ALTA

Dear readers,

In May 2023, Latin America and Caribbean (LAC) exceeded its 2019 passenger traffic levels for the second time this year. However, this month, the Middle East ranked as the world's highest recovering region, exceeding its May 2019 levels with 3.2%.

The region is showing an excellent performance in terms of both domestic and international passenger traffic. It is noteworthy that, for the first-time post-pandemic, Brazil exceeded domestic passenger figures with 7.3 million passengers (+3%). Meanwhile, Argentina and Chile continue to trend higher, outperforming their 2019 levels.

Aviation has proven to be an essential service for the population. An evidence on this is that some of the countries with lower economic growth have been the ones with the highest passenger carried, such as Brazil, Mexico, Colombia and Chile, where Mexico and Colombia are fully recovered both in domestic and international traffic.

The World Bank estimates a slowdown in LAC economic growth to 1.5% in 2023, down 0.2 percentage points from its January 2023 forecast, so tight monetary policies are expected this year due to continued high domestic inflation. However, with unemployment rates at historically low levels, even below pre-pandemic levels, demand for air travel is expected to keep steady even though consumer purchasing power has been reduced by inflation.

All of these factors depict a complex picture, making State Agendas all the more important today to further develop an essential sector that creates jobs and opportunities.

This topic will be addressed at the ALTA AGM & Airline Leaders Forum in Cancun on October 22-24, where industry decision makers (public and private) will bring together to discuss the most pressing challenges and opportunities in the region.

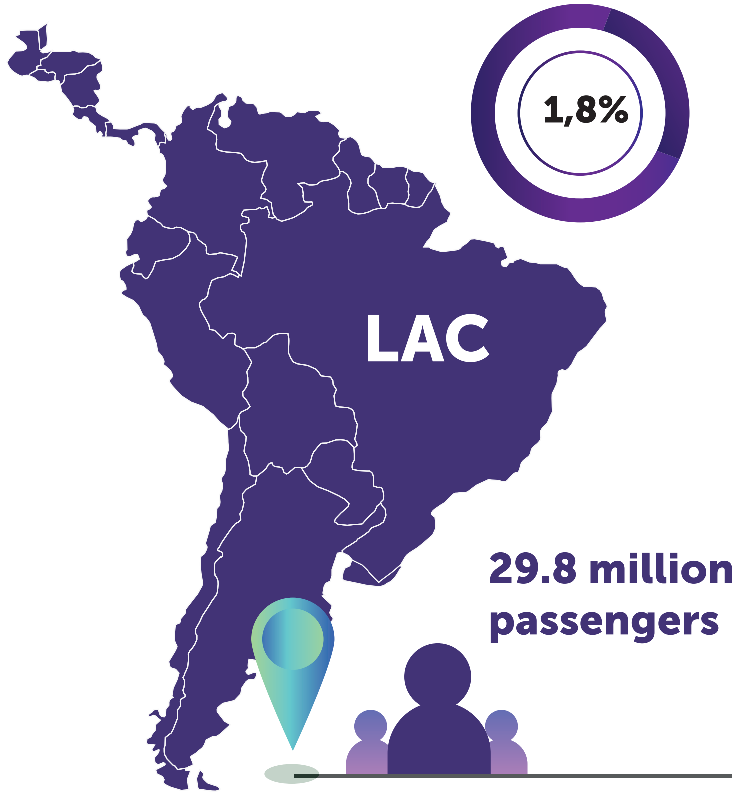
Event information is available here.
https://alta.aero/forum/

Thank you so much for reading,

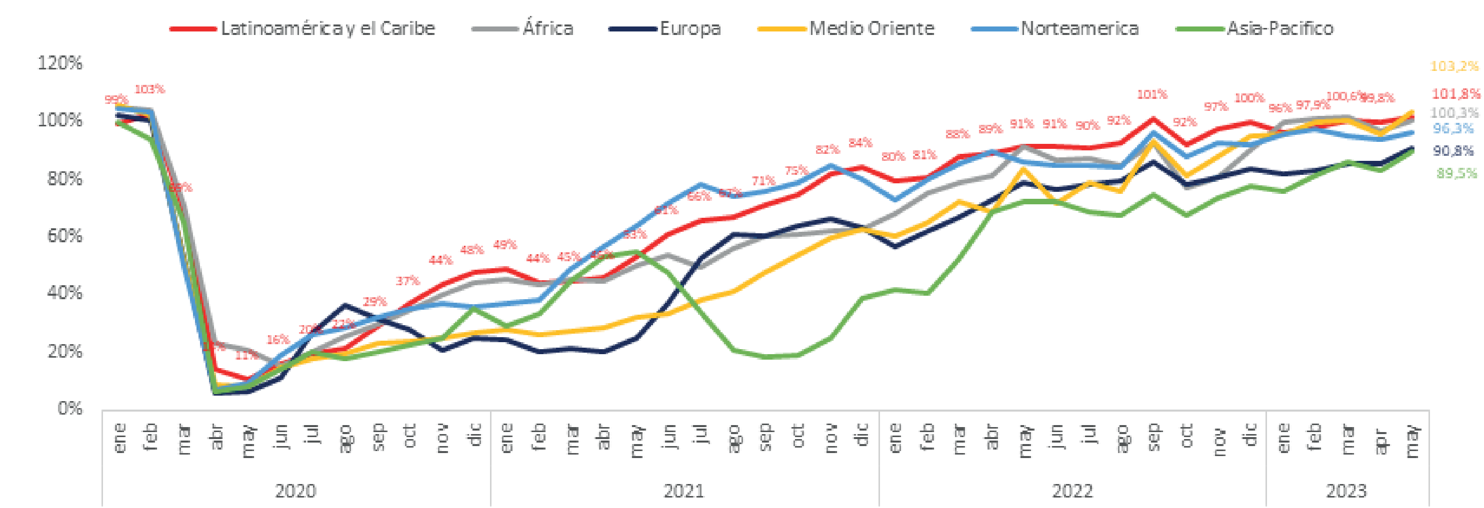
José Ricardo Botelho.

