

# AIRLINES FINANCIAL MONITOR

## KEY POINTS

March 2016 – April 2016

- Global airline share prices fell by 6.9% in April, erasing the gains seen during February and March;
- The financial results released so far from Q1 indicate a robust overall start to 2016 for industry profitability;
- Crude oil prices rose to a six-month high at the end of April, although the market still expects prices to stay below \$50/bbl until into 2018;
- We estimate that airfares fell by around 4% in constant exchange rate terms in early-2016. However, with oil prices up 65% since their January low, the biggest stimulus to demand from lower airfares now appears to be behind us;
- Premium airfares have held up better than those in economy on many of the key premium routes so far this year, and premium traffic continues to offer an important buffer for overall airline financial performance;
- The global air passenger market enjoyed a robust start to 2016 during Q1, bolstered, in part, by the leap year. Passenger load factors came in unchanged in year-on-year terms in Q1 2016, but have slipped in recent months;
- After a one-off boost to air freight owing to disruption at US west coast seaports in Q1 2015, air freight volumes fell by 2.1% year-on-year in Q1. The freight load factor in Q1 2016 dropped by 3.8 percentage points compared to the same period in 2015, and this is keeping intense pressure on cargo yields.

## Financial indicators

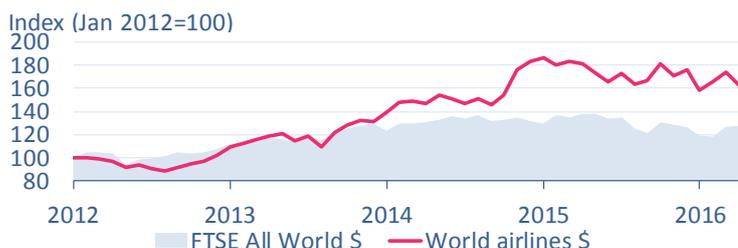
### Global airline share prices fell by 6.9% in April, erasing the gains seen in Feb and March

#### Airline Share Prices

US\$ indices (Jan 2012=100)	Index Apr 29th	% change on		
		one month	one year	start of year
<b>World airlines</b>	<b>162.1</b>	<b>-6.9%</b>	<b>-10.4%</b>	<b>-8.1%</b>
Asia Pacific airlines	86.0	-3.1%	-15.6%	-2.0%
European airlines	217.3	-3.8%	+1.7%	-6.9%
North American airlines	329.7	-12.5%	-12.1%	-12.9%
<b>FTSE All World \$</b>	<b>127.9</b>	<b>+1.3%</b>	<b>-7.4%</b>	<b>+1.0%</b>

- Global airline share prices dropped by 6.9% during April, and they ended the month more than 8% below their start-year level. North American airlines saw the biggest month-on-month fall (-12.5%), while European and Asia Pacific airlines saw more modest declines (-3.8% and -3.1% respectively).

- Airline shares underperformed the wider equity market significantly in April (the FTSE Global All Cap index rose by 1.3% during the month, to leave it 1.0% higher than at the start of January). The underperformance of airline shares reflects investor concerns about the impact of declining yields on industry profitability.



Source: Thomson Reuters Datastream

### The latest financial results from Q1 indicate a robust start to 2016 for industry profitability

#### Airline Financial Results

Number of airlines in sample	Regions	Q1 2015		Q1 2016	
		EBIT margin <sup>1</sup>	Net post-tax profit <sup>2</sup>	EBIT margin <sup>1</sup>	Net post-tax profit <sup>2</sup>
11	North America	12.3%	2,848	15.5%	3,094
3	Asia-Pacific	8.8%	96	9.8%	127
6	Europe	-3.4%	-241	-0.2%	-208
2	Latin America	5.3%	33	7.3%	42
<b>22</b>	<b>Sample total</b>	<b>6.8%</b>	<b>2,736</b>	<b>9.9%</b>	<b>3,055</b>

<sup>1</sup> % of revenues      <sup>2</sup> US\$ million

- The initial financial results from the first quarter of 2016 indicate a robust, albeit mixed, start of the year for industry profitability. Net post-tax profits in our sample from Q1 2016 were 12% higher than in the same period in 2015.

