

AIRLINE BUSINESS CONFIDENCE INDEX

JANUARY 2015 SURVEY

KEY POINTS

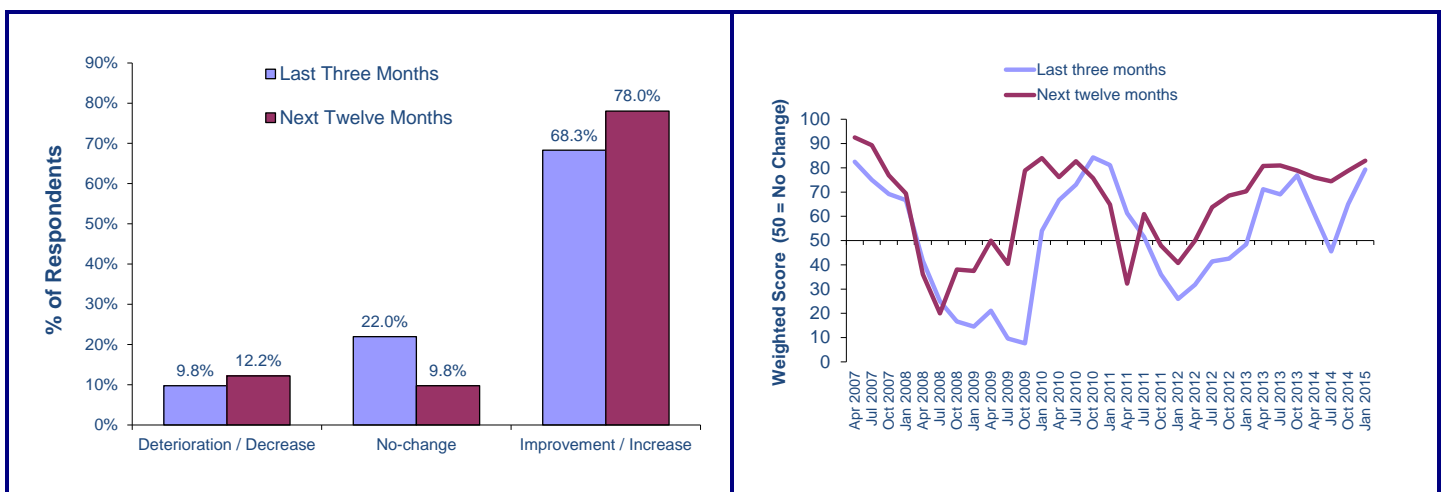
- ✦ Airline profit expectations for the year ahead have become more positive, consistent with improvements in recent performance, according to IATA's quarterly survey of airline CFOs and heads of cargo in January;
- ✦ Financial performance started to improve in H2, after no gains in Q2, and the outlook remains positive which suggests there will be further growth in profitability;
- ✦ The survey indicates that falling input costs and growth in volumes are responsible for better recent financial performance as well as the positive outlook;
- ✦ Respondents reported seeing a decline in input costs in Q4, largely due to a fall in crude oil prices over recent months, and expect the trend to continue during the year ahead;
- ✦ Both passenger and cargo volumes were reported to have expanded during Q4, which is consistent with latest air traffic statistics;
- ✦ There is also confidence that air transport volumes will continue to expand over the next 12 months, despite rising concerns about the health of the global economy;
- ✦ Respondents continue to report declines in yields in both business, for the recent past and the coming year, potentially reflecting the expected decline in fuel-related costs;
- ✦ Airline employment activity is reported to have been stable in Q4 compared to a year ago, and no growth is expected for the year ahead.

PROFITABILITY OUTLOOK

How has profitability changed? How do you expect it to change over the next twelve months?

a) January 2015 survey

b) Compared to previous surveys



- ✦ The result of the January survey of airline CFOs and cargo heads shows resumption in airline profit improvements in Q3, after a period of no gain in financial performance in Q2 compared to a year ago. This is consistent with the outlook for profitability, which has remained positive. The improvement in the recent past performance as well as the positive outlook are both supported by stronger growth in traffic volumes as well as easing input costs.

