

# Airline Capacity Discipline: Where and to What Extent?

Icarus Society, November 29, 2012

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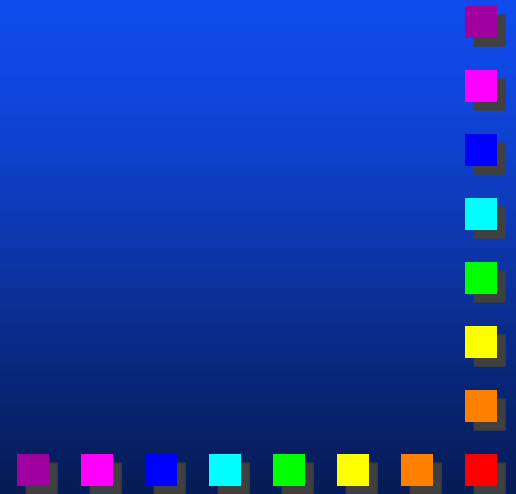
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# Background

- U.S. industry largely unprofitable in the 2000s
- Focus on market share
- Excess/uneconomic levels of capacity
- Growth, but not profitable



# Recent Developments

- Significant consolidation
  - Delta-Northwest
  - United-Continental
  - Southwest-AirTran
- Yet another one? (American-US Airways)
- Capacity reduced; hubs downgraded
- Profits improving; Wall Street approving

# Is this the Recipe for Continuing Financial Success?

- No
- U.S./North America may be the biggest airline market today, but the world is changing
- There will be other markets that will grow significantly, and profits can be realized

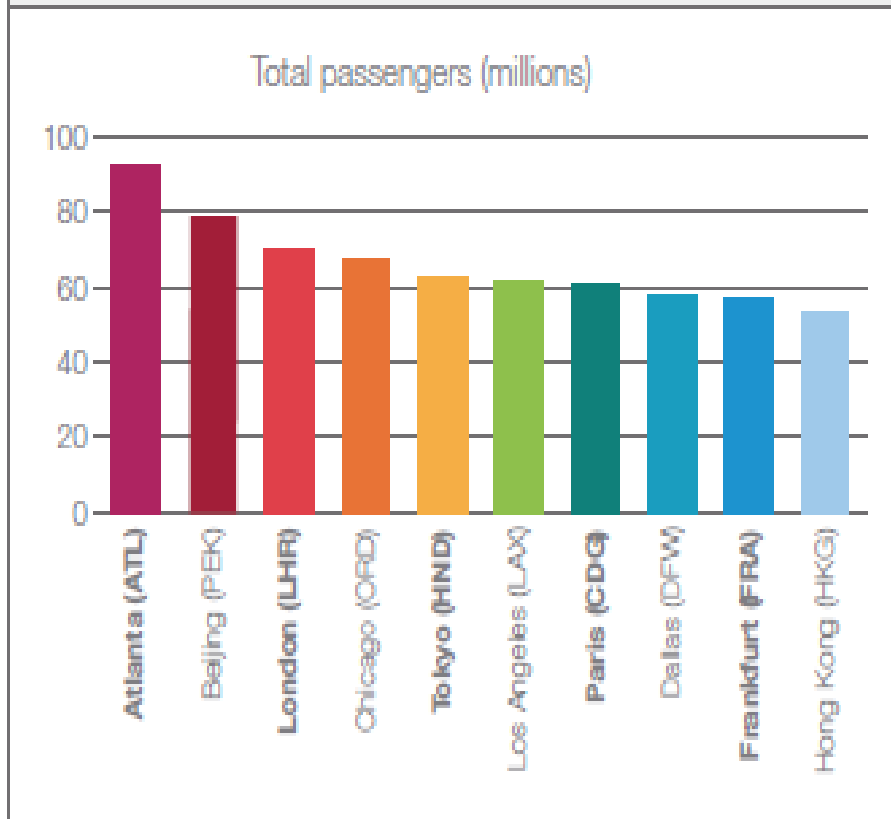
# A Related Problem

- Focus on short-term profitability may lead to lost long-term opportunities
- Markets outside N. America forecast to grow rapidly
- U.S. carriers need to plan how to benefit
- Once current economic difficulties resolved, U.S. carriers need to be ready to execute