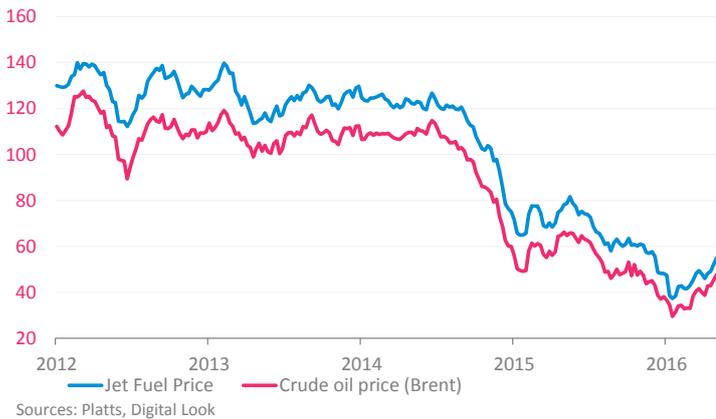
- A clearer picture will emerge as more airlines release Q1 financial results over the coming months. Nonetheless, the strongest financial results were once again posted by North American airlines, with an operating margin of over 15%. By contrast, as is usual in Q1, European airlines in our sample posted a modest operating loss, albeit smaller than in Q1 2015.

## Fuel costs

### Crude oil prices rise to six-month highs, but the market still expects 'lower for longer'

#### Jet Fuel and Crude Oil Prices

US\$/barrel



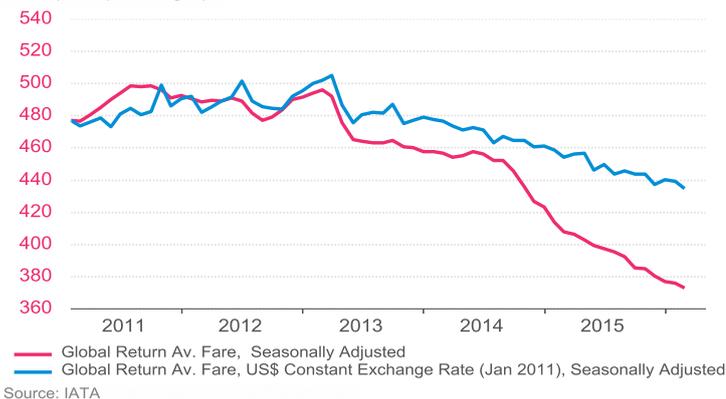
- Crude oil prices gained further during April, driven by market expectations of a possible freeze in production levels. The price of a barrel of Brent crude oil ended the month at around US\$47/bbl – the highest level since November 2015.
- That said, the bigger picture is that oil prices are still around one-third lower in year-on-year terms. Moreover, with storage levels remaining very high for this time of year, the overriding market sentiment for oil prices is 'lower for longer'. Indeed, while the oil futures curve has shifted upwards in recent weeks, the market still currently expects Brent oil prices to remain below US\$50/bbl into early-2018.

## Yields and premium revenues

### The biggest stimulus to demand from oil prices appears to be behind us

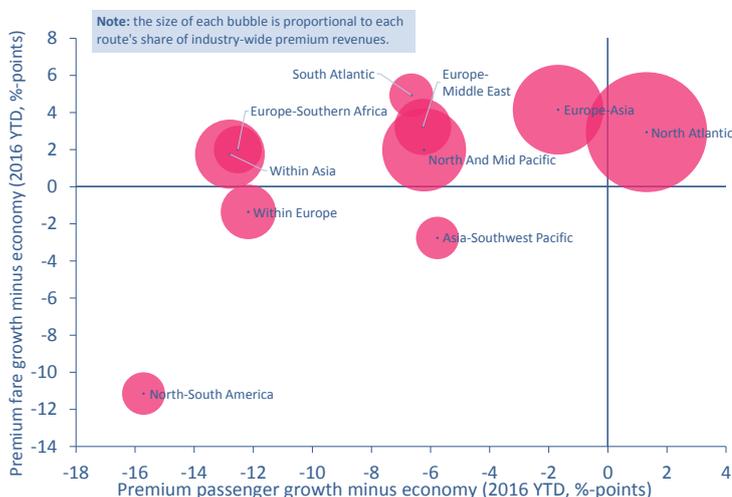
#### Average Return Fare Worldwide

Fare (US\$/passenger)



