



Airlines Financial Monitor

November-December 2019

Key points

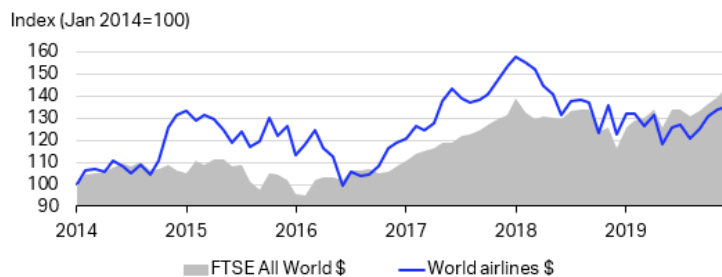
- The final financial results from Q3 2019 indicate improved industry-wide profitability supported by a stronger outcome in North American airlines. In contrast, the profitability of European and Asia Pacific airlines moderated compared to a year ago.
- Global airline share prices lagged wider global equity markets in December despite the strong performance of European airlines. Similarly, the whole-year performance of global airlines lagged the overall equity markets as bankruptcies, disruption in operations and weakness due to trade tensions impacted airline equities.
- Global passenger yields declined in November, despite higher premium class yields. After a volatile month with intensified geopolitical developments, Brent crude oil and jet fuel prices returned to prior levels.
- In seasonally adjusted terms, air passenger demand maintained its moderate growth trend while freight demand has stabilized. The passenger and freight capacity growth rates moderated in November.

Financial indicators

European airlines supported the global airline equity index

Airline Share Prices

US\$ indices (Jan 2014=100)	Index Dec 31st	% change on		
		one month	one year	start of year
World airlines	135.3	+1.2%	+10.2%	+10.2%
Asia Pacific airlines	109.9	+2.7%	-0.8%	-0.8%
European airlines	113.2	+6.1%	+10.3%	+10.3%
North American airlines	167.9	-2.3%	+9.7%	+9.7%
FTSE All World \$	144.6	+3.4%	+24.0%	+24.0%



Source: Thomson Reuters Datastream

- The global airline equity index increased by 1.2% in December, lagging global equities. Weak performance was mainly due to North American airlines as the grounding period of the Boeing Max 737 was extended. On the other hand, European airlines outperformed with better financial performance expectations in 2020.
- Overall, in 2019 airlines underperformed the broader equities market (10.2% vs 24%) as bankruptcies, disruption in operations and weakness due to trade tensions impacted airline equities.
- Equity market performance varied among the regions. European (+10.2%) and North America (+9.7%), which had a higher contribution to industry-wide profitability, drove the overall airline index. On the other hand, uncertainty around US-China trade relations and intense competition impacted Asia-Pacific region.

Industry-wide profitability improved in Q3 2019

Airline Financial Results

Number of airlines in sample	Regions	Q3 2018		Q3 2019	
		EBIT margin ¹	Net post-tax profit ²	EBIT margin ¹	Net post-tax profit ²
32	North America	10.1%	4,716	11.5%	5,464
28	Asia-Pacific	8.0%	1,513	6.2%	604
13	Europe	17.6%	6,372	16.9%	5,836
8	Latin America	6.0%	38	11.0%	25
5	Others	12.6%	172	14.5%	200
86	Sample total	11.7%	12,811	11.9%	12,129

¹% of revenues ²US\$ million
Sources: The Airline Analyst, IATA

- The final airline financial data for Q3 2019 showed that industry-wide operating profitability improved. A solid performance of North American airlines stemming from better yields and strong travel demand was the main driver. On the other hand, margins weakened in Europe and Asia Pacific compared to a year ago. Rising operating expenses put pressure on margins in Europe, and intense competition and various disruptions impacted yields in Asia-Pacific.
- Initial Q4 2019 earnings announcements showed that strong demand and a lower fuel price continued to support North American airlines. Looking forward, although rising capacity in 2020 may be a challenge in some regions, moderate fuel prices together with an improvement in global economic growth are expected to support industry-wide financial performance.

