

# Asian Airlines Face Low Profits Thanks to Excess Capacity

Despite increasing passenger volumes, the Asian airlines are having difficulty breaking even. One of the defining culprits is interestingly the excess capacity.



DG Andrew Herdman of AAPA (Association of Asia Pacific Airlines) notes that collectively the Asian airline industry has been just under breakeven in the first half of 2014. Herdman stated at the AAPA annual meeting in Tokyo this year revealed, that revenues were not consistent with volume growth. Consequently the industry saw a drop in load factors and a 5% decline in yield. The increase in demand was still 1 to 2 percentage points under recent capacity growths.

Asia-Pacific airline carriers used to account for up to half of the collective profit for the entire global airline industry just four years ago. Times have changed, and now the US airlines lead the industry. Herdman notes that "profitability remains elusive" for most Asia-Pacific and European carriers.

According to him, the Asian airline industry should see a marginal improvement in revenues, thanks to the declining price of oil. The supply imbalance felt in the Asian airlines industries is considered by Herdman as a consequence of misjudging how much capacity growth was needed.



Herdman states that Asian airline carriers are making changes to balance out the revenue discrepancy by deferring deliveries and encouraging retirements. He suggests that there is anecdotal evidence to support enthusiasm for trimming down new carriers. This should restore some of the supply dynamics and profitability should begin to stabilize in the next year.

Macroeconomics gives an uncertain outlook for Asia, but Herdman isn't worried. Even though, uncertainty has been fairly common in the recent years, passenger numbers have consistently

increased.



Cargo demand has also recovered in the last year, giving Asian airlines hope for a full recovery. If the recent volume upturn remains consistent, a full recovery won't be far behind. Recovery isn't expected to be instantaneous, but rather, over the next few years. The airlines are working to restore the supply demand balance for surplus cargo and passenger service.

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