

# Airlines Financial Monitor

July–August 2019

## Key points

- The latest second quarter financial data confirm the improvement in industry-wide profitability, albeit with considerable regional differences. While airlines in North America showed substantial improvement in their Q2 operating margin outcome compared with a year ago, margins were lower in Europe and the Asia Pacific.
- Global airline share prices fell by 4.7% in August led by North American and Asia Pacific airlines. The performance of the global airline index for the year to date compared with the same period a year ago turned negative (down 1.4%) and has clearly diverged from the performance of the overall global equity market (up 12%YTD).
- Economy passenger yields increased slightly this month, while premium passenger yields remain under pressure. Cost pressures from fuel prices are once again on the table following the supply disruption in Saudi Arabia.
- In seasonally adjusted (SA) terms, the passenger load factor was still close to the record high levels at 82.7%, but the cargo side remained weak despite a small monthly increase.

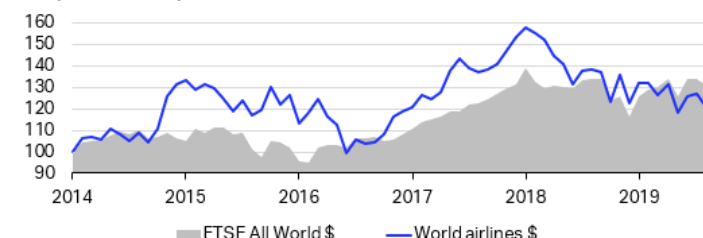
## Financial indicators

### Global airline share index underperformed global equity markets

#### Airline Share Prices

US\$ indices (Jan 2014=100)	Index Aug 30th	% change on		
		one month	one year	start of year
<b>World airlines</b>	<b>121.0</b>	<b>-4.7%</b>	<b>-12.7%</b>	<b>-1.4%</b>
Asia Pacific airlines	102.4	-4.9%	-12.7%	-7.6%
European airlines	81.4	-1.9%	-32.8%	-20.7%
North American airlines	161.0	-5.5%	-11.5%	+5.2%
<b>FTSE All World \$</b>	<b>130.5</b>	<b>-2.5%</b>	<b>-2.4%</b>	<b>+11.9%</b>

Index (Jan 2014=100)



Source: Thomson Reuters Datastream

- Following two months of upward movement, global airline share prices fell by 4.7% in August on the back of a decline in Asia-Pacific and North American airline shares. As a result, the year-to-date (YTD) performance of world airlines turned negative, diverging from global equity markets (-1.4% vs +11.9%).
- North American and Asia Pacific airlines were the worst performers this month, both down 5-5.5%. For the former, the extended grounding of the 737MAX aircraft continues to impact airline operations and weigh upon investor sentiment. Asia Pacific airline shares fell by a similar magnitude amid escalated trade tensions between the US and China and recent events in Hong Kong. European airline shares also fell, by ~2% this month, as Brexit uncertainty, global trade weakness and downward revisions to 2019 performance targets for some airlines took their toll.

### Improved industry-wide profitability in Q2 but driven by N America

#### Airline Financial Results

Number of airlines in sample	Regions	Q2 2018		Q2 2019	
		EBIT margin <sup>1</sup>	Net post-tax profit <sup>2</sup>	EBIT margin <sup>1</sup>	Net post-tax profit <sup>2</sup>
16	North America	11.6%	2,996	13.6%	5,004
26	Asia-Pacific	3.6%	427	3.3%	166
10	Europe	8.9%	2,102	7.4%	1,484
8	Latin America	2.8%	-575	3.1%	-470
3	Others	3.8%	18	11.9%	66
<b>63</b>	<b>Sample total</b>	<b>8.0%</b>	<b>4,968</b>	<b>8.3%</b>	<b>6,250</b>

<sup>1</sup>% of revenues

<sup>2</sup>US\$ million

Sources: The Airline Analyst, IATA

- The latest airline financial data for Q2 2019 reaffirm the improved industry-wide profitability compared to the same period a year ago. However, this was mostly driven by a very strong performance from N American airlines which offset weaker margins in Europe and Asia Pacific compared to the previous year.
- In Asia Pacific, overall net profits declined as softer travel demand put pressure on passenger yields and trade disputes impacted cargo operations. The profitability of European airlines softened due to the accelerated competition from low cost carriers and rising fuel expenses. Latin American airlines posted negative bottom-line figures due to the failure of one airline and a decline in revenues stemming from currency devaluation.