Industry-wide free cash flow generation was stronger than a year ago

Airline Cash Flow¹

Number of airlines in sample	Regions	Q3 2018			Q3 2019		
		Net cash flow ²	Capex	Free cash flow	Net cash flow ²	Capex	Free cash flow
14	North America	9.5%	9.1%	0.4%	12.9%	8.7%	4.2%
24	Asia-Pacific	12.6%	12.7%	0.0%	11.2%	10.3%	0.9%
10	Europe	6.4%	10.7%	-4.3%	12.2%	11.3%	0.9%
6	Latin America	6.3%	7.7%	-1.3%	12.4%	8.5%	3.9%
3	Others	9.2%	11.3%	-2.1%	20.5%	9.5%	11.0%
57	Sample total	9.4%	10.3%	-0.9%	12.4%	9.7%	2.7%

¹% of revenues

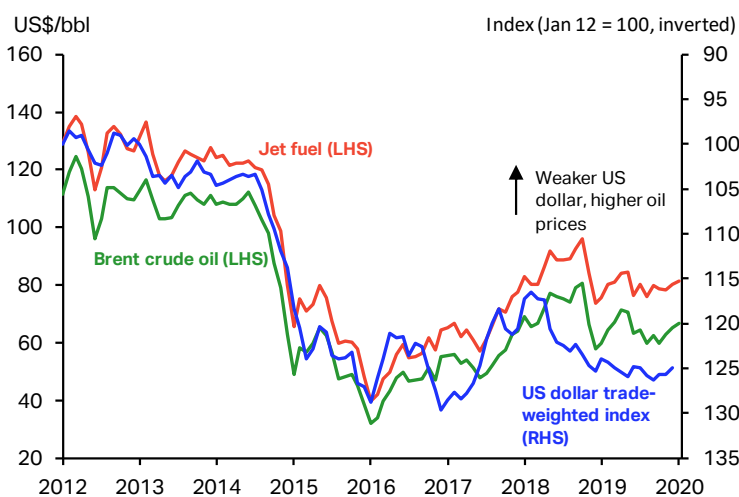
²From operating activities

Sources: The Airline Analyst, IATA

- Industry-wide free cash flow (FCF) in Q3 2019 was higher than a year ago, with improvement widespread across regions. Overall, better net cash flow from operations and controlled capital spending resulted in stronger industry-wide free cash flow generation.
- North American airlines continued to outperform other regions in terms of FCF generation. The European carriers showed a turnaround compared to previous year driven by higher cash flow generation from operating activities despite higher capital spending. Latin American airlines showed a marked improvement, as the increase in cash flow outweighed a rise in capital spending. For airlines in Asia-Pacific, controlled capital spending balanced the impact of weaker bottom-line figures.

Fuel costs

High volatility in oil prices amid rising geopolitical tensions and trade deal

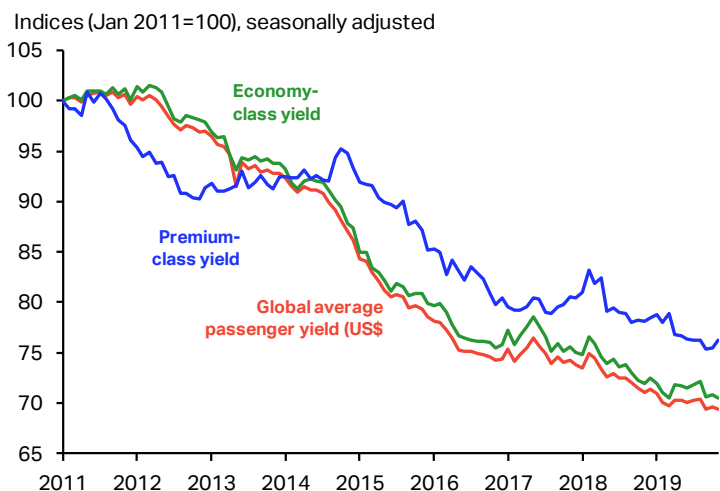


Sources: Platts, Thomson Reuters Datastream, as of January 14th

- Brent crude oil and jet fuel prices climbed as high as US\$70/bbl and US\$84/bbl, respectively amid increased tension between US and Iran in January. However, the oil price impact was short-lived, similar to the September 2019 oil field attack in Saudi Arabia which caused a temporary cut in oil production.
- At the time of writing this report, the price of Brent crude oil stands at US\$65/bbl and the jet fuel price is at US\$77/bbl. Looking forward, reduced production among oil exporting countries will continue to balance slower growth in demand. However, we expect high volatility in oil and jet fuel prices to continue in 2020 as oil prices remain vulnerable to intensified geopolitical risks.

