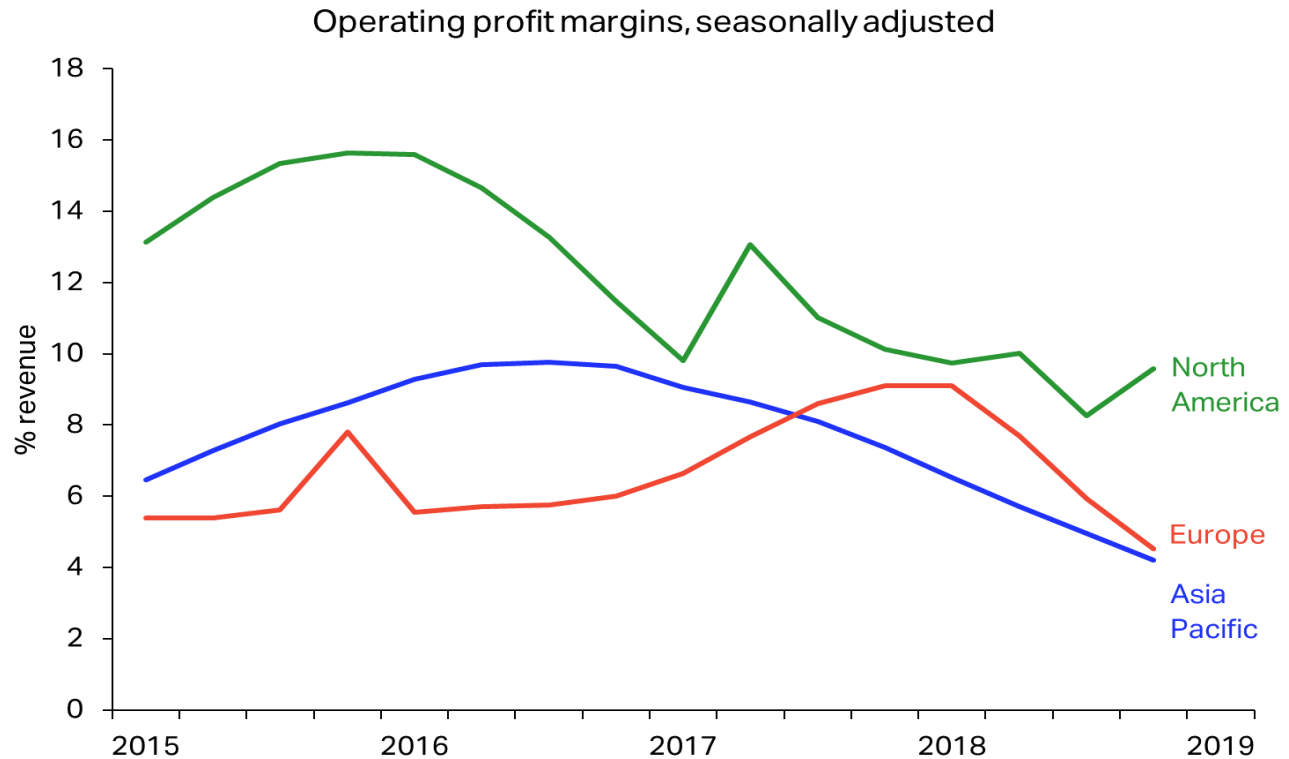




IATA Economics' Chart of the Week

22 March 2019

Substantial regional divergence of performance in Q4 results



Source: The Airline Analyst

- We now have a clearer picture of 2018Q4 financial performance, as we reported in this week's [Airlines Financial Monitor](#). It shows that performance – as measured by operating margins (seasonally adjusted) – diverged substantially, raising the question of where industry performance is heading during 2019. Our [December forecast](#) predicted that the industry's operating margin would stabilize this year close to last year's outcome of just below 7%. Direction for the industry as a whole at the end of last year was made less clear by N American margins being above and rising compared to the industry average, whereas those in Europe and Asia were below and falling.
- The major change in Q4 was the fall in spot jet fuel prices to an average of 84 \$/b from over 90 \$/b in Q2. In fact by the end of the year jet prices had fallen to less than 70 \$/b (subsequently they have risen back to 80 \$/b – see our [Jet Fuel Price Monitor](#)). Airlines with low levels of fuel hedging saw an immediate benefit. This is a large part of why N American airlines improved their performance in Q4, whereas airlines in Europe saw continued downward pressure on margins.
- But unit revenues are another part of the story. US airlines have seen the mid-year weakness of unit revenues ease and guidance for Q1 of this year is mainly positive. By contrast in Europe, LCCs saw falling unit revenues – partly because of weakening European economies. Network airlines in Europe did a bit better, as the business travel related segment of the market is holding up better, despite the current economic uncertainties.
- One common thread to the financial result reports in all three regions was rising non-fuel cost pressure. Some have implemented successful efficiency measures, but the length of the economic expansion has meant that spare capacity has been used up and inflation pressures, particularly wages, are rising. Countering this pressure will be a major challenge for the industry this year. The ability to recover these costs through improved unit revenues in Q1 will be a key indicator of whether our forecast for stable operating margins this year is still on track.

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