



Airlines Financial Monitor

April–May 2019

Key points

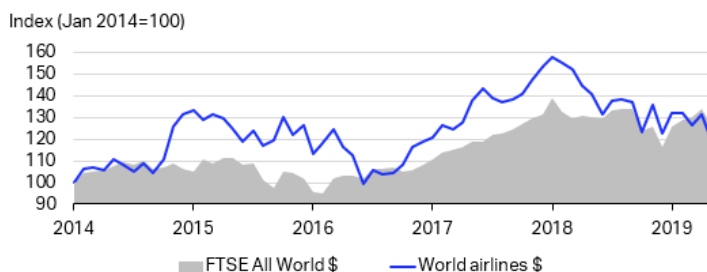
- The latest financial results from the industry for Q1 2019 show that net post-tax profits of airlines weakened in Q1 2019 compared to the same quarter a year ago. The outcome is mixed at the regional level; while there is an improvement in Asia-Pacific and North America regions, Europe and Latin America in aggregate posted negative bottom-line results.
- Global airline share prices fell sharply in May, which indicates that forward-looking equity investors expect tougher financial conditions ahead. The performance of airline index has been diverging from global equity markets since the beginning of this year due to the concerns regarding airline profitability stemming from rising risks such as Brexit and US-China trade war.
- Oil and jet fuel prices declined sharply at the end of May driven by concerns over slowing global growth. At the time of writing this note, the Jet fuel price is hovering around \$76/bbl (11% lower compared to a month ago).
- While global base fare passenger yields continued to decline in March, on the positive side premium cabin yields edged up. Nevertheless, expectations of slower economic growth would create a barrier for passenger yields to improve.
- Annual growth in industry-wide revenue passenger kilometres (RPKs) recovered to 4.3% in April, up from 3.1% in March. On the other hand, freight volumes were lower, falling by 4.7% compared to a year ago.

Financial indicators

Airline share prices declined sharply in May

Airline Share Prices

US\$ indices (Jan 2014=100)	Index May 31st	% change on		
		one month	one year	start of year
World airlines	118.5	-10.0%	-15.8%	-3.5%
Asia Pacific airlines	106.8	-7.7%	-17.1%	-3.6%
European airlines	84.5	-18.4%	-36.5%	-17.7%
North American airlines	149.2	-12.5%	-8.9%	-2.5%
FTSE All World \$	125.8	-6.2%	-3.4%	+7.9%



- After a temporary pick-up in April, global airline share prices fell sharply by 10% in May. The global airline share price index has now fallen by 3.5% since the beginning of the year, substantially underperforming the global equity market which went up by 7.9%.
- In May, airline shares declined due to the rising concerns regarding profitability and potential impact of US-China trade war on airline performance. All three regional sub-indices fell during the month. Europe (-18.4%) and North America (-12.5%) were the regions that declined most.

Industry-wide decline in profitability in Q1 2019, driven by European airlines

Airline Financial Results

Number of airlines in sample	Regions	Q1 2018		Q1 2019	
		EBIT margin ¹	Net post-tax profit ²	EBIT margin ¹	Net post-tax profit ²
14	North America	6.4%	1,381	6.5%	2,090
22	Asia-Pacific	3.4%	879	5.7%	1,113
14	Europe	1.8%	158	-5.2%	-1,919
6	Latin America	4.9%	66	0.7%	-210
3	Others	3.2%	174	1.1%	37
59	Sample total	4.2%	2,658	2.3%	1,111

¹% of revenues ²US\$ million
Sources: The Airline Analyst, IATA

- While financial markets are pricing the expectations of future industry performance, the latest financial results for Q1 2019 confirm the squeeze in profitability as well. Industry-wide net post-tax profits for Q1 2019 in our sample was lower compared to Q1 2018, representing an average EBIT margin of 2.3%, down from 4.2% in Q1 2018.
- The sample total masked extensive differences at a regional level. While the deterioration at an industry-wide profit level was driven by Europe and Latin America regions, North America and Asia-Pacific regions recorded increase in net post-tax profits. EBIT margin improved remarkably to 5.7% in Asia-Pacific region and North America recorded strongest EBIT margin (6.5%) among all regions.

