

# AIRLINES FINANCIAL MONITOR

## KEY POINTS

July - August 2014

- Worldwide airline share prices rose 3% in August compared to July, slightly ahead of the broader market on further easing in fuel prices;
- Initial Q2 financial results show strong gains for US airlines' performance, but declines in Asia Pacific due to cargo revenue weakness and cost pressures for Chinese carriers from the depreciating Yuan;
- Jet fuel prices eased slightly in August as a weakening demand outlook pushed crude oil prices down to a 15-month low;
- US passenger yields are up after declines in Q1, but weakness continues in other regions;
- Air travel volumes continue to expand steadily and air freight demand recorded a solid increase in July, supported by improving conditions in Asia, including a rebound in trade volumes;
- Expansion in available seats moderated in July, but continues to exceed growth in demand;
- Passenger load factors fell on the back of strong capacity expansion, but air freight load factors have now reversed recent declines.

## Financial indicators

### Global airline share prices rose in August, slightly ahead of the broader market

#### Airline Share Prices

US\$ based index (100 = 2007)



- Worldwide airline shares rose 3% in August compared to July. Airlines share prices increased slightly more than the broader market, with the FTSE Global All Cap up 2% over the month. The improvement in airline share values has been supported by further, albeit small, declines in jet fuel prices. All regions experienced a rise in airline share prices, with airlines in the US experienced the strongest rise (5%). The rise is consistent with Q2 financial results, which show a significant improvement for North American carriers on a year ago.

### Initial Q2 financial results show continued improvement, driven by US carriers

In US \$ Million

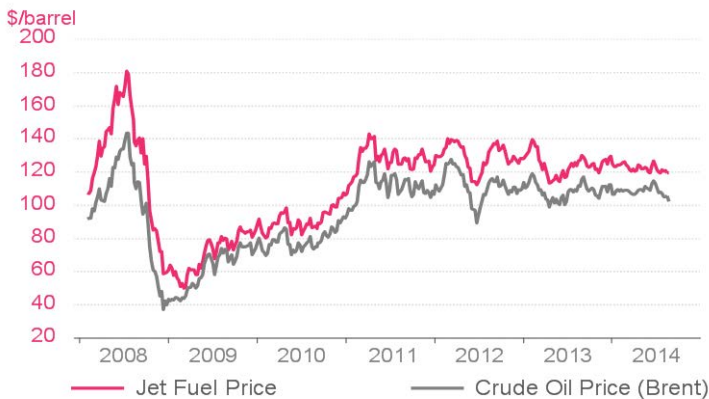
# Airlines	Regions	Q2 2013		Q2 2014	
		Operating profit	Net post-tax profit	Operating profit	Net post-tax profit
14	North America	3686	1932	5994	3724
16	Asia-Pacific	245	-349	-21	234
11	Europe	1617	469	2030	1136
6	Latin America	236	-138	204	25
3	Others	38	22	26	47
50	<b>Sample total</b>	<b>5822</b>	<b>1936</b>	<b>8233</b>	<b>5166</b>

- Airlines earn a majority of revenues in Q2 and Q3, so the expectation is for solid results at this time of year. Our sample of 50 airlines shows that airlines were also able to improve financial performance on the year ago period, at both the operating and net profits levels. The improvement has been driven by the performance of North American airlines. By contrast, in Asia Pacific, a combination of weakness in cargo revenues as well as rising cost pressures for Chinese carriers due to a depreciating local currency have had negative impacts on regional financial performance.

## Fuel costs

### Crude oil prices fell a further 4% in August on weakening demand outlook

#### Jet Fuel and Crude Oil Price



- Crude oil prices fell 4% in August compared to July. Current price levels are down 11% on the most recent (mid-year) peak. Jet fuel prices remain very close to \$120/bbl, but have also fallen by 4% in August compared to July.
- The recent decline in crude oil prices has come as a result of a weakening demand outlook. There are signs of weakening demand in Europe as well as Asia. The Eurozone economic recovery has been stunted by the Russia-Ukraine crisis and ensuing EU sanctions. Despite positive Q2 developments for the Chinese economy, downside risks to accelerating growth remain.

