AIRLINES FINANCIAL MONITOR

KEY POINTS  

- Worldwide airline share prices were up 3% in December compared to November supported by further falls in fuel prices;
- Financial performance of the airline industry has remained solid, but mostly driven by the US and Europe. Airlines in other regions are showing declines in Q3 compared to a year ago;
- Crude oil prices closed the year at around $38/bbl, reflecting intensified concerns over excess supply as well as a softer demand outlook;
- Passenger yields in the US continue to fall and although the US$ appreciation has exaggerated declines in global fares, currency-adjusted levels are also down, by 5% year-to-date;
- Weakness in the currency-adjusted yields and fares reflects downward pressure from factors including the decline in fuel costs and stronger growth in capacity relative to demand in some regions;
- RPK volumes continue positive trend and FTKs show more signs that recent declines are bottoming out;
- Growth in the number of seats rebounded in November, but still at a slower rate than growth in demand, which should help support aircraft utilization rates;
- Passenger loads reached a new record high (81.2%, seasonally adjusted) in November and freight load factors improved slightly, 0.6% month-on-month.

Financial indicators

Worldwide airline share prices rose 3% in December, supported by further decline in fuel prices

Airline Share Prices

<table>
<thead>
<tr>
<th></th>
<th>US$ based index (100 = 2007)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>160</td>
</tr>
<tr>
<td>2014</td>
<td>150</td>
</tr>
</tbody>
</table>

Source: Thomson Reuters Datastream

Q3 financial results showed profit gains in the US and Europe, but declines elsewhere

- Airline financial performance has been improving overall so far this year. A sample of 63 airlines shows that the industry financial performance improved significantly on the year ago period in Q3 2015. That said, the improvement was driven by carriers in the US and Europe. In Asia, by contrast, Q3 profits are down on a year ago, mostly reflecting weakness in cargo volumes and yields. Similarly, airlines in Latin America continue to struggle with falling yields and recession in major economy Brazil.

<table>
<thead>
<tr>
<th># Airlines*</th>
<th>Regions</th>
<th>Q3 2014</th>
<th>Q3 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Operating profit</td>
<td>Net post-tax profit</td>
<td>Operating profit</td>
</tr>
<tr>
<td>28</td>
<td>North America</td>
<td>7,141</td>
<td>3,908</td>
</tr>
<tr>
<td>24</td>
<td>Asia-Pacific</td>
<td>2,206</td>
<td>1,449</td>
</tr>
<tr>
<td>13</td>
<td>Europe</td>
<td>5,681</td>
<td>4,209</td>
</tr>
<tr>
<td>6</td>
<td>Latin America</td>
<td>435</td>
<td>-88</td>
</tr>
<tr>
<td>6</td>
<td>Others</td>
<td>102</td>
<td>-7</td>
</tr>
<tr>
<td>77</td>
<td>Sample total</td>
<td>15,565</td>
<td>9,471</td>
</tr>
</tbody>
</table>

* Sample of 63 airlines
Fuel costs

Crude oil prices fell in December to levels not seen since 2005, down to $38/bbl

Crude oil prices fell further in December 2015, down to as low as $38/bbl, which is $27/bbl lower than the mid-year peak. The recent weakness in crude oil prices had brought the average for 2015 down to $54/bbl, and $66/bbl for jet fuel prices.

The recent lows in crude oil prices reflect expectations of supply increases from producers like Iran, as well as no clear signal that OPEC will reduce production. In addition, the demand outlook has weakened with slower than expected global economic growth, especially in key economies like China.

Yields

Passenger yields remain weak worldwide, reflecting lower fuel related costs

In September, US passenger yields were down 4% year-to-date. The weakness in yields is likely in response to downward pressure from declines in fuel costs.

In US$-terms average global fares were down 13% in the first 8 months of this year, compared with the year ago period. However, if we hold exchange rates constant to eliminate the translation effect of the stronger US dollar, global fares were down 5% for the first 10 months of the year. The US dollar appreciation is exaggerating the decline in fares, but in addition there is still some underlying downward pressure evident.

Demand

RPK volumes continue to increase as the decline in FTKs bottomed out

Air passenger volumes expanded again in November. There was a slight negative impact from strikes at Lufthansa and the cessation of Russian airline Transero. More generally though, they trend remains robust and growth in RPKs, particularly the more price sensitive economy class leisure travel, has received some help from lower fares.

Air freight volumes expanded in November compared to October. In fact, this suggests that earlier declines are now bottoming out. Key regions like Asia Pacific saw solid gains in volumes in November compared to October, which is consistent with the better export performance of nations like Japan.
### Capacity

**ASKs and AFTKs contracted month-on-month, giving a boost to load factors**

There was a slight 0.3% contraction in passenger capacity in November compared to October. All major regions recorded a decline in capacity in November, including Europe, Asia Pacific and North America. On domestic markets, there were contractions in capacity in Japan and Russia, month on month.

