

# AIRLINES FINANCIAL MONITOR

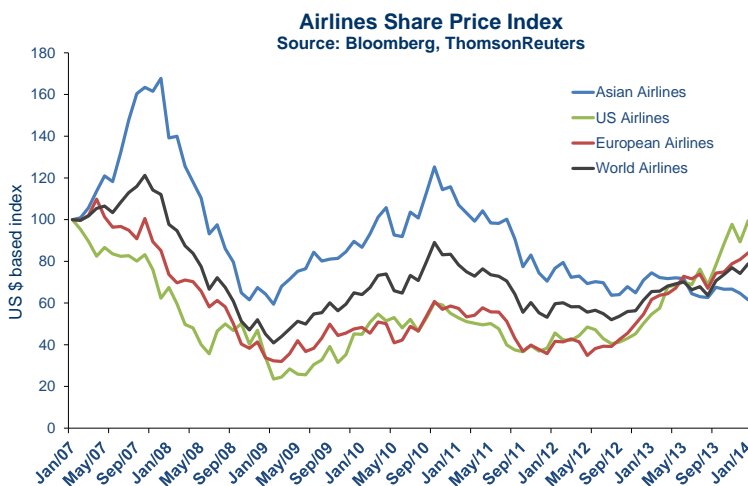
## KEY POINTS

December-January 2014

- ✦ Airline shares gained 6% in January compared to December, outperforming the broader market which fell 4%;
- ✦ Airlines shares were unaffected by emerging market turmoil, buoyed by solid financial performance and lower fuel prices;
- ✦ Initial Q4 financial results show sustained improvement in profits, driven by performance of US airlines;
- ✦ Jet fuel prices eased in January, but remain within 3 year range supported by improving demand for crude oil;
- ✦ US passenger yields are stable on a year ago despite Q4 moderation, but weakness continues in other regions;
- ✦ Air freight markets improved in 2013 as business confidence and world trade picked-up, and passenger travel sustained growth at the solid 30-year growth trend (%5+), reflecting strong performance of emerging markets;
- ✦ Growth in available seats rose strongly in December, as new deliveries and stored aircraft entered the fleet;
- ✦ But passenger load factors rebounded as a result of a fast expansion in volumes, rising above 79%, globally;
- ✦ Air freight loads paused their recent improvement, but remain at 2013-highs despite being barely above 45%.

## Financial indicators

### Airline shares gained in January, outperforming the broader market



- ✦ Worldwide airline shares rose 6% in January compared to December, supported by solid financial performance and a slight easing in fuel prices. The gain bucked the broader market, with the FTSE Global All Cap falling 4%, affected by the emerging market sell-off. Regionally, airline share prices increased in the US and Europe, but continue to weaken in Asia Pacific. US airline shares were up 11% over the month, while Asia Pacific fell 5%. The divergence reflects developments in financial performance, with US airlines showing significant improvements as Asia Pacific carriers continue to underperform on a year ago.

### Initial Q4 financial results show continued gains in profitability, driven by the US

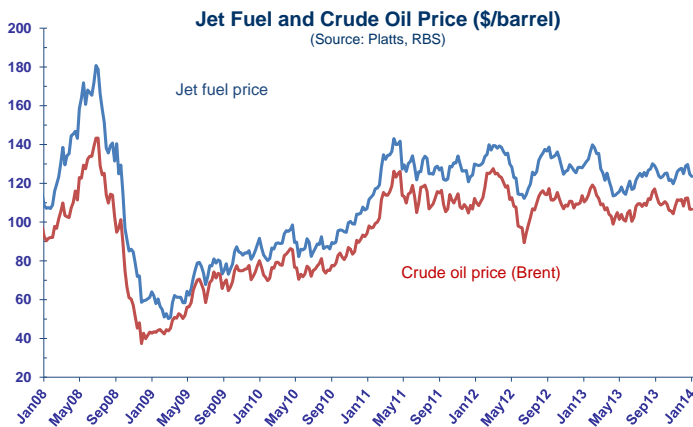
In US \$ Million					
# Airlines		Q4 2012		Q4 2013	
		Operating profit	Net post-tax profit	Operating profit	Net post-tax profit
7	North America*	455	-164	1641	1395
5	Asia-Pacific	1111	931	781	433
1	Europe	45	23	-31	-48
0	Latin America	0	0	0	0
0	Others	0	0	0	0
13	<b>Sample total</b>	1611	790	2391	1780

\*Excluding \$2.2b reorganization items from AMR

- ✦ Initial Q4 financial results indicate that airlines are continuing to improve financial performance. The small sample of 13 airlines shows both operating and net profits are up overall compared to the year ago period, driven by the performance of North American airlines. By contrast, these early results indicate continued weakness in Asia Pacific, where airlines continue to be hampered by cargo market weakness.