## Yields

### Passenger yields rebound in Q2 in the US, but remain weak in other regions

#### Average Return Fare Worldwide & US Airlines Yields

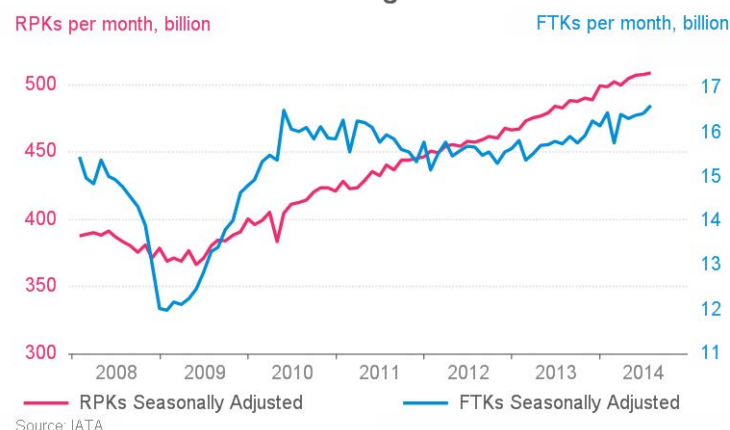


- The trend in US passenger yields has improved in the second quarter. Yields have recovered after a period of decline earlier in the year, likely as a result of the weather-related economic slowdown during the same period. Underlying demand drivers remain positive and the current trend could continue.
- By contrast, the weak trend in global fares in US\$ is largely continuing. The trend in global fares reflects weakness in Asia as well as exchange rate distortions. The fare data excludes fuel surcharges and ancillary revenues, which provide some offset to the decline in core fare yields.

## Demand

### Air passenger volumes continue steady increase as air freight demand rises strongly

#### Total Air Travel and Air Freight Volumes

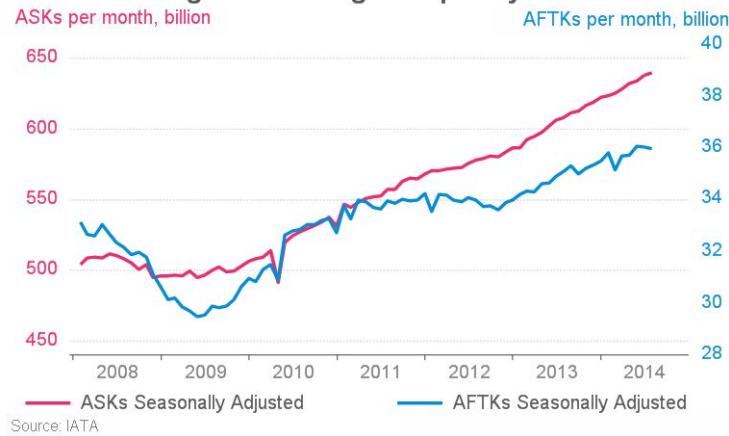


- Air freight volumes increased strongly in July compared to June. Improvements in world trade and business activity flattened in Q1, but latest data suggest improvement in some regions. The solid industry performance in July was driven by Asia Pacific carriers, where trade volumes have rebounded after decline throughout Q1.
- Air passenger volumes continue to increase steadily, with key regions continuing to post solid gains on a year ago. Recent deterioration in the Eurozone economy, however, has become a down-side risk to solid regional air travel growth.

## Capacity

### Air freight capacity stabilizes while passenger capacity continues to expand

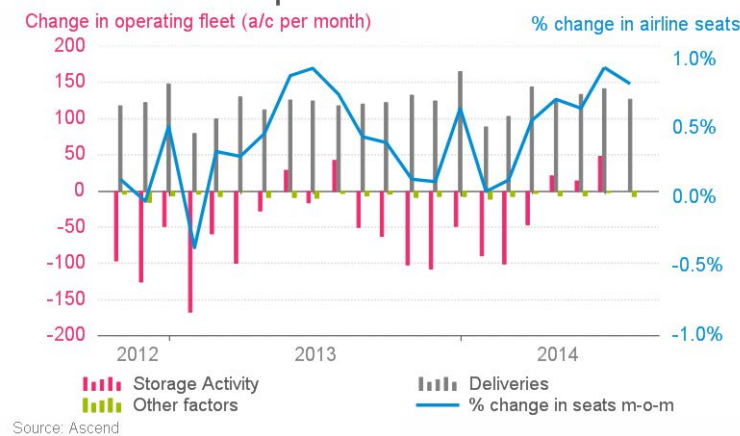
#### Total Passenger and Freight Capacity



→ The rise in passenger capacity came mostly through a strong increase in ASKs on international markets in July compared to June. Growth in demand was weaker and resulted in a fall in load factors over the month. Air freight capacity stabilized in June with a slight decline compared to May. But the trend over recent months has shown resumption in growth in AFTKs, which is consistent with renewed signs of improvement in the demand environment.

