

# Airlines Financial Monitor

May–June 2019

## Key points

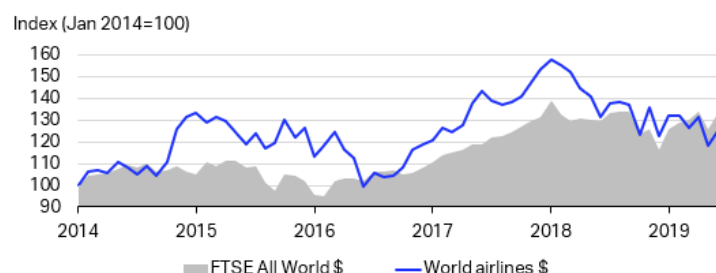
- While the initial releases for Q2 2019 raise the prospects of an improved earnings outlook in North America, the final overall industry financial results for Q1 2019 show that airline profitability deteriorated compared to the same quarter a year ago.
- Global airline share prices rebounded in June, driven by the outperformance of North American airline shares. Expectations of robust passenger demand and higher profit were the main catalysts for this gain, with the performance of other regions lagging.
- Global passenger yields rose in April for the first time in the last four months with the support of economy class yields. However, the fragile global economic backdrop leaves us cautious on the sustainability of this improvement in coming months.
- In seasonally adjusted (SA) terms, both industry-wide revenue passenger kilometres (RPKs) and freight tonne kilometres (FTKs) continued to increase in May. However, the underlying annual growth trend for both remains weak.

## Financial indicators

Airline shares rebound strongly in June, in line with the rise in global equities

### Airline Share Prices

US\$ indices (Jan 2014=100)	Index Jun 28th	% change on		
		one month	one year	start of year
<b>World airlines</b>	<b>125.6</b>	<b>+6.0%</b>	<b>-4.6%</b>	<b>+2.3%</b>
Asia Pacific airlines	108.4	+1.5%	-9.0%	-2.2%
European airlines	87.8	+4.0%	-30.4%	-14.4%
North American airlines	165.3	+10.8%	+6.1%	+8.0%
<b>FTSE All World \$</b>	<b>133.7</b>	<b>+6.3%</b>	<b>+3.5%</b>	<b>+14.7%</b>



Source: Thomson Reuters Datastream

- Global airline share prices recovered in June, increasing by 6.0% following the sharp fall (-10.0%) in May. Since the beginning of the year, the global airline share prices have risen by 2.3%, lagging the wider global equity markets by some margin (+14.7%).
- In June, the North American airline index was the best performer among all regions. Strong passenger demand and higher profit expectations were the main catalysts behind this outperformance despite the ongoing concerns of the extension of the Max 737 groundings.
- On the other hand, European airlines continued to underperform the global equity index despite robust traffic volumes. Similarly, downward pressure on passenger yields together with weaker cargo demand is impacting both profitability and the equity market performance for Asia Pacific airlines.

Final Q1 data confirmed decline in EBIT margin, led by European airlines

### Airline Financial Results

Number of airlines in sample	Regions	Q1 2018		Q1 2019	
		EBIT margin <sup>1</sup>	Net post-tax profit <sup>2</sup>	EBIT margin <sup>1</sup>	Net post-tax profit <sup>2</sup>
30	North America	6.4%	3,158	6.5%	2,853
25	Asia-Pacific	3.9%	964	5.1%	1,081
14	Europe	1.8%	158	-5.3%	-1,919
8	Latin America	7.9%	247	4.1%	-132
4	Others	3.1%	167	1.1%	35
<b>81</b>	<b>Sample total</b>	<b>4.6%</b>	<b>4,694</b>	<b>2.9%</b>	<b>1,918</b>

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

- Q2 2019 began with better than expected profit figures and raised the prospects for earnings outlook in North America. On the other hand, our final sample of 81 airlines for Q1 2019 confirms the industry-wide decline in profitability, with clear differences at regional level.
- While profitability declined in Europe and Latin America with falling unit revenues and rising costs vs a year ago, North America (excluding the one-off gains in Q1 2018) and Asia-Pacific regions recorded an increase in profitability. The EBIT margin improved in Asia Pacific amidst growing revenues and relatively stable operating costs. In North America the EBIT margin remained almost unchanged (6.5%) as the growth in revenues was in parallel to the rise in operating costs.