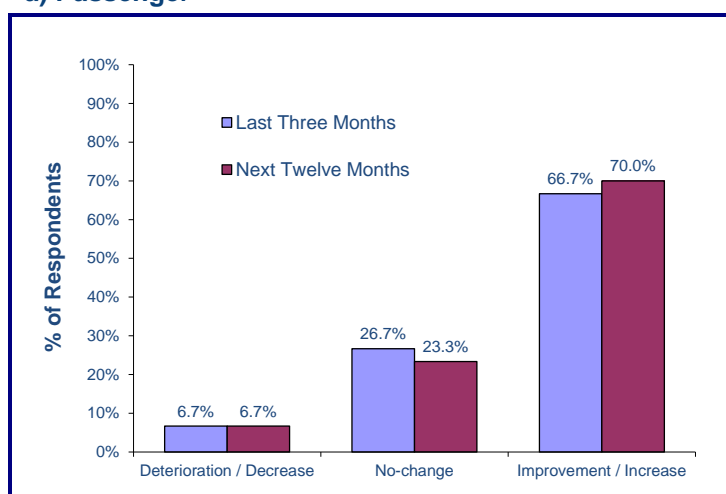
DEMAND GROWTH

- Passenger traffic increased during Q4 2014 compared to the year ago period. The rate of growth in the January survey remained stable compared to the October period. The lack of further improvement in the traffic growth rate is likely reflecting concerns about global economic performance. Latest data show that air transport continues to expand at a rate of 5-6%.
- Looking ahead, the demand backdrop suggests that growth in passenger volumes in the coming months will continue, but at a slightly slower pace than was indicated in the previous (October) survey. This is consistent with uncertainty about global growth, as indicated by recent weakness in business confidence.
- Similarly for air freight, respondents reported acceleration in growth volumes over recent months (compared to Q3), which is consistent with freight data and signs of improvement in world trade volumes, particularly for Asia Pacific and North America. The outlook for cargo volumes remains positive with 71% of respondents expecting an increase in demand over the next 12 months.

