

# AIRLINE BUSINESS CONFIDENCE INDEX

## JANUARY 2018 SURVEY

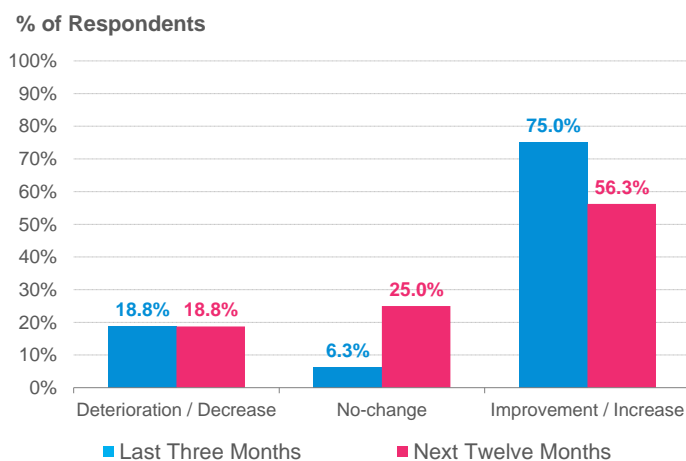
### KEY POINTS

- ➔ When surveyed in early-January, 75% of airline CFOs and Heads of Cargo indicated an improvement in year-on-year profitability in Q4 2017 compared with the same period in 2016. The majority (56%) reported that they expect their profitability levels to improve further over the coming 12 months.
- ➔ This positive outlook is being supported by robust demand growth on both the passenger and freight sides of the business; 86% of respondents expect passenger volumes to rise over the year ahead – the highest proportion in more than a decade.
- ➔ 38% of respondents reported an increase in input costs in Q4 2017 compared to the same period a year ago, with many singling out the impact of higher fuel prices. The upward trend in oil prices is expected to continue to impact airline costs in the year ahead.
- ➔ That said, partly as a result of the strength of the economic backdrop and current demand/supply balances, our respondents appear confident about the outlook for both passenger and freight yields over the year ahead; both the forward-looking weighted-averages scores are currently above the 50-mark.
- ➔ The outlook for industry employment over the next 12 months remains positive, with 37% of respondents expecting to increase employment and a similar proportion expecting to maintain current levels.

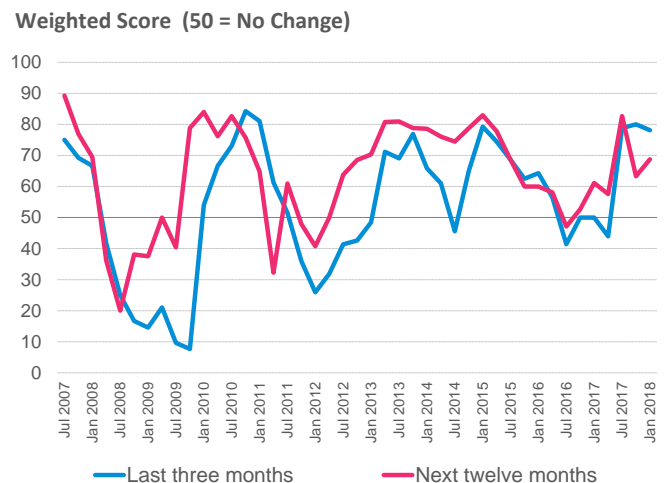
### PROFITABILITY OUTLOOK

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

#### a) January 2018 survey



#### b) Compared to previous surveys



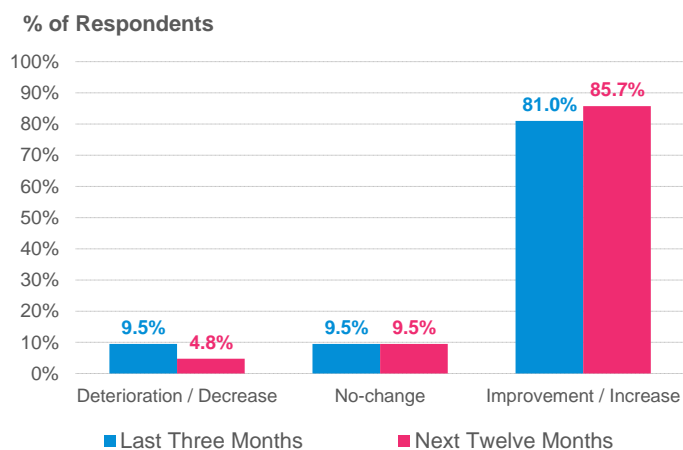
- ➔ The results of our latest survey of airline CFOs and Heads of Cargo, conducted in early-January, indicate a robust finish to 2017 for industry financial performance. 75% of our respondents reported that profitability increased in annual terms in Q4. This was below the 80% seen in the previous survey, but was still more than double the proportion of Q1 2017, when the squeeze on industry profit margins looks to have peaked. All told, the backward-looking weighted average score remained at an elevated level.
- ➔ The proportion of respondents who expect profits to fall over the next 12 months rose to its highest level since Q2 2017, with many citing an expected impact of higher oil prices on profitability. Nonetheless, this was offset by a larger increase in the share expecting profitability to increase over the period. Notwithstanding some volatility during 2017, the forward-looking score has trended upwards since falling below the 50-mark in Q2 2016.

