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IATA revises down 2012 airline profits

The International Air Transport Association (IATA) has revised downward its central forecast fo airline profits in 2012 from US$4.9bn to US$3.5bn for a net margin of 0.6%. For 2011, profitabil remains weak but unchanged at US$6.9bn for a net margin of 1.2%.

The Eurozone crisis puts severe downside risk on the 2012 outlook as illustrated by the recently publishec OECD economic outlook, IATA said on Wednesday, 7 December 2011.

In a worst case scenario, should the Eurozone debt problem evolve into a full-blown banking crisis and European recession, IATA estimates that the global aviation industry could suffer losses exceeding US$8 in 2012, it said.

"The biggest risk facing airline profitability over the next year is the economic turmoil that would result from failure of governments to resolve the Eurozone sovereign debt crisis. Such an outcome could lead to loss of over US$8bn - the largest since the 2008 financial crisis," said Tony Tyler, IATA's director general and CEO.

Tyler said for this year, the global forecast is unchanged at US$6.9bn.

"But regional differences have widened, reflecting the very different economic environments facing airlines in different parts of the world. And the overall margin of 1.2% tells you just how difficult the battle for profitability in this business is," said Tyler.

European carriers are by far in the most challenging position, but North American carriers are in a much more benign environment.

Asia-Pacific carriers saw stronger though varied trading conditions and Middle East carriers are expected see profits of US$400 million, down from the previously forecast US$800 million.

African carriers expected to break even

In a similar pattern Latin American profits will see a downgrade to US$200 million from the previously forecast US$600 million, but African carriers are still expected to break-even.

"New trade lanes with Asia are developing and markets within the continent are reflecting the improvement economic development in many African economies. However, competition has been fierce and the region airlines have struggled to keep load factors at profitable levels," IATA noted.

At the global level, passenger demand is expected to expand by 6.1%, which is stronger than the 5.9% forecast in September.

"Air travel growth has persisted at a stronger pace than we had expected. This travel strength, along with tight capacity management, particularly in North America, has kept load factors high and is supporting a 4.(increase in yields. This has helped a modest increase in forecast revenues, which we expect to total US$596bn this year."

IATA also noted that the slightly stronger-than-expected passenger performance is offsetting worse-than-expected cargo performance and somewhat higher-than-anticipated oil prices. At an average oil price of US$112 per barrel, the industry's 2011 fuel bill is expected to be US$178bn - up US$2bn from previous expectations.

Cargo down

A downward trend in cargo since mid-year means that cargo likely will finish the year with a 0.5% contractic in volumes and flat yields.

For 2012, IATA believes that even if government intervention averts a banking crisis it is unlikely that Euro| will avoid a brief recession.

"Business and consumer confidence has already fallen too far. Global GDP growth forecasts for 2012 ha\ been revised downwards to 2.1%. Historically the airline industry has seen profit turn into loss whenever global GDP growth falls below 2%. This is driving the downgrade in the 2012 outlook," it said.

For next year, passenger demand is expected to grow by 4.0%, down from the previously forecast 4.6%, while cargo is expected to show flat growth, down from the previously forecast 4.2% expansion.

Passenger and cargo yields are expected to remain flat in 2012. While this is unchanged for cargo, passenger yields were previously forecast to grow by 1.7%.

Fuel costs are relatively unchanged from the previous forecast at US$198bn and industry revenues are expected to grow by 3.7% to US$618bn. This will be outstripped by cost increases of 4.5% to US$609bn

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