

# AIRLINES FINANCIAL MONITOR

## KEY POINTS

September - October 2014

- Worldwide airline share prices rose 6% in October, supported by continued decline in the price of crude oil and jet fuel;
- Crude oil prices are down 25% since the most recent mid-year peak, reflecting appreciation of the US dollar as well as continued growth in supply, particularly in the US;
- Initial 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 Asia;
- Growth in available seats increased at an annualized rate of 7%, above the pace of growth in demand, but is likely reflecting the normal seasonal increase at this time of year;
- Passenger load factors were broadly unchanged in September compared to August, but air freight load factors recorded some improvement as a result of the solid (0.6%) rise in volumes.

## Financial indicators

### Global airline shares rose 6% in October, supported by further falls in crude oil prices

#### Airline Share Prices

US\$ based index (100 = 2007)



- Worldwide airline shares were up 6% in October compared to September. The rise in the Worldwide Airlines Index exceeded the small gain in the market overall, with the FTSE Global All Cap gaining just 1% in October compared to September. Airlines share prices had weakened in prior months due to a combination of economic slowdown in key regions like the Eurozone and concerns over the spread of the Ebola virus. The rise in airline share prices in October has been supported by further declines in crude oil and jet fuel prices.

### 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
6	North America	3164	2145	4506	2340
4	Asia-Pacific	1770	1610	1396	1254
3	Europe	1720	818	1290	927
2	Latin America	106	58	67	41
2	Others	34	31	7	36
17	Sample total	6794	4662	7266	4598

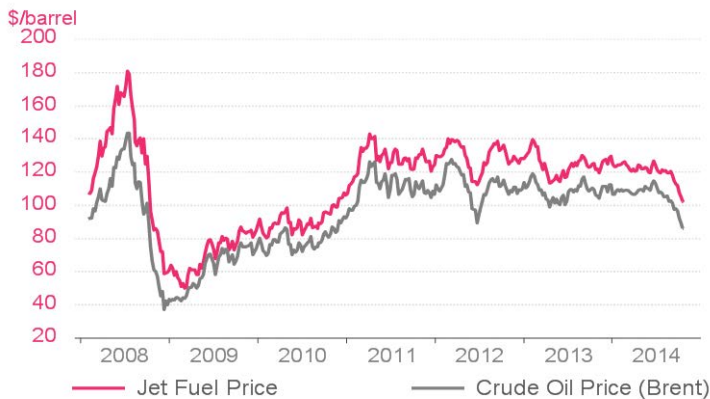
Source: The Airline Analyst, IATA.

- Airlines earn a majority of revenues in Q2 and Q3, so the expectation is for solid results at this time of year. Initial Q3 results are positive so far. Our sample of 17 airlines shows that the industry improve financial performance on the year ago period at the operating level. The improvement was driven by the performance of North American airlines. By contrast, a combination of weakness in cargo revenues as well as rising cost pressures for Chinese carriers due to a depreciating local currency weighed on regional financial performance in Asia Pacific.

## Fuel costs

### Crude oil prices continue to fall, slipping 15% in October compared to September

Jet Fuel and Crude Oil Price

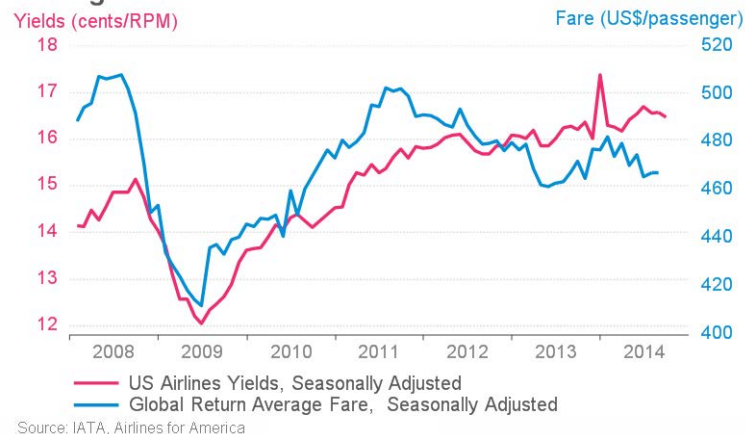


- ➔ Crude oil prices continue to fall and are now down 25% compared to the most recent peak in June 2014. Jet fuel prices are now close to \$100/bbl, a level not seen since late 2010.
- ➔ The declines in crude oil prices over recent weeks come from a combination of factors. The strengthening of the US dollar against other major currencies has been one reason; the price of crude oil typically moves inversely to the US dollar. Moreover, concerns over several geopolitical threats to crude oil supplies have been more than offset by increases in supply in other regions, including the US.

