

# AIRLINES FINANCIAL HEALTH MONITOR

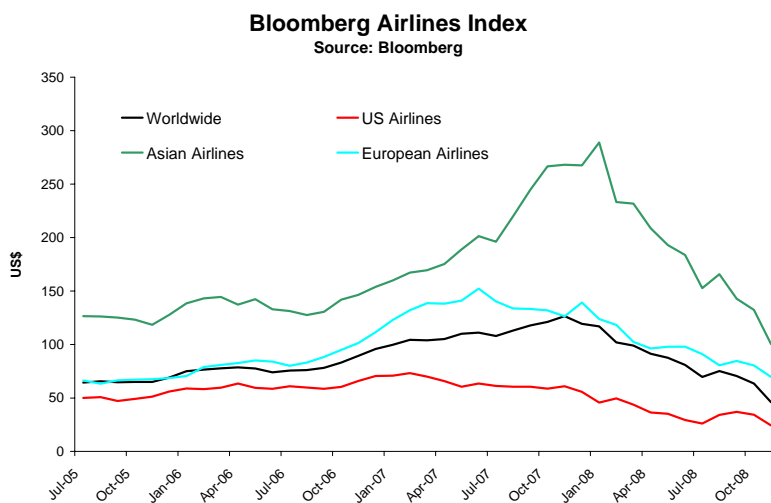
October-November 2008

## KEY POINTS

- ↗ Airline share prices have fallen 35% since September financial crisis, underperforming the market;
- ↗ Industry net losses have risen to \$4 billion during the first three quarters of 2008;
- ↗ Spot fuel prices have more than halved since July but hedging is delaying the benefit of lower fuel costs;
- ↗ Airline capacity slowed sharply in October but further falls in traffic reduced load factors;
- ↗ Aircraft deliveries slowed to 78 in October but the big change was a surge in the number of aircraft parked to an average of almost 200 a month in September and October, reducing capacity and fuel use.

## Financial indicators

### Airline share prices have fallen 35% since September financial crisis



- ↗ Since the near collapse of the banking sector in September, and the intensification of recession, airline share prices have fallen 35% worldwide.
- ↗ Investors have been selling across the board with declines in the airline sector ranging from 30% in Asia to 38% for European airlines.
- ↗ With airline stocks now down 60% from end-2007 peaks, compared with a 40% decline in the overall market, investors clearly expect airline financial performance to deteriorate more than the average.

### Industry net losses have risen to \$4bn during the first three quarters of 2008

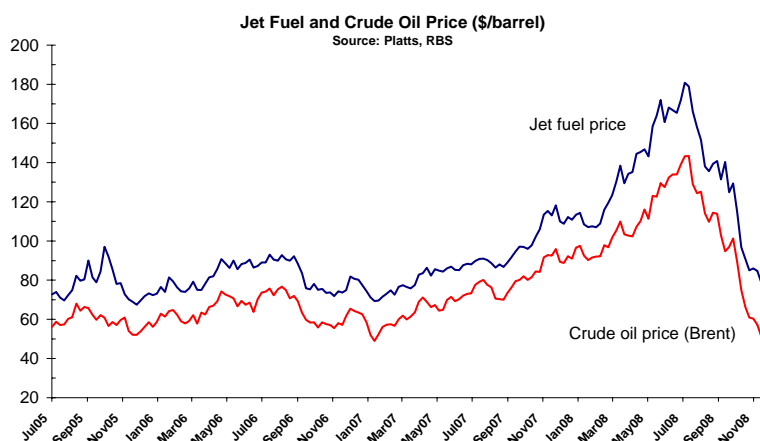
	Nb Airlines	2007 Q1-Q3		2008Q1-Q3	
		US \$ million			
		Op. profits	Net profits	Op. profits	Net profits
US	13	7452	7029	-600	-3589
Europe*	13	6002	6016	3008	-34
Asia - Pacific**	8	3678	3504	1871	-592
Other	2	356	246	436	183
<b>TOTAL</b>	<b>36</b>	<b>17,487</b>	<b>16,795</b>	<b>4,715</b>	<b>-4,033</b>

*Note:*  
\* Air Berlin Q3 not included  
\*\* Qantas, Cathay (reporting half year)

- ↗ Certainly there has been a sharp deterioration in profits reported during the first three quarters of this year, with net losses now totalling \$4 billion.
- ↗ US airlines continue to see the largest deterioration but airlines in both Europe and Asia-Pacific are also now in loss, partly as Q2 hedging is now leading to hedging losses in Q3 and Q4, delaying the benefits of low spot fuel prices.

