

IMPACT OF GLOBAL RECESSION ON INDIAN AIRLINE INDUSTRIES

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ABSTRACT

In 2008, the United States underwent a major down turn in their economy that spread to many developing nations which gave rise to financial crisis in the world. The Companies of United States were not certain about their budgets due to the slowdown in the economy in United States. The new project and business starts had been delayed because of the uncertainty which definitely impacted the Indian airline industry.

The recession which started slowly affected the economic sectors including the airline industry of India. As the cash starved managements started looking for cost cutting measures, layoffs started to come in to action. Some people have lost their jobs already. The new recruitments are going at a slow rate. Currently, the market is not great for the airline industry in India and also the same for the rest of the world.

This paper attempts to analyze the impact of recession on operations of Indian Airline industry and to analyse the policies that were undertaken by Government of India to curb recession on Airline Industry.

Keywords: Operations, Government policies, Airline industries, Economy

INTRODUCTION

The Indian airline industry showed a significant growth after liberalization in mid nineties due to the entry of private service airlines. As there were more flights coming in to business in India, the number of job opportunities in the Airline sector had also gone up. Students had started signing up for courses like airline Pilots, flight attendant's and ground crew. The job growth rate, salary and perks were pretty high. When operations of airline industry was at its peak, US economic recession came into existence in 2009. India felt that the recession would not affect the economy of our country, but the hopes were shattered.

Unfortunately, most major airline operators in India such as Air India, Indian Airlines, Jet Airways and Kingfisher Airlines have reported large losses since 2006, due to high aviation turbine fuel (ATF) prices, rising labour costs and shortage of skilled labour, rapid fleet expansion, and intense price competition. The problem was also compounded by new players entering the industry even before the existing players could stabilize their operations. As a result of the already weak domestic scenario, the airline industry suffered even further

when the recession hit India, which exacerbated all these factors. Currently it is a sober moment for the airline industry in India. Anyone who have lost their jobs in the airline industry in the recent recession should consider this situation as a chance to refurbish their skills. Going back to flight school and getting some more certifications while the market is running low would be a smart idea. Polishing the skills will keep the people in great shape once the economy will be back on its feet. Once the Indian economy is back on the run again, any additional skills learned while the economy is dragging could be a great asset for all of those who have lost their jobs.

LITERATURE REVIEW

In emerging economies, growth has slowed down appreciably in the year 2009. The overall recruitments were lower for the industry as companies remain cautious amidst the global financial crisis. [Srivastav, 2009].

The growth in real wages had slowed down globally in 2008 because of the economic crisis and this trend continued till 2009, despite the signs of economic recovery. Growth in average wages reduced from 4.3 % in 2007 to 1.4% in 2008. Real wages in the first quarter of 2009 also fell in more than half of 35 countries, compared to the annual average of 2008. The Wage deflation deprives the national economies of many countries that are in need of it and also affects confidence of these countries very badly. The Minimum wages is an important policy tool for social protection and proposes that minimum wages be combined with other income support measures and/or tax reductions. [ILO, 2009].

OBJECTIVES

1. To analyse the impact of recession on operations of Indian Airlines industry.
2. To analyse the reforms that were undertaken by Government of India to curb recession on Airline Industry.

HYPOTHESIS

H0: 1. Operations of Indian Airlines industries have not been affected by Global Recession.

H0: 2. There is no effect of Indian Government Reforms of to curb the impact of Global Recession on Airline Industries.

RESEARCH METHODOLOGY

The data is collected through interview method, questionnaires and through numerous intellectual articles and journals. For the purpose of data analysis, ten aviation companies are selected which manufactures the domestic and international aircrafts, war planes, and also spare parts through ancillary industries. Among these ten airlines there are few foreign airlines who have their offices in Mumbai and other metropolitan cities of India. Since these foreign airlines contribute foreign remittances to India, it is included in the airline industries.

