

# AIRLINE BUSINESS CONFIDENCE INDEX

## OCTOBER 2014 SURVEY

### KEY POINTS

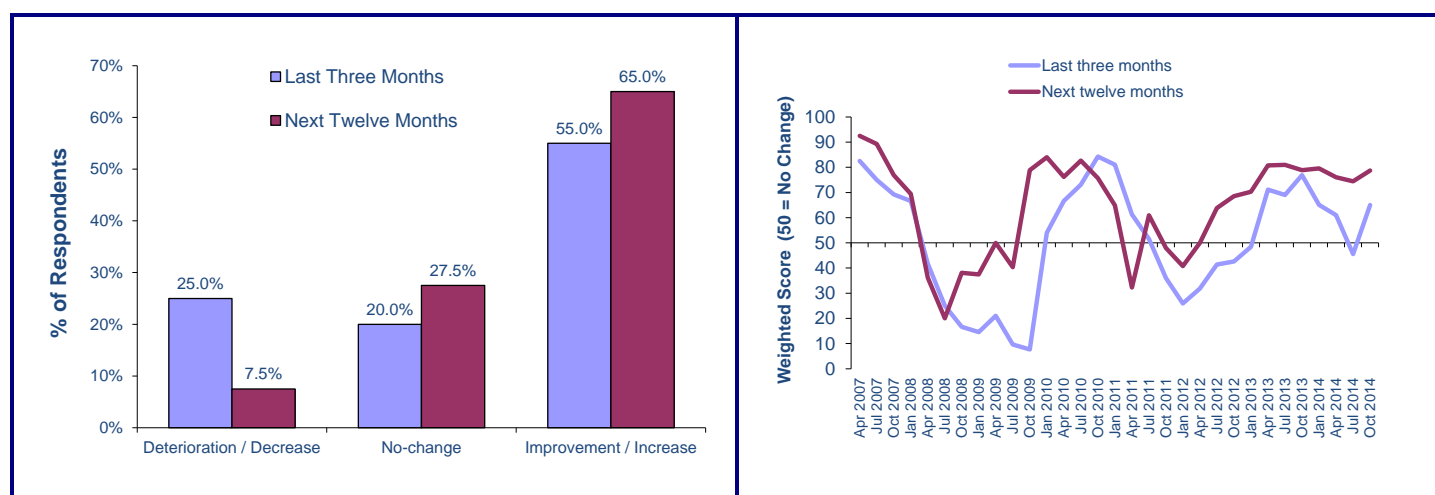
- Airline profit expectations for the year ahead are positive and there has been an improvement in recent performance, according to IATA's quarterly survey of airline CFOs and heads of cargo in October;
- Recent past financial performance has started to improve again compared to a year ago, after no gains in Q2, and the outlook remains positive which suggests there will be further growth in profitability;
- The survey indicates that falling inputs costs and stronger growth in traffic volumes are responsible for better recent financial performance as well as the positive outlook;
- Respondents reported seeing a decline in input costs in Q3, largely due to a fall in crude oil prices over recent months, and expect the trend to continue during the year ahead, which is consistent with the positive outlook for profitability;
- Both passenger and cargo volumes were reported to have expanded during Q3, reflecting improvement in the demand environment after weakness in early 2014;
- There is also confidence that air transport volumes will continue to expand over the next 12 months, supporting the expectation for profit improvements during the next 12 months;
- Although respondents continue to report declines in yields, downward pressure eased in Q3 for both businesses, and no further weakness in yields is expected for the year ahead;
- Airline employment activity is reported to have been stable in Q3 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) October 2014 survey

b) Compared to previous surveys



- The result of the October 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 is both supported by stronger growth in traffic volumes as well as easing input costs.

## DEMAND GROWTH

- Passenger traffic increased during Q3 2014 compared to the year ago period. Moreover, the rate of growth in October increased compared to July. This is likely reflecting signs of improvement in the demand environment after some slowdown earlier in the year. Latest data also show there is resumption in air travel growth.
- Looking ahead, the demand backdrop suggests that growth in passenger volumes in the months ahead will be at least at the current rate, and survey results are consistent with that view. The proportion of respondents expecting a rise in traffic volumes is significant at 78%.
- Similarly for air freight, respondents reported acceleration in growth volumes over recent months (compared to Q2), which is consistent with freight data and signs of improvement in business confidence world trade volumes. The outlook for cargo volumes remains positive with 62% of respondents expecting an increase in demand over the next 12 months.

