

AIRLINE BUSINESS CONFIDENCE INDEX

APRIL 2018 SURVEY

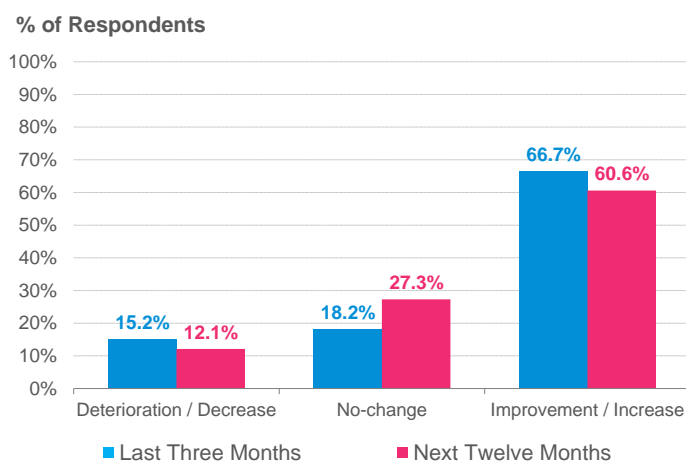
KEY POINTS

- ➔ When surveyed in early-April, 67% of airline CFOs and Heads of Cargo indicated an improvement in year-on-year profitability in Q1 2018 compared with the same period in 2017.
- ➔ Importantly, the majority (61%) reported that they expect their level of profitability to improve further over the coming 12 months.
- ➔ The positive outlook is being supported by robust demand growth, particularly on the passenger side of the business; 77% of respondents expect passenger volumes to rise over the year ahead & just 4% expect a decline.
- ➔ 42% of respondents reported an increase in input costs in Q1, with a similar proportion also expecting increases in the year ahead. Many respondents again noted the impact of higher fuel prices as a key factor in their response this quarter.
- ➔ Both passenger and freight yields are expected to rise further over the course of the year ahead, with the upwards trend in the weighted average scores since their 2016 trough being maintained on this occasion.
- ➔ In a very positive outcome from the April survey, more than 50% of respondents expect to increase employment over the next 12 months, the highest outright positive response in more than a decade.

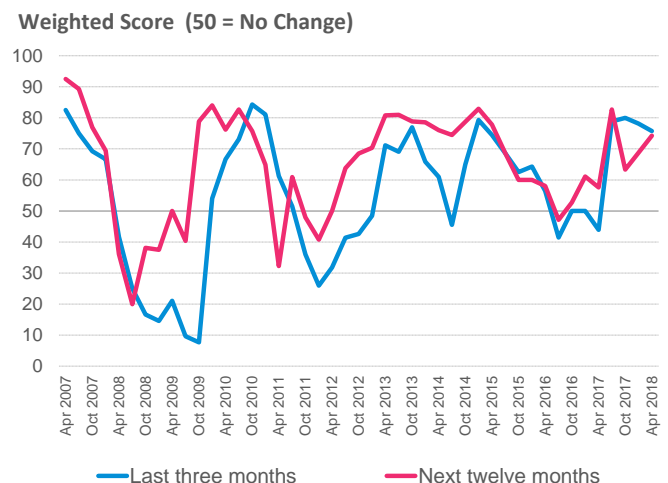
PROFITABILITY OUTLOOK

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

a) April 2018 survey



b) Compared to previous surveys



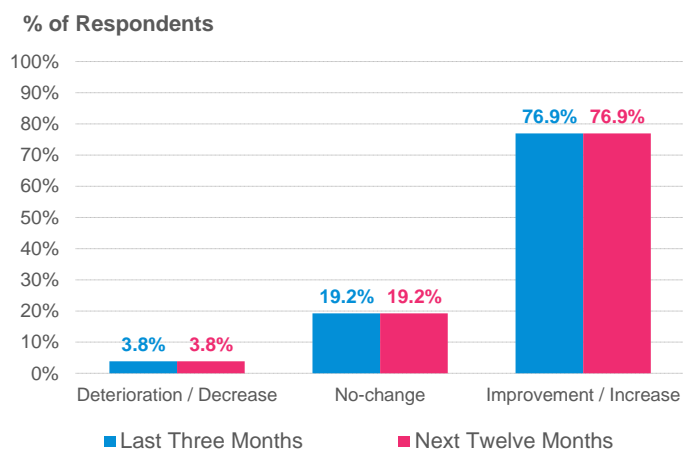
- ➔ The results of our latest survey of airline CFOs and Heads of Cargo, conducted in early-April, point to a healthy start to 2018 for industry financial performance. 67% of respondents reported that profitability increased in annual terms in Q1, down a little from 75% in Q4 2017, but a robust outcome nonetheless. Indeed, the number of respondents who experienced a weaker profit outcome this quarter (vs a year ago) fell by 3.5 percentage points, to 15%.
- ➔ The proportion of respondents who expect profits to remain at current levels or improve over the next 12 months increased to 88%, more than five percentage points higher than that recorded in our January survey. A number of survey respondents highlighted broad-based, stronger economic conditions as the main driver of the rise in expectations on this occasion.

