

**CAPA**

**Airline Leader Summit**

Airlines in Transition

# CAPA Outlook: State of the Industry

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Chief Financial Analyst

CAPA - Centre for Aviation



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**AVIATION WEEK**  
NETWORK

# State of the industry: agenda

- **20** numbers in **20** minutes
- **Market structure** and **profitability**
- **Return on capital** and **barriers to entry** and **exit**



# 20 numbers in 20 minutes

## Topics included

- Aircraft in service
- Capacity
- Traffic
- LCC share
- Boeing, Airbus deliveries
- Aircraft order backlog
- Leasing
- Pilot numbers
- Fuel costs
- Air fares
- Industry profits
- Market concentration



# 26 years to net zero



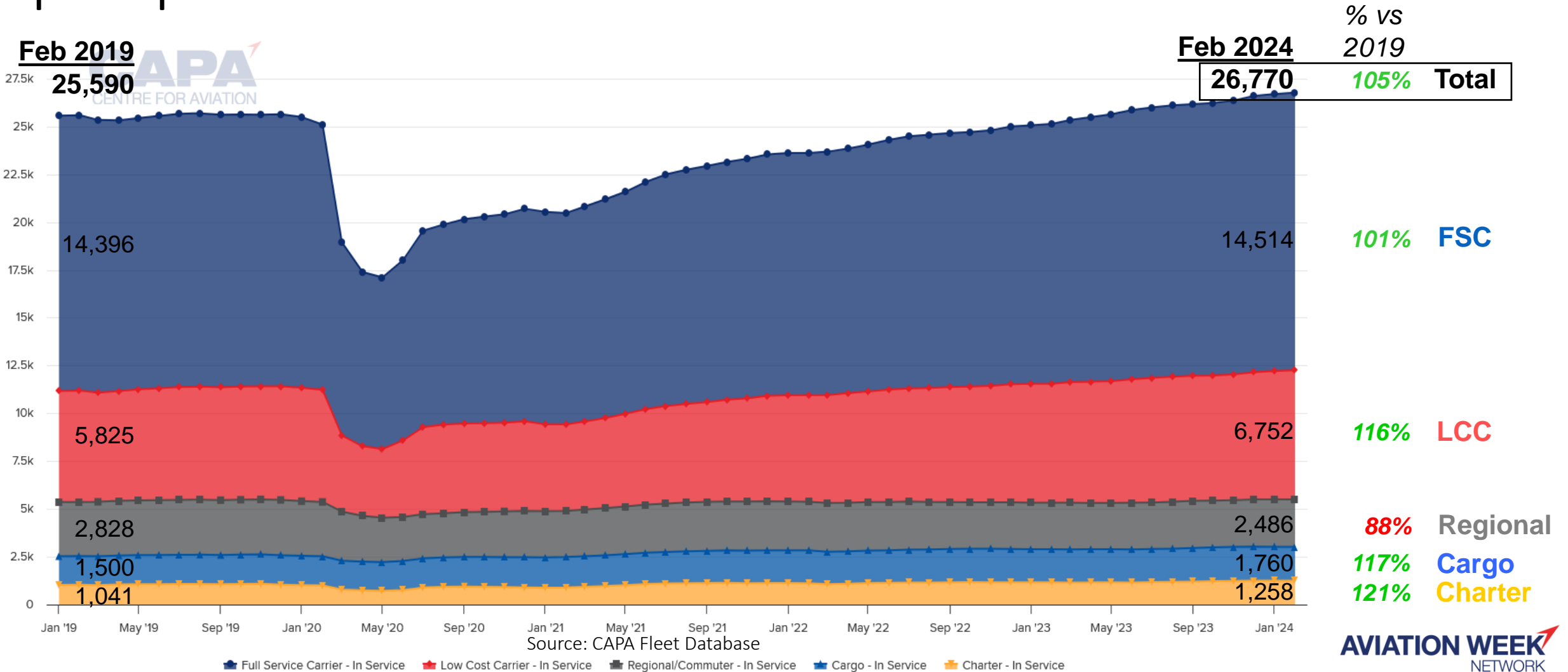
**26** years to achieve ICAO's Long Term Aspirational Goal of net **zero** by **2050**

This goal **must** be reached before **26** runs down to **zero**!

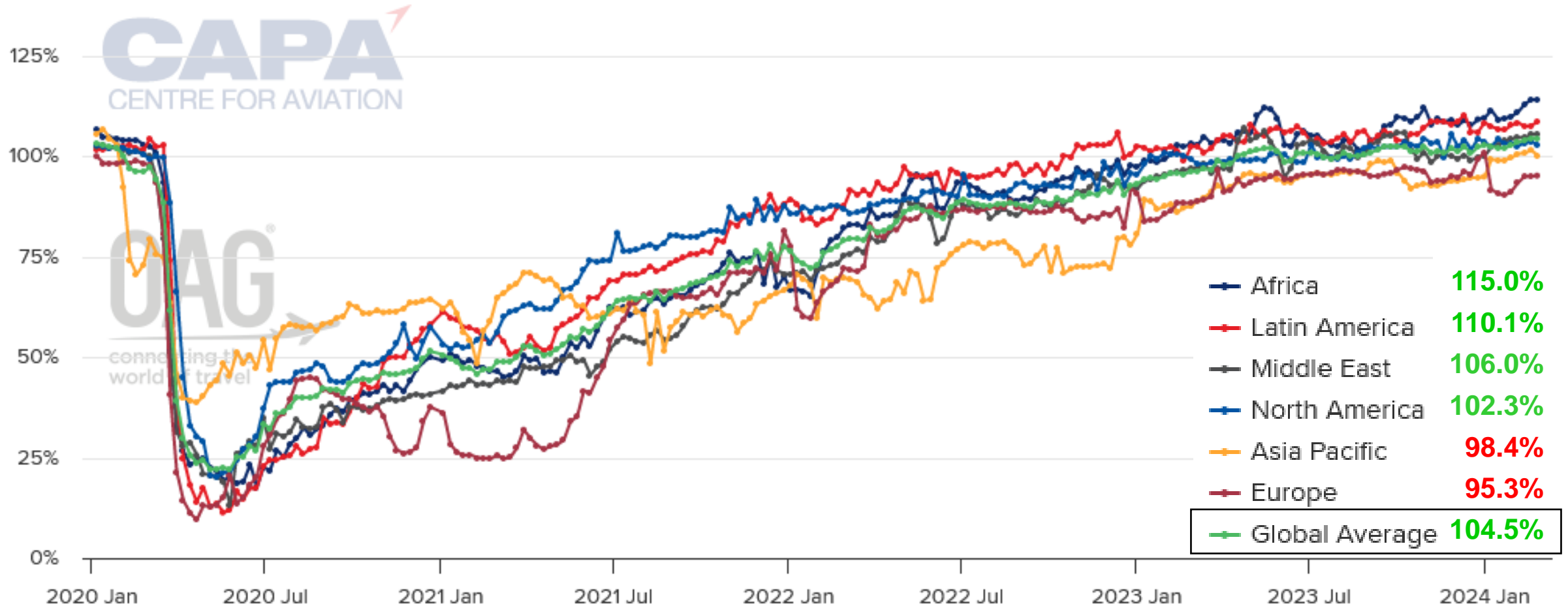


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# Jets in service at **105%** of pre-pandemic numbers



# Seat capacity **105%** of 2019 level



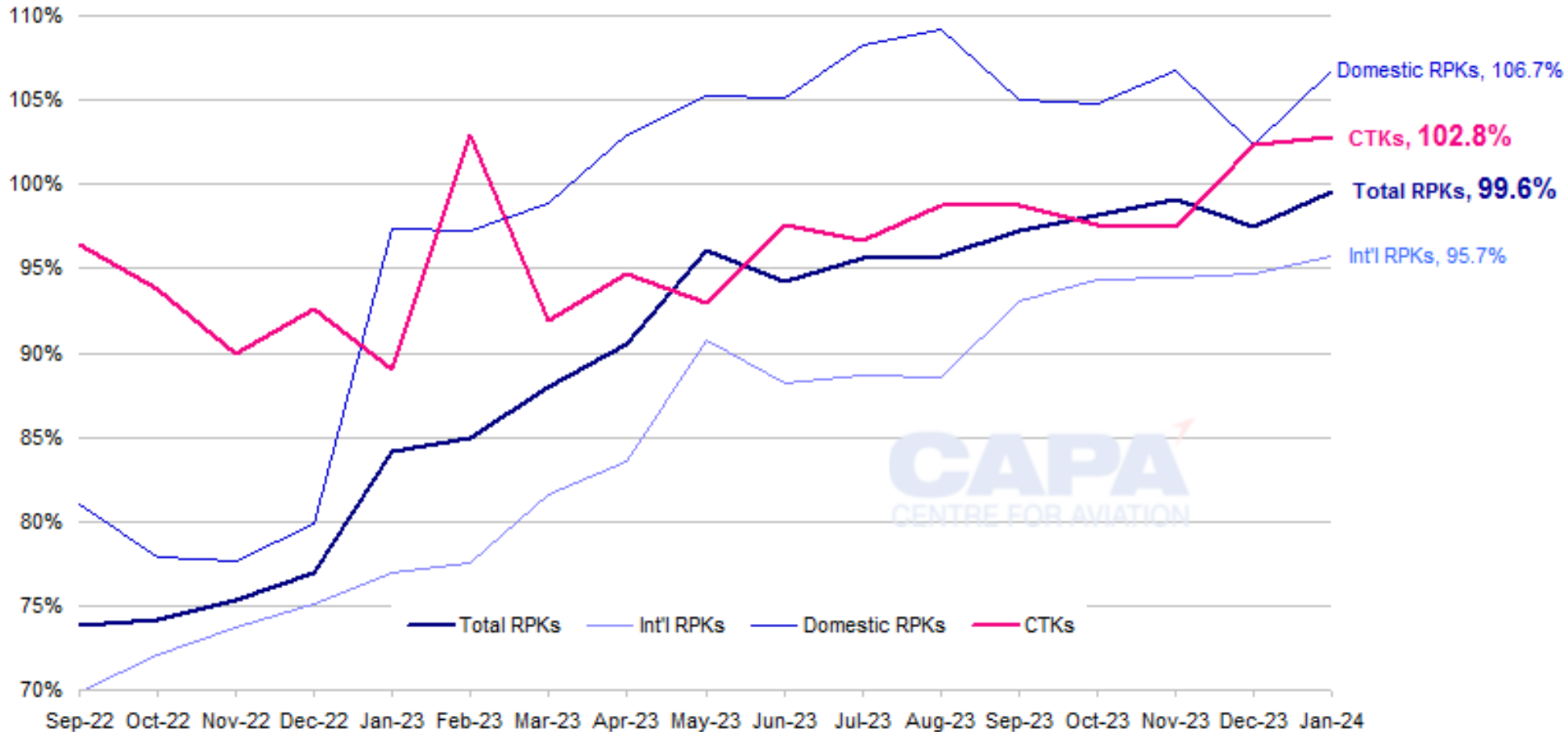
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Source: CAPA - Centre for Aviation, OAG