Yields and premium revenues

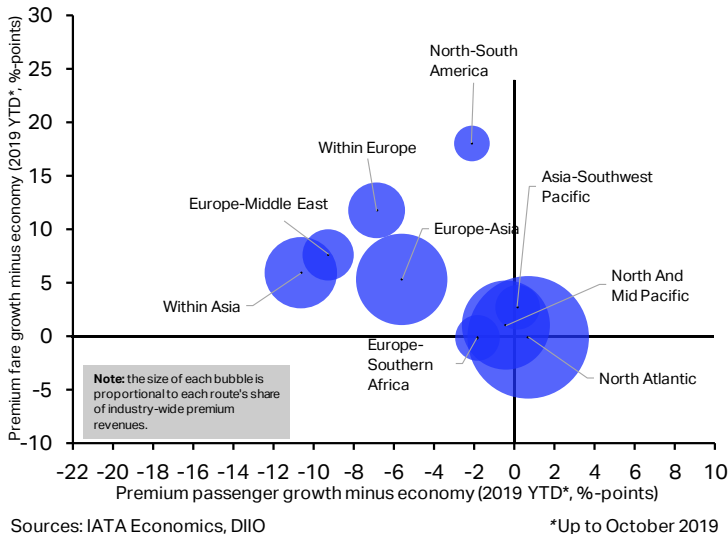
Global passenger yields declined despite higher premium class yields



Sources: IATA Economics, IATA Travel Intelligence

- Following a short-lived improvement in October, global base passenger yields (ie excluding surcharges and ancillary revenues) eased modestly in US dollar terms in November despite the improvement in premium class yields.
- In the last three months, economy class yields trended downwards, while premium class yields improved in the last two months. However, both economy and premium class yields are c.3% lower than their level at the beginning of the year.
- In 2020, moderate economic growth together with the planned capacity increases in some regions will likely maintain downward pressure on yields.

International premium traffic and revenue shares remained stable

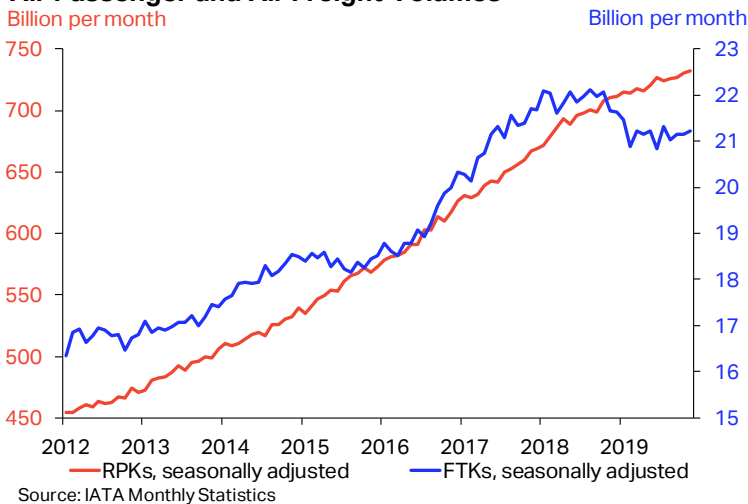


- Premium-class passengers accounted for 5.0% of total international origin-destination traffic between January-October 2019. This proportion was marginally lower (down 0.2ppt) compared to the same period a year ago. In terms of revenue, the share of premium-class passengers improved by 0.5 ppt to 30.2% of total international revenues.
- In October (latest available data), weakness in the global economy and uncertainties related to world trade continued to weigh on business travel as has been the case since the end of last year. Premium passenger traffic growth outpaced its economy counterpart only in the North Atlantic and Asia-Southwest Pacific markets. On the revenue side, the largest outperformance of premium fares (vs economy) has continued to be in the Nth-Sth America and Within Europe markets.

Demand

Passenger traffic continued its modest growth, while cargo volumes stabilized

Air Passenger and Air Freight Volumes

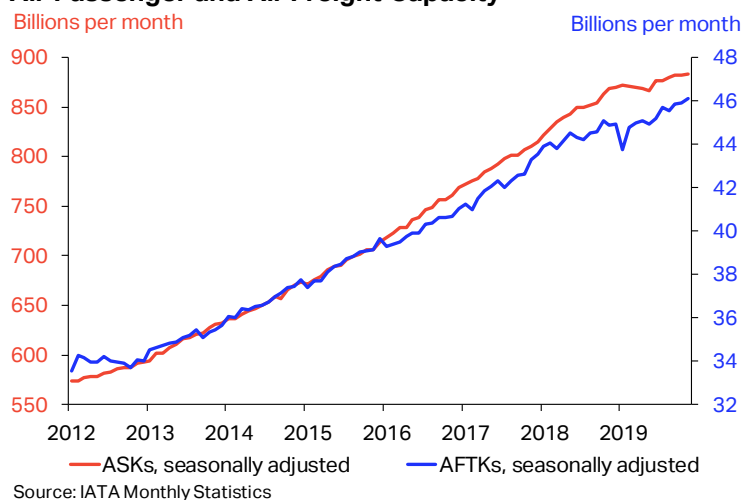


- In seasonally adjusted (SA) terms, revenue passenger kilometres (RPKs) maintained the moderate growth trend in November but the year-on-year growth rate has softened to 3.5% pa. On the cargo side, SA freight tonne kilometres (FTK) moved slightly up in November, but the overall trend indicates stability on the cargo side.
- Our latest forecasts point to a continuation in the moderate growth trend in 2020, with RPKs set to increase by 4.1% for the year as a whole. Although there are risks on the cargo side, we expect to see a modest rebound in FTKs in 2020, with growth of 2.0% after a decline of more than 3.0% this year.