Passenger traffic in Latin America and the Caribbean (LAC) exceeded its pre-pandemic levels once again in May

In May 2023, 29.8 million passengers were carried in LAC, a 1.8% growth vs. passengers carried in the same month of 2019. However, it moved back to second place in the global recovery as the Middle East exceeded its 2019 levels with 3.2% after showing a slowdown in growth in the previous month. Africa marginally exceeded its pre-pandemic levels at 0.3%, moving back to third place. North America reached 96.3%, Europe 90.8% and Southeast Asia remained as the slowest recovering region with 89.5%. In general, all regions throughout the world showed an improvement over the immediately preceding month.



Passengers by origin region vs. the same month in 2019

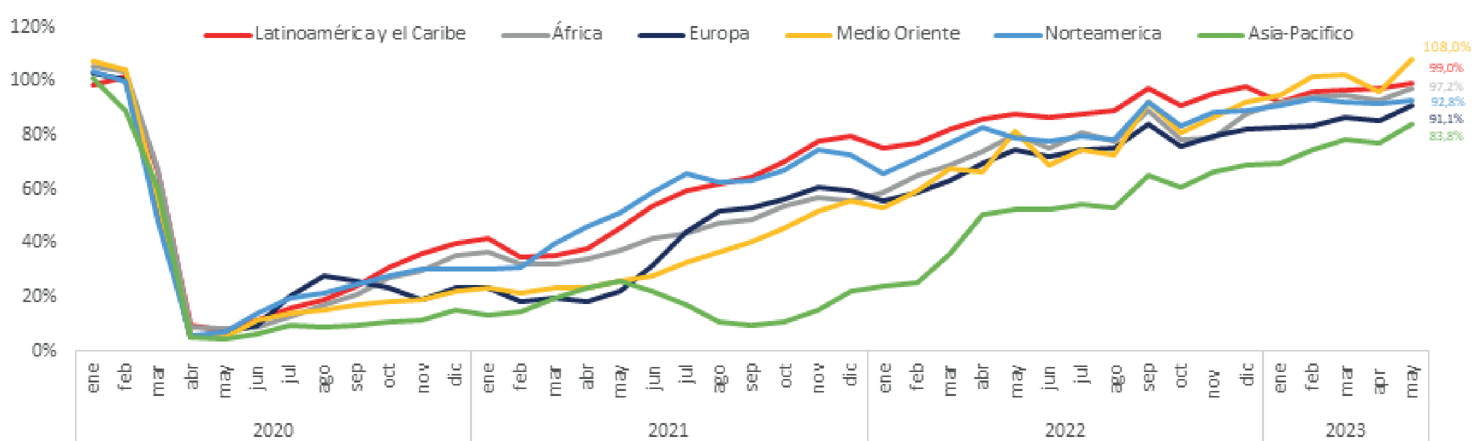


Note: The LAC region includes Mexico.
Source: Amadeus

Passenger traffic by region in RPKs

In May 2023, the Middle East ranked as the region with the highest RPK (Revenue Passenger Kilometer) recovery, exceeding its 2019 levels by 8%, mainly driven by the growth of international traffic compared to 2019 (+11%) and especially in the following countries: Jordan (+16%), Qatar (+14%), United Arab Emirates (+14%) while in April, Qatar was 8% below or United Arab Emirates at 2% less than pre-pandemic. LAC came in second place, achieving exactly 99%. Africa reached 97.2%, North America 92.8%, Europe 91.1% and Southeast Asia 83.8%.

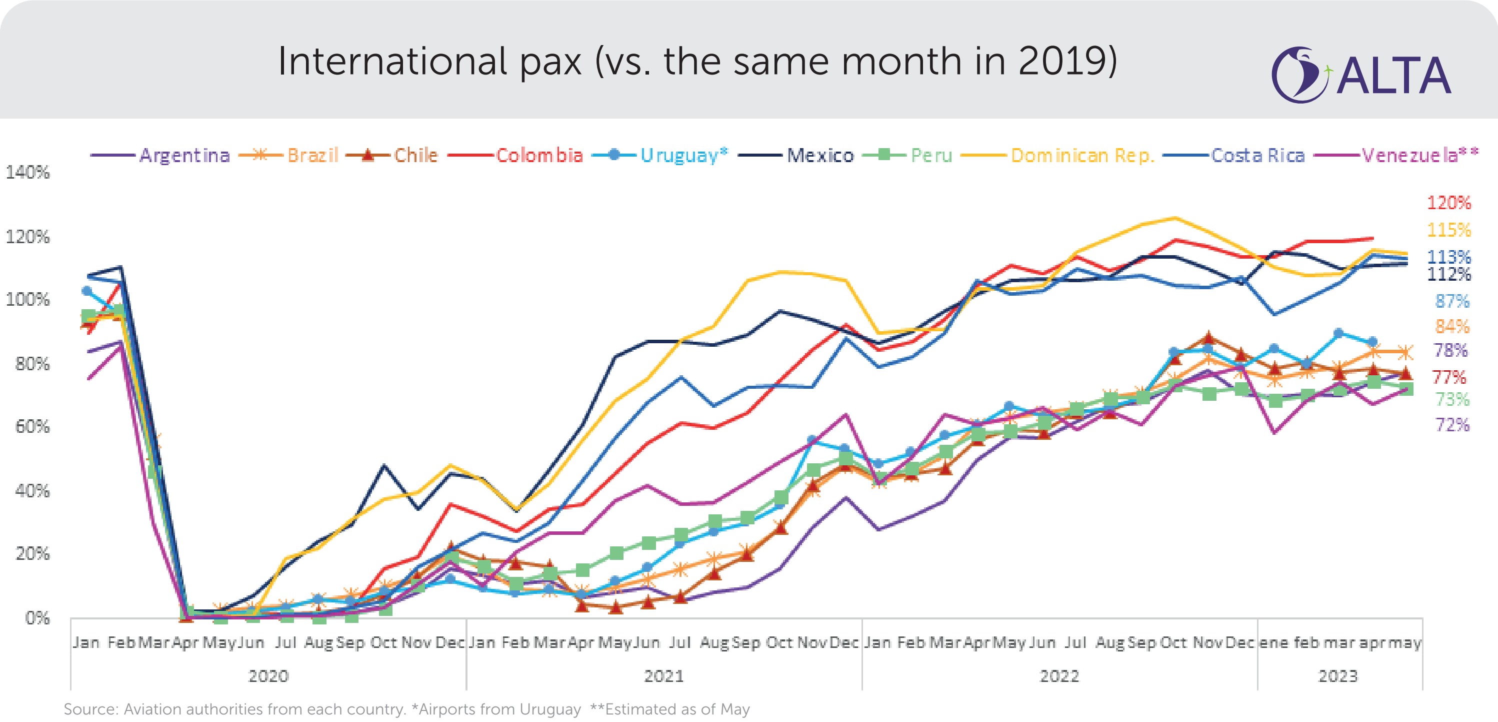
RPK by origin region vs. the same month in 2019