## Higher net cash flow generation supported improvement in free cash flow

### Airline Cash Flow<sup>1</sup>

Number of airlines in sample	Regions	Q1 2018			Q1 2019		
		Net cash flow <sup>2</sup>	Capex	Free cash flow	Net cash flow <sup>2</sup>	Capex	Free cash flow
14	North America	19.2%	12.4%	6.7%	22.8%	14.2%	8.6%
20	Asia-Pacific	11.3%	12.1%	-0.8%	17.2%	9.6%	7.6%
12	Europe	22.4%	16.0%	6.3%	21.0%	17.5%	3.5%
6	Latin America	6.1%	7.0%	-1.0%	7.0%	6.1%	0.9%
3	Others	13.9%	10.7%	3.2%	10.3%	13.8%	-3.4%
<b>55</b>	<b>Sample total</b>	<b>17.4%</b>	<b>12.9%</b>	<b>4.5%</b>	<b>19.5%</b>	<b>13.7%</b>	<b>5.9%</b>

<sup>1</sup>% of revenues

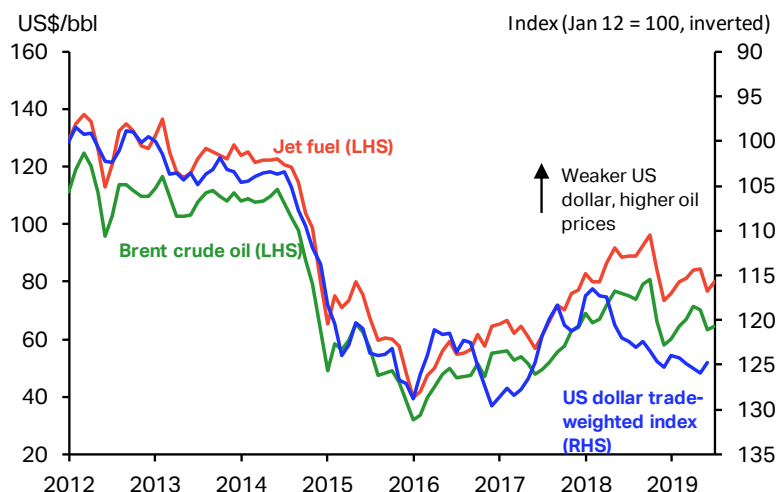
<sup>2</sup>From operating activities

Sources: The Airline Analyst, IATA

- The final Q1 2019 data for the sample of 55 airlines showed improvement in industry-wide net cash flow and free cash flow (FCF) compared with a year ago.
- Industry-wide free cash flow (FCF) improved from 4.5% of revenues in Q1 2018 to 5.9% in Q1 2019. This result was driven by the increase in net cash flow from operations, which more than offset a modest lift in capital expenditures.
- The industry-wide outcome continued to hide differences in the performance at the regional level. The biggest turnaround in FCF was achieved in Asia Pacific with higher cash flow operations driven by improved profitability and lower investment. In North America, FCF generation increased with the support of solid profit and seasonal cash build-up despite higher capital spending.