## Fuel costs

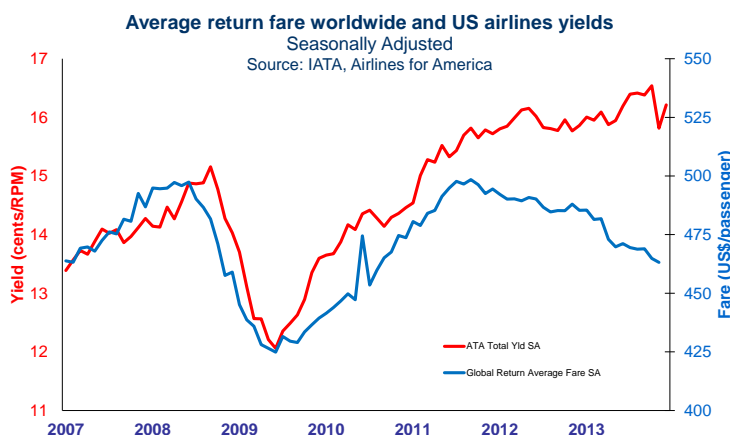
### Jet fuel prices ease slightly in New Year but remain within range of past 3 years



- Jet fuel prices eased slightly in early January, falling 4% compared to December, but remain well within the high range of the past 3 years. Jet fuel prices have been trending in a tight and high band since early 2011, averaging \$127 during the period.
- Barring any significant changes to crude oil supply, current market conditions suggest significant easing in prices could be unlikely. Given that economic contraction in Europe is easing, growth in the US appears to be picking-up and Chinese exports are growing once again, demand conditions could support high crude oil price levels.

## Yields

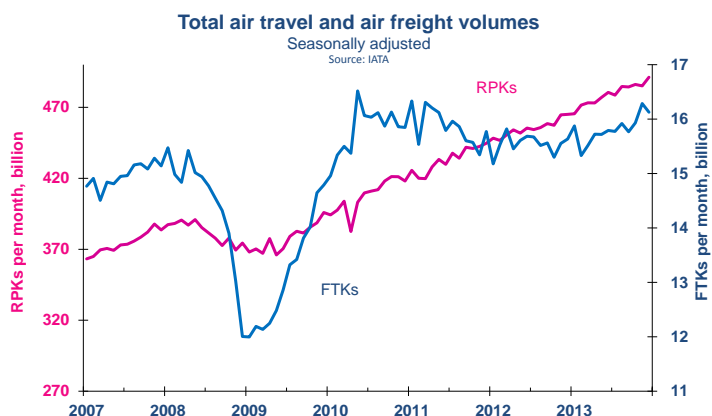
### Passenger yields moderated in the US in Q4, and remain weak in other regions



- The trend in US passenger yields moderated in Q4, after showing signs of a pick-up in the second half of 2013. Sustained growth in demand and industry consolidation have provided support to US yields, which are still stable compared to year ago levels.
- By contrast, the weak trend in global fares in US\$ appears to be 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

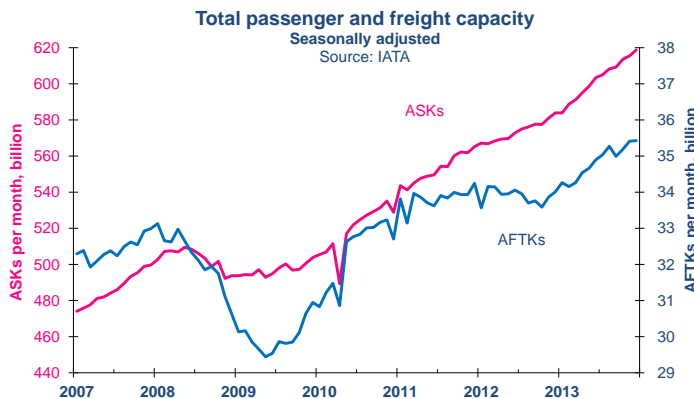
### Freight markets improved in 2013 as passenger travel maintained long-term trend



- Air freight markets expanded 1.8% in 2013, an improvement on the 2012 contraction. Growth in FTKs was supported by a better business environment as well as acceleration in world trade in toward the end of the year.
- Growth in air travel volumes showed a steady increase throughout much of the year, leading to an increase of 5.2% in 2013. This rate of increase is in line with the 30 year average, and has come in the face of high fuel costs and slow global growth. Much of the solid performance was driven by growth in emerging market regions.

