

# AIRLINES FINANCIAL MONITOR

## KEY POINTS

November-December 2015

- 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 shares rose 3% in December, supported by further decline in fuel prices

#### Airline Share Prices

US\$ based index (100 = 2007)



- Airline share prices were up 3% in December compared to November. This is a rebound after the fall in November, which was partly a result of the Paris attacks, and fears over the impact that would have on demand for air travel. Airline share prices were given a boost in December by a further decline in fuel prices. Carriers in all regions saw improvements in share prices in December, with European airlines rebounding the most (6%) after the fall in November.

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

In US \$ Million

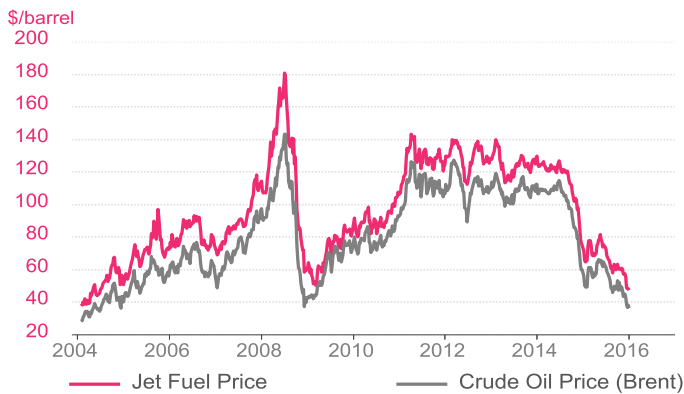
# Airlines*	Regions	Q3 2014		Q3 2015	
		Operating profit	Net post-tax profit	Operating profit	Net post-tax profit
28	North America	7,141	3,908	10,331	6,979
24	Asia-Pacific	2,206	1,449	1,962	940
13	Europe	5,681	4,209	7,249	5,499
6	Latin America	435	-88	372	-530
6	Others	102	-7	198	97
77	Sample total	15,565	9,471	20,112	12,984

- 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.

## Fuel costs

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

#### Jet Fuel and Crude Oil Price

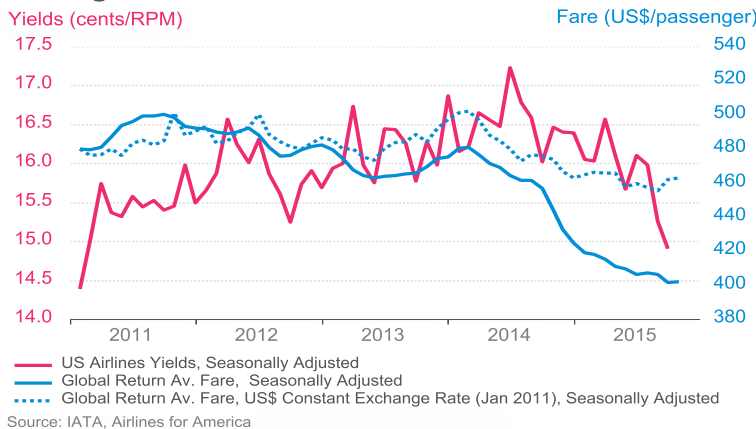


- Crude oil prices fell further in December 2015, down to as low as \$38/bbl, which is \$27/bbl lower than the mid-year peak. The recent weakness in crude oil prices had brought the average for 2015 down to \$54/bbl, and \$66/bbl for jet fuel prices.
- The recent lows in crude oil prices reflect expectations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

#### Average Return Fare Worldwide & US Airlines Yields

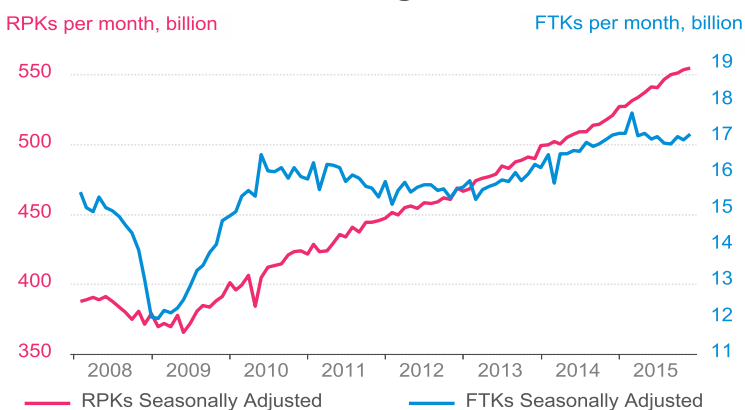


- In September, US passenger yields were down 4% year-to-date. The weakness in yields is likely in response to downward pressure from declines in fuel costs.
- In US\$-terms average global fares were down 13% in the first 8 months of this year, compared with the year ago period. However, if we hold exchange 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

#### Total Air Travel and Air Freight Volumes



- 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.

