

Airlines set to profit from another strong year in 2017

By **Jas Ryat** on December, 12 2016 | Industry News



The International Air Transport Association (IATA) expects the global airline industry to make a net profit in 2017 of US\$29.8 billion.

On forecast total revenues of US\$736 billion, that represents a 4.1% net profit margin.

IATA revised slightly downward its outlook for 2016 airline industry profitability to US\$35.6 billion from the June projection of US\$39.4 billion, owing to slower global GDP growth and rising costs. This will still be the highest absolute profit generated by the airline industry and the highest net profit margin (5.1%).

Alexandre de Juniac, IATA's Director General and CEO, said: "Airlines continue to deliver strong results. This year we expect a record net profit of US\$35.6 billion. Even though conditions in 2017 will be more difficult with rising oil prices, we see the industry earning US\$29.8 billion. That's a very soft landing and safely in profitable territory."

He added: "These three years are the best performance in the industry's history - irrespective of the many uncertainties we face. Indeed, risks are abundant - political, economic and security among them. And controlling costs is still a constant battle in our hyper-competitive industry."

2017 is expected to be the eighth year in a row of aggregate airline profitability, illustrating the resilience to shocks that have been built into the industry structure. On average, airlines will retain US\$7.54 for every passenger carried.

Expected higher oil prices will have the biggest impact on the outlook for 2017. The demand stimulus from lower oil prices will taper off in 2017, slowing traffic growth to 5.1% (from 5.9% in 2016).

Industry capacity expansion is also expected to slow to 5.6% (down from 6.2% in 2016). Capacity growth will still outstrip the increase in demand, thus lowering the global passenger load factor to 79.8% (from 80.2% in 2016).

The negative impact of a lower load factor is expected to be offset somewhat by a strengthening of global economic growth, IATA said.

2017 regional analysis

North American carriers: The strongest financial performance is being delivered by airlines in North America. In 2017, capacity offered by the region's carriers is expected to grow by 2.6%, slightly

outpacing expected demand growth of 2.5%.

European carriers: There remains a significant gap between the performance of the region's carriers and the performance of North American ones. Capacity in 2017 is expected to grow by 4.3%, ahead of demand growth, which is forecast at 4.0%. The region is subject to intense competition and hampered by high costs, onerous regulation and high taxes. Terrorist threats remain a risk, even if confidence is starting to return after the recent tragic incidents.

Asia Pacific carriers: Capacity offered by the region's carriers is forecast to grow by 7.6%, ahead of a forecast growth in demand of 7.0%. The expansion of new model airlines and progressive liberalization in the region is intensifying already strong competition.

Middle Eastern carriers: Capacity expansion is forecast at 10.1% this year, ahead of expected demand growth of 9.0%. Threats are emerging to the success story of the Gulf carriers, including increases in airport charges across the Gulf States and growing air traffic management delays.

Latin American carriers: Capacity offered by the region's carriers is forecast to grow by 4.8%, which is ahead of expected demand growth of 4.0%. Despite some signs of improvement in the region's currencies and economic prospects, operating conditions remain challenging, with infrastructure deficiencies, high taxes, and a growing regulatory burden across the continent.

African carriers: Capacity in 2017 is expected to grow by 4.7%, ahead of 4.5% demand growth. The region's weak performance is being driven by regional conflict and the impact of low commodity prices.

IATA said 2016 would be a record year for industry profitability. The expected net profit of US\$35.6 billion is slightly ahead of the US\$35.3 billion recorded in 2015.

In more good news, the global spend on tourism enabled by air transport is expected to grow by 5.1% in 2017 to US\$681 billion.

Airlines are expected to take delivery of some 1,700 new aircraft in 2017, around half of which will replace older and less fuel-efficient aircraft. This will expand the global commercial fleet by 3.6% to 28,700.

Airlines are expected to operate 38.4 million flights in 2017, up 4.9%.