# Jan-2024 traffic vs Jan-2019:

Pax **99.6%**, Cargo **102.8%**

World airline traffic volumes as a percentage of equivalent month of 2019

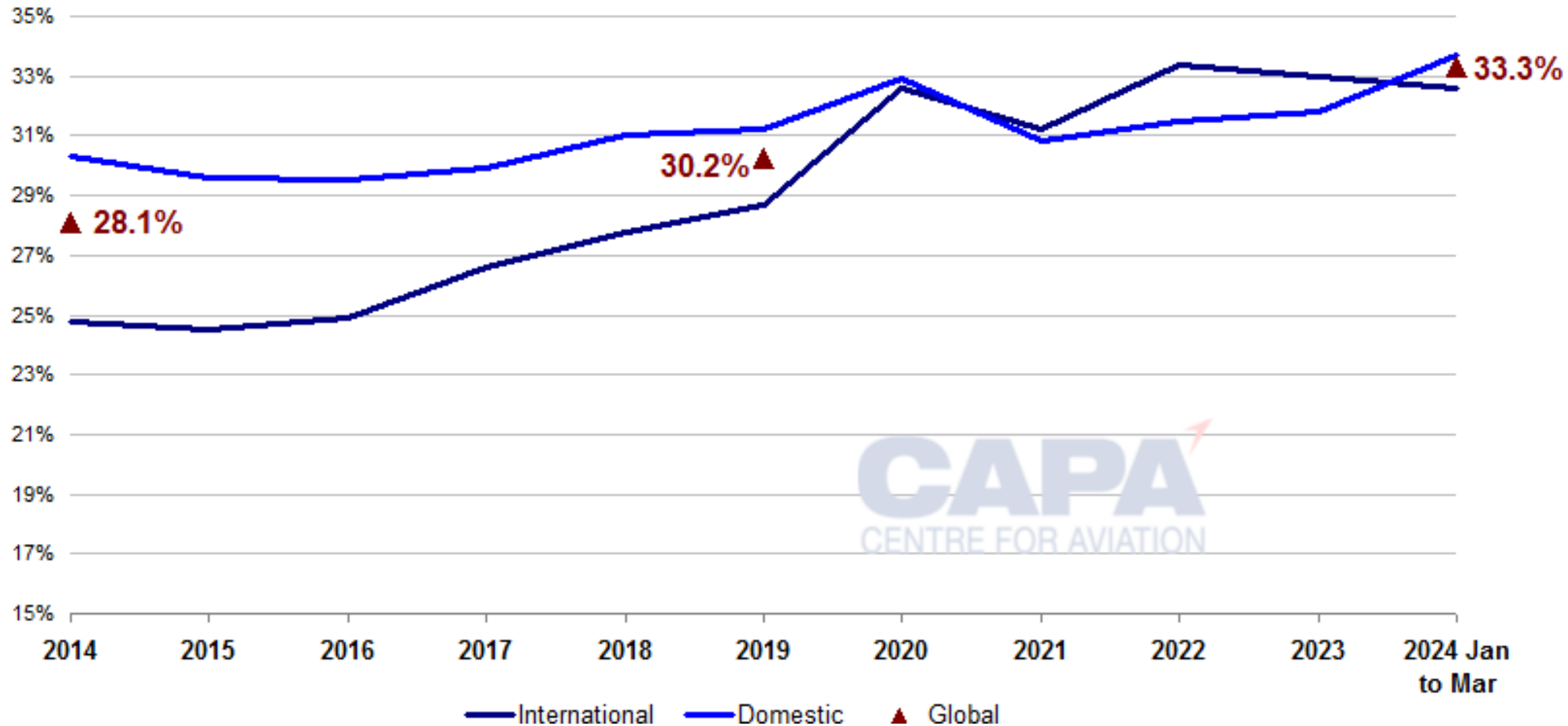


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Source: CAPA - Centre for Aviation, IATA

# 1Q2024 LCC seat share **33%** vs 30% in 2019

Low cost carrier seat share



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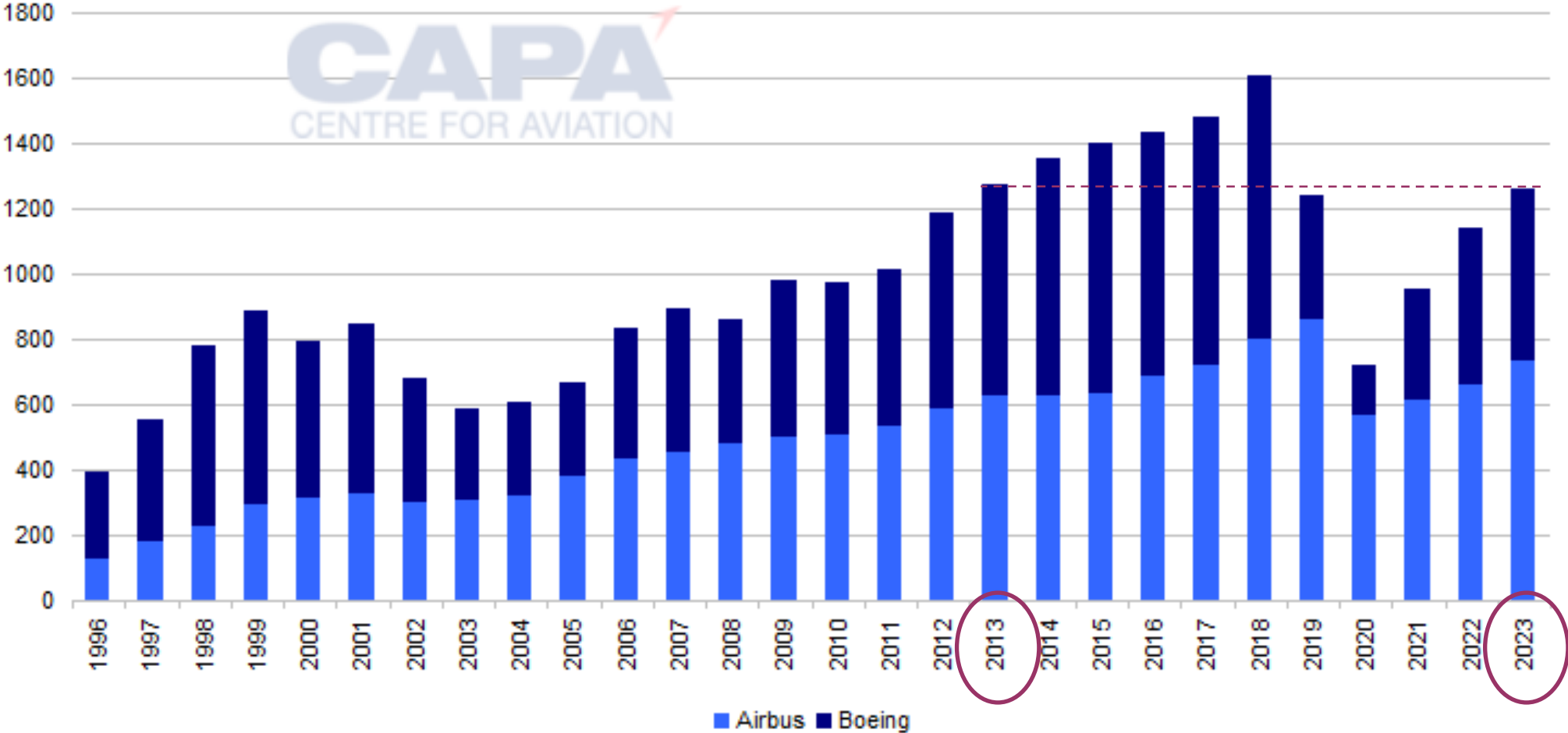
— International — Domestic ▲ Global

Source: CAPA - Centre for Aviation, OAG



# Boeing, Airbus deliveries:

# 10 years lost



**2023 deliveries**  
 Total 1,263 close  
 to c. **10** yrs earlier

**Boeing 529**  
 (level of between  
 2011 and 2012)

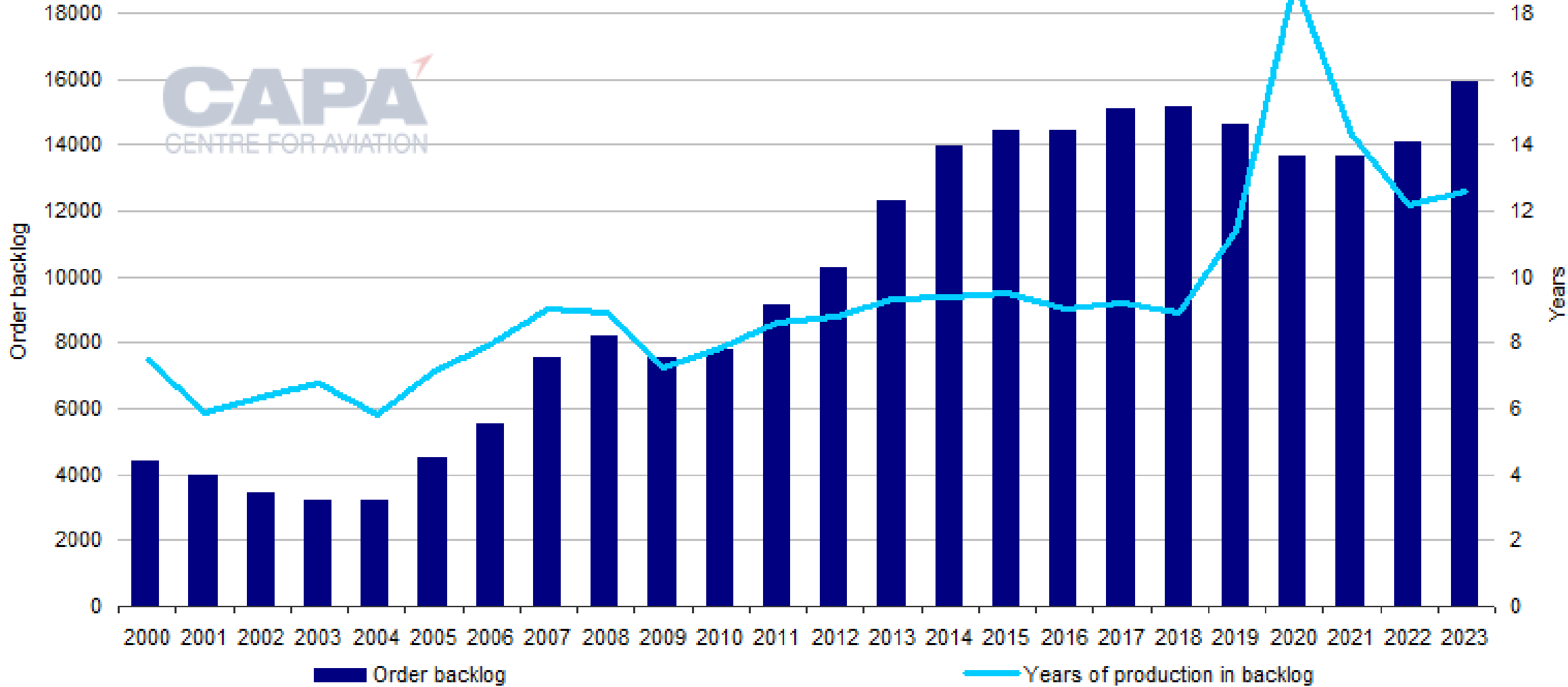
**Airbus: 735**  
 (level of 2017)

**2024e deliveries**  
 Total ?c1,400-  
 1,450 (level of  
 2015/2016)

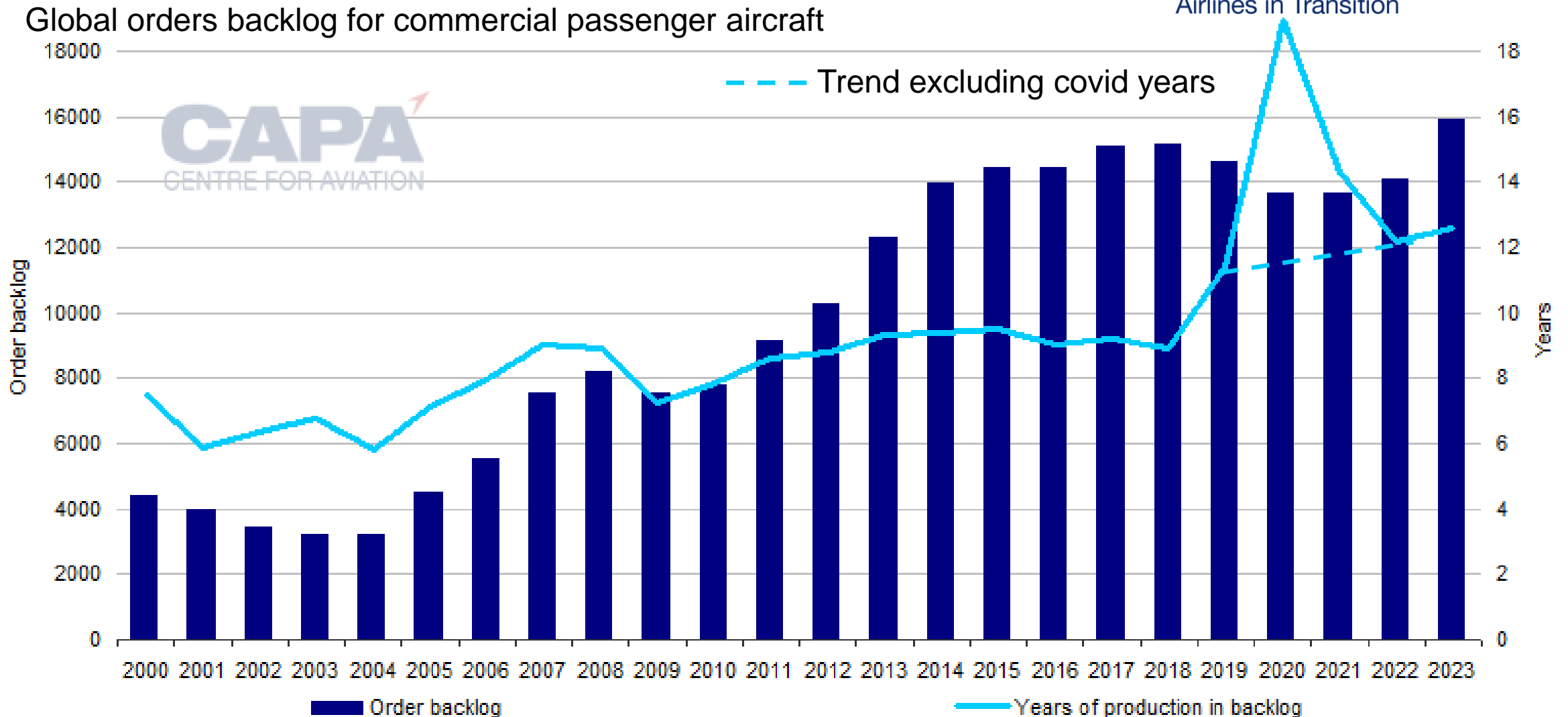
Source: Boeing, Airbus, CAPA - Centre for Aviation

