

# AIRLINE BUSINESS CONFIDENCE INDEX

## JULY 2017 SURVEY

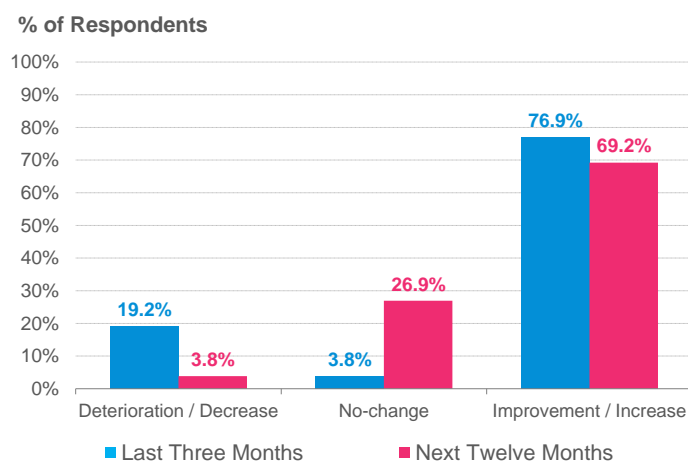
### KEY POINTS

- ➔ When surveyed in early-July for IATA's quarterly business confidence index, more than three-quarters of airline CFOs and heads of cargo indicated that profitability increased in Q2 2017 compared to the same period of 2016. We will monitor financial results from the quarter as they become available, however the survey results suggest that Q1 may have marked the bottom of the industry profitability cycle.
- ➔ Industry heads were markedly more confident about the outlook for profitability over the year ahead than they have been in recent surveys, mainly reflecting expectations that the demand backdrop will remain robust.
- ➔ Once again, the survey responses were consistent with the strong opening to 2017 for both passenger and freight volumes. Given the broad-based pick-up in global economic conditions, more than four-fifths of respondents expect passenger volumes to rise over the next 12 months, while the majority of respondents expect air freight volumes to continue their positive growth trend over the year ahead too.
- ➔ Half of our respondents reported a decrease in operating costs in the second quarter compared to a year ago, in part reflecting efficiency gains and optimization efforts by airlines. While 19% of respondents still expect unit costs to rise over the year ahead, the overall outlook for unit costs was weaker than in previous surveys.
- ➔ Meanwhile, responses on the yield side were consistent with the bottoming out in passenger yields, and upward trend in freight yields, that we have observed in recent months; 43% of respondents reported higher passenger yields in Q2 2017 compared to a year ago – the highest proportion in nearly six years.
- ➔ Airline employment activity increased for the tenth consecutive quarter in Q2 2017. 44% of respondents reported that they expect to increase employment levels over the year ahead.

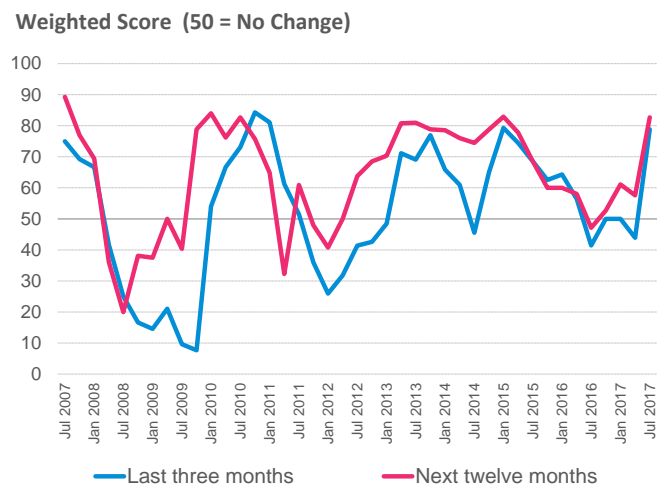
### PROFITABILITY OUTLOOK

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

#### a) July 2017 survey



#### b) Compared to previous surveys



- ➔ The results of our latest survey of airline CFOs and heads of cargo, conducted in early-July, suggest that the squeeze on industry profit margins peaked in the first quarter of the year. 77% of respondents reported that profitability increased in year-on-year terms in Q2 2017 – more than double the corresponding share in the previous survey and the highest proportion in almost seven years. Having been at or below the 50-mark for the past four surveys, the weighted-average score jumped to its highest level in more than two years.