Source: Amadeus

International passengers

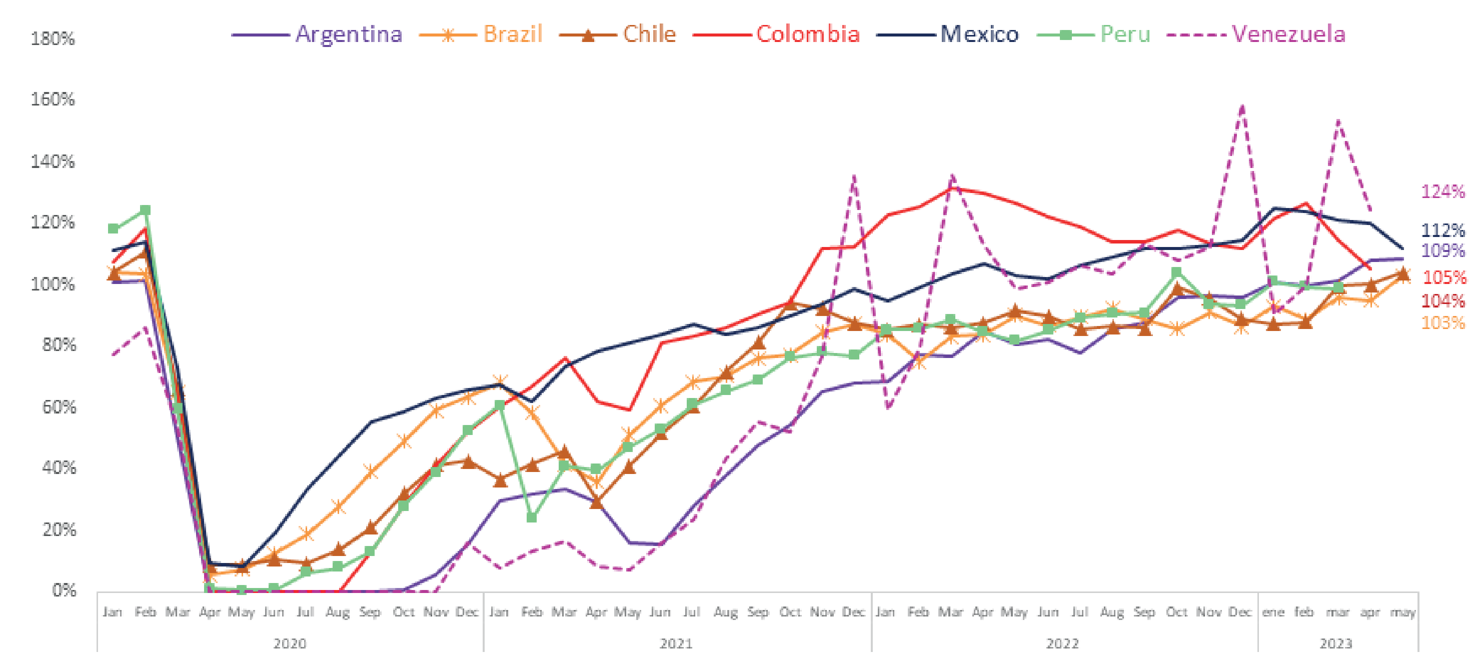
In May 2023, Mexico stood out with a 12% growth vs. its 2019 levels and Dominican Republic with 15%. Brazil, Argentina and Chile still remained below their pre-pandemic levels reaching 84%, 78% and 77% respectively. In April 2023, Colombia exceeded its pre-pandemic levels by 20%.



Domestic passengers

In May 2023, Mexico was 12% above its pre-pandemic levels, Argentina exceeded 9% passengers carried in 2019, a trend seen since January reflecting that it has finally recovered. **This month also brought very positive growths for Brazil which for the first time exceeded its pre-pandemic levels (+3%)** after a slow recovery compared to other countries. A total of 7.3 million passengers were carried in Brazil, making it the most important domestic market in the region (81% of total traffic). Chile exceeded its 2019 levels for the third consecutive time, with a 4% growth. In Venezuela during May 2023, over 2,400 domestic flights were operated, a 58% increase compared to May 2019. On the Caracas-Isla Margarita route, which is the most important route in the Venezuelan domestic market, 36% more flights were operated compared to 2019 and for the third most important route (Caracas-Maracaibo), the number of flights operated doubled (from 124 flights in May '19 to 249 flights in May '23) and 3 new airlines entered to operate the route.