# 2023 year end backlog: 13 years

Global orders backlog for commercial passenger aircraft



# 2023 year end backlog: 13 years

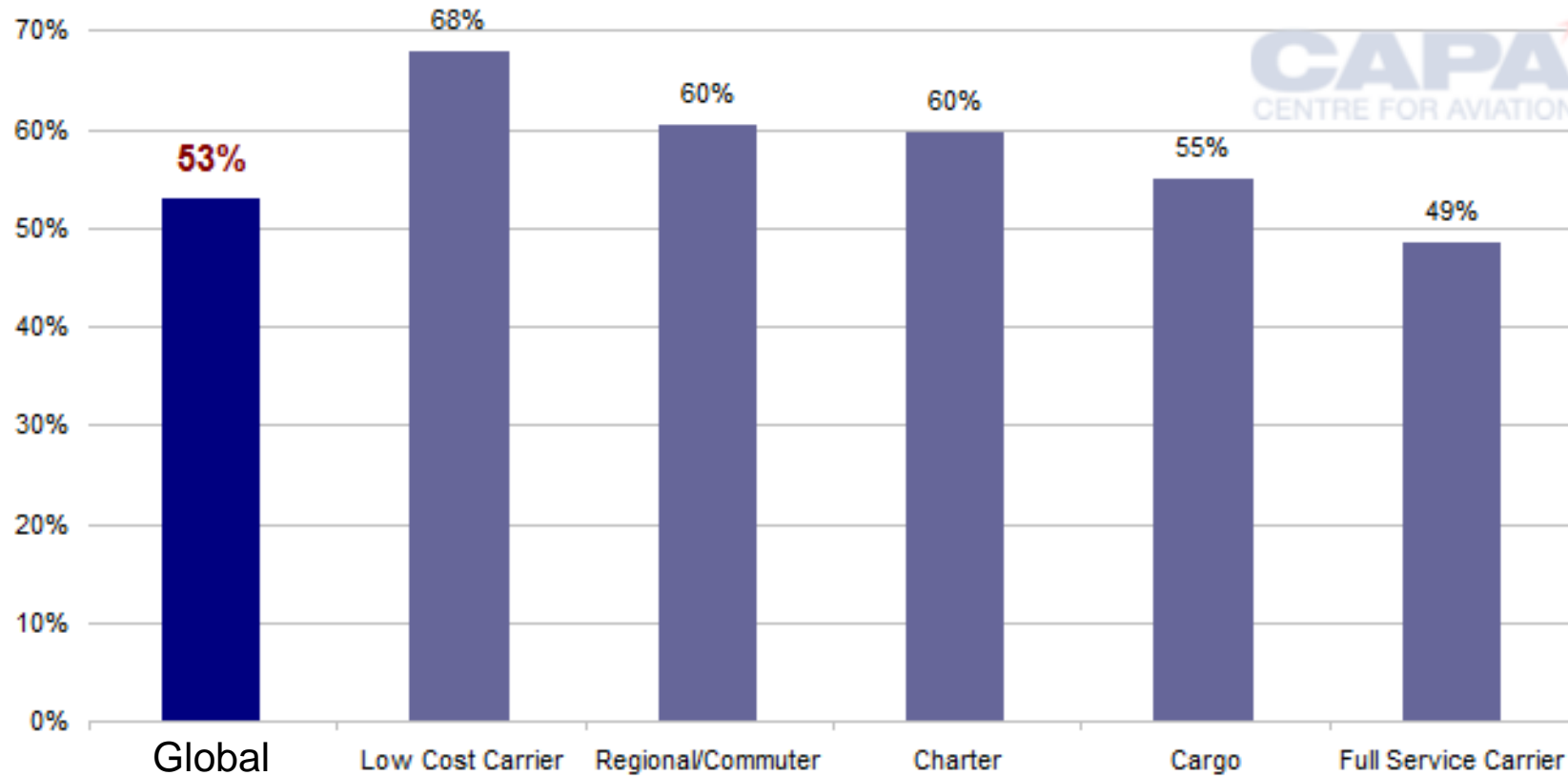


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Source: CAPA - Centre for Aviation, OAG

# Leasing accounts for **53%** of global commercial aircraft current fleet...

Percentage of aircraft that are leased



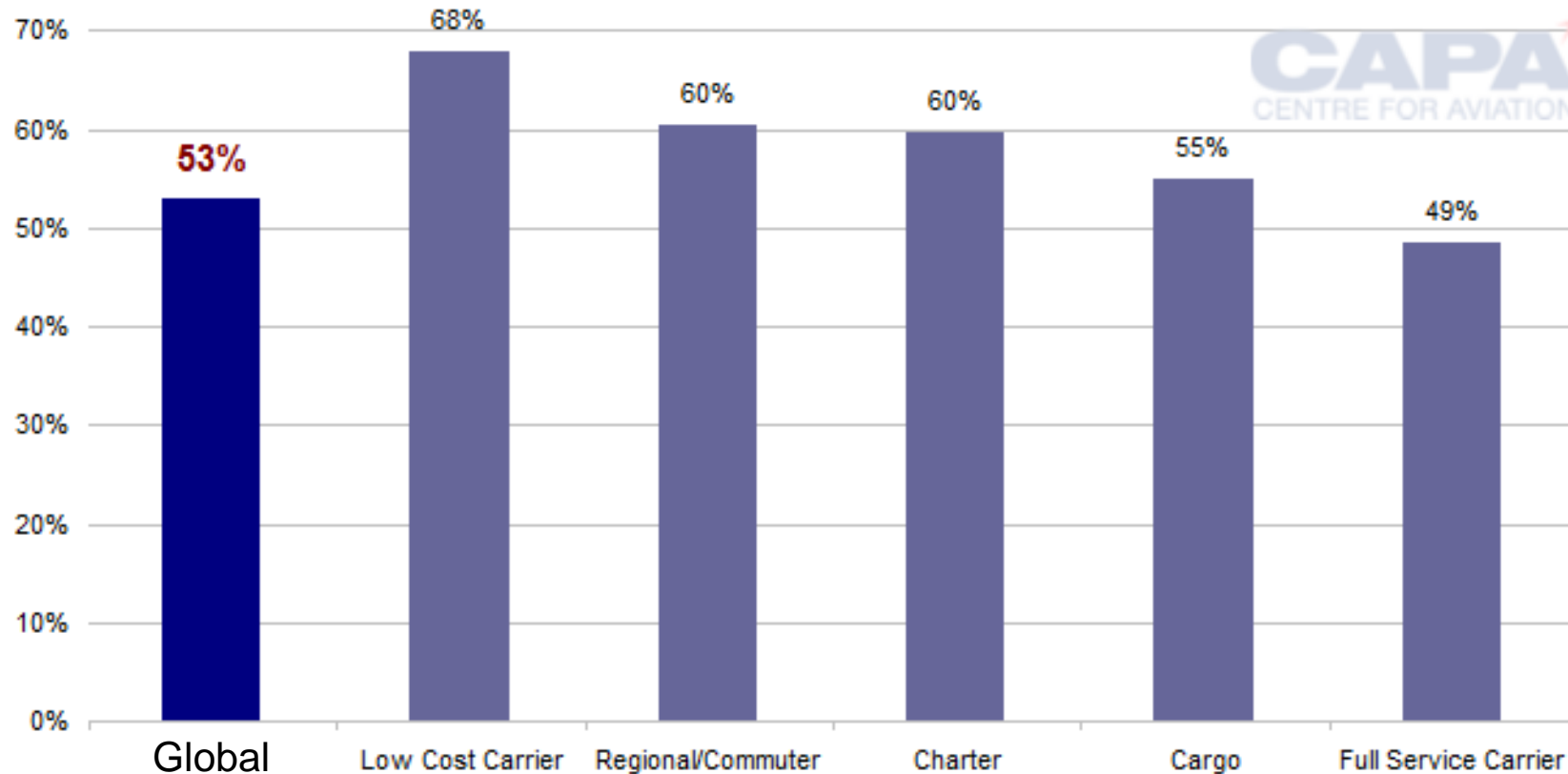
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At 5-Feb-2024