## Industry-wide free cash flow generation is stable

### Airline Cash Flow<sup>1</sup>

Number of airlines in sample	Regions	Q2 2018			Q2 2019		
		Net cash flow <sup>2</sup>	Capex	Free cash flow	Net cash flow <sup>2</sup>	Capex	Free cash flow
16	North America	19.8%	11.5%	8.3%	19.0%	10.4%	8.6%
19	Asia-Pacific	15.4%	15.5%	-0.1%	12.8%	12.6%	0.1%
8	Europe	19.5%	15.1%	4.4%	14.9%	11.4%	3.5%
4	Latin America	16.5%	14.4%	2.0%	-1.4%	7.8%	-9.3%
2	Others	34.3%	28.0%	6.3%	34.1%	12.5%	21.6%
<b>49</b>	<b>Sample total</b>	<b>18.7%</b>	<b>13.4%</b>	<b>5.3%</b>	<b>16.1%</b>	<b>11.1%</b>	<b>5.0%</b>

<sup>1</sup>% of revenues

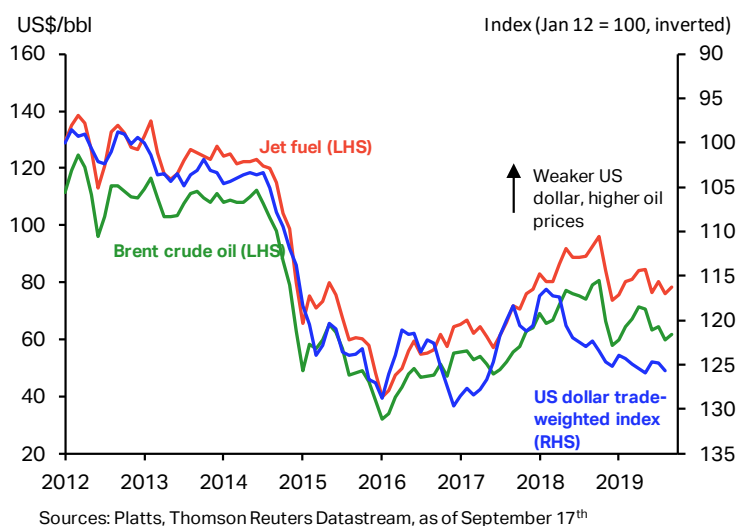
<sup>2</sup>From operating activities

Sources: The Airline Analyst, IATA

- Our updated sample of airlines (49 in total) for Q2 2019 shows a slight weakening in free cash flow (FCF) generation for the whole industry compared to the same period a year ago. Industry-wide free cash flow declined to 5.0% of revenues in Q2 2019 as lower capital expenditures fell short of compensating for lower net cash flow from operations.
- With the support of strong bottom-line figures and lower capital spending, our sample of North American airlines showed improvement in operating cash flows. Free cash flow generation was relatively stable in Asia Pacific as the decline in profitability was balanced by lower capital spending. But for European airlines, free cash flow generation deteriorated despite lower capital spending.

