

AIRLINES FINANCIAL MONITOR

KEY POINTS

November - December 2014

- Worldwide airline share prices rose 4% in December and are up 40% for the year, helped by the decline in crude oil and jet fuel prices over recent months;
- Crude oil prices halved by the end of 2014 and have fallen a further 17% in January, reflecting the appreciation of the US dollar as well as continued growth in supply;
- Q3 financial results show improvements in the US being partially offset by weakness in other regions;
- US passenger yields remain up on a year ago, but weakness continues in other regions;
- Air freight volumes continue to expand and the trend in air travel growth remains positive, supported by improving economic conditions in the US and strong trade growth in Asia Pacific;
- Growth in available seats accelerated in November, but is still below the pace of growth in demand, which should support aircraft utilization rates;
- Passenger load factors trended sideways in November, but air freight load factors continue to show steady improvement, supported by solid expansion in volumes.

Financial indicators

Global airline shares were up 40% in 2014, helped by declines in crude oil prices

Airline Share Prices

US\$ based index (100 = 2007)



- Worldwide airline shares rose 4% in December compared to November. Airline shares outperformed the broader market, with the FTSE Global All Cap declining 2% in December compared to November. Growth in airline share prices had weakened in Q3 2014 due to a combination of economic slowdown in key regions like the Eurozone and concerns over the spread of the Ebola virus. The sharp increase in airline share prices during the last quarter of 2014 reflects continued decline in crude oil and jet fuel prices. Global airlines shares rose 40% in 2014, driven mostly by US airlines, whose share prices almost doubled (up 95%).

Initial Q3 financial results show US improvement partially offset by weakness elsewhere

In US \$ Million

# Airlines	Regions	Q3 2013		Q3 2014	
		Operating profit	Net post-tax profit	Operating profit	Net post-tax profit
33	North America	5204	3413	7059	3875
21	Asia-Pacific	2780	2317	2648	1648
14	Europe	5246	3583	5064	3531
6	Latin America	622	175	435	-88
4	Others	83	93	124	104
78	Sample total	13935	9581	15330	9070

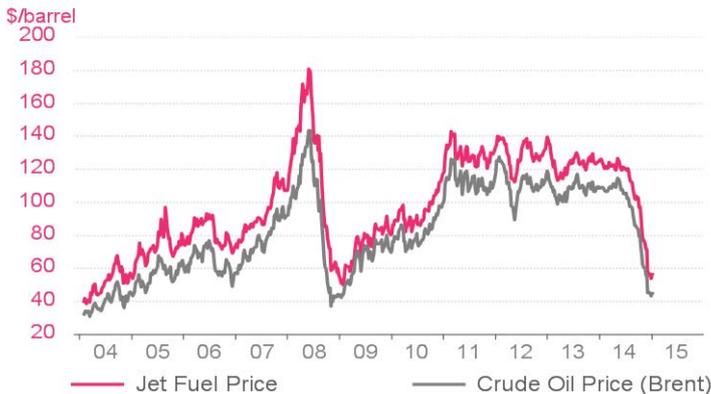
Source: The Airline Analyst, IATA.

- Airlines earn a majority of revenues in Q2 and Q3, so the expectation is for solid results at this time of year. A significant sample of 78 airlines shows that the industry improved financial performance on the year ago period at the operating level. The improvement was driven by the performance of North American airlines. By contrast, weakness in cargo revenues has weighed on regional financial performance in Asia Pacific, as has a slowdown in economic performance in Latin America for carriers registered in that region.

Fuel costs

Crude oil prices halved during 2014, and have continued to fall in the New Year

Jet Fuel and Crude Oil Price



Source: Platts, RBS, Digital Look

- Crude oil prices have come down to \$50/bbl in January, the lowest price seen for the past 6 years. After prices fell by half during 2014, they have declined a further 17% in January compared to the end of last year. Jet fuel prices have followed suit, now sitting at just over \$65/bbl.
- Prices have been falling on the back of continuing growth in global supply, which has been outpacing growth in demand. OPEC has decided not to decrease production, contributing to the supply glut, placing pressure on other key producers like the US to reduce output.

Yields

Passenger yields in the US still up on a year ago, but remain weak in other regions

Average Return Fare Worldwide & US Airlines Yields



Source: IATA, Airlines for America

- The trend in US passenger yields improved in the second quarter and although there has been no further increase over recent months, levels in November are still almost 2% higher compared to a year ago. Underlying demand drivers remain positive, but there could be downward pressure on yields from the decline in fuel related costs.
- 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 increase strongly and air freight demand continues positive trend

Total Air Travel and Air Freight Volumes



Source: IATA

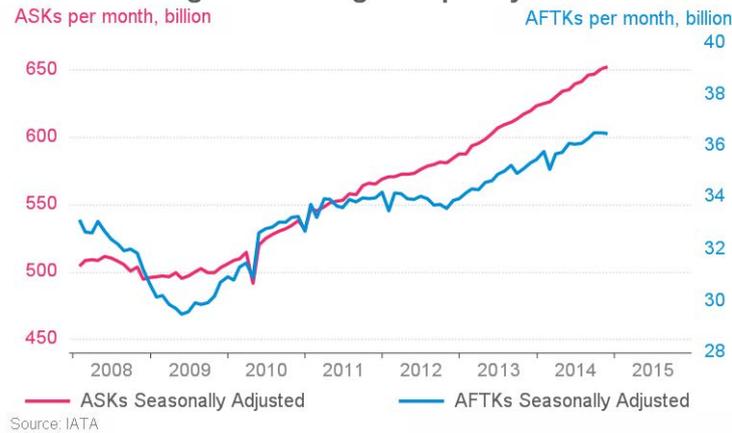
- Air freight volumes increased at a solid pace in November compared to October. Improvements in air freight demand are showing no slowdown, despite some concerns about the health of the global economy. Air freight demand has been driven by Asia Pacific and carriers, with the region seeing solid growth in trade activity for the past several months.
- Air passenger volumes also expanded in November compared to October. The recent easing in business confidence over recent months has adversely impacted international air travel, but domestic markets are seeing strong growth.



