

# AIRLINE BUSINESS CONFIDENCE INDEX

## APRIL 2015 SURVEY

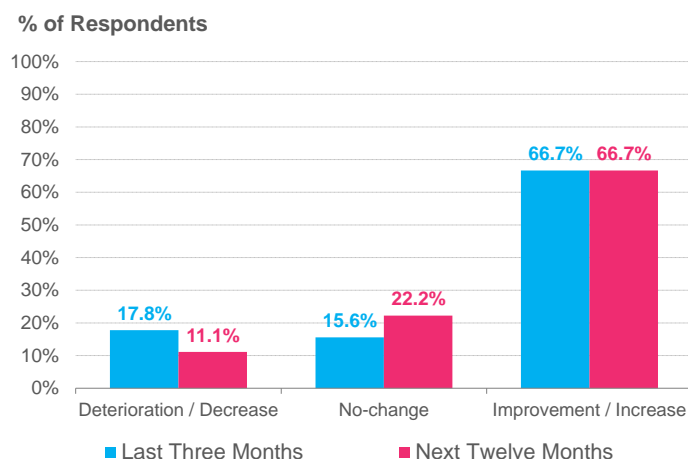
### KEY POINTS

- Airline profit expectations for the year ahead remain positive, consistent with improvements in recent performance, according to IATA's quarterly survey of airline CFOs and heads of cargo in April;
- Recent past financial performance shows improvement on a year ago, and the outlook remains positive which suggests there will be further growth in profitability;
- The survey indicates that falling input costs and growth in volumes are responsible for better recent financial performance as well as the positive outlook;
- Respondents reported seeing a decline in input costs in Q1 compared to a year ago, largely due lower crude oil prices, and expect the trend to continue during the year ahead;
- Both passenger and cargo volumes were reported to have expanded during Q1, which is in line with latest air traffic statistics;
- There is also confidence that air transport volumes will continue to expand over the next 12 months, consistent with recent improvements in business confidence and economic growth in developed economies;
- Respondents continue to report declines in yields in both businesses, for the recent past and the coming year, reflecting downward pressure from falling fuel prices;
- Airline employment activity is reported to have increased in Q1, reflecting improvements in financial performance.

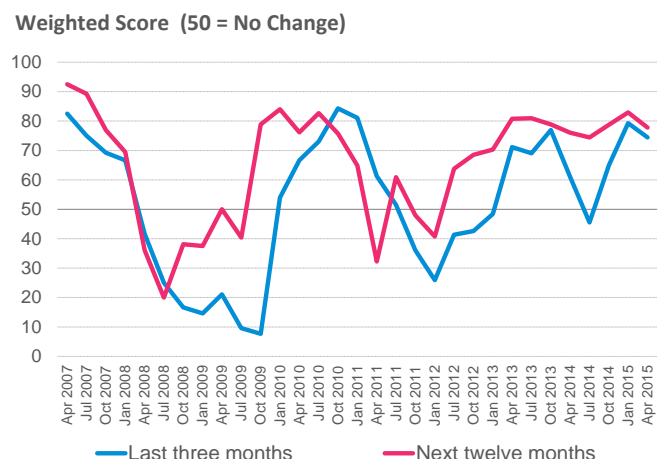
### PROFITABILITY OUTLOOK

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

#### a) April 2015 survey



#### b) Compared to previous surveys



- The result of the April survey of airline CFOs and cargo heads shows that airline profitability continues to improve, after a period of no gain in financial performance in mid-2014. This is consistent with the outlook for profitability, which has remained positive. The improvement in the recent past performance as well as the positive outlook are both supported by stronger growth in traffic volumes as well as easing input costs.