## DEMAND GROWTH

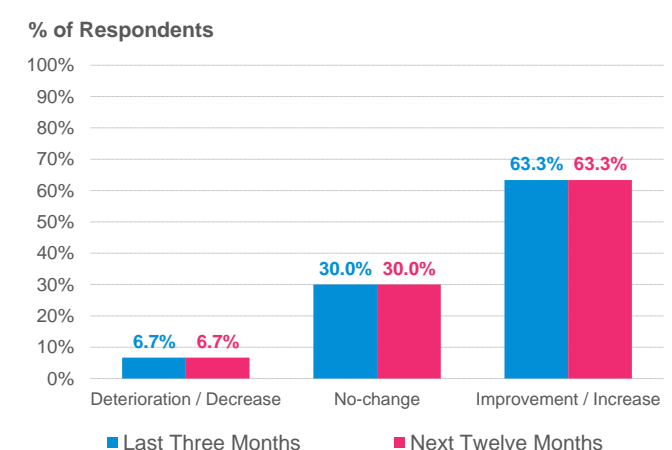
- ➔ On the passenger side, the January survey results were consistent with other signs that demand is carrying momentum into 2018. 81% of respondents reported an increase in year-on-year demand in Q4 2017. With the proportion of respondents reporting a decline in passenger volumes remaining unchanged at a two-year low (9.5%), the backward-looking weighted-average score remained elevated.
- ➔ 86% of respondents reported that they expect passenger volumes to rise further over the year ahead – the highest proportion in more than a decade. With less than 5% expecting a fall in demand, the forward-looking weighted-average score rose to its highest level since Q4 2013.
- ➔ The backward and forward-looking questions for freight demand yielded exactly the same results. The 63% of respondents who reported a year-on-year rise in demand over the previous three months was the highest share for this measure since Q2 2011. Meanwhile, the proportion who reported a decline (7%) was the lowest in more than seven years. This combination lifted the backward-looking weighted-average score to its highest level since the post-crisis demand rebound in 2010/11.
- ➔ Meanwhile, the forward-looking score also increased, to its highest level in three years. A number of respondents noted that the supply/demand balance is expected to remain favorable over the year ahead.

### Recent and expected change in traffic volumes

#### a) Passenger



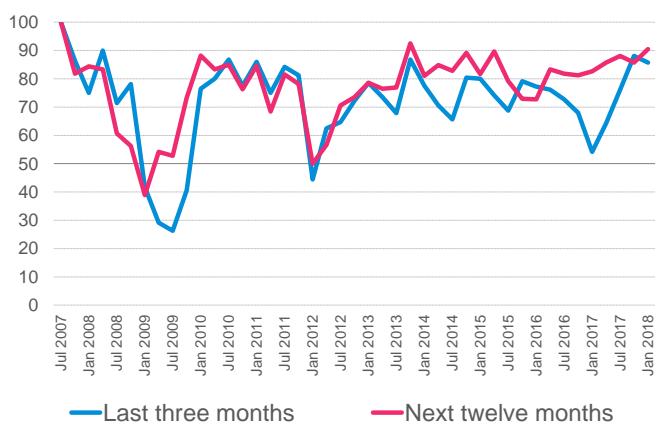
#### b) Cargo



### Compared to previous surveys

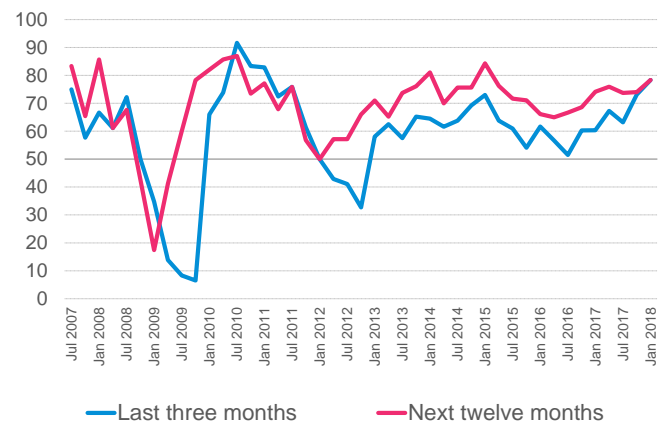
#### a) Passenger

Weighted Score (50 = No Change)