DEMAND GROWTH

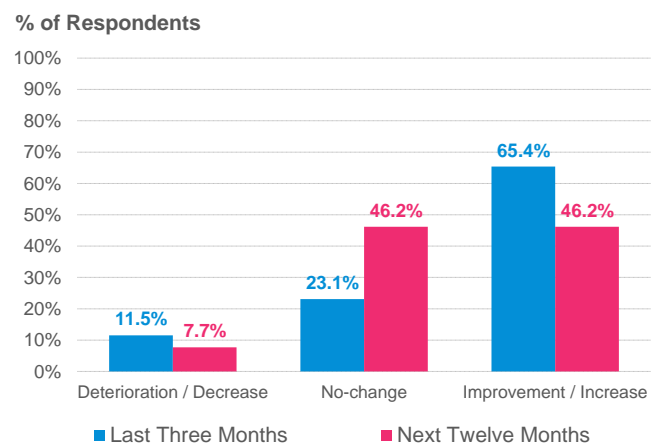
- ➔ On the passenger side, the April survey results continue to point to ongoing momentum in demand in 2018. Only 4% of respondents reported a decrease in demand in Q1, down from 9.5% at the end of 2017 and the lowest reading since April 2008. 77% of respondents saw an increase in traffic volumes this quarter while demand was unchanged for a further 19%. The weighted average backward-looking score has trended sideways, at an elevated level, for the past three months.
- ➔ Looking to the year ahead, 77% of respondents reported that they expect a further increase in passenger volumes. Although down moderately from the decade-high 86% in last quarter's survey, with only 4% of respondents expecting a fall in demand, the forward-looking weighted-average score remains at a historically high level.
- ➔ In terms of freight demand, 65% of respondents reported a rise in demand in Q1 compared with a year ago – the strongest result in almost seven years. While the proportion who reported a decline increased to 11.5% on this occasion, the weighted average backward-looking score remained close to its highest level since the post-GFC rebound in 2010/11.
- ➔ The outlook for air freight demand softened somewhat this month. 46% of respondents – the lowest outcome in 18 months – expect an improvement in the year ahead (down from 63% in the January survey). The same proportion expect volumes to remain unchanged (up from 30% last quarter). Overall, the outlook for freight remains positive, but the survey responses are consistent with indications of a moderation in demand conditions after a very strong performance in 2017.

Recent and expected change in traffic volumes

a) Passenger



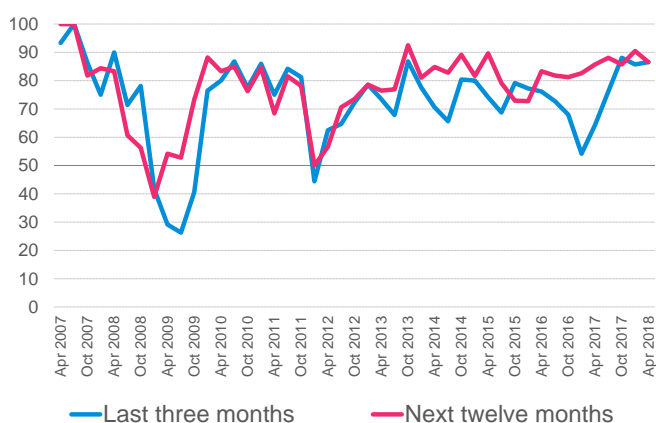
b) Cargo



Compared to previous surveys

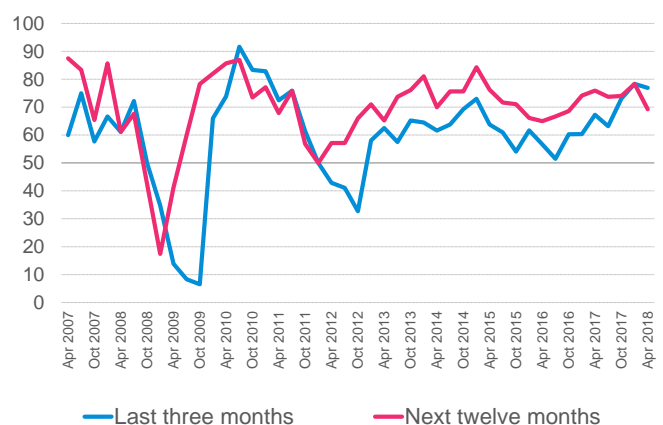
a) Passenger

Weighted Score (50 = No Change)



b) Cargo

Weighted Score (50 = No Change)