- Average global fares in reported US dollar terms (excluding taxes, fees and surcharges) have fallen by around 9% year-on-year so far this year (latest data to end-Feb). Adjusting for the impact of earlier gains in the dollar, we estimate that airfares fell by around 4% in constant exchange rate terms in early-2016. But given that the dollar has fallen sharply against most currencies in recent months, the distortions caused by its prior strength will ease over the coming months.
- Airfares are expected to decline further in the near future as prior declines in jet fuel prices feed through. That said, with oil prices up 65% since their January low, the biggest stimulus to demand from lower airfares now appears to be behind us.

### Premium travel offering an important buffer for financial performance on key routes



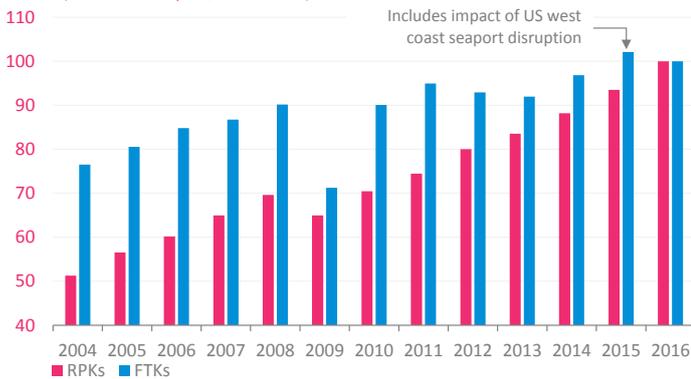
- Premium international passenger traffic has grown more slowly than its economy counterpart so far this year. O-D premium int'l journeys accounted for 5.6% of the total in Jan and Feb 2016 combined, down from 6.0% in 2015.
- That said, premium fares have held up better than those in economy on many of the key premium routes. As a result, premium's share of revenues on some routes has increased in annual terms (particularly on the North Atlantic and Europe-Asia markets, which together accounted for around two-fifths of total premium revenues last year). In the current environment of downward pressure on yields, the high-yielding premium segment offers an important buffer for overall airline financial performance.

## Demand

### Differing fortunes for passenger and freight demand in early-2016

#### Air Passenger and Air Freight Volumes

Index (sum Q1 each year, 2016 = 100)



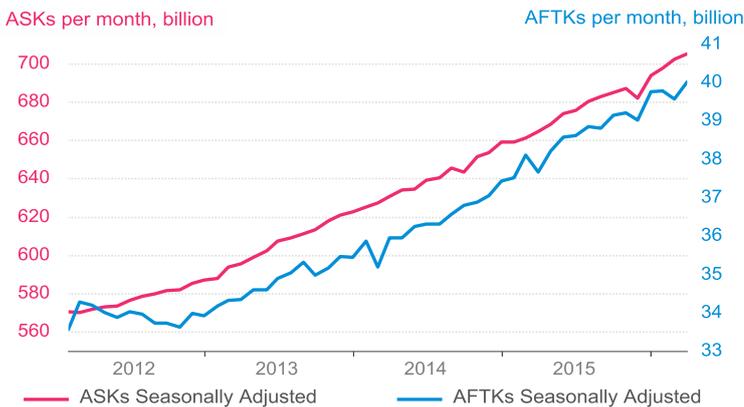
Source: IATA BIS

- Global passenger traffic grew by 7.0% year-on-year in the first quarter of 2016. The outcome was helped by the fact that 2016 is a leap year, but the overall picture was robust nonetheless.
- By contrast, industry-wide air freight volumes fell by 2.1% year-on-year in Q1 2016. The year-on-year decline was complicated by the one-off boost to air freight seen during the start of 2015 during the disruption at seaports on the US west coast. However, the wider demand backdrop remains weak.