DATA ANALYSIS

Table 1. The Total Thriftiness of the Airline Industry with respect to operations of Indian Airlines industries

Year	2004	2005	2006	2007	2008	2009	2010	2011
Parameters								
Budget	1.17	1.72	1.50	1.60	2.38	1.83	1.92	2.15
Procurement	1.16	1.2	1.88	1.96	2.78	2.02	2.13	2.46
Production	0.57	0.83	0.95	1.04	1.33	1.33	1.42	1.59
Sales	0.50	0.67	0.84	9.323	1.15	1.04	1.05	1.12
Net Profit	1.51	1.89	2.19	3.03	4.12	2.72	3.37	3.78
Taxes paid	1.21	1.40	1.35	16.26	1.76	1.44	1.48	1.81
Number of Employees	33.17	39.10	41.26	42.91	47.39	27.98	29.27	32.17
Total Assets	2.83	3.44	3.46	3.83	4.05	3.19	3.84	4.16
Total Liabilities	2.80	3.41	3.74	4.26	4.46	3.64	3.86	4.20
Investments	0.97	1.26	1.52	1.77	1.95	1.59	1.91	2.0
Performance of shares/ stocks	1.58	1.89	2.10	2.51	2.55	2.39	2.88	3.05
Tourist Arrivals to India	2.89	3.39	3.85	4.28	4.43	4.02	4.04	4.35
Tourist Departures from India to other countries	2.85	4.00	4.21	5.26	5.10	4.80	5.97	6.57
No. of aircrafts manufactured	0.58	0.8	0.97	1.07	1.31	1.21	1.24	1.38
Parts of Aircrafts i.e spare parts	0.59	0.88	1.00	1.08	1.29	1.27	1.23	1.37
Equity	5.11	5.85	6.31	6.56	6.63	5.89	6.68	6.96
Fares of air travel from India to other countries.	0.92	1.13	1.21	1.42	1.46	1.19	1.26	1.58
Fares of air travel from other countries to India	2.28	2.94	3.76	5.79	7.38	4.48	5.54	6.67

Source: Collected through Questionnaires and Interview method

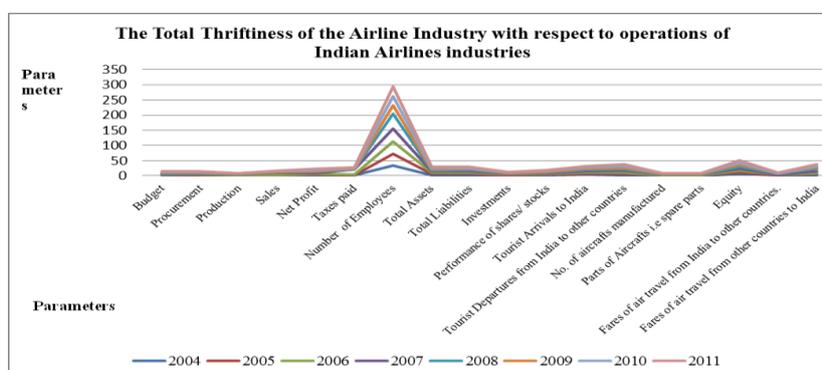


Figure 1. The Total Thriftiness of the Airline Industry with respect to operations of Indian Airlines industries

Table 2. The Total Thriftiness of the Airline Industry towards the Progress of Indian Airlines industries by Implementation of Government Reforms

Parameters	Impact of Budget on Aviation Industries before recession	Impact of Budget on Aviation Industries after recession	Impact on future projects on Aviation Industries during recession	Impact of rates on raw materials before recession	Impact of rates on raw materials after recession	Risk of second recession on Aviation Industries
Yes	0.071		0.083			0.090
No	0.057		0.035			0.019
10%				0.013	0.08	
15%				0.1		
20%				0.080		
25%				0.031		
30%				0.010		
5%					0.035	
12%					0.023	
15%					0.015	
17%					0.048	

