

# IATA ECONOMICS BRIEFING

## AIRLINE BUSINESS CONFIDENCE INDEX

**MARCH 2006**

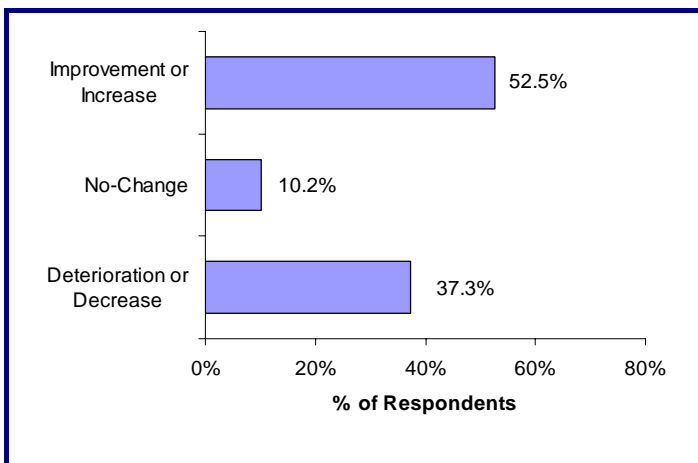
### KEY POINTS

- Airlines are increasingly confident about the outlook for their industry. Airlines continue to face major financial challenges and risks, but are more optimistic about their ability to respond positively to the current tough operating environment.
- IATA's survey of airline chief financial officers found that major cost restructuring efforts and demand growth are helping to improve profitability and traffic volumes. More than half of the respondents have seen profitability improve over the last three months, while more than two-thirds expect higher profits in the coming year.
- Traffic volumes improved over the last three months, though at a faster rate on the passenger side than for cargo. However, airlines are highly optimistic about further growth in both passenger and cargo volumes in 2006.
- High fuel costs continue to place strong pressure on airline operating margins. Despite significant non-fuel cost efficiency savings, input costs rose significantly in the last three months. Input costs are expected to rise further in 2006, though at a slower rate of increase. Airlines have had some success at introducing fuel surcharges in 2005, though most expect very little scope to increase their prices in 2006.

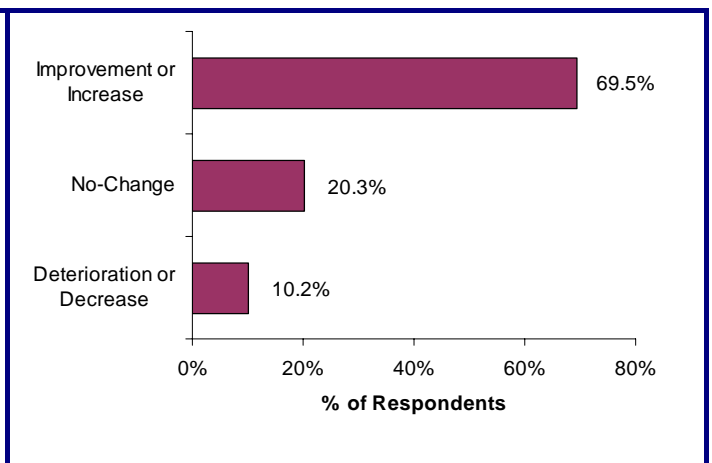
### OVERALL PROFITABILITY IS BEGINNING TO IMPROVE

- A majority of airlines have seen profitability improve in the last three months. However, nearly four out of ten airlines continue to face difficulties in delivering a better profit performance, primarily due to the burden of higher fuel costs.
- However, airlines are far more optimistic about the prospects for profitability in 2006. Over two-thirds of airlines expect profitability to improve this year, with the many citing the positive effects of a good demand environment and non-fuel cost efficiency gains. Nevertheless, within this relatively optimistic view, airlines remain concerned about the potential damaging impact of further rises in fuel prices or a major health or security scare.

