# AIRLINE BUSINESS CONFIDENCE INDEX

# APRIL 2016 SURVEY

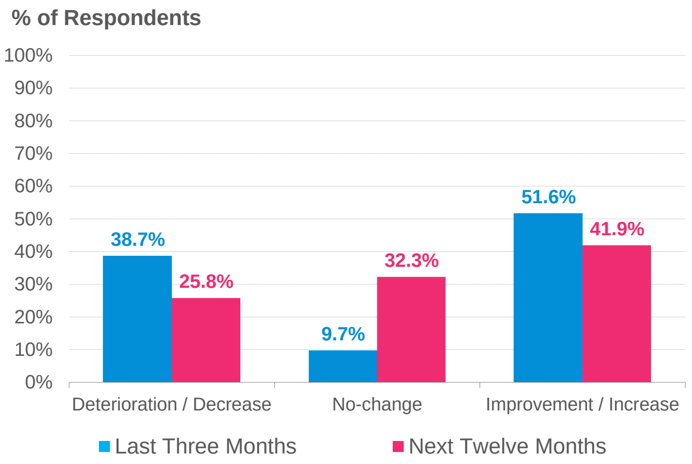
## KEY POINTS

- The latest quarterly survey of airline CFOs and heads of cargo points to further year-on-year gains in profitability during Q1 2016, following a record year in 2015;
- However, expectations of further gains in profitability over the year ahead have eased markedly in recent surveys, as yields have come under strong downward pressure and expectations of future cost reductions have diminished;
- April's survey results were consistent with the strong start to the year for passenger volumes, and are in keeping with the mixed start of the year for air cargo;
- Long-run expectations for growth remain positive for both passenger and cargo businesses, although expectations of the latter have moderated since the start of 2015 as structural headwinds – notably the ongoing weakness of global trade growth – have risen to the fore;
- More than two-thirds of respondents reported a decrease in operating costs in Q1 2016, consistent with wider developments in the crude oil market;
- Lower input costs and increased competition are putting downward pressure on passenger yields, while ongoing increases in freight capacity are expected to continue to weigh heavily on freight yields over the year ahead;
- Airline employment activity was reported to have increased in Q1 2016, and the survey results are consistent with airlines expecting to add more staff to meet higher demand levels over the next 12 months.

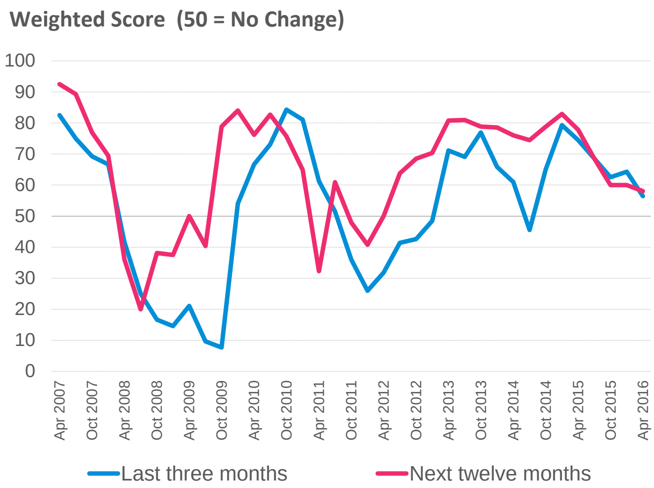
## PROFITABILITY OUTLOOK

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

**a) April 2016 survey**




**b) Compared to previous surveys**




- 2015 was a record year of profitability for the airline industry and April's survey of airline CFOs and cargo heads points to further year-on-year gains in profitability during Q1 2016. Almost 52% of respondents expected profitability in Q1 2016 to have increased relative to the same period in 2015. That said, the picture from the survey was not as uniformly positive as it was this time last year; just under 39% of respondents expected a deterioration in year-on-year profitability in Q1 – the highest proportion since early 2014 before the latest drop in oil prices. On a weighted-average basis, the score for profitability over the previous three months has fallen to 56.5 from a peak of 79.3 in January 2015 (ie, for Q4 2014).

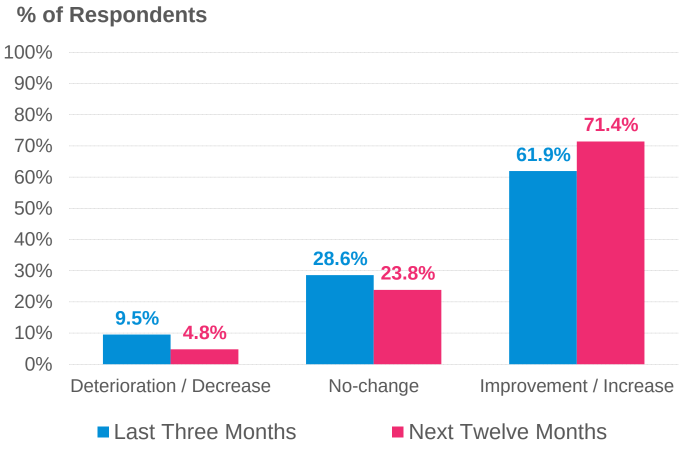
- Looking ahead, while the overall picture for the level of profitability remains positive, the latest results show that fewer respondents now expect further improvements from the record level seen in 2015. This reflects downward pressure on yields and ongoing uneven and modest global economic growth prospects. Just under 42% of respondents expected profitability to increase over the next 12 months, but the proportion expecting profitability to remain unchanged increased to one-third. All told, the weighted-average score was the lowest in four years.

