

Tougher Competition Ahead

Although both domestic and international demand for aviation is expected to see steady growth on a mid- and long-term basis, it will be difficult in fiscal 1998 for the aviation industry to avoid the impact of the continuing Japanese economic slump and the economic problems affecting Asia.

Domestic aviation growth has been showing signs of decline from early autumn 1997, with total consumption continuing at a depressed level. Passenger growth is expected to show a 2-3% increase in fiscal 1997, but in fiscal 1998, growth will slow further.

Meanwhile, the domestic aviation seat supply by airline will respond mainly to Tokyo arrival and departure flights, using Haneda Airport's new Runway C, while the supply for other flights is expected to remain low. The total seat supply growth rate will be a little under 4%, smaller than in fiscal 1997.

In terms of domestic aviation administration, full-scale deregulation is to be implemented in fiscal 1999, and thus during fiscal 1998, every airline will be required to prepare strategic operations for free competition, such as withdrawing from unprofitable routes and restructuring. In addition, if deregulation is imple-

mented smoothly, new entry into domestic regular service will be possible for the first time in some 40 years. Competition not only among existing airlines but with newcomers shall start, intensifying competition on major flight routes. Yield on domestic routes will continue to experience negative growth due to discount policies and other measures aimed at maintaining customer loyalty in the harsher competitive environment expected after deregulation.

International aviation demand began showing rapid negative growth from last winter in terms of monthly numbers of Japanese overseas passengers, due to the slump in the Japanese economy and the weakening of the yen since fiscal 1997, and the shock resulting from the bankruptcy of several major companies last autumn. Prior to this, the growth rate had been high as a result of overseas travel increasing at a rapid pace. In fiscal 1998, this negative trend will continue, and thus severe conditions will not improve any time soon. In terms of regions, passengers for Asian destinations are decreasing partly because of economic disorder in a number of countries. In terms of market share, the impact on Japanese airlines has been relatively small, due to some gains

in regions other than Asia, but it is probable that it will turn out to be negative.

International seat supply will increase as a result of a tentative agreement having been reached in Japan-U.S. aviation negotiations in January 1998, expanding aviation opportunities for both countries. However, the limited availability of arrival-departure slots in metropolitan areas will constitute a major barrier to flight expansion. Overall growth of international flights is expected to be moderate compared with trends in the past few years.

Already decreased yields on international routes due to continuing price competition, having showed a slight increase in fiscal 1997, will again show a decrease due to negative demand growth in fiscal 1998.

Fiscal 1998 is expected to be a very tough year for airlines in terms of revenue and expenditures, as the aviation demand situation will be harsher both domestically and internationally. A fall in profits is highly probable, with no increase in revenue due to the decrease in the actual number of passengers carried, the growing gap between supply and demand, the decrease in unit price for passengers due to intensified competition for market share, and increase in costs resulting from a greater seat supply.

The Japanese aviation industry, having suffered in recent years from unsatisfactory revenue and expenditure accounts in spite of strong demand, will face even harder business conditions in fiscal 1998, with the expected decrease in demand. Consequently, Japanese airlines will have to thoroughly review their current domestic and international flight networks based on detailed market analysis and actively cope with the problems of further increasing their competitiveness in the market, expanding flight networks through international alliances—a growing phenomenon in international aviation—as well as making strenuous efforts to reduce costs.

(Hatanaka Hirokazu, senior economist)

