

Operational challenges limit the altitude for airline travel as demand climbs

Airline travel has shown resilience after pent-up demand ran out of steam. Global passenger volume is set to exceed pre-pandemic levels in 2024, with leisure travelling soaring and Asia returning to the forefront of growth. Even so, the supply side continues to cause headaches, curbing growth and putting ticket prices under continued upward pressure

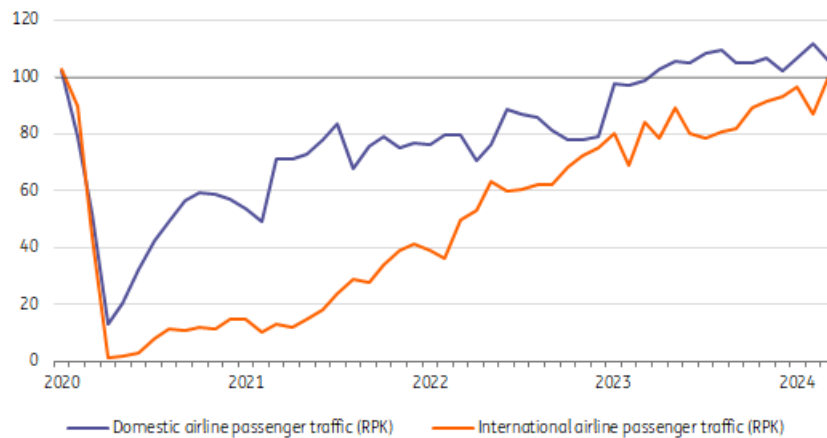


Airline demand remains solid after revanche travelling

Airline reports and bookings indicate that air travel demand remains strong through 2024, despite serving most post-pandemic pent-up demand. Labour markets are still tight, and a positive factor for spending is that purchasing power should recover on the back of rising wages and lower inflation. Figures for the first quarter of 2024 indicate strong growth for revenue passenger kilometres (RPK) compared to the subdued start of 2023. This direction is confirmed by 10% higher global jet fuel consumption until mid-April.

Domestic traffic upfront in recovery, international traffic catches up

Index global passenger revenue kilometer (RPK) (2019 = 100)



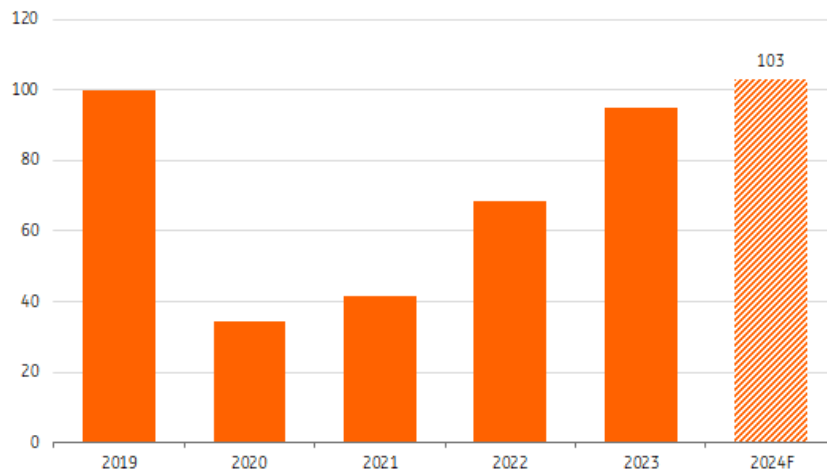
Source: IATA, ING Research

Passenger volumes exceeds pre-pandemic levels despite multiple challenges

People across the world are seemingly keen to travel and prioritise their trips despite more expensive tickets. And the global population continues to grow. The global branch of the International Air Transport Association expects global airline demand (in RPK) to grow at almost 10% in 2024 compared to the previous year, including the recovery of long-haul journeys. However, the growth figure may end up somewhat lower due to additional supply constraints at Boeing as airlines struggle to accommodate all demand with available seats. Nevertheless, passenger traffic will exceed pre-pandemic levels in the full year of 2024, [as also signalled by airports](#).

Total global airline volume to exceed pre-pandemic levels in 2024

Index passenger revenue kilometer (2019 = 100)



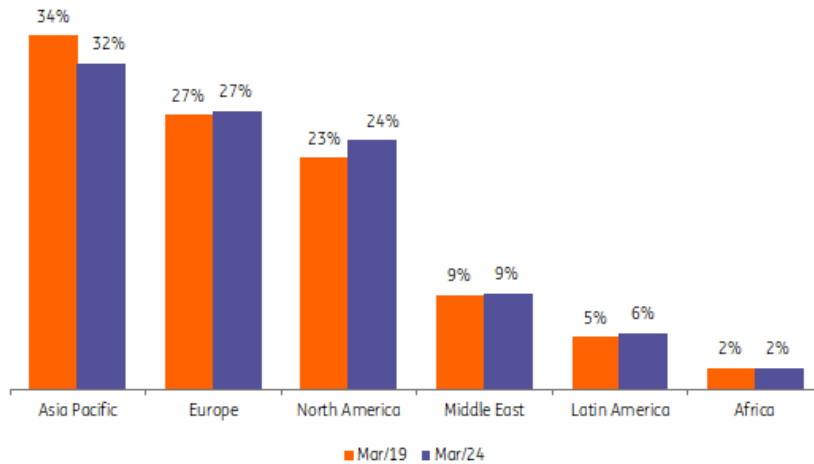
Source: IATA, ING Research

Domestic travelling leads the recovery, but international travelling drives 2024 demand

Domestic travelling within large countries (40% of the global market) was the area first to recover, with its average already hitting pre-pandemic levels last year. But differences across regions are prevalent. In the US and China, traffic figures started 2024 beyond pre-pandemic levels, while airline travelling in a few large countries – including Australia, which lifted its long-lasting travel restrictions in 2022 – are still on a recovery track. Domestic travelling in India and China will continue to push global airline growth (more on this below). But more importantly, lagging international (and intercontinental) travelling is returning with more strength, and this will propel airline mileages in 2024.

Asia, the world's largest airline market, still has room for recovery in early 2024

Market shares global regions (passenger revenue kilometre)



Source: IATA, ING Research

The East returns: Asia set to boost global aviation growth in 2024 and beyond

As the world's largest airline market, the Asia-Pacific region was the only region about to close a noteworthy gap in passenger traffic in early 2024. But since China fully reopened in early 2023, the market has been picking up quickly and large carriers such as Qantas and Cathay Pacific are catching up. The region will be a strong driver of global development in 2024, returning with double digit growth figures as a key growth engine. Without the pandemic plunge, the Asian market would have been even more prominent – and its rebound will therefore likely continue into 2025. Meanwhile, passenger growth rates in both Europe and the US are expected to remain in the low single digits.

Eagerness to travel combined with a growing population turns India into powerhouse for future airline growth

Just 10% of the global population – in upper-middle and higher income groups – is responsible for [almost 90% of passenger traffic](#). As such, there's a strong correlation between airline travelling and GDP and household income. Particularly in Asia, it seems a propensity for travelling is on the rise. With an expanding middle class and improving household incomes, the customer base for airline travel is swelling. This is even more important than population growth. Despite environmental concerns, younger generations appear to travel more often than older generations, which also adds to the potential in countries such as India and Indonesia.

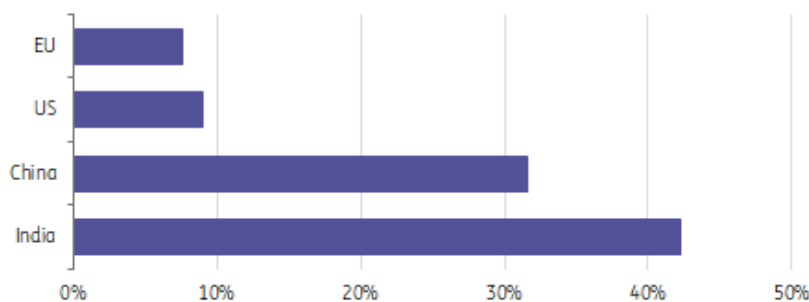
India is set to deliver strong structural growth figures, and airlines are preparing for this with [historically large orders](#) for new aircrafts from carriers Indigo and Air India. The country plans to open a range of new airports, and strategically located countries – such as [the UAE](#), with the world's second largest airport in terms of passenger traffic in Dubai – are

anticipating strong transit passenger growth from Asia.

