

AIRLINES FINANCIAL MONITOR

KEY POINTS

August-September 2015

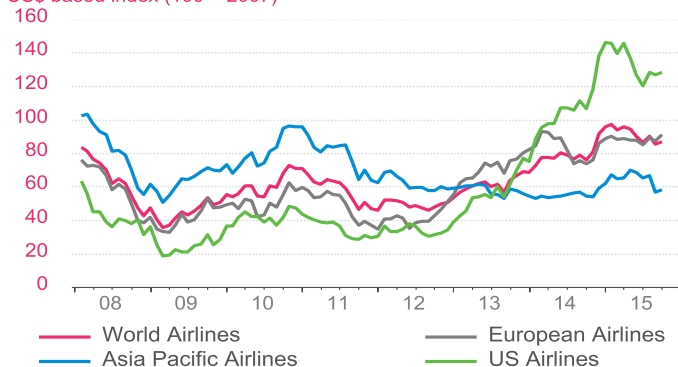
- ➔ Airline share prices were up 2% in September compared to August, supported by low jet fuel prices. Airline shares outperformed the broader market which fell 4% over the month;
- ➔ The financial performance of the airline industry has been mostly solid up to the middle of the year, with Q2 results showing large profit improvements in the US and Asia Pacific, but down in Latin America;
- ➔ Crude oil prices stayed below \$50/bbl in September, kept down by expectations of supply increases from Iran and the US as well as a softer demand outlook;
- ➔ Passenger yields in the US continue to fall and although the US\$ appreciation has exaggerated declines in global fares, currency adjusted levels are also down, by 6% on a year ago;
- ➔ Weakness in yields and fares reflects downward pressure from declines in fuel costs and stronger growth in capacity relative to demand in some regions;
- ➔ RPK growth was strong in August and the trend for 2015 remains robust. FTKs were stable, but the industry was 2% smaller in August compared to 2014 year-end;
- ➔ Growth in seats accelerated in August with net storage activity falling, but remained in line with growth in demand;
- ➔ Passenger loads reached a record high in August (80.6%, seasonally adjusted) as demand outstripped capacity expansion, but air freight load factors fell further to levels not seen since mid-2009.

Financial indicators

Airline shares rose 2% in September as the broader market fell 4% compared to August

Airline Share Prices

US\$ based index (100 = 2007)



- ➔ Airline share prices were up 2% in September compared to August. Airline shares bucked the trend in the broader market, with the FTSE Global All Cap falling 4% over the same period. Globally, financial markets have been impacted by adverse developments in some markets, most notably in China. Airline share prices, however, have been supported by strong Q2 financial results as well as recent declines in oil prices. Airline share prices in all regions were up in September.

Q2 financial results show strong profit gains in the US and Asia but down in Latin America

In US \$ Million

# Airlines*	Regions	Q2 2014		Q2 2015	
		Operating profit	Net post-tax profit	Operating profit	Net post-tax profit
32	North America	6082	4045	8173	5921
28	Asia-Pacific	987	-439	3589	2206
13	Europe	1496	859	1391	901
7	Latin America	216	-57	27	-105
2	Others	17	7	21	7
82	Sample total	8798	4415	13201	8930

Source: The Airline Analyst, IATA.

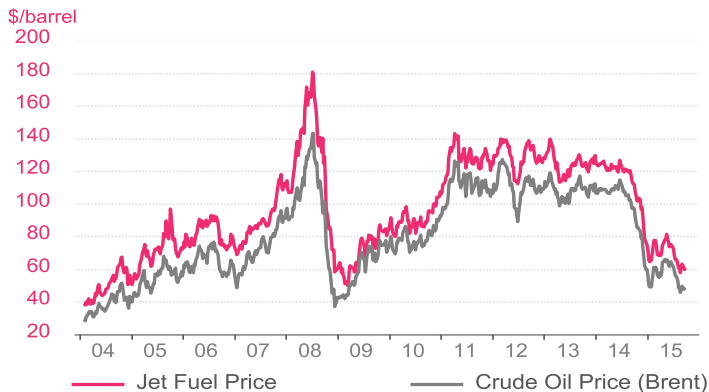
*Includes Aer Lingus, Air New Zealand, Cathay Pacific Airways, Juneyao Airlines & Qantas Airways half-year results

- ➔ Airline financial performance has been improving strongly up to the middle of the year. A sample of 82 airlines shows that the industry financial performance improved significantly on the year ago period in Q2 2015. The increase was driven by North American airlines, where consolidation and lower fuel costs have resulted in a significant boost to profitability. Airlines in Asia Pacific were also up on a year ago supported by cost cutting measures and easing fuel cost pressure. Airlines in Latin America, by contrast, struggled with falling yields and recession in major economy Brazil.