## Fuel costs

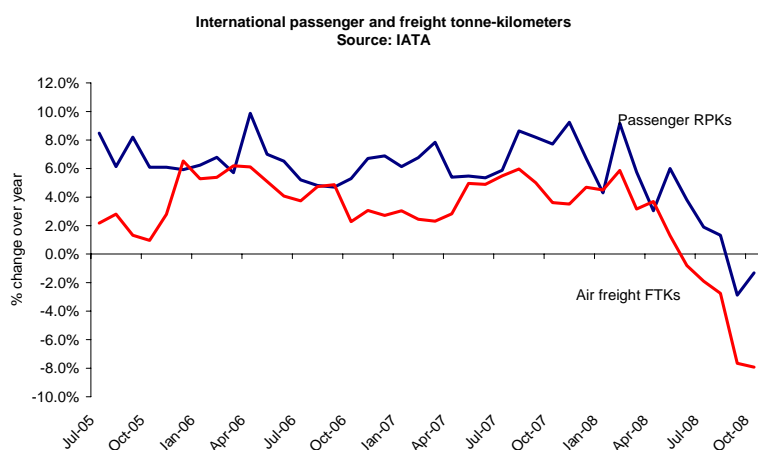
### Spot fuel prices have halved but hedging is delaying the benefit to airlines



- Oil and jet fuel prices have now fallen back to 2005-2006 levels with crude oil at \$50-60 a barrel, and jet fuel prices 25-30% higher. This is less than half the level fuel prices reached at their \$180 a barrel peak in July.
- But actual prices paid have not fallen anywhere near as far for many airlines as a result of hedges taken out earlier in the year.
- This will delay the benefit of lower spot fuel costs for many airlines. In fact some airlines have been reporting hedging losses for 2008Q3 and Q4.

## Demand

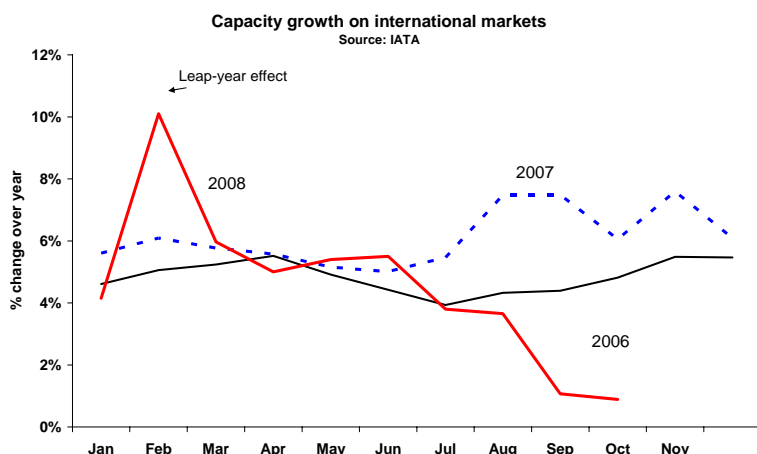
### Traffic still falling sharply in October with air freight down 7.9%



- Recession is now the greatest threat facing the airline industry. Since the middle of the year traffic has fallen precipitously, with first air freight and then passenger markets declining.
- In October international RPKs fell 1.3% over the same month a year ago. Air freight was down 7.9%.
- This decline in traffic reflects the severity of the recession in major economies. Business and consumer confidence fell sharply in October so further traffic declines are likely.