Domestic Pax (vs. the same month in 2019)



Source: Aviation authorities from each country.

Passengers, RPK, ASK & load factor

	mayo					Crecimiento				Acumulado (enero-mayo)					Crecimiento			
	2019	2020	2021	2022	2023	2020/2019	2021/2019	2022/2019	2023/2019	2019	2020	2021	2022	2023	2020/2019	2021/2019	2022/2019	2023/2019
Pasajeros	**29,319,533**	**3,144,735**	**15,505,697**	**26,705,597**	**29,849,072**	**-89.3%**	**-47.1%**	**-8.9%**	**1.8%**	**149,772,865**	**89,512,092**	**70,926,028**	**128,077,526**	**148,654,328**	**-40.2%**	**-52.6%**	**-14.5%**	**-0.7%**
Domestico	19,269,906	2,572,589	10,867,102	18,310,285	20,041,188	-86.6%	-43.6%	-5.0%	4.0%	96,132,370	59,857,358	52,519,964	88,137,603	98,457,932	-37.7%	-45.4%	-8.3%	2.4%
Intra-LAC	4,204,153	272,718	912,314	3,006,111	3,850,653	-93.5%	-78.3%	-28.5%	-8.4%	21,700,802	12,074,294	4,431,378	13,412,083	19,155,599	-44.4%	-79.6%	-38.2%	-11.7%
Extra-LAC	5,845,474	299,428	3,726,282	5,389,201	5,957,231	-94.9%	-36.3%	-7.8%	1.9%	31,939,693	17,580,440	13,974,686	26,527,840	31,040,797	-45.0%	-56.2%	-16.9%	-2.8%
RPK(millions)	**49,985**	**3,664**	**22,718**	**43,786**	**49,492**	**-92.7%**	**-54.5%**	**-12.4%**	**-1.0%**	**263,192**	**152,101**	**103,023**	**214,513**	**252,819**	**-42.2%**	**-60.9%**	**-18.5%**	**-3.9%**
Domestico	16,923	1,987	10,593	17,130	18,759	-88.3%	-37.4%	1.2%	10.8%	86,892	54,514	51,659	84,324	92,617	-37.3%	-40.5%	-3.0%	6.6%
Intra-LAC	8,218	239	1,575	5,999	7,416	-97.1%	-80.8%	-27.0%	-9.8%	42,535	23,120	8,436	26,675	37,563	-45.6%	-80.2%	-37.3%	-11.7%
Extra-LAC	24,844	1,438	10,551	20,657	23,317	-94.2%	-57.5%	-16.9%	-6.1%	133,766	74,468	42,928	103,514	122,639	-44.3%	-67.9%	-22.6%	-8.3%
***ASK(millions)**	**60,459**	**9,329**	**30,199**	**53,973**	**61,274**	**-84.6%**	**-50.0%**	**-10.7%**	**1.3%**	**319,140**	**206,831**	**150,680**	**267,979**	**312,680**	**-35.2%**	**-52.8%**	**-16.0%**	**-2.0%**
Domestico	20,816	3,897	13,208	21,846	23,893	-81.3%	-36.5%	4.9%	14.8%	106,224	73,767	68,422	104,824	116,152	-30.6%	-35.6%	-1.3%	9.3%
Intra-LAC	9,925	654	2,194	7,243	9,635	-93.4%	-77.9%	-27.0%	-2.9%	51,557	32,022	13,019	34,026	48,037	-37.9%	-74.7%	-34.0%	-6.8%
Extra-LAC	29,718	4,779	14,798	24,884	27,745	-83.9%	-50.2%	-16.3%	-6.6%	161,358	101,041	69,239	129,129	148,492	-37.4%	-57.1%	-20.0%	-8.0%
***Factor de Ocupación**	**82.9%**	**40.0%**	**75.3%**	**80.4%**	**80.0%**	**-42.9 pts**	**-7.6 pts**	**-2.5 pts**	**-2.9 pts**	**83%**	**73.6%**	**65.5%**	**80.1%**	**80.4%**	**-9.0 pts**	**-17.1 pts**	**-2.5 pts**	**-2.2 pts**
Domestico	81.3%	51.0%	80.2%	78.4%	78.5%	-30.3 pts	-1.1 pts	-2.9 pts	-2.8 pts	82%	73.9%	75.5%	80.4%	79.7%	-7.9 pts	-6.3 pts	-1.4 pts	-2.1 pts
Intra-LAC	82.8%	36.5%	71.8%	82.8%	77.0%	-46.3 pts	-11.0 pts	0.0 pts	-5.8 pts	83%	72.2%	64.8%	78.4%	78.2%	-10.3 pts	-17.7 pts	-4.1 pts	-4.3 pts
Extra-LAC	83.6%	30.1%	71.3%	83.0%	84.0%	-53.5 pts	-12.3 pts	-0.6 pts	0.4 pts	83%	73.7%	62.0%	80.2%	82.6%	-9.2 pts	-20.9 pts	-2.7 pts	-0.3 pts

Source: Amadeus * ALTA estimates based on reporting by member airlines.