## DEMAND GROWTH

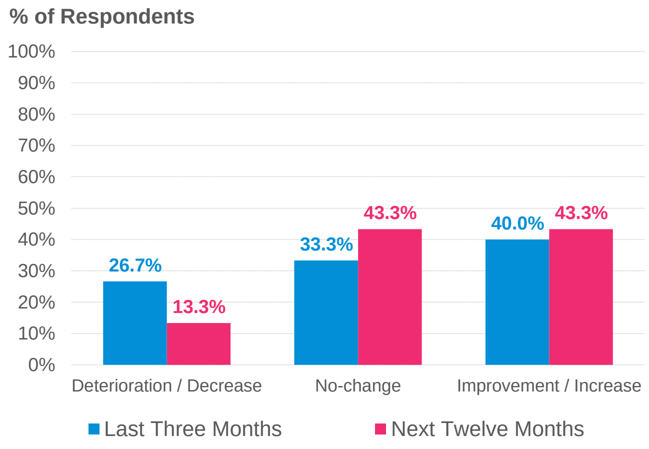
- April's survey results are consistent with the strong start of the year for the passenger market. Almost 62% of respondents saw an increase in traffic in year-on-year terms in Q1 2016, with less than 10% reporting a fall. The weighted average score remained firmly in positive territory, broadly in line with its average level since 2013.
- The vast majority of respondents expect passenger demand to increase over the next 12 months. The weighted average score jumped by more than 10 percentage points from the previous survey, partly as the gloomiest fears of a hard landing in China's economy have eased.
- The responses were spread more widely on the freight side. More than one-quarter of respondents reported lower volumes in Q1 2016 relative to Q1 2015, in part linked to disruption at US west coast seaports during Q1 2015. The ongoing weak underlying global trade backdrop is taking its toll on expectations of future growth. While the weighted average score for freight over the next 12 months ahead remains in positive territory, it has trended down over the past five quarters and is currently at its lowest level since April 2011.

