AIRLINES FINANCIAL MONITOR

KEY POINTS

- The initial financial data for Q3 point to a healthy industry EBIT margin of 16.3%, down only slightly on a year ago. European airlines posted the widest profit margin on this occasion, overtaking their North American counterparts.
- Having trended downwards between late-2014 and late-2016, underlying industry-wide passenger yields are now broadly unchanged from their level a year ago.
- Global airline share prices rose by 1.7% in October, driven by gains for European and Asia Pacific airlines. Airline shares have outperformed the broader market over the past year.
- Oil prices rose through the US$60/bbl mark during October, amid signs that OPEC-led production cuts could be extended until end-2018, and rising tensions between Saudi Arabia and Iran.
- Passenger and freight volumes both grew robustly in year-on-year terms in September, although the seasonally-adjusted (SA) upward trends in both series eased between Q2 and Q3. The passenger load factor remains at an elevated level by historical standards, while the SA freight load factor is currently at a level last seen in late-2014.
- There is a wide spread in premium-class performance at a route level, but the pick-up in global trade conditions is helping to support demand on some of the key markets to, from, and within Asia.

Financial indicators

Global airline shares rose moderately in October, broadly matching the wider market

Airline Share Prices

<table>
<thead>
<tr>
<th>Index</th>
<th>Oct 31st</th>
<th>one month</th>
<th>one year</th>
<th>start of year</th>
</tr>
</thead>
<tbody>
<tr>
<td>World airlines</td>
<td>140.6</td>
<td>+1.7%</td>
<td>+29.7%</td>
<td>+18.0%</td>
</tr>
<tr>
<td>Asia Pacific airlines</td>
<td>120.9</td>
<td>+3.0%</td>
<td>+23.6%</td>
<td>+28.6%</td>
</tr>
<tr>
<td>European airlines</td>
<td>137.6</td>
<td>+5.6%</td>
<td>+68.6%</td>
<td>+59.7%</td>
</tr>
<tr>
<td>North American airlines</td>
<td>160.9</td>
<td>-1.7%</td>
<td>+15.5%</td>
<td>-5.1%</td>
</tr>
<tr>
<td>FTSE All World $</td>
<td>127.2</td>
<td>+2.0%</td>
<td>+20.9%</td>
<td>+17.6%</td>
</tr>
</tbody>
</table>

Global airline share prices rose by 1.7% in October, slightly below the 2% gain in the global equity market. That said, global airline shares have kept pace with the wider equity market since the start of 2017, and have outperformed over the past year.

The increase in global airline share prices in October was driven by a rebound for European and Asia Pacific carriers (up 5.6% and 3.0% respectively after having both fallen in September).

By contrast, following a solid increase last month, the North American airline share price index retracted around half of those gains, ending October 1.7% lower than where it began.

EBIT margin eases slightly vs a year ago, but remains robust at 16%

Airline Financial Results

<table>
<thead>
<tr>
<th>Number of airlines in sample</th>
<th>Regions</th>
<th>Q3 2016</th>
<th>Q3 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>EBIT margin¹</td>
<td>Net post-tax profit²</td>
</tr>
<tr>
<td>12</td>
<td>North America</td>
<td>17.5%</td>
<td>4,701</td>
</tr>
<tr>
<td>6</td>
<td>Asia-Pacific</td>
<td>11.9%</td>
<td>656</td>
</tr>
<tr>
<td>6</td>
<td>Europe</td>
<td>22.2%</td>
<td>3,907</td>
</tr>
<tr>
<td>2</td>
<td>Latin America</td>
<td>10.7%</td>
<td>99</td>
</tr>
<tr>
<td>26</td>
<td>Sample total</td>
<td>18.2%</td>
<td>9,363</td>
</tr>
</tbody>
</table>

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

- The initial financial data for Q3 point to a modest easing in the industry-wide EBIT margin, to (a still robust) 16.3% currently, from 18.2% a year ago.
- The performance of the Asia Pacific carriers has improved vs last year, and with a margin of 14.7% is now matching that of the North American airlines.
- European carriers, despite easing a little, have the highest margin, at just above 20%. Highlighting the challenging operating conditions in the region, the performance of the Latin American carriers lags, with a margin of 8.1% currently.
Industry-wide free cash flows dip in Q3, despite improvement in Asia Pacific & Europe

Airline Cash Flow\(^1\)

<table>
<thead>
<tr>
<th>Number of</th>
<th>Regions</th>
<th>Q3 2016</th>
<th></th>
<th>Q3 2017</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>airlines</td>
<td></td>
<td>Net cash</td>
<td>Capex</td>
<td>Free cash</td>
<td>Capex</td>
</tr>
<tr>
<td>in sample</td>
<td></td>
<td>flow(^2)</td>
<td></td>
<td>flow</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>12 North America</td>
<td>14.0%</td>
<td>9.2%</td>
<td>4.8%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3 Asia-Pacific</td>
<td>13.7%</td>
<td>19.2%</td>
<td>-5.5%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>5 Europe</td>
<td>7.1%</td>
<td>8.6%</td>
<td>-1.5%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1 Latin America</td>
<td>18.7%</td>
<td>9.7%</td>
<td>8.9%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>21 Sample total</td>
<td>12.4%</td>
<td>9.5%</td>
<td>3.0%</td>
</tr>
</tbody>
</table>

\(^1\) % of revenues \(^2\) From operating activities
Note: Includes half year results of China Southern Airlines and Shandong Airlines
Sources: The Airline Analyst, IATA

Brent oil prices rose above US$60/bbl in October, mainly on supply-side considerations

The Brent crude oil price rose through the US$60/bbl mark during October. At the time of writing, it is at its highest level since June 2015, nearly 40% higher than a year ago. Oil prices climbed steadily throughout the month, following a strong indication that OPEC-led production cuts could be extended until the end of 2018, as well as rising tensions between Saudi Arabia and Iran.