## Capacity

### Airlines have been cautious in adding passenger capacity, but tentative signs of a pick up

#### Total Passenger and Freight Capacity



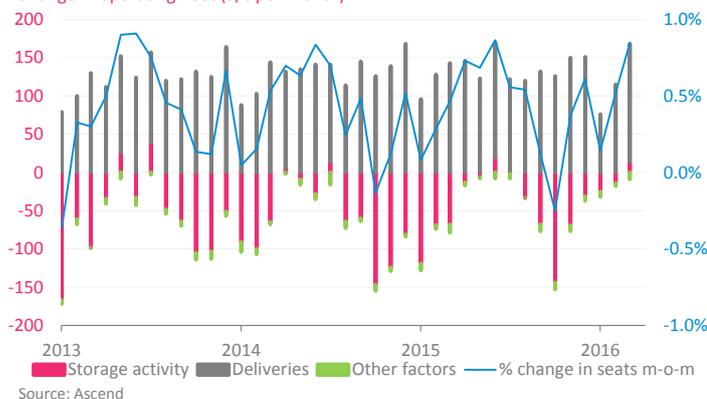
Source: IATA Monthly Statistics

- Airlines have generally reacted to robust travel demand over the recent past by adding capacity cautiously. That said, there has been a slight acceleration in capacity growth in recent months. March was the second consecutive month in which annual growth in passenger capacity exceeded that of passenger traffic.
- Available freight tonne kilometres increased by 6.7% year-on-year in Q1 2016, and by 6.9% year-on-year in March. With ongoing impetus to freight belly capacity from additions to the passenger fleet, annual growth in industry-wide freight capacity has now outstripped annual growth in volumes for 13 consecutive months.

### A busy month for deliveries, as the trend of fewer aircraft going into storage continues

#### Airline Fleet Development

Change in operating fleet (a/c per month)



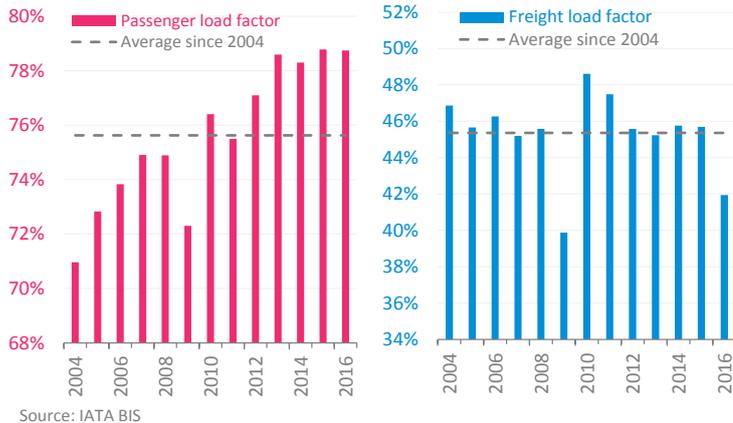
Source: Ascend

- The number of available seats in the global airline fleet increased by 0.8% in March compared to the previous month, and by 5.9% compared to March 2015.
- 154 new aircraft were delivered in March – the most seen in a month since December 2014. Net storage activity made a positive contribution to the fleet size. The recent marked turnaround in net storage activity mainly relates to fewer aircraft going into storage, as lower oil prices and robust demand have made it economical to keep flying less fuel-efficient aircraft. (Fewer than 100 aircraft went into storage in March, compared to a peak of over 240 in October 2014.)

## Passenger and freight load factors continue their divergence

### Load Factors - Passenger and Freight

Combined Q1 load factors over time



- The passenger load factor in Q1 2016 as a whole came in at exactly the same (record) level as it was in Q1 2015. However, seasonally-adjusted loads have slipped somewhat in February and March. High achieved passenger loads have helped to support recent financial results, so we will be monitoring closely as to whether this marks the start of a downward trend.
- The industry freight load factor dropped to 41.9% in Q1 – well below the average level seen during the first quarter over the past decade or so and the lowest level since 2009. Low freight loads are keeping intense pressure on freight yields and revenues (an ongoing headwind for Asia Pacific carriers, for whom cargo is a key part of their business).

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 10<sup>th</sup> May 2016

### Get the data

Access data related to this briefing through IATA's Monthly Statistics publication: [www.iata.org/monthly-traffic-statistics](http://www.iata.org/monthly-traffic-statistics)

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