

AIRLINE BUSINESS CONFIDENCE INDEX

OCTOBER 2015 SURVEY

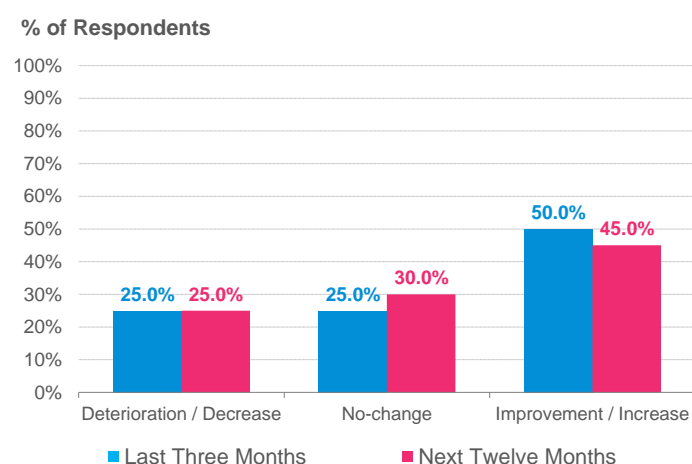
KEY POINTS

- ➔ Airline profit expectations for the year ahead have fallen further but remain positive, according to IATA's quarterly survey of airline CFOs and heads of cargo in October;
- ➔ The rate of expected improvement in profitability over the next 12 months has fallen in October compared to Q1, suggesting that improvements in key drivers might have peaked earlier in the year;
- ➔ 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 Q3, but growth in cargo volumes is now broadly flat on the year ago period, which is consistent with FTK data and the lackluster demand backdrop;
- ➔ The growth outlook is positive for both passenger and cargo businesses, but not at the strong pace that was expected earlier in the year. This likely reflects concerns over weakness in the global business environment and emerging market economies;
- ➔ Respondents reported seeing a decline in input costs in Q3 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 been stable in Q3, but a small increase is expected in the year ahead, consistent with the positive outlook for financial performance.

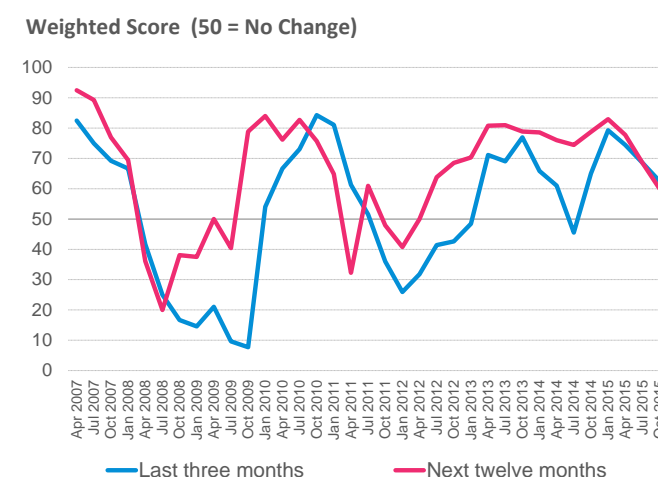
PROFITABILITY OUTLOOK

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

a) October 2015 survey



b) Compared to previous surveys



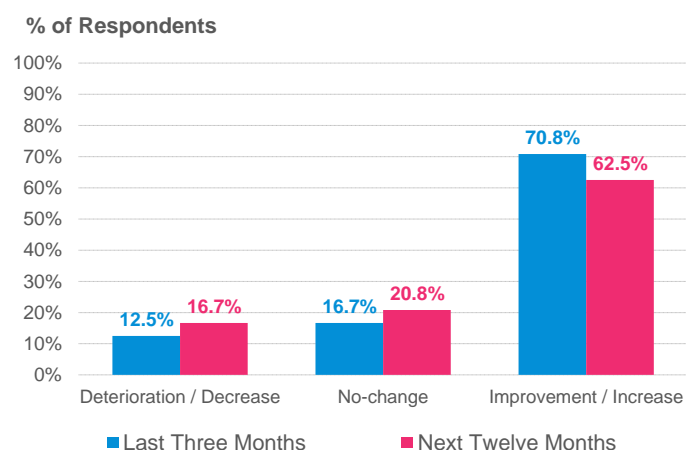
- ➔ The result of the October survey of airline CFOs and cargo heads shows that airline profitability expectations have fallen further compared to earlier in the year (Q1). Recent past profitability continues to show gains on a year ago and the outlook remains positive, but the October survey suggests that some of the drivers of strong profit expectations may have peaked earlier in 2015 and are currently stable or weakening.