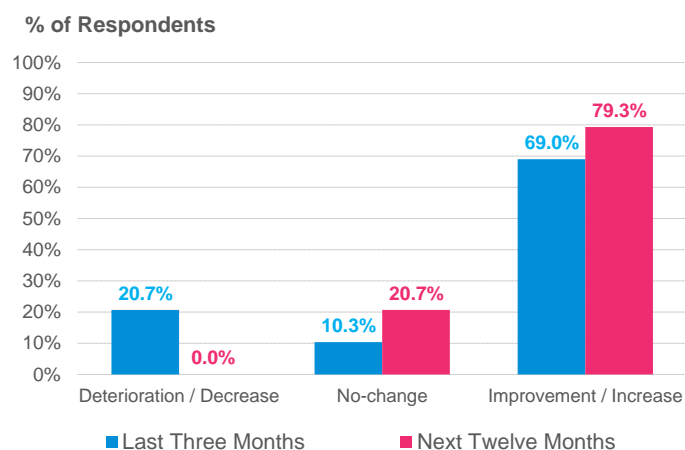


## DEMAND GROWTH

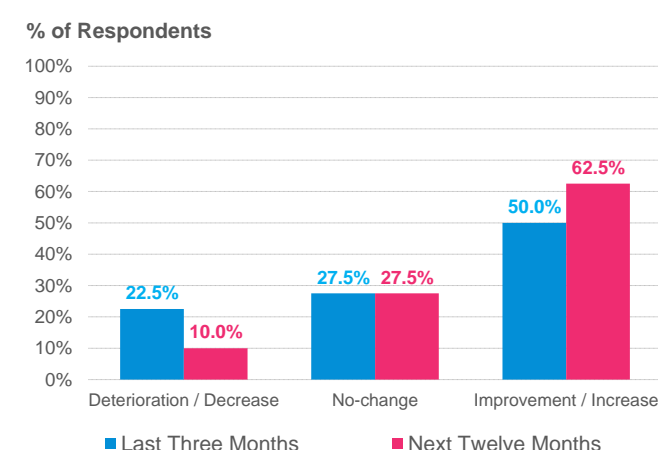
- Passenger traffic increased during Q1 2015 compared to the year ago period. The survey results are consistent with latest air transport data, which indicate that air travel is up 5-6% compared to a year ago. The demand backdrop is supportive of further growth at these rates, with business confidence now starting to improve again after months of weakness in H2 2014.
- The survey also suggests that growth in passenger volumes will continue in the coming months. In fact, a significant 79% of respondents expect to see an increase in passenger volumes during the next 12 months.
- Respondents indicated that air freight volumes during the past 3 months were up on the year ago period, which is consistent with the data which shows FTKs are increasing robustly, particularly for carriers in Asia Pacific and North America. The outlook for cargo volumes remains positive with 63% of respondents expecting an increase in demand over the next 12 months. This is slightly lower than the proportion in January (71%), but key indicators suggest that world trade and business activity should continue to expand at moderate rates, which should in turn sustain growth in air freight volumes.

### Recent and expected change in traffic volumes

#### a) Passenger



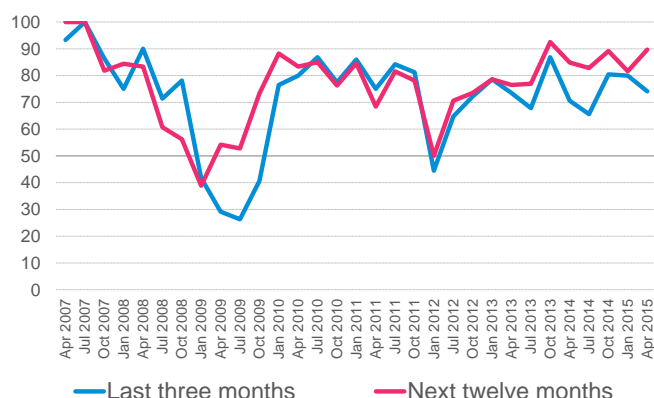
#### b) Cargo



### Compared to previous surveys

#### a) Passenger

Weighted Score (50 = No Change)



#### b) Cargo

Weighted Score (50 = No Change)

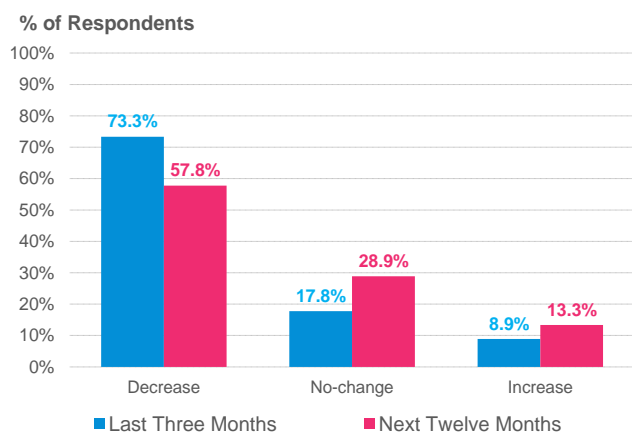


## INPUT COSTS

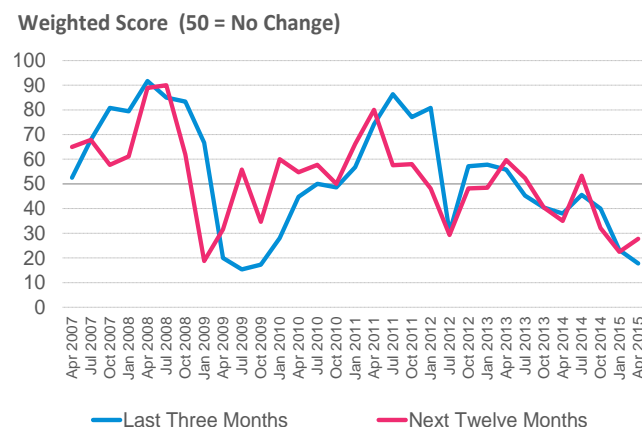
- April survey results show that input costs have declined during the past 3 months, continuing a downward trend started in mid-2014. The decline in input costs in Q1 is a result of the fall in crude oil prices, which are now about half the level they were in mid-2014. Crude oil prices have declined due to several factors, including increasing oil supply in the US as well as a strengthening US dollar.
- Moreover, survey respondents expect the trend to continue during the year ahead, with an outlook for further declines in input costs. Previous survey responses included reference to cost cutting measures as reasons for declines in current/future cost expectations, but the fall in fuel prices has pushed future cost expectations down further.

