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Airline Price War Proves Cynics Right

EasyJet faces a hard winter. While U.S. airlines show signs of holding on to at least some of the benefits of cheaper oil, their European peers are proving cynical investors right by ceding them to consumers in a continuing battle for scale.

Europe's second-largest budget airline followed its June profit warning with another on Thursday. The shares nose-dived in anticipation of another raft of forecast cuts.

The problem is oversupply combined with creeping costs. EasyJet will fly about 8% more seats this year than last as a result of planes it agreed to buy in sunnier times and its strategy of taking market share from national flag carriers. But demand has been weak, so the airline has had to discount. Revenues per seat were 8.7% lower year over year in the quarter through September, and the company expects a similar performance in the current quarter.

The company didn't cite Brexit. Instead it noted terrorist attacks and disruption at various airports.

One question concerns the willingness of Chief Executive Carolyn McCall to tough out the trough. But an executive thought to be her obvious successor quit last month, suggesting she will stay. She and her newish finance director need to prove their cost-cutting mettle.

The top five airlines account for roughly 55% of European capacity, compared with some 90% in the U.S., calculates Gerald Khoo at Liberum Capital. Everyone wants consolidation, but only through their own expansion. Time to buy a European holiday, not European airline shares. —***Stephen Wilmot***