The long-term global growth outlook (20 years) has generally been tempered in the post-pandemic era to a range of 3-4% annually instead of 5-6%, with Europe seeing the lowest growth figure. One of the main reasons is that flying is set to become significantly more expensive with rising costs of emissions.

People in Asia start to fly more often...

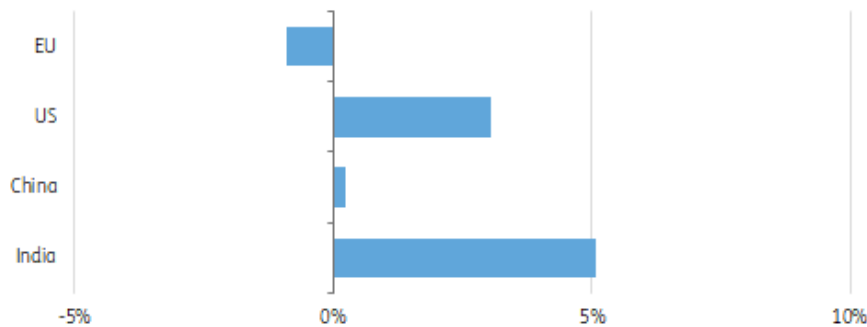
Expected growth trips per capita 2019-2025



Source: IHS, Airbus, Worldbank, ING

...and especially in India, the population is also growing quickly

Expected population growth 2019-2025



Source: Worldbank, ING

Business flying is back, but times are different

Business travelling is one of the reasons why airlines adapted their coverage and networks still look different. Corporate travelling is still highly important for flag carriers such as British Airways (IAG) and [slowing their recovery](#). Nevertheless, its putative demise has been overrated. Video conferences have been widely adopted during the pandemic, but old business habits still return when face to face presence is deemed important. Business travelling is under review among several large corporates adopting CO₂ targets and reporting on business travel emissions, but [policies differ](#).

Increased costs are also a point of corporate attention. Global volumes still hovered at around [70% of pre-pandemic levels](#) in the full year of 2023 – but the recovery is still underway, as pointed out by the [Delta airlines corporate survey](#) as well as [airline reports](#). In the meantime, several airlines have adjusted to lower business traffic by offering premium economy class tickets to private consumers to keep seats occupied.

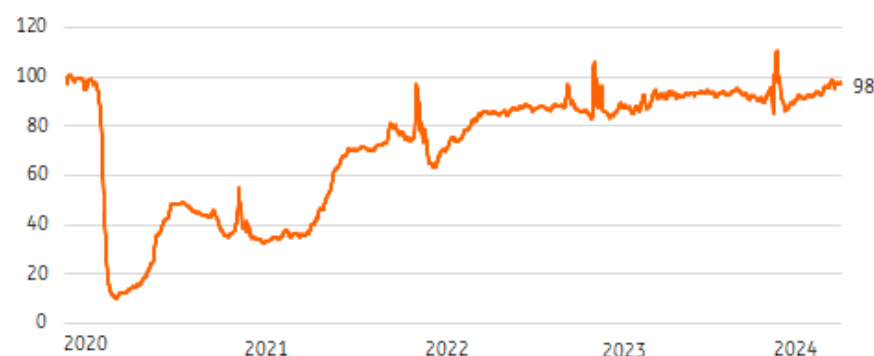
European airlines expected to see continued demand as well as threats down the line

Continental European travelling has eventually recovered faster than expected, which is reflected in passenger figures of low-cost continental carriers such as Ryanair and Wizz Air. Demand is set to remain strong through the summer season, with the Olympics in Paris and the European Championship football in Germany both providing support.

Generally, travellers seem willing to pay higher fares – but significant ticket tax increases imposed by European countries are having at least some [dampening effects](#), especially for low-cost carriers. Germany, for instance, raised its [ticket tax](#) for short haul flights by almost a quarter in 2024 to €15.53 and €70.83 for long haul flights.

European flight traffic is crawling up, but still slightly below pre-pandemic levels

Index flights from and to European countries* (index 2019 = 100)



Source: Eurocontrol, ING Research *Eurocontrol area, 7dma, last datapoint 14/05

The number of flights in Europe still hovers below pre-pandemic levels, which illustrates the crackdown on capacity growth (more below). Against this backdrop, operational challenges also play a critical role in keeping capacity afloat. Punctuality is still relatively poor, with just over 65% of European flights departing on time in 2023 compared to almost 73% in 2019. Several European airports and carriers encountered double digit [cancellation rates](#), which also reflects the impact of more extreme weather events.

