

AIRLINES FINANCIAL MONITOR

KEY POINTS

October-November 2015

- Worldwide airline share prices fell 6% in November, partly owing to concerns that the Paris attacks will impact demand for air travel;
- 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 fell to \$42/bbl in November, 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 expanded further in October while FTKs volumes fell back after signs of modest gain in Q3;
- Growth in the number of seats plunged in October, well below expansion in demand, which should help support aircraft utilization rates;
- Passenger loads reached a new record high (80.8%, seasonally adjusted) in October. By contrast, freight load factors remain at low levels not seen since mid-2009.

Financial indicators

Worldwide airline shares fell 6% in November, as the broader market gained overall

Airline Share Prices

US\$ based index (100 = 2007)



- Airline share prices fell 6% in November compared to October. By contrast, broader equity markets were up, supported by the low interest rate environment and rebounds in the Chinese stock market. The FTSE Global All Cap rose 9% over the same period. The fall in airline share prices was partly a result of the Paris attacks, and fears over the impact that would have on demand for air travel. In Asia Pacific, the fall in share values was also driven by weak profit results. Carriers in Asia Pacific experienced a 10% fall in share prices in November compared to October.

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

In US \$ Million

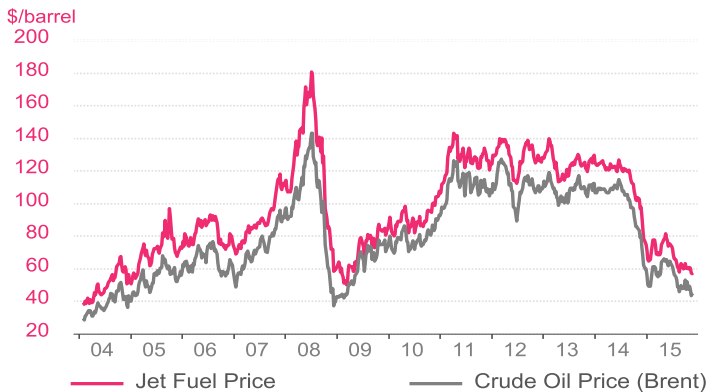
# Airlines*	Regions	Q3 2014		Q3 2015	
		Operating profit	Net post-tax profit	Operating profit	Net post-tax profit
17	North America	6,442	3,425	9,529	6,488
24	Asia-Pacific	2,206	1,449	1,962	940
12	Europe	5,562	4,252	7,119	5,403
6	Latin America	435	-88	372	-530
4	Others	66	-25	65	-26
63	Sample total	14,711	9,013	19,047	12,275

- 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 November to levels not seen since 2009, down to \$42/bbl

Jet Fuel and Crude Oil Price

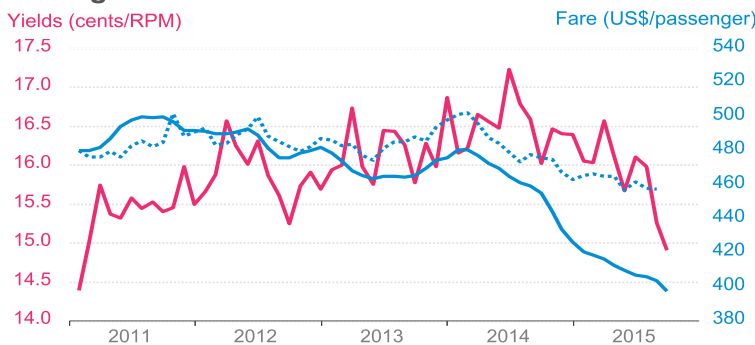


- Crude oil prices fell further in November, down to as low as \$40/bbl, which is \$25/bbl lower than the mid-year peak. The recent weakness in crude oil prices has brought the average so far in 2015 down to \$55/bbl.
- The recent lows in crude oil prices reflect expectations of supply increases from 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

