IATA

Airlines Financial Monitor

January - February 2020

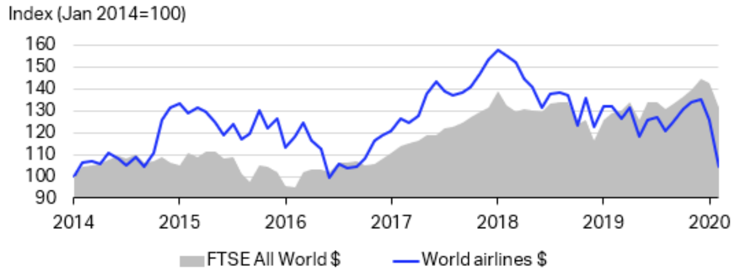
Key points

- The Q4 2019 airline financial data point to a slightly higher industry-wide profitability ahead of the COVID-19 outbreak. In our latest impact assessment published on March 5th, we estimated that the industry might lose up to US$113 bn of passenger revenues. Since then, the situation has deteriorated significantly, and the impact will likely be well beyond that.
- Global airline share prices plummeted in February due to investor concerns about the global spread of the virus. While the Asia Pacific airline index recorded broadly the same fall as in January, the deterioration in the North America and Europe airline indexes accelerated as the COVID-19 outbreak spread to these regions.
- The global oil and jet fuel price collapsed to the levels last seen in 2002-2003. The massive fall has been driven by concerns about the negative impact of COVID-19 on global demand along with the oil price war between Saudi Arabia and Russia.
- Industry-wide passenger and cargo demand both softened in January. Industry-wide capacity growth remained modestly positive on both the passenger and cargo sides, ahead of the brunt of the impact of COVID-19.

Airline shares in Europe and North America hit particularly hard

Airline Share Prices

US$ indices (Jan 2014=100)	Index Feb 28th	% change on one month	one year	start of year
World airlines	**104.5**	**-17.1%**	**-21.0%**	**-22.7%**
Asia Pacific airlines	87.1	-10.8%	-27.0%	-20.7%
European airlines	85.7	-19.2%	-22.5%	-24.3%
North American airlines	129.9	-18.7%	-20.6%	-22.6%
FTSE All World $	**131.1**	**-8.2%**	**+1.9%**	**-9.3%**



Source: Thomson Reuters Datastream

- Airline share prices continued to tumble amidst a new wave of travel restrictions and flight cancellations due to the rapid COVID-19 spread. In February, the global airline share price index fell by 17% month-on-month – more than twice the pace of decline in global equities overall. This was the worst monthly performance since 9/11 and global airline shares index diverged from the SARS episode in the initial period of SARS.
- The Asia Pacific airline index sustained a similar loss in February as in the previous month (~11%). By contrast, the speed of decline in European and North American airline indexes more than tripled (down almost 20% month-on-month) reflecting investor concerns about the spread of the virus outside of the Asia Pacific region and the possibility of COVID-19 becoming a global outbreak.

Industry-wide profitability picked-up ahead of the outbreak

Airline Financial Results

Number of airlines in sample	Regions	Q4 2018 EBIT margin[1]	Q4 2018 Net post-tax profit[2]	Q4 2019 EBIT margin[1]	Q4 2019 Net post-tax profit[2]
13	North America	9.5%	2,773	10.0%	3,427
13	Asia-Pacific	6.0%	721	7.1%	849
9	Europe	3.0%	-202	5.2%	389
7	Latin America	6.1%	393	11.3%	38
3	Others	7.5%	-319	13.4%	58
45	**Sample total**	**7.0%**	**3,366**	**8.4%**	**4,761**

[1]% of revenues [2]US$ million

Sources: The Airline Analyst, IATA

- Airline financial data for the final quarter of 2019 point to a moderate improvement in industry-wide profitability ahead of global disruptions from the coronavirus. The average EBIT margin increased across all regions in Q4 2019 vs Q4 2018 with a solid outcome recorded particularly by European and Asia Pacific carriers.
- Looking ahead, airline profitability is being significantly hit by COVID-19 disruptions. In our impact assessment published in early-March, we estimated a US$113 bn passenger revenue loss in 2020 in the 'Extensive Spread' scenario. However, the situation has deteriorated substantially since then and therefore the impact on industry revenues will be more significant.