Industry-wide cash flows higher compared to a year ago

Airline Cash Flow¹

Number of airlines in sample	Regions	Q1 2018			Q1 2019		
		Net cash flow ²	Capex	Free cash flow	Net cash flow ²	Capex	Free cash flow
14	North America	19.2%	12.4%	6.7%	22.8%	14.2%	8.6%
18	Asia-Pacific	10.2%	10.7%	-0.5%	17.9%	10.1%	7.8%
12	Europe	22.4%	16.0%	6.3%	21.0%	17.5%	3.5%
5	Latin America	6.8%	7.2%	-0.4%	7.9%	6.0%	1.9%
3	Others	13.9%	10.7%	3.2%	10.3%	13.8%	-3.4%
52	Sample total	17.6%	12.8%	4.9%	19.9%	14.0%	5.9%

¹% of revenues

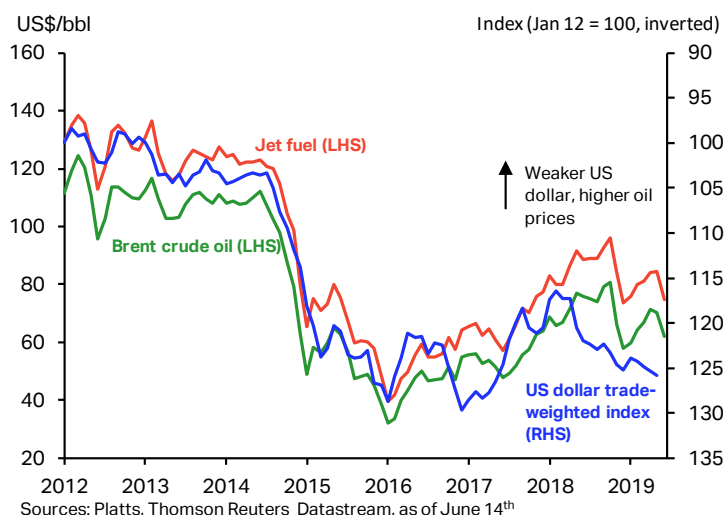
²From operating activities

Sources: The Airline Analyst, IATA

- The latest Q1 2019 sample of airlines indicates slight improvement in industry-wide free cash flow compared to the same period a year ago (1.0 percentage points up, from 4.9% to 5.9%). Decline in FCF outcomes in Europe and Middle East is balanced with the increase in the remaining regions.
- Net cash flow from operations rose from 17.6% to 19.9% of revenues in the industry. Capex spending has also increased by more than 1.0 percentage points.
- At the regional level, capital spending fell modestly in Asia-Pacific and Latin America, while carriers based in North America and Europe increased their capital spending compared to a year ago.

Fuel costs

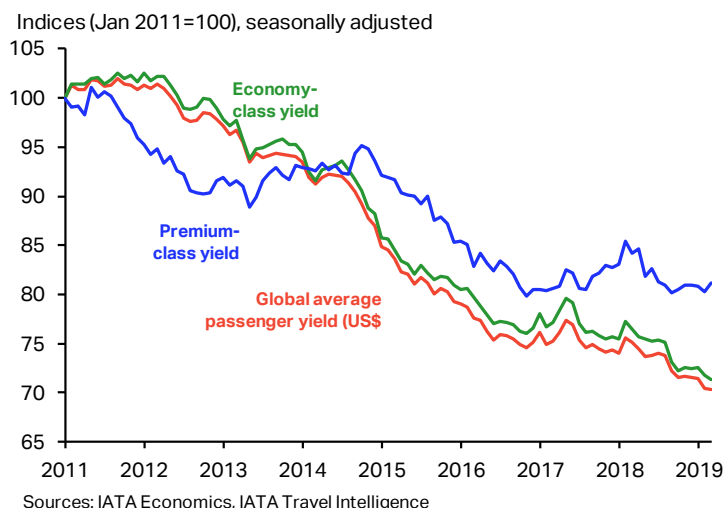
Oil and jet fuel prices ended their upward move



- Brent crude oil and jet fuel prices lost their strong upward momentum at the end of May driven by worries over slowing global oil demand reinforced by an escalated China-US trade war.
- At the time of writing this report, the price of Brent crude oil hovers around US\$62/bbl and the jet fuel price is around US\$75/bbl. For more data on oil price developments, check out our weekly [Jet Fuel Price Monitor](#).
- The futures market now indicates oil prices to be around US\$ 60/bbl in December 2019, ~US\$10 lower than the pricing at the beginning of May, which partially eases the heightened concerns a month ago on the cost side for airlines.

