

IATA ECONOMICS BRIEFING

AIRLINE BUSINESS CONFIDENCE INDEX

APRIL 2009

KEY POINTS

- Airline profitability remained weak into the first quarter of 2009 under pressure from further falls in traffic and sharp declines in yields, according to survey respondents. These factors more than offset the hedging-delayed benefits of lower fuel prices and efforts to resize capacity. The expectations reported for the next 12 months however have, on balance, moved away from indicating significantly further reductions in profitability. While an encouraging sign, there still remains a high degree of uncertainty in this outlook. There is variation in outlook across the regions with Asia expecting further declines whereas in Europe and the Middle East the mood is a little more positive.
- The sharp falls both passenger and cargo traffic over the last three months have hit current results hard but expectations for the year ahead are for more stability. Expectations for yields remain weak on both the passenger and cargo sides of the business but input cost increases have moderated in line with fuel price decreases and most expect cost stabilisation or further decreases in the year ahead.
- Employment levels within the industry are expected to fall over the next 12 months.

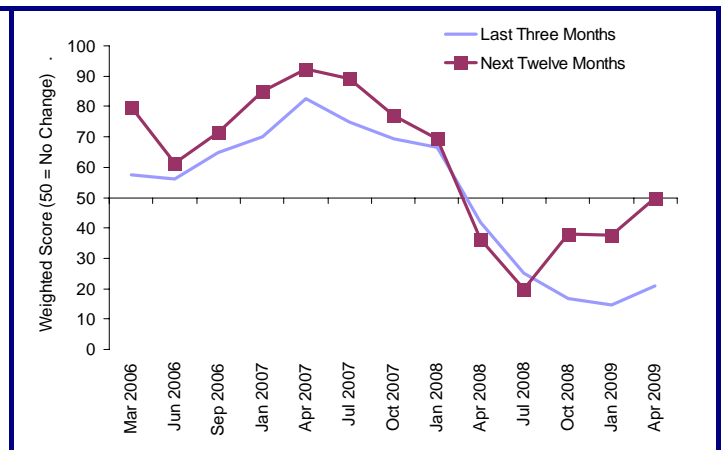
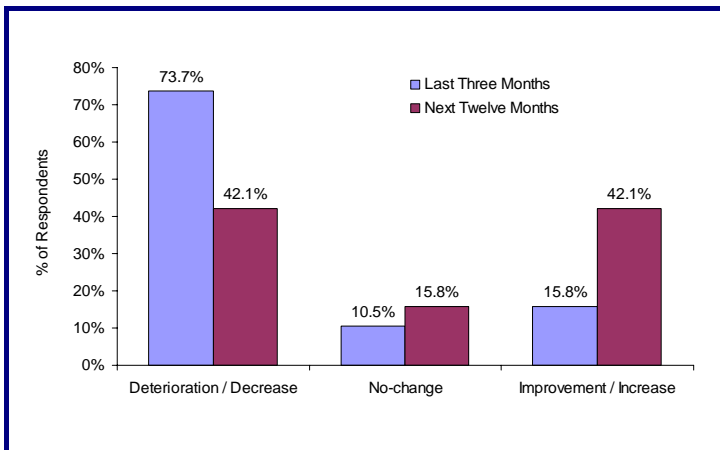
PROFITABILITY OUTLOOK

- Airlines continued to experience a very challenging profits environment during the first quarter of 2009, however the pessimism about the outlook ahead which dominated recent surveys has softened somewhat. The latest responses reflect the further falls in traffic recorded so far this year, only partially offset by benefits of falling spot market fuel costs finally feeding through to airline bottom lines. Over 70 percent of respondents reported that profitability had fallen over the last three months. While this is lower than the 79.2% recorded at the end of 2008, it underlines the difficulties airlines face during this period of such weak demand. On a weighted average basis (with 50 representing no-change, and values below 50 signalling a greater balance of negative views), the score for profitability over the previous three months is 21.1, still well in negative territory, indicating losses.