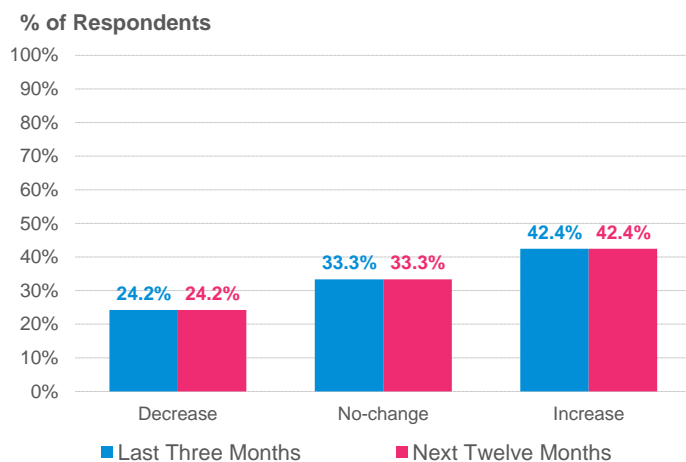


INPUT COSTS

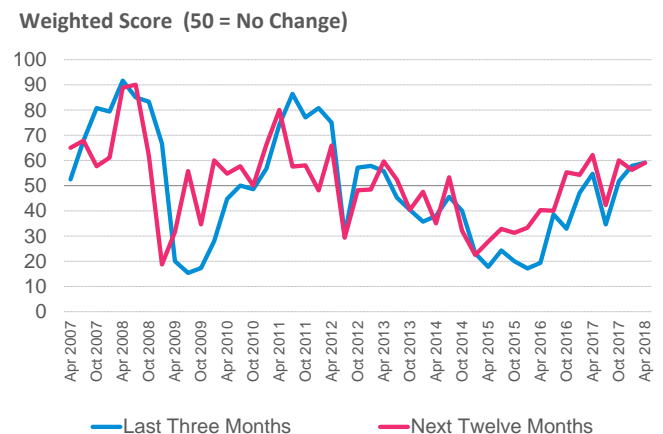
- ➔ The backward and forward-looking questions for input costs delivered identical results this quarter. 42% of respondents reported an increase in unit input costs in Q1 2018, up from 37.5% in our previous survey. Many respondents again this quarter noted the impact of higher fuel prices on their input costs, while a number also highlighted labor cost pressures. With a further 33% reporting no change in input costs, the backward-looking weighted-average score also registered its highest outcome since April 2012.
- ➔ For the year ahead, rising fuel prices continue to be cited as a key driver for the 42% of respondents expecting input costs to increase. A number of airlines indicated that they are implementing or continuing to implement specific initiatives aimed at improving operational efficiencies or reducing costs, contributing to the 24% of respondents who expect input costs to decline in the next 12 months.