**Recent and expected change in traffic volumes**

**a) Passenger**

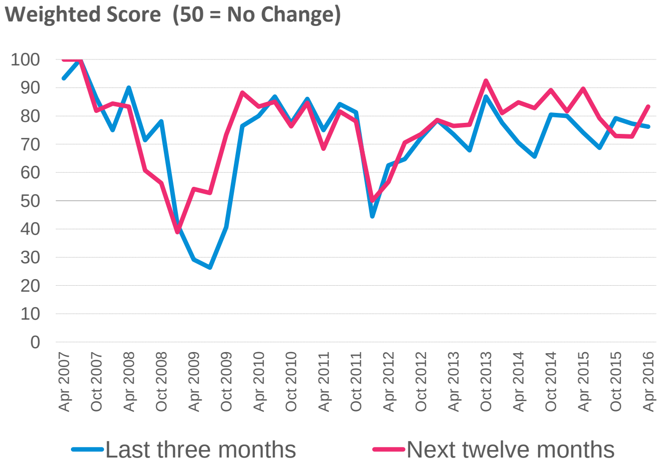



**b) Cargo**

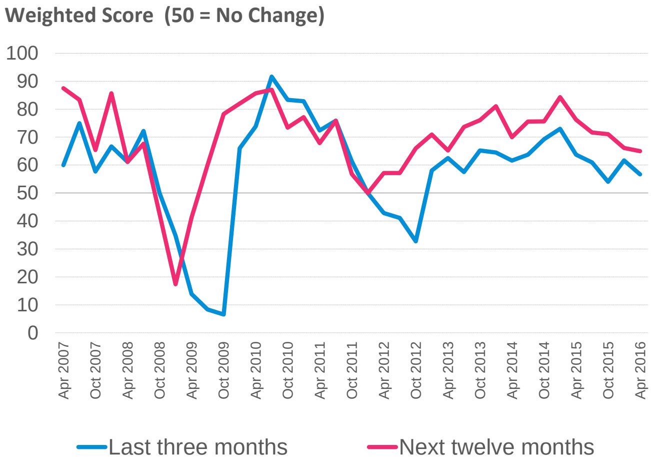



**Compared to previous surveys**

**a) Passenger**




**b) Cargo**

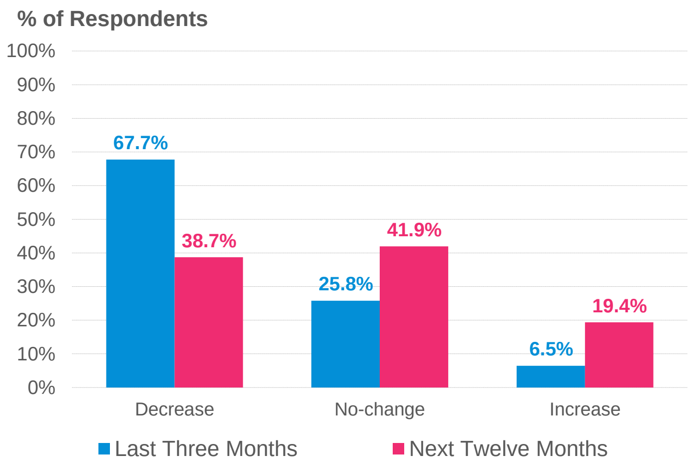


# INPUT COSTS

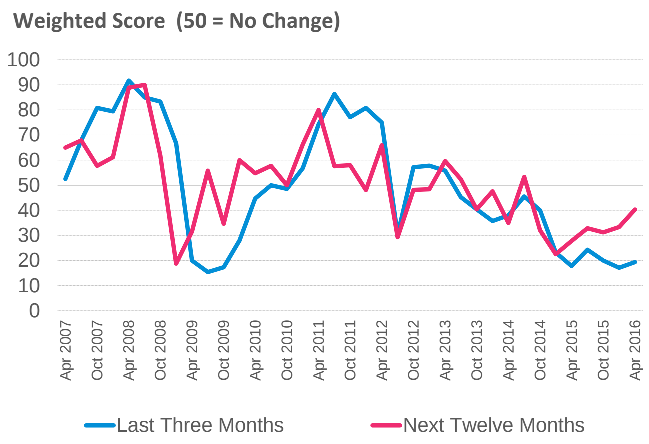
- More than two-thirds of respondents reported a decrease in operating costs in Q1 2016, consistent with wider developments in the crude oil market. The price of jet fuel, which accounts for around one-third of total industry costs, was 39% lower in Q1 2016 in year-on-year terms.
- Oil prices rallied in the weeks leading up to this quarter's survey and the proportion of respondents expecting further decreases in input costs over the coming 12 months dropped to less than 39%. Clearly, the scope for big further gains is reducing. That said, on balance input costs are still expected to fall over the coming 12 months as fuel hedges continue to roll off and, in some cases, exchange rate dynamics become less of a headwind.

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

**a) April 2016 survey**




**b) Compared to previous surveys**

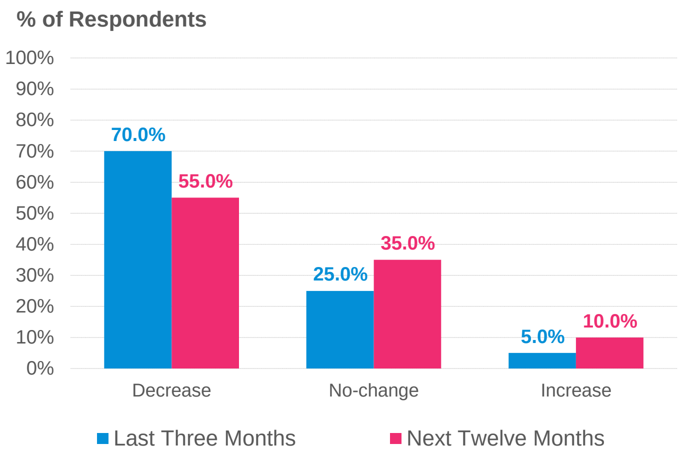



# YIELD ENVIRONMENT

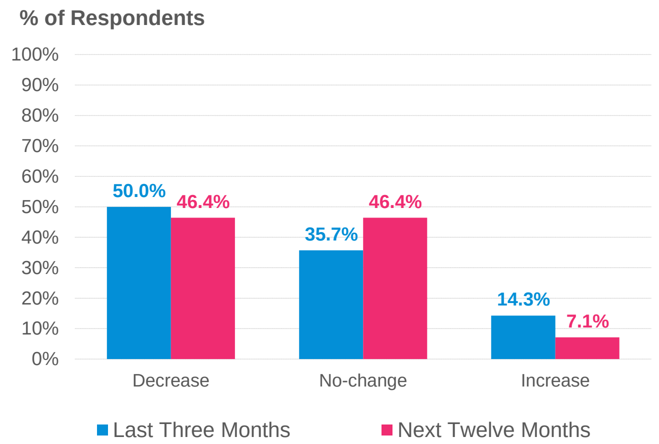
- Lower input costs and increased competition are putting downward pressure on yields, and tie in with expectations of slower profit growth. 70% of survey respondents reported a year-on-year decrease in passenger yields in Q1 2016 – the highest proportion in six years. The survey results point to further declines over the coming 12 months too.
- Ongoing strong capacity growth continues to put acute pressure on cargo yields. