



Airlines Financial Monitor

December 2021 - January 2022

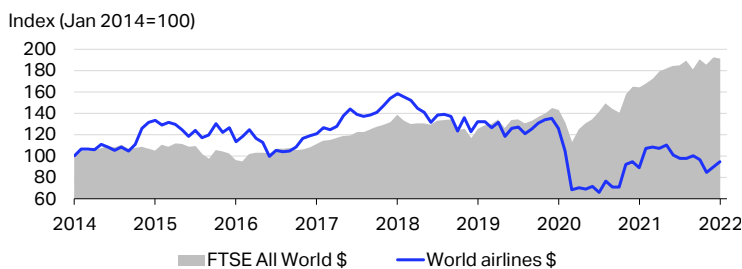
Key points

- The latest financial results confirm that the pressure on the industry's operating profitability eased in Q3 2021. In the sample of 87 airlines, the operating loss – improved from 13.6% of revenues in Q2 to 2.6% in Q3.
- The Global airline share price index picked up in January 2022 amid investors' confidence that Omicron-related disruptions might have a smaller impact on the travel industry than previously expected. Nevertheless, the index remains 30% below pre-crisis levels.
- Jet fuel prices also rebounded from the Omicron-related dip in December and are currently at the highest level since late-2018. The elevated price is adding extra pressure on airlines' operating costs just at the time when travel demand is being hit by renewed travel restrictions.

Global airline share price index rebounds as fears over Omicron disruptions ease

Airline Share Prices

US\$ indices (Jan 2014=100)	Index Jan 11th	% change on		
		vs Dec 10th	vs Dec 2019	start of year
World airlines	94.7	7.0%	-30.0%	+5.8%
Asia Pacific airlines	76.4	16.2%	-30.5%	-0.5%
European airlines	81.4	-0.3%	-28.1%	+13.4%
North American airlines	119.6	7.8%	-28.7%	+6.4%
FTSE All World \$	190.8	0.3%	+31.9%	-0.9%

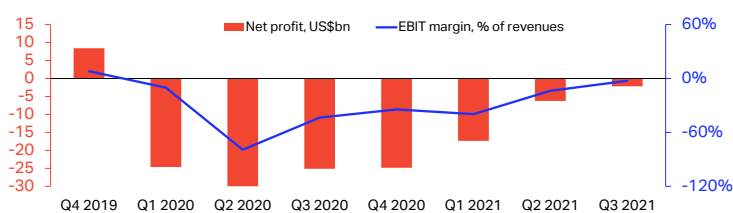


Source: Refinitiv Eikon Datastream

- The Global airline share price index started the year 2022 on a positive note, rising by 5.8% in the first half of January. The improvement was driven by investors' confidence that the new Omicron variant will lead to fewer hospitalizations than other strains and therefore might cause less disruption than previously expected.
- The global index hides some regional variation. Shares of European airlines rose the most significantly in January (13.4%), driven by renewed optimism about the industry's recovery. Meanwhile, airline stocks in Asia Pacific fell by 0.5%, reflecting concerns about the impact of a potential interest rate hike in the US.
- Taking a step back from the short-term developments, the bigger picture remains that airline stocks continue to trade about 30% below the pre-crisis level in all regions.

Industry-wide operating income improved in Q3 amid gradual air travel recovery

Historical Profitability, full sample



Source: IATA Economics using data from the Airline Analyst & Refinitiv Eikon

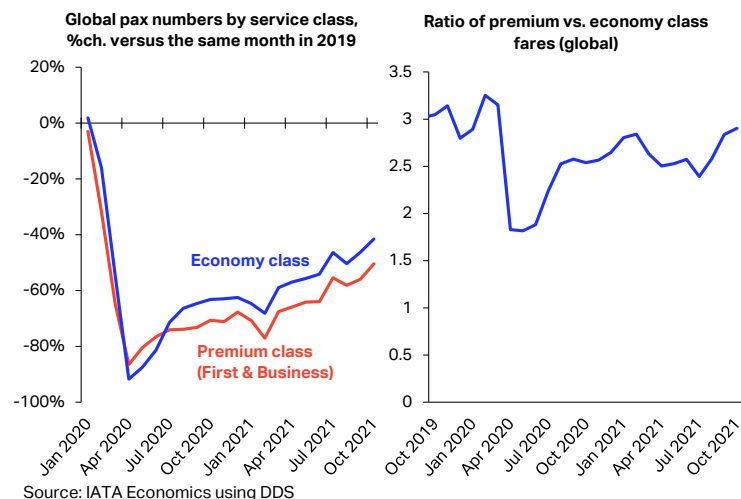
- The latest financial results confirm that pressure on airlines' operating profitability eased in Q3 thanks to a gradual improvement in passenger traffic and a booming air cargo business. The industry-wide operating loss was 2.6% of revenues over the July-September period, compared with a 13.6% loss in Q2.
- The EBIT margin improved the most in Europe which airlines benefitted from recovering air travel demand on intra-European routes. The European metric rose from -30% to 3% between Q2 and Q3. The improvement was smaller in North America where the Delta variant's spread delayed the air travel recovery. Asia Pacific airlines showed the weakest operating result in aggregate (-20% of revenues), notably due to still very restricted international travel to, from, and within the region.
- Looking ahead, some of the North American airlines improved their revenue forecast for Q4, stating that travel demand remained robust during the holiday season despite Omicron disruptions. That said, costs pressures are expected to rise as well.