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



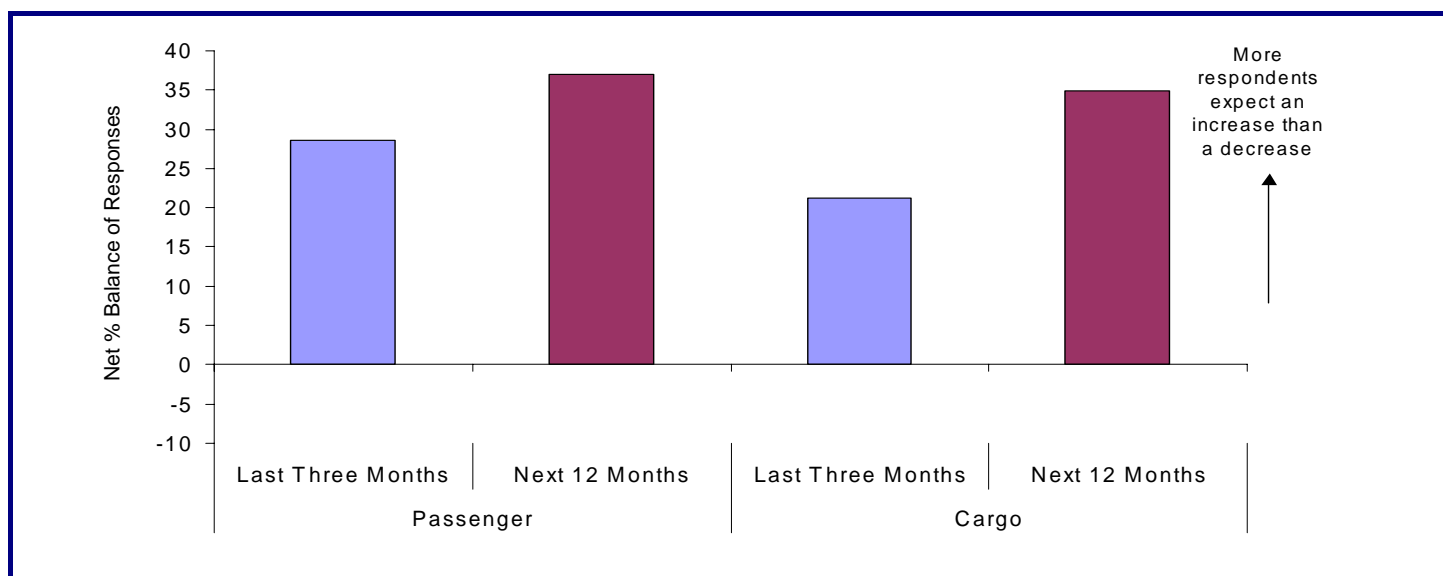
**How do you expect profitability to change over the next twelve months?**



## THE DEMAND ENVIRONMENT IS POSITIVE

- In general, airlines have seen traffic volumes increase in the last three months. However, they face strong competition in attracting these higher volumes. Passenger volumes have increased at a faster rate than cargo in recent months, though airlines are optimistic for the prospects of strong growth in both in 2006.

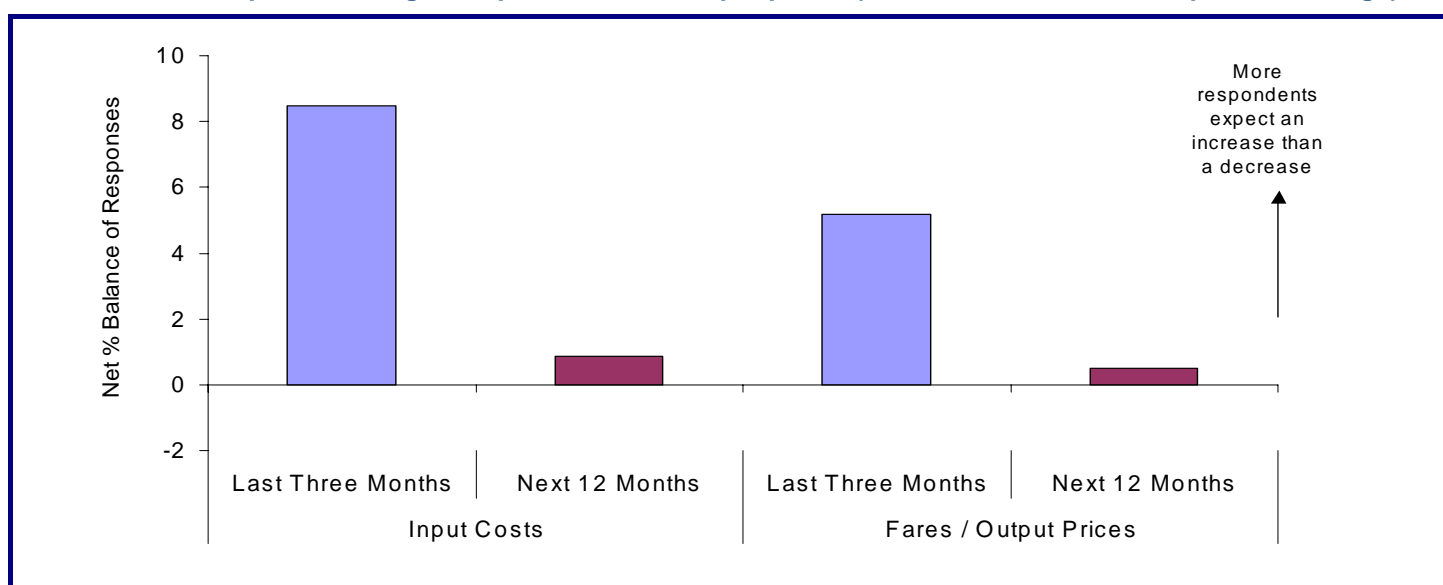
The actual and expected change in traffic volumes (a net % balance of zero equals no change)



## BUT COST CONTROL IS STILL THE KEY FACTOR

- Input costs rose strongly in the last three months, primarily from higher fuel costs (especially as several previous hedging policies began to expire). Airlines have had some success in increasing their yields, passing on some but not all of the burden of higher costs to customers. The rate of increase in input costs is expected to slow in 2006, though strong price competition will also limit the ability of airlines to improve yields – placing further pressure on operating margins within the industry.

The actual and expected change in input costs and output prices (a net % balance of zero equals no change)



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