## Infrastructure

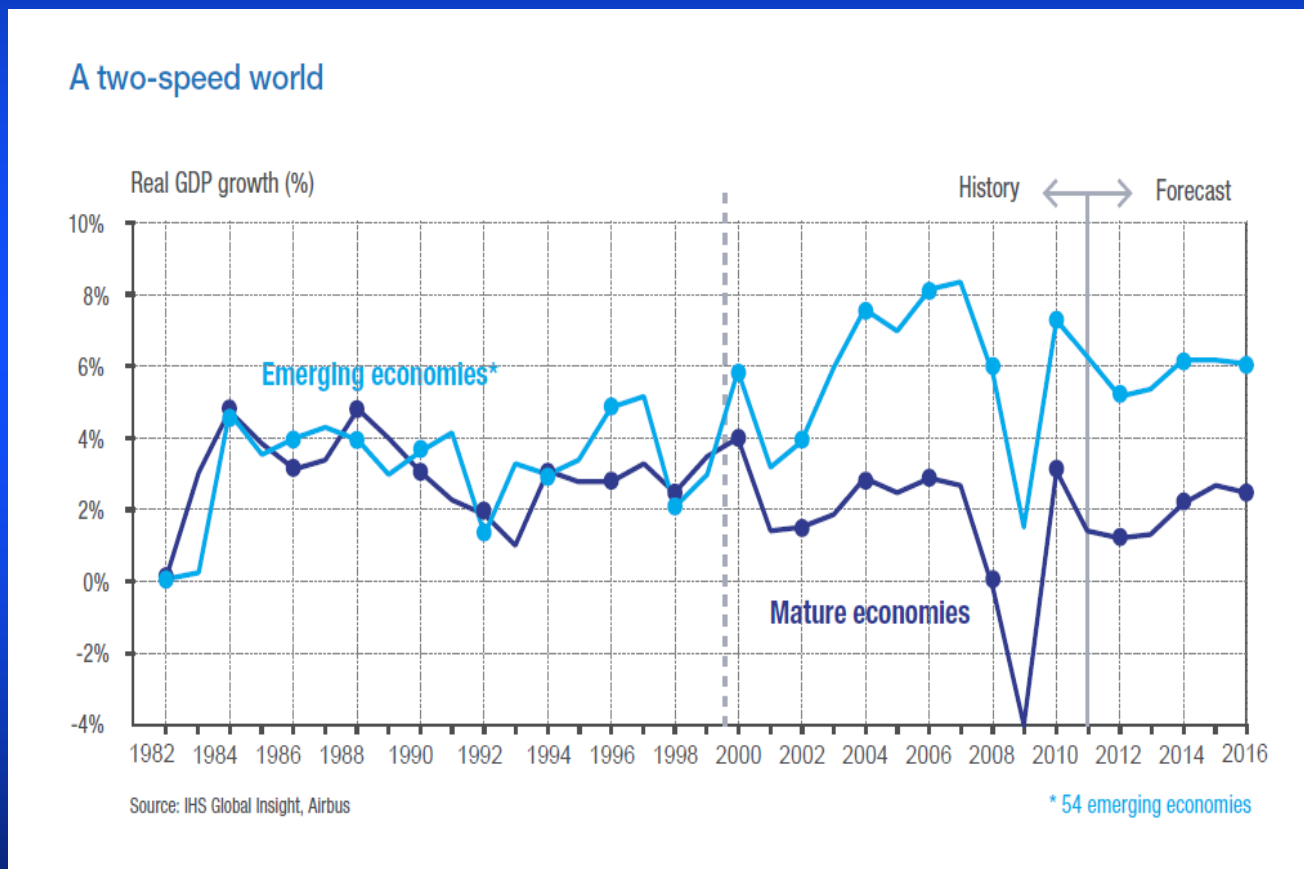
### 2011 busiest airports by passengers

Source:  
ACI  
[www.airports.org](http://www.airports.org)



Source: Boeing Current Market Outlook 2012-2031

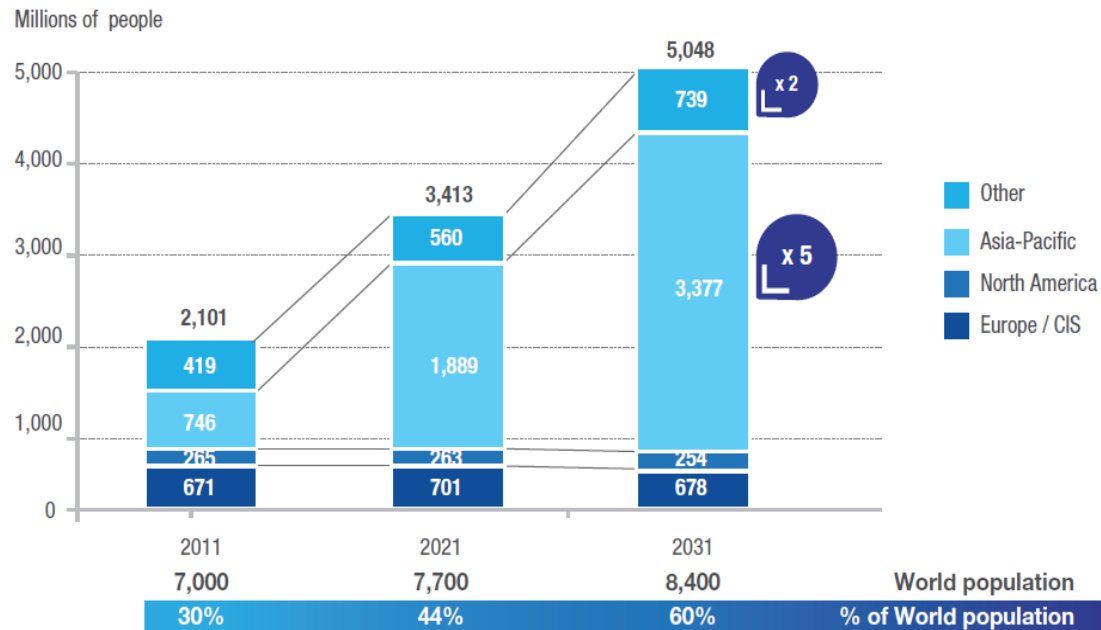
# Emerging Economies Growing Faster than Mature Economies



Source: Airbus Global Market Forecast 2012-2031

# A Growing Middle Class Will Spark Demand

As world population grows, so does the global middle class



\* Households with daily expenditures between \$10 and \$100 per person (at PPP)  
Source: Kharas and Gertz, Airbus

Source: Airbus Global Market Forecast 2012-2031



# The Top Dozen Economies are Changing

The world of 2031 will be very different from today

Country ranking by GDP

1991

- 1 - US
- 2 - Japan
- 3 - Germany
- 4 - France
- 5 - UK
- 6 - Italy
- 7 - Russia
- 8 - Spain
- 9 - Canada
- 10 - Brazil
- 11 - Mexico
- 12 - China**

2011

- 1 - US
- 2 - Japan
- 3 - China**
- 4 - Germany
- 5 - UK
- 6 - France
- 7 - Italy
- 8 - India**
- 9 - Canada
- 10 - Spain
- 11 - Brazil
- 12 - South Korea

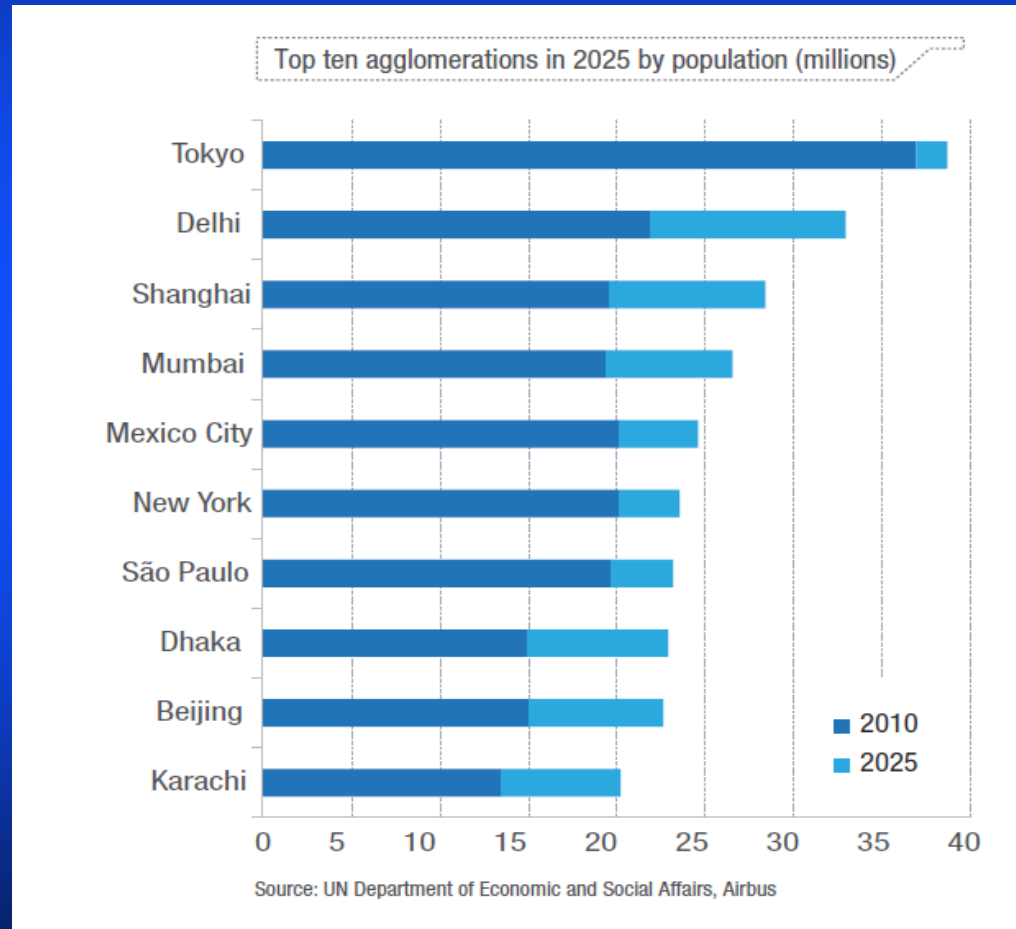
2031

- 1 - US
- 2 - China**
- 3 - India**
- 4 - Japan
- 5 - Germany
- 6 - UK
- 7 - France
- 8 - Brazil
- 9 - Italy
- 10 - Canada
- 11 - Mexico
- 12 - South Korea

Source: IHS Global Insight, Airbus

Source: Airbus Global Market Forecast 2012-2031

# Asia is Expected to have the Most Large Cities in 20 Years

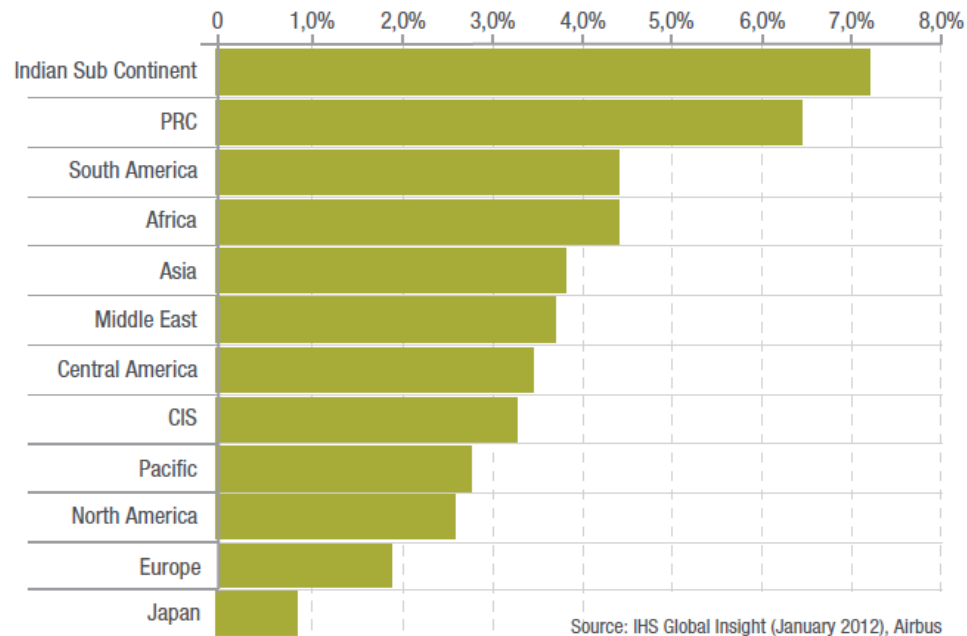


Source: Airbus Global Market Forecast 2012-2031

# GDP Growth Rates will be Greatest in “Non-Traditional” Markets

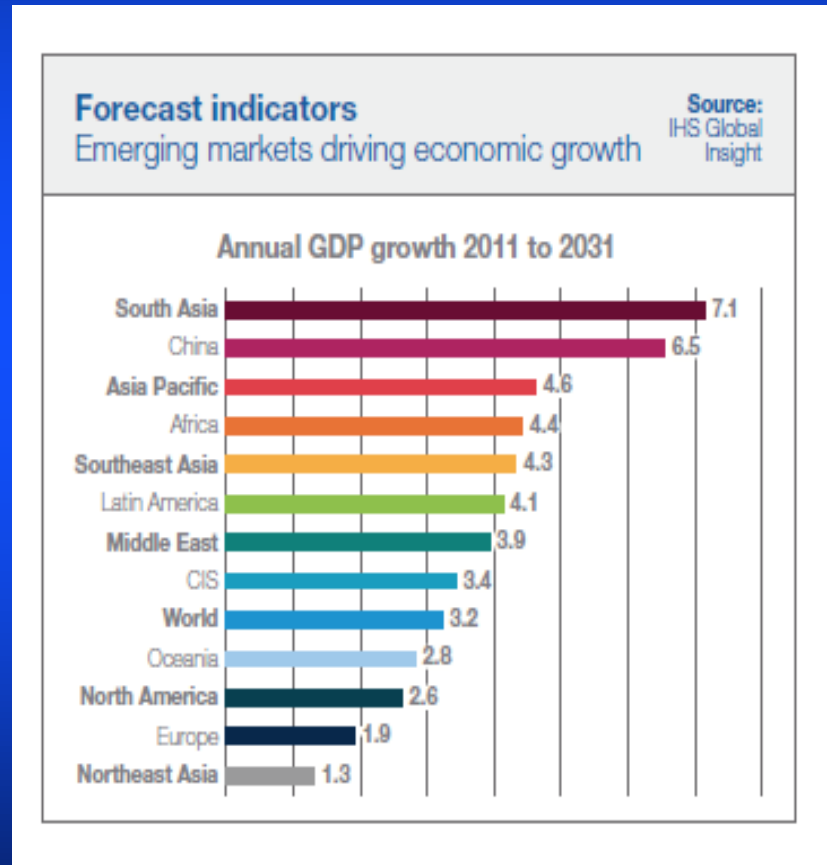
Emerging regions will drive long-term economic growth

2011-2031 real GDP average annual growth rate, by region

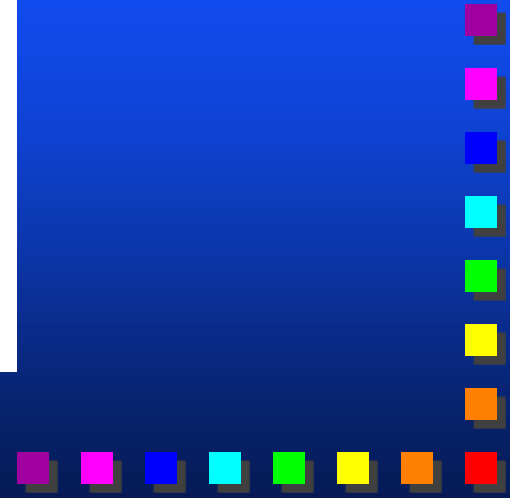


Source: Airbus Global Market Forecast 2012-2031

# High Growth is Outside the U.S., Europe and Japan

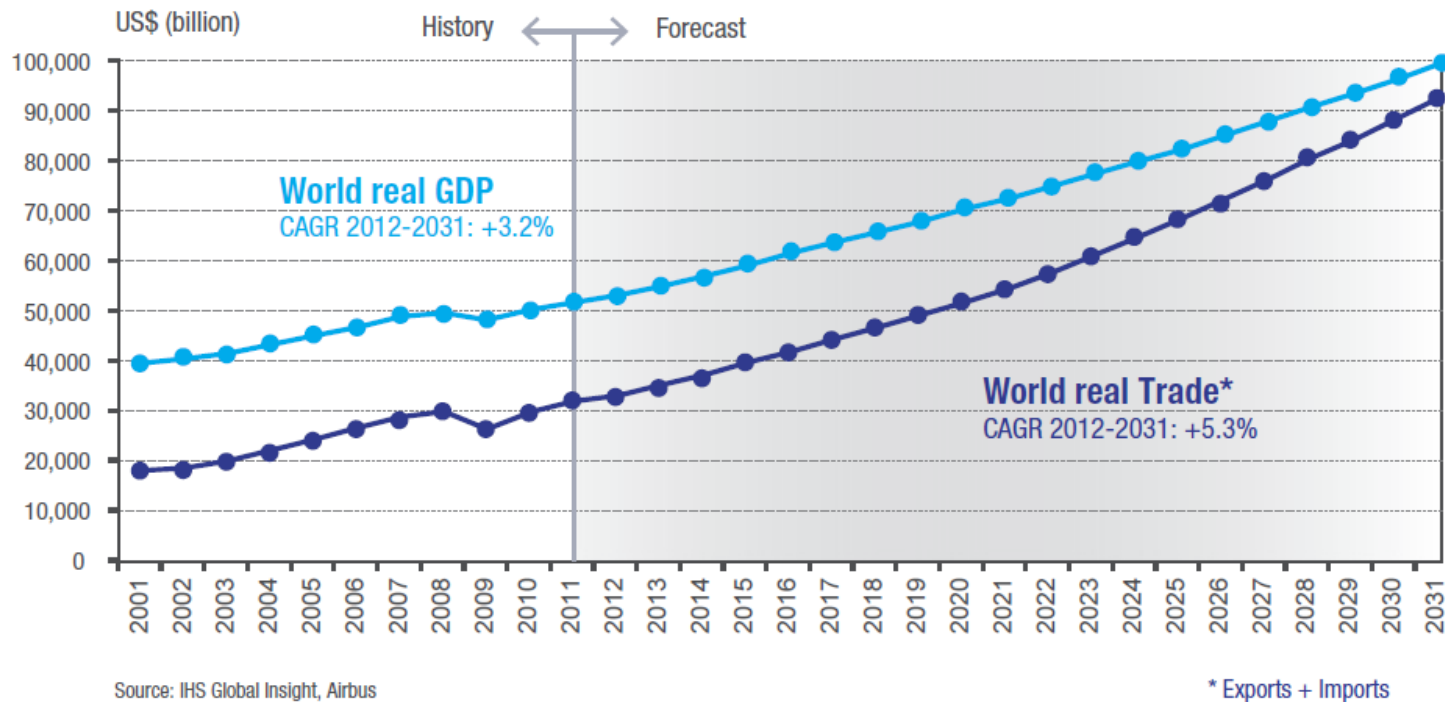


Source: Boeing Current Market Outlook 2012-2031



# Trade Will Grow Faster than GDP

Globalisation expected to generate growing world trade



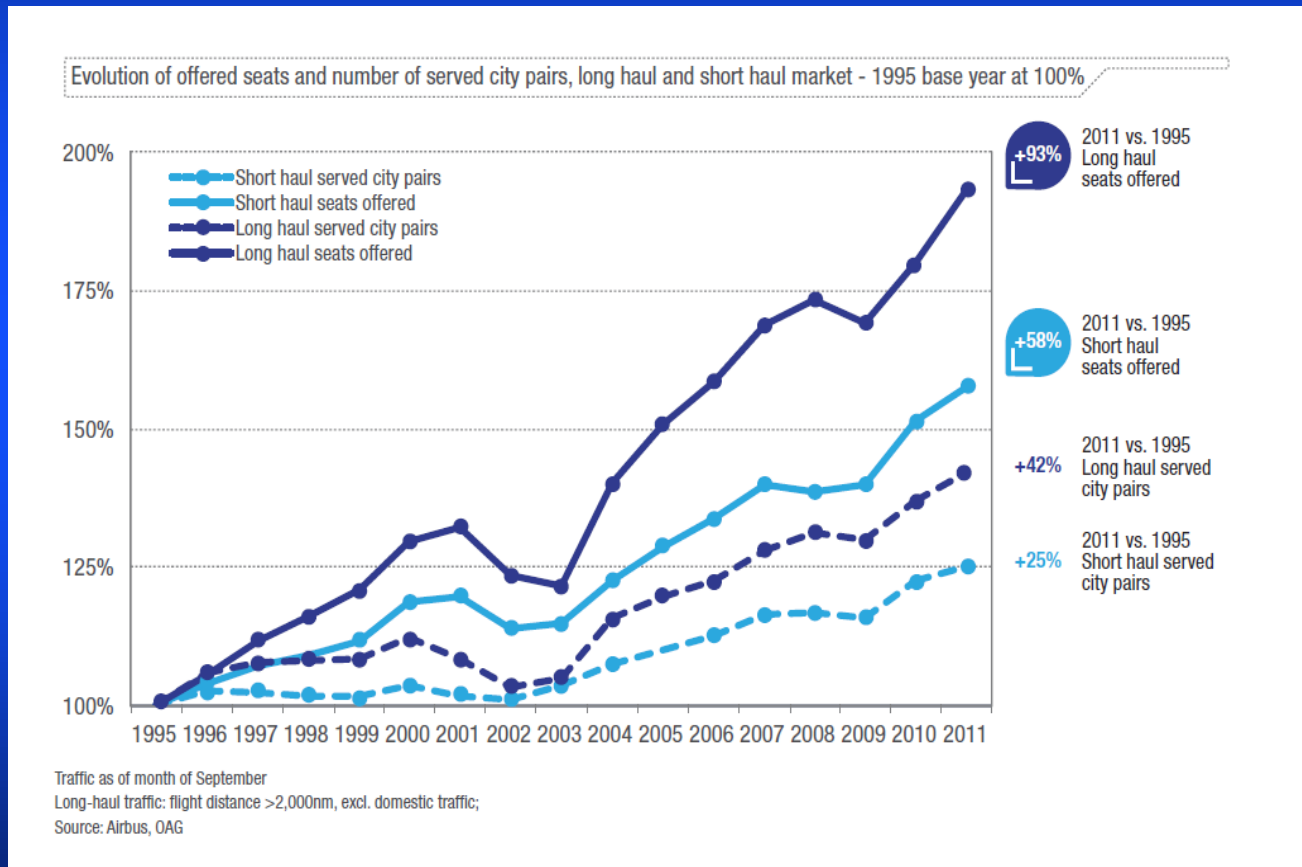
Source: Airbus Global Market Forecast 2012-2031

# Airline Traffic Growth Outstrips GDP Growth



Source: Boeing Current Market Outlook 2012-2031

# Long-Haul Has Grown More Rapidly Than Short-Haul



Source: Airbus Global Market Forecast 2012-2031

# The “Action” is Shifting



Source: Boeing Current Market Outlook 2012-2031



# Asia-Pacific: A key Factor in the Airline Industry Future

<b>Asia Pacific</b> Key indicators and new airplane markets			
<b>Growth measures</b>		<b>New airplanes</b>	<b>Share by size</b>
Economy (GDP)	4.6%	Large	320 3%
Traffic (RPK)	6.4%	Twin aisle	3,230 27%
Cargo (RTK)	5.9%	Single aisle	7,990 66%
Airplane fleet	5.5%	Regional jets	490 4%
		<b>Total</b>	<b>12,030</b>
<hr/>		<hr/>	
<b>Market size</b>		<b>2011 Fleet</b>	<b>2031 Fleet</b>
Deliveries	12,030	Large	340 460
Market value	\$1,700B	Twin aisle	1,080 3,490
Average value	\$140M	Single aisle	3,170 9,230
		Regional jets	120 490
		<b>Total</b>	<b>4,710 13,670</b>

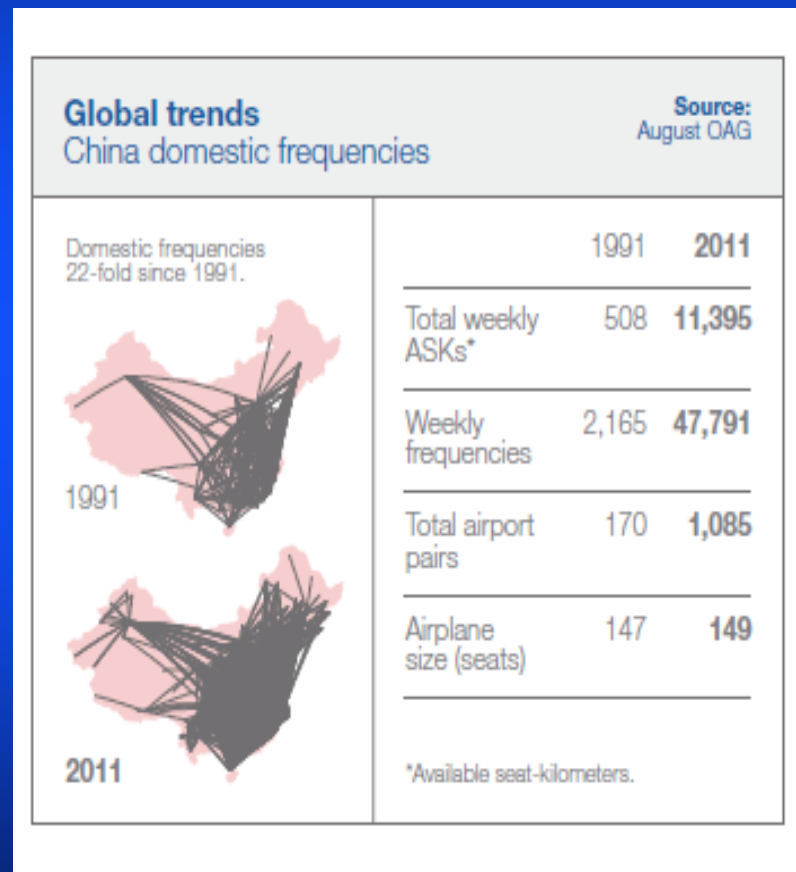
Source: Boeing Current Market Outlook 2012-2031