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

a) April 2009 survey

b) Compared to previous surveys



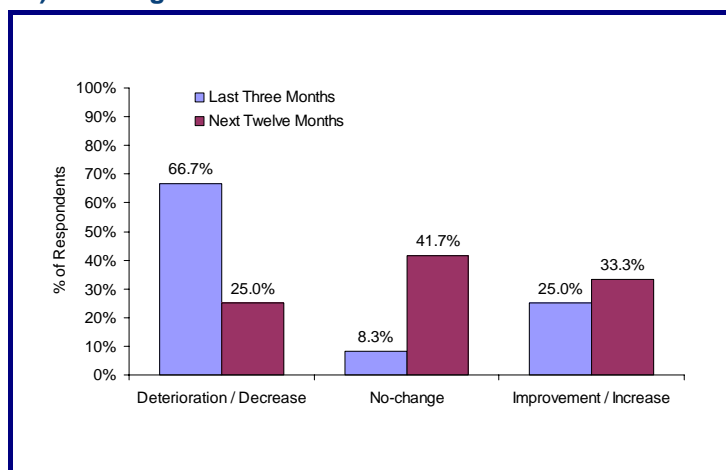
➤ Airline expectations about financial performance for the coming 12 months have, on balance, moved away from indicating further declines in profitability. However there still remains a high degree of uncertainty in this outlook given that the bulk of responses are split between the two extremes of an improvement in outlook on one hand and even further decline on the other. Success in resizing capacity combined with sustained lower fuel price outlook and stabilising traffic towards the end of 2009 drive the more optimistic responses. Others see economic recovery taking longer and that falls in yields will more than offset savings from lower fuel costs. Airlines in Asia continue to express the most bearish outlook with 80 percent of respondents seeing decrease in profitability over the next 12 months. European and Middle Eastern respondents express a more positive outlook with the balance expecting improvement in profitability. Globally, on a weighted average basis, the outlook for profitability over the next 12 months sits right on the 50 'no change' line.

DEMAND GROWTH

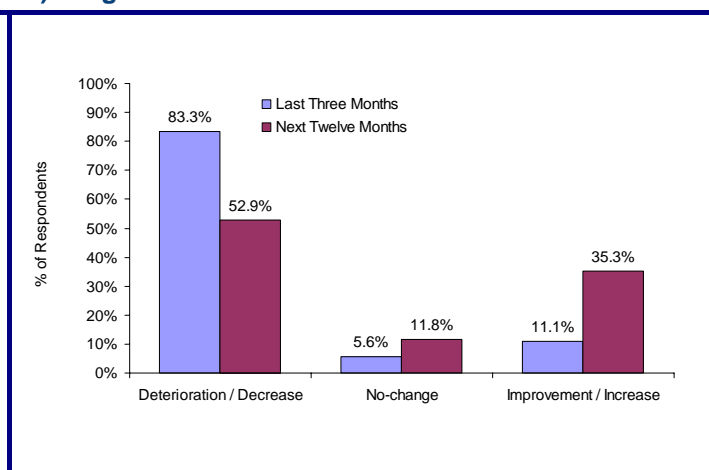
- The latest quarter's picture for passenger demand volumes has deteriorated further since the last survey with now two thirds of respondents (up from half last survey) reporting negative trends in demand. Only a quarter reported improvement, down from 33%. This is driven by deepening of the recession and matches the double digit falls in international and premium traffic reported in the early months of 2009. Expectations for demand over the next 12 months are slightly less pessimistic with over 42% of respondents expecting passenger traffic to stabilise. On a weighted average basis, the outlook for passenger demand for the 12 months ahead is 54.2 – moving back above the 50 'no change' line after a fall to 38.9 last survey.
- Air cargo demand continued its rapid slide as manufacturing activity and trade flows fell further in the early part of this year. Well over 80 percent of respondents experienced decreased cargo volumes over the last three months, corroborating the annual 20%+ falls in international FTKs reported since December. Looking forward, the proportion of negative responses moderated somewhat, however with still more than half expecting further falls in cargo demand and agencies like the IMF continuing to release downgraded economic growth forecasts, it may still be too early to call a floor to cargo demand globally. Further decreases in cargo demand are expected by 75% of respondents from the Americas and from 60% in Asia.