Source: CAPA - Centre for Aviation, OAG

# Leasing accounts for **53%** of global commercial aircraft current fleet...

Percentage of aircraft that are leased



...**68%** of LCC fleet

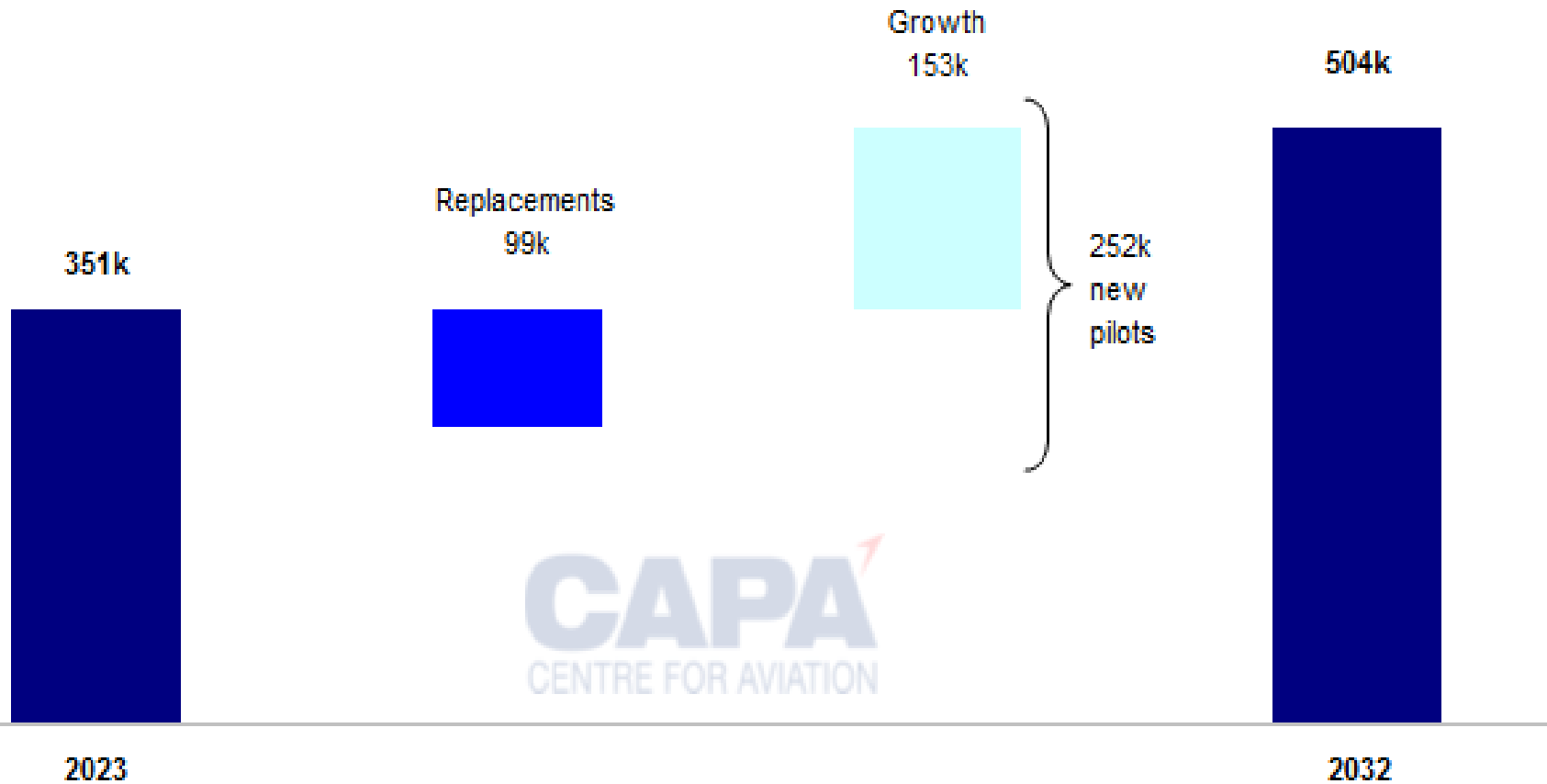


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At 5-Feb-2024

Source: CAPA - Centre for Aviation, OAG

# Pilot growth needs to be **4.1%** pa globally to 2032...

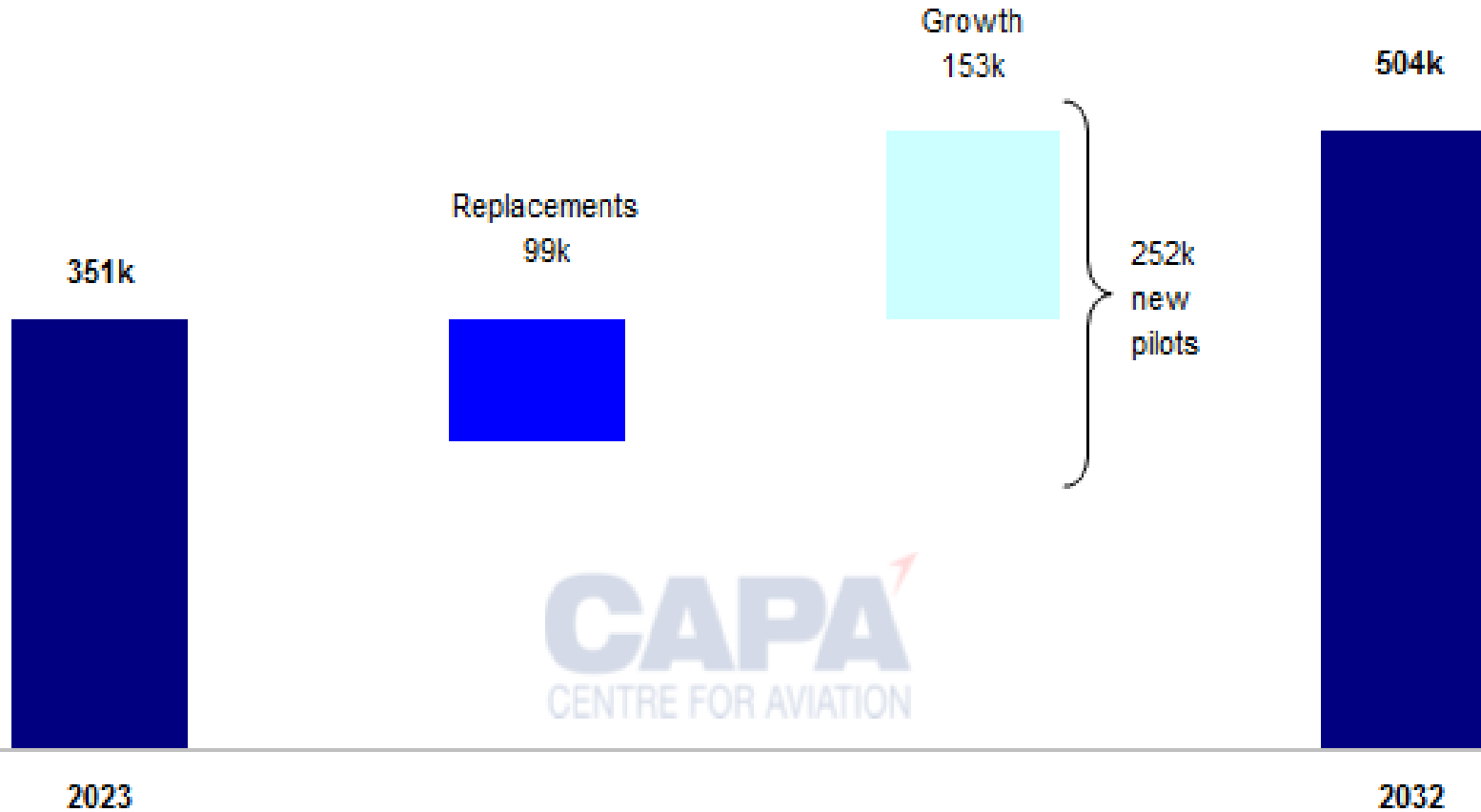


Source: CAE Aviation Talent Forecast (Jun-2023), CAPA - Centre for Aviation



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Pilot growth needs to be **4.1%** pa globally to 2032...

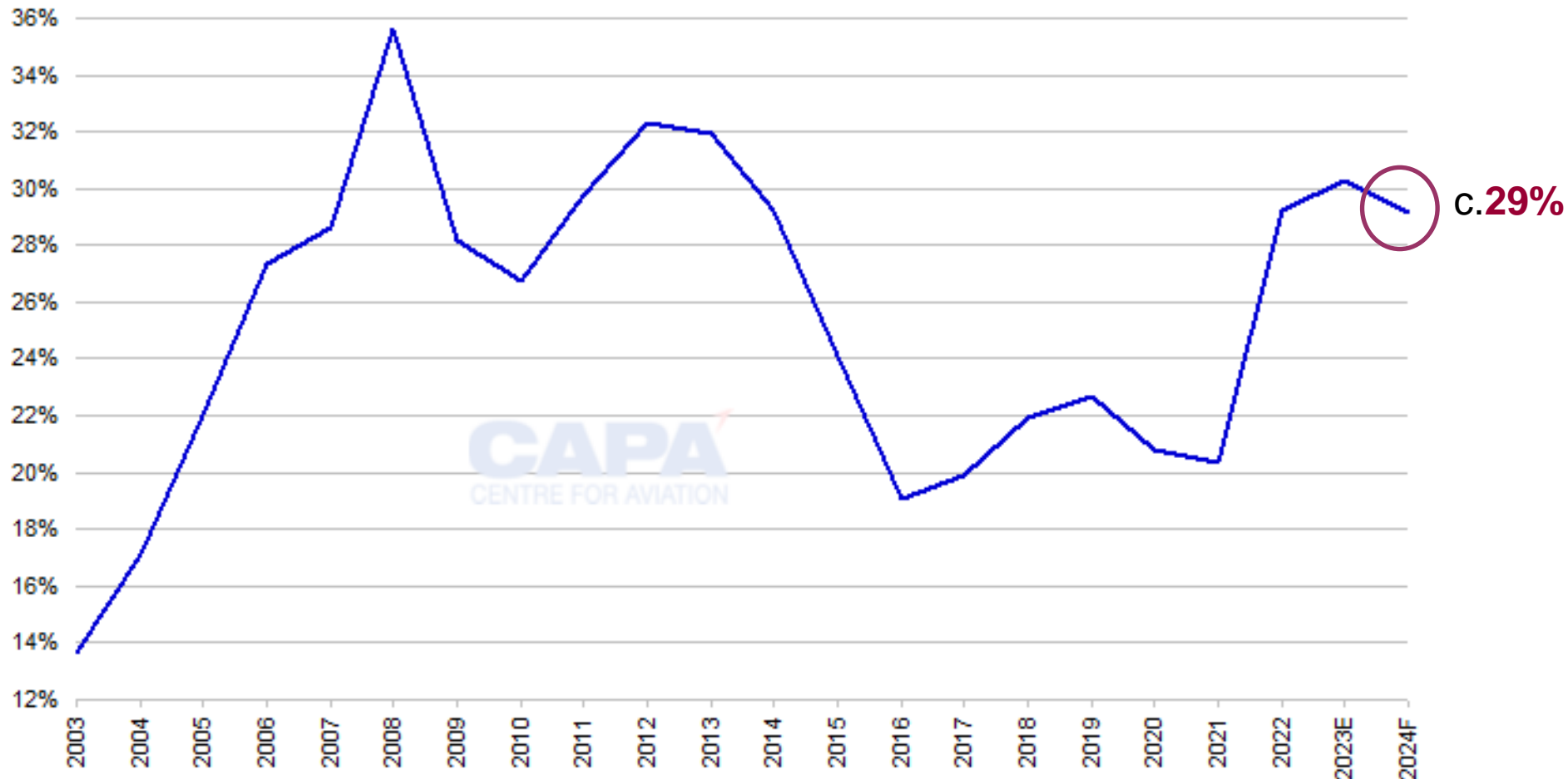


...compared with **1.4%** pa in 10yrs to 2022 in the US



# Fuel cost c29% of revenue

World airline fuel cost as a percentage of revenue, 2003 to 2024F



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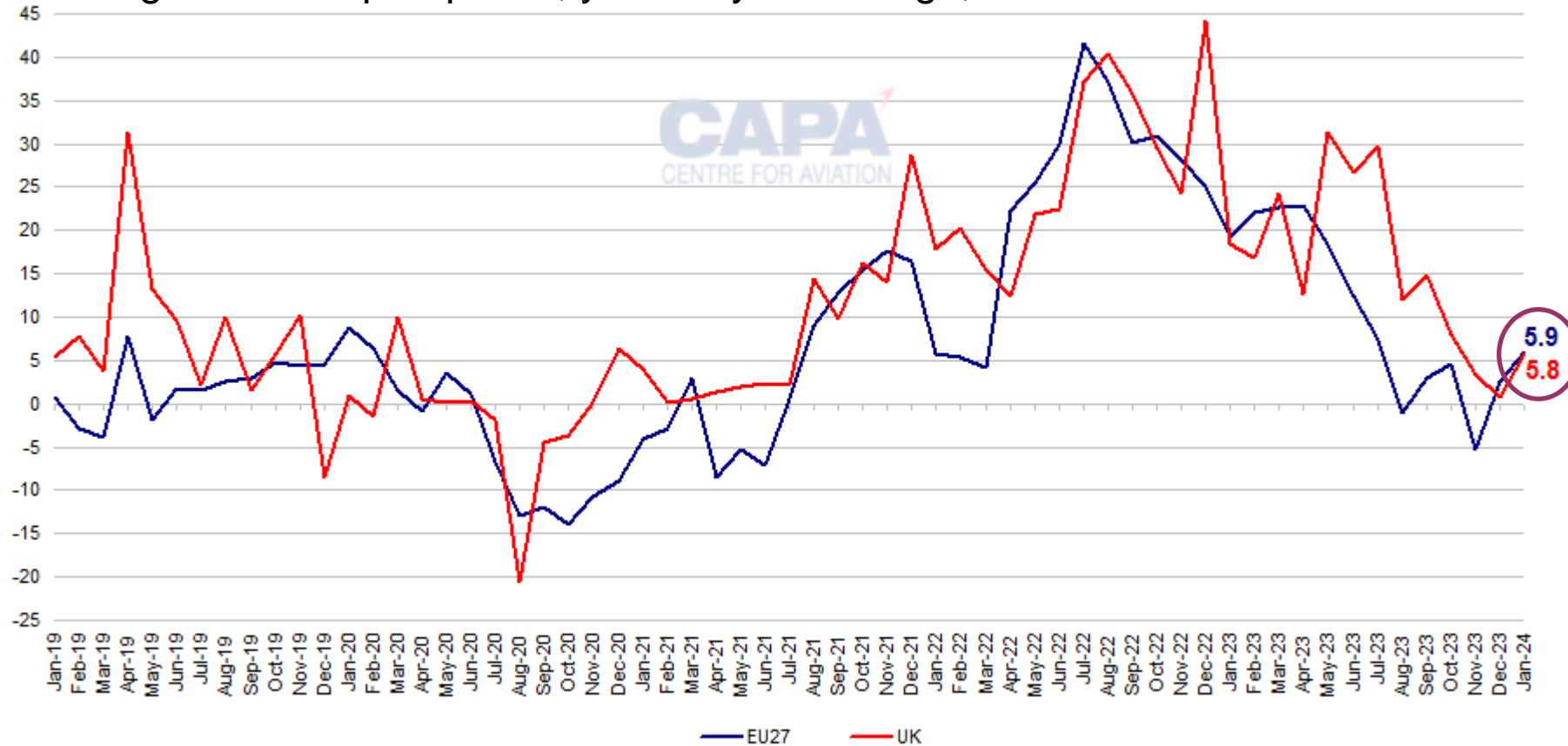


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# EU air fare inflation **5.9%**, rising again?