Source: Collected through Questionnaires and Interview method

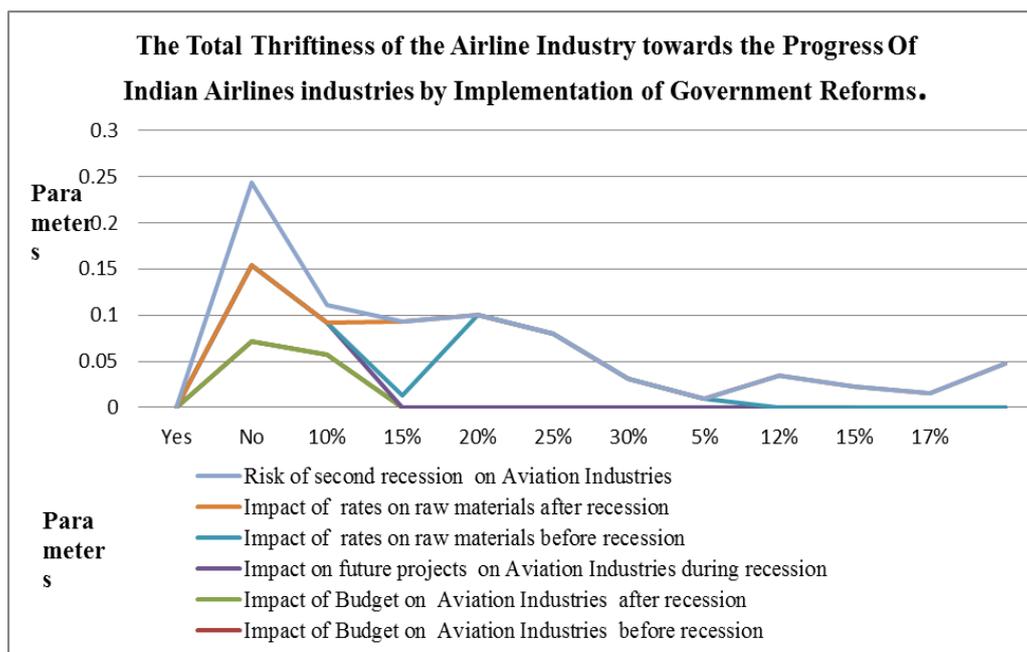


Figure 2. The Total Thriftiness of the Airline Industry towards the Progress Of Indian Airlines industries by Implementation of Government Reforms

Interpretations - The Total Thriftiness of the Airline Sector- The Air Sahara, Cathay Pacific Airways Ltd., Emirates Airlines, Go air, Indian Airlines, Indigo Air, Jet Airways India Ltd, Lufthansa German Airlines, Qatar Airways and Spice jet are as follows:

- The budget of the Airline Industries was diminishing due to the present market conditions that impaired the financial forecast of most of the Airline Industries.
- The Airline Industries could not produce enough goods to satisfy the demand as the price of procurement was expensive. The Airline Industries had to decline their commercial and industrial activities due to global recession.
- Most of the airline ancillaries were closed once in a week to rationalize their production costs. The revenues of the industry were declined from dollar five two five billion in 2008 to dollar four fifty five billion in 2009 due to rising fuel prices and exceptionally weak yields. The sales of most of these companies were also declined and many takeovers/acquisitions had to be put on hold.
- The numerous reforms are undertaken by many Ancillaries to increase their sales so that their profit margin increases.
- The Airline Sector had to investment more on assets in order to earn more sales, to generate employment for the people of India and to improve the economy of India.
- The Passenger traffic was declined by four per cent and cargo by fourteen per cent for the year two thousand nine. Cargo utilisation remained at less than fifty per cent despite the removal of two twenty seven freighters from the global fleet.
- The fall in passenger traffic led to twenty per cent drop in demand for premium travel to India. At the time of sluggish economy the aviation turbine fuel prices were shooting up. Around the Globe the airline sector had a loss of dollar eleven billion in fuel bill in the year two thousand nine.
- The increase in spare parts and tools consumed is due to higher level of production. The fluctuations in the operations of the airline sector from 2004-2010 vary mainly due to global recession in 2009 .
- The Fares of the Airlines was affected after recession because the airline sector faced challenges like increase in the price of Fuel, fewer competent workforce, encumbrances of debt and competition in fixing fares among the airline industries.
- The development of future projects was put off due to the deceleration of the economy.
- Though the rates on raw materials before recession was moderate and the suppliers were in a position to provide commissions and discounts to their regular retailers and customers. But after recession the rates on raw materials had drastically changed as most of the suppliers had to close down their units as they could not afford to bear huge loss.
- There are chances of risk of having second recession which might wipe out many industries of Airline Sector.

HYPOTHESIS RESULTS

H0: Operations of Indian Airlines industries has not been affected by Global Recession.

