

AIRLINES FINANCIAL MONITOR

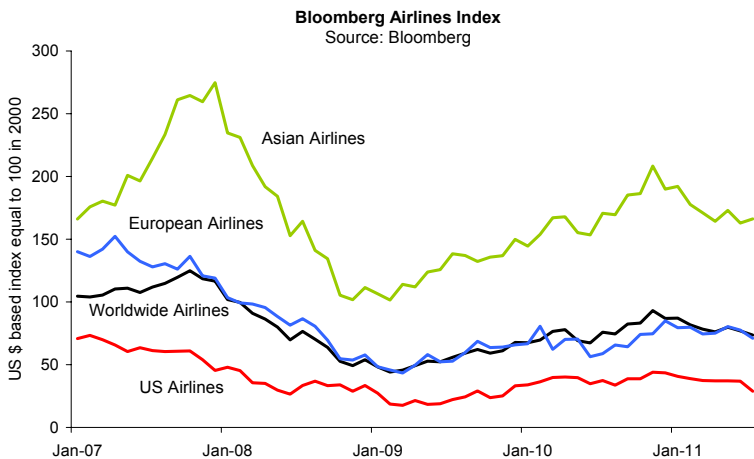
KEY POINTS

June - July 2011

- Financial markets have now marked airlines' share prices down 15% this year on economic concerns;
- Early results for Q2 airline profits are showing the first year-on-year decline for eight quarters;
- Jet fuel prices rebound above \$130 a barrel, as supply concerns offset worries about economic outlook;
- Air travel volumes trending upwards at 4-5% annual pace, so far, but air freight markets have stagnated;
- Capacity has outpaced demand so passenger load factors are down 1% on the 2010 peak, freight by 4%;
- Passenger yields have still not recovered to pre-recession levels, outside the US, and gains are slowing;
- Start of Q3 challenged by economic worries, softer utilization rates and squeeze on margins from fuel.

Financial indicators

Airline share prices down 15% so far this year as financial markets remain bearish



- In the past month confidence in the economic outlook has deteriorated. Debt and inflation forced governments to tighten economic policy. Business confidence fell. Equity markets fell. Equity markets worldwide down 0.5% last month, up 1.6% so far this year.
- Airline stock prices – sensitive to the cycle – fell further. The Bloomberg global airlines index was down 4% last month, and is down 15% so far this year. Airlines are expected to be hit more than most sectors by the economic slowdown.

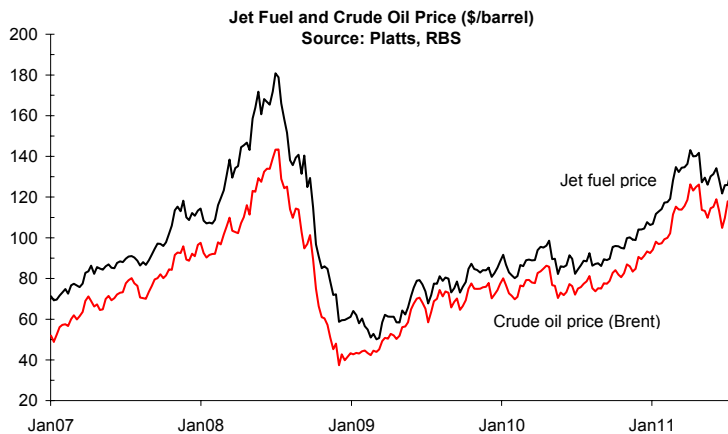
Early Q2 results show first year-on-year fall in airline profits in eight quarters

# Airlines		Q2 2010		Q2 2011	
		Operating profit	Net post-tax profit	Operating profit	Net post-tax profit
7	North America	2526	1425	1567	608
4	Asia-Pacific	565	322	-94	-62
4	Europe	272	1081	801	487
1	Latin America	113	61	56	16
16	Sample total	3475	2888	2329	1048

- Early results on Q2 airline financial performance shows, with the exception of Europe, the first year-on-year fall in profits since Q2 of 2009. After Q1 losses of \$1.8 billion, Q2 net profits – for the small sample of airlines reporting so far – total \$1 billion.
- The sample is too small as yet to come to clear conclusions but Asian airlines appear to have been under most pressure, whereas European airlines have improved operating profits (partly because 2010Q2 results were hit by the ash cloud last year).

Fuel costs

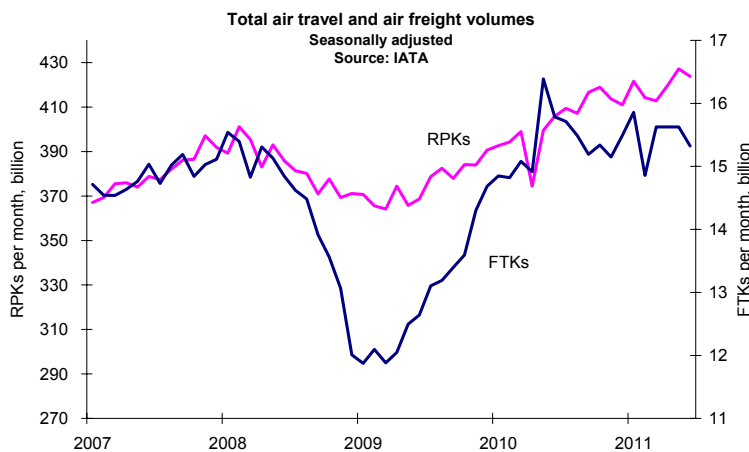
Jet fuel prices back up above \$130 a barrel despite fears of slower economic growth



- ↗ Last month it looked like jet fuel prices were trending downwards from a peak in April. However, during July prices headed back up above \$130 a barrel in spite of increasing concerns about the strength of the economic expansion. Worries about supply, including the situation in Libya, have more than offset potential demand reductions.
- ↗ So far this year Brent oil prices have averaged \$112/b and jet fuel \$128/b, which are close to the levels IATA assumed for the year as a whole. Current prices are \$6-7/b higher.

Demand

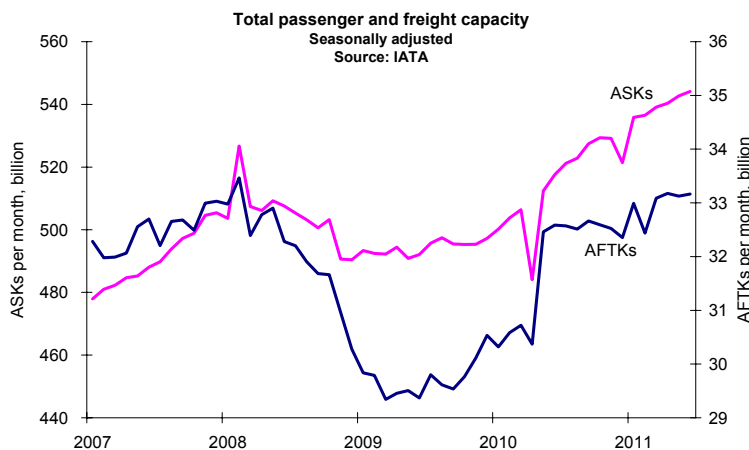
Air travel is trending upwards at a 4-5% pace but air freight markets have stagnated



- ↗ Air travel and freight volumes dipped lower in June, compared with levels in May. However, the upward trend in air travel appears to remain intact, albeit at a slower pace than the year following the low point of the recession. The trend in air travel volumes looks to be expanding at a pace of 4-5% a year.
- ↗ The recent sharp falls in business confidence are a worry, since business travel has been a major growth factor. This is also a concern for air freight markets which remain stagnant, below the 2010 peak.

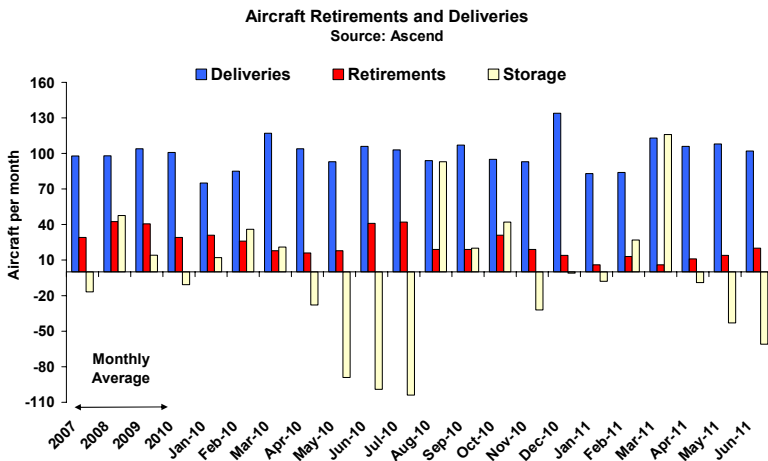
Capacity

Passenger and freight capacity expand unabated, so far, despite demand uncertainties