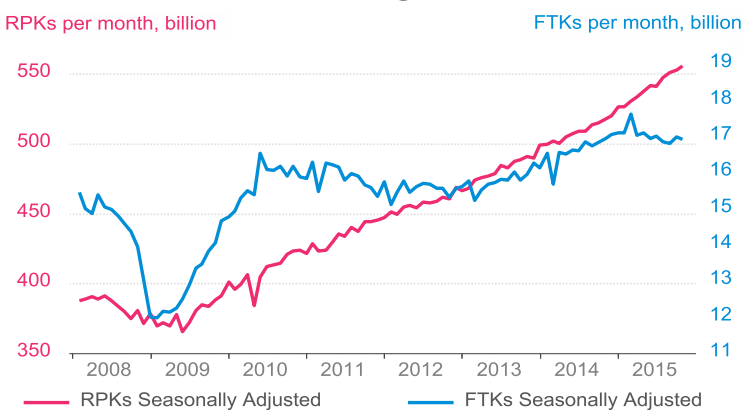


- In September, US passenger yields were down 4% year-to-date. The weakness in yields is likely in response to downward pressure from declines in fuel costs.
- In US\$-terms average global fares were down 13% in the first 8 months of this year, compared with the year ago period. However, if we hold exchange rates constant to eliminate the translation effect of the stronger US dollar, global fares were down 5% over the same period. The US dollar appreciation is exaggerating the downward pressure on fares, but there is still some underlying downward pressure evident.

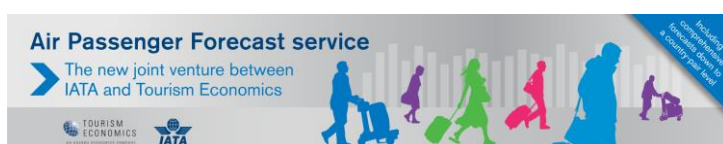
Demand

RPK volumes continue to increase as FTKs slip back in October

Total Air Travel and Air Freight Volumes



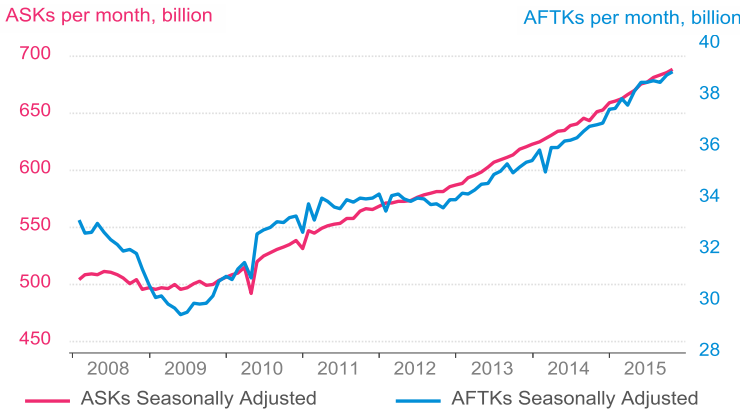
- Air passenger volumes increased again in October, sustaining the robust growth trend after a moderation mid-year. Weakness in some emerging markets, including China, has been placing downward pressure on global economic growth. However, growth in RPKs, particularly the more price sensitive economy class leisure travel, has received some help from lower fares.
- Air freight volumes fell in October compared to September. The decline was largely driven by the performance of European carriers, whose recent positive growth trend reversed in October. However, indicators of business confidence and trade to/from the region suggest this downward pressure should ease in the months ahead.



