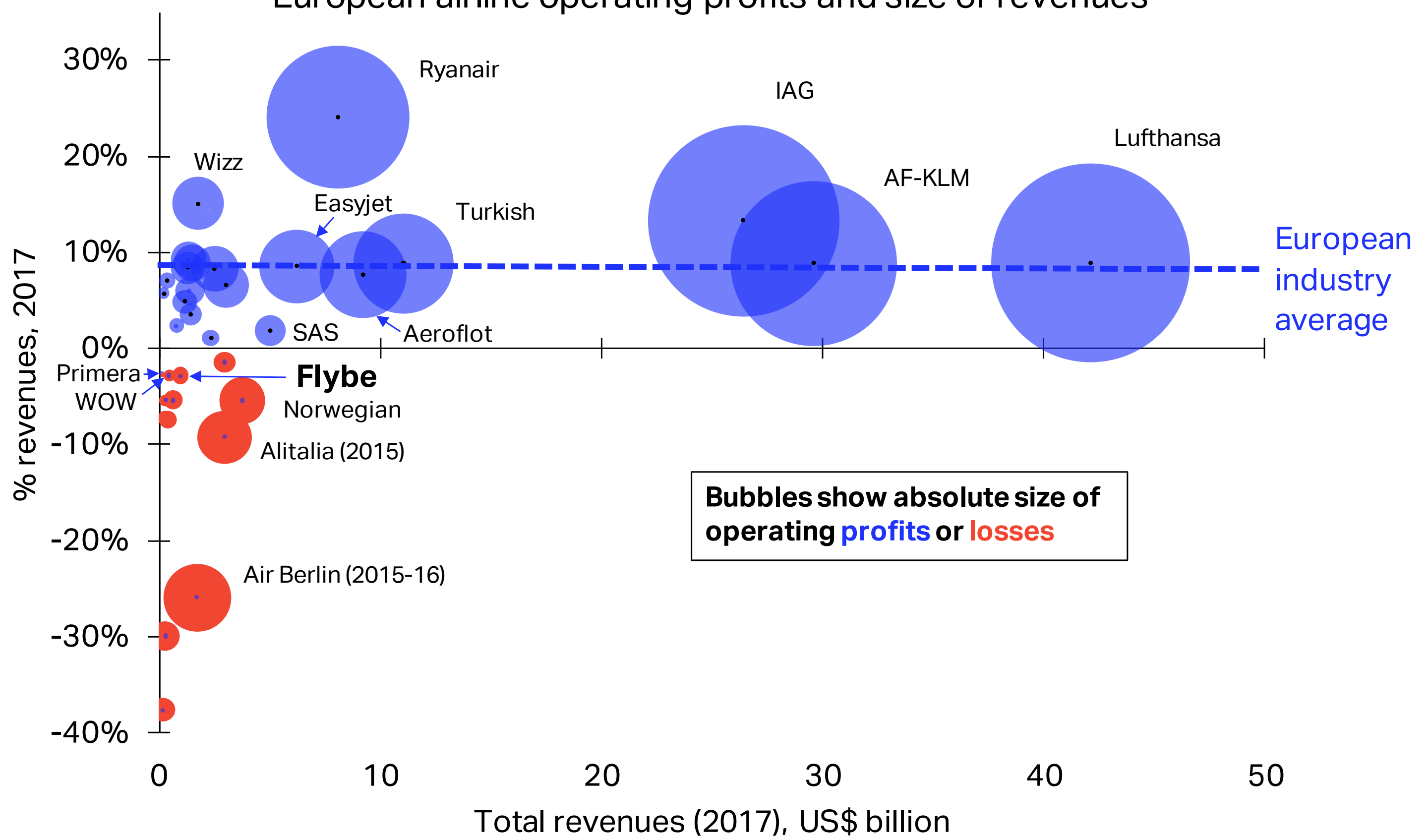
IATA Economics' Chart of the Week

18 January 2019

Strong industry level profits in Europe hide business challenges

European airline operating profits and size of revenues



Source: The Airline Analyst, CAPA

- The injection of cash this week into Flybe, by a consortium led by Virgin Atlantic and Stobart Group, is the latest in a series of European airlines finding business conditions too challenging, leading to failure or takeover. Flybe's challenges follow the failures of Air Berlin, Monarch, Primera, ongoing challenges at Alitalia and several others in the past two years. Yet the European airline industry in aggregate has never been so profitable over the past several years.
- This chart tells the story, as shown in the latest full-year financial results. 70% of the European industry's operating profits are being generated by the big-3 long-haul network airlines, having successfully improved their businesses from not much better than breakeven just 5 years ago. Much of the rest of the industry's operating profits come from the 3 successful LCCs plus Turkish and Aeroflot. A significant number of smaller and medium-sized European airlines are loss-making or barely profitable.
- Despite the recent fall in jet fuel costs, it remains a struggle in Europe for many airlines to keep revenues ahead of costs. The European Common Aviation Area is one of the most competitive markets in the world, and European business confidence is down in the face of weak world trade. But beyond cyclical challenges, European airlines face the highest breakeven levels in the world for the load factors they need to achieve. That's partly due to competitively low fares, but it's also the high cost of regulation and infrastructure use – and that's a problem that could be addressed.

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