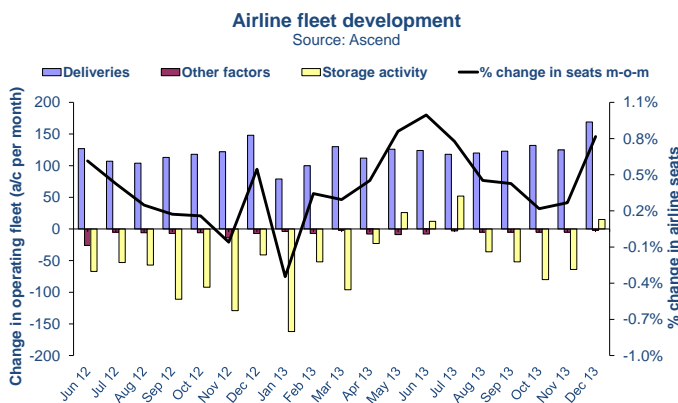
## Capacity

### AFTKs were stable in December as ASKs continued steady expansion



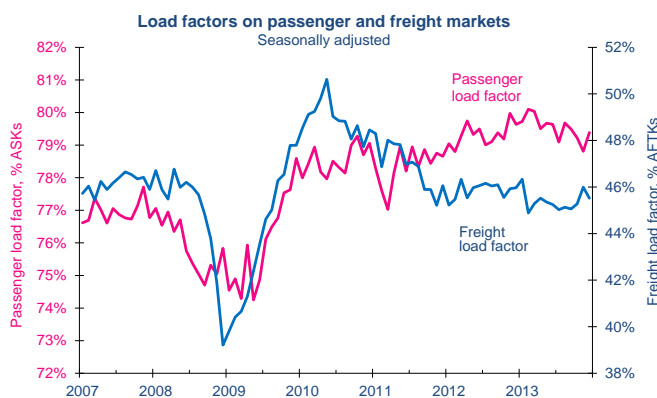
➤ Growth in capacity picked up slightly in December compared to November, resuming the positive trend in ASK growth seen throughout the year. Passenger capacity increased 0.6% in December month-on-month, an acceleration on the previous month but still ahead of demand. Freight capacity growth stabilized in December, with no increase compared to November. Stability in AFTK growth has helped limit further decline in load factors.

### Growth in seats increased strongly as new and stored aircraft were added to the fleet



➤ Growth in available seats accelerated in December compared to November. Growth in seats has been increasing since the end of Q3, reflecting a rise in new deliveries as well as aircraft coming out of storage. In December, 169 new aircraft were delivered and a net 15 aircraft came out of storage. Growth in seats in December has increased to near double-digit growth. But there was also a strong expansion in volumes in December compared to November, which should help sustain aircraft utilization rates.

### Passenger load factors stabilized as freight load factor improvement paused



➤ Passenger load factors rebounded in December compared to November, supported by a strong rise in demand. Load factors had been showing weakness throughout much of the year as a result of strong growth in capacity, but levels remain high and after the December rebound are above 79% on a seasonally adjusted basis.

➤ Recent improvements in air freight load factors moderated in December, but levels are still the highest they have been during all of 2013. The recent improvement in load factors has been supported by stronger demand. Overall however, levels are low and barely above 45%.

## Data tables

Year on Year Comparison	Dec 2013 vs. Dec 2012						YTD 2013 vs. YTD 2012					
	RPK	ASK	PLF	FTK	AFTK	FLF	RPK	ASK	PLF	FTK	AFTK	FLF
Africa	1.3%	2.5%	70.3%	1.7%	1.0%	31.3%	5.1%	4.5%	69.9%	1.0%	6.6%	29.0%
Asia/Pacific	6.3%	8.2%	76.2%	-0.3%	5.0%	55.8%	7.1%	7.1%	77.6%	-1.0%	0.8%	55.5%
Europe	5.2%	4.4%	77.3%	2.9%	2.7%	49.5%	3.8%	2.7%	80.2%	1.8%	2.2%	47.5%
Latin America	7.1%	4.1%	79.1%	-5.0%	-2.4%	42.9%	6.3%	4.5%	78.0%	2.4%	1.8%	41.9%
Middle East	13.2%	13.2%	77.9%	13.0%	12.5%	45.4%	11.4%	12.0%	77.6%	12.8%	11.8%	44.5%
North America	6.5%	3.1%	84.5%	-0.5%	0.0%	35.0%	2.3%	2.0%	83.4%	-0.4%	0.9%	34.3%
<b>Total Market</b>	<b>6.6%</b>	<b>6.0%</b>	<b>78.7%</b>	<b>1.8%</b>	<b>3.6%</b>	<b>46.3%</b>	<b>5.2%</b>	<b>4.8%</b>	<b>79.5%</b>	<b>1.4%</b>	<b>2.6%</b>	<b>45.3%</b>

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.

**AIRLINE INDUSTRY FORECAST 2013 - 2017**  
 Predict demand patterns & minimize investment risk

[www.iata.org/forecast](http://www.iata.org/forecast)



**IATA Economics**  
 11<sup>th</sup> February 2014