Fuel costs

Crude oil price prices remain below \$50/bbl on expectations of supply increases

Jet Fuel and Crude Oil Price

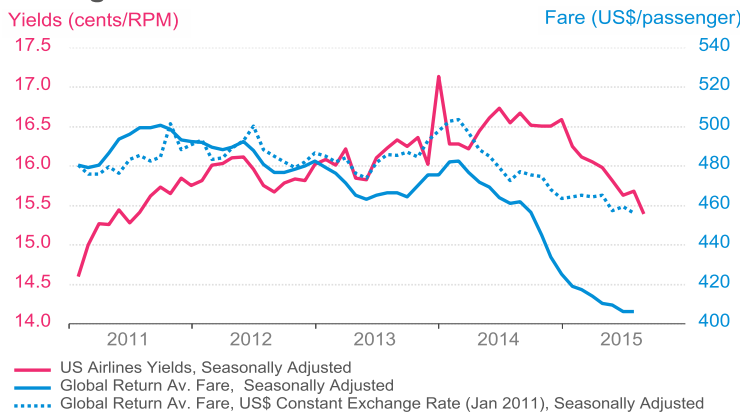


- Crude oil prices fell below \$50/bbl in January, the lowest price seen for the past 6 years. Since then, there have been two small rallies, but so far in 2015, the average crude oil price has been \$57/bbl.
- August and September saw further weakness in oil prices, with levels falling back below \$50/bbl, down by 22% compared to July. The recent weakness reflects expectations of supply increases from Iran and the US. In addition, the demand outlook has weakened with a slower than expected global economic growth, especially in key economies like China.

Yields

Passenger yields remain weak worldwide, reflecting lower fuel related costs

Average Return Fare Worldwide & US Airlines Yields

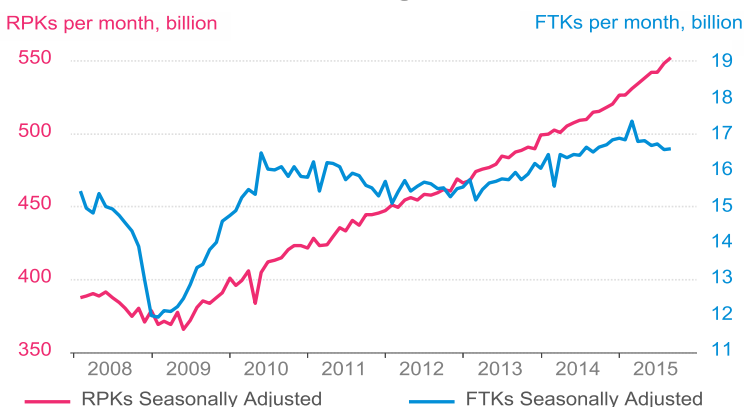


- In August, US passenger yields were down 4% year-to-date. The weakness in yields likely reflects downward pressure from declines in fuel costs.
- In US\$-terms average global fares were down 13% in the first 7 months of this year, compared with the year ago period. However, if we hold exchange rates constant to eliminate the translation effect of the stronger US dollar, global fares were down 6% over the same period. The US dollar appreciation is exaggerating the downward pressure on fares, but there is still some underlying downward pressure evident.

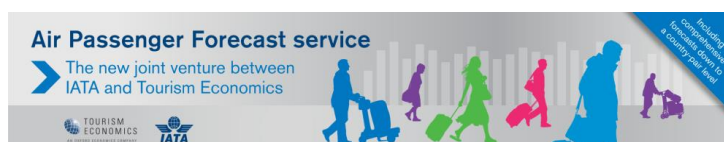
Demand

RPK volumes increased in August and FTK volumes were stable after months of decline

Total Air Travel and Air Freight Volumes



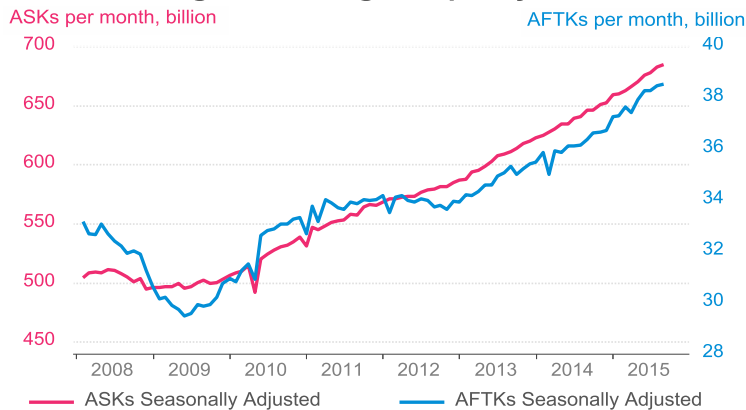
- Air transport volumes increased again in August, sustaining the robust growth trend after a moderation in June. Weakness in some emerging markets, including China, has been placing downward pressure on global economic growth. However, growth in RPKs, particularly the more price sensitive economy class leisure travel, has received some help from lower fares.
- Air freight volumes were broadly unchanged in August compared to July. The stability is a welcome development after months of decline throughout most of 2015. The weakness that has plagued air cargo this year is consistent with a trend change in world trade, particularly in emerging Asia, where trade has been in notable decline throughout much of H1 2015.