Capacity

ASKs continue to expand as do AFTKs, despite weakness in air cargo markets

Total Passenger and Freight Capacity

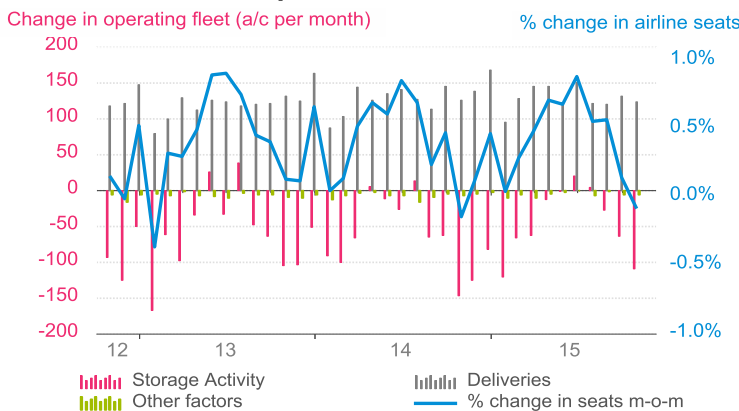


Source: IATA

- There was a slight 0.3% increase in passenger capacity in October compared to September. Carriers in all regions except the US experienced capacity expansion on international markets. On domestic markets, there were contractions in capacity in Australia and Brazil, month on month.
- Air freight capacity growth expanded further in October compared to September, expanding 0.3%. The trend in AFTK growth has been strongly positive for much of 2015, in contrast to developments in demand volumes.

Growth in seats plunges in October, which should support aircraft utilization rates

Airline Fleet Development

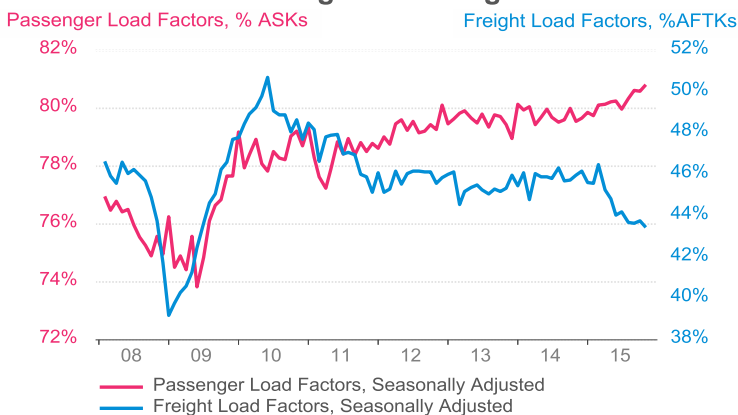


Source: Ascend

- Growth in available seats contracted 0.1% in October compared to September. There was a small decrease in new aircraft deliveries in October (124), compared to September (132), but the contraction came mostly from a rise in storage activity. There was a net increase in storage activity over the period, from 64 aircraft in September to 109 in October. The contraction in airline seats is in contrast to the growth in demand, and this should help boost aircraft utilization rates.

Passenger loads reach new record high while freight loads remain at 6-year lows

Load Factors - Passenger and Freight



Source: IATA

- Passenger load factors picked up again in October, reaching another record high – 80.8% on a seasonally adjusted basis. The gain in seasonally adjusted load factors resulted from a stronger pick-up in demand compared to capacity expansion. Over the past several months, load factors have been improving mostly due to gains on domestic markets.
- Cargo load factors fell further in October, reflecting a combination of declining volumes and growth in capacity. Air freight load factors have been in decline since Q1 2015, and remain at levels not seen since mid-2009, on a seasonally adjusted basis.

Data tables

Year on Year Comparison	Oct 2015 vs. Oct 2014						YTD 2015 vs. YTD 2014					
	RPK	ASK	PLF	FTK	AFTK	FLF	RPK	ASK	PLF	FTK	AFTK	FLF
Africa	5.6%	4.2%	68.7%	-1.1%	6.9%	30.3%	0.4%	-0.1%	68.9%	3.4%	3.8%	29.8%
Asia/Pacific	9.2%	6.9%	78.5%	0.3%	2.9%	55.3%	9.1%	7.0%	78.8%	3.0%	5.0%	54.2%
Europe	6.9%	4.3%	83.2%	0.2%	5.6%	44.9%	5.7%	4.5%	82.4%	0.0%	4.4%	44.4%
Latin America	4.9%	5.6%	79.8%	-8.1%	5.0%	40.1%	6.2%	5.8%	80.0%	-5.9%	2.0%	38.0%
Middle East	9.7%	12.2%	72.7%	8.3%	11.6%	43.6%	11.9%	14.5%	77.6%	12.6%	17.0%	42.6%
North America	6.0%	3.3%	85.0%	-2.4%	6.0%	34.8%	4.1%	3.9%	84.2%	-0.1%	3.2%	34.1%
Total Market	7.5%	5.7%	80.5%	0.5%	5.7%	44.8%	6.8%	6.0%	80.7%	2.6%	5.8%	44.0%

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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