



HEADWINDS & TAILWINDS

Airlines' ability to turn in a profit is the new normal. **BY KAREN WALKER**

Financially, the global airline business has never looked stronger as a business. While the world's airlines collectively might not be quite as profitable in 2017 as they were in 2016, it looks increasingly likely they will get close to 2016's record net profit.

IATA in June revised its global airline industry profit forecast for 2017 upwards by 5.4% to a net profit of \$31.4 billion, citing a stronger-than-expected global economy. The new forecasted net profit for 2017 is higher than the \$29.8 billion projected by IATA in December 2016, but it will still represent a dip from the industry's 2016 net income of \$34.8 billion. More importantly, however, airlines are on track in 2017 to post another year of consecutive collective profitability. This is no longer the "basket case" industry with highs and dips from black to red. It's an industry that can attract serious investors and reward them with serious returns.

IATA director general and CEO Alexandre de Juniac likes to describe the airline industry as "the business of freedom." Increasingly, it is also a business of business.

While a surprisingly strong economy is undoubtedly fueling the industry's healthier financial performance, there are other factors helping to maintain a consistent

tailwind. These include a more disciplined approach to costs, new airliners with better economics, and ancillary fees. There is also the continued growth in demand for air travel. Passenger traffic is expected to grow 7.4% year-over-year (YOY) in 2017, which would be in line with the 2016 growth rate and be 2.3 percentage points higher than IATA previously forecast. The projected growth rate would mean an increase of 275 million passengers over 2016, which would be the largest YOY increase in absolute passengers ever recorded, IATA said.

Air cargo, meanwhile, is expected to give a boost in 2017, with global air cargo traffic growth, powered by e-commerce and pharmaceuticals, projected to rise 7.5% YOY in 2017, more than double the 3.6% rate of growth in 2016 and 4 percentage points above IATA's previous forecast.

But there are headwinds, too. Fuel, labor and maintenance costs increased YOY in the 2017 first quarter and overall industry costs are expected to be \$44 billion higher in 2017 compared to 2016. That will contribute to pushing down airlines' per passenger profit to \$7.69, down 15.8% from \$9.13 in 2016 and 23.7% from \$10.08 in 2015. The industry's profit margin is expected to be 4.2% in 2017, down from 4.9% in 2016.

And to continue on its upward trend, the air transport industry needs open borders, something



no longer a certainty in an increasingly protectionist world. Whether those protectionist thoughts are generated by governments, gaining currency in popular discussions, or “lurking at the fringe of political discourse,” as de Juniac put it in a speech at the IATA AGM in June, there remains a threat that may not hurt airline profit and growth this year, but could do harm longer-term.

Looking at the full-year data for 2016, the pattern of US major airline domination continues. Delta Air Lines was the world's the most profitable airline, followed by American Airlines, United Airlines and Southwest Airlines. Not until fifth place does a non-American company hit the net profit chart, and fifth and sixth places are each held by European Groups – IAG and Lufthansa.

In operational revenue, American takes first place, followed by Delta, United, Lufthansa and FedEx Express. In RPKs, the top four are American, Delta, United and Emirates Airline. In passengers carried, it's Southwest in top position, followed by American and Delta.

Look a little deeper, however, and there are some interesting placings among the top 10 and top 25 airline performers. Irish low-cost carrier Ryanair continues its extraordinary run, being the world's eighth most profitable airline. US independents Alaska Airlines and JetBlue Airways pull beyond their size; Alaska is the 13th most profitable, while JetBlue is 15th. And despite the truly awful economic and geopolitical upheavals of their region, Brazil's GOL and Panama's Copa are among the top 25 most profitable airlines, while LATAM Group was the 10th largest in passengers carried.

The Chinese carriers also continue their upward climb. China Southern, China Eastern, Air China and Hainan Airlines all make it in the top 25 most profitable, with China Southern, China Eastern and Air China placing fifth, sixth and eighth, respectively, in terms of passengers carried.

China also shows its muscle in airport growth. While Atlanta Hartsfield, Chicago O'Hare and Los Angeles LAX hold the first, second and third spots respectively in terms of aircraft movements, Beijing and Shanghai are fifth and ninth and the only non-US airports to make the top 10. Charlotte, North Carolina—an American Airlines hub—places an astonishing seventh, helping push London Heathrow into 11th place.

Heathrow scores higher in passengers processed—seventh—but is still behind Atlanta, Beijing and Dubai, the world's first, second and third busiest airports in terms of passengers. **ATW**

WORLD AIRLINE REPORT INDEX

TOP AIRLINE PERFORMERS	34
BEST AND WORST AIRLINE PERFORMERS YEAR-OVER-YEAR.....	36
TOP 25 AIRLINES BY FINANCIALS	37
TOP 25 AIRLINES BY OPERATIONS.....	38
LEASING COMPANY FLEETS.....	39
WORLD AIRLINE FINANCIALS.....	40
WORLD AIRLINE TRAFFIC DATA	42
FASTEST-GROWING AIRPORTS.....	43
TOP 50 AIRPORTS.....	44
ANALYSIS: NORTH AMERICA MARKET.....	46
ANALYSIS: LATIN AMERICAN MARKET.....	48
ANALYSIS: EUROPEAN MARKET.....	49
ANALYSIS: ASIA-PACIFIC MARKET	50
ANALYSIS: MIDDLE EAST & AFRICA MARKETS.....	51
WORLD AIRLINE FLEET DATA.....	52