



GLOBAL AIRLINES 2024 OUTLOOK: CRUISING THROUGH A CHALLENGING ENVIRONMENT

News / Airlines



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- a relatively weaker macroeconomic environment with growth expected to remain subdued at less than 1% across all major economies;
- capacity growth constraints in relation to supply chain issues at aircraft manufacturers and pilot shortages; and
- a struggling cargo segment.

Rohit Kumar, Assistant Vice President of Diversified Industries, commented: “Despite these challenges, the sector is likely to show the same resilience as in 2023, as consumers continue prioritizing travel and business travel recovering. Potential headwinds, not in our base case, include a significant economic downturn/recession, and potential escalation in geopolitical tensions that could adversely affect global air travel and/or fuel prices.”

2024 Outlook: stable

The global airlines sector is expected to continue its growth trajectory in 2024, albeit at a more normalized pace (high single-digit growth) than in 2022–23, as business and leisure travel remains strong and fuel prices normalize. The sector, though, is likely to face some challenges, including a relatively weaker macroeconomic environment with growth expected to remain subdued at less than 1% across all major economies, capacity growth constraints in relation to supply chain issues at aircraft manufacturers and pilot shortages, and a struggling cargo segment. However, with consumers prioritizing travel and business travel recovering, the sector is likely to show the same resilience as in 2023. That said, potential headwinds, not in our base case, include a significant economic downturn/recession, and potential escalation in geopolitical tensions that could adversely affect global air travel and/or fuel prices.

Sector’s credit risk profile is expected to remain stable

After deteriorating significantly during the coronavirus pandemic, airlines’ credit risk profiles improved materially during 2023, particularly in North America and Europe, as strong internal cash flows helped the sector deleverage. Although we expect the deleveraging to continue in 2024, it should be more gradual as airlines invest in fleet expansion. In any case, we expect the sector’s credit risk profiles to remain relatively unchanged as its vulnerability to the slower macroeconomic growth warrants caution. That said, airlines in currently distressed geographies (e.g., in Asia Pacific) might see improvement in credit risk profiles as the overall sector continues to recover.

Full recovery in 2024; growth to normalize

Despite strong post-pandemic recovery in North America and Europe, weaker growth in the Asia Pacific region has kept the sector as a whole from completely reaching the 2019 activity levels, but we expect that to be achieved in 2024. However, this would also mean an end to the sharp growth the sector saw in 2022–23 as pent-up demand diminishes, the global rotation of demand from goods to services equilibrates and the impact of full monetary tightening is felt in regions such as Europe and North America. IATA expects 2024 revenue passenger kilometers (RPKs) to grow by just 9%, compared with 38% in 2023 and 65% in 2022, reaching 105% of the 2019 levels. We expect this growth to further normalize to 5% to 7% going forward, more in line with historical growth rates.

Business travel, which is a high-margin segment for airlines, has been slower to recover. Global Business Travel Association expects spending on business travel to fully recover to pre-coronavirus levels in 2024 (compared with its earlier expectations of 2026). That said, we believe macroeconomic stability is important for the segment’s continued recovery.

Margins to remain relatively stable

Airlines margins, particularly in North America and Europe, have risen strongly in 2023 as the sector recovered and passenger yields rose. However, operating costs have also surged because of elevated labor costs (due to various union renegotiations and a tight labor market) and fuel prices (higher oil prices in recent months along with greater spread between jet fuel and oil prices). In 2024, labor costs are likely to remain high but fuel costs may decline, in line with our oil price forecasts. In terms of passenger yields, we believe airlines may face some pressure as it may be difficult to pass on any higher costs because of weaker consumer sentiment. Overall, the sector's operating margins are expected to remain relatively stable in 2024, with airlines in Asia Pacific likely seeing improved margins amid continuing recovery in the sector.

