

AIRLINE BUSINESS CONFIDENCE INDEX

JANUARY 2016 SURVEY

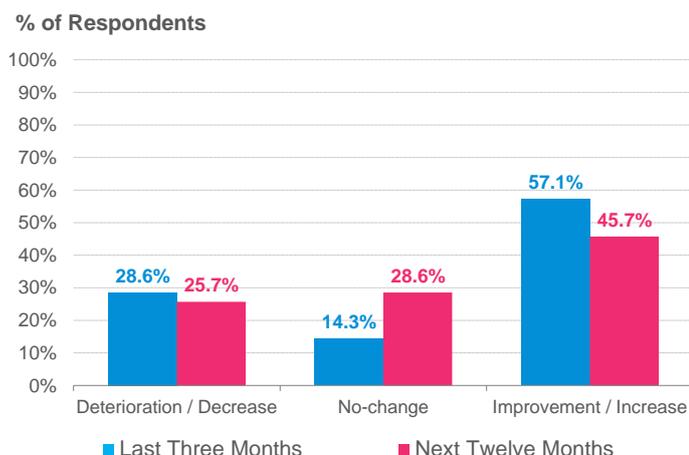
KEY POINTS

- ➔ Airline profit expectations for the year ahead have moderated but remain positive, according to IATA's quarterly survey of airline CFOs and heads of cargo in January;
- ➔ The rate of expected improvement in profitability over the next 12 months has fallen over the past 2 quarters, suggesting that improvements in key drivers might have peaked earlier in 2015;
- ➔ Recent gains in profitability have been driven by strong growth in passenger volumes and falling input costs;
- ➔ Passenger volumes were reported to have expanded at a robust rate during Q4, and there are signs that weakness in cargo volumes has bottomed out, which is consistent with FTK data and the lackluster demand backdrop;
- ➔ The growth outlook is positive for both passenger and cargo businesses, but the share of respondents expecting improvements has decreased compared to a year ago. This likely reflects concerns over weakness in the global business environment and emerging market economies;
- ➔ Respondents reported seeing a decline in input costs in Q4 compared to a year ago, and that trend is expected to continue in the year ahead;
- ➔ Consistent with the lower input costs, the survey also showed weakness in yields in both businesses, for the recent past and the coming year;
- ➔ Airline employment activity was reported to have increased in Q4 and that is expected to continue over the next 12 months, consistent with the positive outlook for financial performance.

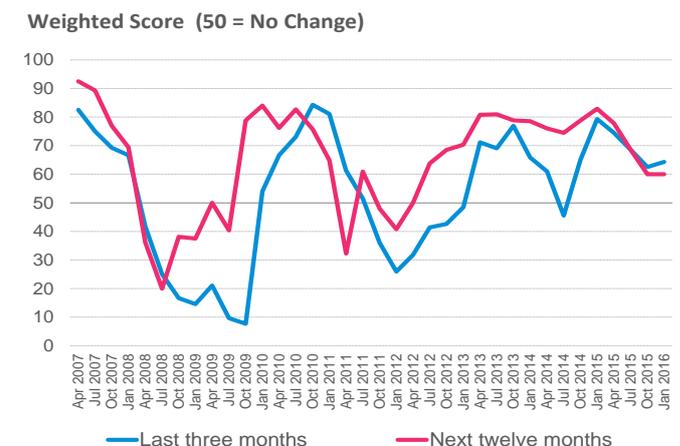
PROFITABILITY OUTLOOK

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

a) January 2016 survey



b) Compared to previous surveys



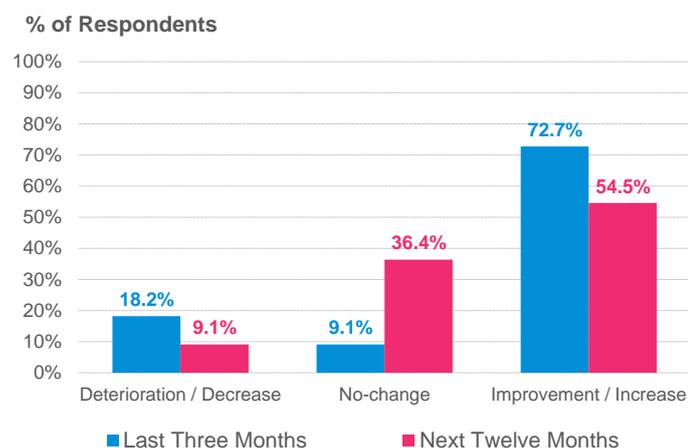
- ➔ The January survey of airline CFOs and cargo heads shows that airline profitability expectations have moderated compared to early 2015. Recent past profitability continues to show gains on a year ago and the outlook remains positive. But the last two surveys (October 2015 and January 2016) show a relatively lower share of respondents expecting improvement in profits, which could suggest that some of the drivers of strong profit expectations may have peaked in H1 2015 and are currently stable or weakening.