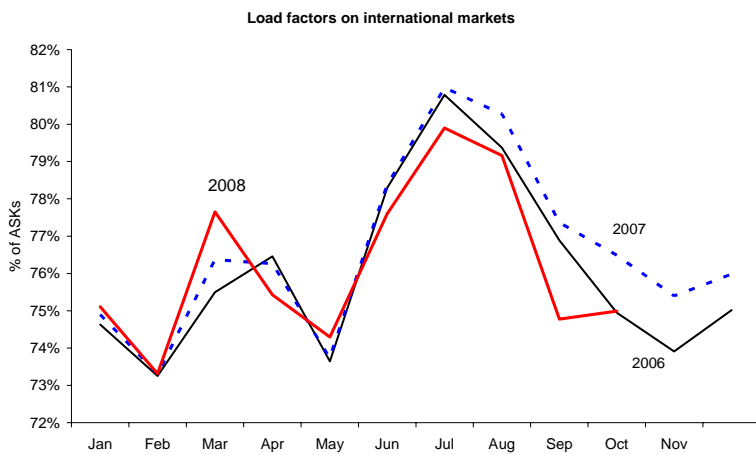
## Capacity

### Capacity growth on international markets has now slowed to a virtual halt



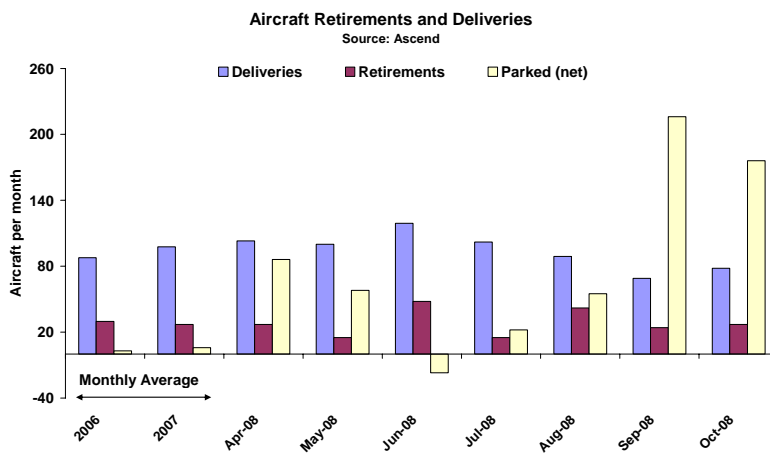
- Airlines have now reduced capacity growth almost to a halt, as plans put in place after the mid-year spike in fuel prices were implemented.
- By October the growth in international ASKs was down to 0.9%.
- Further substantial cuts in US domestic capacity are planned over the winter season. However, published capacity plans suggests international ASKs are set to continue to grow, albeit modestly, at close to October's rate.

**Load factors stabilised in October but further declines likely on international markets**



- Load factors usually decline sharply as seasonally strong mid-year traffic falls off. This year there has been an even greater decline as the recession reduced traffic faster than airlines have been able to cut capacity.
- There was actually some modest improvement in utilisation in October, relative to September. However, it looks as though traffic will be falling faster than capacity on international markets in the months ahead. Load factors are likely to fall further.

**Dramatic rise in number of aircraft being parked from September and October**



- The slowdown of capacity on international markets in September and October, together with large cuts on domestic US markets is reflected clearly in the surge of aircraft being parked.
- The number of new aircraft being delivered is slowing and was 78 last month. Retirements are stable at 27. The big change has been an increase in the number of aircraft being parked from a monthly average of 6 in 2007 to almost 200 aircraft a month in September and October.

Data tables

**International passenger and freight markets in October**

	Oct 2008 vs. Oct 2007					YTD 2008 vs. YTD 2007				
	RPK Growth	ASK Growth	PLF	FTK Growth	ATK Growth	RPK Growth	ASK Growth	PLF	FTK Growth	ATK Growth
Africa	-12.9%	-11.6%	69.4	3.0%	-13.8%	-4.1%	-4.7%	70.6	-1.8%	-7.8%
Asia/Pacific	-6.1%	-2.3%	72.2	-11.0%	-6.1%	0.3%	2.7%	74.3	-3.3%	-1.1%
Europe	1.8%	3.8%	77.0	-5.4%	2.7%	2.7%	4.8%	76.6	0.5%	4.2%
Latin America	4.5%	5.7%	72.5	-11.4%	1.6%	11.8%	10.0%	74.4	-12.2%	7.0%
Middle East	3.5%	4.1%	73.0	1.0%	3.5%	7.2%	8.5%	75.2	8.9%	9.2%
North America	-0.8%	0.4%	78.7	-7.6%	-0.2%	4.3%	5.2%	80.4	1.3%	4.4%
<b>Industry</b>	<b>-1.3%</b>	<b>0.9%</b>	<b>75.0</b>	<b>-7.9%</b>	<b>-1.3%</b>	<b>2.8%</b>	<b>4.5%</b>	<b>76.2</b>	<b>-0.8%</b>	<b>2.7%</b>