# China: The Gold Red Star of Asia-Pacific

<b>China</b>				
Key indicators and new airplane markets				
<b>Growth measures</b>		<b>New airplanes</b>		
Economy (GDP)	<b>6.5%</b>	Share by size		
Traffic (RPK)	<b>7.0%</b>	Large	110	2%
Cargo (RTK)	<b>6.2%</b>	Twin aisle	1,190	23%
Airplane fleet	<b>5.9%</b>	Single aisle	3,650	69%
		Regional jets	310	6%
		<b>Total</b>	<b>5,260</b>	
<b>Market size</b>		<b>2011</b>	<b>2031</b>	
Deliveries	<b>5,260</b>	<b>Fleet</b>	<b>Fleet</b>	
Market value	<b>\$670B</b>	Large	80	140
Average value	<b>\$130M</b>	Twin aisle	280	1,310
		Single aisle	1,490	4,220
		Regional jets	60	310
		<b>Total</b>	<b>1,910</b>	<b>5,980</b>

Source: Boeing Current Market Outlook 2012-2031

# Dramatic Growth Within China: Past is Prologue

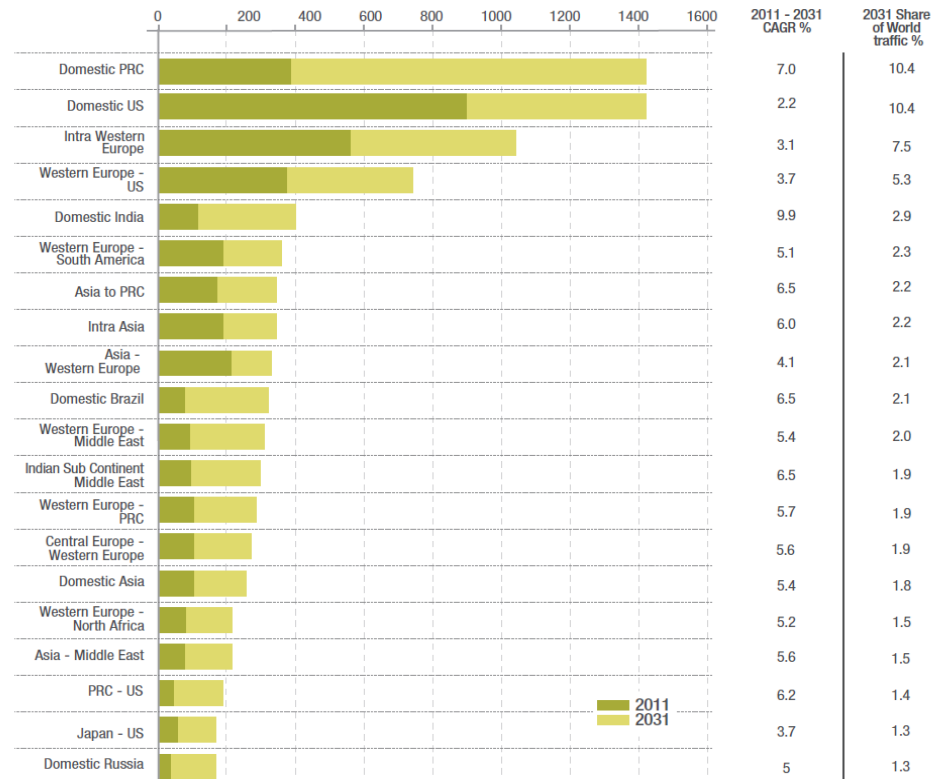


Source: Boeing Current Market Outlook 2012-2031

# The PRC Domestic Market Will Become the Largest in the World

The four largest flows will represent 34% of the world traffic in 2031

Largest 20 flows in 2031, by RPK (billion)



