

AIRLINES FINANCIAL MONITOR

KEY POINTS

June-July 2015

- Airline share prices rose 4% in July compared to June, buoyed by falling oil prices and strong Q2 financial results;
- Initial Q2 financial results show a large improvement in profits across all major regions and particularly in the US;
- Crude oil prices fell further in July, pushed down by expectations of supply increases from Iran and the US – levels are down 54% on 2014 highs;
- Passenger yields in the US continue to fall and although the fall in fares elsewhere appears to have stopped, levels remain 13% down on a year ago;
- Weakness in yields and fares reflects downward pressure from declines in fuel costs, stronger growth in capacity relative to demand as well as exchange rate distortions;
- Air transport volume growth moderated in June but the trend for 2015 remains robust – air freight volumes weakened further on declining trade activity;
- Growth in seats accelerated in June as new aircraft deliveries increased, surpassing expansion in demand;
- Air freight load factors were stable in June but remain at lows not seen since mid-2009. Passenger loads dipped slightly as growth in capacity outstripped the moderation in demand.

Financial indicators

Airline shares rose 4% in July after several months of decline, buoyed by lower oil prices

Airline Share Prices

US\$ based index (100 = 2007)



Source: Thomson Reuters Datastream

- Airline share prices rose 4% in July compared to June, outperforming the broader market. The FTSE Global All Cap rose just 0.5% over the month. Airline share prices were in decline throughout Q2 as a result of investor profit-taking, particularly in the US, as well as the strength of the US-dollar which was placing upward pressure on US-dollar denominated costs for non-US airlines. The July rally in airline shares was buoyed by a fall in fuel prices as well as the release of strong profit results for Q2 2015 in all major regions.

Initial Q2 financial results show strong profit improvement in all major regions

In US \$ Million

# Airlines*	Regions	Q2 2014		Q2 2015	
		Operating profit	Net post-tax profit	Operating profit	Net post-tax profit
9	North America	5210	3083	6737	5236
7	Asia-Pacific	131	82	462	432
7	Europe	1734	893	1881	1213
2	Latin America	8	-13	42	29
0	Others	0	0	0	0
25	Sample total	7083	4045	9122	6910

Source: The Airline Analyst, IATA.

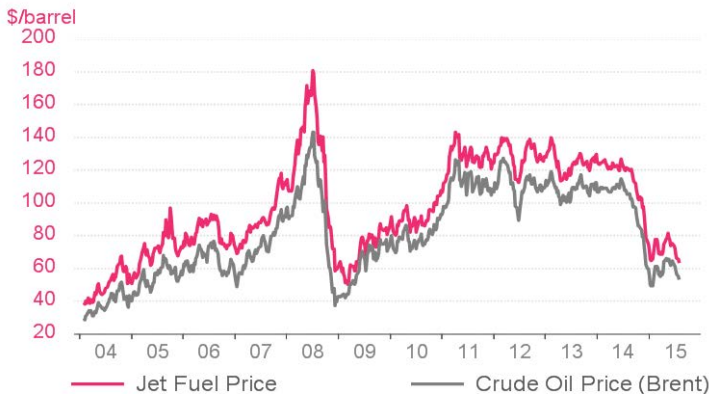
*Includes Aer Lingus half-year results

- Airline financial performance continues to improve strongly according to initial Q2 financial results. A sample of 25 airlines shows that the industry financial performance improved significantly on the year ago period at the operating and net profit level. The increase was driven by North American airlines, where consolidation and lower fuel costs have resulted in a significant boost to profitability. Airlines in Asia Pacific and Europe are also showing gains on a year ago, supported by cost cutting measures as well as easing fuel cost pressure.

Fuel costs

Crude oil price prices weaken on expectations of supply increases in the US and Iran

Jet Fuel and Crude Oil Price

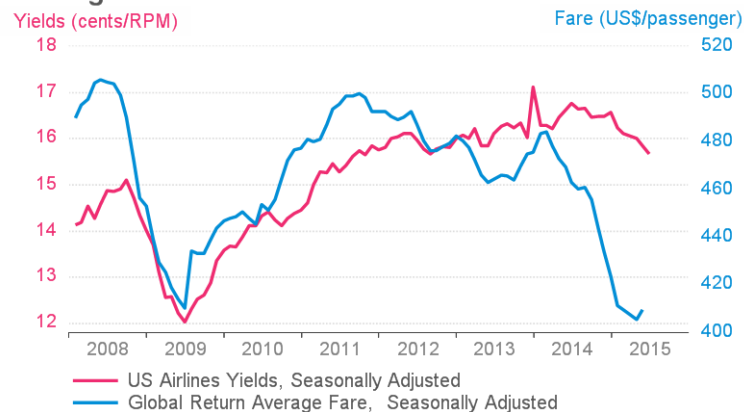


- Crude oil prices fell below \$50/bbl in January, the lowest price seen for the past 6 years. Since then, there have been two small rallies; the most recent was a 15% increase in May compared with the prior low in March.
- July saw further decline in oil prices, by 5% compared to June. Crude oil prices are now \$53/bbl, or 54% down on the 2014 mid-year high. The recent weakness reflects expectations of supply increases from Iran and the US.

