

# GLOBAL FINANCIAL CRISIS HITS THE AIRLINES HARD



As many countries around the world brace themselves for the impact of the world financial crisis, the airline industry is already feeling the pressure. The estimated losses could rise to \$5.2 billion in 2008. At the same time, there is no reason to be optimistic for the outlook in 2009 either. The problems come down to two things. Firstly, fuel costs are far too high and, secondly, airlines are not adjusting quickly enough to the change in demand. The above loss

figure presumes that the price of one barrel of fuel amounts to \$113 and \$140 for jet fuel. This is an incredible \$40 more than in 2007.

In terms of fuel, the prices are simply too high for airlines around the world to cope. The situation, for example, in India is horrendous. The cost of fuel for Indian airline companies has generally been 36% of all expenditure. In the coming years, it is expected to rise to 50%, which is a figure the companies simply cannot cope with.

The hardest hit shall be the North American airlines, expected to post record losses of \$5 billion, whereas European profits are expected to tumble sevenfold to \$300 million in 2008 from \$2.1 billion in 2007. Middle Eastern profits will drop by \$100 million to \$200 million. Latin American and African carriers will see losses deepen to \$300 million and \$700 million, respectively.

Sadly for the airlines, capacity is also dropping. In global terms, as IATA have announced in their revised forecasts, July this year saw a 1.9% drop in demand, whereas global capacity increased by 3.8%. This is the perfect recipe for losses. The reasons for the drop in demand are numerous. For example, Asia-Pacific has seen a 0.5% drop mainly due to Chinese visa requirements, showing that the economic crisis is now affecting previously robust economies.

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