DEMAND GROWTH

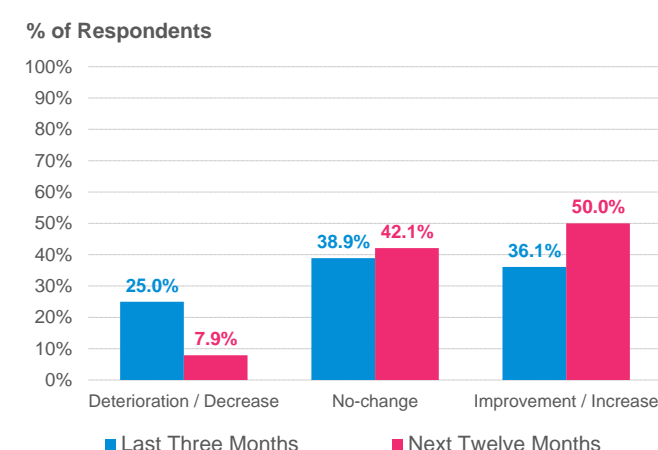
- ➔ Passenger traffic volumes were up during Q3 2015 compared to the year ago period. The survey results are consistent with the latest air transport data, which indicate that air travel is up 6-7% compared to a year ago. And this is stronger than the Q2 results. Despite weakness in some emerging market economies, passenger air travel continues to expand strongly.
- ➔ 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 fallen further since earlier in the year. In April, we saw the share of respondents expecting passenger growth during the next 12 months peak at 79%, compared to 63% in the October survey.
- ➔ Respondents indicated that air freight volumes during the past 3 months were broadly unchanged compared to a year ago. This is a slowdown on previous quarters, and aligns with developments in FTK data. The outlook for cargo volumes remains positive, but fewer respondents (50%) now expect gains in the year ahead compared to the January survey (71%), which was the 2015 peak of respondents' optimism for cargo growth. Expectations have weakened on the back of slower growth in world trade throughout H1 – with large declines in key markets like emerging Asia – 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)

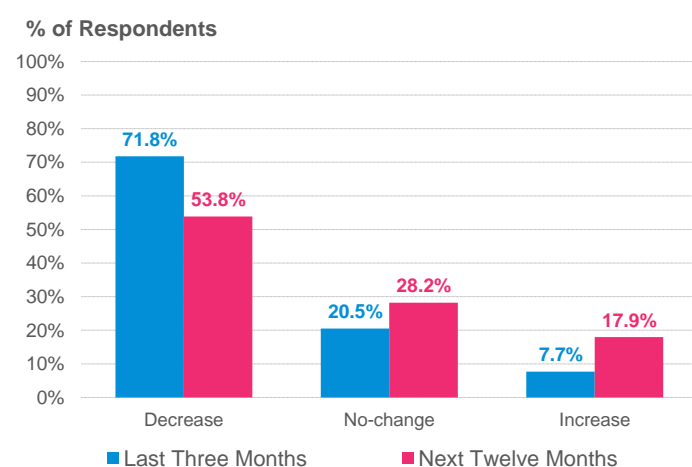


INPUT COSTS

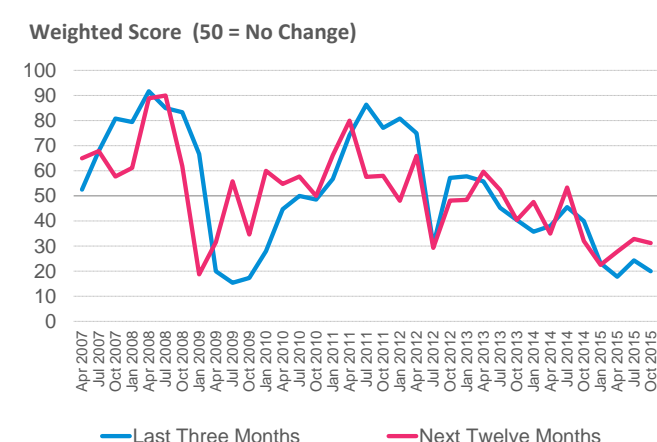
- October survey results show that input costs were down in Q3 compared to the year ago period. This response is consistent with the relatively low crude oil and jet fuel prices. Crude oil prices averaged US\$52/bbl in Q3, some 55% down on mid-2014 highs. Crude oil prices have declined due to several factors, including concerns about oversupply as well as a strengthening US dollar.
- 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.