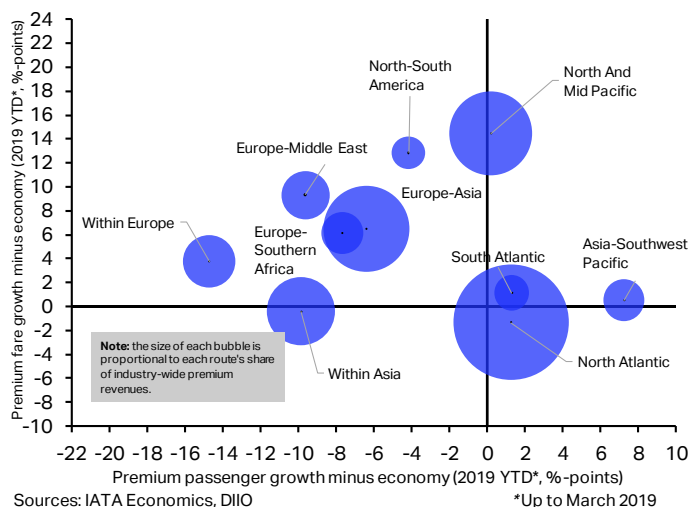
Yields and premium revenues

Premium passenger yields edged up in March



- Downward pressure on global base fare passenger yields (i.e. excluding surcharges and the revenue that airlines generate from ancillary services) persisted in March, which is consistent with the observed squeeze in profit margins. While economy cabin yields remained under pressure by declining 0.6%, yields in the less price sensitive premium cabin rose by 1.2% compared to the prior month, which is the biggest increase since February 2018.
- Overall global average passenger yields in US\$ terms were 6.0% lower compared to a year ago in March as airlines were not able to pass through cost increases through higher base fares to customers. As global economy growth forecasts are being revised down, industry-wide passenger yields are expected to remain under pressure.

Improvement in premium revenue share remains in place

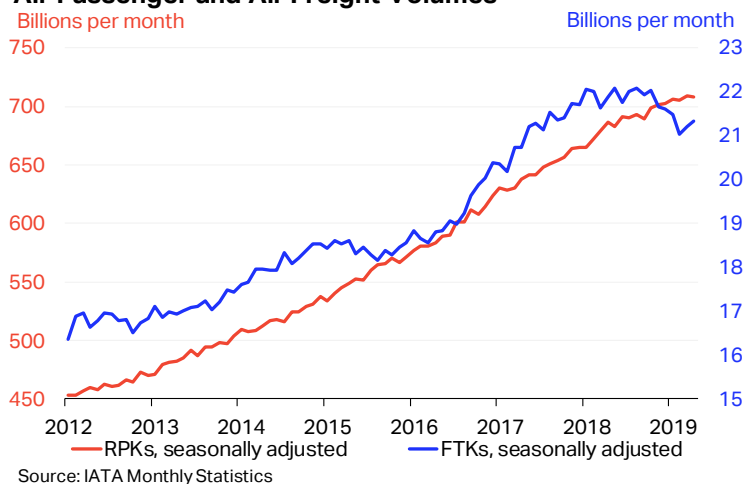


- Premium-class passengers share in total continues to decline. Premium-class passengers constitute 4.0% of the total number of international origin-destination traffic in Q1 2019, compare to 4.2% observed a year ago.
- In terms of revenue, 27.7% of total international passenger revenues came from premium-class passengers in Q1 2019. This figure was higher compared to the same period a year ago (27.2%) despite diminishing share of premium passengers.
- Premium passenger traffic growth has outperformed its economy counterparts in the Atlantic and Pacific regions. Premium class fare growth lagged economy counterpart only within Asia and in North Atlantic region.

Demand

Passenger demand continues at a slower pace, freight demand remains weak

Air Passenger and Air Freight Volumes

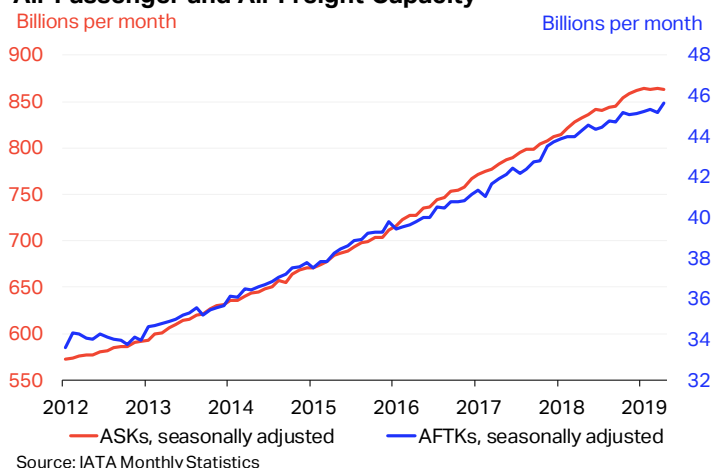


- Annual growth in industry-wide revenue passenger kilometres (RPKs) recovered to 4.3% in April, up from 3.1% in March. The later timing of the Easter holiday this year had impacted the industry in March and April results. Nevertheless, in seasonally adjusted (SA) terms, the level of passenger volumes has flattened in recent months indicating a slow-down in the underlying trend.
- Industry-wide freight tonne kilometres (FTKs) for April fell by 4.7% compared to a year ago. FTKs in SA levels posted an increase for a second consecutive month (0.6% higher than a month ago). However, they remain close to their levels in the mid-2017 and are still 2.5% lower compared to a year ago. Hence, taking into an account ongoing US-China trade dispute, it is early to infer from this month's modest uptick that it represents a change in the recent downward trend.

