

# AIRLINES FINANCIAL MONITOR

## KEY POINTS

August – September 2014

- ➔ Q2 financial results show continued improvement, driven by US carriers;
- ➔ But worldwide airline share prices fell 4% in September, reflecting investor concerns over weak economic data in some regions and the spread of the Ebola virus;
- ➔ Jet fuel prices eased further in September as increased supply and a fragile demand outlook pushed crude oil prices down to levels not seen since mid-2012;
- ➔ US passenger yields remain up on a year ago, but weakness continues in other regions;
- ➔ Air travel volumes continue to expand strongly and the trend in air freight volumes remains positive, supported by improving conditions in Asia and the US, including a rebound in trade volumes;
- ➔ Growth in available seats slowed further in August to an annualized rate of 3.5%, below expansion in demand;
- ➔ Passenger load factors rose on the back of strong expansion in volumes, but air freight load factors eroded some of the improvement in previous months with a 0.4% fall in August compared to July.

## Financial indicators

**Global airline share prices fell 4% in September but are up 11% so far this year;**

### Airline Share Prices

US\$ based index (100 = 2007)



- ➔ Worldwide airline shares fell 4% in September compared to August. The fall reflects broader market concerns over latest economic data which shows signs of weakness in Europe and China. Share prices were also impacted by investor concerns over the spread of the Ebola virus. The latter is likely to have had a relatively stronger impact on airlines share prices. Carriers in all regions experienced a fall in share values, but airlines in North American and Asia experienced the most decline (4%). Despite weakness this month, worldwide airline share prices are up 11% so far this year.

**But Q2 financial results show continued improvement, driven by US carriers**

In US \$ Million

# Airlines	Regions	Q2 2013		Q2 2014	
		Operating profit	Net post-tax profit	Operating profit	Net post-tax profit
26	North America	3783	1991	6068	3758
17	Asia-Pacific	350	-265	227	207
13	Europe	1826	619	2213	1244
6	Latin America	236	-138	204	25
4	Others	43	26	50	63
<b>66</b>	<b>Sample total</b>	<b>6238</b>	<b>2233</b>	<b>8762</b>	<b>5297</b>

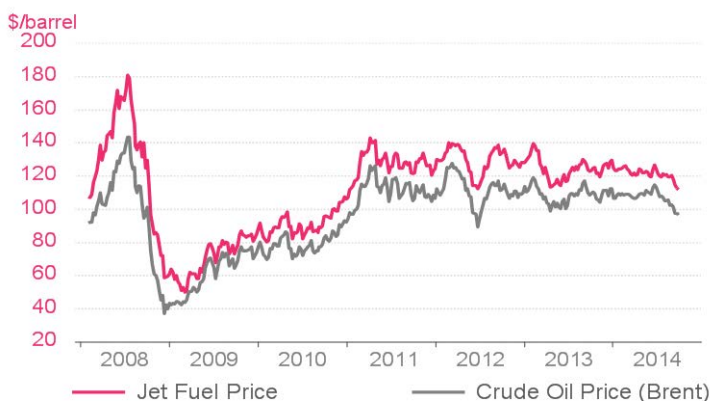
Source: The Airline Analyst, IATA.

- ➔ Airlines earn a majority of revenues in Q2 and Q3, so the expectation is for solid results at this time of year. Our sample of 66 airlines shows that airlines were able to improve financial performance on the year ago period, at both the operating and net profits levels. 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 5% in September as supply conditions improve

Jet Fuel and Crude Oil Price



- ➔ Crude oil prices fell by 5% in September compared with August. Current price levels are down 16% on the most recent (mid-year) peak. Jet fuel prices have now fallen below \$120/bbl, sitting at \$112/bbl in September, a level not seen since mid-2012.
- ➔ Concerns over several geopolitical threats to crude oil supplies have been more than offset by increases in supply in other regions, including the US. Moreover, there is still some pessimism about the demand outlook, with key regions like Europe showing signs of slowing economic growth.

## 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

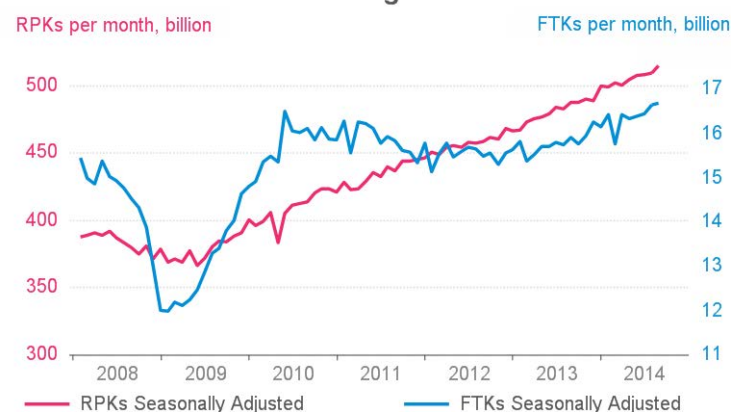


- ➔ The trend in US passenger yields improved in the second quarter and although there has been no further increase over recent months, levels are still 2% higher compared to a year ago. Underlying demand drivers remain positive and this trend is likely to continue.
- ➔ By contrast, the weak trend in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

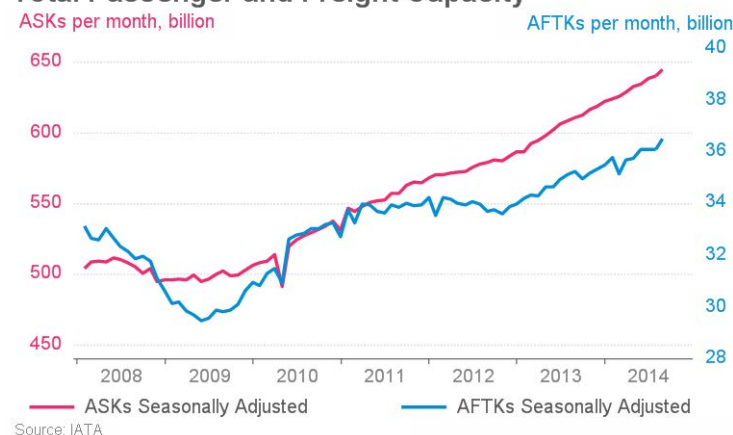


- ➔ Air freight volumes increased in August compared to July. Gains in world trade and business activity paused in Q1, but the latest data show improvement in some regions. Recent air freight improvements have been driven by Asia Pacific carriers, where trade volumes have fully rebounded after declines throughout Q1.
- ➔ Air passenger volumes increased strongly in August, with all regions recording expansion in volumes. Recent deterioration in the Eurozone economy, however, presents a down-side risk to regional air travel growth.

## Capacity

### Air passenger and freight capacity pick up strongly in August compared with July

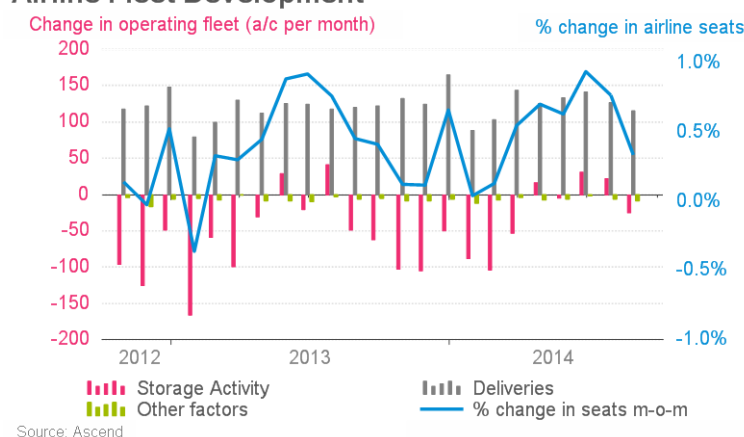
#### Total Passenger and Freight Capacity



- ➔ The rise in passenger capacity came mostly through a strong increase in ASKs on international markets in August compared to July. However, growth in demand was stronger and resulted in a rise in load factors over the month. Air freight capacity also increased in August compared to July. The increase in AFTKs is consistent with renewed signs of improvement in the demand environment for air freight markets.

