



Airlines Financial Monitor

November-December 2021

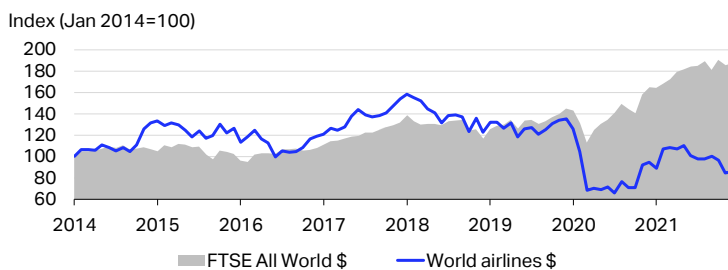
Key points

- The latest sample of Q3 2021 financial results confirms that industry-wide losses diminished compared with Q2 amidst gradual air travel recovery and robust cargo revenues. However, the performance varied across regions; while North American, European and Latin American airlines reported improvements in operating incomes, the financials deteriorated in Asia Pacific.
- Airline share prices have fallen in response to Omicron news. As of December, the global airline share price index is 37% below pre-crisis levels while wider equity markets have risen by 30% since the start of the pandemic.
- Bookings for future travel have been falling as Omicron-driven restrictions disrupt passengers' short-term travel plans.

Airline shares fall amidst concerns about the Omicron variant

Airline Share Prices

US\$ indices (Jan 2014=100)	Index Dec 14th	% change on		
		vs Nov 2021	vs Dec 2019	start of year
World airlines	85.6	+1.0%	-36.7%	-9.4%
Asia Pacific airlines	75.2	+3.2%	-31.6%	-3.0%
European airlines	67.7	+3.9%	-40.1%	-20.5%
North American airlines	105.7	-3.5%	-37.0%	-8.0%
FTSE All World \$	187.4	+1.2%	+29.6%	+13.6%

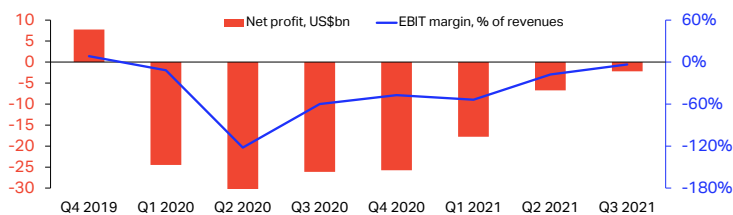


Source: Refinitiv Eikon Datastream

- Airline shares fell sharply in late-November amidst concerns that the emergence of the more contagious Omicron variant and the resulting travel restrictions will negatively impact air travel recovery.
- Although the prices partly recovered in early-December on optimism that the new strain leads to less severe symptoms, the improvement was short-lived. Indeed, as of Dec 14th the global airline share price index gained just 1% vs. the start of the month.
- Overall, the recovery in airlines' shares has been stalling. As of December, airline stocks are on average 37% below pre-crisis levels while wider equity markets have risen by 30% since the start of the crisis.

Airline industry net losses diminished in Q3, but regional performance differs...

Sample Historical Profitability



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

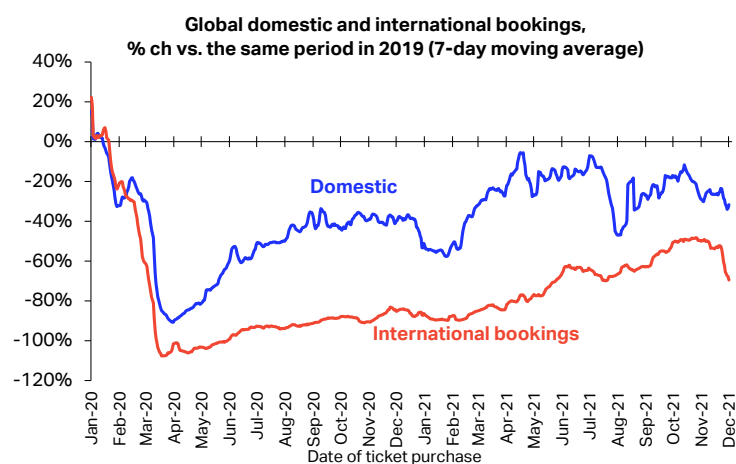
- The latest sample of airlines' Q3 financial results confirmed that the industry's financial situation improved at the global level as more markets reopened, travel demand picked up and cargo revenues remained robust. The industry-wide operating loss was at 3.4% of revenues in July-September period, compared with 17.8% loss in the previous quarter.
- However, the global picture hides some regional variation. North American, European and Latin American airlines reported improvements in operating incomes on the back of passenger recovery in larger domestic markets (the US, Brazil) and also some short-haul routes such as intra-Europe and North-Central America.
- In contrast, operating losses increased compared with Q2 in Asia Pacific as new COVID outbreaks and the resulting lockdowns stifled the recovering domestic demand in many key markets (China, Australia, Japan) while international traffic remained subdued. (Note that the deterioration in net income in the group of Latin American airlines can be partly attributed to foreign exchange losses).