## 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

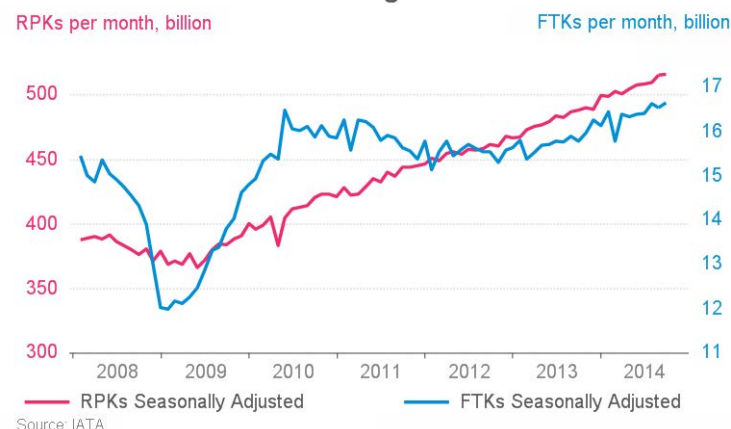


- ➔ The trend in US passenger yields improved in the second quarter and although there has been no further increase over recent months, levels in September are still almost 2% higher compared to a year ago. Underlying demand drivers remain positive and this trend is likely to continue.
- ➔ By contrast, 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

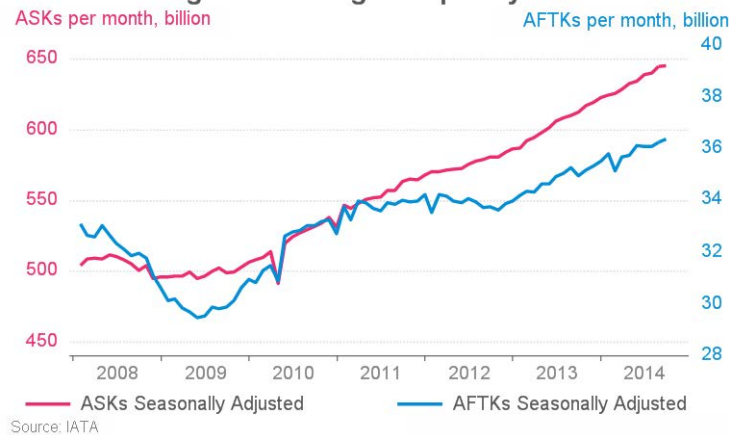


- ➔ Air freight volumes increased in September compared to August. Gains in world trade and business activity paused in Q1, but the latest data show improvement in some regions. Recent air freight improvements have been driven by Asia Pacific and North America, where trade volumes have been expanding solidly after a period of weakness earlier in the year.
- ➔ Air passenger volumes increased slightly in September compared to August, continuing the positive growth trend. Recent deterioration in the Eurozone economy, however, presents a downside risk to regional air travel growth.

## Capacity

### Air freight capacity picks up in October as expansion in ASKs moderates

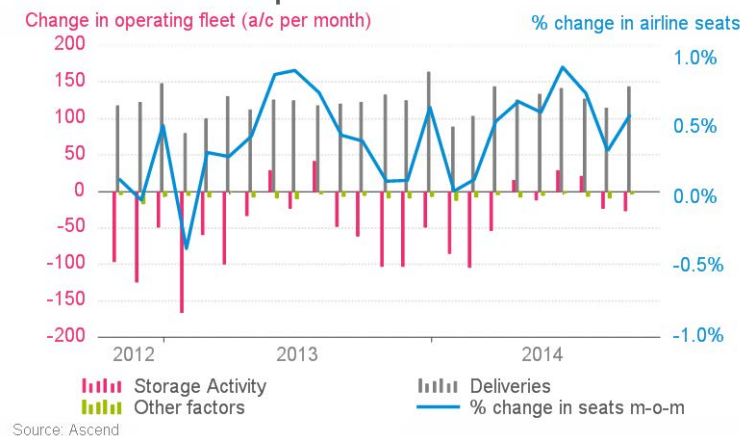
#### Total Passenger and Freight Capacity



- The strong positive growth in trend in ASKs moderated in September with little expansion on both international and domestic markets. This was largely in line with the trend in volumes in September compared to August.
- Air freight capacity increased in September compared to August. The increase in AFTKs is consistent with renewed signs of improvement in the demand environment for air freight markets.