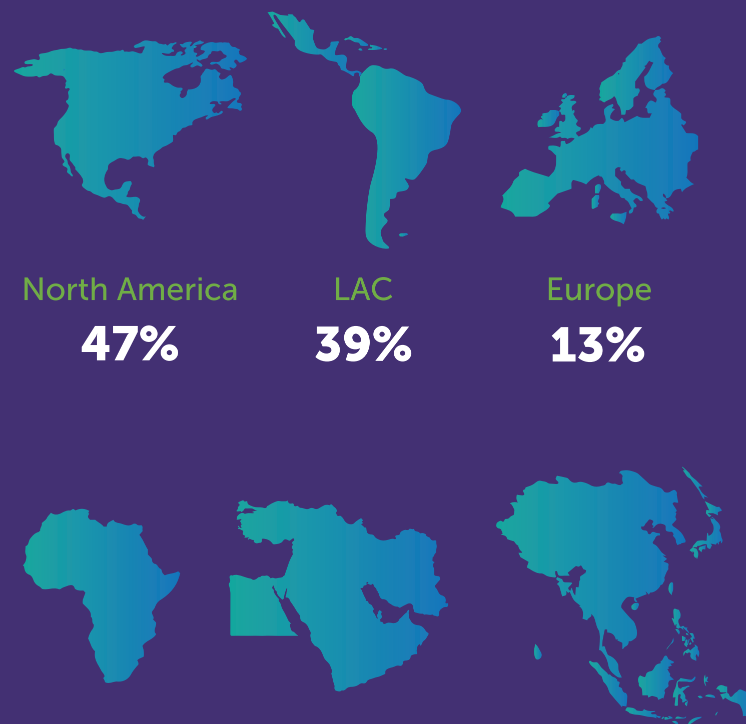
In May, 29.8 million passengers were carried in the region, 1.8% above pre-pandemic levels. Domestic traffic grew by 10.8%, extra-LAC international traffic reached 6.1% below, intra-LAC remained as the market with the slowest recovery, being 9.8% below its 2019 levels. In the cumulative for the first 5 months of the year, 148.6 million passengers have been carried, 0.7% marginally below 2019.

RPKs in May, for domestic, have recovered the fastest, at 10.8% above their 2019 levels and domestic cumulative RPKs grew by 6.6% above 2019.

In terms of relative capacity, i.e. available seat kilometers (ASKs), domestic has recovered faster, reaching 14.8% above its 2019 levels and 9.3% above in domestic cumulative. Total ASKs were 1.3% above their 2019 levels and cumulatively 2% below.

In May, the total load factor reached 80% at 2.9 points below 2019 levels, while domestic was 78.5%, intra-regional 77% and extra-regional 84%. Cumulatively, the total load factor was 80.4%, 2 points below 2019 levels.

Distribution of destination region of passengers originating travel in LAC



North America	LAC	Europe
47%	**39%**	**13%**

Africa	Middle East	Asia-Pacific
0,1%	**0,4%**	**0.1%**

47% of total international passengers in LAC were destined for North America, 39% for another country in LAC (intra-regional) and 13% for Europe.

Source: Amadeus

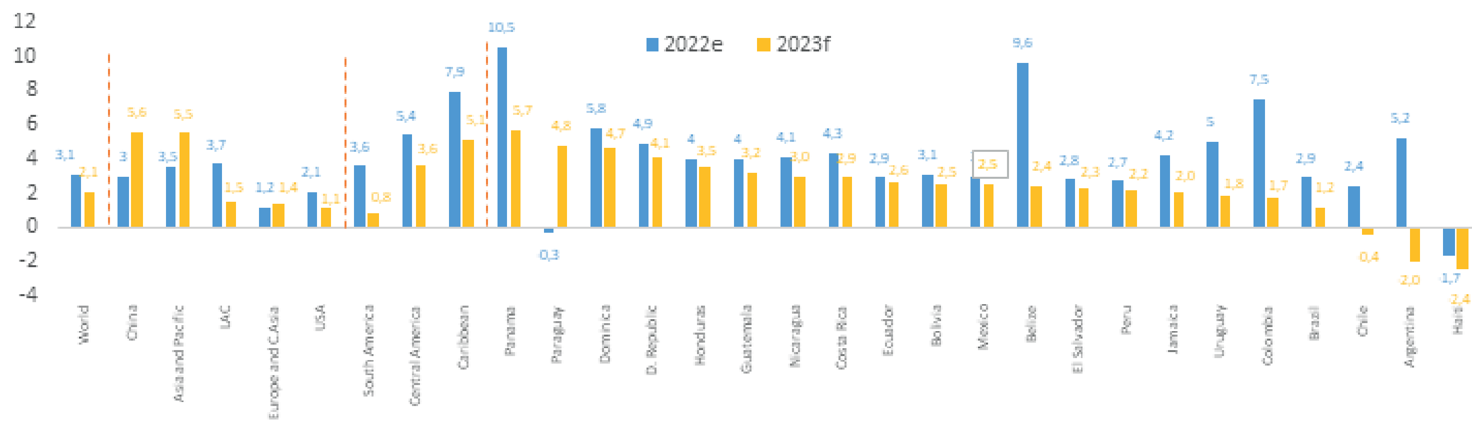
Economic outlook

Economies in Latin America and the Caribbean to slow further in 2023

In 2022, the growth of the main economies in Latin America and the Caribbean slowed down and, according to the World Bank's new estimates for June 2023, the region to slow further this year to 1.5%. The Caribbean, on the other hand, has the highest growth with 5.1%. Tight monetary policies are expected this year due to continued high domestic inflation.

Economic recovery has been inconsistent and it is worth noting that some of the countries with lower economic growth have been the ones that have carried the most passengers, such as Brazil, Mexico, Colombia and Chile, where Mexico and Colombia have fully recovered in both domestic and international traffic. Before the pandemic, these four countries concentrated 66% of the total traffic in the region and 70% by 2022.