Air freight capacity growth also contracted in November compared to October, by 0.4%. The contraction in AFTKs is a welcome change after strong growth throughout much of 2015, and it helped support a small improvement in air freight load factors.

### Growth in seats rebounded in November, but still at a slower rate than growth in demand

Growth in available seats expanded by 0.4% in November compared to October. There was an increase in new aircraft deliveries in November (151), compared to October (124). There was also a net increase in storage activity over the period, from 126 aircraft in October compared to 35 in November. The expansion in airline seats is still slower than the trend in air travel growth, and this should help boost aircraft utilization rates.

### Passenger loads reached new record high and earlier declines in freight load paused

Passenger load factors picked up again in November, reaching another record high – 81.2% on a seasonally adjusted basis. The gain in seasonally adjusted load factors resulted from a contraction in capacity. Over the past several months, load factors have been improving mostly due to gains on domestic markets.

Cargo load factors improved in November, reflecting a combination of increasing volumes and contraction in capacity. Air freight load factors had been in decline for most of 2015 - the November result is a sign of that trend bottoming out.
## Data tables

### Year on Year Comparison

<table>
<thead>
<tr>
<th>Region</th>
<th>RPK</th>
<th>ASK</th>
<th>PLF</th>
<th>FTK</th>
<th>AFTK</th>
<th>FLF</th>
<th>RPK</th>
<th>ASK</th>
<th>PLF</th>
<th>FTK</th>
<th>AFTK</th>
<th>FLF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Africa</td>
<td>10.7%</td>
<td>8.5%</td>
<td>66.6%</td>
<td>-6.0%</td>
<td>6.6%</td>
<td>31.9%</td>
<td>1.2%</td>
<td>0.7%</td>
<td>68.7%</td>
<td>2.5%</td>
<td>4.0%</td>
<td>30.0%</td>
</tr>
<tr>
<td>Asia/Pacific</td>
<td>7.7%</td>
<td>5.9%</td>
<td>77.7%</td>
<td>-1.5%</td>
<td>3.2%</td>
<td>56.4%</td>
<td>8.7%</td>
<td>6.7%</td>
<td>78.7%</td>
<td>2.6%</td>
<td>5.8%</td>
<td>54.0%</td>
</tr>
<tr>
<td>Europe</td>
<td>1.5%</td>
<td>-0.8%</td>
<td>78.8%</td>
<td>-2.0%</td>
<td>2.2%</td>
<td>49.2%</td>
<td>5.2%</td>
<td>3.9%</td>
<td>82.1%</td>
<td>-0.2%</td>
<td>4.2%</td>
<td>44.8%</td>
</tr>
<tr>
<td>Latin America</td>
<td>4.5%</td>
<td>5.7%</td>
<td>78.8%</td>
<td>-6.4%</td>
<td>1.9%</td>
<td>41.8%</td>
<td>6.9%</td>
<td>6.6%</td>
<td>79.9%</td>
<td>-5.9%</td>
<td>1.8%</td>
<td>38.4%</td>
</tr>
<tr>
<td>Middle East</td>
<td>9.6%</td>
<td>11.3%</td>
<td>69.8%</td>
<td>5.4%</td>
<td>9.2%</td>
<td>45.6%</td>
<td>11.7%</td>
<td>14.2%</td>
<td>76.9%</td>
<td>11.9%</td>
<td>16.3%</td>
<td>42.9%</td>
</tr>
<tr>
<td>North America</td>
<td>6.7%</td>
<td>3.5%</td>
<td>82.4%</td>
<td>-3.2%</td>
<td>5.8%</td>
<td>35.1%</td>
<td>4.3%</td>
<td>3.9%</td>
<td>84.1%</td>
<td>-0.4%</td>
<td>3.5%</td>
<td>34.2%</td>
</tr>
<tr>
<td><strong>Total Market</strong></td>
<td>5.9%</td>
<td>4.2%</td>
<td>78.0%</td>
<td>-1.2%</td>
<td>4.5%</td>
<td>46.8%</td>
<td>6.7%</td>
<td>5.8%</td>
<td>80.5%</td>
<td>2.3%</td>
<td>6.0%</td>
<td>44.1%</td>
</tr>
</tbody>
</table>

**RPK:** Revenue-Passenger-Kilometers; **ASK:** Available-Seat-Kilometers; **PLF:** Passenger-Load-Factor; **FTK:** Freight-Tonne-Kilometers; **AFTK:** Available Freight Tonne Kilometers; **FLF:** Freight Load Factor.

All Figures are expressed in % change Year on Year except PLF and FLF which are the load factors for the specific month, and not seasonally adjusted.

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**IATA Economics**

Contact: Julie Perovic

perovicj@iata.org

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