Airline industry average EBIT margin

- Airline profits are highly seasonal. Earnings before interest expenses and taxation (EBIT) or operating income (there are some accounting differences but both are approximately the same concept) is typically up to 10% of revenues higher in the third quarter of the year than in the first quarter. That’s because the industry is still dominated by Northern hemisphere holiday patterns and a large proportion of costs are fixed. In the slack season during the first quarter there are often losses, even if the year as a whole is profitable.

- A quick look at the chart shows that this seasonal fluctuation makes it very difficult to detect a trend or more importantly a change in trend. The airline industry is used to seasonality in traffic and revenue and typically uses year-on-year changes to get a sense of direction. With regular negative numbers in Q1 for profits and EBIT margins you can’t use year-on-year changes. That’s why using seasonal adjustment statistical techniques are so useful. We’ve done this in the chart above. The blue line shows the raw EBIT margin data adjusted to remove the regular seasonal fluctuations. (Recall that seasonal adjustment was the subject of a Chart of the Week earlier this year too - link.)

- What’s immediately apparent is the strong improvement in margins during 2014 (note that this started before the fall in fuel prices in late 2014) with margins more than doubling by late-2015.

- Also visible is that by the first half of this year EBIT margins levelled off and seem to have peaked. That’s not surprising since this coincided with intensified downward pressure on yields and unit revenues and an end to the fall of spot fuel prices. As we move into the second half of 2016 the business environment has become more challenging for airline profitability, with soft economic conditions, fuel prices trending slowly higher and unit revenues still under pressure.