DEMAND GROWTH

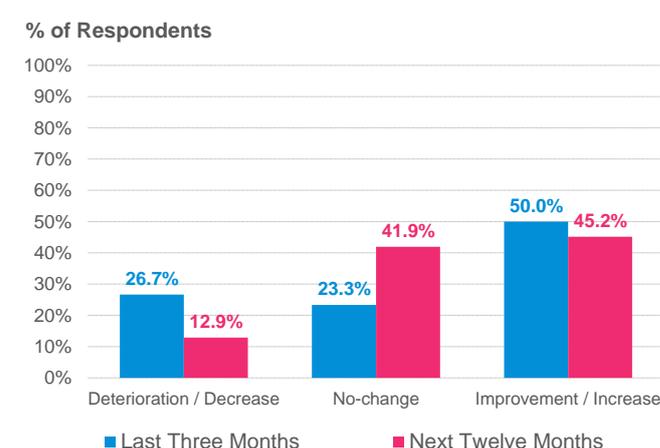
- ➔ Passenger traffic volumes were up during Q4 2015 compared to the year ago period. The survey results are consistent with the latest air transport data, which indicate that air travel is up 6-7% compared to a year ago. Despite weakness in some emerging market economies, passenger air travel continues to expand strongly, supported by declines in the real cost of air transport.
- ➔ The survey also suggests that growth in passenger volumes will continue in the coming months. But the share of respondents expecting an increase in passenger volumes in the year ahead has moderated compared to early 2015. The share of respondents expecting passenger growth during the next 12 months has been declining – it peaked at 79% in April 2015, and is now down to 55%.
- ➔ Respondents indicated that air freight volumes started to improve slightly during the past 3 months. This response aligns with developments in FTK data, which indicates that declines earlier in 2015 have started to bottom out. The outlook for cargo volumes remains positive, but fewer respondents (45%) now expect gains in the year ahead when compared to the start of 2015 (71%), which was the recent peak of respondents' optimism for cargo growth. Expectations have weakened on the back of slower growth in world trade as well as little improvement in global business confidence due to sluggishness in some emerging markets.

Recent and expected change in traffic volumes

a) Passenger



b) Cargo



Compared to previous surveys

a) Passenger

Weighted Score (50 = No Change)



b) Cargo

Weighted Score (50 = No Change)

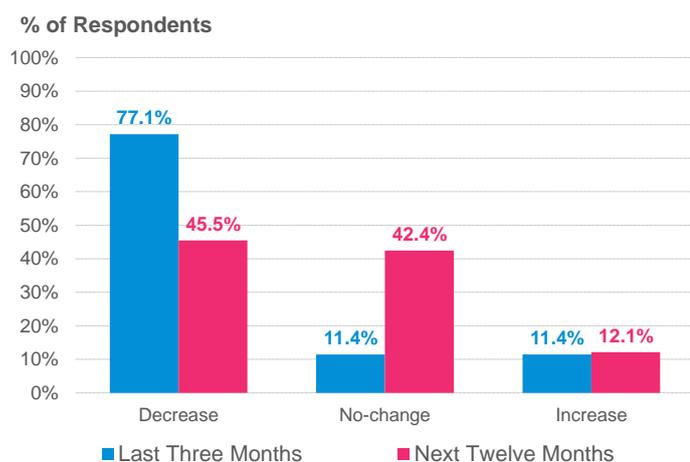


INPUT COSTS

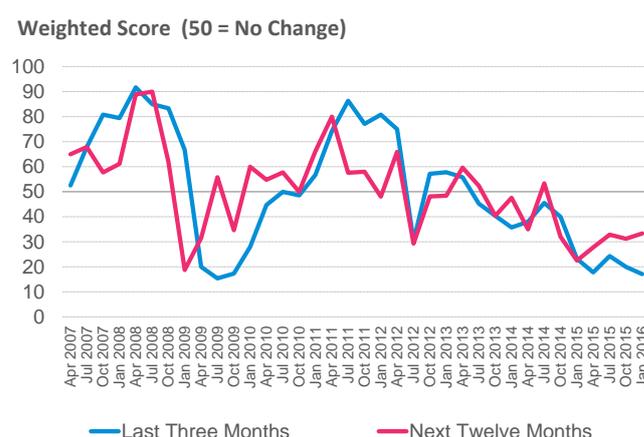
- ➔ January survey results show that input costs were down in Q4 compared to the year ago period. This response is consistent with the relatively low crude oil and jet fuel prices. Crude oil prices fell to US\$38/bbl in December 2015, US\$27/bbl lower than the mid-year peak. Crude oil prices have declined due to several factors, including concerns about oversupply.
- ➔ On balance, survey respondents expect this trend to continue during the year ahead. Previous (2014) survey responses included reference to cost cutting measures as reasons for declines in current/future cost expectations, but the fall in fuel prices has been the key factor in both recent past and future expectations of lower cost pressures during the past year.

