

AIRLINES FINANCIAL MONITOR

KEY POINTS

January-February 2015

- Worldwide airline share prices fell 3% in February as crude oil prices rebounded from January lows;
- After falling more than 50% by the end of 2014, crude oil prices have rebounded to \$60/bbl;
- Q4 financial results show continued gains in the US and signs of a positive turn-around in Asia Pacific;
- Passenger yields in the US resume sideways trend as fares in other regions fall further;
- Air transport volumes weakened in January, but within normal month-to-month volatility;
- Notably, though, the demand backdrop continues to show presence of downside risks, including easing business confidence and falling exports orders;
- Growth in available seats decelerated in January, but still expanded at a positive 2-3% annualized rate, in excess of the contraction in volumes;
- Passenger and freight loads fell in January compared to December, reflecting the fall in volumes and continued growth in international market capacity.

Financial indicators

Airline share prices weaken as crude oil prices rebounded from January lows

Airline Share Prices

US\$ based index (100 = 2007)



- Airlines share prices fell 3% in February compared to January, underperforming the broader market. The FTSE Global All Cap rose 5% in February compared to January. Airline shares had increased 40% in 2014, helped partly by falling energy prices in the latter months of the year. The weakening in the trend for airline share prices is likely a result of the recent rally in crude oil and jet fuel prices. The slight rebound in fuel prices has reduced investor optimism about the outlook for airline financial performance. Airline share prices weakened in all regions.

Q4 financial results show strong operating improvement in North America and Asia Pacific

In US \$ Million

# Airlines	Regions	Q4 2013		Q4 2014	
		Operating profit	Net post-tax profit	Operating profit	Net post-tax profit
15	North America	2466	1714	3883	424
15	Asia-Pacific	746	255	1632	502
8	Europe	54	-1628	206	667
4	Latin America	272	203	314	235
3	Others	42	52	22	30
45	Sample total	3580	596	6057	1858

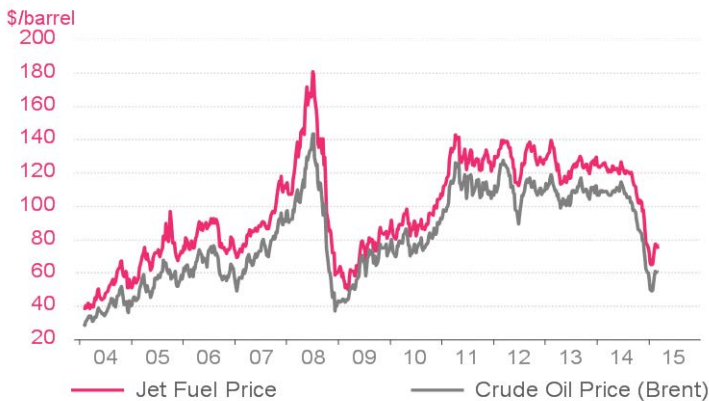
Source: The Airline Analyst, IATA.

- Airline financial performance continues to improve, according to initial Q4 financial results. A sample of 45 airlines shows that the industry financial performance improved significantly on the year ago period at the operating level. The increase was driven by North American airlines, where consolidation and cost cutting has resulted in a significant boost to profitability. Net profits for North American carriers were down on a year ago due to significant fuel hedge losses for Delta Air Lines. Asia Pacific airlines are starting to show signs of improvement on a year ago, reflecting a combination of stronger demand and efficiency gains by some carriers.

Fuel costs

Crude oil price rally pauses at \$60/bbl in March

Jet Fuel and Crude Oil Price



- Crude oil prices had fallen below \$50/bbl in January, the lowest price seen for the past 6 years. Jet fuel prices had followed suit, dropping below \$65/bbl. There was a partial rebound in crude oil prices in February, with the rally stabilizing at \$60/bbl in March.
- The recent increase in oil prices has come as a result of change in supply and demand conditions. On the supply side, there was a disruption to production at an oilfield in Libya. While in China, a central bank decision to inject liquidity into the economy is expected to boost demand for crude oil products.