New liquidity challenge for airlines in the period ahead...

Airline Cash Flow[1]

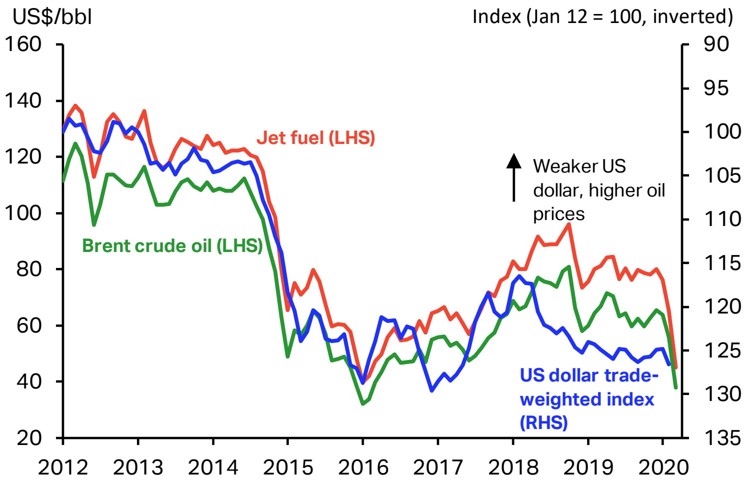
Number of airlines in sample	Regions	Q4 2018 Net cash flow[2]	Q4 2018 Capex	Q4 2018 Free cash flow	Q4 2019 Net cash flow[2]	Q4 2019 Capex	Q4 2019 Free cash flow
10	North America	11.5%	13.8%	-2.3%	9.0%	10.9%	-1.9%
6	Asia-Pacific	2.3%	5.1%	-2.7%	17.8%	10.3%	7.5%
6	Europe	4.1%	10.9%	-6.8%	11.6%	17.7%	-6.1%
2	Latin America	10.3%	17.0%	-6.8%	10.3%	5.7%	4.6%
2	Others	5.6%	19.5%	-13.9%	41.1%	35.3%	5.7%
26	**Sample total**	**9.3%**	**12.7%**	**-3.4%**	**10.3%**	**12.1%**	**-1.8%**

[1]% of revenues [2]From operating activities
Sources: The Airline Analyst, IATA

- The initial sample of 26 airlines indicates improvement in industry-wide net cashflow and moderately lower capital spending in Q4 2019 vs Q4 2018. Despite that, free cashflow (FCF) remained negative, at ~2% of revenues.
- Asia Pacific airlines led the other regions in terms of FCF performance on the back of solid cashflow from operating activities. By contrast, the European carriers underperformed since the cashflow generation was not enough to offset high capital spending.
- As a result of the current extraordinary travel restrictions, many airlines worldwide are under severe cashflow pressure. The limited extent of cash balances means that the industry will need to draw on credit lines or find other means of support during this crisis period, as discussed in our recent note.