Capacity growth constraints could be a key challenge for airlines going forward

While demand is likely to continue growing, capacity growth constraints are expected to be a major challenge over the next few years. Delayed aircraft deliveries and pilot shortages are key concerns for capacity growth. As aircraft manufacturers continue to face supply chain issues, Boeing recently observed that the ability of aircraft manufacturers to meet demand from airlines will be constrained over the next five years. In addition, pilot shortages are also a challenge for the industry. Southwest Airlines mentioned that in addition to delayed aircraft deliveries, it sees pilot shortage as the biggest challenge facing the industry over the next few years.

Cargo segment to remain challenging

The Cargo segment has faced significant challenges in 2023 as both volumes and yields have come down post the pandemic. Cargo capacity has increased significantly as belly-hold capacity of passenger aircraft has risen materially after passenger airlines brought grounded aircraft back in operations, resulting in overall lower load factors in the industry and pressuring yields. The volumes have also been declining continuously because of a slowdown in global trade and weaker macroeconomic indicators, though there has been some stabilization recently. Given the challenging macroeconomic environment expected over the next year, we believe the Cargo segment will continue to face challenges with pressure on both volumes (due to macroeconomic slowdown) and yields (lower load factors) expected to continue.

Key headwinds to watch in 2024

While airlines are expected to continue the growth trajectory in 2024, we highlight two main risks that investors should closely watch, which could potentially have a significant impact on the sector:

- Significant macroeconomic slowdown/recession: While we expect slower macroeconomic growth in 2024, a significant and/or prolonged slowdown in global growth, or a recession, could impact the sector significantly as air travel is highly sensitive to macroeconomic factors and the purchasing power of consumers.
- Geopolitical tensions: Escalation in existing geopolitical conflicts (like Russia's invasion of Ukraine or the Israel-Hamas war) or newer conflicts in high-risk geographies could result in a significant impact on airlines as it could affect international travel and could also result in commodity price shock, which may in turn affect airlines' margins.

Sustainability initiatives to further accelerate

Sustainability took a back seat during the pandemic as the sector faced existential financial challenges. With an improved economic environment, sustainability initiatives regained focus in 2023 and the trend is likely to continue in 2024. We expect more investments on sustainability initiatives in 2024. Sustainable Aviation Fuel (SAF) mandates, for instance, require airlines to increase SAF usage over the coming years. While 2023 saw SAF volumes doubling to more than 600 million litres, 2024 is expected to see the volume triple to 1.8 billion litres (contributing around 0.5% of total fuel usage). Fleet modernization is also likely to continue with various airlines planning to replace their older fleet with newer generation aircraft, which are fuel and carbon efficient. With sustainability in focus, we expect airlines to increase the use of sustainability-linked financing to show commitment towards decarbonization.

Regional outlook

North America: The region has witnessed the quickest recovery from the pandemic and is already ahead of pre-pandemic levels. Growth is likely to continue in 2024, but at a normalized pace (around mid-single digits). We expect some pressure on passenger yields and margins, and therefore overall profits of the sector might remain relatively stable.

Europe and the United Kingdom: In 2024 travel activity is likely to grow at a measured pace, with around high-single digit growth in RPKs. Key risks for the region include a macroeconomic slowdown and escalation of geopolitical issues. European airlines sector is more fragmented than the US and we expect the consolidation activity in the sector to pick up, noting that a few M&A deals have either already completed or are at the regulatory approvals stage (e.g., Deutsche Lufthansa 41% stake in ITA Airways and Air France-KLM minority stake in Scandinavian Airlines).

Asia Pacific: The region saw strong growth in 2023, but was still a laggard in overall travel recovery, as international travel remains behind pre-pandemic levels particularly in China. Profitability is also suffering as a result. International travel in particular is likely to see stronger growth in 2024. Over the long term, Asia Pacific is expected to contribute significantly to global growth with India being a key growth market.

Airlines in emerging market, including those in Africa and Latin America, are expected to continue facing a tough operating environment as interest rates remain high and consumers' purchasing power reduces further; however, over the medium to long term, some of these economies have strong growth potential and, therefore, could grow strongly once the global macroeconomic situation stabilizes.?

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