



Talking point



The global air transport sector – emerging like a phoenix from the ashes

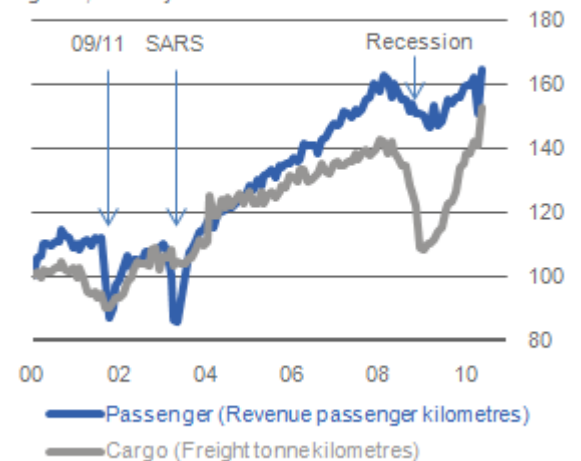
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The image of phoenix, the mythical bird that burns to ashes and then re-emerges again and again, has already been cited frequently and is therefore undoubtedly far from original. It does, however, perfectly describe recent developments in the global air transport sector. After all, the industry has recovered from its severe crisis with impressive speed, is posting high growth rates once again and has in the meantime even broken previous traffic volume records. Nevertheless, not all is rosy in the garden as the aviation sector continues to face serious problems despite the economic upturn.

The global air transport sector ran into severe turbulence in early 2008 due to the global recession. Passenger traffic contracted by a seasonally adjusted 10% between the top of the cycle prior to the crisis and the bottom that was reached in early 2009. The drop in cargo traffic was even higher at nearly 25%. The striking contrast with previous crises in the sector is that this time air traffic volumes fell almost constantly over a relatively long period. This contrasts with developments following the September 11 terrorist attacks in 2001 and following the outbreak of the SARS respiratory disease in 2003. In those cases a steep, temporary collapse in demand was followed by a recovery that occurred almost as rapidly. The decline in demand only persisted for a few months following these external shocks. Also, the cargo business was hit far less hard during those periods since the psychological aspect – i.e. the fear of flying – is of no relevance to the air freight segment, with economic conditions being the key factors instead (see chart).

Air traffic climbs to new record level

International air traffic volumes, seasonally adjusted figures, January 2000=100



Source: IATA

Astonishingly rapid recovery

Demand in the global air transport sector has been trending up again for more than one year. The astonishing aspect is the pace that the sector has been setting. Since emerging from its trough passenger traffic has risen more than 12%. Cargo volumes meanwhile have even increased by over 40%. The volcanic eruption in Iceland only made a temporary dent in this trend. In both segments new records have been set for traffic volume in the meantime. This is an almost sensational achievement given the severity and duration of the crisis that the sector has endured.

During the remainder of 2010 and in 2011 we expect a further increase in global demand for air travel. Nonetheless, the momentum is likely to recede over the coming months. The main growth drivers are the emerging economies of Asia, Latin America and also Africa. These are where the biggest increases in air traffic have been recorded; this growth has occurred equally in passenger and cargo operations. Strong economic growth and the pent-up demand for air travel are stimulating demand in these regions: many people in the emerging markets will be embarking on their very first flights in the next few years. In the established aviation markets of North America and above all Europe, by contrast, the recovery has been less dynamic, with the result that passenger traffic volumes have not yet quite returned to pre-crisis levels.

The increase in traffic is not the only piece of good news for the aviation sector. Other indicators have also been positive of late: airlines' capacity utilisation and average ticket prices have risen significantly in recent months. The premium segment (passengers travelling first class and business class), which is a major determinant of airlines'

margins, has recovered faster recently than the economy segment. These factors have helped to boost airlines' average profitability considerably over recent months.

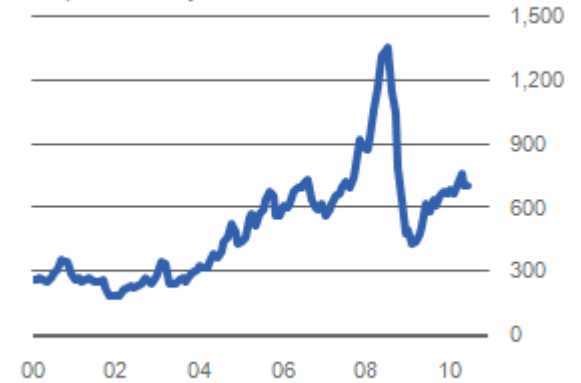
Structural and cyclical problems persist

Despite these pleasing developments of late a number of structural and cyclical problems are casting a shadow over prospects for the aviation sector:

- The sector is unlikely to come up with a lasting solution for its structural overcapacities. One reason why is that capacities are geared towards peak load periods, which of course means that outside these times the aircraft are less heavily utilised. At present, many planes are being brought back into service after having been put into temporary storage during the crisis. In addition, new aircraft are being delivered. The consolidation process in the sector is proceeding only slowly, among other things because governments exert a great deal of influence on airlines and traffic rights. Given the severity of the latest crisis the number of carriers that have exited the market is only small.
- Regulatory obstacles that impede more rapid growth and/or cost reductions in the sector are only slowly being removed. These include the liberalisation of air traffic markets, which would facilitate the entry of additional carriers, or the overdue implementation of a Single European Sky, for instance. The latest strikes in France in protest against this Single European Sky are one example of the opposition.
- Environmental policy motivations are likely to result in fiscal burdens being imposed on the aviation sector in Europe above all. The most prominent example is the inclusion of air transport in EU emissions trading from 2012. This will – all things being equal – result in ticket price hikes and a drop in demand.
- With the global economy gathering momentum jet fuel prices have also risen, even though they are still much lower than the record high reached in 2008 (see chart).

Kerosene price rising again

USD per tonne of jet fuel



Source: WEFA

Summing up, it can be said that the global air transport industry remains a growth sector with short-term susceptibility to external shocks. Emerging markets will post higher growth rates. Average margins in the sector will, however, remain unsatisfactory on account of medium-term growth in demand of around 4% per year.



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