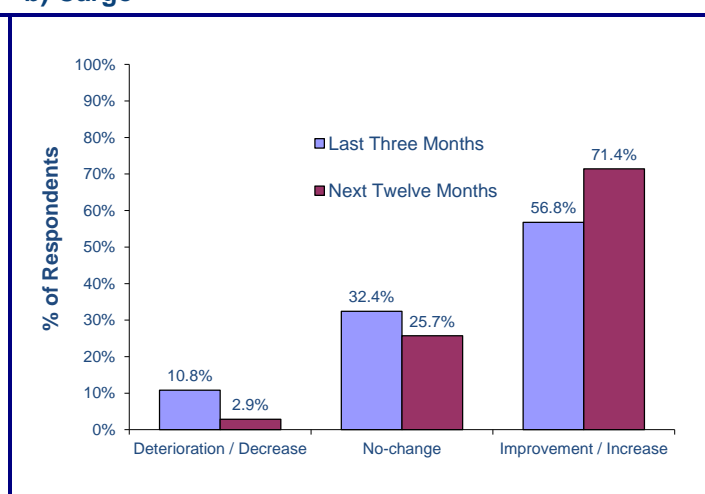


Recent and expected change in traffic volumes

a) Passenger

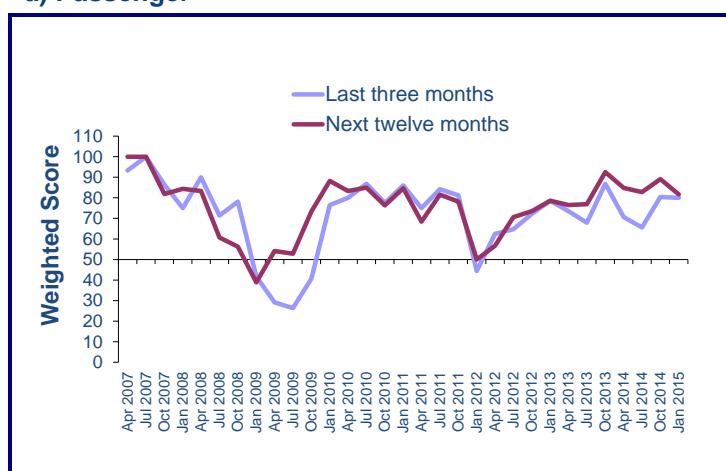


b) Cargo

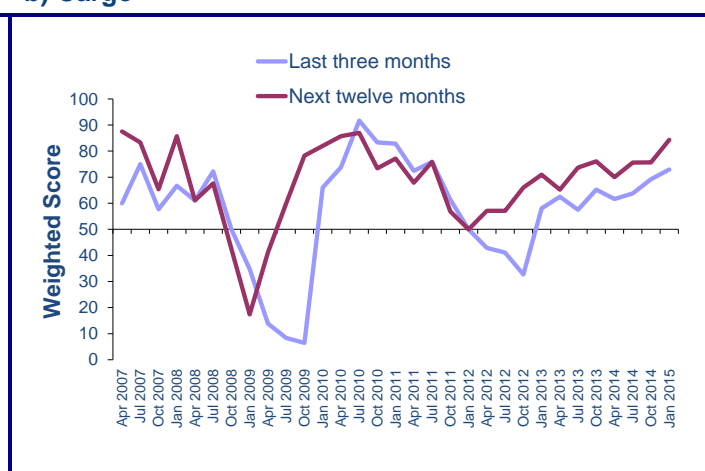


Compared to previous surveys

a) Passenger



b) Cargo



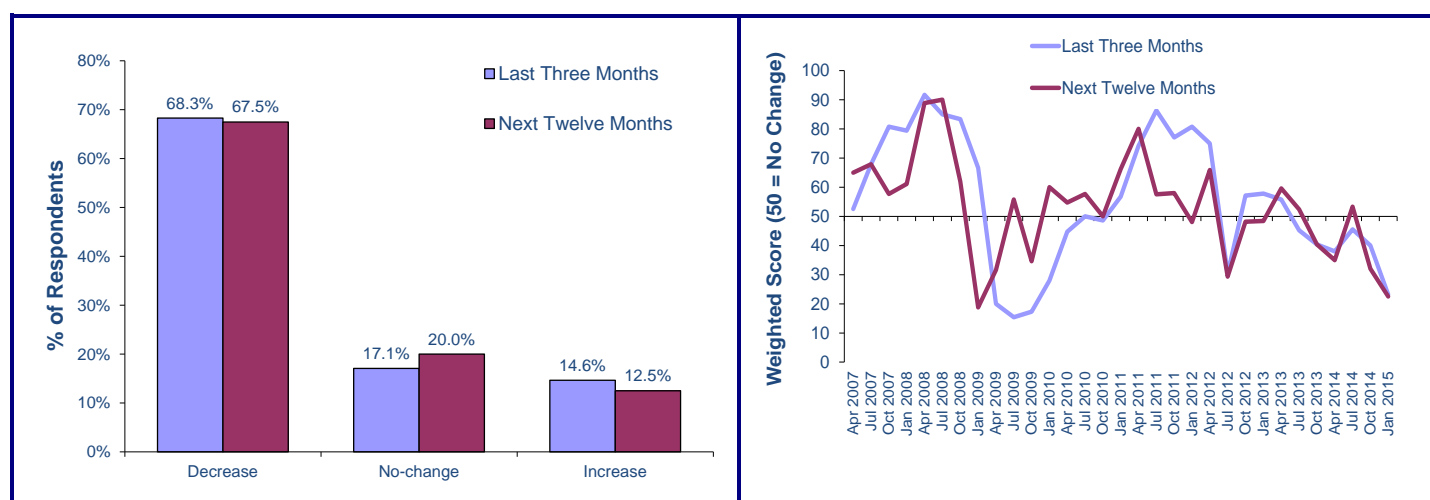
INPUT COSTS

- January survey results show that input costs have declined during the past 3 months, continuing a downward trend started mid-year. The decline in input costs in Q4 is a result of the fall in crude oil prices over recent months. Crude oil prices, and therefore jet fuel prices, have declined due to several factors, including increasing oil supply in the US as well as a strengthening US dollar.
- Moreover, survey respondents expect the trend to continue during the year ahead, with an outlook for further declines in input costs. Prior surveys' responses included reference to cost cutting measures as reasons for declines in current/future cost expectations, but the recent decline in fuel prices has pushed future cost expectations down further.

How have your unit input costs changed? How do you expect them to change over the next twelve months?

a) January 2015 survey

b) Compared to previous surveys



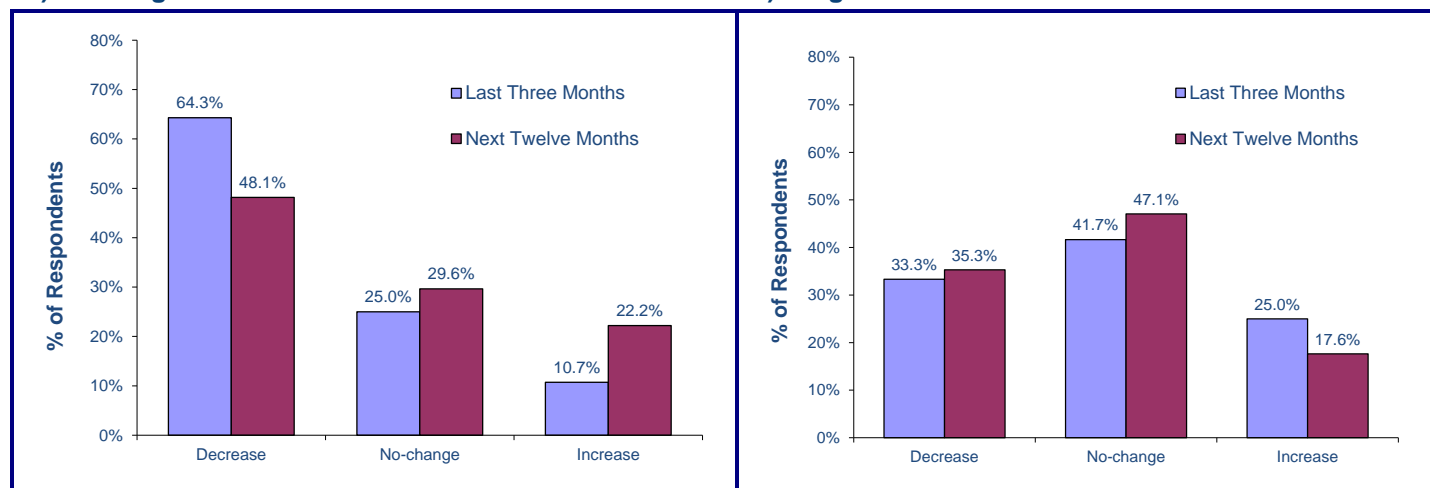
YIELD ENVIRONMENT

- Survey respondents indicated that passenger yields continue to decline, and at a faster rate in Q4 compared to Q3. The outlook moving forward is much the same, potentially reflecting the expected decline in fuel-related costs.
- Consistent with recent signs of improvement in cargo demand, cargo yields were reported to have declined at a slightly slower pace in Q4 compared to earlier in the year. But similar to the expectation for the passenger business, cargo heads anticipate weakness in cargo yields over the next 12 months.

