

DELOITTE

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Credit Crunch Causes Turbulence In Aviation Industry

The credit crunch, wildly fluctuating fuel prices and exchange rates, along with the deepening global economic downturn, are combining to turn a difficult market into one of extreme turbulence.

This is according to analysis by business advisory firm Deloitte which predicts that 2009 will be a year of significant airline consolidation with the pendulum swinging from airports towards airlines, resulting in a decline in landing charges.

The global recession has prompted a dramatic drop in load factors, which has forced airlines to take aircraft out of service and rethink plans to order replacements for existing planes. Airlines are having difficulty finding financing, resulting in deferrals, delays, and an inability to take delivery of new aircraft.

David Raistrick, airline partner at Deloitte and based in the firm's Leeds office said: "Although the reduction in fuel prices will provide a small respite for airlines this winter, the next six to 12 months is likely to see further significant changes, losses and failures within the industry.

"Capacity and routes may be cut further as business travel continues to fall. Premium class travel fell by 13 per cent in December 08 compared to December 07, following the 11.5 per cent year on year drop seen in November*. Some of the new routes launched from Heathrow as a result of Open Skies have already been withdrawn."

He added: "Meanwhile it remains to be seen how much the collapse in consumer confidence will affect leisure bookings in 2009. While many believe the consumer will cut other luxuries before cancelling the annual family holiday, the aviation industry is likely to find consumers holding off booking until closer to departure date. We also see less travel to the Eurozone and US due to fall in £ against those currencies, and less city breaks with more focus on just one holiday."

The analysis shows that 2008 was a year of airline failure. By the end of September over 30 carriers had failed globally, including Silverjet, Zoom and XL in the UK. 2009 looks set to see increasing consolidation.

"Consolidation is increasingly likely," said Mr Raistrick. "Although merger & acquisition activity has almost dried up in most other industry sectors, the huge fixed cost base of airlines makes it an attractive option in difficult times. Mergers enable operators to significantly reduce their overheads and increase

their buying power. Numerous airlines, including some high profile flag carriers, are now in a precarious position and are looking to larger competitors to take them over.”

Deloitte also anticipates a decline in landing charges. There have been some sizeable increases in recent times, mainly driven by excess demand at many key European airports. The Civil Aviation Authority has previously said that charges could rise to 23.5 per cent at Heathrow in 2008/09 and increase 21 per cent at Gatwick. However, as airport operators start to see gaps in their slots and become slightly more dependent on airlines for their business (as retail sales decline) this is likely to strengthen the hand of carriers in their negotiations over charges.

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Notes to editor: *Taken from IATA data.