Table 3.Hypothesis Results of Parametric Test –T Test

Particulars	Table Value=10				
	Mean Difference	Standard Deviation Difference	Df	Observed or Calculated T value at 95% confidence level	Table Value at 95% confidence level
Budget	1.2	3.6	9	1.11	2.262
Procurement	2.5	7.5	9	0.99	2.262
Production	2.5	7.5	9	0.99	2.262
Sales	2.2	7.9	9	0.96	2.262
Net Profit	5.2	13.2	9	0.85	2.262
Taxes paid	5.0	12.0	9	0.99	2.262
Number of Employees	82.6	217	9	0.86	2.262
Total Assets	9.0	32.2	9	0.99	2.262
Total Liabilities	8.6	25.2	9	1.00	2.262
Investments	3.8	12.20	9	1.00	2.262
Performance of shares/ stocks	3.1	9.9	9	1.00	2.262
Tourist Arrivals to India	3.63	11.40	9	1.00	2.262
Tourist Departures from India to other countries	7.2	24.10	9	1.00	2.262
No. of aircrafts manufactured	2.0	8.0	9	0.96	2.262
Parts of Aircrafts i.e spare parts	2.5	7.2	9	1.00	2.262
Equity	10.9	20.2	9	1.00	2.262
Fares of air travel from India to other countries.	5.2	3.1	9	1.00	2.262
Fares of air travel from other countries to India	1.0	5.0	9	1.00	2.262

Source: Collected through Questionnaires and Interview method

Interpretation- Since the calculated or observed value of T test at 5% level of significance is less than the Table value for all the parameters .Hence we accept H₀ and conclude that Operations of Indian Airlines industries has not been affected by Global Recession.

H0: There is no effect of Policies of Government to curb the impact of Global Recession on Airline Industries.

Table 4. Hypothesis Results of Parametric Test –T Test

Particulars	Mean Difference	Standard Deviation Difference	df	Observed or Calculated T value at 95% confidence level	Table Value at 95% confidence level
Impact of budget	0.2	0.6	9	1	2.262
Impact of Recession on future projects	0.6	2.2	9	1.2	2.262
Impact of rates on raw materials	1.1	5.8	9	0.7	2.262
Risk of Second Recession	0.5	1.3	9	1	2.262

Source: Collected through Questionnaires and Interview method

Interpretation- Since the calculated or observed value of T test at 5% level of significance is less than the Table value for all the parameters .Hence we accept H_0 and conclude that Operations of Indian Airlines industries has not been affected by Global Recession.

SUGGESTIONS

- Strategic alliances need to be encouraged by the government of India. The top two carriers of India, Jet and Kingfisher together accounted for 60% of the market entered into a strategic alliance to share ground staff, route information, planning and frequent flier programs. The attempts were also made to include Air India in the deal, which would have taken the joint market share of the group to around 70-75%. The move was aimed at targeting operational costs by trimming staff and sharing logistics, joint fuel management, code sharing, cross utilization and joint training for staff on common aircraft types.
- The Airline Industries have to emphasis on advertising during economic downturn as it provides an opportunity to find good number of clients who have projects or assignments for which the company's services may be required.
- The Airline industries have to frame contingency strategies in adverse times well in advance before it occurs. This helps the companies to survive turbulent times.
- The Research and Development has to be focused on priority by the Airline industries to meet the diverse needs of their recessionary customers who seek greater value from their spending. The companies must market their innovative products to gain advantage over their competition.
- The Government of India has to focus on Pilot flying, rest hours and pilot pay structure.
- The Number of operational fleet in airports needs to be increased.
- Though Indian Airline industry holds a promising future compared to the premium counterparts due to the huge population, increased affordability and making the

services accessible to the common man, the sector is highly susceptible to turbulence in economy.

CONCLUSIONS

The Airline industry has grown at a compounded annual growth rate of 25% in 2010. The growth of India's Airline sector has potential to absorb up to US\$120 billion of investment by 2020. However, we must equalize the demand for Airline services and the ability of our Airline system to meet that demand. India must prepare a blue print for the expansion of system capacity while maintaining safety, security and the environment. We must develop a road map for infrastructure development beyond 2010. By Assuming a 6% GDP growth and a 1.5 times multiple, it is estimated that domestic aviation traffic alone will grow 2.5 times from the current 40 million passengers to 100 million passengers by 2020. The key drivers remain better cost management and higher aircraft utilization that helps to keep the technical reliability high and operating costs low.

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