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

a) January 2016 survey



b) Compared to previous surveys

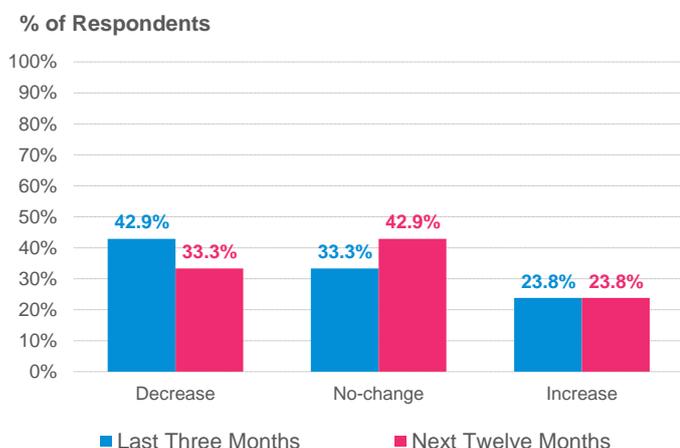


YIELD ENVIRONMENT

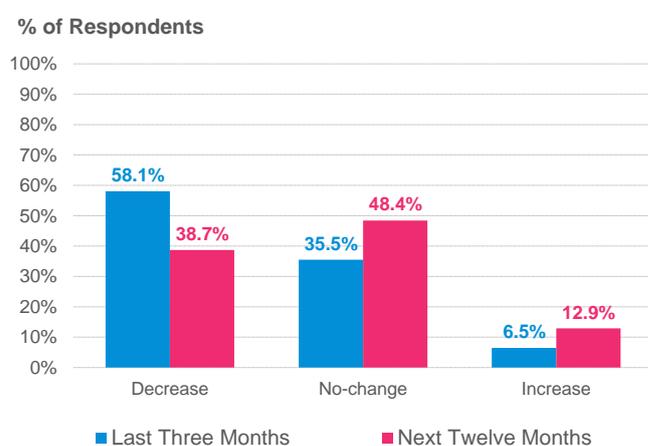
- ➔ Survey respondents indicated that passenger yields in Q4 remain down on the year ago period, much the same as the trend throughout 2015. The January survey suggests there might be some further declines in the year ahead.
- ➔ Cargo yields are showing similar developments, with respondents indicating decline in Q4 compared to a year ago. The results of the January survey suggest that yields will decline during the year ahead, and the rate of respondents with this view has remained stable during the previous two quarters.

Recent and expected change in yields

a) Passenger



b) Cargo



Compared to previous surveys

a) Passenger

Weighted Score (50 = No Change)



b) Cargo

Weighted Score (50 = No Change)



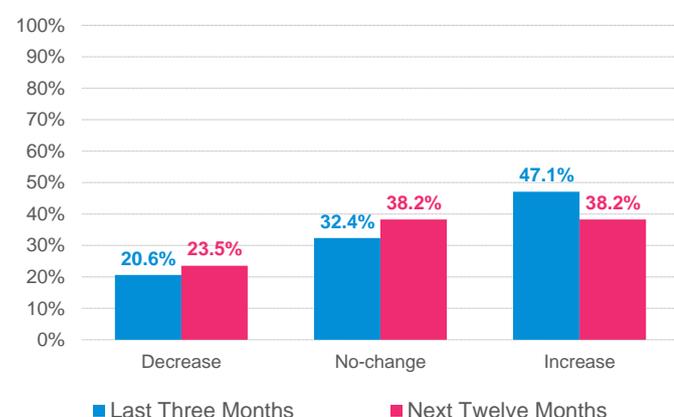
EMPLOYMENT

- ➔ Airline employment activity is reported to have increased in Q4. Moreover, the January survey reveals that CFOs and cargo heads expect a small amount of growth in employment in the year ahead. This expectation is consistent with the positive financial performance seen over the recent past, as well as the outlook for continued positive profits during the next year.

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

a) January 2016 survey

% of Respondents



b) Compared to previous surveys

Weighted Score (50 = No Change)



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