### Growth in seats slowed further in August, below expansion in demand

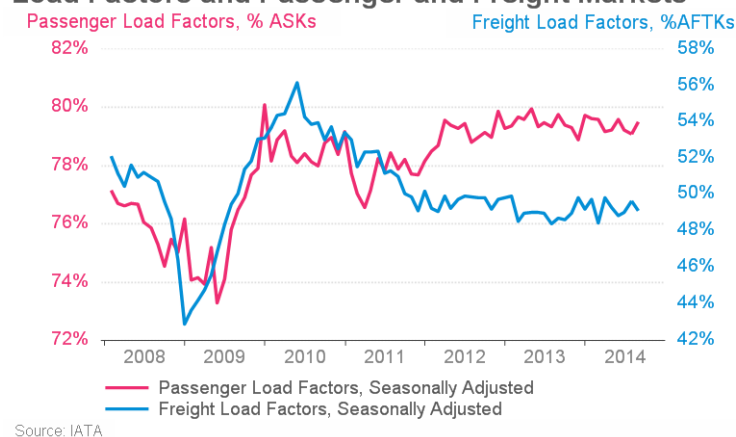
#### Airline Fleet Development



- ➔ Growth in available seats slowed further in August after strong increases in the first half of the year. The slowdown in growth resulted from fewer deliveries of new aircraft as well as increased storage activity. In August there were 115 new aircraft delivered and a net 25 aircraft going into storage, compared with 127 new deliveries in July and a net 22 aircraft exiting storage. Growth in seats in August reduced to an annualized rate of 3.5%, notably slower than growth in demand, which should help support aircraft utilization rates.

### Passenger loads increased while freight loads fell on strong growth in capacity

#### Load Factors and Passenger and Freight Markets



- ➔ Passenger load factors increased in August compared to July as a result of the strong rise in demand over the month. Passenger load factors remains strong and close to 80% on a seasonally adjusted basis. However, the trend has been slightly declining throughout most of 2014, reflecting robust growth in capacity.
- ➔ There was a fall in air freight load factors in August compared to July, which eroded some of the small improvements seen in previous months. The rise in demand in August compared to July was not enough to offset the increase in capacity.

## Data tables

Year on Year Comparison	Aug 2014 vs. Aug 2013						YTD 2014 vs. YTD 2013					
	RPK	ASK	PLF	FTK	AFTK	FLF	RPK	ASK	PLF	FTK	AFTK	FLF
Africa	7.0%	5.7%	75.2%	9.2%	4.2%	26.7%	0.9%	3.7%	68.4%	4.2%	2.2%	29.5%
Asia/Pacific	5.6%	7.1%	80.1%	6.3%	4.4%	54.2%	6.8%	7.7%	77.5%	5.2%	5.9%	54.7%
Europe	6.9%	5.8%	86.5%	1.4%	4.8%	42.8%	6.1%	5.7%	81.2%	2.7%	2.9%	46.5%
Latin America	7.3%	4.3%	80.8%	1.1%	7.6%	38.1%	6.5%	3.5%	79.7%	0.3%	0.3%	40.7%
Middle East	11.6%	10.0%	83.2%	7.8%	6.0%	42.8%	12.2%	10.0%	80.1%	9.6%	8.5%	44.2%
North America	2.9%	1.9%	87.6%	5.5%	-0.4%	34.2%	2.7%	2.2%	84.5%	3.0%	-0.2%	34.7%
<b>Total Market</b>	<b>5.9%</b>	<b>5.5%</b>	<b>83.9%</b>	<b>5.1%</b>	<b>3.4%</b>	<b>43.4%</b>	<b>5.8%</b>	<b>5.6%</b>	<b>80.3%</b>	<b>4.5%</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**  
**3<sup>rd</sup> October 2014**