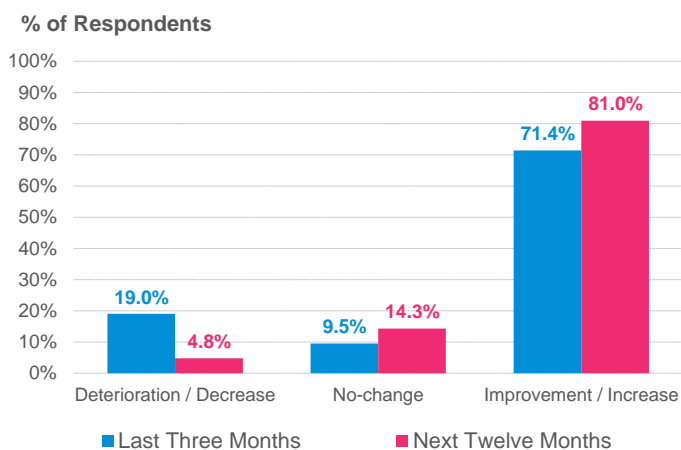
- ➔ The weighted-average score for profitability over the next 12 months also jumped from that in the previous survey. The proportion of respondents who expect profits to increase over the next 12 months (69%) climbed back into the range that was typical a few years ago. Just 4% of respondents expect a decrease in profitability in the year ahead – the lowest proportion in seven years.

## DEMAND GROWTH

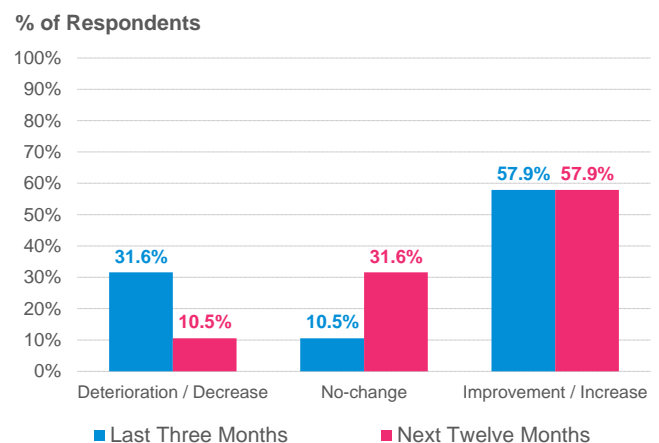
- ➔ The latest survey results on the passenger side remain consistent with the robust demand backdrop seen during the opening months of this year. 71% of respondents reported a year-on-year increase in passenger traffic in Q2 2017, which resulted in the backward-looking weighted-average score recovering to a five-quarter high.
- ➔ 81% of respondents expect passenger volumes to rise further over the year ahead – the highest proportion since the October 2013 survey. All told, the forward-looking weighted-average score increased for the third consecutive quarter, and remained broadly in line with its average level over the past four years or so.
- ➔ Following a pick-up in the air freight demand trend seen over the past year or so, the majority of respondents (58%) reported a year-on-year rise in freight volumes in Q2 2017. That said, the backward-looking weighted-average score fell slightly from that registered last quarter.
- ➔ The same proportion of respondents reported that they expect a further increase in freight volumes over the year ahead, with just 11% of respondents expecting a decrease.

