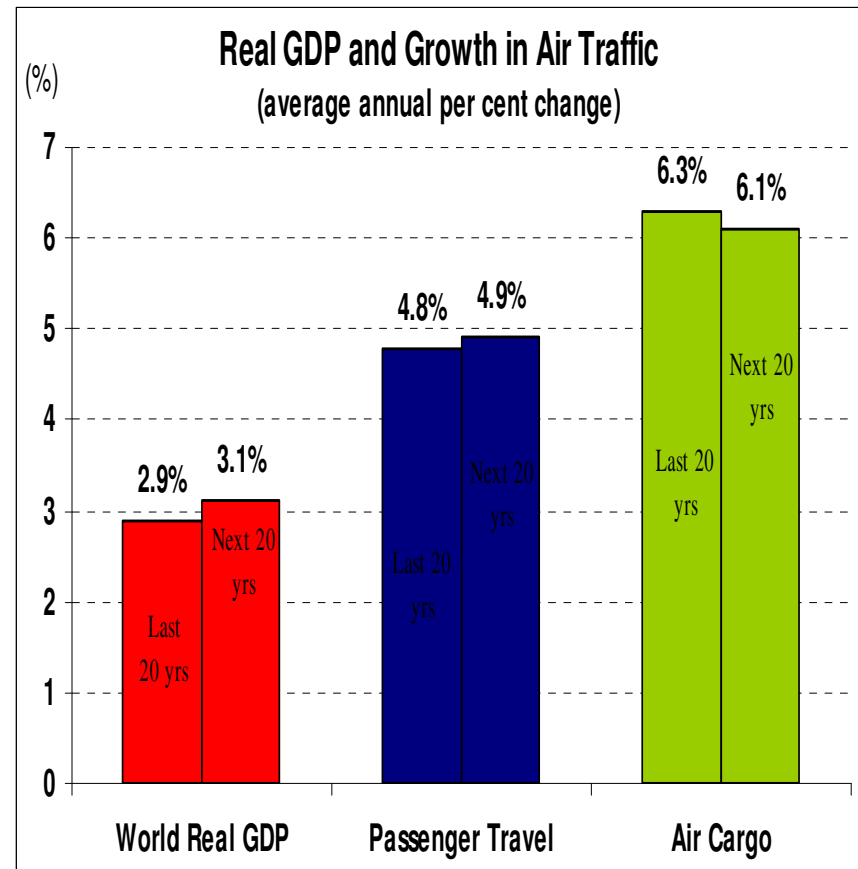


- Global economic growth (real GDP) has the largest effect on the growth rate of passenger travel
- Demand for air freight services is also primarily a function of economic growth
- Historical figures indicate that demand for air travel grows at a multiple of real GDP growth – (about 1.2 – 1.8 times real GDP)
- Air travel growth in excess of real GDP growth over the long-term is usually explained by other economic and structural factors such as continued integration of the global economy; further deregulation and liberalization of international and domestic air transport sectors; and improvement in service offerings such as routes and frequencies