Capacity

Both passenger and freight capacity stabilized

Air Passenger and Air Freight Capacity

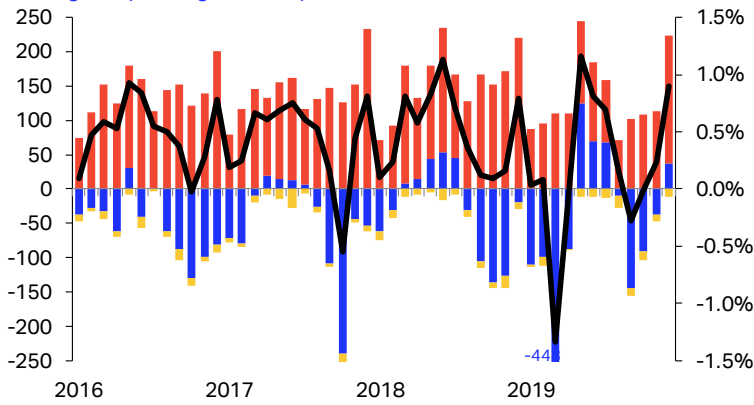


- Growth in SA industry-wide available seat kilometres (ASKs) continued to moderate in November. In year-on-year terms, the capacity growth rate eased to 1.7%. There is considerable regional variation as ASK growth turned negative in the Middle East and Europe. Nevertheless, North America and Asia Pacific continued to be the leading regions.
- Similarly, growth in available freight tonne kilometres (AFTKs) moderated in November. Year-on-year industry-wide growth is currently 2.8%, although capacity is growing at a double-digit pace for African airlines. Europe and North America record solid, if less spectacular capacity growth.

Deliveries increased in December, number of seats up 0.9%

Airline Fleet Development

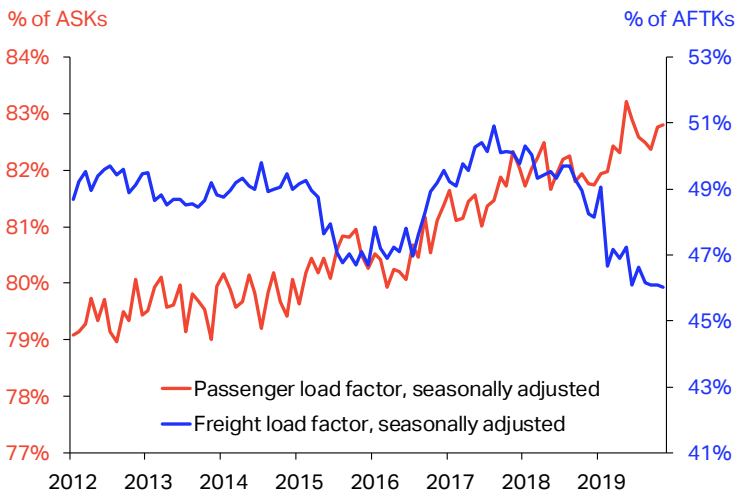
Change in operating fleet (a/c per month)



■ Storage activity ■ Deliveries ■ Other factors — % change in seats m-o-m
Source: Ascend

- Aircraft deliveries increased in December, while deliveries from storage also improved. 185 new aircraft were delivered and 38 added to fleet from storage. As a result, the number of seats in the global airline fleet picked up by 0.9% in December.
- In annual terms, the number of seats increased by 2.4%, a pace broadly in line with the outcomes observed over the past six months but well below the growth rate in 2018 (6.1%).
- Overall, the number of aircraft delivered in 2019 remains lower than that seen over the same period last year (1309 vs 1728).

Passenger and freight load factors remained steady



Source: IATA Monthly Statistics

- The seasonally adjusted passenger load factor was steady at 82.8% in November remaining around historically high levels. Europe, Asia-Pacific and Africa also posted record November highs, while the load factor in the Middle East surged 4.6 pts compared to a year ago to 77.6%.
- Despite some stabilization this month, the seasonally adjusted freight load factor remained well below the levels observed throughout 2017 and 2018, and is down 2.1ppt vs November 2018. Airlines have slowed the pace of capacity growth, but have been unable to match the weakness in air cargo demand.

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21st January 2020

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