### AIRLINE INDUSTRY FORECAST 2013 - 2017

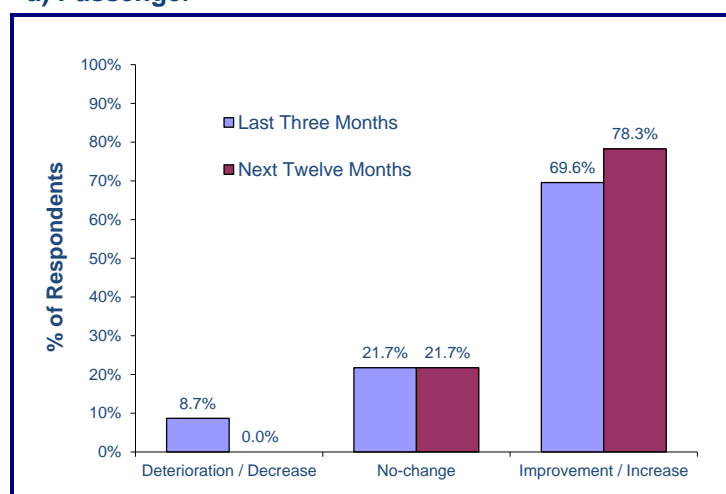


Predict demand patterns  
& minimize investment risk

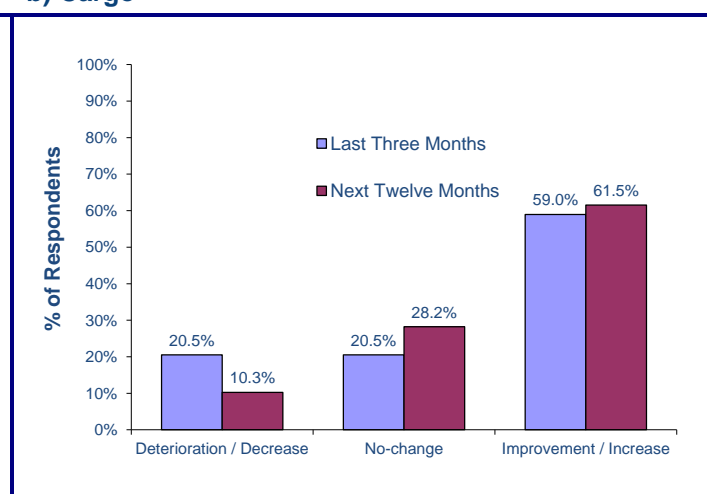
[www.iata.org/forecast](http://www.iata.org/forecast)