Yields

Passenger yields in the US resumed flat trend as fares elsewhere declined sharply

Average Return Fare Worldwide & US Airlines Yields

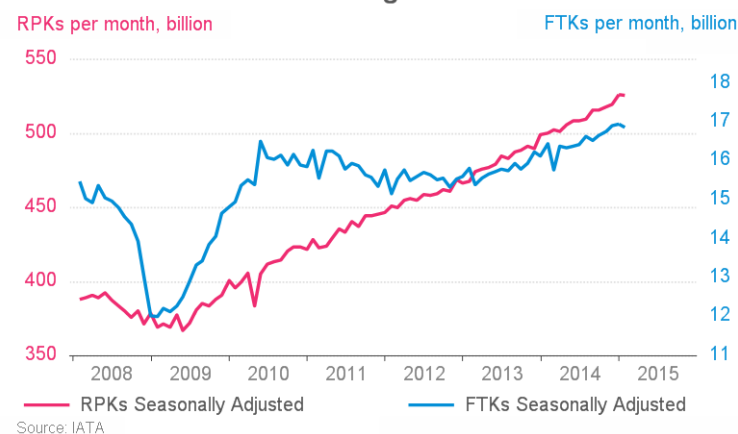


- US passenger yields have resumed a sideways trend, after signs of a pick-up in Q4 2014. The trend in US passenger yields has been broadly flat for the past 12 months. Moreover, there are no signs of notable downward pressure on yields from the decline in fuel related costs.
- By contrast, the downward trend in global fares in US\$ has continued. The fare data excludes fuel surcharges and ancillary revenues. The trend in global fares would partly reflect exchange rate distortions, but likely also is showing the impacts of falling fuel costs.

Demand

Air transport volumes weakened in January, but within normal month-to-month volatility

Total Air Travel and Air Freight Volumes



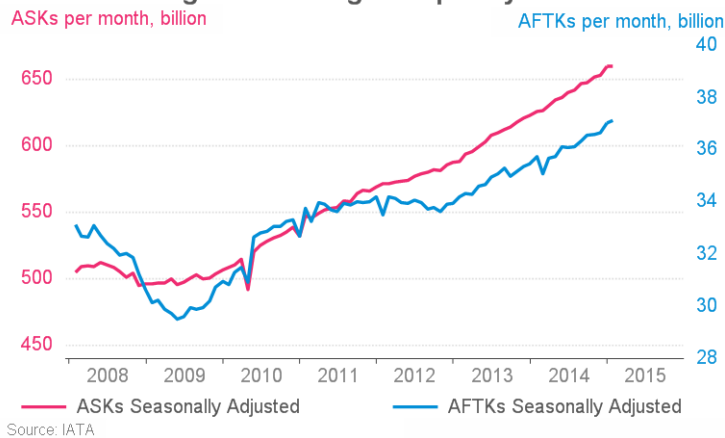
- Air transport volumes contracted slightly in January compared to December. But the fall in volumes was within the bounds of normal month-to-month volatility, so the January result alone does not indicate weakness in the growth trends. Passenger markets may be showing some bias from the timing of the Chinese New Year holiday.
- It is important to note, however, that the demand backdrop shows signs of weakness. Concerns have been rising about the health of the global economy, with further easing in business confidence and declines in export orders which point to future weakness in trade.