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

a) October 2015 survey



b) Compared to previous surveys

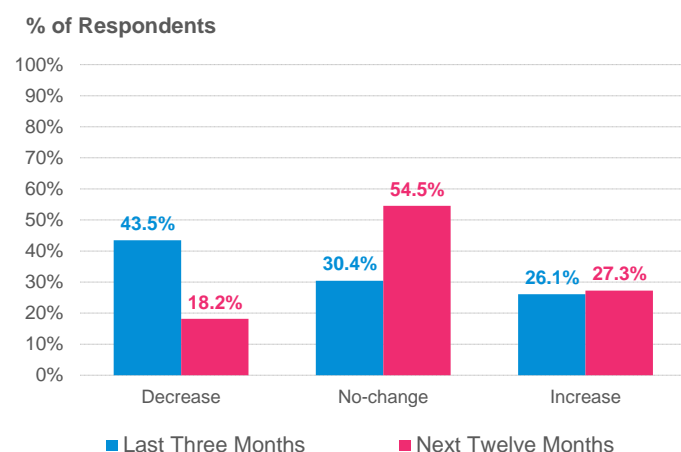


YIELD ENVIRONMENT

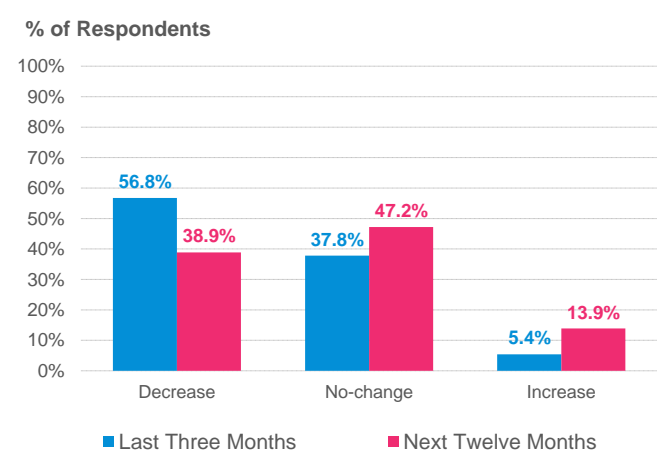
- Survey respondents indicated that passenger yields in Q3 remain down on the year ago period, much the same as the trend so far this year. But further declines are not expected for the year ahead.
- Cargo yields are showing similar developments, with respondents indicating decline in Q3 compared to a year ago. The results of the October survey suggest that yields will decline during the year ahead, but at the same rate as in the previous two quarters.

Recent and expected change in yields

a) Passenger



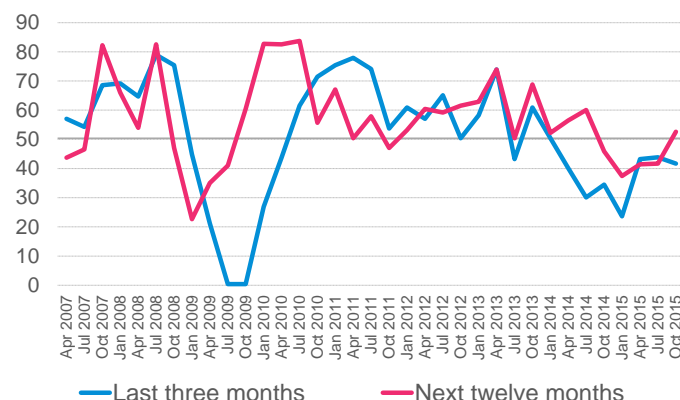
b) Cargo



Compared to previous surveys

a) Passenger

Weighted Score (50 = No Change)



b) Cargo

Weighted Score (50 = No Change)



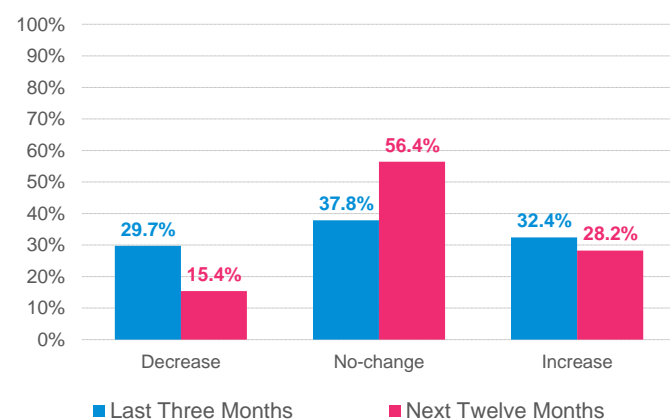
EMPLOYMENT

- ➔ Airline employment activity is reported to have been unchanged in Q3. But the October survey reveals that CFOs and cargo heads expect a small amount of growth in employment in the year ahead. This expectations 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, albeit at a slower rate than was expected in Q1.

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

a) October 2015 survey

% of Respondents



b) Compared to previous surveys

Weighted Score (50 = No Change)



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