### Recent and expected change in traffic volumes

#### a) Passenger

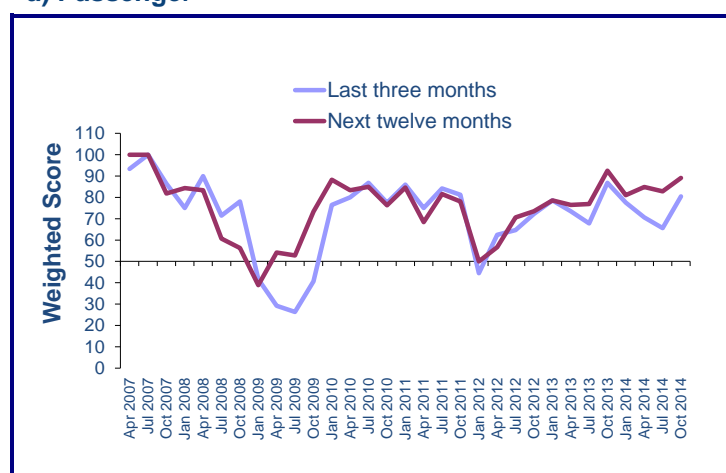


#### b) Cargo

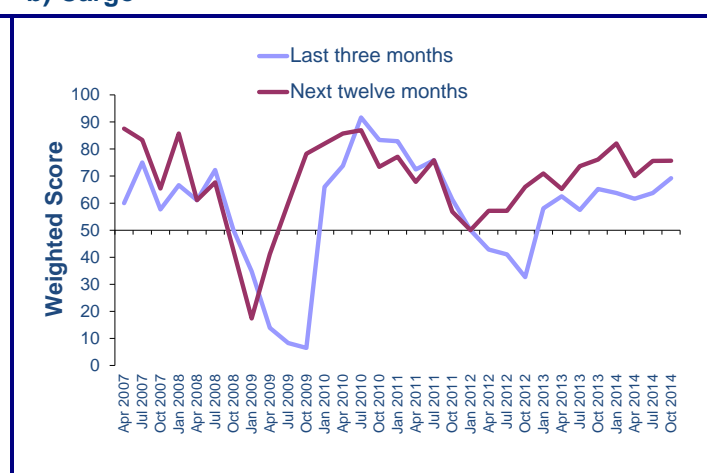


### Compared to previous surveys

#### a) Passenger



#### b) Cargo



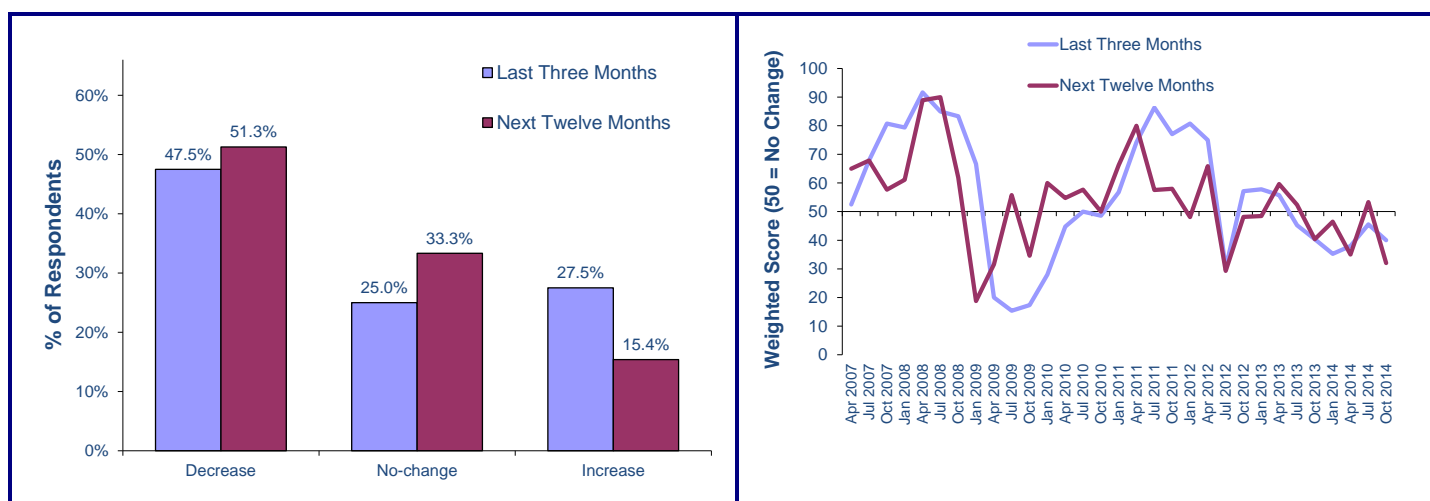
## INPUT COSTS

- October survey results show that input costs have declined during the past 3 months. In the previous quarter, input costs had largely stabilized (were unchanged compared to the year ago period). The decline in input costs in Q3 is mostly 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 decline in input costs. Prior surveys responses included reference to cost cutting measures as reasons for decline in current/future cost expectations, but recent decline in fuel prices has pushed future costs expectations down further.

