

IATA ECONOMICS BRIEFING

AIRLINE BUSINESS CONFIDENCE INDEX

APRIL 2007

KEY POINTS

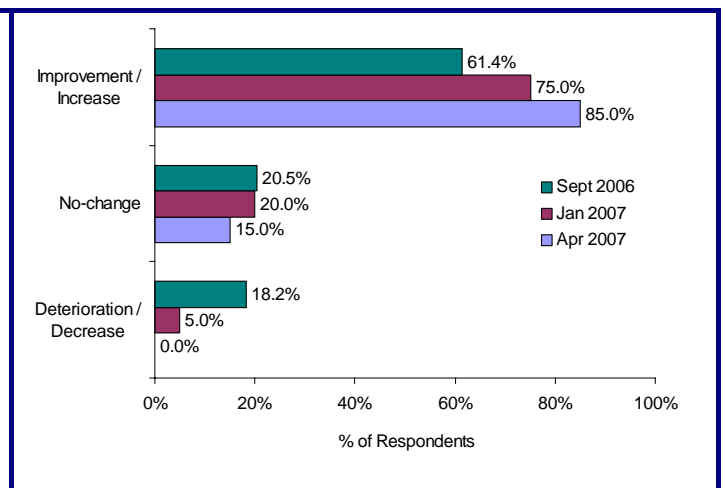
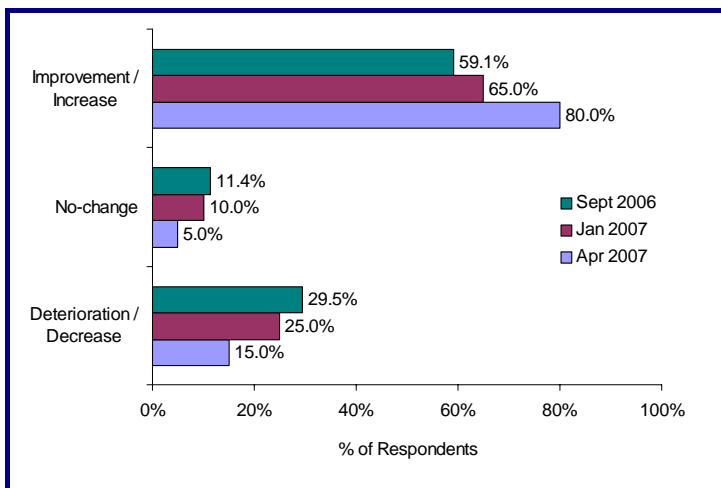
- Airline confidence continues to improve, with 85% of respondents expecting to see an improvement in underlying profitability over the next 12 months, up from 75% in the last survey. A positive revenue environment, weaker fuel prices and further productivity improvements have contributed to an improvement in underlying profitability and in the outlook for further profit improvements, consistent with IATA's latest financial forecast for the industry of a return to net profits of \$3.8 billion in 2007 (see: www.iata.org/economics).
- A positive demand environment continues to provide the main boost to confidence levels. Over 90% of respondents have seen an increase in passenger demand in the first quarter of 2007, while all respondents expect to see higher passenger demand over the next year.
- However, there are increasing signs that strong competition and the introduction of new capacity are constraining prices and stabilising or reducing yields. In addition, upward cost pressure is expected to arise over the next 12 months as capacity is increased and the fuel price remains subject to volatility.

PROFITABILITY OUTLOOK CONTINUES TO IMPROVE

- A positive revenue environment, weaker fuel prices and further productivity improvements have contributed to an improvement in underlying profitability and in the outlook for further profit improvements. Four-fifths of respondents to the April survey expected profitability in the first quarter of 2007 to be higher than in the first quarter of 2006, with just 15% seeing a decline in profitability. The number of respondents seeing higher profitability has increased over the last six months, influenced by an easing in the fuel prices and by on-going demand growth.
- Looking forward, respondents are also increasingly confident of higher profitability over the next 12 months. No respondents expect profitability to decline, while 85% expect to see an improvement. However, while airline confidence is high, many respondents recognised the risk posed to profitability by further potential volatility in the fuel prices over the next year and, in some areas, from increased capacity as new aircraft are delivered.

How has profitability changed in the last three months compared with the same period last year?