Passenger air transport prices, year on year change, %



Jan-2024 price increase  
**+5.9%** y-o-y in **EU-27**

*Double digit rates of increase for much of 2021, 2022 & 2023.*

Slowed in recent months.  
Rising once more?

Similar pattern in **UK**.

**Jan-24 vs Jan-19 prices**

**EU: +39%**

**UK: +55%**

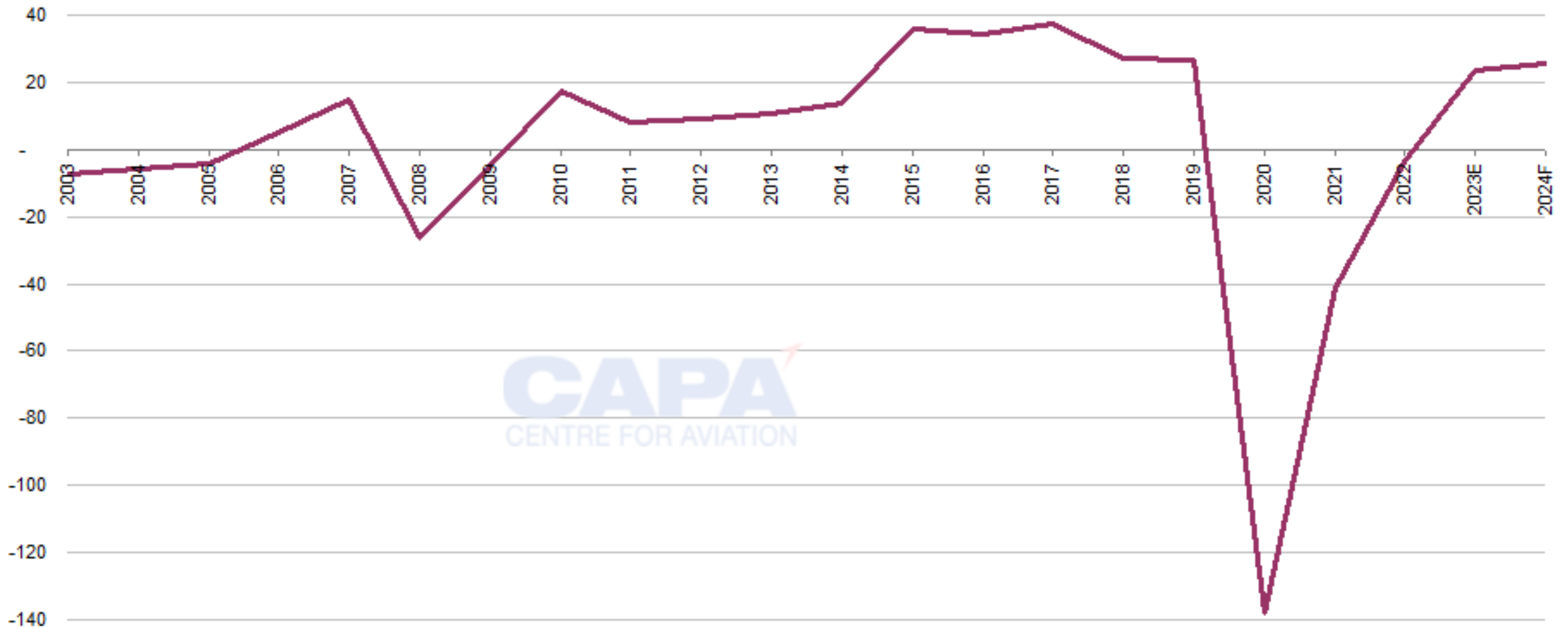
Source: Eurostat, Office for National Statistics, CAPA - Centre for Aviation



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# USD 25.7bn net profit forecast 2024

Airline industry annual net profit (USD billion)

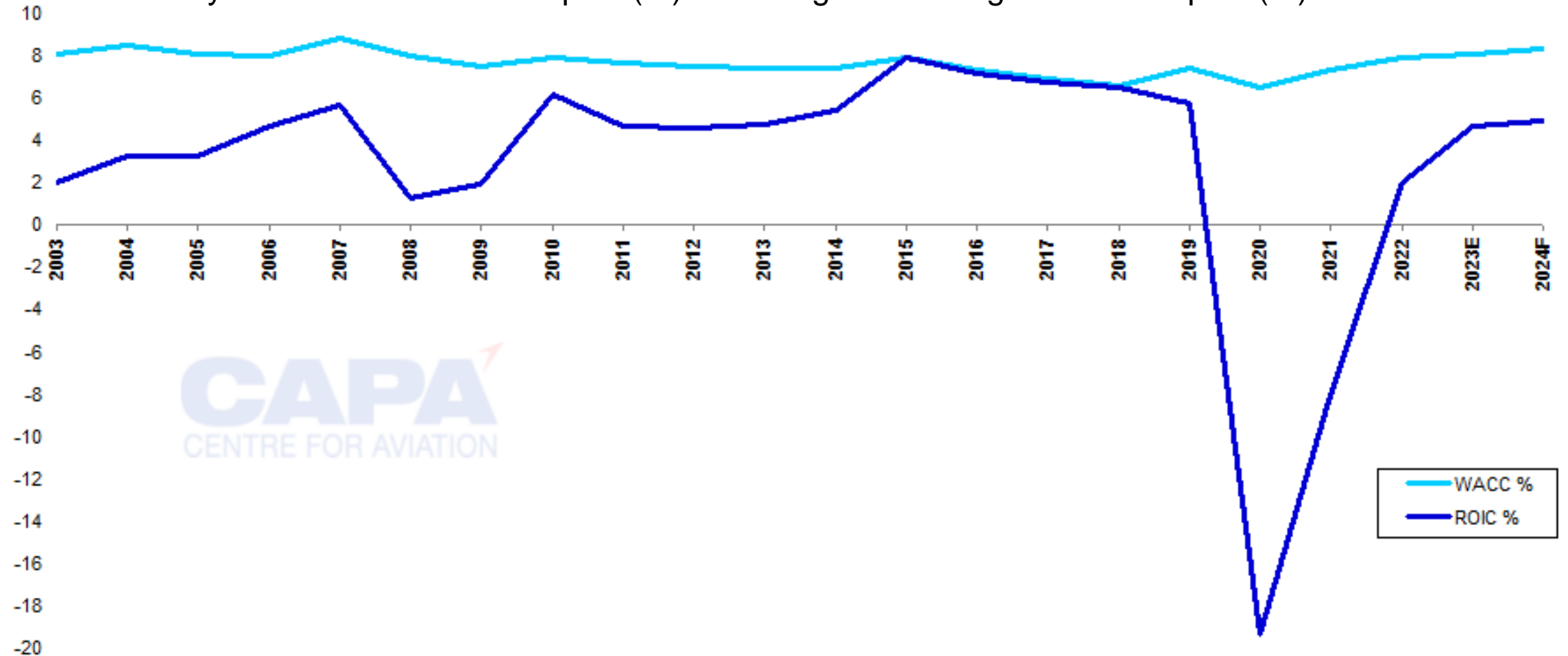


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Source: IATA Economics

# But Return on Invested Capital is below the Cost of Capital ...

Airline industry Return on Invested Capital (%) and Weighted Average Cost of Capital (%)

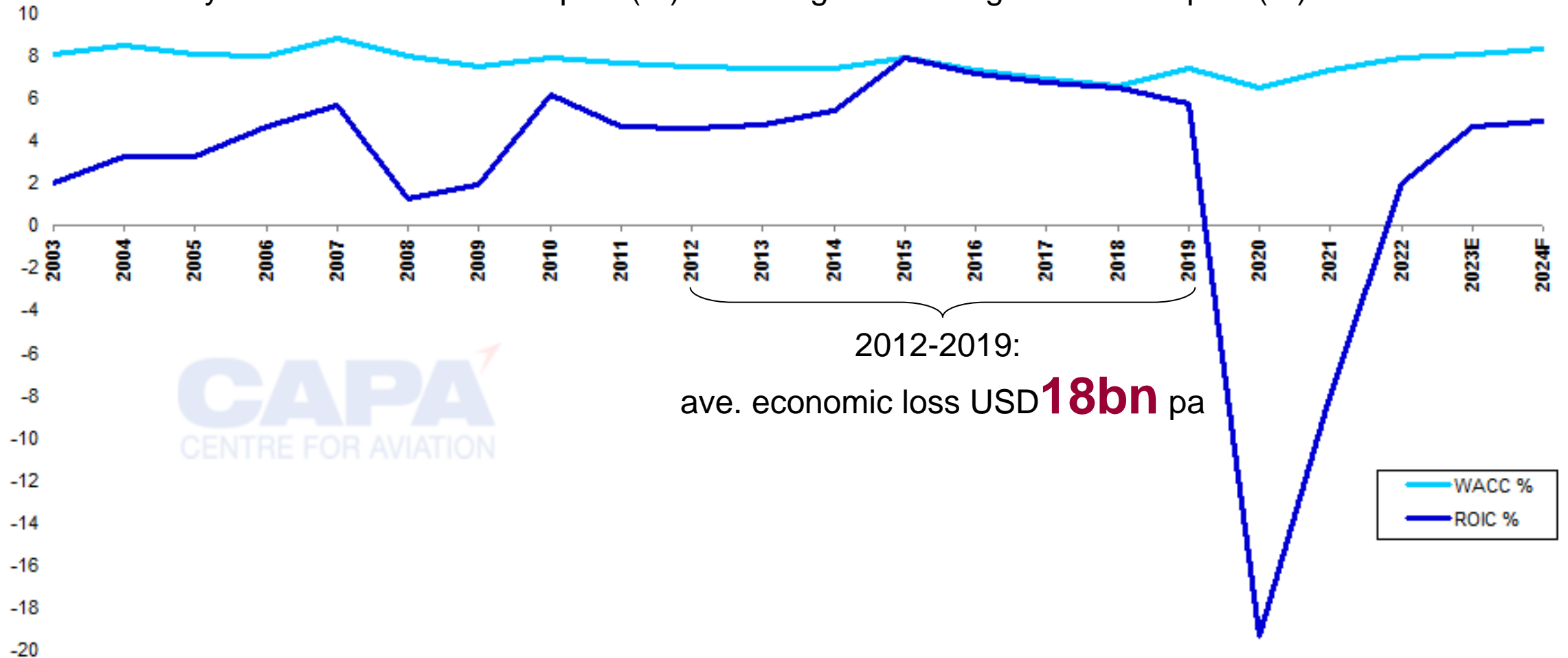


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Source: IATA Economics, McKinsey

# Ave USD **18bn** pa economic loss *in the good years*

Airline industry Return on Invested Capital (%) and Weighted Average Cost of Capital (%)



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Source: IATA Economics, McKinsey