## Fuel costs

### Brent oil and jet fuel prices recovered in June

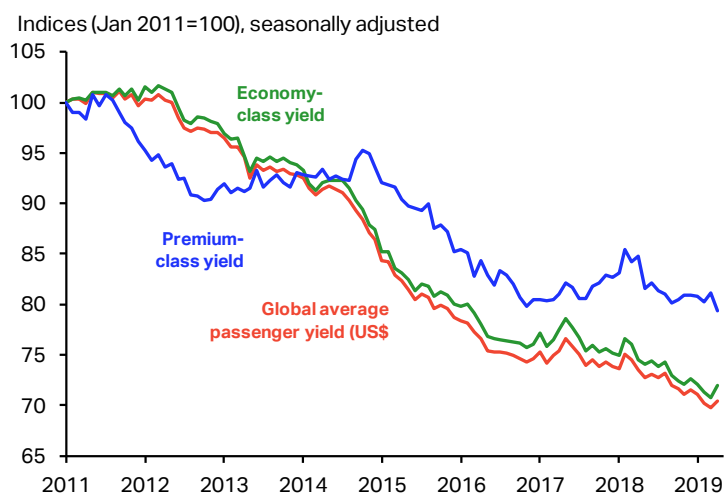


Sources: Platts, Thomson Reuters Datastream, as of July 12<sup>th</sup>

- Following a temporary fall with the signs of slower economic growth at the beginning of June, Brent crude oil and jet fuel prices subsequently recovered amid concerns related to tighter oil supply conditions arising from elevated geopolitical risks.
- At the time of writing this report, the price of Brent crude oil hovers around US\$65/bbl and the jet fuel reached US\$80/bbl, 8% higher compared to the prior month. For more data on oil price developments, check out our weekly [Jet Fuel Price Monitor](#).
- Even though oil prices fluctuate with supply risks, lower global economic growth is expected to put downward pressure on oil demand.

## Yields and premium revenues

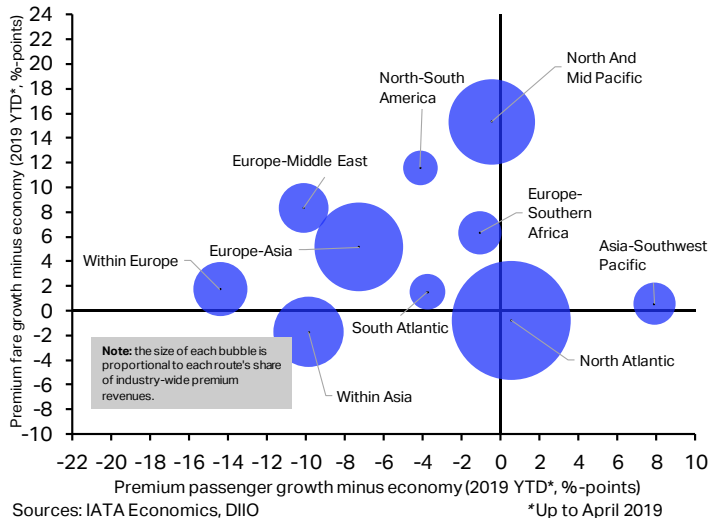
### Economy passenger yields picked up in April



Sources: IATA Economics, IATA Travel Intelligence

- Global passenger yields (excluding surcharges and the revenue that airlines generate from ancillary services) rose in April for the first time in the last four months with the support of economy class yields. As airlines were able to reflect some cost increases on the back of relatively stable passenger demand, economy class yields lifted month-on-month by 1.3%, which is the highest monthly increase seen since February 2018.
- On the other hand, the less price sensitive premium cabin yields fell by 1.7% compared to the prior month. Global average passenger yields in US\$ terms were still 4.3% below their level compared to a year ago. As global economic growth prospects are being revised down, industry-wide passenger yields could be expected to remain under pressure.