Real GDP growth percent



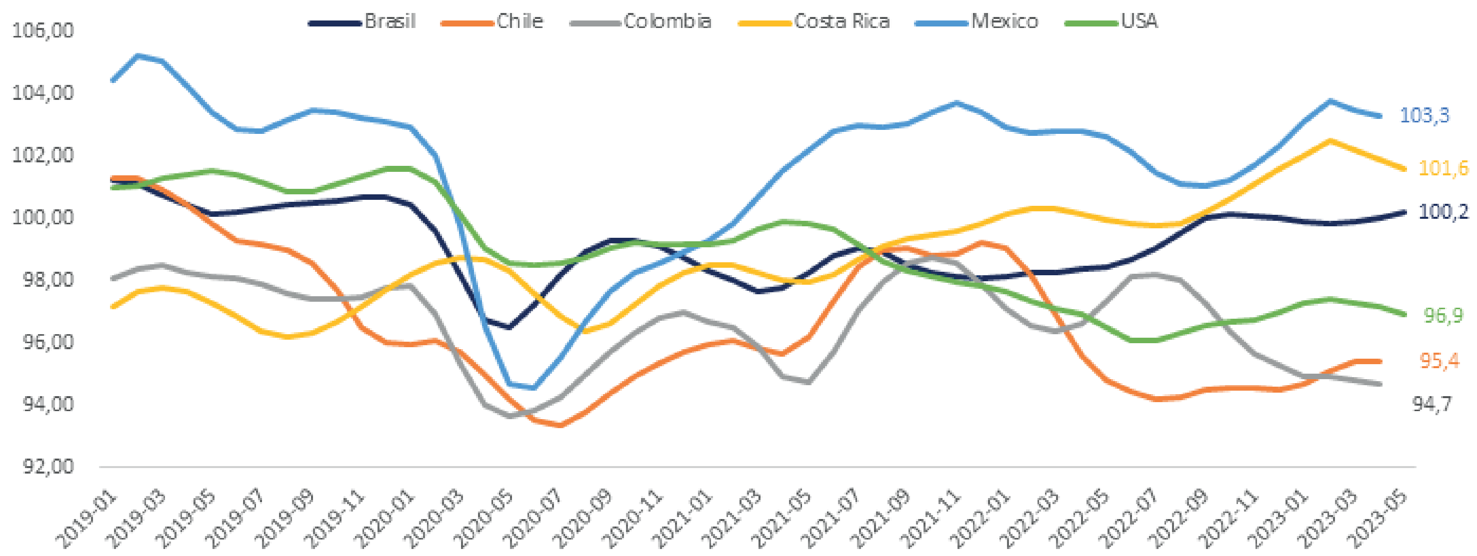
Source: World Bank, June 2023

La confianza del consumidor se recupera de forma desigual en la región

Consumer confidence turns out to be yet another determinant that impacts air transport demand. Countries such as Mexico, Costa Rica and Brazil have exceeded 100, which speaks to consumer optimism, for Brazil it is an important sign as in May 2023 this country finally exceeded its pre-pandemic traffic levels and it was the month with the highest number of passengers since 2015.

Despite macroeconomic pressures, unemployment rates are at historically low levels, even below pre-pandemic, so air travel demand is expected to keep steady in some countries, although consumer purchasing power may be reduced because of inflation.

Consumer Confidence Index, 2023



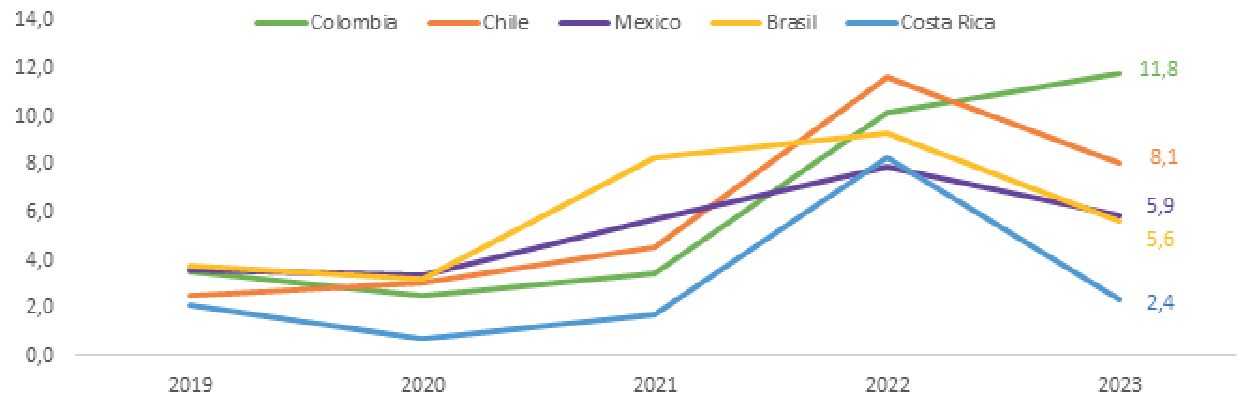
Source: OECD (2023), Consumer confidence index (CCI)

Headline inflation has slowed, but remains off target

International prices are beginning to show a decline; however, inflation continues to generate price pressures on goods and food. Rising prices affect households' disposable income and, therefore, spending on tourism and air travel is limited. On the other hand, some aeronautical goods and services paid for by both passengers and airlines are updated with inflation, such as airport taxes, which also impacts the final price of tickets and, therefore, the demand for transport.

In the large economies of the region, higher inflation is still forecast for 2023 compared to 2019. This sustained increase in inflation could mean that central banks will have to keep monetary policies tighter. As a result, the currencies of the region may continue to depreciate against the dollar, which would increase debt servicing costs and further increase local inflation.