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

a) April 2018 survey



b) Compared to previous surveys

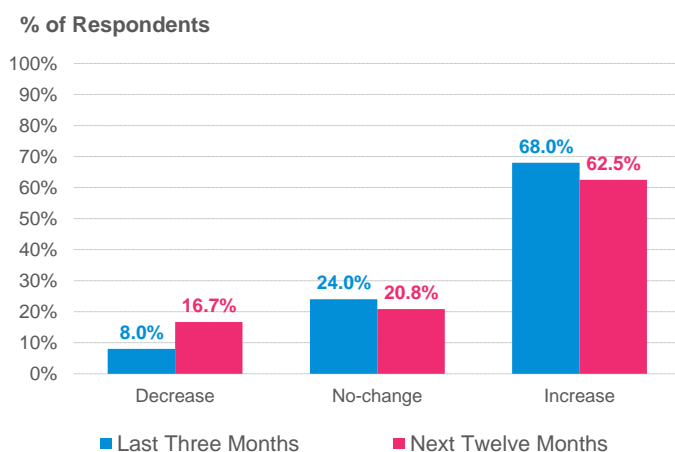


YIELD ENVIRONMENT

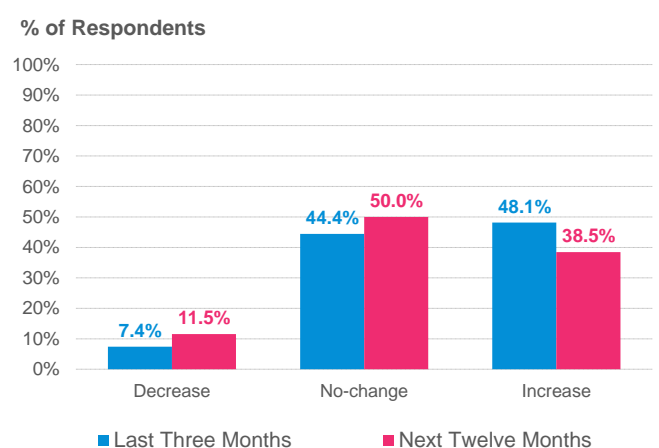
- ➔ 68% of our respondents reported higher passenger yields in Q1 2018 compared to a year ago, up from 55% last quarter. This is the strongest result since the July 2011 survey. Looking forward, 62.5% of respondents expect to be increasing passenger yields in the next 12 months – the highest proportion since mid-2010, and consistent with the broad-based input cost pressures noted above. Both the backward and forward-looking scores continue to trend upwards since their trough in Q1 2016.
- ➔ 48% of respondents reported an annual increase in freight yields in Q1 2018. As with the passenger outcome, this was the highest proportion since July 2011. An even 50% of respondents expect yields to remain unchanged over the year ahead, with a further 38.5% expecting yields to increase further. The weighted average forward-looking score ticked up, to its highest level in almost eight years.

Recent and expected change in yields

a) Passenger



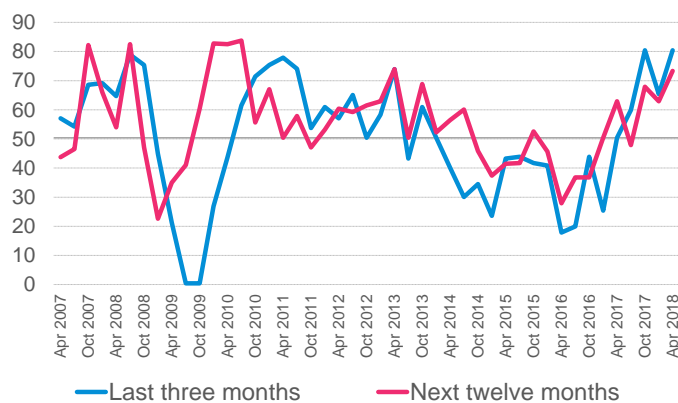
b) Cargo



Compared to previous surveys

a) Passenger

Weighted Score (50 = No Change)



b) Cargo

Weighted Score (50 = No Change)



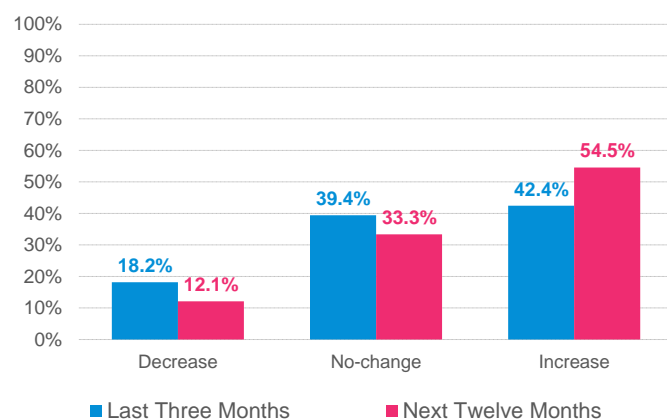
EMPLOYMENT

- 42% of survey respondents reported an increase in employment in Q1 2018 relative to the same period in 2017, with a similar number holding staffing levels unchanged. With slightly fewer respondents reporting a decrease in employment on this occasion, the backward-looking weighted-average score moved a little higher compared with last quarter's outcome.
- In a very positive result this quarter, 54.5% of survey respondents reported that they expect to increase employment levels over the year ahead. This is the highest positive response rate in more than a decade. At the same time, the number expecting to reduce employment fell from 27% in Q4 2017 to just 12% this quarter. Consequently, the weighted average forward-looking score moved sharply higher this quarter – the largest quarterly increase since the post-GFC rebound in demand and the highest level since mid-2007.

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

a) April 2018 survey

% of Respondents



b) Compared to previous surveys

Weighted Score (50 = No Change)



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