

U.S. Airline Industry Poised for Positive Year - 2007 Expected to Be Best Year Since 2002

2007-12-03

Improvement Trend is Expected to Reverse a Five-Year Decline that was Triggered in Part the by 9/11 Terrorist Attacks

After battling through consecutive years of difficult operating conditions, the U.S. air transportation industry is poised to begin producing real contributions to economic growth, according to a report announced today by IBISWorld, Inc. (www.ibisworld.com). IBISWorld is recognized as one of the nation's most respected independent publishers of business intelligence research covering more than 700 industries.

In addition, the research firm stated that industry gross product is expected to reverse a five-year declining trend to a positive in 2007, and will expand in coming years reaching \$44,633.1 million by the end of 2012.

"While the industry turn-around is good for the airlines and carrier shareholders, consumers will still feel the turbulence when they fly," said George Van Horn, senior analyst with IBISWorld. "High fuel costs, crowded planes, and unpredictable weather problems aside, more people will be flying this holiday season than in any previous year in aviation history." He added, "Even with rather dour travel predictions, the benefits of family gatherings or seasonal vacations must be worth it because the volume of holiday travelers continues to grow."

"The good news, easily obscured by the holiday chaos, is that the erratic, and painful shrinkage of the domestic airline industry may be drawing to a close," added Mr. Van Horn. "The turbulent market conditions that have confronted the domestic airline industry are well known. Even before the September 11 terrorist attacks, excess capacity (too many planes and not enough passengers) and high cost structures left many of the major commercial airlines in a vulnerable position."

Mr. Van Horn added, "Over the past five years, the resultant industry shakeout and competition with new low-cost carriers such as Jet Blue, Air Tran, and Skybus, has produced an astounding 22 airline bankruptcy filings, including such major carriers as US Air (filed twice), United Airlines, Delta Airlines and Northwest Airlines, among others. Another sign of continuing change in the industry is the recent rumor of a merger between Delta and United. If such a merger materializes, the combined carrier will likely be named United Airlines, and the U.S. will lose another legacy carrier. "

Perhaps more importantly, according to IBISWorld's analysis of available data, even though passenger counts and industry revenues have been rising, other significant measures of industry health have been consistently negative.

Scheduled Domestic Air Transport Industry

	2002	2003	2004	2005	2006	5-Year Average
Industry Revenue	*-1.5%	*4.5%	*12.0%	*5.6%	*3.2%	4.8%
Industry Gross Product	*-5.6%	*-5.9%	*-0.9%	*-1.8%	*-0.1%	-2.9%
Employment	*-1.6%	*-5.2%	*-1.7%	*-3.2%	*-0.5%	-2.4%

Source: IBISWorld Note: * Denotes Estimates

When breaking down aggregate industry measures, it is noteworthy that the domestic airline passenger segment has shouldered its share of constrained conditions. Larger planes have been increasingly used for the longer and more profitable international routes while the healthy air freight segment has also utilized more resources.

During the same five year period, domestic passenger counts have expanded by nearly 20 percent yet available seat miles have only increased by 9.5 percent. Reductions in national carrier capacity and the increasing deployment of smaller regional jets put most passengers in a squeeze. More crowded planes not only restrict leg room, it helps increase fares.

Mr. Van Horn added, "The good news for domestic airline passengers will come slowly, yet many factors and conditions are positioned for improvement." He added, "For the first time in years, 2006 domestic load factors (revenue passenger miles/available seat miles) nearly equaled those for international flights. While this balance will never stand still, the recent improvement in the health of the domestic passenger segment is encouraging. The sheer size of the domestic market insures that it will play a significant role in determining future industry health and success."

YEAR	Passengers Enplaned (000)		Revenue Passenger Miles (millions)		Available Seat Miles (millions)		Passenger Load Factor (percent)	
	DOM	INT	DOM	INT	DOM	INT	DOM	INT
	2002	560,107	52,769	476,004	165,098	676,949	215,606	70.3%
2003	592,412	53,863	500,271	156,638	689,069	204,755	72.6%	76.5%
2004	640,698	62,222	551,937	181,743	741,677	229,788	74.4%	79.1%
2005	670,418	68,210	579,690	199,324	752,482	250,854	77.0%	79.5%
2006	671,739	72,847	585,392	212,030	740,953	265,437	79.0%	79.9%
Five-Year Growth '06/'02	19.90%	38.00%	23.00%	28.40%	9.50%	23.10%	12.40%	4.30%

Source: Air Transportation Association

Even with additional restructuring of large carriers in the near term, regional and national carriers are moving towards a better balance and both will show capacity growth in the coming years. The ramp up for new commercial airplanes may have started as recently as 2005 when orders jumped to 2,163 from only 642 aircrafts in 2004. The Federal Aviation Authority

(FAA) forecasts that the number of regional jets will continue to increase their share of the total fleet and will represent 19 percent of the domestic passenger fleet by 2011.

As older planes are retired and newer, more fuel efficient planes added, the favorable trends in industry fuel efficiency will likely continue. Between fuel efficiency and labor productivity improvements, the real cost/mile for air travel remains competitive versus other transportation alternatives and also compares favorably to broader measures of consumer inflation over time.

Expanding fleets and a better mix of plane sizes may be of some benefit to the passenger experience, yet concerns over increasing airport congestion remain valid. Since funding airport expansion is not easy, and land is not always available, the private sector has been developing alternatives for consideration. Proposals from airplane manufacturers and cargo carriers both aim to increase runway capacity without laying more concrete.

While economic forecasts, fuel prices and the financial stability of individual airlines pose relevant uncertainties, IBISWorld expects that the scheduled domestic air transportation industry will experience some improvement in industry performance over the next five years. Increasing revenue growth of about 2.9 percent will mirror average real GDP growth for the same period. Industry value added is forecast to increase at an annualized rate of 3.3 percent, and reach \$44,633.1 million at the end of 2012, reversing the negative performance trend of recent years.

Source: IBISWorld

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