Fuel costs

Oil and jet fuel prices hit hard by COVID-19 and oil price war

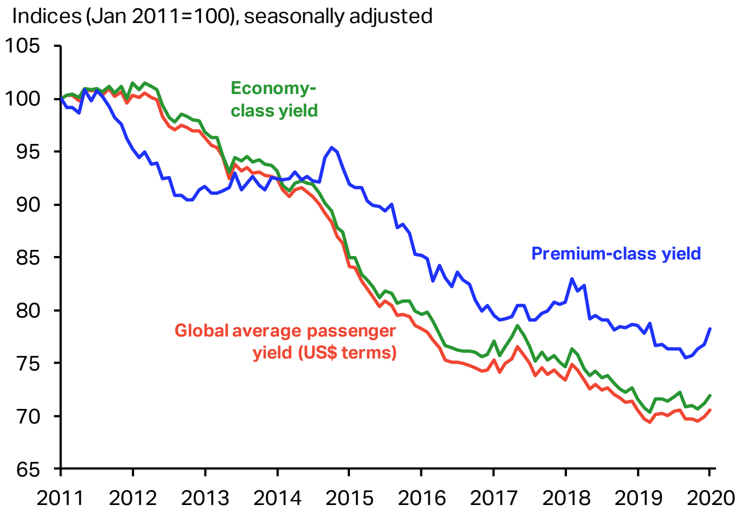


Sources: Platts, Thomson Reuters Datastream, as of March 20th

- The global oil and jet fuel price collapsed to the levels last seen in 2002-2003 amid the COVID-19 crisis, compounded by the oil price war between Saudi Arabia and Russia. At the time of writing this report, the price of Brent crude oil is at ~US$27.5/bbl and the jet fuel price hovers around US$30/bbl, both down about 60% since the start of 2020.
- The jet fuel crack spread has also narrowed significantly (on average US$7.3/bbl in March, down from US$12.3/bbl in January), as the fuel demand from the aviation industry tumbled due the sharp fall in air traffic.
- Many airlines have hedging in place for their 2020 fuel consumption. Although there is a high variation, some of the hedging profiles reach up to 90% of the fuel consumption. Hence, the impact of these low prices could be delayed for some airlines.

Yields and premium revenues

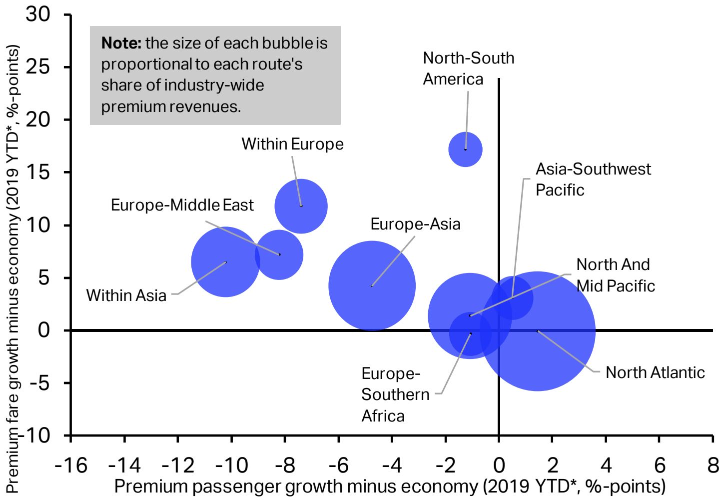
Global passenger yields ticked sharply higher



Sources: IATA Economics, DDS

- Global base passenger yields (denominated in US$, excluding surcharges and ancillary revenues) increased for the fourth consecutive month and are currently at levels last seen in early-2019 amid a rise in both economy and premium class yields.
- A sharp uptick (1.5% m-o-m) in January is likely to be reversed in February as business travel impacted by the COVID-19 outbreak.
- Also, passenger load factors are expected to fall despite the significant capacity adjustments of airlines. The upcoming February data will allow us to better understand how this situation plays out.