## Fuel costs

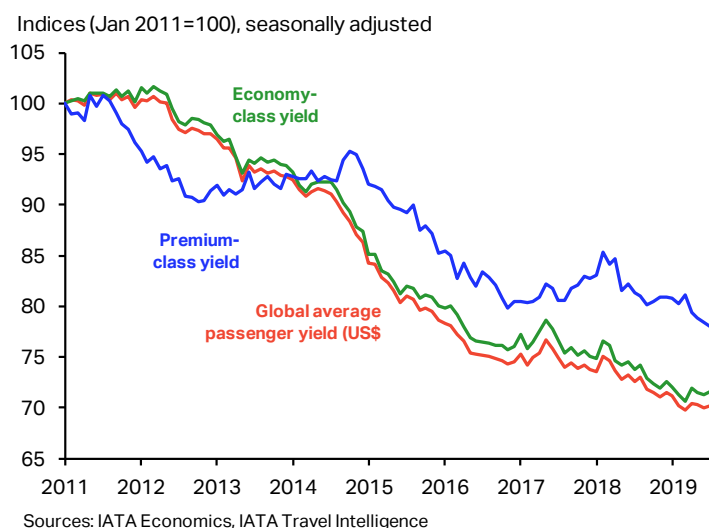
### Brent oil and jet fuel prices surged with supply disruption



- Following a stable month in August, Brent crude oil and jet fuel prices jumped up in September following an attack to the oil field in Saudi Arabia, the world's largest oil exporter. At the time of writing this report, the price of Brent crude oil hovers around US\$68/bbl and the jet fuel reached US\$85/bbl, 11% higher compared to the end of August.
- Although the production loss in Saudi Arabia could be partly compensated from storage facilities, the oil price is expected to remain under pressure as it is likely to take some time for production to return to normal. The impact of the rise in oil prices on airlines will depend on hedging ratios, but each 5 \$/barrel increase in the price of jet fuel could reduce overall industry net profit margins by around 0.5% points ([link](#)).

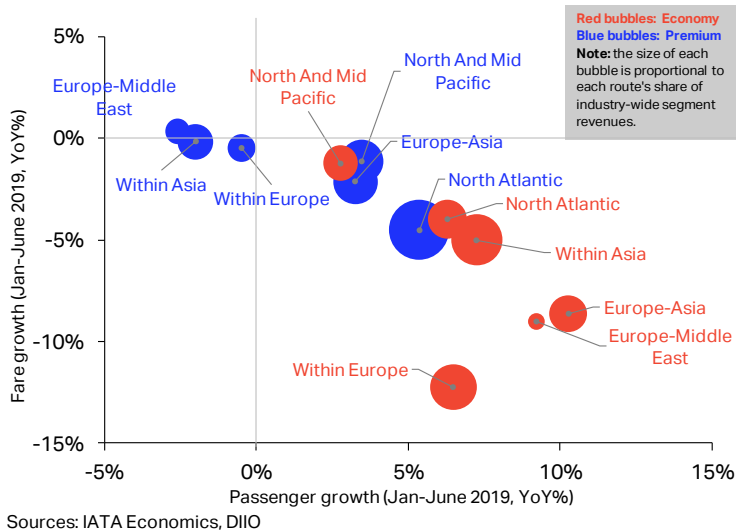
## Yields and premium revenues

### Global passenger yields edged higher in August, but are solidly lower vs a year ago



- Global passenger yields inched up in July, but were still 3.3% below their level compared to a year ago. Note that the yield data are reported in US\$ and exclude surcharges and the revenue that airlines generate from ancillary services.
- While economy class yields went up by moderate 0.4%, premium cabin yields moved down by another 0.6% as increased trade tensions and weakness in global economy has been impacting business travel. Going forward, ongoing international trade tensions represent a key source of downside risk, particularly for the premium class.