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
15	North America	-14%	72	0%	2,207
27	Asia-Pacific	-15%	-1,768	-20%	-2,952
14	Europe	-30%	-4,634	3%	31
7	Latin America	-16%	-360	-8%	-1,583
3	Others	-11%	-37	19%	106
66	Sample total	-17.8%	-6,727	-3.4%	-2,191

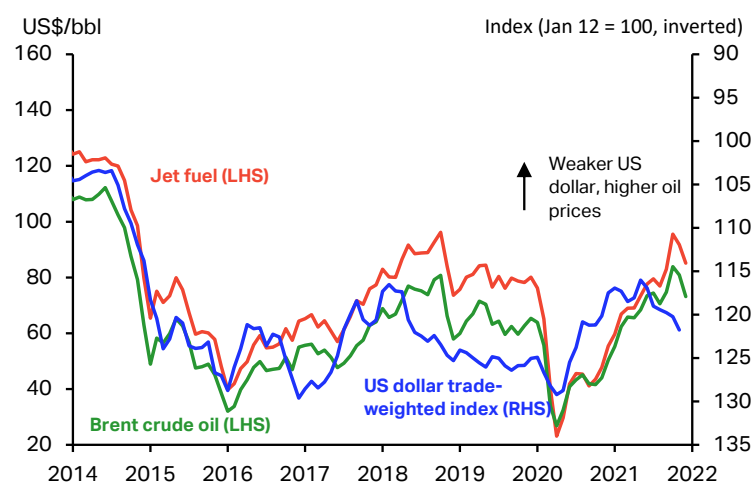
¹% of revenues ²US\$ million
Sources: The Airline Analyst, IATA

Bookings for future travel fall amidst new travel curbs...



- Looking ahead, the risks to airlines' financial recovery are rising. Several countries have introduced new Omicron-driven travel restrictions including complete travel bans and testing requirements for fully vaccinated passengers. This is likely to negatively impact travellers' plans in the short-term.
- Indeed, the initial data shows that passenger bookings for future travel fell sharply across domestic and in particular international routes since late-November. If the new travel curbs remain in place longer – despite their [unclear impact on infection rate](#) – they might disrupt the recovering passenger revenue stream just at the time when some airlines finally reached profitability.

Jet fuel price has fallen amidst Omicron concerns but remains above 2019 levels



- Additional pressure on airlines' financials has come from elevated fuel prices that put upward pressure on operating costs. Indeed, although jet fuel prices fell sharply in the final week of November following the Omicron news, they remain above pre-pandemic 2019 levels (+9%) while passenger traffic is down ~50% compared with pre-crisis period (based data from October).
- Looking ahead, the International Energy Agency (IEA) expects that the emergence of the new, more contagious, strain and the related international travel restrictions will reduce jet fuel demand and put downward pressure on jet fuel prices.

Despite the improvement vs. 2020, the industry continued to burn cash in Q3

Airline Cash Flow¹

Number of airlines in sample	Regions	Q3 2020			Q3 2021		
		Net cash flow ²	Capex	Free cash flow	Net cash flow ²	Capex	Free cash flow
14	North America	-67%	19%	-86%	-7.4%	6.9%	-14.3%
23	Asia-Pacific	-19%	7%	-26%	0.8%	13.7%	-12.9%
11	Europe	-54%	12%	-66%	9.3%	7.3%	2.0%
4	Latin America	-59%	13%	-72%	-2.4%	15.5%	-17.9%
3	Others	-29%	27%	-55%	30.1%	1.0%	29.1%
55	Sample total	-49%	14%	-63%	-0.9%	8.4%	-9.3%

¹% of revenues

Sources: The Airline Analyst, IATA

²From operating activities

- In the sample of 55 airlines, the industry's net cashflow from operating activities significantly improved in Q3 2021 vs. the same quarter in 2020 (-0.9% of revenues vs. -49.3%). However, the metric was weaker compared with Q2 – partly due to seasonality but also due to the negative impact of the Delta variant on ticket sales in some markets.
- At the regional level, European airlines in our sample were amongst the best performers, benefitting from the robust demand on intra-European routes and from the news about the reopening of the US-Europe corridor.

IATA Economics

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