



LOW OIL, HIGH TRAVEL DEMAND TO BOOST AIRLINE PROFITS NEXT YEAR: IATA

News / Airlines, Finance



Low oil prices and healthy demand for travel, despite recent terror attacks hurting some destinations, will boost airline profits again in 2016, the International Air Transport Association (IATA) said on Thursday.

IATA, which represents almost 260 airlines accounting for 83 percent of global air traffic, said net profit would reach record levels of US\$36.3 billion, after US\$33 billion in 2015, with more than half of earnings coming from North American carriers.

The Geneva-based association, whose members range from Delta, Lufthansa and Qatar Airways to Qantas and Cathay Pacific, previously forecast profits of US\$29.3 billion for the industry in 2015.

"The airline industry has strengthened its profitability to an ordinary, but not extraordinary, level" IATA Director General Tony Tyler told journalists in Geneva, citing a net profit margin of 4.6 percent and 5.1 percent for this year and next.

Both this year and next, the industry's return on capital is expected to exceed the cost of capital

for the first time, a boost for investors.

"It's a move into a more normal rate of profitability. It's the sort of returns every other industry treats as commonplace," IATA chief economist Brian Pearce said, though he added such returns were only being seen in North America and parts of Europe, while Latin America and Africa were struggling.

Still, profits in North America are expected to drop slightly to US\$19.2 billion in 2016 from US\$19.4 billion, which Pearce said reflected how U.S. carriers had benefited from low fuel prices this year already, while European carriers are heavily hedged so will see the most benefit next year.

Demand for travel has been booming in 2015, thanks to improving economies and lower fuel helping boost spending, especially on leisure trips.

Still, security concerns after a spate of attacks in popular holiday destinations, from Paris to Tunisia and Egypt, have cast a cloud over the sector. Worldwide airline share prices fell 6 percent in November, partly owing to security fears, IATA said.

The impact on Paris is likely to last between six and nine months, but people will not stop traveling, instead picking somewhere else to go, Tyler said.

"Other experiences have shown that it doesn't take long for people to put their fears behind and go back to places that have suffered these outrages," he said.

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