## Air fares have been flat or declining in most of the key international markets

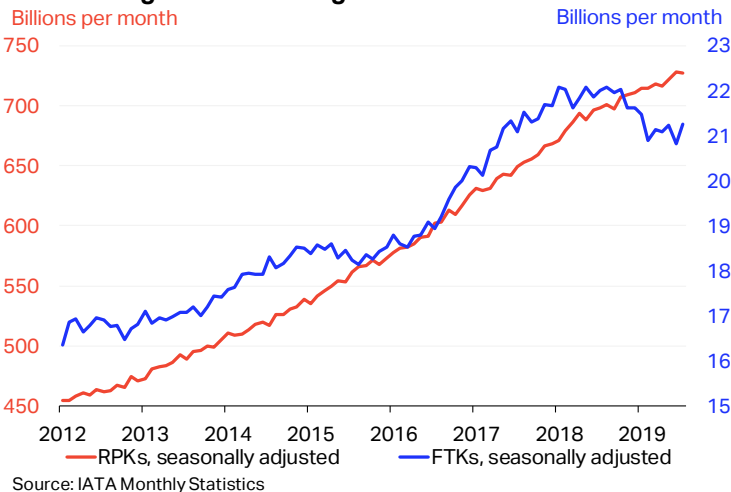


- Performance across markets over the year-to-date has been varied, both in terms of airfare developments and growth in passenger numbers. Unsurprisingly, airfares have typically fallen further in the more price-sensitive economy cabin (red bubbles) than for premium passengers.
- Overall premium-class passengers accounted for 3.9% of total international origin-destination traffic in the first half of 2019 compared with 4.1% a year ago. Over the same period however, revenues from premium-class passengers improved by 0.4 percentage points to 28.3% of international passenger revenues.

## Demand

### Air passenger demand stabilized, while freight volumes ticked up

#### Air Passenger and Air Freight Volumes

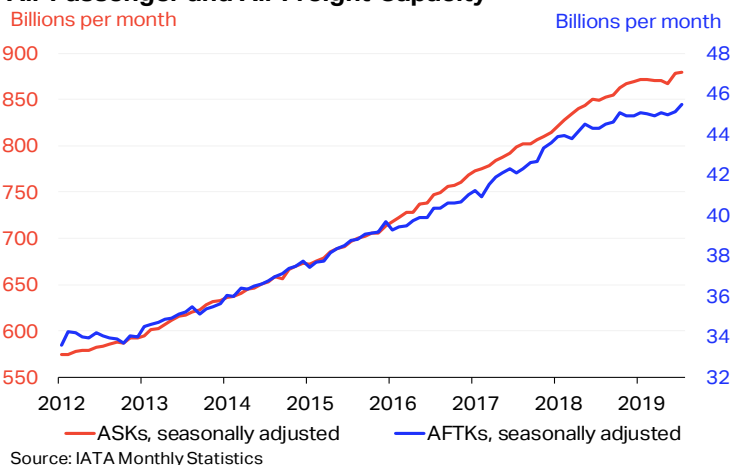


- In seasonally adjusted (SA) terms, industry-wide revenue passenger kilometres (RPKs) stabilized in July following a strong growth performance in the previous three months. On the other hand, SA air freight tonne kilometres (FTKs) rebounded strongly to offset a fall of comparable magnitude in June.
- RPKs posted solid year-on-year growth (4.2%) but the pace remained below the long-run historical average of around 5.5%. On the freight side, the outlook was still fragile as FTKs fell further (-3.4% year-on-year) in July. We expect a continuation of weakness in freight with the new tariff increases coming into effect in the ongoing US-China trade dispute.

## Capacity

### Passenger and freight capacity increased in July

#### Air Passenger and Air Freight Capacity

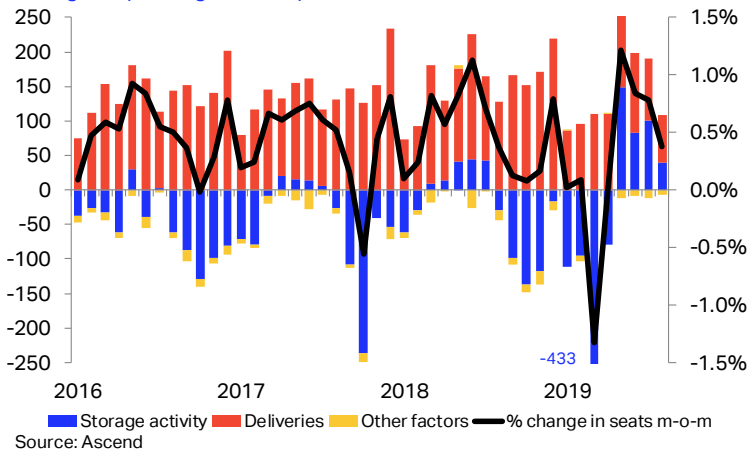


- Seasonally adjusted (SA) industry-wide available seat kilometres (ASKs) went up slightly in July following a sharp increase in June. SA ASKs have been relatively flat since the end of last year and early signs of a modest lift in the upward trend in recent months have been unwound in July. The longer-term trend is still for softer growth in capacity compared with demand.
- Available freight tonne kilometers (AFTKs) in seasonally adjusted terms has been increasing in the last two months. However annual freight capacity growth is still subdued at 2.6% compared to 4.4% a year ago. We would expect airlines to remain cautious about adding new capacity with the weakness in the global economy and intensified trade tensions.

