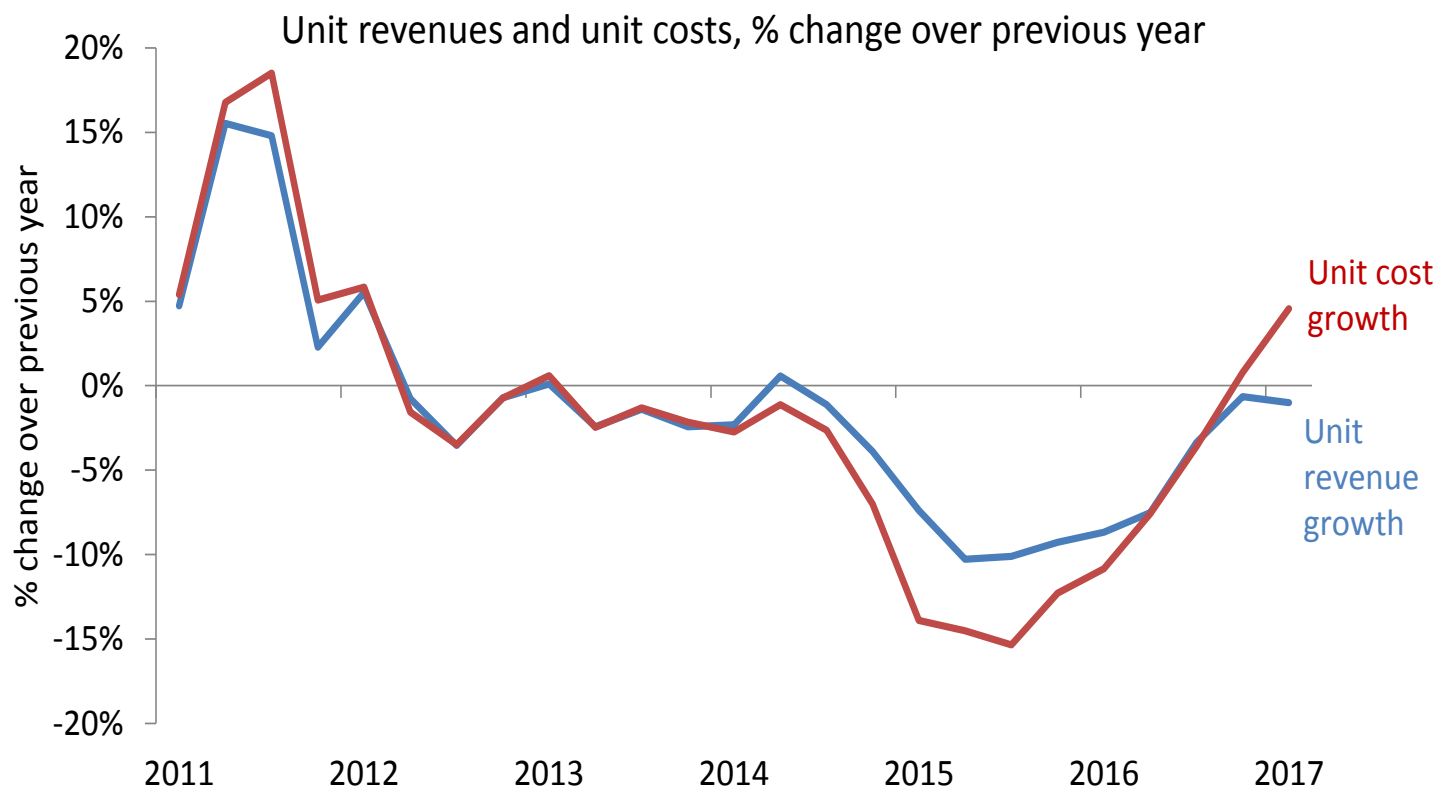




IATA ECONOMICS' CHART OF THE WEEK

9 JUNE 2017

PUTTING THE SQUEEZE ON; AIRLINE MARGINS NARROW ON RISING COSTS



- This week saw the release of IATA Economics' updated industry forecasts for 2017 ([link](#)). One of the defining features in airline finances over the past year has been the tightening of profit margins, driven primarily by accelerating costs. This development is highlighted in today's chart which shows that unit costs are on a clear upwards trajectory, rising by 5% year-on-year in Q1 2017. Unit revenues have also been trending upwards, but so far this only represents a slowing in the rate of revenue decline rather increasing revenues (unit revenues were 1% lower year-on-year in Q1).
- On the cost side, fuel has contributed substantially to the increase. Oil prices are ~50-60% above the January 2016 trough and jet fuel prices have followed suit. However, fuel is not the only factor, with maintenance and repair costs also moving higher, along with labor and infrastructure costs. In part, this reflects the upturn in global economic activity which has tightened labor markets and delivered increases in inflation, adding to broad-based upwards cost pressures.
- For revenues, we have [recently](#) pointed to indications that the longstanding downward trend in passenger yields may be bottoming out. Indeed, there are preliminary market-level data showing yields have narrowed and even increased modestly in some cases over the past year. The stabilization in airfares and yields since the middle of last year has been helped by a stronger economic backdrop and the improvement in global business confidence.
- Forward looking indicators, such as airline share prices and our own CFO survey results on the year-ahead outlook for profitability, suggest that this margin compression will ease. Nonetheless, the developments in unit revenues and unit costs have clear implications for industry profitability and this is an issue we will pursue in greater depth next week – including a more detailed consideration of trends and issues at the regional level.

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