

IATA: PROFITS OF AIRLINES WILL GROW AT SLOWER PACE



The International Air Transport Association (IATA) revised downward its global industry outlook for 2013 to \$11.7 billion from the June projection of \$12.7 as the performance of the airlines continued to grow at a slower-than-anticipated pace. The slowing down of growth can be attributed to the spike in oil price following the Syrian crisis and disappointing economic performance put up by many of the emerging markets.

When compared with the net profit of \$7.4 billion recorded in 2012, the performance is significantly better in 2013. **The performance is expected to further improve in 2014 with the airlines returning as much as \$16.4 billion in net profit.** If this happens, 2014 would be the 2nd strongest year for IATA after 2010 (\$19.2 billion) in this century.

IATA's Director and CEO Tony Tyler said that though the overall outlook is positive, there are a few hiccups because of lower-than-expected cargo growth, economic slowdown in emerging markets and the spike in oil prices. He added that the current year may end on a positive note and 2014 is likely to record double the profit reported in 2012.

The performance of the airlines is likely to remain strong with an operating margin of 3.6 percent, as recorded in 2006, despite a 54 percent increase in the prices of jet fuel. This was possible because of the structural changes that have been brought about through joint ventures, consolidation, improved ancillary sales and reduction in entry because of the tightness being experienced by the financial markets.

Furthermore, the industry is expected to perform better irrespective of the predicted 2 percent global economic growth. Earlier on, it was believed that the airlines would post losses if the global economic expansion was below the 2 percent cut off mark.

Major Forecasts For 2013

Economic Growth: In 2013, the global GDP is expected to grow 2 percent as compared to 2.2 percent growth recorded in 2012. Though there are some visible improvements especially in the US, there is a perceptible economic deceleration in emerging countries like India, Brazil and China.

Oil Price: Average price of Brent crude is expected to be around \$109 per barrel in the current year, \$1 more than what was anticipated. The price of jet fuel has softened a little bit. Though the average price for the year is expected to be \$126.4 per barrel, \$1.0 less than the projected average, the net impact on fuel bill is anticipated to be neutral.

Passenger: Passenger growth is expected to remain strong at 5 percent, slightly below the projected 5.3 percent and the 5.3 percent growth seen in 2012. The number of airline passengers is expected to break the 3 billion mark for the first time and reach 3.12 billion in 2013. Though the yields are likely to remain flat during the year, record high load factor of 80.2 percent is expected to be achieved.

Cargo: Cargo growth is now expected to be 0.9 percent, down from 1.5 percent projected earlier.

Divergence by Region in 2013

North America

Projected Profit - \$4.9 billion (strongest for any region)

Passenger Demand Growth - 2.0 percent (slowest for any region)

Europe

Projected Profit - \$1.7 billion

Passenger Demand Growth - 4.0 percent

Asia-Pacific

Projected Profit - \$3.1 billion (revised downward by \$1.5 billion)

Passenger Demand Growth - 6.6 percent

Latin America

Projected Profit - \$0.6 billion

Passenger Demand Growth - 6.0 percent

Middle East

Projected Profit - \$1.6 billion (revised up from \$1.5 projected earlier)

Passenger Demand Growth - 10.5 percent

Africa

Projected Profit - A loss of \$100 million instead of \$100 million profit projected earlier.

Passenger Demand Growth - 7.8 percent

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