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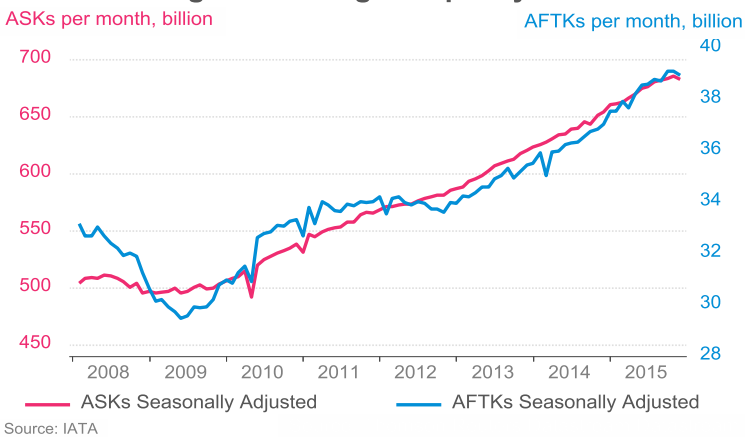
Including comprehensive country-by-country fuel

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## Capacity

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

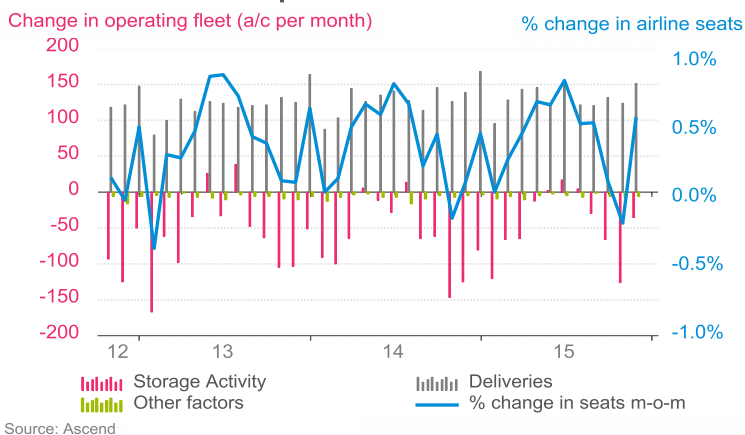
#### Total Passenger and Freight Capacity



- 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

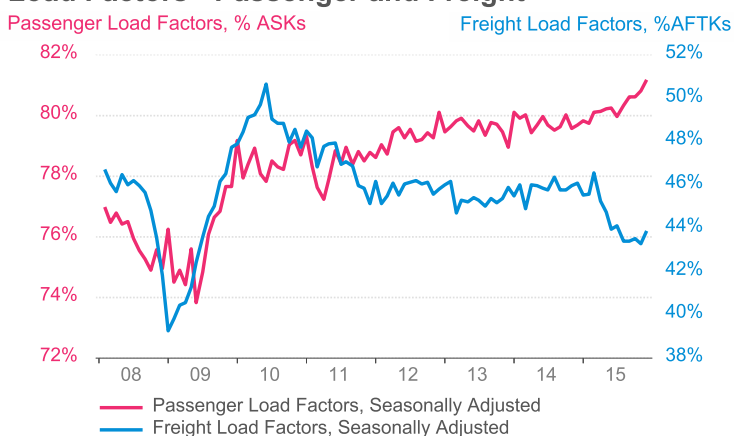
#### Airline Fleet Development



- 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

#### Load Factors - Passenger and Freight



- 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	Nov 2015 vs. Nov 2014						YTD 2015 vs. YTD 2014					
	RPK	ASK	PLF	FTK	AFTK	FLF	RPK	ASK	PLF	FTK	AFTK	FLF
Africa	10.7%	8.5%	66.6%	-6.0%	6.6%	31.9%	1.2%	0.7%	68.7%	2.5%	4.0%	30.0%
Asia/Pacific	7.7%	5.9%	77.7%	-1.5%	3.2%	56.4%	8.7%	6.7%	78.7%	2.6%	5.8%	54.0%
Europe	1.5%	-0.8%	78.8%	-2.0%	2.2%	49.2%	5.2%	3.9%	82.1%	-0.2%	4.2%	44.8%
Latin America	4.5%	5.7%	78.8%	-6.4%	1.9%	41.8%	6.9%	6.6%	79.9%	-5.9%	1.8%	38.4%
Middle East	9.6%	11.3%	69.8%	5.4%	9.2%	45.6%	11.7%	14.2%	76.9%	11.9%	16.3%	42.9%
North America	6.7%	3.5%	82.4%	-3.2%	5.8%	35.1%	4.3%	3.9%	84.1%	-0.4%	3.5%	34.2%
<b>Total Market</b>	<b>5.9%</b>	<b>4.2%</b>	<b>78.0%</b>	<b>-1.2%</b>	<b>4.5%</b>	<b>46.8%</b>	<b>6.7%</b>	<b>5.8%</b>	<b>80.5%</b>	<b>2.3%</b>	<b>6.0%</b>	<b>44.1%</b>

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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