Capacity

Capacity trend moderates in both businesses in response to fall in volumes

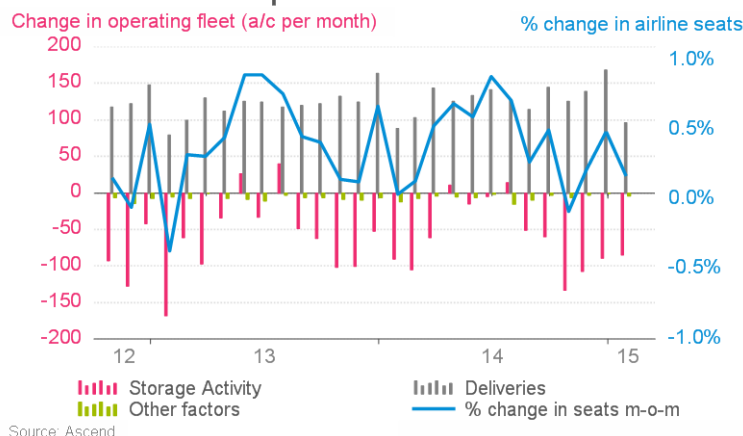
Total Passenger and Freight Capacity



- ➔ The positive growth trend in ASKs moderated in January with no change in capacity compared to December. Although capacity expanded on international travel – in fact for carriers in all regions except in North America – there was a notable contraction on domestic markets.
- ➔ Air freight capacity increased slightly in January, but at a moderated rate compared to the 2014 year-end expansion. The slowdown in capacity came mostly from a contraction in AFTKs carried by North American airlines..

Positive trend in seats growth reversed in January, but did not offset weakness in volumes

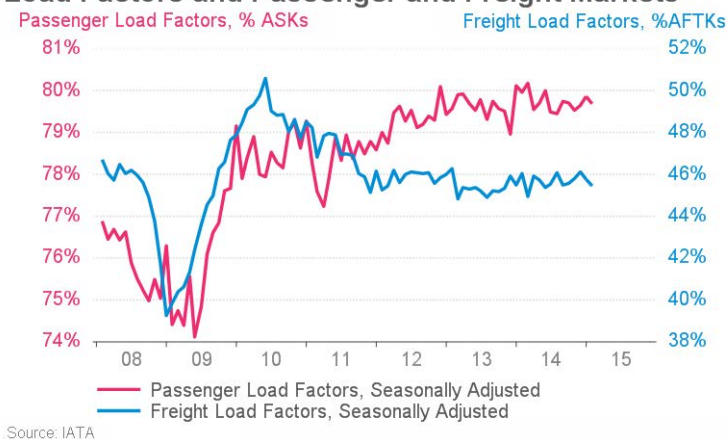
Airline Fleet Development



- ➔ Growth in available seats reversed in January. The deceleration in growth in seats resulted from a decline in new aircraft deliveries and a fall in aircraft coming out of storage. In December there were 168 new aircraft delivered compared with 96 new deliveries in January. In addition, 102 aircraft came out of storage in December, compared to 23 fewer (79) in January. Growth in seats fell, but still expanded at a positive 2-3% annualized rate, in excess of the contraction in volumes.

Air freight and passenger loads declined in January, continuing sideways trend

Load Factors and Passenger and Freight Markets



- ➔ Air passenger load factors slipped in January compared to December, extending the sideways trend seen throughout 2014. But trends have shown some divergence between the domestic and international businesses. Domestic load factors have shown improvement since mid-2014, supported by stronger growth in volumes. By contrast, international load factors have shown a slightly declining trend during the past 6 months.
- ➔ Cargo load factors fell slightly in January. 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 just over 45%.

Data tables

Year on Year Comparison	Jan 2015 vs. Jan 2014						2014 vs. 2013					
	RPK	ASK	PLF	FTK	AFTK	FLF	RPK	ASK	PLF	FTK	AFTK	FLF
Africa	-0.9%	0.4%	68.1%	5.2%	2.4%	27.8%	0.3%	2.5%	68.4%	6.7%	0.9%	30.7%
Asia/Pacific	4.2%	5.0%	76.8%	6.9%	5.4%	51.7%	7.1%	7.5%	77.2%	5.4%	5.7%	55.4%
Europe	4.9%	4.3%	76.6%	-1.2%	3.6%	43.4%	5.8%	5.2%	80.8%	2.0%	3.0%	46.9%
Latin America	5.6%	4.0%	81.9%	-6.4%	-2.0%	36.5%	6.4%	4.1%	79.8%	0.1%	0.3%	41.8%
Middle East	10.8%	12.6%	80.0%	9.2%	18.1%	38.6%	12.6%	11.5%	78.4%	11.0%	11.1%	44.5%
North America	2.6%	4.4%	79.4%	-1.0%	-2.8%	35.0%	2.7%	2.4%	83.6%	2.4%	-0.5%	35.3%
Total Market	4.6%	5.2%	77.7%	3.2%	4.1%	42.8%	5.9%	5.6%	79.7%	4.5%	3.7%	45.7%

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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13th March 2015