Yields

Passenger yields remain weak worldwide, reflecting the lower fuel related costs

Average Return Fare Worldwide & US Airlines Yields

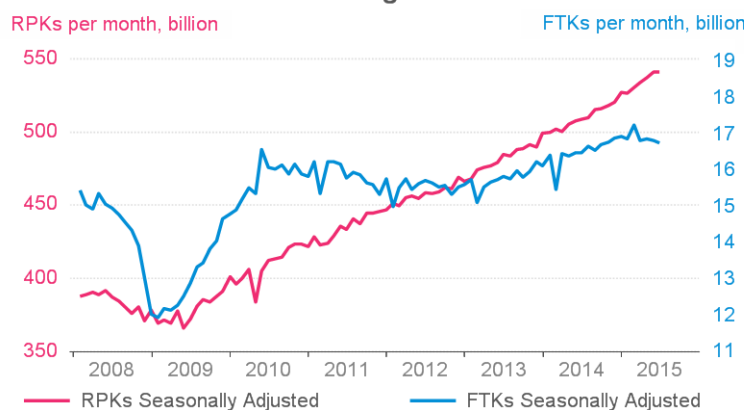


- US passenger yields have been in decline since the start of 2015. In May, US passenger yields were down 5% year-on-year. The weakness in yields likely reflects downward pressure from earlier declines in fuel related costs and stronger growth in capacity relative to demand.
- The downward trend in global fares in US\$ appears to have paused, but levels are down 13% on a year ago. The fare data excludes fuel surcharges and ancillary revenues. The trend in global fares is reflecting downward pressure from declines in fuel costs as well as exchange rate distortions from the appreciation of the US-dollar.

Demand

RPK volumes moderated in June as global FTK volumes continue to decline

Total Air Travel and Air Freight Volumes



- Air transport volumes moderated in June but the trend is robust so far this year. Weakness in some emerging markets, including China, could dampen the strong rate of growth in air travel seen during the recent past. But the decline in oil prices should help support economic activity overall and sustain robust demand for air travel.
- Air freight volumes fell by 0.4% in June compared to May, further entrenching the weakness that has been developing in 2015. Air freight performance is consistent with a trend change in world trade, particularly in emerging Asia, where trade has been in notable decline throughout much of H1 2015.

Air Passenger Forecast service
The new joint venture between
IATA and Tourism Economics

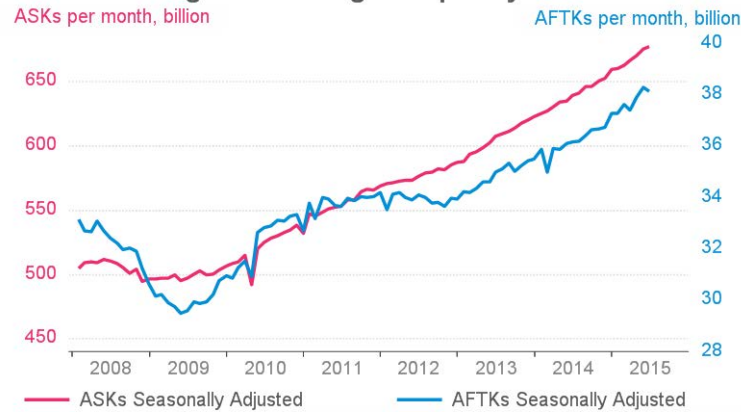
including economic forecasts for
the country's air travel

TOURISM ECONOMICS
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Capacity

ASKs continued to increase while AFTKs contracted in line with moderation in demand

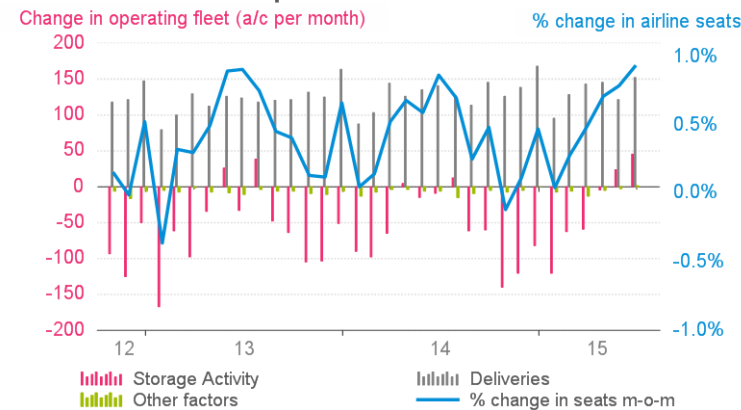
Total Passenger and Freight Capacity



- There was a slight 0.3% increase in passenger capacity in June compared to May; once again mostly on international markets. Carriers in all regions experienced capacity expansion, except for Asia Pacific, where growth in demand was weaker compared to May.
- Air freight capacity declined in June compared to May, responding to the weakness in demand. Slower growth in capacity might help prevent a further decline in load factors, which have been falling since Q1 2015.