Air travel emission concerns rise, but the say-to-do gap lingers

Despite increased climate awareness, the reality is that few people seem willing to shift away from air travelling – especially the more frequently travelling younger generation. Even in Europe, which

is often said to be leading the energy transition and pushes rail on city connections below 750km as an alternative, people don't seem to restrain their air travel very much regardless of flight shame.

In the Netherlands, for instance, 59.4% of those over 18 and under 35 have travelled by air in 2023, compared to 31.6% of people over 55 and under 75. Just 6.6% of the first group is willing to stop flying, compared to 14.5% of the latter. And those who say they'd reduce air travelling not always do so, a phenomenon known as the '[say to do gap](#)'. Pricing in the GHG impact could eventually force people to pay for emissions and include this in their decisionmaking. But on a global scale, full emissions pricing (comparable to Europe's ETS) is still far away.

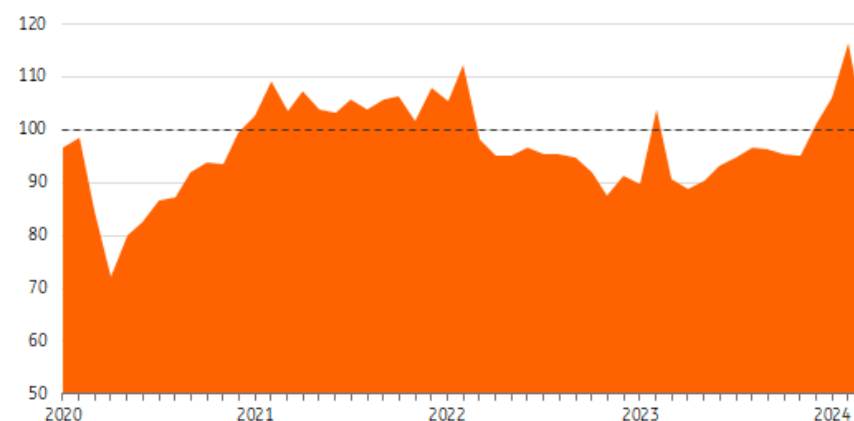
Air cargo volumes benefit from trade and e-commerce recovery

Airlines ordered new freighters and opted to turn passenger aircrafts into freighters amid soaring demand during the pandemic. It even triggered new players such as container liners CMA CGM, Maersk and MSC to enter the airfreight market. This turned into overcapacity when consumers shifted spending back to services, and intercontinental passenger traffic returned to the market in the run up to 2023 (belly capacity). This also forced highly elevated freight rates to come down. In April 2024, Asia eastbound and westbound rates (Baltic Exchange) still traded 50-70% higher at \$4.5-5.5 compared to April 2019. On the other hand, transatlantic rates have slipped below pre-pandemic levels despite years of high inflation. After an extraordinary period, the contribution of air cargo to airlines' profitability dropped, but combining passengers and freight efficiently could still lift profitability in 2024.

The outlook for cyclical airfreight has turned brighter as world trade has picked up. Fast-growing cross border e-commerce (such as via webshops like Alibaba and Temu) supports growth more structurally. Another factor in play is supply chain frictions. As container shipping routes avoided the Red Sea region at the end of 2023, shippers turned to air cargo as a work-around for sensitive shipments. Although this is temporary, supply chains remain vulnerable, meaning that shippers of higher valued containerised products require air cargo as back-up.

Aircargo volume rebounds early 2024 signaling trade recovery, but also role as alternative option for particular seafreight

Index global development of air cargo volume in ton/km (CTK) (2019 = 100)



Source: IATA, ING Research

Solid demand, but supply issues are still causing headaches

Airline demand remains strong all in all. Capacity constraints do continue to provide an ongoing concern for airlines, curbing growth plans and [putting operations to the test](#).

How do selected airlines perform?

