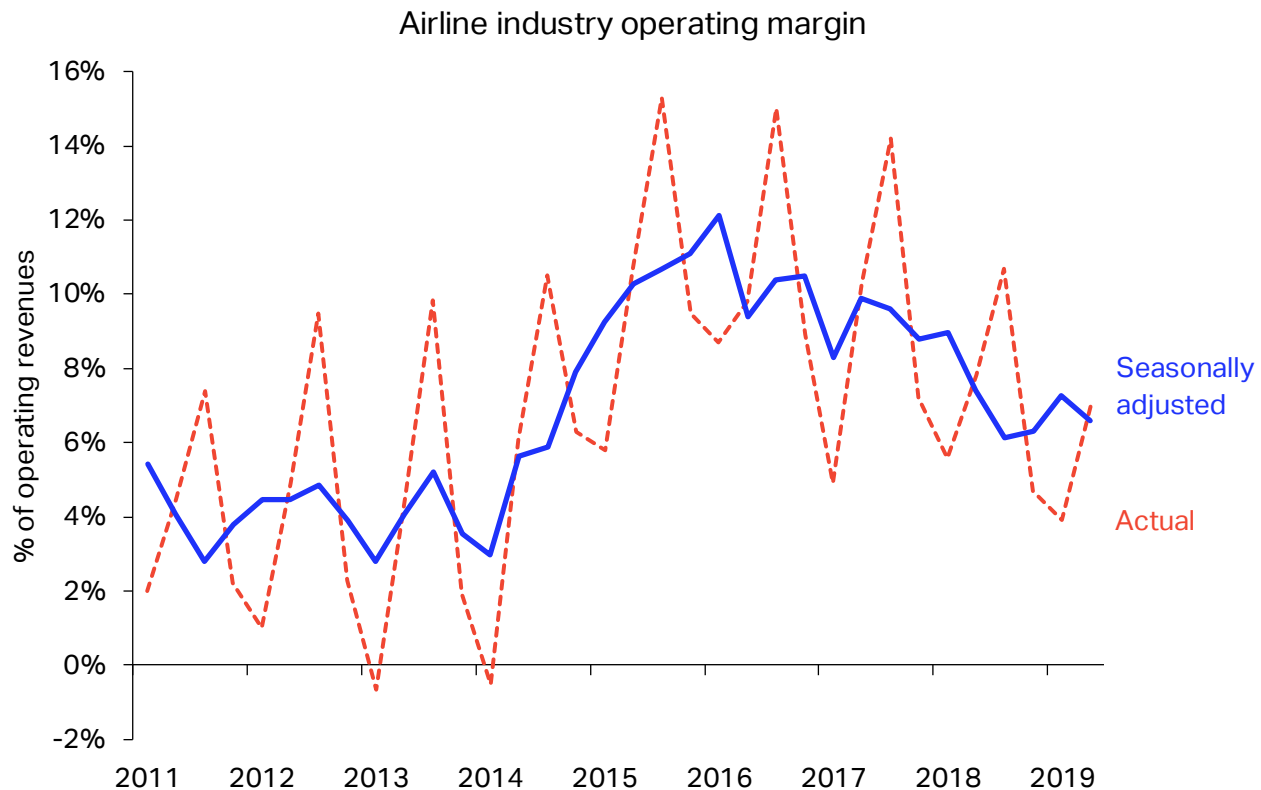




IATA Economics' Chart of the Week

23 August 2019

Airline margins stabilizing in difficult business environment



Source: IATA Economics using data from The Airline Analyst, airline public releases

In last week's [Airlines Financial Monitor](#) we reported on an apparent stabilization in operating margins at the industry level in 2019Q2, with the sample of airlines reporting an average outturn similar to that of 2018Q2. But this was a relatively small sample and dominated by the better performing US airlines, so we looked at the average downward revisions as reporting becomes more complete and then adjusted the second quarter data accordingly. The actual and seasonally adjusted results of this are shown in the chart above. What this shows is that, despite the increasingly gloomy economic environment, operating margins at the industry level do appear to have stabilized from late last year and through the first half of this year – as shown by the broad sideways movement in the seasonally adjusted data from 2018Q4.

This more stable period came after an intense squeeze on profit margins during the earlier part of 2018 as unit costs rose but unit revenues slumped – the ability of airlines to recover costs seemed to disappear. Since then we have seen recession worries grow and traffic has slowed sharply, but airlines have responded significantly by slowing capacity growth to the extent that passenger load factors have risen to record levels.

There are several cautionary notes to make to this positive narrative. The first is that this pattern of apparent margin stabilization happened before in early 2017, only to be followed by renewed decline. This could be 'noise' in the data. Second, regions outside N America are facing more difficult conditions. Third, continued stabilization will depend on the business environment ahead. Fuel prices are down and the [Airlines Financial Monitor](#) reported a possible leveling out in base fare yields, which were factors behind the Q2 results. But if bond markets are right (see [last week's COTW](#) for our thoughts on that) and we have a recession just ahead then this period of stabilizing margins may not last.

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