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

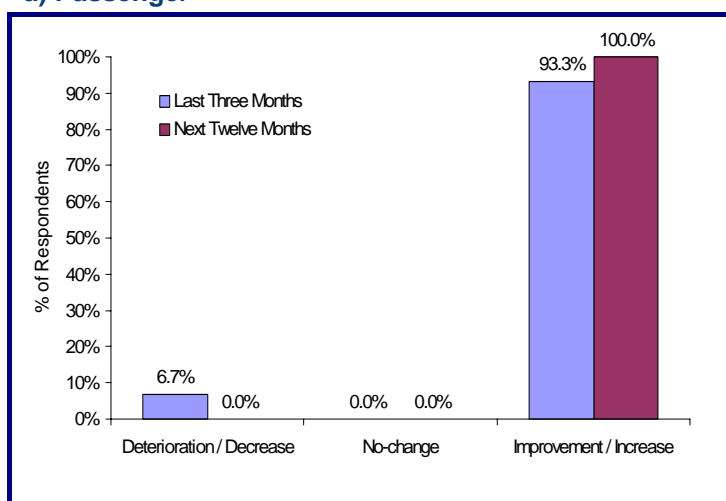


THE DEMAND FOR PASSENGER AND CARGO TRAFFIC CONTINUES TO GROW

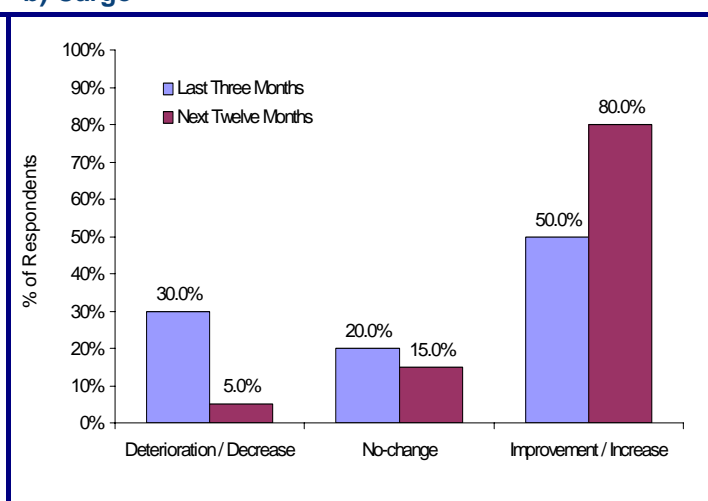
- The demand environment remains positive across all regions, though the rate of growth is likely to slow in 2007 compared to the high rates seen in the last three years. Higher demand has been – and is set to continue to be – a strong contributory factor to higher airline profitability. Over 90% of respondents have seen an increase in passenger demand in the first quarter of 2007, while all respondents expect to see higher passenger demand over the next year. The picture is less buoyant on the cargo side, where airlines face strong competition from other modes such as container shipping. Nevertheless, half of the respondents saw higher cargo volumes in the first quarter of 2007, while four-fifths expect cargo demand to increase over the next 12 months.

