

ALLIANZ STUDY CONFIRMS AIRLINES' RECOVERY WORLDWIDE



Due to the COVID-19 pandemic and higher airfare costs, demand for air travel has severely decreased. However, there has been a significant increase in demand for air travel despite inflation, which is gradually approaching pre-pandemic levels. This is due to reduced kerosene prices, which has resulted in lower operating costs for airlines. A recent credit insurer Allianz Trade study revealed that airlines are returning to profitability due to higher airfares and lower operating costs.

People want to travel again, and they want to fly again. This is good news for airlines: after three years of losses, the airline industry could return to profitability in 2023 - earlier than expected. However, the lack of capacity remains the bottleneck. This will likely slow down the airlines' recovery rate for now. For consumers, it also means that flying is likely to remain expensive.

Capacity Remains Tight - Deliveries Still Delayed

Aircraft deliveries in 2020 fell by 50% due to a lack of components. Although the situation has improved, manufacturers still face challenges in meeting the demand.

Aircraft deliveries rose by 19.1% in 2022, while globally available seat kilometers increased by 39.6%. However, there is a six-month delay in aircraft deliveries for 2023, which could affect the optimistic plans of the manufacturers. This shortage in supply might result in high airfares.

Demand is growing, especially in Asia

Although ticket prices are high, more people are traveling. In the first quarter of 2023, global revenue passenger kilometers rose by 58.3% compared to the previous year and reached 85.9% of pre-pandemic levels. The increase was especially significant in Asia, which rose by 125.5% year-on-year, thanks to China's reopening.

Europeans are also increasingly taking off. After a 44.3% increase in the first quarter, the level is only about 12% lower than before the 2019 pandemic. Moreover, the holiday season is upon us, and consumers are getting back on the plane after the pandemic and energy crisis.

Airline ticket sales have increased significantly this summer (May-September 2023) compared to the previous year, with a year-over-year increase of +35.2%. Sales have reached 92% of pre-pandemic (2019) levels, with North American sales already at 99%. Around 4.3 billion travelers are expected to travel in 2023, just slightly lower than the 4.5 billion travelers who traveled in 2019.

Airlines are experiencing increased profits due to higher ticket prices and lower operating costs. Despite jet fuel prices being 30% of revenues, they have decreased by 36% this year to \$91.3 per barrel, approximately half of their peak during the June 2022 energy crisis.

Airfares have increased, particularly on international routes like those between the U.S. and Europe, which have increased by an average of 23% this year. Despite this, airlines are projected to profit again. The IATA (International Air Transport Association) has forecast that total revenues will rise by 9.7% year-over-year to \$803 billion (an increase from \$838 billion in 2019), and net profits could reach \$9.8 billion in 2021 (compared to \$26.4 billion in 2019). North American airlines are expected

to perform well.

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