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

a) October 2014 survey

b) Compared to previous surveys



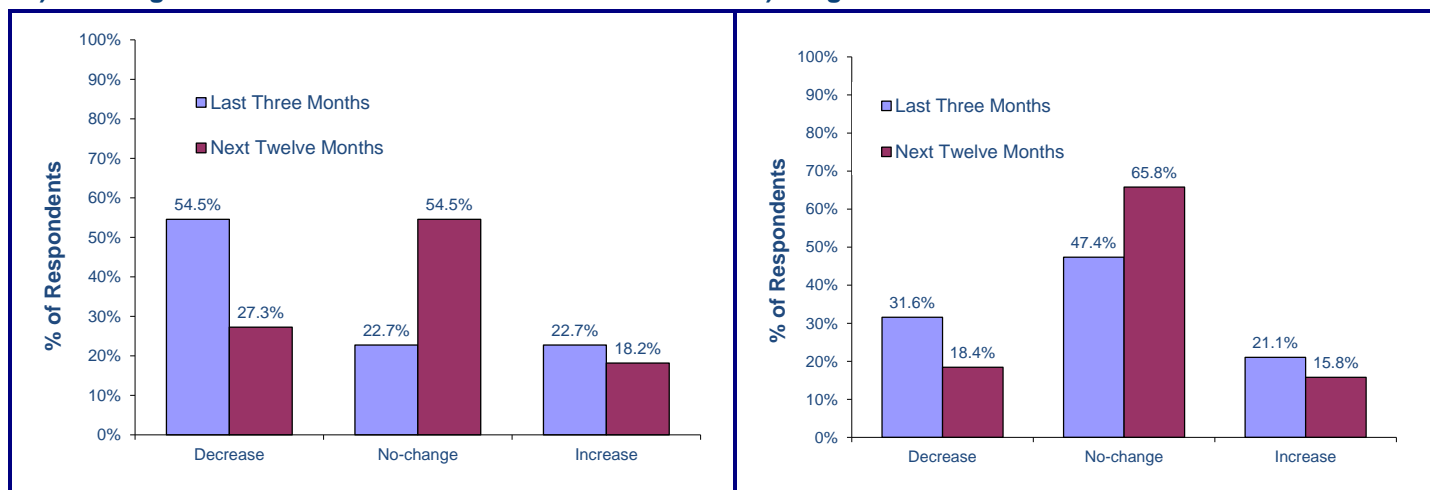
## YIELD ENVIRONMENT

- Survey respondents indicated that passenger yields continue to decline, but at a slower rate in Q3 compared to Q2. The outlook, however, is slightly more positive and indicates that yields will stabilize (remain unchanged) during the year ahead. The expectation for stronger growth in air transport demand for the year ahead should limit further decline in yields.
- Consistent with recent signs of improvement in cargo demand, cargo yields were reported to have declined at a slightly slower pace in Q3 compared to earlier in the year. Similar to the expectation for the passenger business, cargo heads anticipate stability in cargo yields over the next 12 months.

Recent and expected change in yields

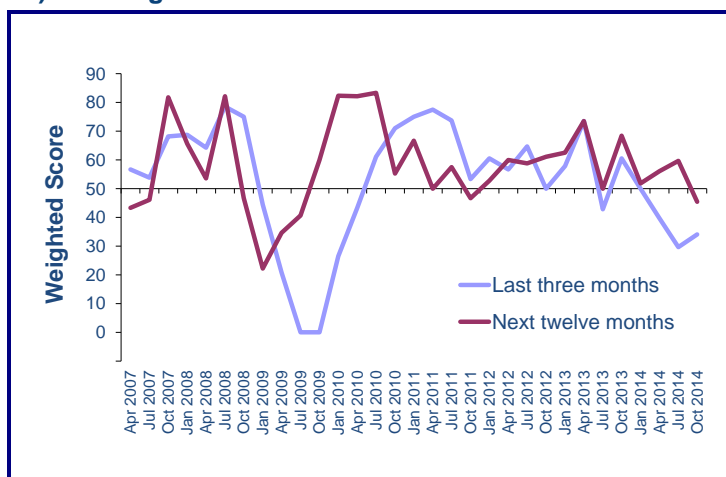
a) Passenger

b) Cargo

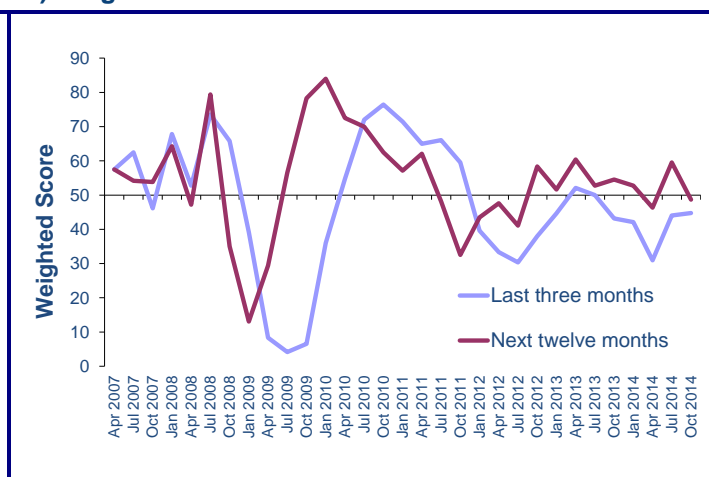


## Compared to previous surveys

### a) Passenger



### b) Cargo

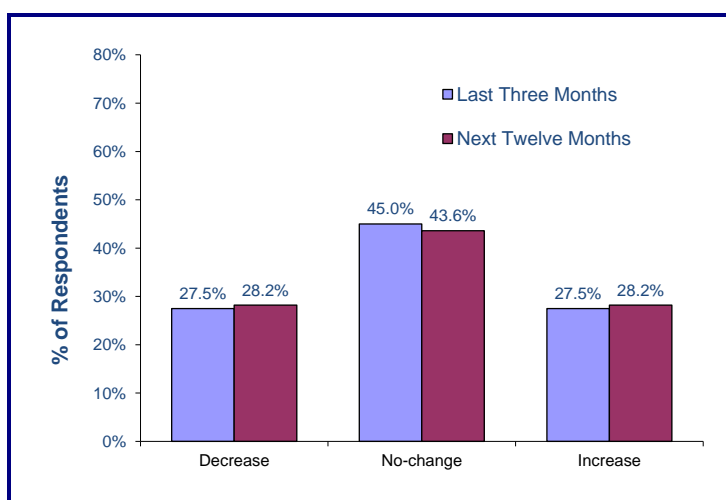


## EMPLOYMENT

- Airline employment activity is reported to have remained unchanged in Q3 compared to a year ago. Similarly, the October 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) October 2014 survey



### b) Compared to previous surveys