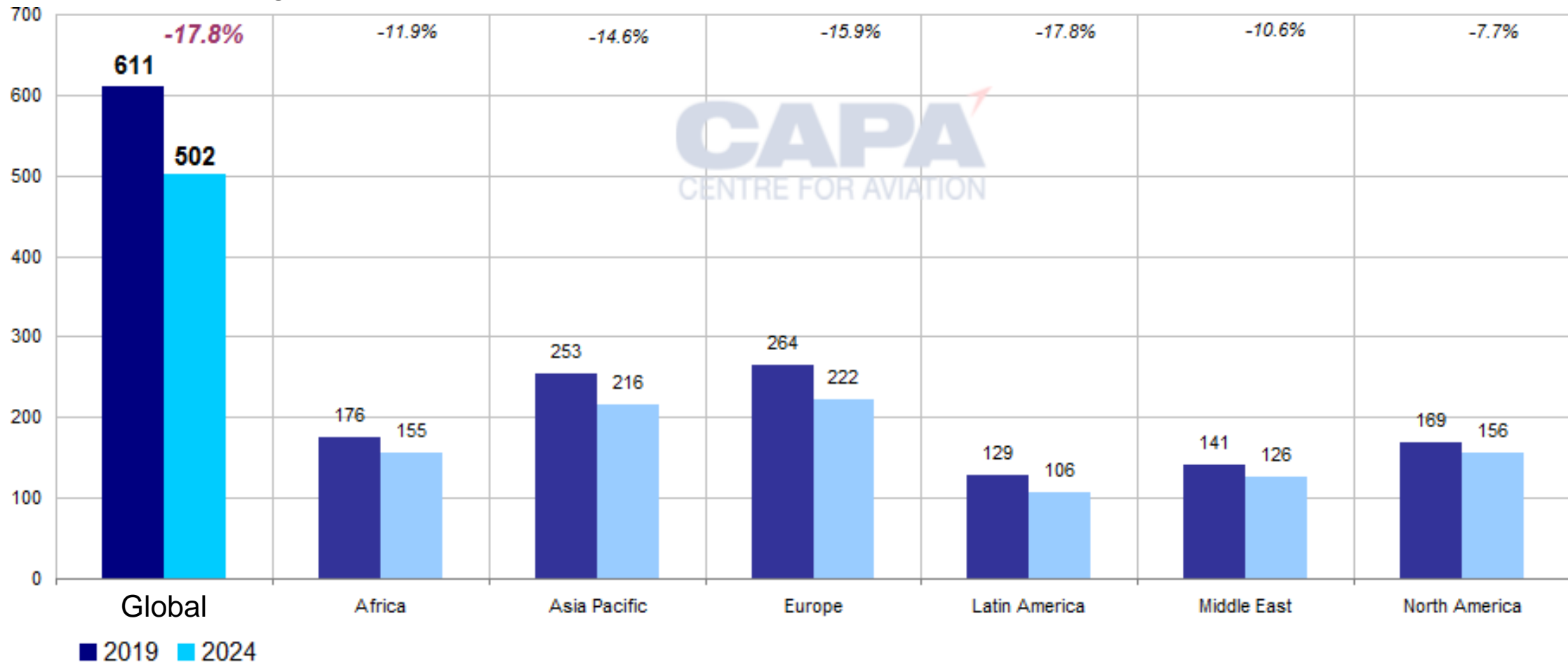
# Market structure and profitability



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# No. of airline groups **-18%** vs 2019

Number of airline groups, first week of Jul-2019 and first week of Jul-2024



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Source: CAPA - Centre for Aviation Centre for Aviation, OAG

# Measuring market concentration

Herfindahl-Hirschman Index (HHI): range zero to 10,000



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Herfindahl-Hirschman Index (**HHI**): range zero to 10,000

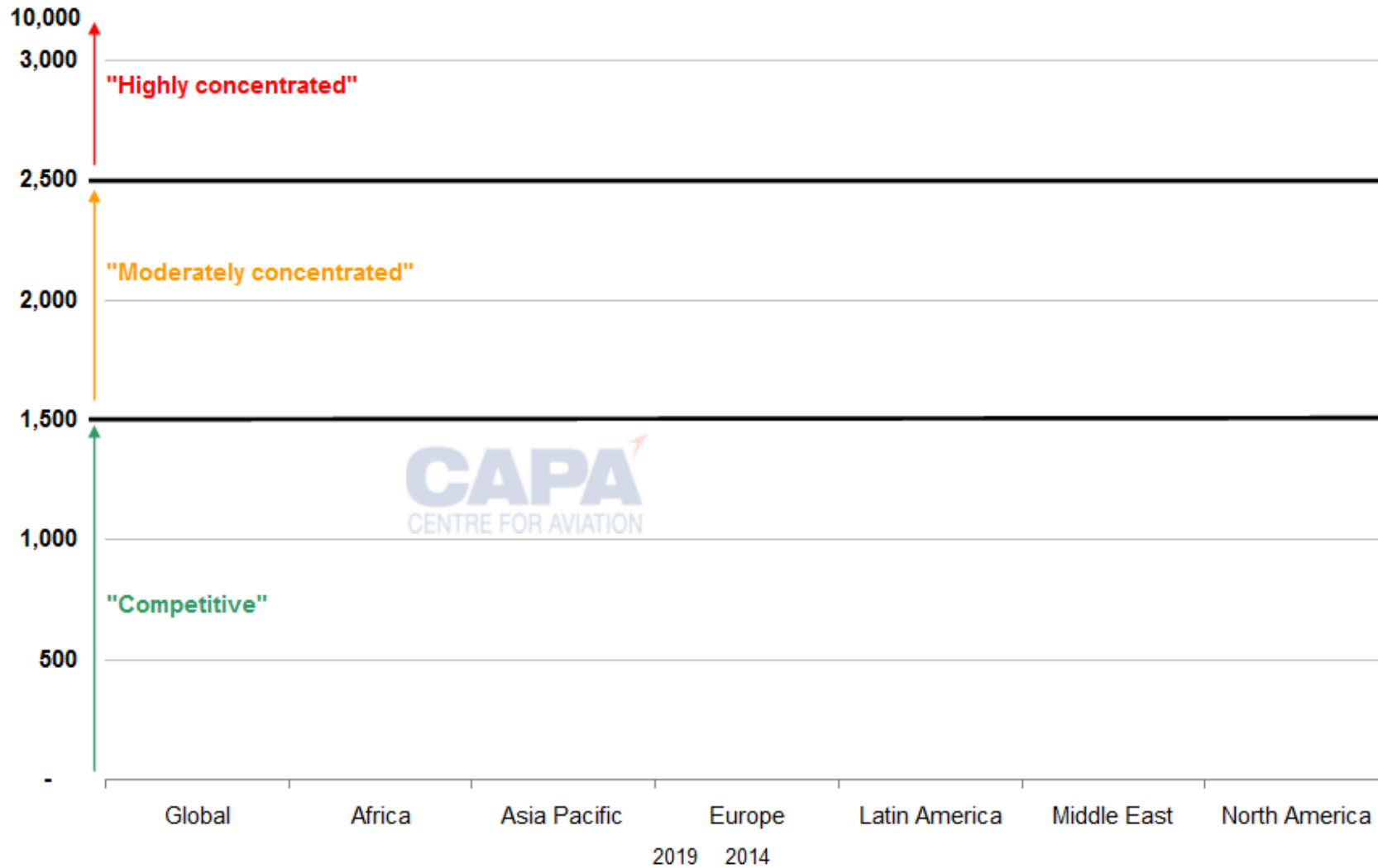
Sum of the squares of the market share of all participants

- Example: 10 participants, each with 10% share:  $HHI = 1,000$
- Example: 1 participant with 100% share:  $HHI = 10,000$



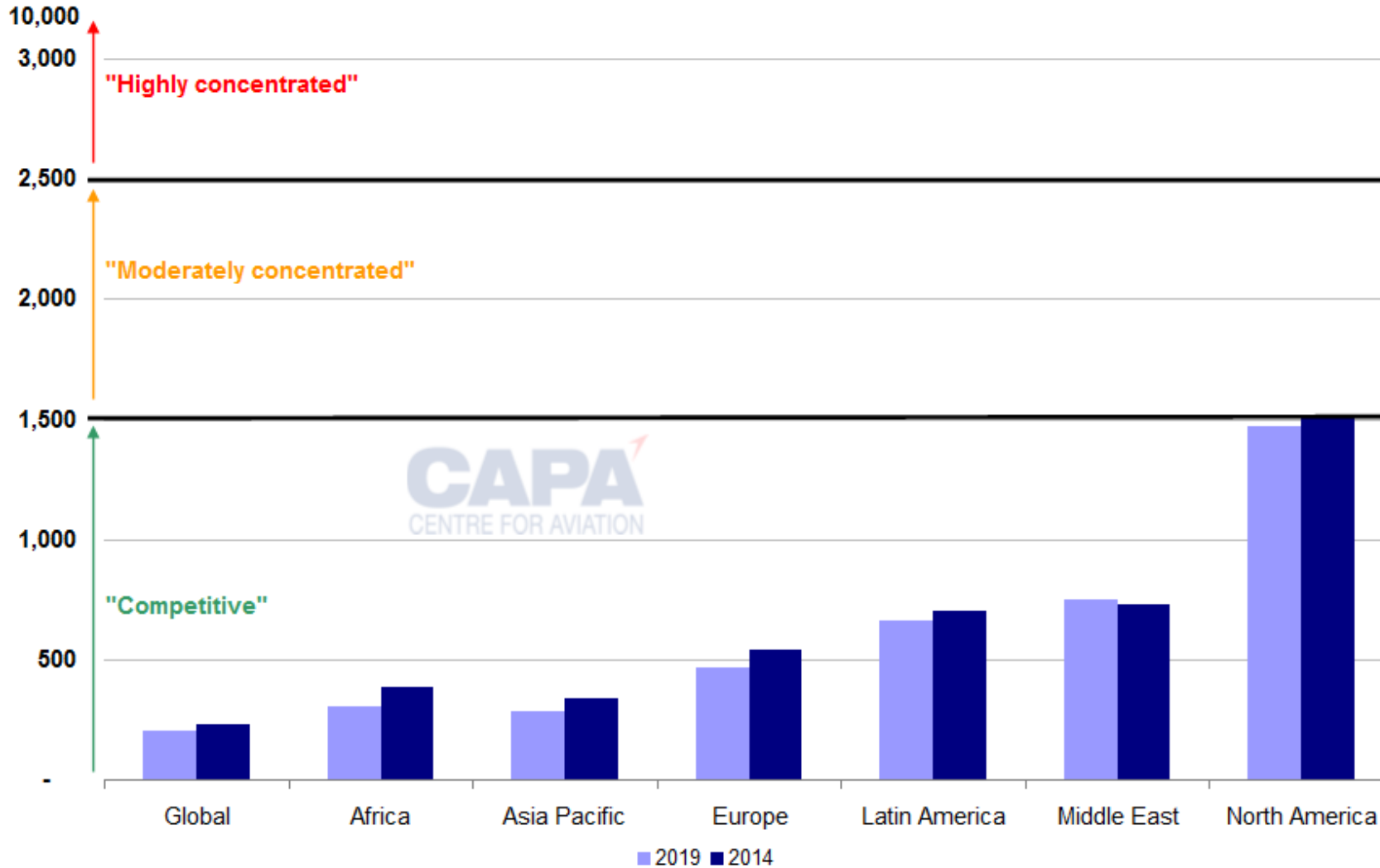


Airline regions: Herfindahl-Hirschman Index (HHI) first week of July, 2019 & 2024



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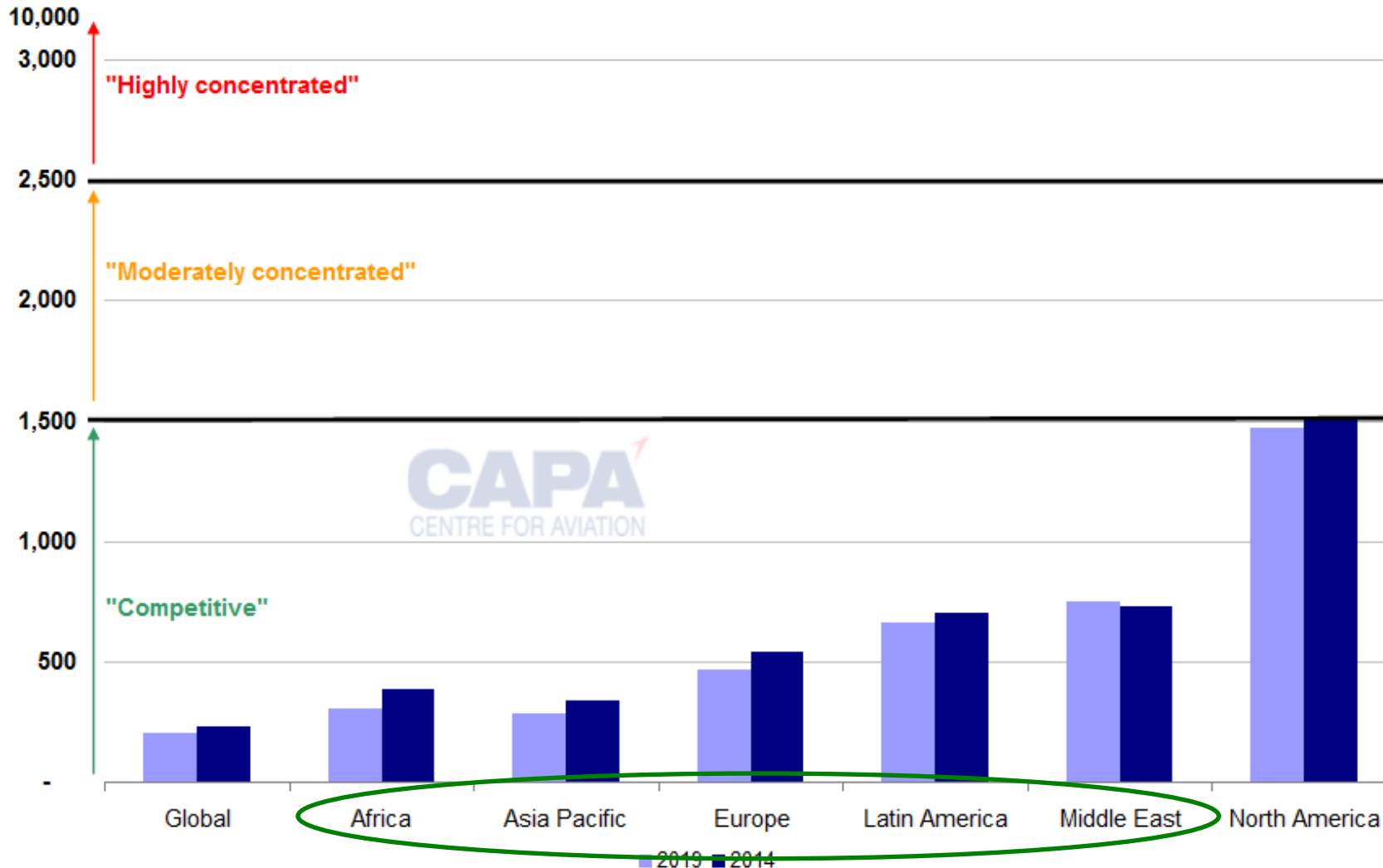
Market concentration measured by Herfindahl-Hirschman Index based on seat share in first week of July



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# 5 regions are “highly competitive”

Airline regions: Herfindahl-Hirschman Index (HHI) first week of July, 2019 & 2024



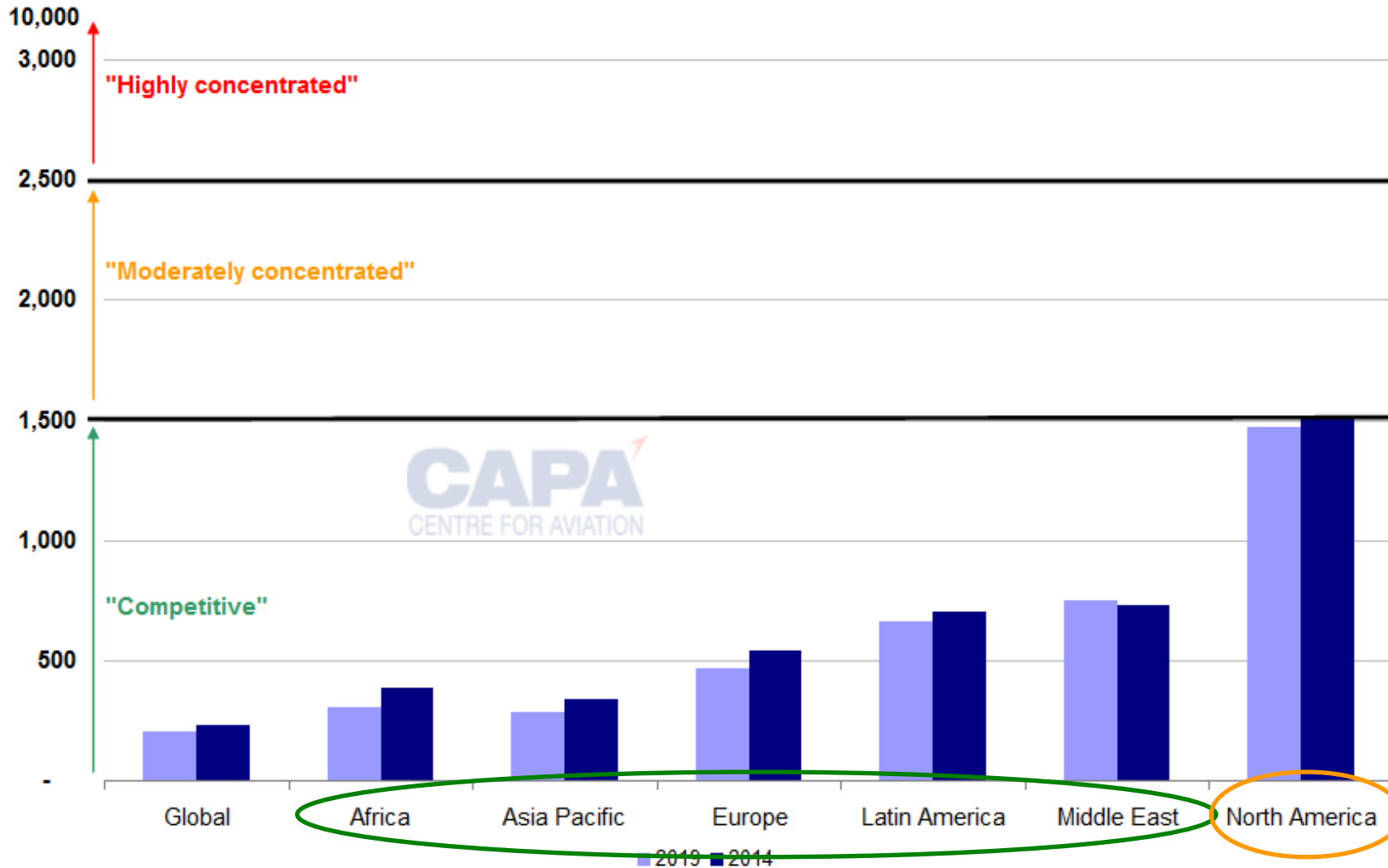
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# 5 regions are “highly competitive”

Airline regions: Herfindahl-Hirschman Index (HHI) first week of July, 2019 & 2024



Only **1** region is “moderately concentrated”

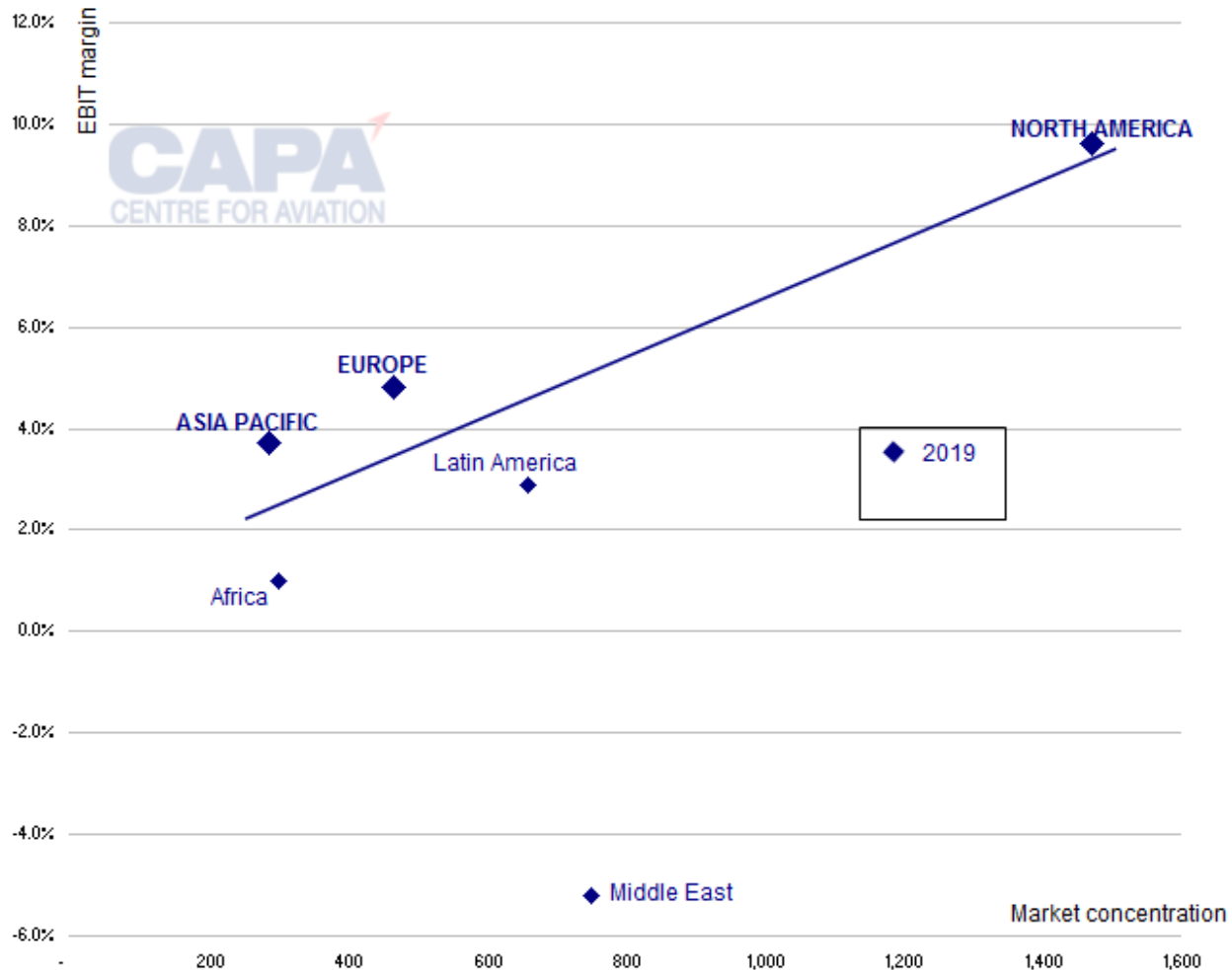
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# Market concentration affects airline margins

Airline EBIT margin (vertical axis) versus market concentration (horizontal axis)



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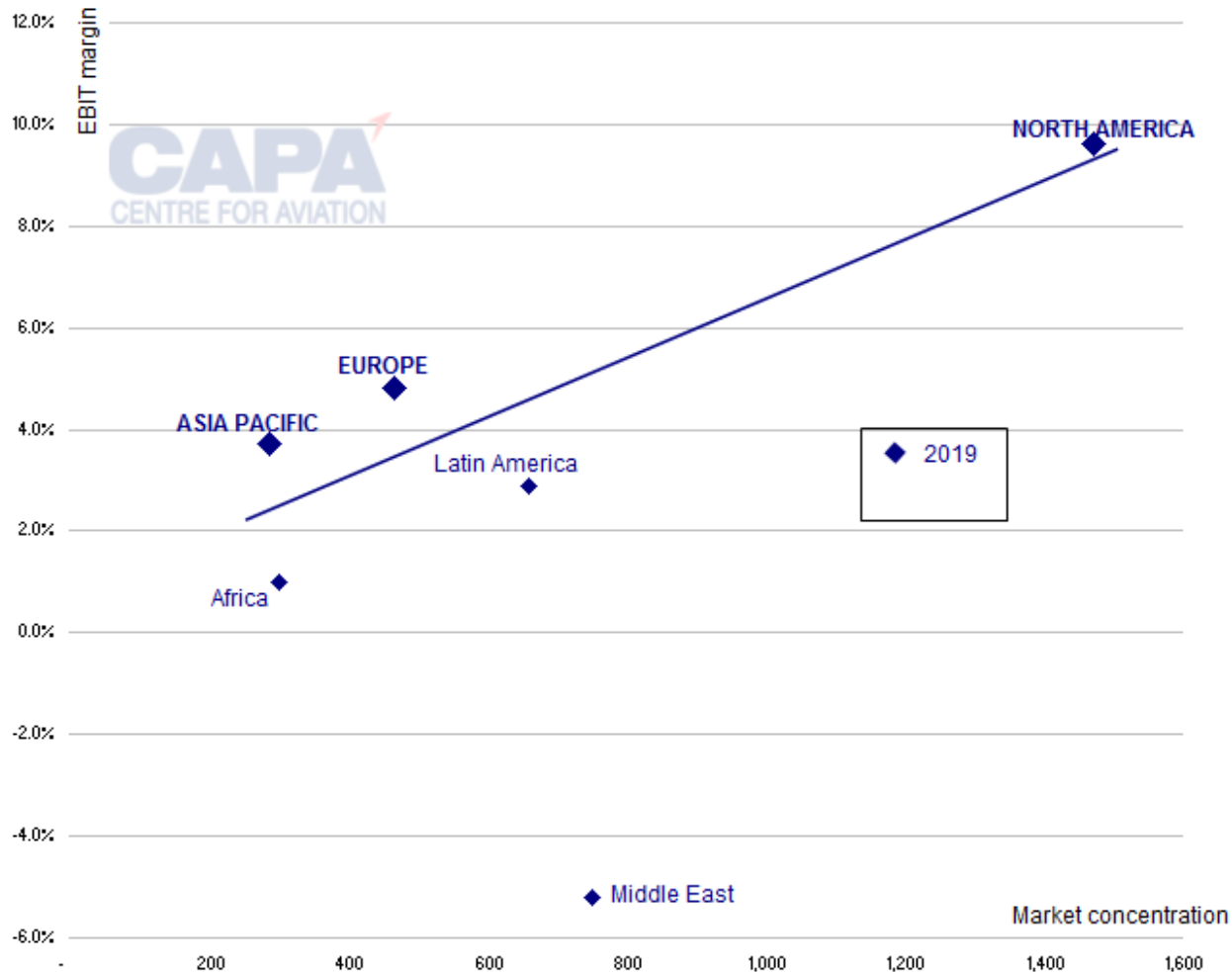


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Source: CAPA - Centre for Aviation Centre for Aviation, OAG, IATA

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Airline EBIT margin (vertical axis) versus market concentration (horizontal axis)



**N. America:**  
most concentrated  
AND highest margin  
in **2019**



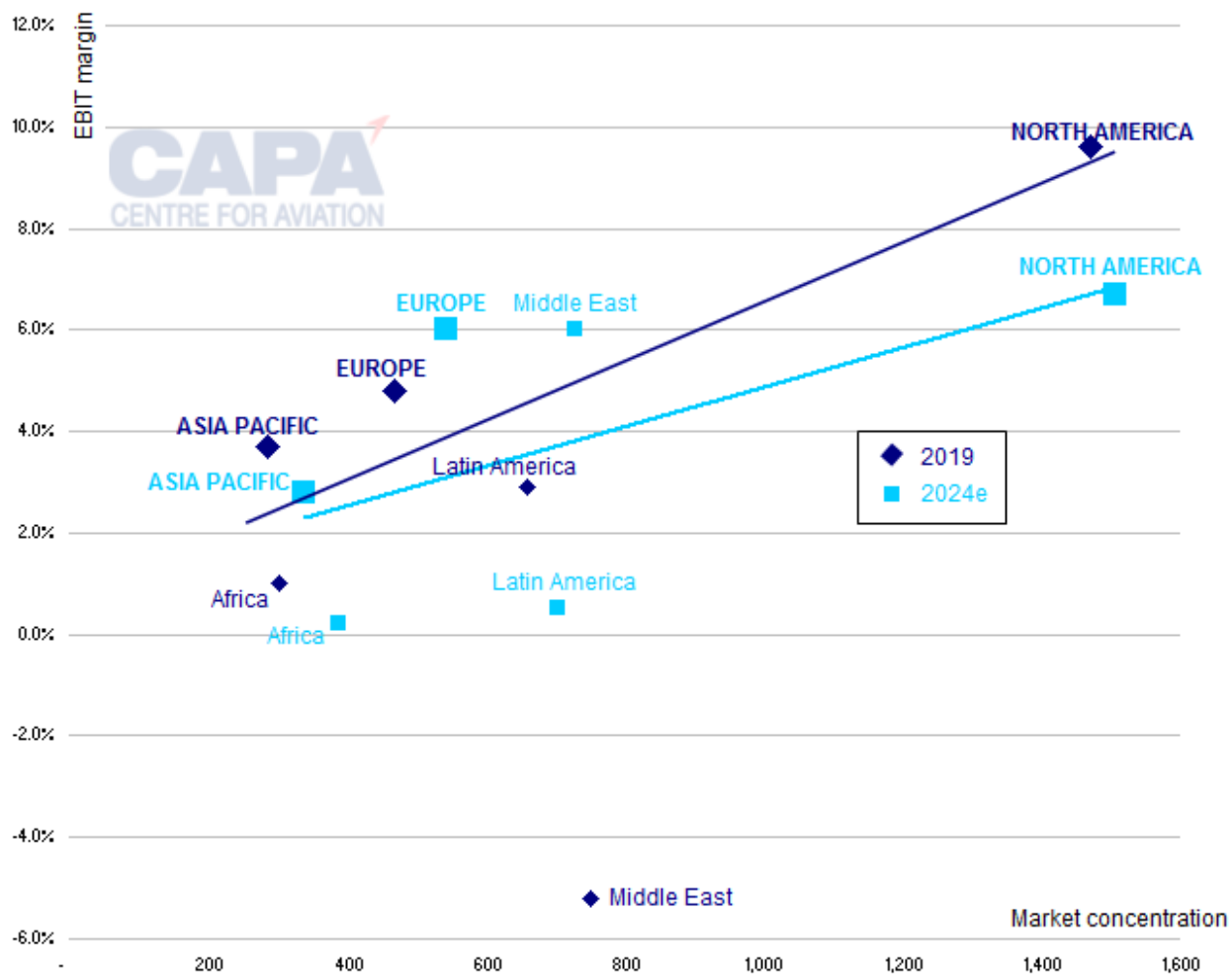
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Market concentration measured by Herfindahl-Hirschman Index based on seat share in first week of July

# The 20 numbers A recap:

- **26** years to achieve net **zero**
- Jets in service at **105%** of 2019 levels
- Seat capacity at **105%**
- Cargo traffic at **102.8%**, RPKs at **99.6%**
- LCC seat share **33%**
- Boeing, Airbus deliveries: **10** years lost
- Aircraft order backlog equates to **13** years of production
- Leasing accounts for **53%** of global fleet, **68%** for LCCs
- Pilot growth needed **4.1%** pa vs historic **1.4%** pa
- Fuel cost at **c29%** of revenue in 2023
- EU air fare inflation Jan-2024 at **5.9%**
- Airline industry USD**25.7bn** net profit forecast in 2024e
- Average USD**18bn** pa economic loss *in the good years*
- **18%** drop in no. airline groups vs 2019
- **5** global airline regions are “highly competitive”...
- ...and only **1** is “moderately concentrated”





# Further observations and conclusions



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# Low return on invested capital

- Indicates **too much competition** in the airline industry



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- **Consolidation** has increased, but **not enough** to drive up returns



# Low return on invested capital

- Indicates **too much competition** in the airline industry
- **Consolidation** has increased, but **not enough** to drive up returns
- Additional factor: for **some** airline investors, **ROIC is not prime motive**
  - Eg Some governments
  - Eg “Hobbyists”, “Brand Builders”



# Low return on invested capital

- **Barriers to entry** are **low**



# Low return on invested capital

- Barriers to entry are low
- Barriers to exit are high



# Low return on invested capital

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  - Aircraft, labour
  - Technical, safety regulation
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  - Obstacles to mergers and acquisitions
    - Competition authorities
    - Foreign ownership limits



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Governments/regulators



# Airlines in transition: challenges

- Green transition: existential challenge
- “Infrastructure”: airport, ATC, surface access, labour, aircraft
- Digitalisation



# Airlines in transition: challenges

- Green transition: existential challenge
- “Infrastructure”: airport, ATC, surface access, labour, aircraft
- Digitalisation

All require **massive investment**, BUT  
**low return on capital** and **highly competitive** market  
structure may **deter investors**



# Airlines in transition: Conclusions

**Governments** must find ways to **lower barriers to exit** to allow **consolidation** and **higher returns**.



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As a consequence **fares** may **rise** for consumers.



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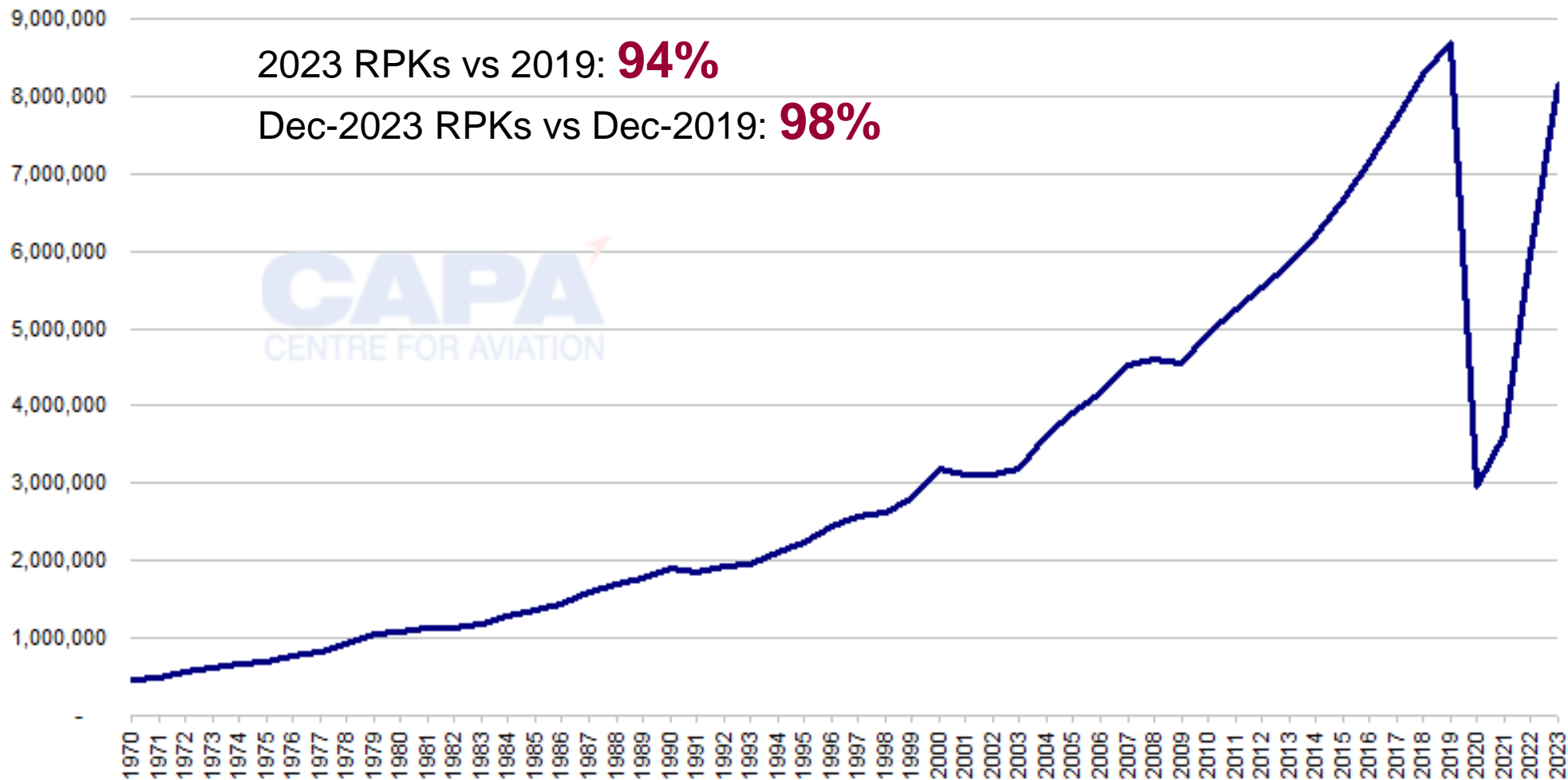
It is time to **start** the **debate!**





# Return to long term growth?

World revenue passenger kilometres 1970-2023



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Source: ICAO, IATA Economics