Inflation Rates for Selected Economies in the Region (2019-2023)

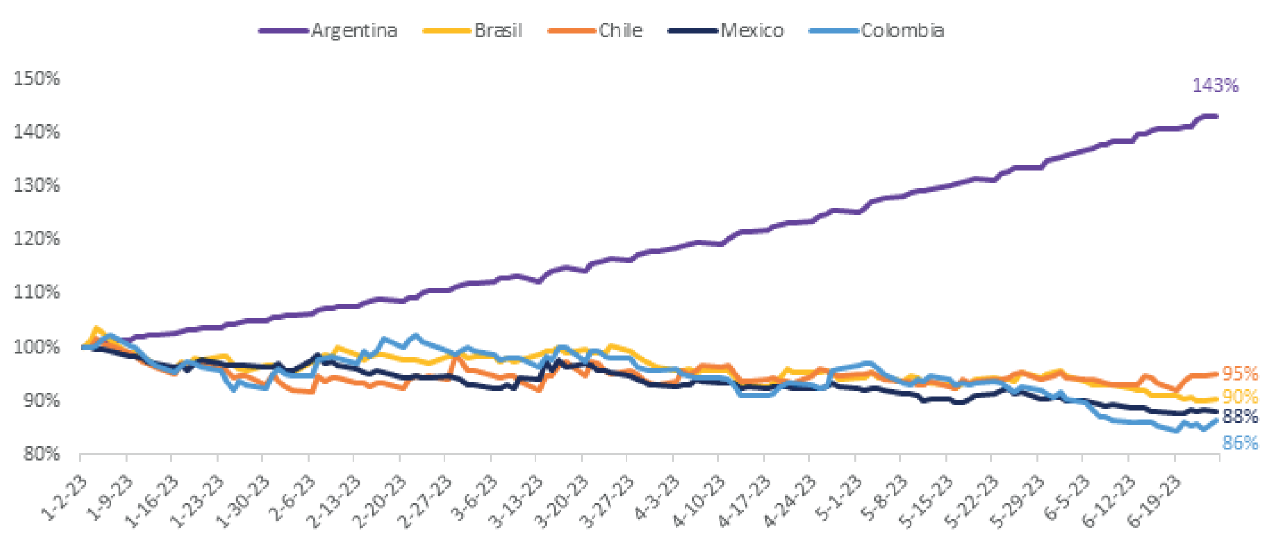


Source: OECD (2023), Inflation Forecast

Between 70% and 75% of an airline's cost structure is tied to the dollar

An airline's cost structure is generally dollar-denominated rather than its local currency. For May, in the main LAC economies, currencies show an appreciation against the dollar, with the exception of Argentina. Despite this revaluation in currencies, rates continue to be volatile, creating uncertainty and difficulty for airlines to set prices and establish long-term budgets.

Exchange rates (INDEX JANUARY 2023=100) June 25, 2023



Source: Yahoo Finance

Fuel prices

Jet Fuel & WTI (West Texas Intermediate)

WTI Price of Jet Fuel & Crude Oil (Dollars per barrel), June 20 T

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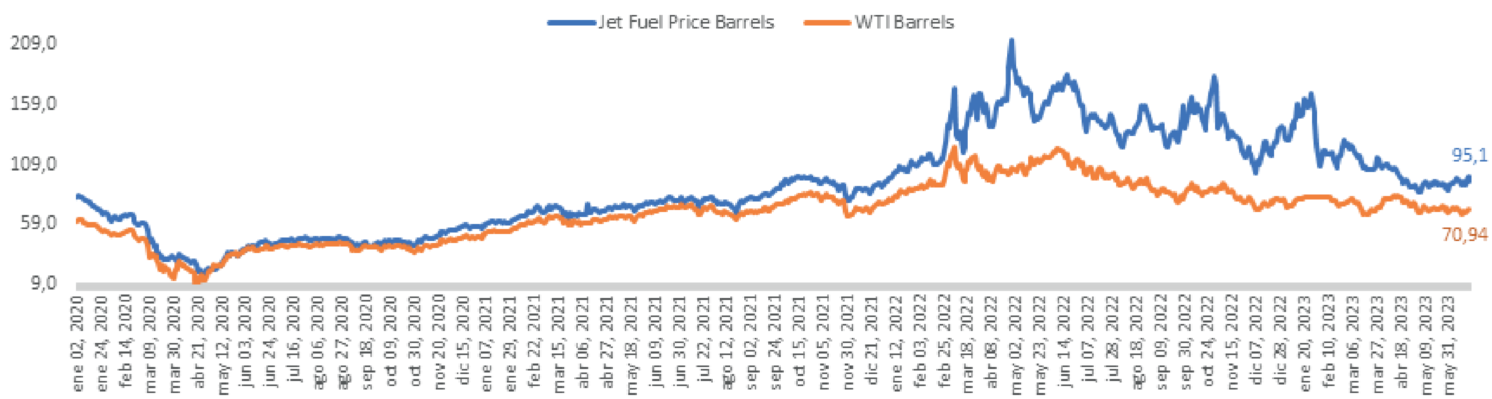


Source: US Energy Information Administration

Fuel is one of the most important inputs in an airline's cost structure. In Q1 2023 fuel was equivalent to 42% and pre-pandemic costs were on average 32%.

