

involving minority equity stakes. We have not observed significant mergers of airlines of different nations, as yet.

D. Airline Finance

It is beyond the scope of this paper to provide a detailed financial analysis of the airline industry. Nevertheless, it is important to appreciate a number of characteristics of this industry that have important financial implications.

Seasonality. The airline industry has a strong seasonality. Traffic peaks during the third quarter and has a trough during the fourth quarter. As can be seen in **Figure 35**, the trough month of November is only 50 percent of the peak in August.¹⁰⁸

Procyclical. The airline industry is procyclical in the sense that its expansion and contraction is more pronounced than that of the economy as a whole. Income elasticities for this industry are approximately 2.0, indicating that for every one percent expansion in national income, air transport expands by two percent, and for every one percent contraction in national income, air transport contracts by two percent.¹⁰⁹ In the jargon of the financial industry, air transport has a high "beta" coefficient. This indicates that earnings in the airline industry are more volatile than earnings in the economy overall.

¹⁰⁸ 1982 data was used as it predates the era of widely available discount fares in Canada. Discounts are now used to induce some peak travellers to switch to off-peak times.

¹⁰⁹ See Gillen, Oum and Noble (1986).