**Airlines Financial Monitor**

**August-September 2021**

**Key points**

- The latest sample of Q2 2021 financial results confirms that airlines’ aggregated net losses were reduced considerably compared with Q1 2021. Airlines in all regions showed improvement. North American airlines’ net income at the aggregated level became positive amidst a strong rebound in US domestic travel.

- Financial performance of airline industry is expected to improve further with the loosening of travel restrictions in 2022 but it will be varied across regions. North America will continue to be the best performer amongst all regions.

- Global airline share price index increased in September with the reopening expectations of the US-Europe travel. Although the year-to-date performance of the index is still lagging wider global equity markets, gap narrowed in September.

- Brent crude oil and jet fuel prices picked up in September amidst rising optimism about fuel demand recovery.

**Airline shares outpaced the wider equity index amid reopening of US-EU routes**

**Airline Financial Results**

- Expectations regarding the reopening of US-Europe market supported airline stocks in September. Progress on the vaccine rollout has also increased optimism of future travel recovery. Airline share prices increased in all regions in September compared with the previous month.

- The recovery in airline stocks has been limited since the beginning of the year due to the uncertainty of full reopening of international travel. Nevertheless, airline shares performed better in September than wider global equity markets. As a result, the year-to-date performance gap narrowed between global airline stock index and wider global equity markets (7.9% vs. 10.5%).

- The larger sample of Q2 2021 financial results confirms that net losses of airlines at the aggregated level moderated compared with Q1 2021. North American airlines’ bottom-line turned positive since vaccine rollout facilitated the rebound of the domestic traffic. Latin American airlines’ losses also diminished substantially in Q2 with the support of the revival in regional traffic.

- EBIT margins remained negative in all regions. European airlines were the worst performers among all regions since intra-regional travel was muted ahead of the summer quarter. While North American carriers bottom-line turned positive in Q2, their operating profitability was negative albeit at single-digit levels.

- Looking forward, financial performance will improve with the loosening of travel restrictions but it will be varied across regions. In our updated forecast, while North America is expected to be the best performer, Europe and Latin American airlines’ performance will also improve considerably in 2022.

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**Source:** The Airline Analyst, IATA

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**Airline Financial Results**

<table>
<thead>
<tr>
<th>Number of airlines in sample</th>
<th>Regions</th>
<th>Q1 2021 Net post-tax profit1</th>
<th>EBIT margin2</th>
<th>Q2 2021 Net post-tax profit2</th>
<th>EBIT margin2</th>
</tr>
</thead>
<tbody>
<tr>
<td>30</td>
<td>North America</td>
<td>-38%</td>
<td>-4,469</td>
<td>-8%</td>
<td>1,050</td>
</tr>
<tr>
<td>33</td>
<td>Asia-Pacific</td>
<td>-26%</td>
<td>-6,577</td>
<td>-17%</td>
<td>-3,654</td>
</tr>
<tr>
<td>12</td>
<td>Europe</td>
<td>-54%</td>
<td>-5,833</td>
<td>-30%</td>
<td>-4,454</td>
</tr>
<tr>
<td>8</td>
<td>Latin America</td>
<td>-38%</td>
<td>-2,091</td>
<td>-18%</td>
<td>-700</td>
</tr>
<tr>
<td>5</td>
<td>Others</td>
<td>-32%</td>
<td>-189</td>
<td>-21%</td>
<td>-170</td>
</tr>
<tr>
<td><strong>88</strong></td>
<td><strong>Sample total</strong></td>
<td><strong>-38%</strong></td>
<td><strong>-10,159</strong></td>
<td><strong>-14%</strong></td>
<td><strong>-4,019</strong></td>
</tr>
</tbody>
</table>

1 % of revenues
2 US$ million

Sources: The Airline Analyst, IATA

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**Airline Share Prices**

<table>
<thead>
<tr>
<th>Index (Jan 2014=100)</th>
<th>% change on</th>
<th>US$ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>World airlines</td>
<td>+4.7%</td>
<td>+19,159</td>
</tr>
<tr>
<td>Asia Pacific airlines</td>
<td>+4.1%</td>
<td>+3,654</td>
</tr>
<tr>
<td>European airlines</td>
<td>+5.8%</td>
<td>+2,091</td>
</tr>
<tr>
<td>North American airlines</td>
<td>+5.9%</td>
<td>+189</td>
</tr>
<tr>
<td>FTSE All World $</td>
<td>+10.5%</td>
<td>+4,019</td>
</tr>
</tbody>
</table>

Sources: Refinitiv Eikon Datastream

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**Sample Historical Profitability**

Source: IATA Economics using data from The Airline Analyst

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IATA Economics: [www.iata.org/economics](http://www.iata.org/economics)
Operating revenues continue to fall faster than operating costs

- In Q2 2021, passenger revenues declined by 61% compared to the pre-crisis levels (Q2 2019). Robust cargo revenues continued to support airlines (up 46%) since both demand and yields remained strong. At the regional level, North American airlines showed the most resilient passenger revenues (-48%). In terms of cargo revenues, Asia Pacific and Middle Eastern carriers performed better than the other regions.
- The fall in operating costs remained short of the decline in revenues. Operating expenses in our sample of airlines went down by 31% in Q2 2021, compared with the pre-crisis levels, due to the volume-related decline in fuel costs, landing fees, and user charges. The fall in labour cost was limited to 23%.

Industry-wide cash flow generation improved in Q2 2021

- In our larger sample of airline financials, the cash flow generation improved in Q2 2021. The industry-wide improvement was largely driven by North American airlines amidst the rebound in bookings for domestic travel. North American carriers at the aggregated level became positive both in operating and free cash flow generation. Operating cash flow of European carriers at the aggregated level also turned positive with the support of bookings for the summer travel.

Oil and jet fuel price ticked up in September

- Following the weakness in August, average Brent crude oil and jet fuel price picked up by 7% and 6%, respectively in September. Year-to-date, average jet fuel price hovers around US$73/bbl, up 57% compared with 2020 but 8% below average 2019 price. Jet fuel crack spread remains well below the pre-crisis levels due to still subdued international air travel.
- The latest price increase can be largely attributed to rising optimism about fuel demand recovery. Oil supply remained stable in September as shortages resulting from Hurricane Ida in the US Gulf Coast were offset by rising output from Opec+ group.