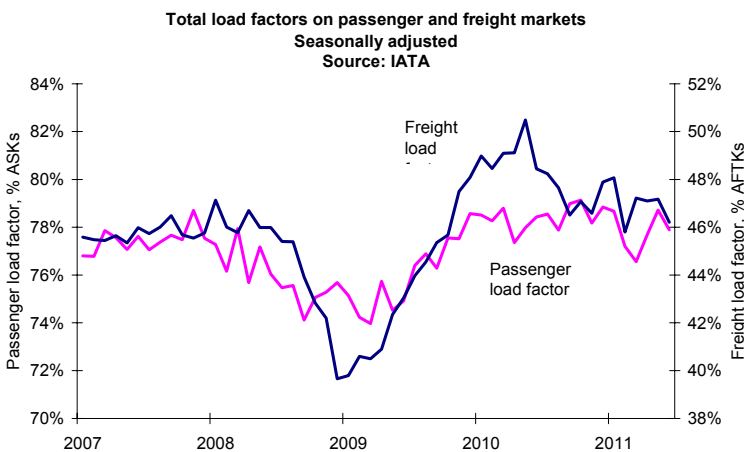
- ↗ Capacity is being introduced onto air travel and freight markets at a faster pace than the growth in demand.
- ↗ The trend in capacity on passenger markets has slowed a little but remains over 5% a year so far. Published schedules would suggest growth in capacity at a slightly faster pace this year. Following a major rise in freight capacity early last year the trend in this segment has slowed to around 2% a year. That is a relatively slow increase in capacity, but it is still faster than the flat trend in air freight demand.

In-service fleet expands as aircraft out of storage join new capacity being delivered



- Deliveries of new jets and turboprops remained above 100 aircraft in June. These aircraft entering the in-service fleet were joined by an increasing number of aircraft being taken out of storage. The impact on capacity of these new deliveries has been held down for much of this year by a fall in the utilization of the existing fleet.
- With over 1,300 aircraft scheduled to be delivered this year, the pace of new capacity additions should increase over the second half of the year. This will have a positive impact on fuel efficiency, but the net effect on profits will depend on how well fleet utilization holds up.

Load factors are still at historically high levels but have started to slip



- Seasonally adjusted load factors slipped in June as travel and freight volumes fell but capacity rose. The rapid post-recession improvement in load factors is clearly over, and has been for some time. Load factors are still at historically high levels, but there has been no improvement now for over a year. As capacity has overtaken demand growth, passenger load factors in June were 1% point below 2010 highs and freight load factors were 4% points down.
- Slipping load factors will start to undermine unit revenues and yields.

Yields

Passenger yields back to pre-recession levels in US but international fares softer



- Tight supply-demand conditions have allowed US airlines to reflect rising fuel costs in their passenger yields, which have risen back to pre-recession levels in recent months. Yields have not been quite as strong outside the US, where load factors have not been as high, supply-demand conditions not as tight.
- Fuel surcharges are not included in the average international fares shown in the chart. Even so we estimate that industry wide passenger yields are still 10% or so below pre-recession yields.

Data tables

Year on Year Comparison	June 2011 vs. June 2010						YTD 2011 vs. YTD 2010					
	RPK	ASK	PLF	FTK	AFTK	FLF	RPK	ASK	PLF	FTK	AFTK	FLF
Africa	-3.2%	1.1%	64.9%	0.3%	2.3%	25.8%	-2.0%	2.1%	64.9%	-3.7%	1.6%	26.3%
Asia/Pacific	2.8%	3.6%	77.1%	-5.8%	-1.9%	58.6%	4.1%	4.8%	75.8%	-3.4%	2.1%	58.0%
Europe	7.6%	8.0%	79.8%	-1.3%	4.5%	48.2%	10.4%	11.2%	75.9%	4.8%	9.1%	49.8%
Latin America	13.4%	8.1%	73.6%	2.8%	-6.5%	44.4%	17.7%	12.6%	74.9%	7.1%	2.4%	41.2%
Middle East	6.4%	7.9%	75.0%	3.7%	10.1%	44.1%	7.9%	9.0%	74.2%	9.7%	13.7%	44.3%
North America	1.7%	2.7%	85.4%	-3.0%	2.4%	33.4%	3.6%	4.3%	80.8%	2.5%	6.2%	34.7%
Total Market	4.4%	5.1%	79.5%	-3.0%	1.9%	45.7%	6.5%	7.1%	76.7%	1.2%	5.9%	46.4%

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.

IATA Economics
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