Recent and expected change in yields

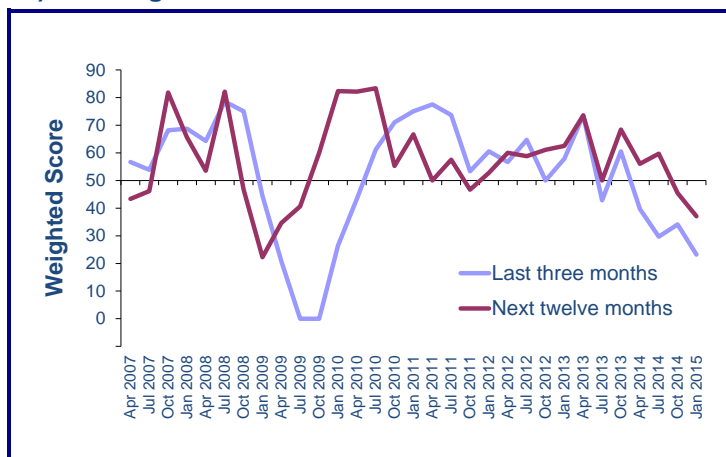
a) Passenger

b) Cargo

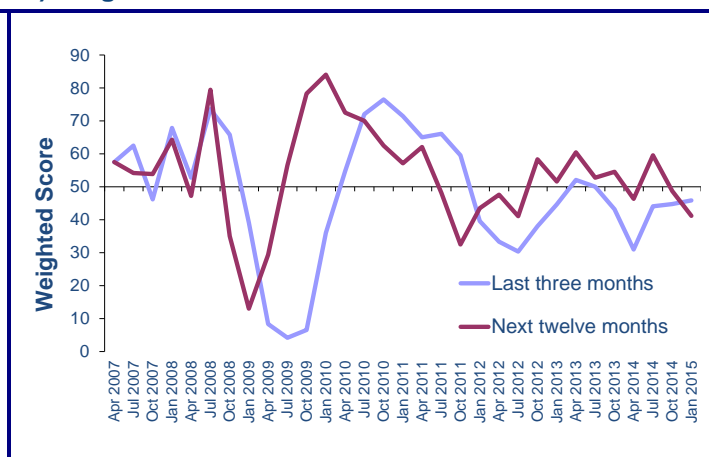


Compared to previous surveys

a) Passenger



b) Cargo

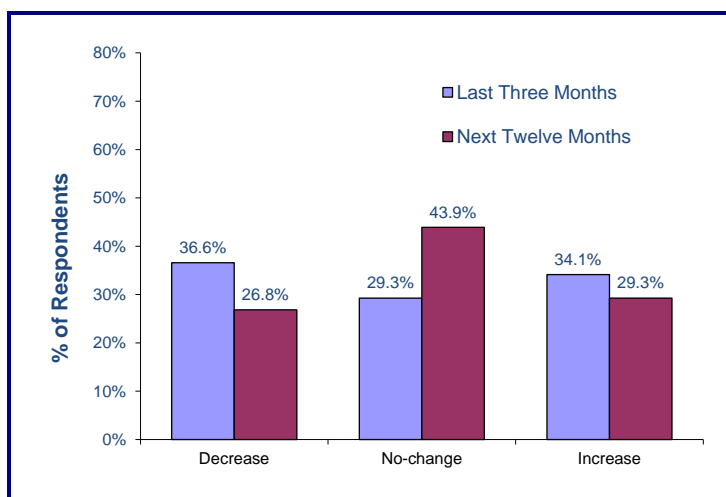


EMPLOYMENT

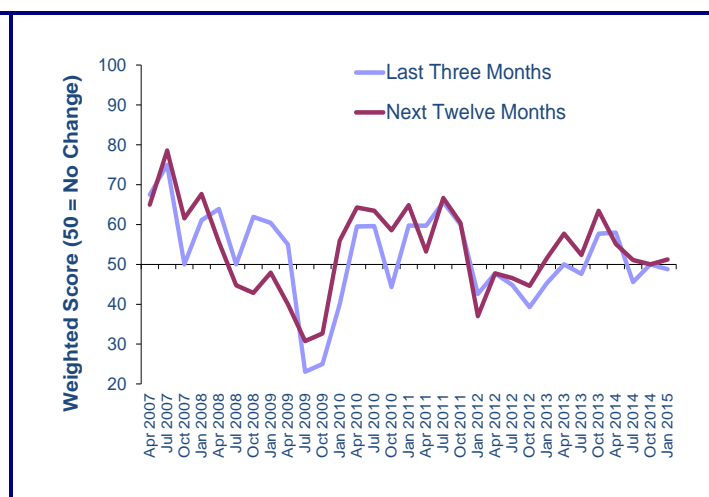
- Airline employment activity is reported to have remained unchanged in Q4 compared to a year ago. Similarly, the January survey reveals that CFOs and cargo heads expect no growth in employment in the year ahead.

How has your employment level changed? How do you expect it to change over the next twelve months?

a) January 2015 survey



b) Compared to previous surveys



IATA Economics
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E-Mail: economics@iata.org