In 2019, premium-class pax share fell but revenue share lifted compared to 2018



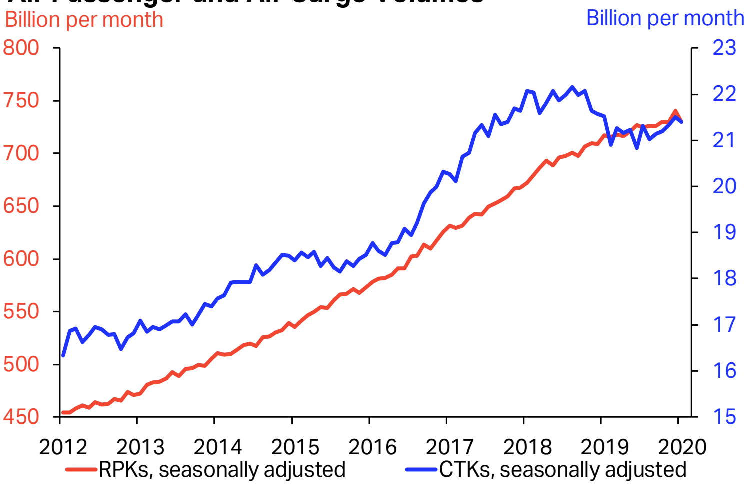
Sources: IATA Economics, DIIO *Calendar year 2019

- In 2019 as a whole (latest available data), premium-class passengers accounted for an even 5.0% of all the international origin-destination traffic, down a modest 0.2 ppt compared to the full year 2018.
- In terms of revenue, premium-class passengers accounted for 30.5% of total international passenger revenues in 2019, up 0.5 ppt from the year before.
- In 2019, premium passenger growth outperformed its economy counterpart only in the North Atlantic and Asia-Southwest Pacific markets, as trade wars and soft business confidence took their toll on business travel. On the revenue side, premium-class fares outperformed economy-class fares on most markets, notably in the smaller North-South America and Within Europe markets.

Demand

Passenger and cargo traffic growth softens ahead of brunt of COVID-19 impact

Air Passenger and Air Cargo Volumes



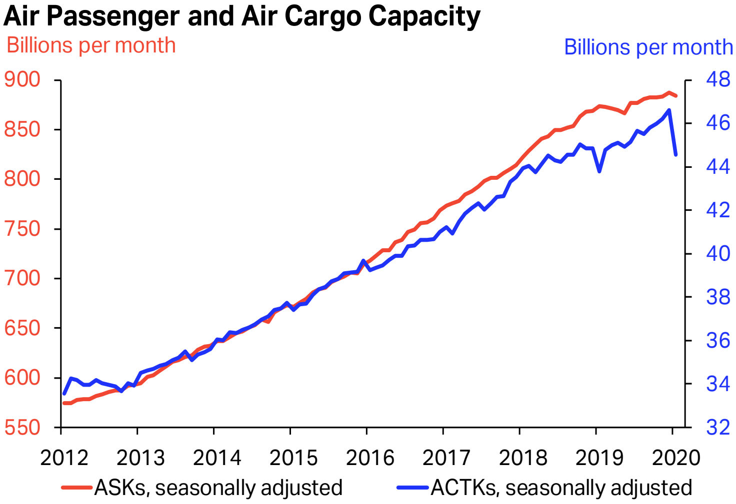
Source: IATA Monthly Statistics

- Growth in industry-wide revenue passenger kilometres (RPKs) slowed to 2.4% year-on-year in January, the weakest outcome since April 2010. In seasonally adjusted (SA) terms, RPKs eased in January, thus unwinding the pick-up observed in December.
- Industry-wide cargo tonne kilometres (CTKs) shrunk 3.3% annually. SA cargo volumes also ticked down, driven by softer performance from European and Middle Eastern carriers. The disruptions from the coronavirus started in the final week of January at the period when offices and factories in China – the original epicentre of the virus – were closed due to the holiday period. As a result, the impact of the virus on CTKs did not materialize immediately.