Capacity

ASKs continue to expand as do AFTKs, despite weakness in air cargo markets

Total Passenger and Freight Capacity

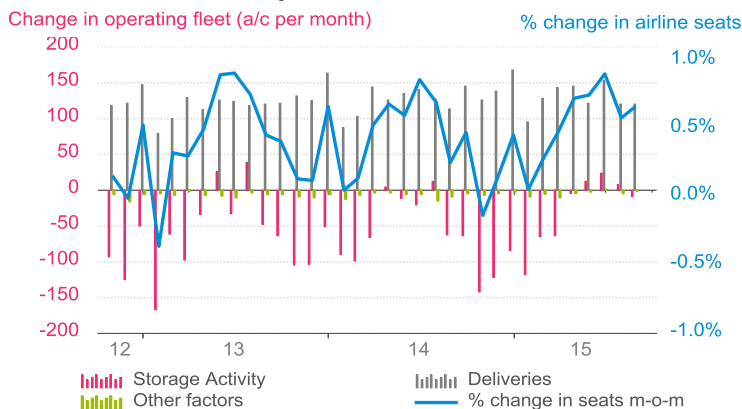


Source: IATA

- ➔ There was a slight 0.3% increase in passenger capacity in August compared to July. Carriers in all regions experienced capacity expansion on international markets, while on passenger markets there was some contraction in ASKs in Brazil, India and Australia.
- ➔ Air freight capacity growth moderated in August compared to July, expanding 0.2%. But looking over the past several months, the trend in AFTK growth has been strongly positive for much of 2015, in contrast to developments in demand volumes.

Growth in seats ticked-up slightly in August, but still in line with growth in demand

Airline Fleet Development

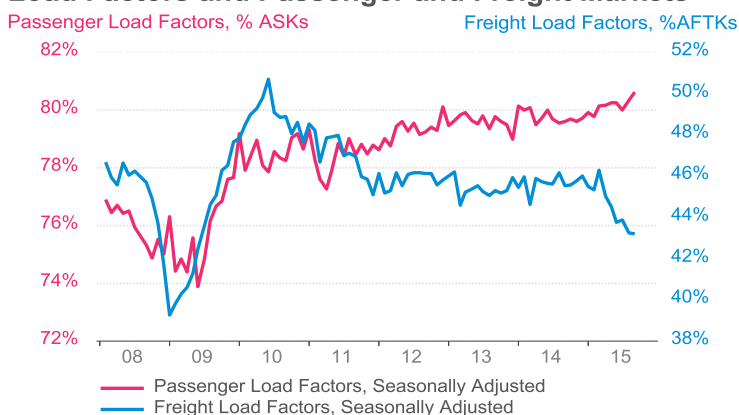


Source: Ascend

- ➔ Growth in available seats ticked up slightly in August, reaching a 0.7% rate of increase compared to July. New aircraft deliveries were quite stable in August (120), compared to July (121). But there was a net decrease in storage activity over the period. Growth in seats reached an 8% annualized rate in August, which is in line with the current growth in demand and should help sustain loads and aircraft utilization rates.

Passenger loads reached record highs in August but air freight load factors fell further

Load Factors and Passenger and Freight Markets



Source: IATA

- ➔ Passenger load factors reached record highs in August, at 80.6% on a seasonally adjusted basis.¹ The increase in seasonally adjusted load factors resulted from a strong pick-up in volumes that outstripped growth in capacity. The pick-up in load factors was seen across both domestic and international markets.
- ➔ Cargo load factors fell in August compared to July. The modest expansion in volumes was met with a strong increase in capacity. Air freight load factors have been in decline since Q1 2015, down to levels not seen since mid-2009, on a seasonally adjusted basis.

¹ The seasonally unadjusted passenger load factor for August 2015, 84.7%, is also a record high.

Data tables

Year on Year Comparison	Aug 2015 vs. Aug 2014						YTD 2015 vs. YTD 2014					
	RPK	ASK	PLF	FTK	AFTK	FLF	RPK	ASK	PLF	FTK	AFTK	FLF
Africa	3.2%	2.5%	75.6%	2.3%	10.6%	25.6%	-0.7%	-0.8%	68.5%	4.0%	3.5%	29.7%
Asia/Pacific	8.9%	6.2%	82.0%	-1.0%	4.9%	51.1%	9.1%	7.0%	78.8%	3.6%	6.1%	53.4%
Europe	6.0%	4.7%	87.5%	0.7%	3.9%	41.4%	5.3%	4.2%	82.0%	-0.4%	3.5%	44.7%
Latin America	5.5%	5.6%	80.9%	-7.3%	0.8%	35.3%	6.4%	5.9%	80.1%	-6.8%	2.6%	37.2%
Middle East	13.2%	12.9%	83.9%	10.4%	14.3%	40.4%	12.6%	15.2%	78.4%	13.4%	18.2%	42.4%
North America	4.7%	4.8%	87.1%	-3.3%	4.4%	30.8%	3.8%	4.0%	84.2%	-1.5%	1.4%	33.5%
Total Market	7.1%	5.9%	84.7%	0.2%	5.8%	40.9%	6.6%	6.0%	80.7%	2.6%	5.6%	43.6%

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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 7th October 2015

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