### 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)

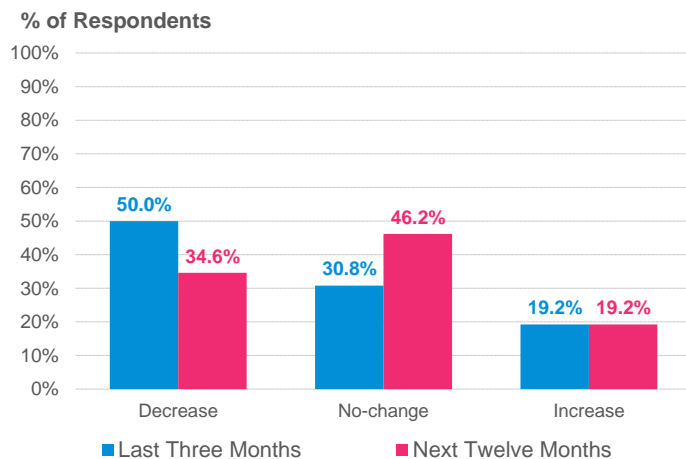


## INPUT COSTS

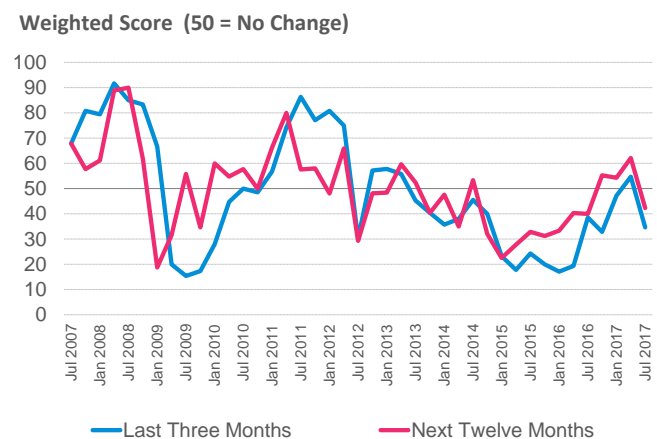
- ➔ Half of the respondents reported a decrease in unit input costs in Q2 2017 compared to a year ago, and a further 31% reported no change. A number of respondents noted the role that efficiency gains and optimization efforts have played in decreasing costs. A modest 19% of respondents reported an annual increase in input costs in the quarter.
- ➔ Given renewed weakness in crude oil and jet fuel prices, just 19% of respondents reported that they expect input costs to increase over the coming 12 months; this was the lowest proportion in six surveys. Accordingly, the forward-looking weighted average score fell back below the 50-mark for the first time since a year ago.