Lufthansa

In 2023, Lufthansa achieved improvements in both revenue and operating profits, which were driven primarily by the continued high demand for air travel. Throughout the year, Lufthansa Group's airlines carried a total of 122.5m passengers, up 20.4% year-on-year. On average in 2023, the airline offered 84% of its 2019 capacity. The load factor increased by 3.1 percentage points to approximately 83%.

In 2023, Lufthansa's revenues reached €35,422m, up 14.7% YoY. Its adjusted EBIT was €2,682m, up 76.4% YoY. The company's adjusted EBIT margin improved to 7.6% in the full-year 2023 from 4.9% in the previous year. The results also benefitted from a strong performance from Lufthansa Technik, with demand for maintenance, overhaul and repair services remaining high. In the full-year 2023, Lufthansa generated adjusted free cash flow of €1.8bn, down from €2.5bn in the year prior.

In the first quarter of 2024, the company had a total revenue of €7,392m, up 5.3% YoY, and an adjusted EBIT loss of €849m (higher than -€273m in the first quarter of last year). During the reported quarter, Lufthansa's operating expenses reached €9,011m, up 13.4% YoY, including staff costs of €2,254m, up 17.5% YoY. The airline mentioned that strikes weighed on its first quarter performance but that the outlook for the important summer season remains positive.

Lufthansa plans to increase available capacity in the second quarter of 2024 to 92% of its pre-Covid levels, which is lower than originally planned due to further investments in operational stability and delayed aircraft deliveries. In the second quarter of 2024, the company expects that adjusted EBIT will be below that of the comparable quarter in the previous year. For the full-year 2024, Lufthansa aims to achieve a capacity level of around 92% of its 2019 level. The company expects an improvement in operating profits year-on-year in the second half of 2024, with the full-year 2024 adjusted EBIT target at €2.2bn. During the current year, Lufthansa expects to generate adjusted free cash flow of at least €1bn.

IAG

In 2023, IAG experienced strong and sustained demand for air travel, in particular in the leisure and premium leisure travel segment. In 2023, the airline group had a capacity growth of 22.6% YoY, focused on the company's core North Atlantic and South Atlantic markets. Overall capacity was at 95.7% of pre-Covid levels in 2019, including at 98.6% of the 2019 levels in the fourth quarter of last year. In the reported year, IAG's passenger unit revenue was up 8.2% YoY, supported by the strong leisure and premium leisure traffic recovery, while business traffic saw a somewhat slower recovery. Non-fuel unit costs declined by 4.4% YoY due to the passenger capacity increase and cost saving initiatives, offsetting ongoing cost inflation and investments in customer offerings and systems, while

fuel unit costs were up 0.7% YoY.

In 2023, the airline group had a total revenue of €29,453m, up 27.7% YoY, and an operating profit before exceptional items of €3,507m, up 181.2% YoY. The respective adjusted operating profit margin was 11.9% in the full-year 2023, up from 5.4% in the previous year. In the full-year 2023, IAG reported free cash flow of €1,320m, up from €979m in the full-year 2022.

In the first quarter of this year, IAG had total revenues of €6,429m, up 9.2% YoY, and operating profit before exceptional items of €68m (up from €9m in the first quarter of last year). The company noted that the first quarter results were underpinned by strong demand across the group's airlines over the Easter holidays and in the core markets of North Atlantic, South Atlantic and intra-Europe. IAG's management commented that the company was well-positioned for the summer, with high demand for travel remaining a continuing trend.

In terms of the outlook for 2024, IAG aims to continue to grow capacity by around 7% YoY and expects its non-fuel costs to increase slightly during the current year. The company also aims to generate significant underlying free cash flow during the year.

Ryanair

In late January, Ryanair released its results for its third quarter and nine months ending 31 December 2023. During the first nine months of its financial year, the airline's traffic increased by 9.9% YoY, and its load factor was 94%, flat YoY. During the nine months to 31 December 2023, Ryanair had revenue of €11.3bn, up 26.2% YoY, and profit after tax of €2.2bn, up 38.6% YoY. The company had net cash of €0.15bn as of 31 December 2023.

In terms of outlook, the airline continues to target passenger traffic of approximately 183.5m customers in its full-year 2024 (ended 31 March 2024). Ryanair also noted that delays in aircraft deliveries cut its full-year 2025 traffic expectations to 200m (from 205m previously). The company targets profit after tax of between €1.85bn and €1.95bn for the full-year 2024.

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