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

#### a) April 2015 survey



#### b) Compared to previous surveys

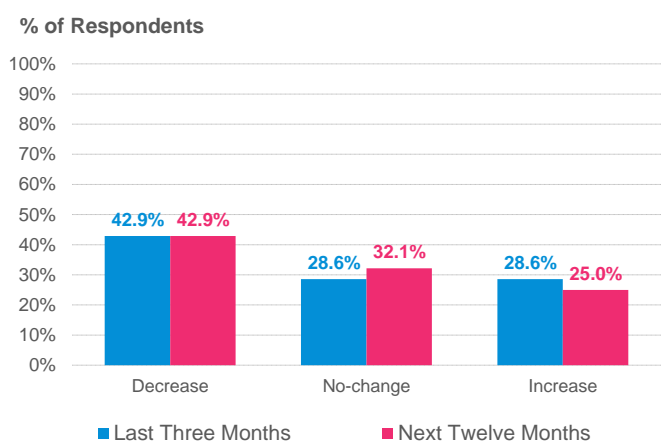


## YIELD ENVIRONMENT

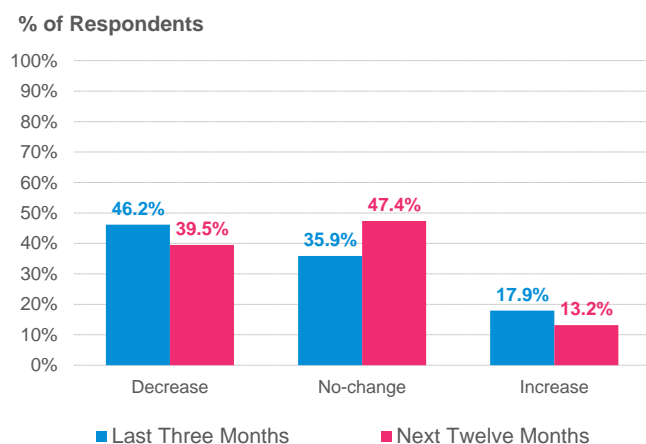
- Survey respondents indicated that passenger yields continued to decline, at a similar rate in Q1 compared to Q4. The outlook moving forward is much the same, reflecting the implications of lower fuel-related costs.
- Cargo yields are showing similar developments, with respondents indicating declines in Q1. Fuel hedging has meant that some airlines are not yet benefiting fully from the lower fuel price. There could be further declines in yields once hedging positions unwind, if fuel costs remain relatively low. The results of the April survey suggest that yields will decline during the year ahead.

### Recent and expected change in yields

#### a) Passenger



#### b) Cargo



### Compared to previous surveys

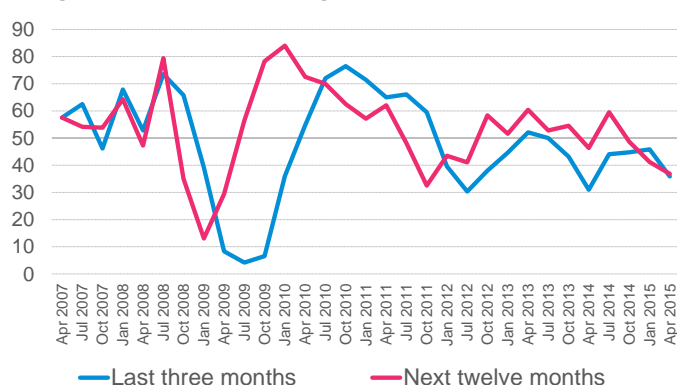
#### a) Passenger

#### b) Cargo

Weighted Score (50 = No Change)



Weighted Score (50 = No Change)

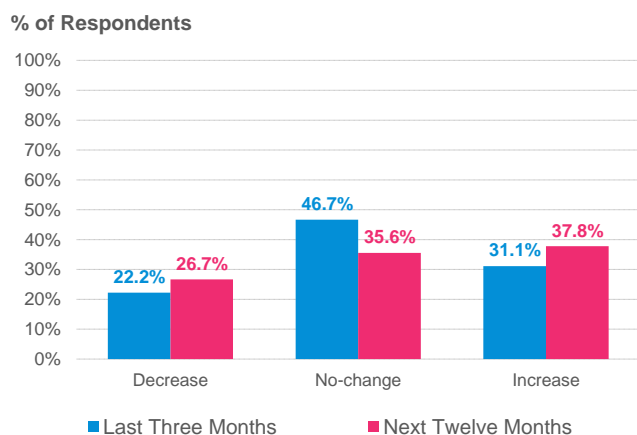


## EMPLOYMENT

- Airline employment activity is reported to have increased in Q1 compared to a year ago. Similarly, the April survey reveals that CFOs and cargo heads expect no growth in employment in the year ahead. These developments are consistent with the improvement in profitability seen over the recent past, as well as the expectation for better financial performance to continue during the next year.

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

### a) April 2015 survey



### b) Compared to previous surveys

Weighted Score (50 = No Change)

