

# Impacts of various factors on the airline industry economics essay

[Environment](#), [Air](#)



Business inventories refers to the level of stored supplies and warehouse stored commodities and is a reflection of product supply and demand. An increase in business inventories means that products are not being moved fast enough in the market indicating the economy is in a declining state, resulting in a weaker currency (Business inventories ).

The Commerce Department says businesses inventories rose 0.9 percent in January. Sales increased 2 percent, the seventh consecutive gain and the largest since March. Healthy gains in sales and inventory restocking should translate into continued strong orders for U. S. factories.

The string of increases in inventories pushed stockpiles to \$1.45 trillion in January. That's a level that economists consider to be healthy for this stage of the recovery. It's 10.1 percent higher than the recent low of \$1.32 trillion reached in September 2009 (CRUTSINGER, 2011).

The industrial production and related capacity utilization indicators reflect changes in overall economic activity, and therefore gross domestic product (GDP). When these results are released They will show percentage changes on month-to-month and year-over-year levels, shedding light on short-term rates of change and business cycle growth, respectively (Barnes).

To show this report below is the Federal Reserve graph for raw capacity and Industrial Production. Notice how at the start of 2000, when the China PNTR (trade agreement) kicked in, both literally level off to flat land. When I see this graph I think what has happened to American's industries is an absolute crime. Total capacity growth has been zero for the past year, with mining

increasing 0.3% and utilities increasing 1.5% (oak, 2011). The author of this report shows how low US production has been starting in the year 2000

In the aviation industry key indicators are inflation, unemployment, and the business cycle.

Inflation affects both the business cycle and unemployment. There is an inverse relationship between rate of inflation and rate of unemployment. This relationship involves a trade off that is paid a higher rate of inflation to reduce the unemployment and for reducing the inflation, price in terms of a higher rate of unemployment has to be borne (Ahuja, 2007). Yields of the airline industry are decreased with an alarming rate because of Inflation, which will affect the financial state of the airline industry and will result into a low employment position in the industry.

Inflation is causing an increase in the price of goods and services and decrease in the purchasing power of the customers. Inflation will cause an increase in the cost of the fuel and it will result into an increase in the prices of tickets and cancellation of routes in the airline industry. Demand in the airline industry is reduced significantly. Increase in the price of the fuel will cause an increase in the overall costs of the airline industry (U. S. Airline Industry Headed toward ' Catastrophe' at Current Oil Prices, 2006).

Changes in the employment and interest rates also relate to the business cycle or economic cycle. Business cycle is a pattern of different periods of economic growth and a declining period in an industry (Dwivendi, 2006).

Inflation will force the industry towards fiscal decline and it will cause financial instability in the industry.

Unemployment in the airline industry will affect the quality of the services because new people will not be hired due to financial instability in the industry. To provide better services to its customers, it is necessary for the company that skilled employees should be there. But unemployment position will cause a poor service and low demand in the industry. Unemployment will force the industry towards the recession period.

Business cycle- Airline industry has a long-term business cycle and it causes low profit and return to its shareholders. In expansion and boom cycle of business, both the output and employment increase till the full employment of resources and production at the highest possible level (Ahuja, 2007). This period is followed by the depression period and then by revival period. In second stage, level of employment will be decreased and the situation of unemployment will appear at a large scale in the industry.

Currently, fuel prices are increasing and hitting the airline industry badly. Airline industry is in the crisis situation and it has caused cuts and curtailment in different airlines. Business model of the industry is not working with the fuel prices and the current level of capacity (oil crisis in the Airline industry, 2008). Airline industry is operating in a deregulated environment where firms themselves decide prices and routes in a given market condition, which is causing problems for the industry. To show how bad the airlines have suffered through current economic conditions here is a

chart that denotes aircraft type to be grounded aswell as job cuts to remain afloat: