

Turbulence: Price wars have limited airlines' profit margins

By Andrew Ledovskikh

Australia's two major international airlines are continuing to grow, but intensifying competition is limiting their profit margins.

The tourism industry has grown at an annualised 2.1% over the five years through 2018-19

The battle between the two major international Australian airlines, Virgin Australia and Qantas, continues to heat up. Both airlines have been boosted by rising inbound tourist numbers from China over the past five years, as well as a decline in world crude oil prices. However, continued price wars between the major airlines has constrained profit margins over the period. Overall, the International Airlines in Australia industry is expected to grow at an annualised 2.0% over the five years through 2018-19.

The Tourism industry has grown at an annualised 2.1% over the past five years. Inbound tourists from China have driven this growth. Chinese tourists now make up the largest tourist market in Australia, overtaking New Zealand in 2017-18. Strong growth in this market has increased international tourism as a share of total tourism in Australia over the past five years, boosting the international airlines industry.

Continuing price wars over the past five years have negatively affected international airlines. Prices for long-haul flights have plummeted due to strong competition from airlines worldwide. However, industry operators, such as



Qantas and Virgin, have maintained and at times improved their profit margins throughout the period due to steep declines in world crude oil prices. This has meant that even as airfares declined significantly, profit margins for international airlines have increased over the period.

Overall, these factors saw Australia's two listed international airlines, Qantas and Virgin Australia, perform well in the 2017-18 financial year. Qantas posted 7.5% revenue growth in its international segment, with strong growth in passenger

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numbers to and from China, Japan and New Zealand.

Virgin Australia performed even better, with its international segment growing by 12.2% in 2017-18, to total over a billion dollars. However, while Virgin Australia has generated greater growth in revenue, this has come at the cost of profitability in its international segment. The company reported a -1.2% loss before interest and tax in 2017-18, a deterioration from the slight profit reported in the previous year. On the other hand, Qantas improved its earnings before interest and tax in 2017-18, with growth of 6.7% in earnings

in its international segment to total almost \$400 million.

The International Airlines in Australia industry is projected to grow at a slightly faster annualised 2.3% over the next five years. Tourism in Australia industry is anticipated to grow at an annualised 3.0% over the same period. These trends are likely to see Qantas and Virgin continue to post strong results over the next five years.

Industries mentioned in this report:

[International Airlines](#)

[Tourism](#)