Capacity

Capacity slowed in January, with cargo supply growth turning negative in Europe

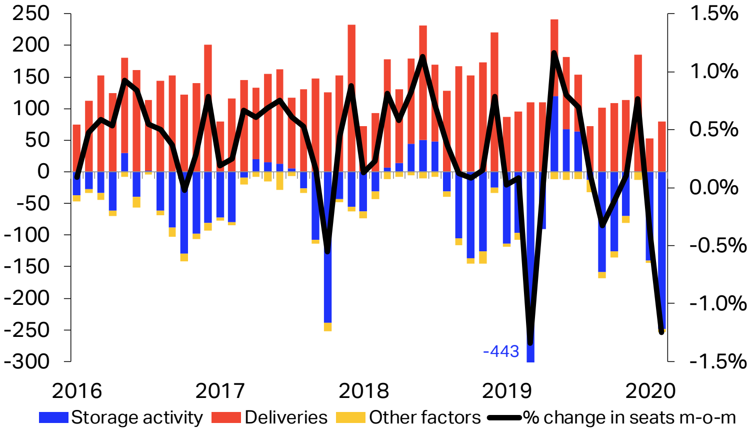
Air Passenger and Air Cargo Capacity



Source: IATA Monthly Statistics

- In January, industry-wide available seat kilometres (ASKs) lifted 1.7% compared to January 2019, the slowest outcome since early 2013. Industry-wide available cargo tonne kilometres (ACTKs) grew 0.9% year-on-year, and Europe was the only region where airlines reduced capacity (-3.0%).
- In seasonally adjusted terms, passenger capacity eased moderately in January. Nevertheless, the modest growth trend which started in early 2019 has been maintained.
- While the disruption due to COVID-19 was not reflected in January passenger capacity data, SA ACTKs appear to have fallen in January. The volatility due to the timing of Lunar New Year – and its extension – have played a role.

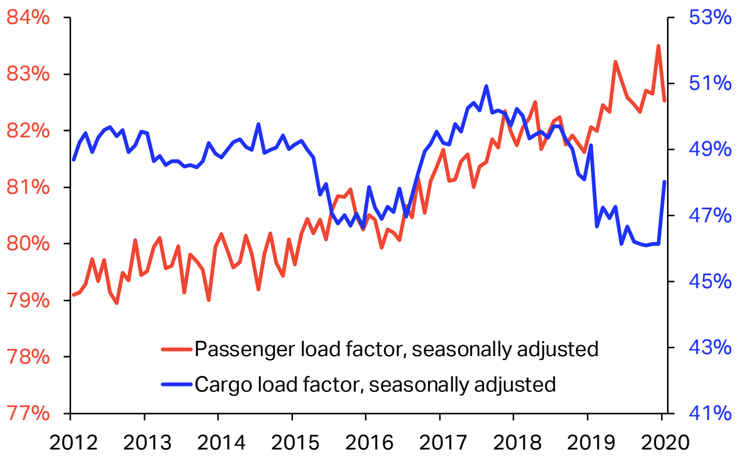
Weak storage activity and seat growth underlines the impact of COVID-19



Source: Ascend

- In February 2020, the extension of flight cancellations and Coronavirus containment measures drove the industry-wide number of seats down 1.3% month-on-month (0.1% year-on-year), the weakest outcome since the 737 MAX grounding in March 2019.
- 79 aircraft were delivered in February, higher than the month before (53), but a slight decrease over the 95 deliveries recorded in February 2019.
- The impact of COVID-19 was also apparent in net storage activity, as 130 aircraft returned to the global fleet from storage while 378 aircraft left the fleet. All in all, net storage activity (-248 aircraft) was the most negative since March 2019, due to the evaporated demand for air transport.

Different demand and supply interactions for passenger and cargo load factors



Source: IATA Monthly Statistics

- In January, the industry-wide passenger load factor rose 0.6 ppt versus the same month a year ago, to 80.3%. There were diverging outcomes in the regions, with load factors diminishing in Africa and Asia Pacific, but lifting 3.9 ppts in the Middle East. In SA terms, the passenger load factor fell sharply (by roughly 1 ppt) from the record-high peak seen in December.
- This contrasts with the industry-wide cargo load factor, which contracted 1.9 ppts year-on-year in January, driven by most of the regions – Africa being the only region to post rising load factors (0.3 ppt). Having said that, the seasonally adjusted cargo load factor appears to have soared in January, driven by the strong fall in SA cargo capacity and the relative resilience of SA cargo demand.

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Get the data

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www.iata.org/monthly-traffic-statistics

20-year passenger forecasts

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