Capacity

Air freight capacity remains stable in November as ASKs expand

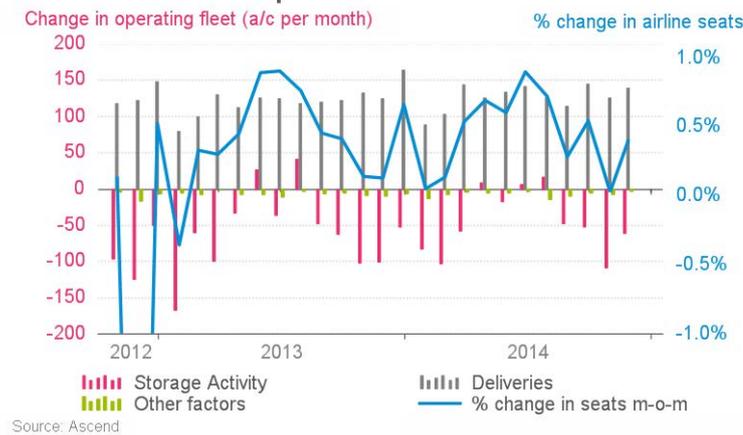
Total Passenger and Freight Capacity



- The strong positive growth in trend in ASKs continued in November with solid expansion in capacity compared to October. Growth in ASKs was particularly strong on domestic markets, with an increase of 0.6% in November compared to October.
- By contrast, air freight capacity was virtually flat in November compared to October, for the second consecutive month. Growth in AFTKs had been positive during 2014; the current pause could be reflecting concerns about the weakening global economy and implications for air freight demand.

Growth in seats picks-up slightly but still below expansion in demand

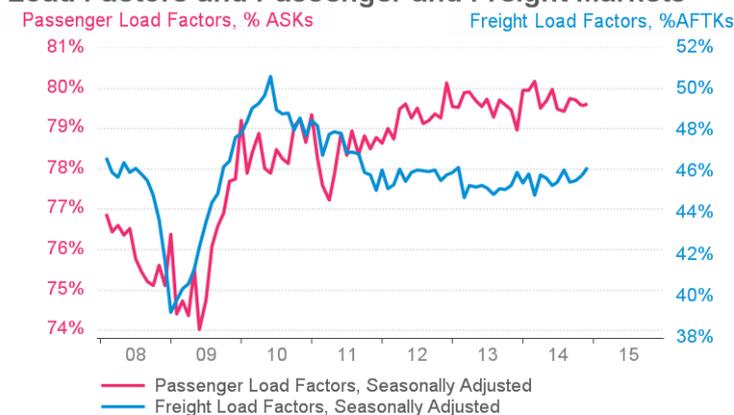
Airline Fleet Development



- Growth in available seats picked-up in November, after stabilizing in October. The acceleration in growth in seats resulted from a decline in net storage activity, as well as a small increase in new aircraft deliveries. In November there were 139 new aircraft delivered compared with 126 new deliveries in October. In addition, 61 aircraft went into storage in November, compared to 101 in October. Growth in seats increased to 3%, but this rate of expansion is still well below the growth in demand, and should provide a boost to aircraft utilization.

Passenger loads trend sideways but air freight loads continue to improve slowly

Load Factors and Passenger and Freight Markets



- Industry load factors remained unchanged in November compared to October. Domestic load factors have been starting to recover some of the ground lost in the first half of 2014, following solid expansion in volumes during recent months. By contrast, international load factors have been declining due to weakness in demand.
- Cargo load factors improved slightly in November, both compared to the previous month and on a year ago. The growth in air freight demand over recent months has supported some improvement in loads, but continued expansion in capacity through the passenger business has kept load factors low at 45%.

Data tables

Year on Year Comparison	Nov 2014 vs. Nov 2013						YTD 2014 vs. YTD 2013					
	RPK	ASK	PLF	FTK	AFTK	FLF	RPK	ASK	PLF	FTK	AFTK	FLF
Africa	-2.3%	-2.7%	65.5%	10.5%	-2.9%	36.3%	0.4%	2.8%	68.3%	6.1%	0.9%	30.5%
Asia/Pacific	7.8%	6.6%	76.3%	5.9%	4.0%	59.0%	6.9%	7.5%	77.2%	5.4%	5.6%	55.4%
Europe	5.5%	4.6%	76.9%	0.9%	2.6%	51.5%	5.9%	5.2%	81.1%	2.0%	2.9%	46.8%
Latin America	6.3%	5.5%	79.8%	-0.7%	-0.5%	46.2%	6.4%	3.8%	79.8%	0.5%	0.4%	41.9%
Middle East	11.2%	13.4%	70.6%	12.9%	17.1%	46.9%	12.5%	11.2%	78.4%	10.7%	10.5%	44.5%
North America	3.0%	2.4%	79.9%	-0.3%	-2.6%	38.3%	2.8%	2.3%	83.7%	2.3%	-0.5%	35.2%
Total Market	6.0%	5.4%	76.7%	4.2%	3.3%	49.6%	5.8%	5.6%	79.8%	4.4%	3.6%	45.6%

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.

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 15th January 2014