### Growth in seats increased slightly in September, after months of slowing growth

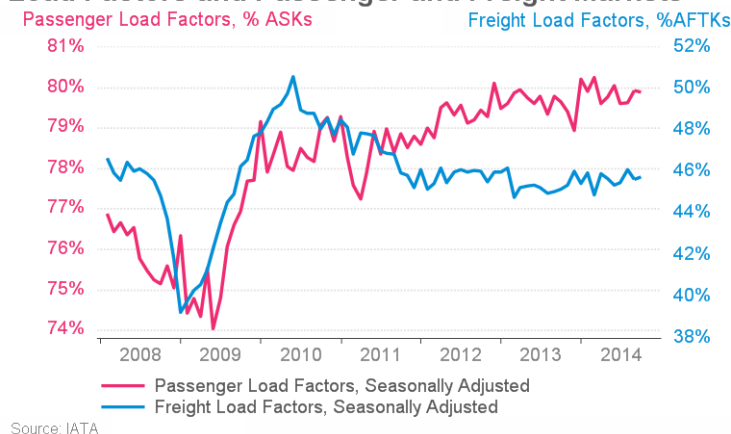
#### Airline Fleet Development



- Growth in available seats picked up slightly in September after continued slowdown since mid-year. The increase in growth resulted from a rise in deliveries of new aircraft. In September there were 144 new aircraft delivered compared with 114 new deliveries in August. Growth in seats in September increased to an annualized rate of about 7%. This rate of expansion is now slightly above the growth in demand, but is likely reflecting the normal seasonal increase at this time of year.

### Passenger loads trend sideways as air freight load factors improve slightly

#### Load Factors and Passenger and Freight Markets



- Industry load factors trended sideways with almost no change in September compared to August. Domestic load factors, by contrast, are starting to recover some of the ground lost in the first half of 2014, following solid expansion in volumes in September. International load factors contracted in September, continuing a broadly flat trend so far this year.
- Cargo load factors improved slightly in September, 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	Sep 2014 vs. Sep 2013						YTD 2014 vs. YTD 2013					
	<i>RPK</i>	<i>ASK</i>	<i>PLF</i>	<i>FTK</i>	<i>AFTK</i>	<i>FLF</i>	<i>RPK</i>	<i>ASK</i>	<i>PLF</i>	<i>FTK</i>	<i>AFTK</i>	<i>FLF</i>
Africa	1.7%	2.5%	71.4%	11.5%	-1.3%	30.6%	1.0%	3.7%	68.7%	5.1%	1.7%	29.6%
Asia/Pacific	6.4%	7.3%	77.1%	5.7%	5.6%	55.5%	6.9%	7.8%	77.4%	5.2%	5.9%	54.7%
Europe	3.7%	2.5%	83.9%	-1.6%	1.2%	44.7%	5.9%	5.4%	81.5%	2.2%	2.7%	46.3%
Latin America	4.3%	4.1%	79.0%	0.3%	1.7%	42.0%	6.2%	3.5%	79.7%	0.4%	0.4%	40.9%
Middle East	15.4%	14.3%	78.4%	17.0%	14.5%	44.8%	13.0%	10.8%	80.0%	10.1%	9.0%	44.2%
North America	3.1%	2.5%	82.4%	5.4%	-0.2%	36.0%	2.8%	2.2%	84.2%	2.8%	-0.4%	34.7%
<b>Total Market</b>	<b>5.3%</b>	<b>5.1%</b>	<b>80.3%</b>	<b>5.2%</b>	<b>3.8%</b>	<b>45.5%</b>	<b>5.9%</b>	<b>5.7%</b>	<b>80.3%</b>	<b>4.4%</b>	<b>3.5%</b>	<b>45.0%</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**  
**7<sup>th</sup> November 2014**