Capacity

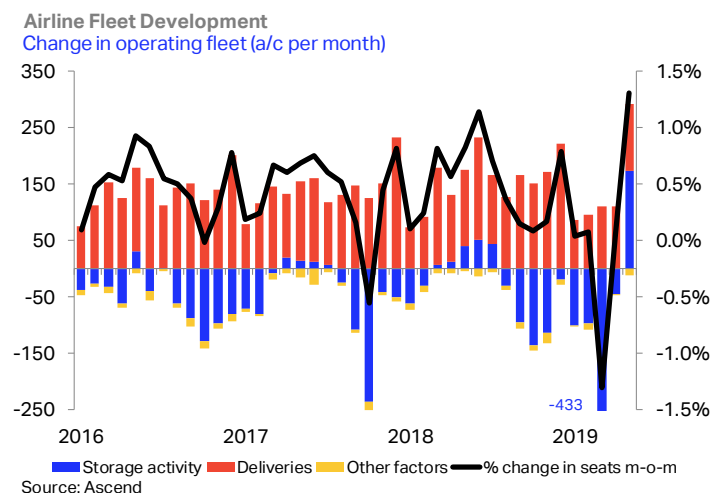
Passenger and freight capacity trends differed in April

Air Passenger and Air Freight Capacity



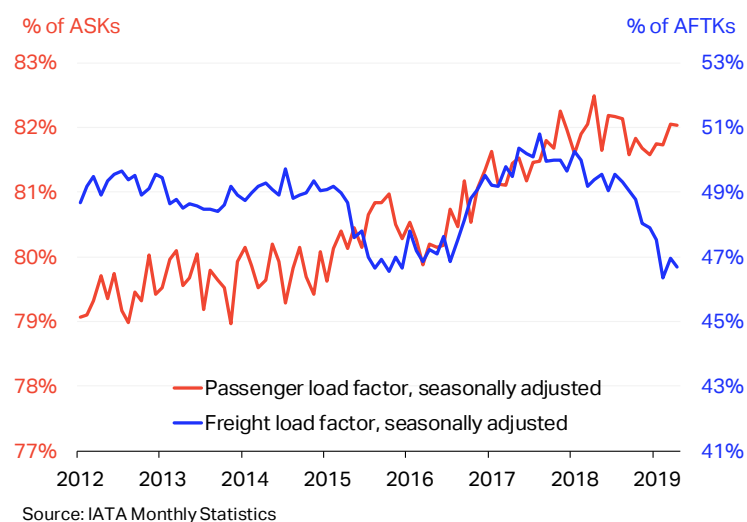
- Industry-wide available seat kilometres (ASKs) grew by 3.6% year-on-year in April, which is 0.7 percentage points below the growth in revenue passenger kilometres (RPKs). In seasonally adjusted terms both ASKs and RPKs eased modestly this month.
- Industry-wide freight capacity, measured by available freight tonne kilometres (AFTKs), increased by a moderate 2.6% year-on-year in April. In seasonally adjusted terms, AFTKs increased this month. However, the rate of capacity growth has slowed down in response to weaker freight demand this year. Indeed, Annualized pace of capacity growth over the past six months is down to 2.3%, compared to 3.5% at the end of 2018.

Net storage activity made the highest contribution to fleet growth since 2016



- The number of available seats in the global airline fleet increased by 1.3% in month-on-month terms in May. This was the highest increase since the beginning of 2016 following the decline stemming from 737 Max grounding. In year-on-year terms, growth remains moderate at 3.6% compared to ~5.7% in 2018.
- 119 aircraft were delivered in the month compared to 135 delivered in the same period a year ago. Altogether, the number of aircraft delivered in the first five months of 2019 was lower than that seen in the same period last year (590 vs. 522). Note that on average 596 aircrafts delivered in the first five months of the years between 2013-2018.
- 210 aircraft returned to the fleet from storage while 37 aircraft left the fleet. Hence, net storage activity made a positive contribution to fleet growth.

Passenger load factors recovering to previous high



- The industry-wide passenger seasonally adjusted load factor for April stays high at 82.0%. Seasonally adjusted data point to airlines responding to the demand slowdown by reducing capacity growth sufficiently and boosting asset utilization.
- Freight load factor (FLF) for the industry is currently at 46.3%, which is 3.5 percentage points lower than the level of a year ago. Following a modest rise in March, seasonally adjusted FLF confirms the downward trend, which has been observed since mid-2017, remains in place.

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 18th June 2019

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