**IATA Doubles Forecast Of '09 Airline Losses**

By Jay Boehmer

**MARCH 30, 2009** -- The International Air Transport Association nearly doubled forecasted losses for global airlines this year to $4.7 billion, from its previously projected $2.5 billion, "reflecting the rapid deterioration of the global economic conditions."

IATA said the airline demand environment has deteriorated significantly since its previous forecast, released in December, and now estimates passenger traffic to fall by nearly 6 percent this year, though a disproportionate pullback in premium demand will help contract revenues by 12 percent. IATA said the anticipated decline is much worse than the 7 percent revenue falloff that followed Sept. 11, 2001.

Though IATA director general and CEO Giovanni Bisignani declared the overall "state of the airline industry today is grim," the aviation association is most optimistic about U.S.-based airlines, which represents the only global region for which IATA predicts a profit this year—though modest to the point of being called by Bisignani "basically break-even."

Still, IATA expects U.S. carriers to finish the year in the black, thanks to "careful capacity management and lower spot prices for fuel."

Even as they were bracing for a demand drop-off and revenue declines in December, U.S. airline executives spent much of 2008 recalibrating their businesses through efficiency gains, capacity cuts, headcount reductions and ancillary revenue initiatives [(BTNonline, Dec. 8, 2008).](http://www.btnonline.com/businesstravelnews/search/article_display.jsp?vnu_content_id=1003919978)

IATA called U.S. carriers the only sector in global aviation "to have been able to shrink capacity in line with the fall in demand." However, carriers in other regions are "unable to keep up with the demand slump."

Despite U.S. airlines' capacity restraint, carriers continue to struggle in the face of demand weakness and revenue deterioration. The Air Transport Association in March said passenger revenue among U.S. airlines fell 19 percent in February compared with the same period last year, as petering passenger volumes and falling fares propelled revenues to decline for the fourth consecutive month. ATA said airlines in February witnessed a 12 percent decline in passengers and an 8 percent decline in yield.

J.P. Morgan aviation analyst Jamie Baker in a research note said he expected revenue to fall further in March, "largely given the Easter shift, with April trends more closely resembling those of February."

Baker noted, "From that point forward, we are modeling for neither recovery nor further deterioration." Baker noted that sustained demand trends, "while undoubtedly weak, are nonetheless tracking in line with our expectations."

Similarly, IATA said its forecast is "based on the view that the economy and demand for air transport will hit bottom by the middle of the year."

Though U.S. carriers struggle with demand, they are faring better than airlines in other parts of the world. IATA said Asia/Pacific carriers "continue to be hardest hit by the current economic turmoil," including a GDP drop of 5.5 percent in Japan—the region's largest market.

Europe is expected to see falls in demand, yields and profitability, IATA said, noting that capacity cuts initiated by carriers in the region have not been enough to absorb those declines.

IATA noted that only the Middle East region is expected to witness some demand growth this year. However, IATA said that wouldn't translate into profits as a modest 1 percent uptick in traffic volume meets capacity that is on track to grow nearly 4 percent.

IATA said one shred of good news for the aviation industry this year comes in the form of fuel price reductions that "are helping to curb even larger losses." IATA assumes an average fuel price of $50 per barrel this year, unchanged from previous forecasts.

"Fuel is the only good news," said Bisignani, "but the relief of lower fuel prices is overshadowed by falling demand and plummeting revenues. The industry is in intensive care. Airlines face two immediate fundamental challenges: conserving cash and carefully matching capacity to demand."