### Growth in seats moderated in July, but still exceeded expansion in demand

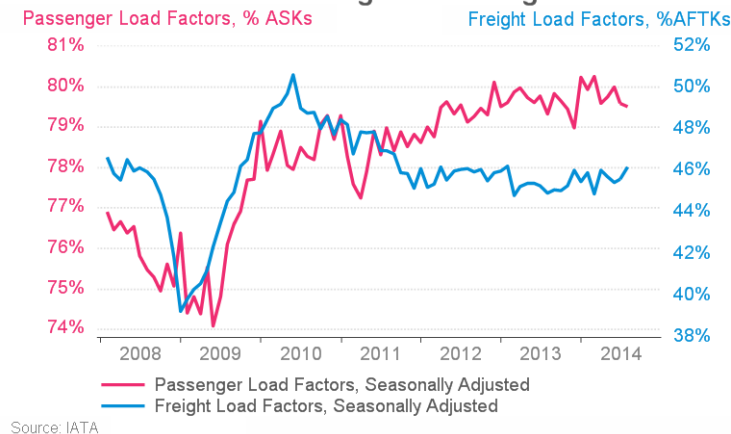
#### Airline Fleet Development



→ Growth in available seats moderated in July after a strong rise in June. The slowdown in seat expansion in July compared to June resulted from fewer deliveries of new aircraft. In July there were 127 new aircraft delivered compared to 141 in June. Growth in seats in July reduced to an annualized rate of 9 – 10%. Although growth in demand remains solid, it is far weaker than growth in seats. If the trend continues, it could place pressure on aircraft utilization rates.

### Passenger loads slip on strong growth in capacity while freight loads stabilize

#### Load Factors and Passenger and Freight Markets



→ Passenger load factors slipped in July compared to June as a result of the strong rise in capacity over the month. Passenger load factors remain strong and close to 80% on a seasonally adjusted basis, but the trend has been slightly declining throughout most of 2014, reflecting robust growth in capacity.

→ There was a 0.6% pt increase in air freight load factors in July compared to June, which has reversed the declining trend seen during the recent past months. The pick-up in demand in July compared to June was met with a contraction in capacity, which caused loads to increase solidly.

## Data tables

Year on Year Comparison	Jul 2014 vs. Jul 2013						YTD 2014 vs. YTD 2013					
	RPK	ASK	PLF	FTK	AFTK	FLF	RPK	ASK	PLF	FTK	AFTK	FLF
Africa	4.0%	3.9%	70.7%	11.3%	4.5%	28.6%	0.0%	3.6%	67.4%	3.9%	2.4%	29.9%
Asia/Pacific	6.0%	6.4%	78.2%	7.1%	4.0%	55.9%	6.8%	7.6%	77.1%	5.0%	6.2%	54.7%
Europe	5.5%	5.4%	84.8%	1.8%	4.4%	43.6%	6.0%	5.6%	80.3%	3.0%	2.8%	47.0%
Latin America	4.5%	3.4%	82.3%	7.6%	-0.6%	42.4%	6.5%	3.5%	79.6%	1.0%	-1.2%	41.6%
Middle East	9.0%	8.1%	78.2%	9.4%	7.8%	43.4%	12.3%	10.0%	79.6%	9.8%	8.9%	44.4%
North America	3.6%	3.3%	87.1%	5.2%	-1.3%	33.8%	2.7%	2.2%	84.0%	2.3%	-0.5%	34.8%
<b>Total Market</b>	<b>5.3%</b>	<b>5.3%</b>	<b>82.3%</b>	<b>5.8%</b>	<b>2.9%</b>	<b>44.4%</b>	<b>5.8%</b>	<b>5.6%</b>	<b>79.7%</b>	<b>4.4%</b>	<b>3.5%</b>	<b>45.2%</b>

RPK: Revenue-Passenger-Kilometers; ASK: Available-Seat-Kilometers; PLF: Passenger-Load-Factor; FTK: Freight-Tonne-Kilometers; AFTK: Available Freight Tonne Kilometers; FLF: Freight Load Factor;  
 All Figures are expressed in % change Year on Year except PLF and FLF which are the load factors for the specific month.

**AIRLINE INDUSTRY FORECAST 2013 - 2017**  
 Predict demand patterns & minimize investment risk



[www.iata.org/forecast](http://www.iata.org/forecast)

**IATA Economics**  
 4<sup>th</sup> September 2014