The actual and expected change in traffic volumes

a) Passenger



b) Cargo

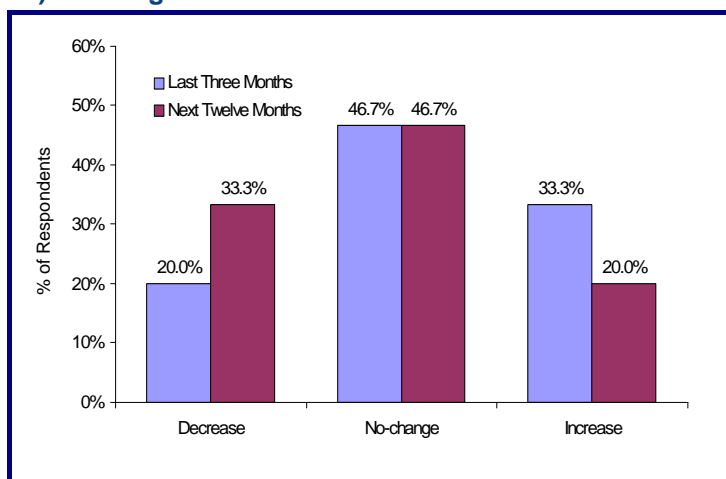


YIELDS CONTINUE TO STABILISE

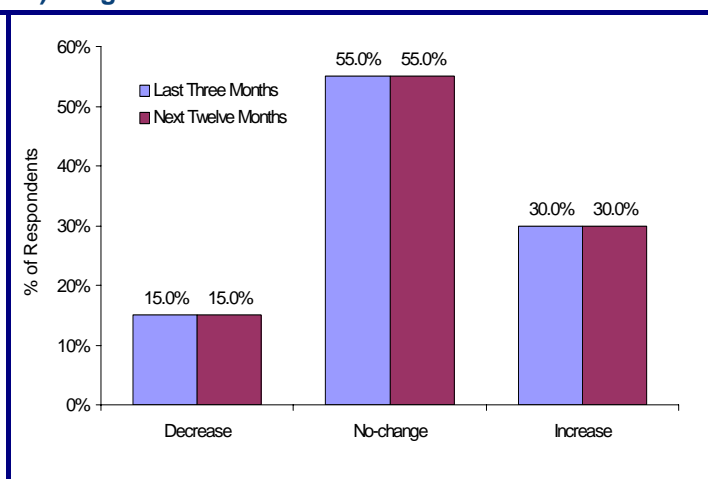
- A buoyant demand environment has provided a degree of pricing power to airlines and, in some cases, allowed them to pass on part of the costs of higher fuel prices through surcharges. However, there are increasing signs that strong competition and the introduction of new capacity are constraining prices and that yields are stabilising or reducing as surcharges are removed. Close to a half of all respondents have seen passenger and cargo yields stabilise in the first quarter of 2007 and expect them to remain stable over the next 12 months. On the passenger side, a third of respondents expect yields to weaken over the next 12 months, returning to the long-term trend the industry has faced of declining real yields.

The actual and expected change in yields

a) Passenger



b) Cargo

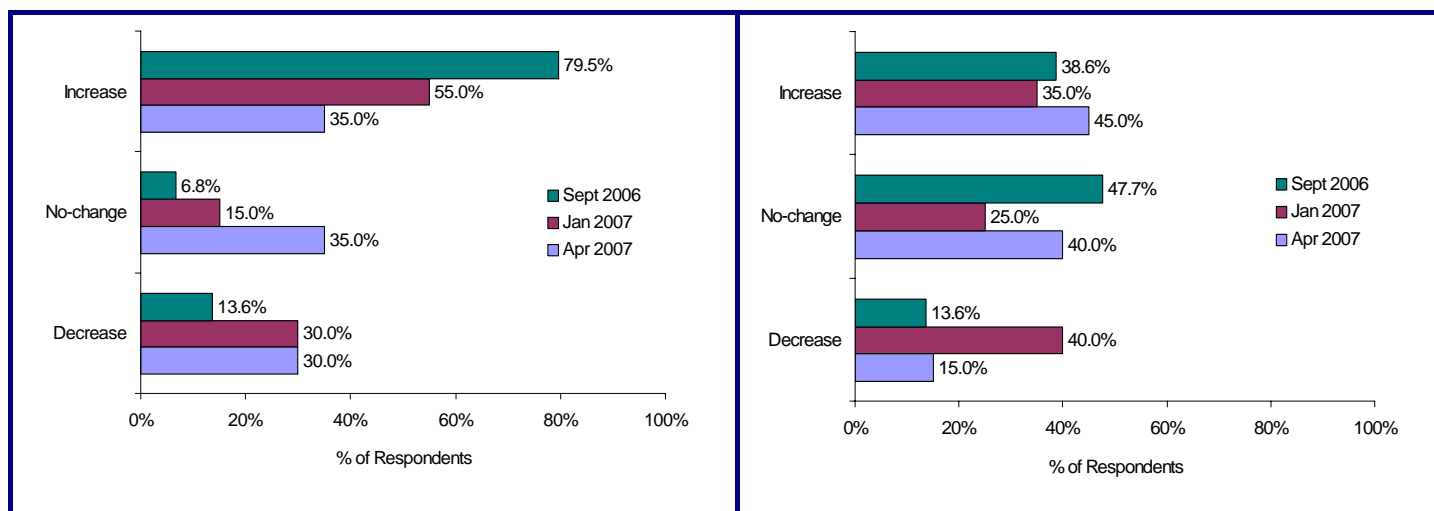


WEAKER OIL PRICES LOWER COSTS, BUT COST PRESSURE REMAINS

- Input cost pressure eased in the first quarter of 2007, influenced by the softening in fuel prices from their peak in mid-2006. Only 35% of respondents saw input unit costs increase in the last quarter, a sharp reduction on nearly 80% of respondents who saw input costs rise in the September 2006 survey. However, with several airlines expanding to meet higher demand and cost pressures arising in some areas, such as labour costs, the overall change since the January 2007 survey has been from an “increase” to “no change” in costs, rather than an increase in the number seeing a fall in input unit costs.
- Looking forward, airlines expect to face further cost pressures over the next 12 months, with 85% of respondents expecting unit cost to increase or to remain stable. Several respondents referred to on-going volatility in fuel prices as having an uncertain effect on costs while others expect cost to increase as capacity is increased. The global airline industry has achieved impressive cost efficiency improvements since 2001. The focus remains on achieving further cost efficiencies, though they will become increasingly harder to find.

How have your input costs changed in the last three months compared with the same period last year?

How do you expect your input costs to change over the next twelve months?



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E-Mail: economics@iata.org