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AIR TRANSPORTATION CHALLENGES OF THE 1990s**PART I**

The end of another troubled year in air transportation finally approaches. Many experts seem to agree that although there are severe "bottom-line" problems, there are still others troubles that the industry and any associated support mechanism must identify and solve before there is to be recovery and extended growth. It may then be thoughtful to look beyond the current trauma of the system to other possible challenges to air transportation. After careful analysis, there seem to be ten challenges, the first four of which are included below and six that will form the basis for the editorial in the next issue of JAAER. The four challenges for this editorial are:

- A. *Traffic demand.*
- B. *Profitability.*
- C. *Fleet renewal and production demands.*
- D. *Fare economics.*

The traffic demands that the industry faces in the future may be difficult to envision when one reviews the wide swing of airline load factors during the past two years.

But experts conservatively predict that air travel passengers will double by the year 2000. Supporting this figure are claims by *Aviation Week & Space Technology* that traffic demand will increase 5.5% this year. The pages of *USA Today* quote Boeing as saying that travel on air routes to Asia and Intra-Asia will increase 8.5 % and 8.1% respectively.

Profitability for the world's air carriers has been a situation of "now you see it, now you don't," with most US carriers losing financial ground every day. Between 1978 and 1988, world airlines produced operating profits of a very small 3% margin. In this country, the industry lost money in 1980-82 and in 1990 & 1991 and is well on the way to another year of losses in the billions; foreign carriers are feeling the pinch as well. Although the traveling public has had many bargains

recently, airline yields, one of the best tests of earning, creep lower.

Complicating the air carriers' financial problems is the need to replace an aging fleet. Some sources set this figure at \$500 billion through the year 2005 (and this figure does not include any impact of the new national noise policy). From the production side of the equation, Boeing sources who had a 60% market share for past 20 months, will deliver more air-craft in 1992 than ever before. However, industry watchers were puzzled when Boeing announced that they will lower production of the 757 and the 737. Things are tough at McDonnell Douglas, which is attempting a turn around from only about a 9% market share; Airbus Industries continues to grow.

Airline deregulation has evidently brought air fares down. In fact, then Secretary of Transportation Skinner

reported to the National Press Club in January 1991 that "airline travel is less expensive [and that] . . . Real airline fares have declined an average of 28% since 1981 [and that] . . . the number of Americans that travel by air has increased 65% since deregulation." But with associated mergers, code-sharing, hubs, and the expansion of computer reservation systems are we any better off? And what about the fare war this past summer? Although 3rd quarter earnings reports are not out yet, many economic forecasts indicate industry losses will continue, even with higher load factors during the period. Evidently, people believe in air transportation; but are they willing to pay for it?

The next issue of JAAER will discuss (a) airspace and airport capacity, (b) noise and environmental issues, (c) new aircraft technology, (d)