## Seat capacity continues to recover though at a slower pace

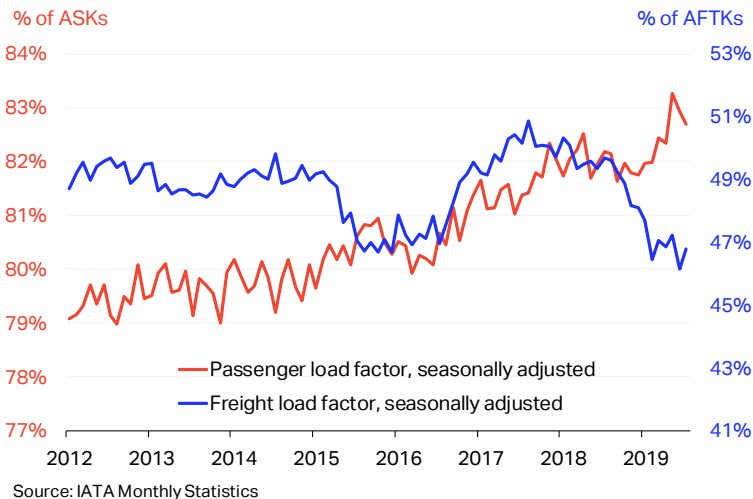
### Airline Fleet Development

Change in operating fleet (a/c per month)



- The number of available seats in the global airline fleet increased for the fourth consecutive month in August (up 0.4% month-on-month). Annual growth is modest at 3.2% compared to 5.7% a year ago despite the impact of the 737 MAX groundings being partly offset by a contribution from net storage activity in recent months.
- 70 aircraft were delivered in August, well down on the 128 deliveries in the same period in 2018. Net storage activity made a positive contribution to fleet growth as 92 aircraft returned to the fleet from storage and 53 aircraft left the fleet. All in all, the number of aircraft delivered over the year to date was lower than that seen in the same period last year (797 vs 1019). Note that on average 991 aircraft were delivered in the first eight months of the year between 2013 and 2018.

## Passenger and freight load factors continue to diverge



- The industry-wide seasonally adjusted (SA) passenger load factor continued to ease in July even as capacity growth remained moderate. Nevertheless, compared to the historical data, the passenger load factor was still close to record high levels, at 82.7%.
- By contrast, the seasonally adjusted freight load factor improved slightly for the industry as capacity was below demand growth. However, the SA freight load factor remained weak and is 2.9 percentage points below the level of a year ago.

IATA Economics

[economics@iata.org](mailto:economics@iata.org)

19<sup>th</sup> September 2019

### Get the data

Access data related to this briefing through IATA's Monthly Statistics publication:  
[www.iata.org/monthly-traffic-statistics](http://www.iata.org/monthly-traffic-statistics)

### 20-year passenger forecasts

To find out more about our long-term passenger forecasts, and to sign up, visit:  
[www.iata.org/pax-forecast](http://www.iata.org/pax-forecast)

### IATA Economics Mobile App

100% free access to our analysis & briefing for iOS & Android devices. For more details or to download, see [here](http://www.iata.org/consulting):  
[www.iata.org/consulting](http://www.iata.org/consulting)

**Terms and Conditions** for the use of this IATA Economics Report and its contents can be found here: [www.iata.org/economics-terms](http://www.iata.org/economics-terms)

By using this IATA Economics Report and its contents in any manner, you agree that the IATA Economics Report Terms and Conditions apply to you and agree to abide by them. If you do not accept these Terms and Conditions, do not use this report.