#### b) Cargo

Weighted Score (50 = No Change)

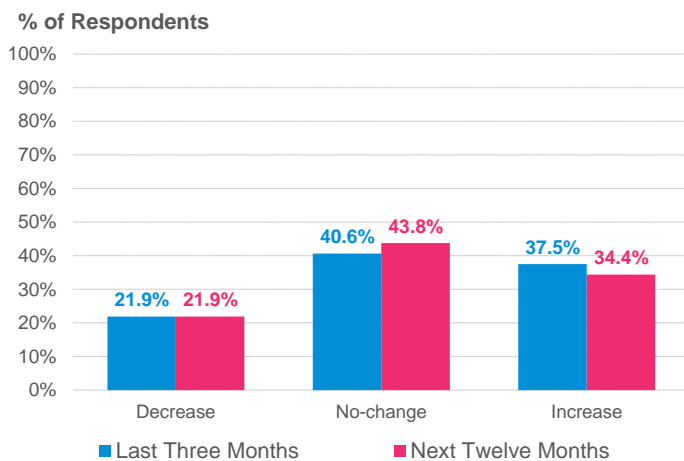


## INPUT COSTS

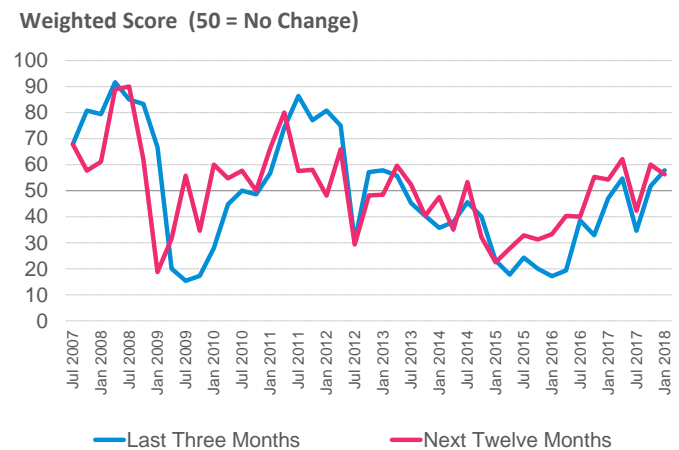
- ➔ 38% of respondents reported an increase in unit input costs in Q4 2017; this was the highest proportion since Q1 2017, with many noting the impact of higher fuel prices. With 41% reporting no change in input costs, the backward-looking weighted-average score came in above the 50-mark for just the third time in 19 quarters.
- ➔ Looking ahead, rising fuel prices were cited as a key driver for the 34% of respondents who reported that they expect input costs to increase over the coming 12 months. 22% expect input costs to decrease over the year ahead, driven in part by internal productivity gains and cost reduction programs, including the adoption of more fuel-efficient aircraft.

