IATA shares its industry outlook as pace of recovery quickens

The International Air Transport Association (IATA) has upgraded its outlook for the airline industry's 2022 financial performance as the pace of recovery from the COVID-19 crisis quickens. Forecast highlights include:

- Industry losses are expected to reduce to US$9.7 billion (improved from the October 2021 forecast for an $11.6 billion loss) for a net loss margin of -1.2%. This is an improvement from losses of US$137.7 billion (-36.0% net margin) in 2020 and US$42.1 billion (-8.3% net margin) in 2021.
- Industry-wide profitability in 2023 appears within reach with North America already expected to deliver an US$8.8 billion profit in 2022.
- Strong pent-up demand, the lifting of travel restrictions in most markets, low unemployment in most countries and expanded personal savings are fueling a resurgence in demand that will see passenger numbers reach 83% of pre-pandemic levels in 2022.

"Airlines are resilient. People are flying in ever greater numbers. And cargo is performing well against a backdrop of growing economic uncertainty. Losses will be cut to $9.7 billion this year and profitability is on the horizon for 2023. It is a time for optimism, even if there are still challenges on costs, particularly fuel, and some lingering restrictions in a few key markets.

"The reduction in losses is the result of hard work to keep costs under control as the industry ramps up. The improvement in the financial outlook comes from holding costs to a 44% increase while revenues increased 55%. As the industry returns to more normal levels of production and with high fuel costs likely to stay for a while, profitability will depend on continued cost control. And that encompasses the value chain. Our suppliers, including airports and air navigation service providers, need to be as focused on controlling costs as their customers to support the industry's recovery," says Willie Walsh, IATA's Director General.

Revenues

Industry revenues are expected to reach US$782 billion (+54.5% on 2021), 93.3% of 2019 levels. Flights operated in 2022 are expected to total 33.8 million, which is 86.9% of 2019 levels (38.9 million flights).

Scheduled passenger numbers are expected to reach 3.8 billion, with revenue passenger kilometers (RPKs) growing 97.6% compared with 2021, reaching 82.4% of 2019 traffic.

Expenses

Overall expenses are expected to rise to US$796 billion. That is a 44% increase on 2021, which reflects both the costs of supporting larger operations and the cost of inflation in some key items. At $192 billion, fuel is the industry's largest cost item in 2022 (24% of overall costs, up from 19% in 2021). Airlines are expected to consume 321billion liters of fuel in 2022 compared with the 359 billion liters consumed in 2019.

Labor is the second highest operational cost item for airlines. Direct employment in the sector is expected to reach 2.7 million, up 4.3% on 2021 as the industry rebuilds from the significant decline in activity in 2020. The time required to recruit, train, complete security / background checks, and perform other necessary processes before staff are “job-ready” is presenting a challenge for the industry in 2022.

In countries where the economic recovery from the pandemic has been swift and the unemployment rate is low, tight labor markets and skill shortages are likely to contribute to upward pressure on wages. The industry’s wage bill is expected to reach US$173 billion in 2022, up 7.9% on 2021, and disproportionate to the 4.3% increase in total jobs.

Macro-Economic Factors

The global macroeconomic backdrop is critical for the industry outlook. The forecast incorporates an assumption for solid global GDP growth of 3.4% in 2022, down from the strong 5.8% rebound last year. Inflation has risen and is expected to remain elevated throughout 2022, waning over the course of 2023. And, while nominal interest rates are rising, real interest rates are expected to remain low or negative for a sustained period.

War in Ukraine

The outlook assumes that the war in Ukraine will not escalate beyond its borders. Among the many negative impacts of an escalation for aviation, rising fuel costs and a dampening demand due to lowered consumer sentiment would be paramount.

Combined, the Russian international market, Ukraine, Belarus, and Moldova accounted for 2.3% of global traffic in 2021. In addition, about 7% of international passenger traffic (RPK) would normally transit Russian airspace (2021 data), which is now closed to many operators, mostly on long-haul routes between Asia and Europe or North America.

Inflation, Interest Rates and Exchange Rates

Interest rates are rising as central banks combat inflation. Aside from those carrying debt (who will see inflation devaluing their debts), inflation is harmful and has the economic dampening effect of a tax by reducing purchasing power. There is downside risk to this outlook should inflation continue to rise, and central banks continue to hike interest rates.

COVID-19

The responses to COVID-19 ignored World Health Organization advice that border closures are not an effective means of controlling the spread of a virus. This outlook assumes that strong and growing population immunity to COVID-19 means there will not be a repeat of these policy mistakes. However, there is downside risk should governments return to knee-jerk border-closing responses to future outbreaks.

“Governments must have learned their lessons from the COVID-19 crisis. Border closures create economic pain but deliver little in terms of controlling the spread of the virus. With high levels of population immunity, advanced treatment methods, and surveillance procedures, the risks of COVID-19 can be managed. At present, there are no circumstances where the human and economic costs of further COVID-19 border closures could be justified,” adds Walsh.

China

China’s domestic market alone accounted for about 10% of global traffic in 2019. This outlook assumes a gradual easing of COVID-19 restrictions in the second half of 2022. An earlier move away from China’s zero COVID policy would improve the outlook for the industry. A prolonged implementation of the COVID-19 policy will continue to depress the world’s second largest domestic market and wreak havoc with global supply chains, according to IATA.