It is worth noting that the futures market points to oil prices declining modestly from current levels over the coming years, to ~US$58/bbl in late-2019.

As noted previously, medium-term (supply-side) developments in oil prices will be shaped by the net impact of reduced supply from traditional producers and increasing supply from US tight-oil producers.

Yields and premium revenues

The long-standing downward trend in yields has paused, but signs of weakness in August?

The main story in passenger yields over the past year or so has been the pause in the long-standing downward trend. This has reflected a number of factors, including an improved global economic backdrop, as well as upward pressure on some key input costs, including labor and oil.

The fall in the US dollar this year means that the unadjusted yield series has exaggerated the upward trend in underlying yields. After adjusting for movements in exchange rates, the bigger picture is that underlying yields are now broadly unchanged from their level a year ago.

Nonetheless, the August data saw the biggest month-on-month decline in the constant exchange rate yield series since March 2016. It remains to be seen whether this is data volatility or the start of a new downward move in underlying yields.

IATA Economics: [www.iata.org/economics](http://www.iata.org/economics)
A wide spread in premium-class performance, alongside a stronger global trade backdrop

The share of O-D passengers flying in the premium-class cabin increased to 5.2% during the first eight months of 2017, from 5.1% in the same period a year ago. Similarly, premium’s share of total international revenues rose slightly over the same period, to 25.5%, from 25.4% a year ago.

The pick-up in global trade conditions has helped to support premium passenger demand growth this year, particularly on markets to, from and within Asia. At the same time, premium fares on such routes have also held up well.

By contrast, premium demand has lagged behind economy in a number of cases, most notably between Europe and the Middle East, which, in part, appears to reflect the impact of the ban of personal electronic devices in early 2017.

Demand

The SA upward trends in passenger and freight demand slowed modestly during Q3

Industry-wide revenue passenger kilometres grew by 5.7% year-on-year in September.

Hurricanes Irma and Maria weighed on passenger volumes for carriers in the Americas during the month, particularly in the domestic US market. More generally, the upward trend in SA RPKs has slowed from that seen at the end of 2016.

Meanwhile, global freight volumes posted another month of robust year-on-year growth (9.2%). However, as in the case of passenger volumes, the upward trend in freight traffic has eased, amid signs that year-on-year growth may now have passed its cyclical peak.

Capacity

Irma and Maria-related disruption contributed to a fall in passenger capacity in September

Industry-wide available seat kilometres (ASKs) increased by 5.3% year-on-year in September. As was the case for RPKs, ASKs also declined in month-on-month terms on this occasion, primarily reflecting the disruption caused by Hurricanes Irma and Maria in the Americas.

Available freight tonne kilometres (AFTKs) grew by 3.9% year-on-year in September – less than half the corresponding pace of demand. This was the 14th consecutive month in which year-on-year capacity growth lagged behind that of FTKs.

IATA Economics: www.iata.org/economics
After the peak summer period, storage made a negative contribution to the fleet size in Sept.

The number of available seats in the global airline fleet increased by 0.2% in September compared to the previous month. As a result, there were 5.8% more seats in service compared to the same month a year ago.

149 new aircraft were delivered in September, broadly unchanged from the number of deliveries makes in September 2016 (152). All told, 47 fewer aircraft, or 4%, were delivered in the first nine months of 2017 compared to the same period a year ago (1,136 versus 1,183).

As is usual following the Northern Hemisphere peak summer period, storage activity made a negative contribution to fleet growth in September: 187 aircraft were put into storage, with 107 re-entering service from storage.

The seasonally-adjusted passenger load factor remains at an elevated level by historical standards, but it has declined modestly since reaching a record high in late-2016. The indicator increased slightly in September, despite the impact of Hurricanes Irma and Maria on demand.

The industry-wide freight load factor in September was 2.2 percentage points higher than where it stood a year ago. While volatile on a month-to-month basis, it has recovered to levels last seen in late-2014.

Get the data
Access data related to this briefing through IATA’s Monthly Statistics publication: www.iata.org/monthly-traffic-statistics

20-year passenger forecasts
To find out more about our long-term passenger forecasts, and to sign up, visit: www.iata.org/pax-forecast

IATA Economics Consulting
To find out more about our tailored economic consulting solutions, visit: www.iata.org/consulting

Terms and Conditions for the use of this IATA Economics Report and its contents can be found here: www.iata.org/economics-terms

By using this IATA Economics Report and its contents in any manner, you agree that the IATA Economics Report Terms and Conditions apply to you and agree to abide by them. If you do not accept these Terms and Conditions, do not use this report.