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

#### a) January 2018 survey



#### b) Compared to previous surveys

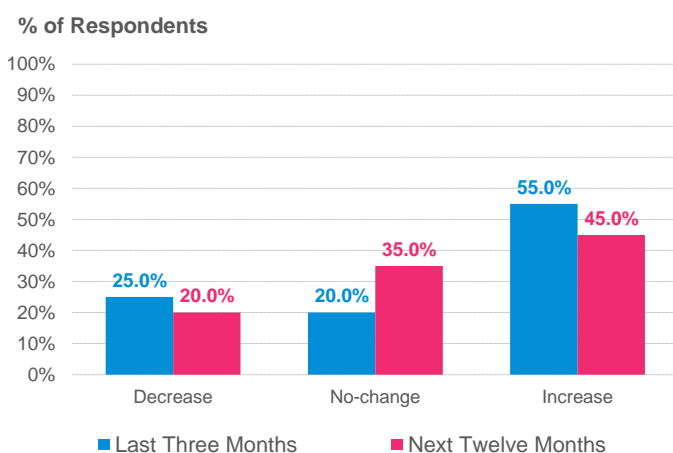


## YIELD ENVIRONMENT

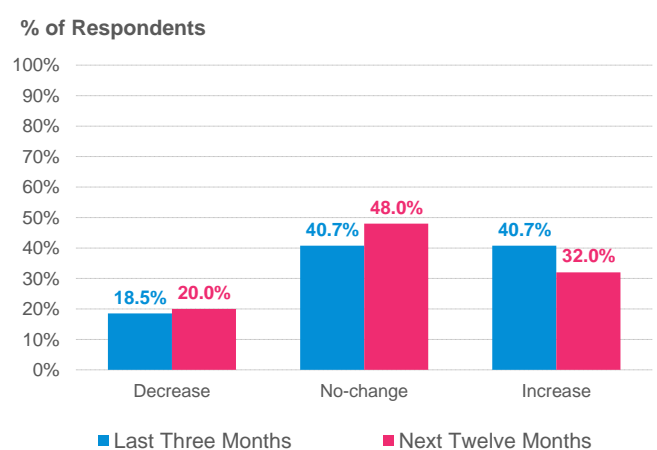
- ➔ 55% of our respondents reported higher passenger yields in Q4 2017 compared to a year ago; this was a decline from 65% in the last survey but was still the second highest proportion since mid-2012. This result suggests that passenger yields are finally starting to trend upwards, although we are still waiting to see clear evidence of this in the ticketing data that we track. Looking ahead, 80% of respondents expect yields to remain steady or to increase over the year ahead. The forward-looking weighted-average score has trended upwards since reaching a trough in Q1 2016.
- ➔ 41% of respondents reported an annual increase in freight yields in Q4 2017 – the second highest share since July 2011. The bulk of respondents (48%) expect yields to remain unchanged over the year ahead, while 32% expect yields to increase further. The weighted average score fell back slightly compared to the previous survey, but remains above the 50-mark.

### Recent and expected change in yields

#### a) Passenger



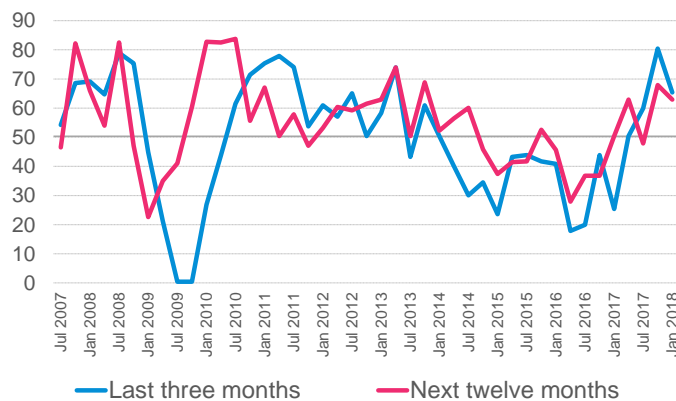
#### b) Cargo



## Compared to previous surveys

### a) Passenger

Weighted Score (50 = No Change)



### b) Cargo

Weighted Score (50 = No Change)



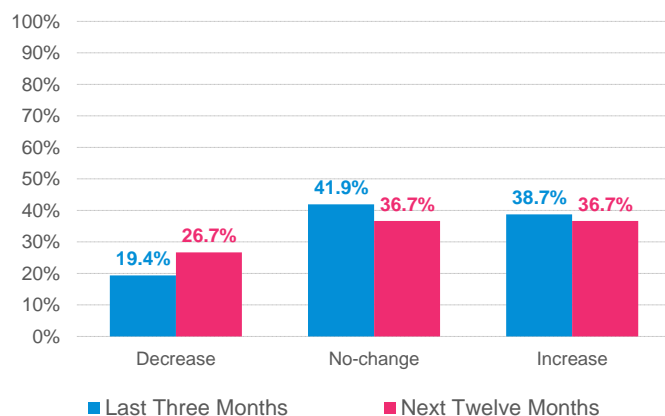
## EMPLOYMENT

- 39% of survey respondents reported an increase in employment levels in Q4 2017 relative to the same period in 2016 – slightly below the outcome in the previous survey. 19% of respondents reported a fall in employment levels in Q4, down from 21% last quarter, although an increase in the proportion of responses indicating no-change means that the backward-looking weighted-average score fell slightly from the previous survey.
- 37% of respondents reported that they expect to increase employment levels over the year ahead, with many citing rising demand. With a similar proportion indicating that they will keep levels unchanged, the forward-looking weighted-average score remained steady from the October 2017 survey, firmly in expansionary territory.

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

### a) January 2018 survey

% of Respondents



### b) Compared to previous surveys

Weighted Score (50 = No Change)



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