

Aviation Sector Back On Course, But Keep Seatbelts Fastened

By **Kevin Lewis and Bart Biggers** (February 8, 2024)

In 2023, the airline industry turned a profit for the first time since the COVID-19 pandemic. Commercial aviation reached this achievement by climbing out of the depths of near-zero traffic in 2020 and recovering to near prepandemic levels in 2023.

This was coupled with improved pricing staying ahead of rising costs. The aviation industry looks to continue this upward trend in 2024, with the sector poised to hit historic levels of traffic.

But, as we all insert our favorite celebration GIF and pop a bottle of champagne, 2024 has taken no time to remind us of the risks lurking just outside the cockpit window. The industry should keep its seatbelts fastened in case of turbulence.

2023 Prediction Report Card

Let's first take a look at our 2023 predictions for commercial aviation and evaluate how they panned out.



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Prediction	Result
Global airline profitability will return in 2023.	Correct. The global airline sector returned to profitability with a net profit estimated at \$23.3 billion, up from a \$3.8 billion loss in 2022.
Threat of recession and geopolitical conflict will slow economic recovery of the industry.	Partially correct. While economic uncertainties and geopolitical conflict have affected sales and costs, they have not dramatically reduced the demand for travel.
Supply chain and staffing shortages will continue to limit capacity.	Correct. Aircraft parts supply chain disruptions and staffing shortages have negatively affected delivery of new aircraft and the ability of airlines to maintain and utilize existing fleets.
Cargo sector will experience decrease in demand.	Correct. Air cargo was down for the second consecutive year (5% year over year, after an 8.2% year-over-year decrease in 2022) but saw improvement toward the end of 2023 as demand restabilized.
Mix of demand between business, leisure and "bleisure" will remain stable.	Partially correct. The post-COVID-19 surge in leisure travel is returning closer to historic levels, while business travel is increasing more slowly and is still not near prepandemic levels. These changes in demand have caused booking shifts between mainline, low-cost carrier and ultra-low-cost carrier airlines.

Airline operations will continue to smooth out.	Correct. U.S. aviation ended 2023 with the lowest flight cancellation rate in the last 10 years at 1.2%, down from 2.3% in 2022.
Investments in sustainability will continue as a main priority for airlines.	Correct. Sustainability continued to be a main focus for airlines, manufacturers and consumers. This was highlighted by sustainable aviation fuel, or SAF, and aircraft developments, including the first transatlantic commercial flight powered entirely by SAF — a Virgin Atlantic 787 Dreamliner flown from New York City to London.
Investments in increasing and developing IT capabilities will also continue as a priority for airlines.	Correct. Investments in IT were at the forefront in 2023, highlighted by artificial intelligence bursting into the mainstream.

Trends for 2024 and Beyond

But enough about last year — let's take a look at trends that we see for commercial aviation for 2024 and beyond.

Risk Creating Potential Headwinds

Continued high debt loads, global economic uncertainty, geopolitical tensions in multiple regions of the world, increasing costs, and supply chain struggles put already fragile airline revenue and profitability at increased risk of falling in the red. All these factors continue to mount, even as COVID-19 retreats further in the rearview mirror.

Airlines hope that a combination of upward pricing pressure stemming from reduced capacity due to metal and staffing shortages, and costs escalating more slowly as a result of easing inflation, will help their financial stability.

Lower-cost airlines, in particular, are looking to keep costs down, even while some predict an ongoing cost convergence applicable to legacy airlines and low-cost carriers alike.

Passenger Demand Continuing to Shift

Overall demand is expected to remain stable, but is more fragile than before, and as airlines pass along increased costs, they further the risk that overall demand becomes more elastic and retracts. This is especially true if economic uncertainty increases.

Within types of demand, the leisure travel boom may be subsiding, and business travel is still growing but may not reach pre-COVID levels for at least a few years. Bleisure travel — a mix of the two — continues to fill in the gaps between them, but airlines will continue to adjust their network planning and fleet buildout in response to these shifts in demand.

Sustainability Still on the Front Burner

The industry's publicly stated carbon neutrality goals mean that sustainability will be an industry focus for the foreseeable future. The scaling of sustainable aviation fuel production will likely remain the key determining factor as to whether sustainability goals will be met.

The good news is that the development of SAF technologies continues to progress, and that substantial governmental support for SAF production was obtained in 2023. The not-so-good news is that financing large-scale SAF projects remains difficult, with challenges related to maintaining a reliable and affordable feedstock supply, a changing regulatory landscape, and offtake price uncertainty.

Developmental aircraft technologies, such as hydrogen propulsion and electric regional aircraft, also remain topics on the industry's front burners. Meanwhile, attention to greenwashing claims will accompany the industry's interest in, and discussion of, its plans to transform to a more sustainable future and the extent of its progress.

Technology Continuing to Drive Industry Changes

AI burst into the mainstream in 2023, and will have a larger impact on the aviation industry in 2024 as technology evolves — including the use of AI for improved routes and schedules, fleet operations and management, aircraft maintenance and repair, dynamic pricing, aircraft manufacturing, crew training and management, and customer service.

The industry will continue to invest in technologies such as AI in an effort to become even more efficient in the face of the rising costs mentioned above.

Importantly, instead of just being relevant to costs, efficiencies and network maximization, AI and other technological developments may begin to drive revenue directly, as the industry begins to look at the use and monetization of data.

Ongoing Supply Chain and Staffing Struggles

While supply chain problems in other industries have subsided, these issues continue to haunt the aviation sector. Aircraft manufacturing delays continue to restrict capacity growth, which is putting a damper on revenue growth.

Meanwhile, staffing shortages for airlines, suppliers and airports remain, creating increased costs as demand outpaces supply. There are no indications that these issues will be resolved in 2024. In fact, we see carriers continuing to make arrangements to ameliorate the effects of extensive delays and shortages.

Continued High Demand for Aircraft

Over the past few years, the industry has experienced a boom in aircraft purchases, as airlines see aircraft manufacturers' orders fully booked for the rest of the decade at the same time as travel demand is rising to historic levels.

Combined with supply chain shortages for parts and delays in deliveries, these circumstances add up to a continuation of strategic positioning by airlines for delivery slots, leverage for lessors — including in restructuring situations — and potential network upgauging in response to the shortage of both metal and pilots.

Ongoing Maintenance Needs

The fleet purchase boom combined with historic travel numbers means that aircraft maintenance is and will be in high demand for the foreseeable future. Operators will continue to work to secure providers for upcoming maintenance needs as their fleets grow.

Impact for Legal Services

Transactional attorneys should expect to stay busy in 2024, as fleet and other transactions stay hot. Regulatory attorneys should see a busy 2024 due to continued regulatory scrutiny over the manufacturing of aircraft, heightened international tensions and merger regulation uncertainty.

Litigators should also see an increase in demand, as the boom of transactions in the industry as it exited COVID-19 and the new and continuing turbulence mentioned above will likely create increased litigation.

Time to Buckle Your Seatbelt

2024 may be a historic year for the airline industry, in terms of record levels of passengers and revenue.

However, the number of significant external risks to the sector — including global economic uncertainty, geopolitical conflicts and a supply chain that continues to struggle — means that turbulence is likely ahead in the flight path.

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