Airline Financial Results

Number of airlines in sample	Regions	Q2 2021		Q3 2021	
		EBIT margin ¹	Net post-tax profit ²	EBIT margin ¹	Net post-tax profit ²
33	North America	-7%	1,073	1%	2,941
28	Asia-Pacific	-15%	-1,866	-20%	-3,170
14	Europe	-30%	-4,634	3%	31
8	Latin America	-18%	-700	-8%	-1,938
4	Others	-20%	-118	4%	-31
87	Sample total	-13.6%	-6,245	-2.6%	-2,167

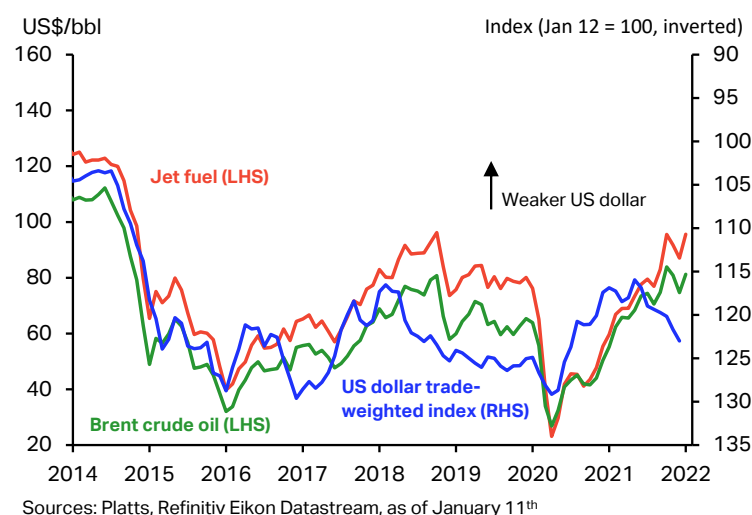
¹% of revenues ²US\$ million
Sources: The Airline Analyst, IATA

Economy class continues to recover faster than premium class at the global level



- Taking a closer look at different sources of passenger revenues, premium class passenger traffic continues to lag the recovery in the economy counterpart.
- Following the peak of the crisis in April 2020, premium was briefly recovering faster than economy. This can be partly explained by premium tickets becoming relatively less expensive than economy tickets (see the blue line in the right-hand chart). However, the price advantage has largely disappeared since July 2020 and the economy class recovery started to outperform. The performance gap between the two has been broadly unchanged since then, at 8-10 percentage points.

Jet fuel prices are on the rise again, putting upward pressure on airline costs



- Jet fuel and Brent crude oil prices bounced back in January, with the former currently at the highest level since late-2018. As with airline stocks, the price recovery has been driven by rising optimism about the short-lived impact of the Omicron variant on global economic activity, including fuel demand.
- The elevated jet fuel price adds pressure on airlines' operating costs just at the time when the revenue side is being hit by Omicron-related flight cancellations. This might delay airlines' financial recovery from the crisis.
- In 2021 as a whole, jet fuel and Brent crude oil prices surged by 68% and 63% respectively compared with 2020, as demand increased with easing lockdowns while OPEC+ supply remained tight.

The industry burned cash in Q3 2021, but significantly less than in 2020

Airline Cash Flow¹

Number of airlines in sample	Regions	Q2 2021			Q3 2021		
		Net cash flow ²	Capex	Free cash flow	Net cash flow ²	Capex	Free cash flow
16	North America	40%	11%	29%	-8%	6%	-14%
23	Asia-Pacific	5%	11%	-7%	2%	11%	-9%
10	Europe	21%	14%	7%	9%	7%	2%
5	Latin America	-12%	7%	-19%	-2%	13%	-16%
4	Africa & Middle East	40%	13%	26%	7%	1%	6%
58	Sample total	26%	11%	15%	-1%	8%	-9%

¹% of revenues

Sources: The Airline Analyst, IATA

²From operating activities

- In the sample of 58 airlines, the industry-wide net cashflow from operating activities was at -1% of revenues in Q3. This represents a significant improvement versus Q3 2020 (around -50%). However, it is a weaker outcome compared with Q2, partly due to a negative impact of the Delta variant on ticket sales in some markets.
- International bookings for future travel have been falling amid new travel restrictions. This will negatively impact some airlines' cashflow over the northern hemisphere winter.

IATA Economics

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17 January 2022

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