

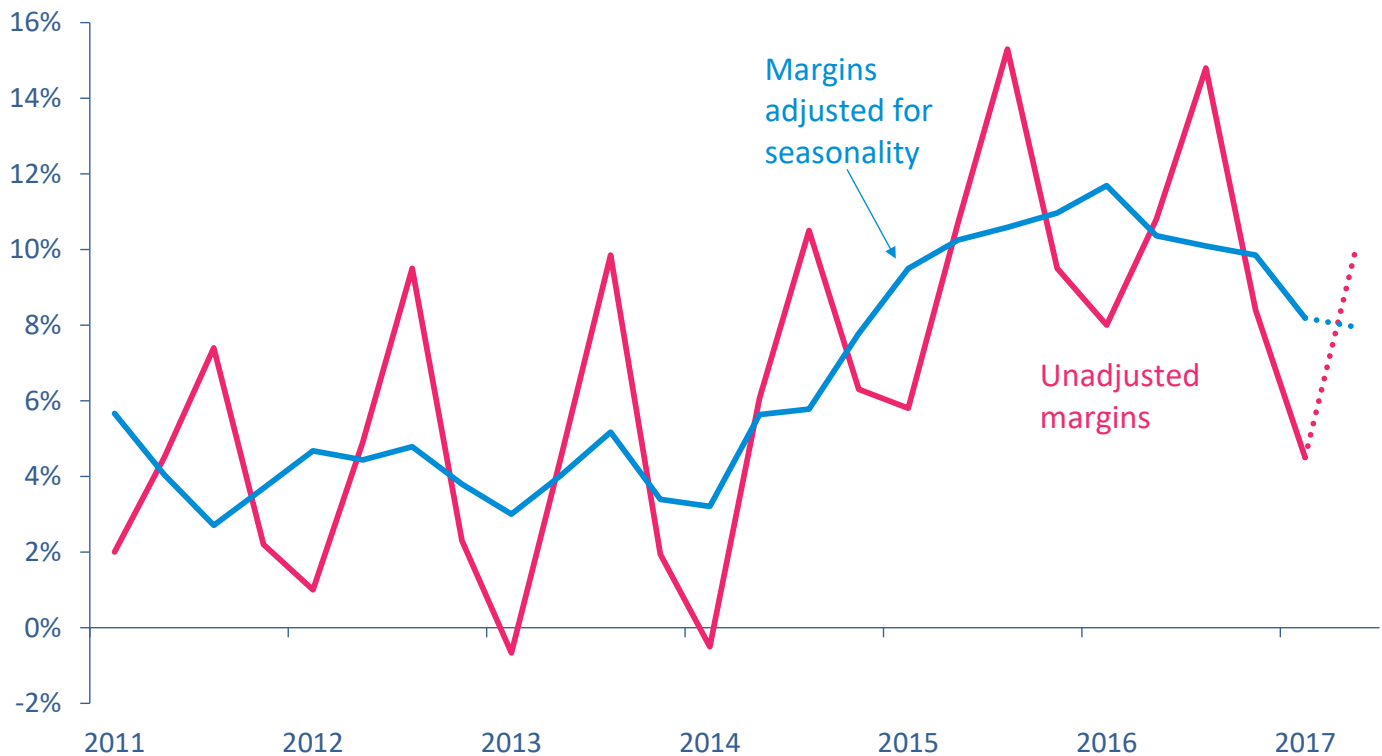


IATA ECONOMICS' CHART OF THE WEEK

15 SEPTEMBER 2017

IS THERE ANOTHER LEG TO THE INDUSTRY PROFIT CYCLE?

Airline industry operating margin, % revenues



Sources: The Airline Analyst, IATA Economics

- Our latest [Airlines Financial Monitor](#) indicated that the squeeze on aggregate industry-wide profit margins from higher costs and weak yields continued into Q2 2017, albeit not to the same extent as we observed at the start of the year.
- In Q1, airlines reported that their EBIT margin had almost halved to 4.5% of revenues compared with Q1 of 2016. The latest data for Q2 – with almost 60 airlines included in the sample – indicate that the margin is a robust 9.5% of revenues. This is only modestly lower than the 10.2% outcome for the same sample of airlines in Q2 of last year and remain elevated in comparison with historical outcomes. (Note that the raw data are not adjusted for the seasonal patterns in traffic and earnings experienced by airlines; a seasonally-adjusted series is provided on today's chart.)
- The aggregate industry outcome masks some notable differences across the three main regions for Q2. The EBIT margin for North American carriers was 16.3% in Q2 2017. While down slightly from the 17.1% outcome for Q2 2016, it remains well ahead of the performance in other regions. Europe is next best with a margin at 8.6% currently; stepping up from 4.5% a year ago on stronger economic conditions, but still only around half the level of the North American carriers. In turn, the latest figure for Asia Pacific was just half that of Europe, at 4.3%, down from 7.3% a year ago.
- The step change in industry-wide financial performance since late-2014 has been driven in large part by structural changes in airline behavior, which have helped to maintain achieved load factors at historically-high levels. What's different now is that we are currently in the middle of a cyclical pick-up in economic activity and rising airline yields; a backdrop against which airline financial performance typically does well. All told, with airline heads increasingly confident too ([link](#)), the industry profit cycle may be set for an upward leg in H2 2017 and going into the new year.

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IATA Economics
economics@iata.org