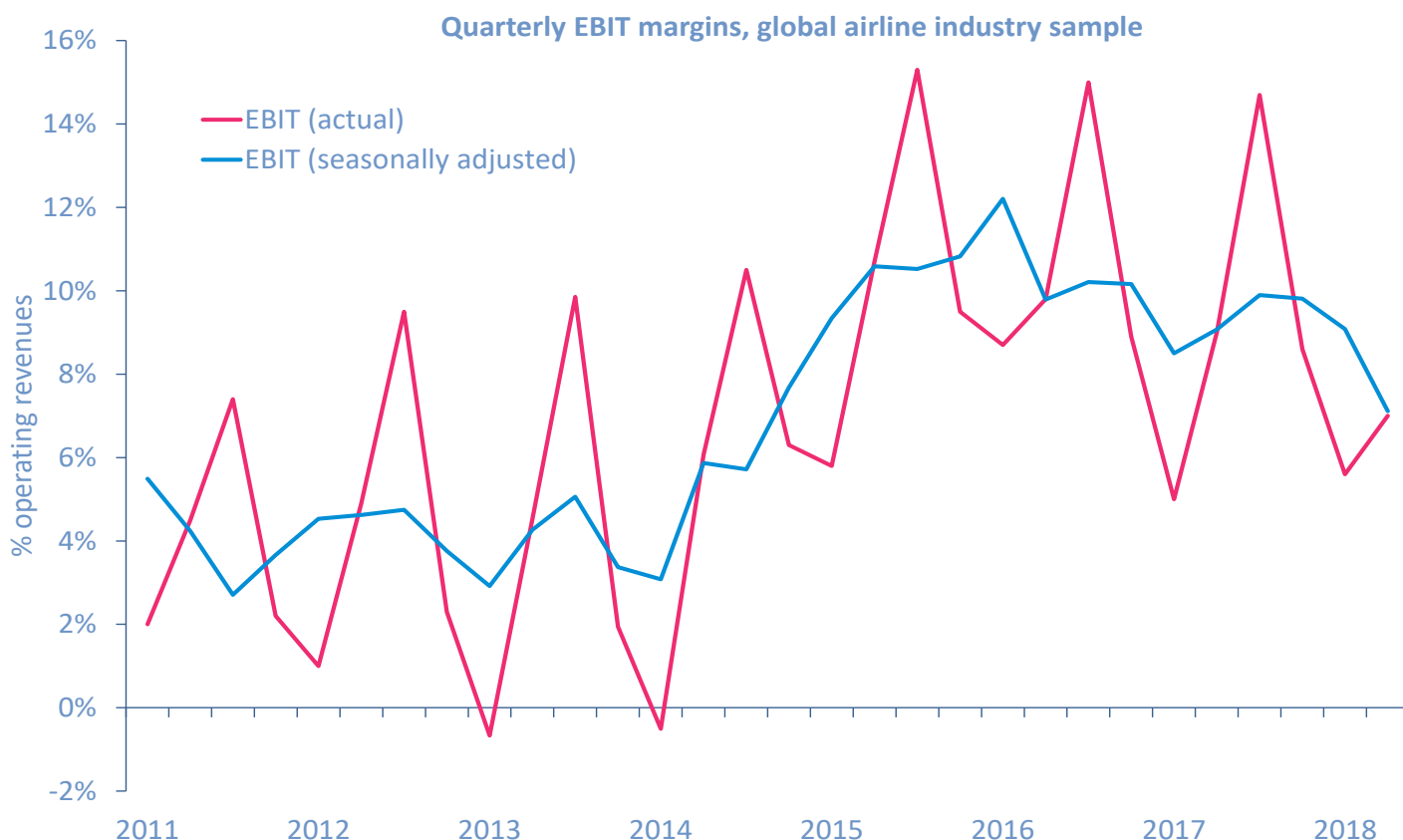




IATA ECONOMICS' CHART OF THE WEEK

21 SEPTEMBER 2018

AIRLINE MARGINS ARE COMING UNDER INCREASING PRESSURE



Source: The Airline Analyst, airline financial statements

- Our regular readers will be well aware of the improved financial performance of the air transport industry over the past three years. And while we remain relatively positive about industry profitability for 2018, it is clear that airline financials are coming under increasing pressure, as we noted in our latest [Financial Monitor](#) publication.
- Today's chart shows the development of industry EBIT (earnings before interest and tax) margins, on a quarterly basis since the start of 2011; the red line shows the figures taken directly from airline financial statements while the blue line adjusts those data for regular seasonal fluctuations. In seasonally-adjusted terms, the EBIT margin peaked in early-2016 and after retracing some of the increase in 2Q16 was relatively stable for almost two years.
- Over this period, a number of important input costs assumed a steady upwards trajectory. Oil and fuel prices are the most obvious of course (oil prices are up around 60% over the past year alone), along with labor costs in various key markets. Against a backdrop of declining base fare yields, airlines responded to the upturn in unit costs in a number of ways including by developing additional sources of revenue, such as ancillaries, and by increasing the passenger load factor (as we noted [recently](#)) to help support their financial performance. Initially, the rise in unit costs was largely matched by the gain in unit revenues, keeping the margin broadly steady at its elevated level.
- However, this picture changed considerably in 2Q18, with a sizeable deterioration evident in the latest industry EBIT margin data, to around 7%. The increase in unit costs is now again outpacing that of unit revenues, delivering the lower margin outcome. Looking ahead, increasing late-cycle inflation pressures in the wider economic environment mean that dealing with rising costs will remain a major challenge for airlines and the broader air transport industry.

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