

Commercial Aviation Profits May Not Reach Breakeven In 2021

By Michael Bruno | July 08, 2021

Euphoria may be creeping into industry chatter with recent airline orders for large commercial aircraft and OEM forecasts for ramping up monthly production rates, but a new report from consultants at AlixPartners warns profits in the industry this year are likely to barely reach breakeven at best.

The AlixPartners analysis, which Aviation Week saw before its July 8 release, further shows that in 2020 the industry lost more than \$52 billion in pretax profitability, as earnings before interest and tax plummeted to a \$18.4 billion loss with the profit pools for almost all sectors suffering greatly.

What is worse, even if breakeven is achieved, holding on to it will require unprecedented changes yet to be made.

“For the industry to achieve sustained levels of strong profitability will require structural cost reductions, not just emergency or one-off actions,” said Eric Bernardini, global coleader of the aerospace, defense and aviation practice at AlixPartners. “And that, in turn, is going to require a collaborative approach throughout the value chain to reduce aircraft unit costs, including a leveraging of win-win opportunities such as ‘redesign-to-cost’ parts redesign and greater levels of digital transformation.”

Likely some of those efforts are al-



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ready underway as industry struggles to reach breakeven this year. According to the consultancy, the reasons for this forecast include increasing pricing pressures—including lessors competing more fiercely than ever with aircraft manufacturers—as well as a continued depressed widebody production backdrop, along with a weakened supply chain, higher commodity prices, uncertainties surrounding the steep upcoming narrowbody ramp-up, and likely impairment charges for lessors this year, which were largely put

off by many lessors last year.

“Uncertainty is still very high,” Bernardini told Aviation Week in May. “Pricing will be very intense. In the end, everyone is chasing the same customers.”

Bernardini believes of all commercial aerospace sectors, airlines will face the most pressure to transform their business models in coming years to become financially sustainable. In manufacturing, he sees consolidation in the lower tiers accelerating after summer in the Northern Hemisphere, when many government aid programs there stop.