Source: Airbus Global Market Forecast 2012-2031

# Why Consider the PRC Domestic Market?

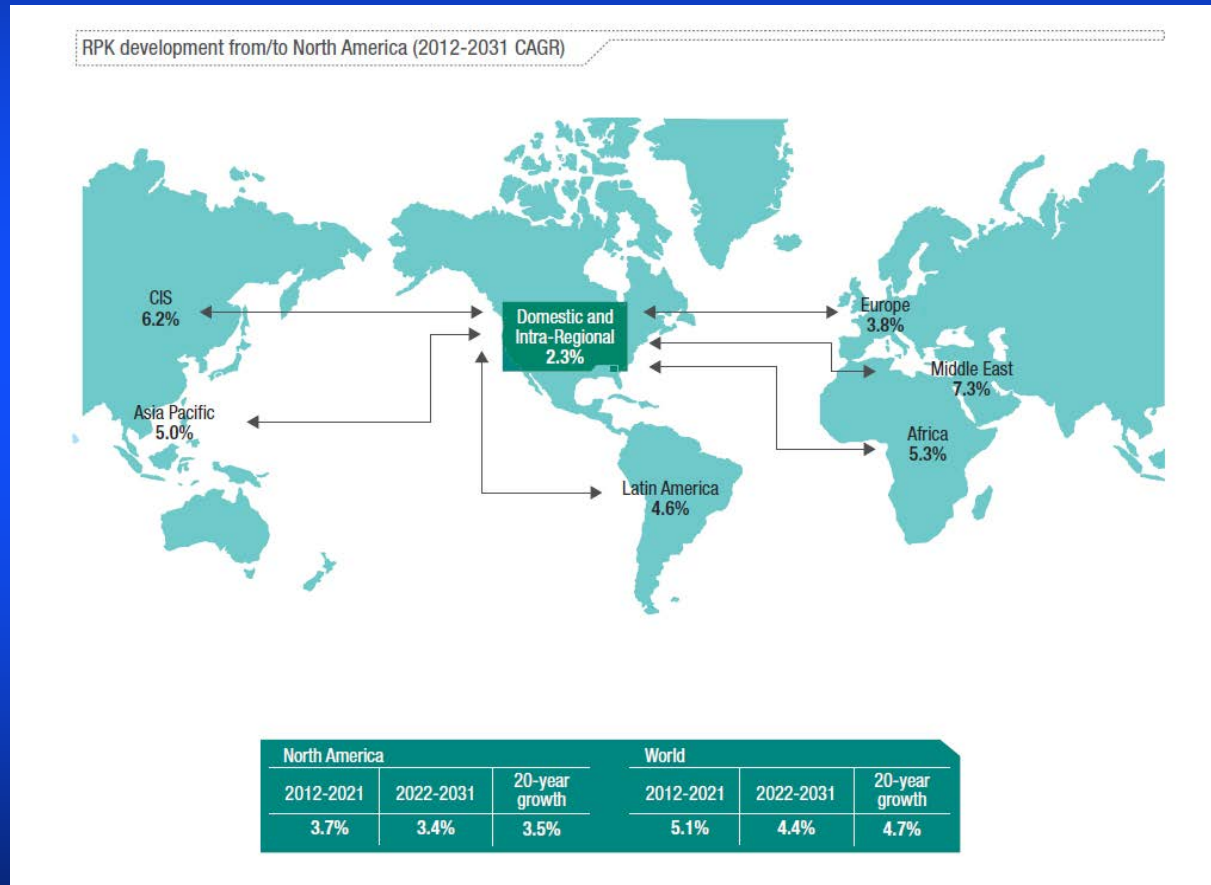
- Emphasizes the dramatic changes coming in the global market
- Domestic PRC feed will provide a significant competitive lever for Chinese carriers
- U.S. carriers need to have a competitive strategy, including service between hubs and interior points, using 787/A350

# Regional Forecast Growth Rates

Market developments						
Airline traffic growth rates						
2011 to 2031						
	Africa	Latin America	Middle East	Europe	North America	Asia Pacific
Asia Pacific	7.4%	5.4%	7.2%	5.7%	4.8%	<b>6.7%</b>
North America	6.0%	5.1%	6.4%	3.8%	<b>2.2%</b>	
Europe	4.8%	4.6%	5.1%	<b>3.5%</b>		
Middle East	6.9%	-	<b>5.1%</b>			
Latin America	8.3%	<b>6.5%</b>				
Africa	<b>6.2%</b>					

Source: Boeing Current Market Outlook 2012-2031

# N. American Airline Growth Depends on Other Regions



Source: Airbus Global Market Forecast 2012-2031

# Focus on Latin America

- American the dominant U.S. carrier
- Recent/announced service expansions:
  - Miami-Manaus; also separate Salvador/Recife
  - Miami-Asuncion, Paraguay
  - Miami-Rotan (Honduras)
  - DFW-Lima
  - Second JFK-Sao Paulo
  - Second MIA-Rio de Janeiro



# COPA-Unexpected Innovation in the Latin American Market

- Successful use of Panama as a North-South hub
- Strategy: single-aisle aircraft & frequency
- Single-stop connections between North & South America
- Economic efficiency
- A “Black Swan”

# Connecting Asia & Latin America via the U.S.: not a New Idea!



Photo © Mel Lawrence; collection of George Hamlin

# Connecting Asia & Latin America via the U.S

- Many Asia-Latin markets too long for nonstops
- New aircraft (787, A350) can address these opportunities
  - Appropriate size
  - Adequate range
- Example: Japan-Brazil via Miami



# Alliances: The Whole is Greater than the Sum of the Parts



Photo © George Hamlin

# What About Africa?

- Pan Am pioneered service between the U.S. and west and southern Africa
- However, a decade ago, no U.S. carrier served sub-Saharan Africa
- Extensive Chinese presence in Africa: drawn by natural resource abundance
- Delta now serving West/South Africa
- United flying Houston-Lagos

# And African Carriers Serve U.S. Markets



# Capacity Discipline: Where & How Much?

- Quarterly earnings vs. investment for long-term
- Capacity discipline and ‘right-sizing’ still important in mature N. American markets
- International markets: a different story
- *Not* unbridled expansion but focus on positioning to benefit from global growth



# Summary & Conclusions

- Capacity growth restraint continues to be important in the short run in mature markets
- Future airline growth will be largely outside the U.S., Europe and Japan
- Many potentially profitable opportunities, even in the near term
- The Challenge: assure growth reflects market opportunity