## Share of international premium revenue increased

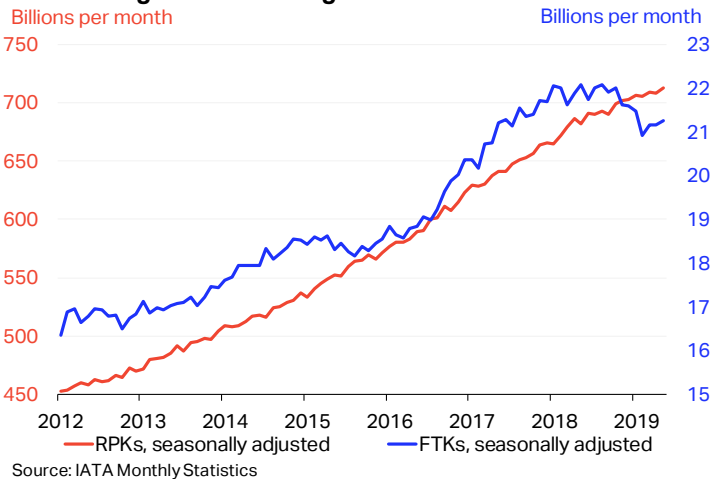


- Premium-class passengers accounted for 4.0% of total international origin-destination traffic in the first four months of 2019, slightly below the 4.1% result of a year ago. On the other hand, revenues from premium-class passengers improved by 0.3 percentage points to 27.4% of total international passenger revenues.
- Premium passenger traffic growth has outperformed its economy counterparts only in the North Atlantic and Asia-Southwest Pacific regions. Nevertheless, in the North Atlantic, which is the largest premium market in terms of revenue, premium class fare growth lagged its economy counterpart. Within Asia was the only one of the key regions where both premium class passenger and fare growth were below economy class.

## Demand

### Air passenger and freight demand continued to recover

#### Air Passenger and Air Freight Volumes

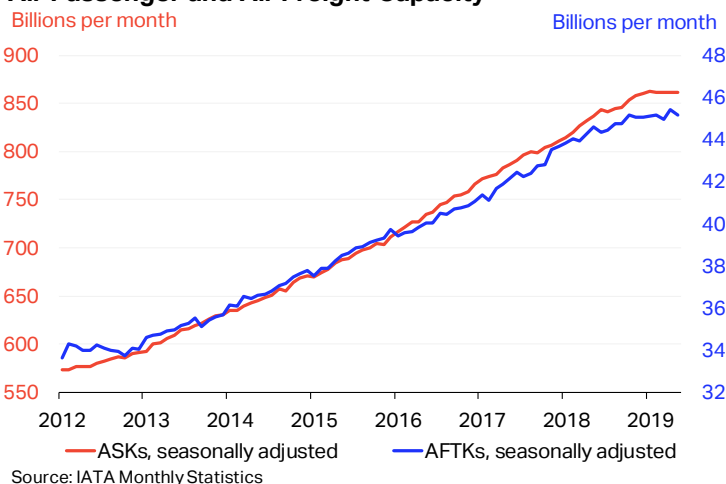


- In seasonally adjusted (SA) terms, growth in industry-wide revenue passenger kilometres (RPKs) continued to steadily rise in May. However, the underlying trend rate of growth has eased since mid-2018. The latest SA data is consistent with an annualized RPK growth rate of 4.0-5.0%, compared with a pace of around 7.0% in the early 2018.
- The SA air freight tonne kilometres (FTKs) increased modestly for the third consecutive month in May, which might be considered as a tentative signal of turning from the low point of the cycle. However, the recovery remains fragile, partly due to the ongoing US-China trade dispute. Hence, it is early to conclude that the modest increases in the recent months represent a shift from the downward trend.