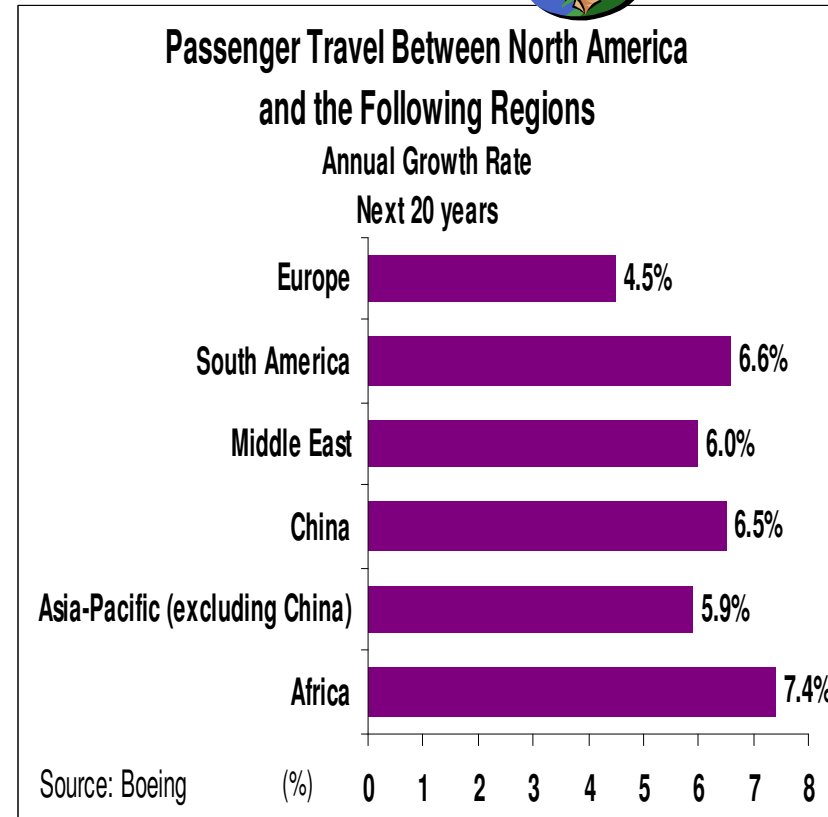
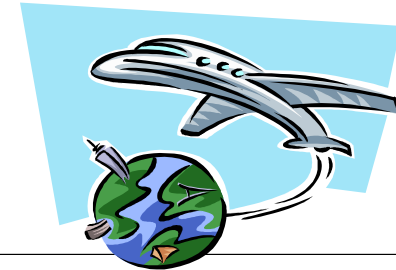


Air Traffic Growth Rates – Historical and Future

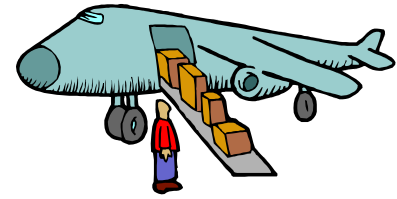
- Over the last 20 years, world economic growth averaged 2.9% per annum; passenger travel growth averaged 4.8% per year; and air cargo growth averaged 6.3% per annum (source: Boeing)
- Over the next 20 years, world economic growth is expected to average 3.1% per annum; passenger travel growth 4.9%; and air cargo growth 6.1%. (source: Boeing)



Passenger Travel Growth Rates By Region



Air Cargo Traffic



- At present, international air freight traffic is relatively subdued reflecting high fuel costs and competition from other modes. The Middle East and Asia remain the fastest growing regions
- Going forward, world-wide air freight traffic is expected to more than triple by 2025 and grow at a faster rate than passenger travel
- The air cargo market in North America is mature and is likely to grow more slowly than in other regions. Asia will become the largest region for freight by 2025 surpassing North America
- Canada's transborder air cargo traffic is expected to grow at a higher rate than domestic cargo. Other international cargo traffic has the potential to grow at rates that are higher than transborder. Canada's airports have increased both the efficiency and capacity of the nation's air cargo infrastructure



Summary/Conclusions

- After four years of booming global economic growth, the world economy has slowed somewhat but has proven to be remarkably resilient in the face of geo-political insecurity, high energy prices, financial market volatility and divergent monetary policies
- To a significant degree, this strong global performance reflects the very rapid expansion in developing economies (especially China and India)
- Going forward, the Asia/Pacific region and Latin America will continue with the world's highest economic growth rates. Canadian, U.S. and European GDP growth is anticipated to rise at a more moderate rate
- As in the past, future demand for air travel (both passenger and freight) will reflect regional economic growth rates and related increases in disposable income
- Over the next 10 years, North America will remain the largest aviation market but its overall market share will slowly decline. By 2025, Asia is expected to become the largest aviation market in both passenger and freight segments

