

Airline Industry Headed For Slow Growth, Recovery

The domestic airline industry will take longer than expected to recover from the Sept. 11 attacks and the economic slowdown that preceded them, an industry expert told the Sloan-ESI forum this week on Capitol Hill. Peter Belobaba of the Massachusetts Institute of Technology Global Airline Industry Program said carriers will have to renew their focus on hub networks, lean more heavily on global alliances and consider potential consolidation with or without bankruptcies. Initial forecasts for 2001 projected net losses of more than \$11 billion, but Belobaba said worldwide forecasts project greater deficits. Even if the economy improves, he said, fundamental problems remain involving labor and operating costs, and while business travelers will return, he did not foresee them returning at the previous price differentials over leisure. He noted that profitability of the late 1990s-2000 was driven by the improved revenue generation through pricing and distribution, such as capping travel agent fees and using e-commerce channels to fill empty seats. The economic environment today is much different.

With business demand down an estimated 30%, resulting in a 33% decrease in airline revenues, Belobaba said it might require an entirely new revenue management model to bail the industry out of its current crisis. "Without high-fare business travelers, an alternative business model could well be required for airline profitability," he said. Industry recovery depends on the return of business travelers, passenger confidence and absence of new terrorist attacks, the political and military situation and the future cost of fuel, labor and insurance, he said. Unlike the Gulf War, it will likely take the U.S. airline industry more than a year to recover, and even then it is unlikely recovery will be as complete, Belobaba said. Darryl Jenkins, Director of The Aviation Institute at George Washington University, predicted a massive industry restructuring in one to three years, noting that airlines are digging themselves into debt. Soon, major network carriers will have less than 5% in equity and 95% of capital assets will be involved in debt, Jenkins said.