The actual and expected change in traffic volumes

a) Passenger



b) Cargo



INPUT COSTS

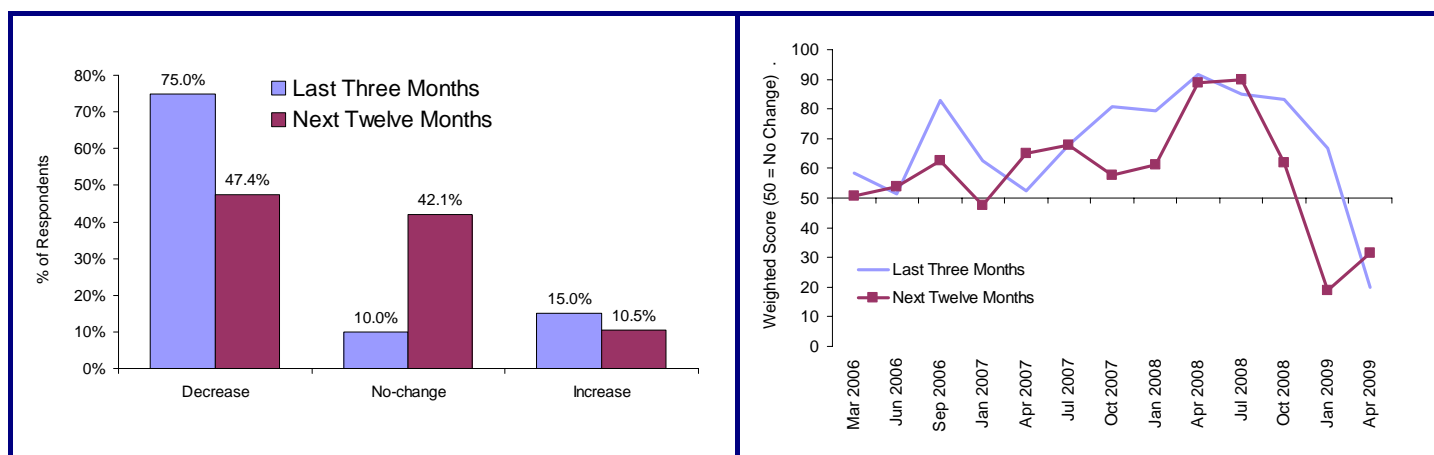
- The cost picture for airlines has changed dramatically since last survey with 75% of respondents indicating that input costs have fallen over the last 3 months. This compares with more than 60% reporting cost increases during the three months to the end of 2008. The benefit of lower fuel prices is now being felt – after a delay due to hedging activity which has seen airlines paying more than the spot price in the short term. Airlines have also cut capacity and respondents report internal cost reduction exercises are bearing fruit. On a weighted average basis, the score of 20.0 for the input cost trend is the lowest seen since the survey began.
- Expectations over the next 12 months are, on balance, for continued input cost reductions, with just under half of respondents expecting decreases. However now 42% (double the rate from last survey) expect costs to

stabilise over the 12 months ahead. As such, on a weighted average basis, the score for the outlook in unit input costs has moderated slightly to 31.6 (compared to 18.8 last quarter). Respondents do not expect that fuel costs will rise significantly over the 12 months ahead, with most indicating a stabilisation or even slight fall depending on their historical hedging strategy. Further cost reduction initiatives are also cited as helping to manage cost pressures going forward, although lower load factors and aircraft utilisation could well offset some of these gains due to higher non-fuel unit costs.

