The key issues facing airlines’ financial performance

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Financial markets have been negative on airlines, so far this year.

Source: Thompson Reuters Datastream
Yet performance is still vastly better than just 4 years ago

Source: IATA Economics using data from McKinsey, The Airline Analyst and our own forecasts
No longer are we destroying investor value at a rate of $20bn a year

It is true that performance is not evenly spread by region.

Source: IATA Economics using data from The Airline Analyst
Free cash flows have been strong, but just in N America and Europe

Source: IATA Economics using data from The Airline Analyst
So balance sheets are in two groups, one still vulnerable to shocks

Source: IATA Economics using data from The Airline Analyst
And margins came under greater pressure in 2018 Q2

Quarterly EBIT margins, global airline industry sample

EBIT  EBIT_SA

Source: IATA Economics using data from The Airline Analyst, airline releases. Note: This data is from airlines report quarterly only
Because unit costs are now rising faster than unit revenues

Industry wide growth in unit revenues and unit costs, in US$

Unit cost growth
Unit revenue growth

Source: IATA Economics using data from The Airline Analyst
Fuel prices continue to trend upwards

Jet Fuel and Crude Oil Price ($/barrel)

Jet Fuel Price  Crude Oil Price (Brent)

Source: IATA Economics using data from Platts
And cost pressures have emerged across most inputs.
As spare capacity disappears at the late stages of the cycle

Source: IATA Economics using data from Datastream
The question is can these costs be recovered?

Source: IATA Economics using data from PaxIS
Ancillaries are helping

Source: IATA Economics using data from ICAO, IATA Statistics, IdeaWorks and our own forecasts
More rational asset utilization is also helping

Source: IATA Economics using data from ICAO, IATA Statistics and our own forecasts
The key will be the strength of demand...cargo reflects inventory cycle

Source: IATA Economics using data from IATA Statistics, Markit
Air travel demand is buoyant at present...

Source: IATA Economics using data from IATA Statistics, Markit
...But risks are building in the wider economy

Source: IATA Economics using data from ICAO, IATA Statistics, IMF and our own forecasts
Need to reinforce structural gains - economic upcycle unlikely to last

Global GDP growth and average airline operating margin

GDP % change year ago, Margin % revenue

Source: IATA Economics using data from ICAO, IATA Statistics, IMF and our own forecasts
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