Growth in seats accelerated further in June, now in excess of the growth in demand

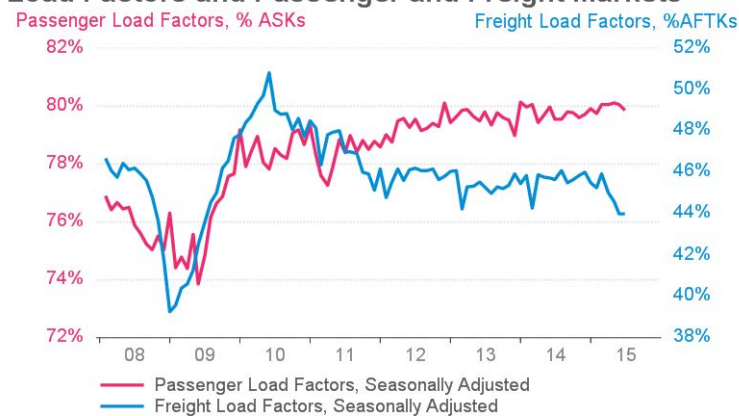
Airline Fleet Development



- Growth in available seats accelerated further in June. There was a significant increase in new aircraft deliveries to the operating fleet in June (152), compared to May (122). This increase offset the net rise in storage activity. In June there were 78 aircraft leaving storage compared to 97 in May. Only 3 more aircraft came out of storage in June (124) compared to May (121). Growth in seats accelerated to an 11% annualized rate in June, which if sustained could put downward pressure on aircraft utilization rates.

Passenger loads dipped slightly while air freight stabilized after recent declines

Load Factors and Passenger and Freight Markets

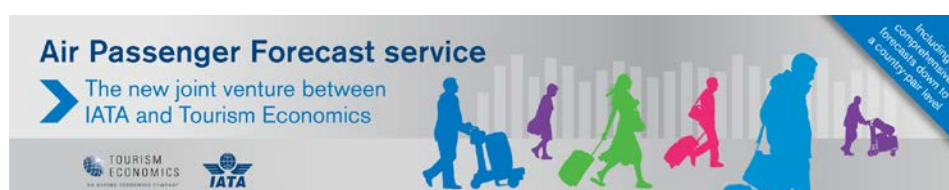


- Industry load factors have turned down slightly, after a stretch of positive momentum in 2015. The fall in seasonally adjusted load factors resulted from growth in capacity as demand volumes remained unchanged over the month. The fall in load factors was seen across both domestic and international markets.
- Cargo load factors remained unchanged in June compared to May. The fall in volumes was matched by a cut in capacity. Still, air freight load factors are the lowest they have been since mid-2009, on a seasonally adjusted basis.

Data tables

Year on Year Comparison	Jun 2015 vs. Jun 2014						YTD 2015 vs. YTD 2014					
	RPK	ASK	PLF	FTK	AFTK	FLF	RPK	ASK	PLF	FTK	AFTK	FLF
Africa	-2.0%	-1.6%	67.7%	6.7%	6.7%	30.5%	-2.0%	-2.2%	66.9%	4.8%	1.0%	30.9%
Asia/Pacific	7.8%	6.2%	78.2%	-0.3%	4.0%	54.4%	9.1%	7.2%	78.1%	5.4%	6.4%	54.0%
Europe	4.3%	4.3%	83.1%	0.0%	2.2%	44.1%	4.8%	4.2%	79.8%	-0.6%	3.2%	45.9%
Latin America	6.1%	6.3%	78.7%	-1.6%	3.7%	37.8%	6.0%	5.6%	79.4%	-6.9%	2.8%	37.8%
Middle East	10.3%	18.7%	74.9%	15.3%	19.2%	42.4%	11.3%	15.2%	77.1%	14.0%	18.9%	42.9%
North America	4.1%	4.0%	86.4%	-3.3%	2.8%	31.6%	3.2%	3.7%	83.0%	-0.4%	0.0%	34.7%
Total Market	5.7%	6.0%	81.1%	1.2%	5.3%	43.2%	6.3%	5.9%	79.4%	3.5%	5.4%	44.6%

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.



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