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

#### a) July 2017 survey



#### b) Compared to previous surveys

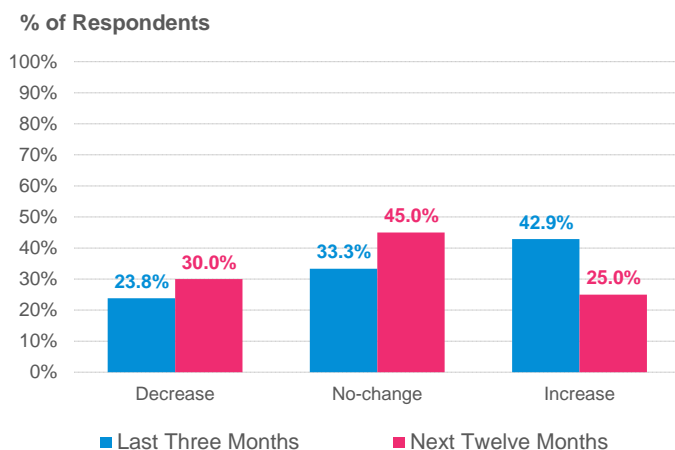


## YIELD ENVIRONMENT

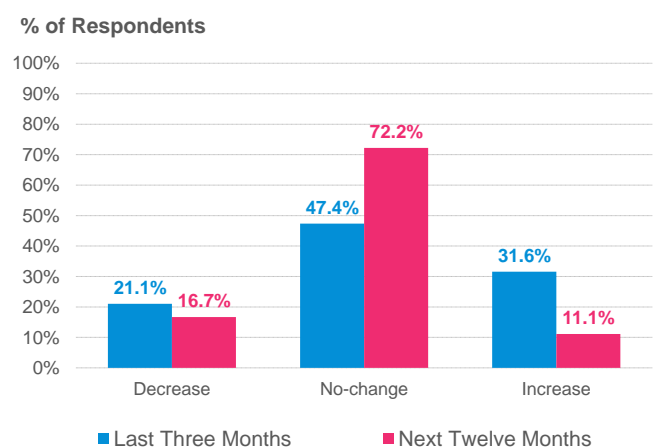
- ➔ 43% of our respondents reported higher yields in Q2 2017 compared to a year ago – the highest proportion since the April 2013 survey – which ties in with broader signs that the downward trend in passenger yields has bottomed out. That said, just 25% of respondents expect passenger yields to increase over the year ahead (down from the four-year high of 45% last time), with 45% expecting passenger yields to remain unchanged.
- ➔ Nearly one-third of respondents reported an annual increase in freight yields in Q2 2017 – the highest share since the October 2011 survey. This is in keeping with the recovery in the industry-wide freight load factor over the past year or so. The majority of respondents (72%) expect freight yields to remain unchanged over the year ahead, which caused the forward-looking weighted-average score to slip back below the 50-mark.

### Recent and expected change in yields

#### a) Passenger



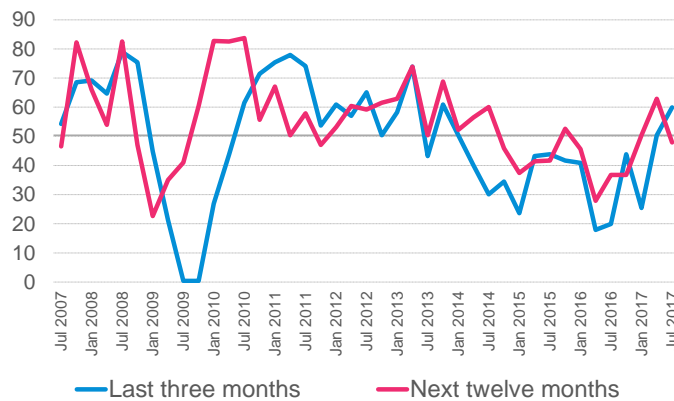
#### b) Cargo



## Compared to previous surveys

### a) Passenger

Weighted Score (50 = No Change)



### b) Cargo

Weighted Score (50 = No Change)



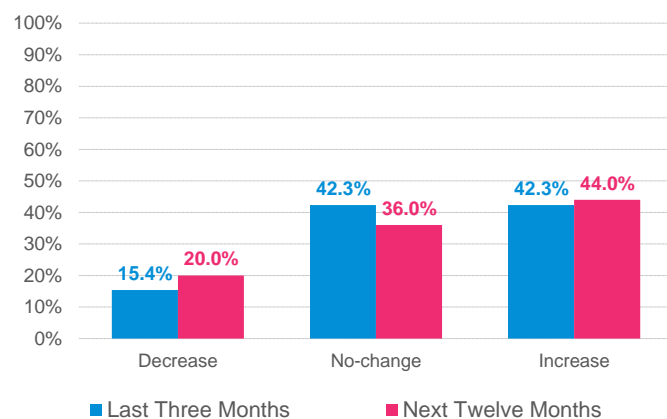
## EMPLOYMENT

- 43% of survey respondents reported an increase in employment levels in Q2 2017 relative to the same period in 2016. With just 15% of respondents reporting a decrease in employment levels, the weighted-average score for employment activity over the past three months remained above the 50-mark for the tenth quarter in a row.
- 44% of respondents reported that they expect to increase employment levels over the year ahead. The weighted-average score increased for the third quarter in a row and climbed further into expansionary territory.

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

#### a) July 2017 survey

% of Respondents



#### b) Compared to previous surveys

Weighted Score (50 = No Change)



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