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

a) April 2009 survey

b) Compared to previous surveys



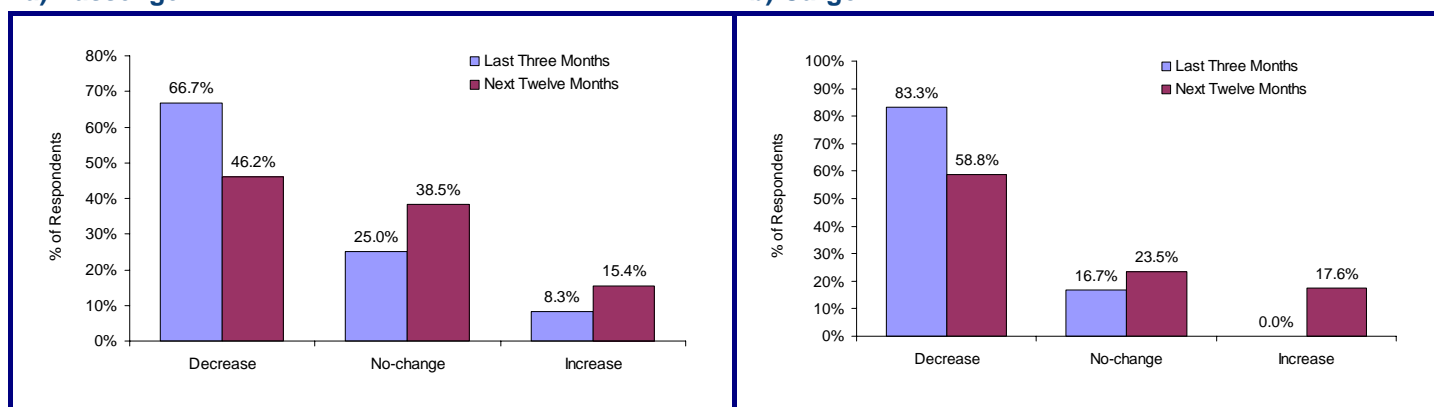
YIELD ENVIRONMENT

- Respondents report weak yield performance in both the passenger and cargo sides of the business during the last 3 months although the outlook for the year ahead has become slightly less pessimistic. A combination of factors including lowering of fuel surcharges, difficulties reducing capacity quickly enough and passengers switching from premium to economy seats have contributed to the decreases in passenger yields over the last three months reported by two-thirds of respondents. Indeed, IATA estimates that international passenger revenues have fallen 20-30% in recent months. Only 8.3% reported yield increases, well down on the 27.8% of responses to the last survey. The expectations of respondents for the next 12 months have improved somewhat with now less than half expecting further yield declines, however given only 15.4% expect some improvement over that period, any significant recovery still appears to be a way off.
- Cargo yields suffered heavily over the last three months with more than 80 percent of respondents reporting decreases – almost double the rate of last survey. The slump in manufacturing and export activity around the globe has hit air cargo demand hard with corresponding effects on yields. The outlook for cargo yields over the next 12 months remains difficult with 58.8% percent of respondents expecting further declines over that period.

The actual and expected change in yields

a) Passenger

b) Cargo



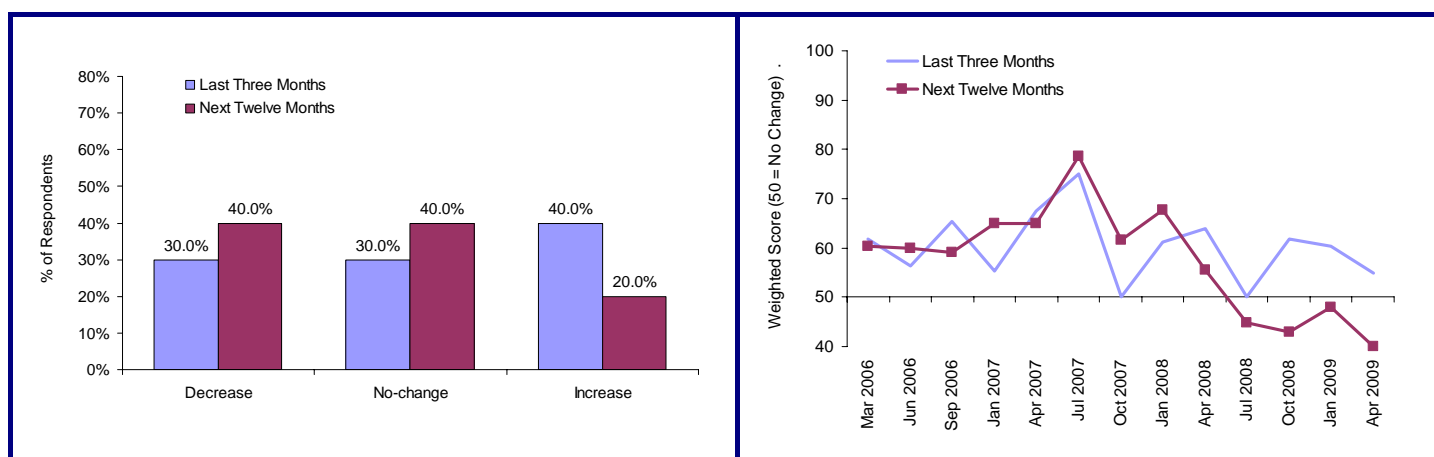
EMPLOYMENT

- While the proportion of respondents reporting reduction in employment levels over the last three months has risen to 30%, on a weighted average basis the score of 55.5 still indicates a small increase in employment amongst the balance of responses. Roughly equal proportions cite continued fleet & route development for staff increases, frozen recruitment to stabilise levels and finally actual cuts in line with capacity reductions or other cost saving initiatives. As in previous surveys some respondents indicate that in the short term they are reducing staff working hours before looking to reduce overall numbers.
- However the outlook for employment levels remains in negative territory and in fact has fallen to a new low, on a weighted average basis, of 40.0 (previous low was 42.9 from October 2008 survey). Two-fifths of respondents indicate that they aim to reduce employment levels in the 12 months ahead (up from 25% last survey) while another 40% expect to hold headcount steady (down from 54.2% in the previous survey).
- The balance of responses to the last four surveys indicate that while airlines have held expectations of reducing employment levels in search of further efficiencies, actual employment levels have not followed suit. Until very recently the industry faced shortages of skilled labour so the absence of a sharp drop off in employment levels to date may reflect a cautious approach by airlines looking to retain skills. It is also possible that agreements with unions make staff cuts more difficult to implement in the short term. Historically airlines have found that labour costs are quite difficult to alter and it appears that this may continue to be the case.

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

a) April 2009 survey

b) Compared to previous surveys



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