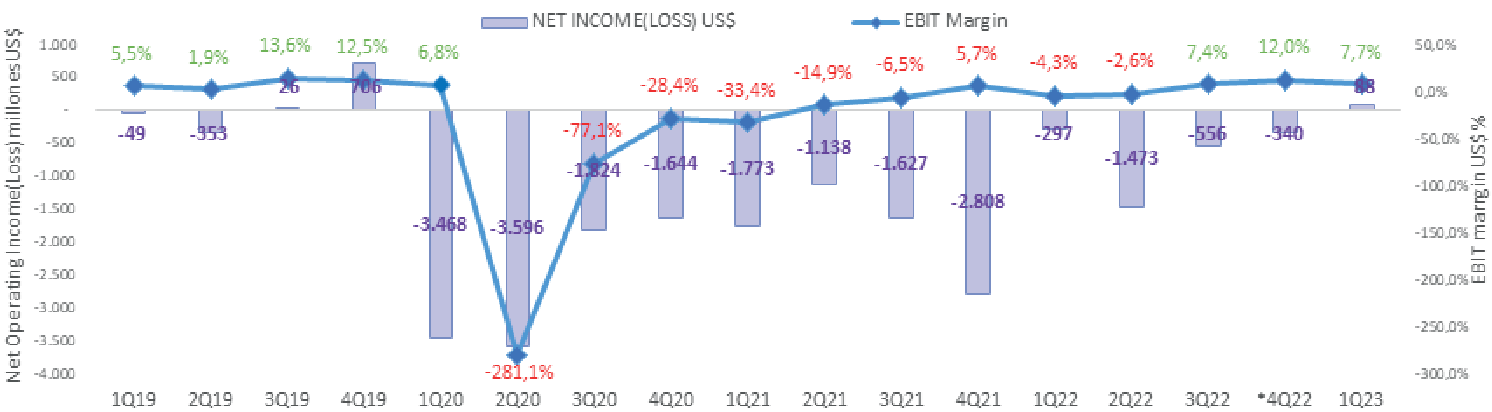
By June 2023, the average jet fuel price was 21% above June 2021 and 45% below the average price in June 2022. On the other hand, the average WTI crude oil price was 1% below 2021. This represents a reduction in the price increase suffered by both commodities compared to previous months.

Throughout June, jet fuel price increased, reaching a maximum of US$ 99.9, which had decreased to US$ 85.8 per barrel in May, one of the lowest prices so far this year. Therefore, the differential between the barrel of oil and jet fuel prices continued to be high, so that while in January 2021, jet fuel price was 14% higher than that of oil, as of June 20, 2023, this price differential was 34%.

In 2022, the airlines in the region showed financial losses. 2023, with demand growth, points toward profitability with a slight growth

Historically airlines have had low margins compared to other sectors of the economy. According to ATAG data, the industry's net profitability between 2004 and 2019 was 1.6%. By 2019, industry margins in Latin America were 1% of revenues. In 2020, the year the pandemic begins, the net margin was -92% and losses amounted to $10.591 billion. Thanks to the restructuring of business models and the recovery of demand, negative margins have been progressively reduced, reaching -43% in 2021 and -9% in 2022. During Q1 2023 a positive, however minimal, net margin of 0.04% was achieved. Operating profitability (in EBIT) has now recorded 3 quarters in a row of positive results, after 9 consecutive negative quarters. Despite inflationary pressures, the industry in the region has managed to reduce its average cost on available seat kilometers (CASK) and is even at levels similar to 2019, showing that the restructuring of business models is contributing to generate more profitability and benefits for passengers.

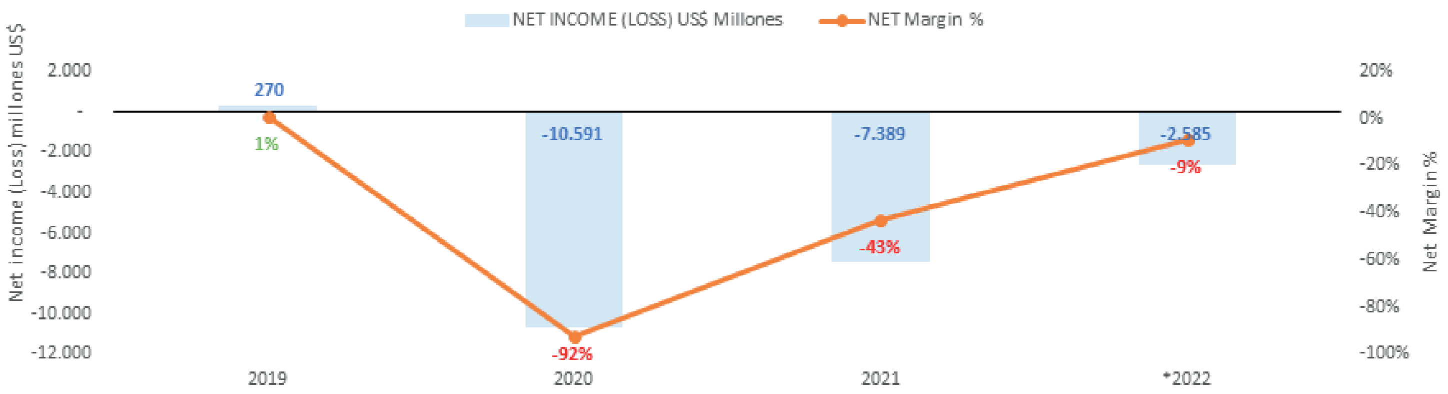
Total income (loss) and EBIT margin from airlines in the region, quarterly, (millions)



Source: Financial statements of airlines in the region representing 77% of the total traffic in the region.
*Excluding income (loss) from Chapter 11 restructuring processes.

There is still uncertainty for the rest of 2023 given the latent risks such as the economic slowdown, rising interest rates and volatile fuel prices. However, following the recovery trend we have observed in several countries, the industry remains optimistic of continuing to have positive numbers for 2023. In order to make this possible, it is important that the entire ecosystem (public and private) work together to make the region more competitive for air transport and continue to expand the benefits generated by this industry.

Total income (loss) and net margin from airlines in the region, annual



Source: Financial statements of airlines in the region representing 77% of the total traffic in the region.
*Excluding income (loss) from Chapter 11 restructuring processes.

Content created by ALTA's economic team. Further information contact nlorca@alta.aero

Editor's Notes:

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•American & Caribbean Air Transport Association
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