## Capacity

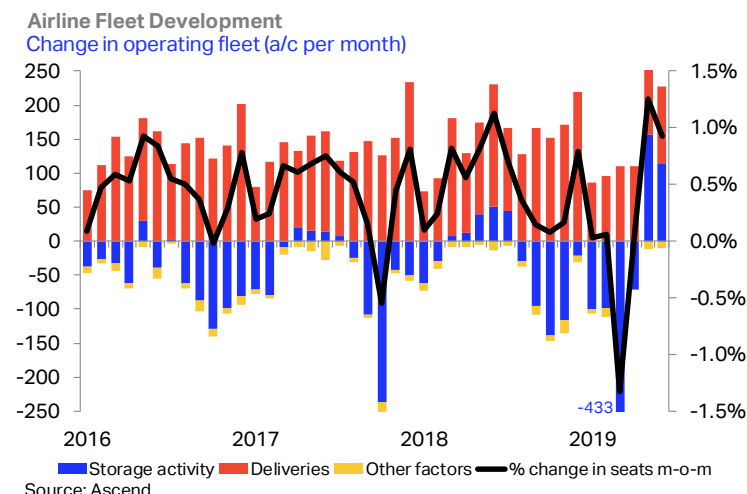
### Freight capacity slowed in May

#### Air Passenger and Air Freight Capacity



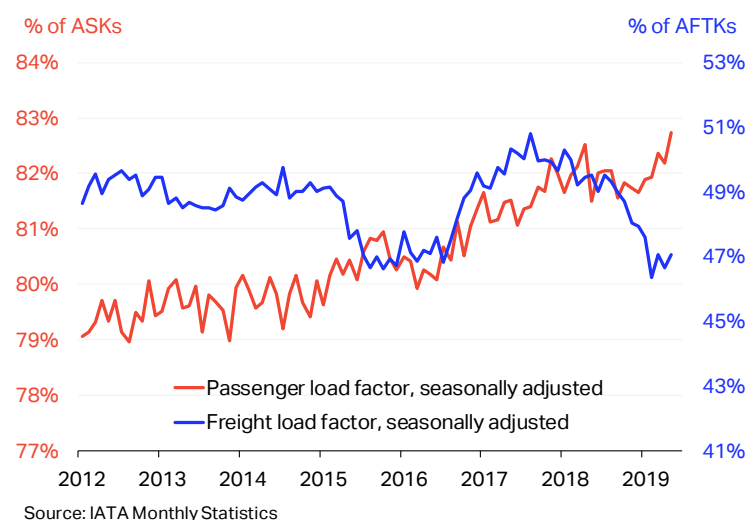
- In seasonally adjusted terms, the level of available seat kilometres (ASKs) remained stable in May in response to softened RPK growth. In seasonally adjusted terms, annualized pace of passenger capacity growth over the past six months was down to almost zero for the first time since May 2010, compared to the 4-5% range observed in the second half of 2018.
- Airlines have also adapted to the period of weakness in freight demand through reducing capacity. In seasonally adjusted terms, the annualized pace of freight capacity growth over the past six months is down to 0.6%, compared to 3.2% over the second half of 2018.

## Net storage activity made the highest contribution to fleet growth since 2016



- The number of available seats in the global airline fleet continued to increase for the third consecutive month (0.9% month on month) in June following the abrupt decrease stemming from 737 Max groundings in March 2019. Annual growth remains restrained at 3.2% compared to 5.8% in June 2018.
- 114 aircraft were delivered in the month compared to 181 delivered in the same period a year ago. 170 aircraft returned to the fleet from storage while 57 aircraft left the fleet. Hence, net storage activity made a positive contribution to fleet growth this month.
- All in all, the number of aircraft delivered in the first half of 2019 was lower than that seen in the same period last year (634 vs 771). Note that on average 748 aircraft were delivered in the first half of the year between 2013-2018.

## Freight load factors picked up modestly



- In seasonally adjusted terms, both passenger and freight load factors rose in May as airlines adjust their capacity in response to a slowing growth trend. The industry-wide seasonally adjusted passenger load factor rose to a record high at 82.7%.
- The freight load factor (FLF) for the industry posted a modest monthly increase in May following the temporary decline in April. However, the seasonally adjusted FLF for the industry is currently 2.5 percentage points lower than the level of a year ago as the reduction in freight demand has been faster than the pace of capacity adjustment.

IATA Economics

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18<sup>th</sup> July 2019

### Get the data

Access data related to this briefing through IATA's Monthly Statistics publication:  
[www.iata.org/monthly-traffic-statistics](http://www.iata.org/monthly-traffic-statistics)

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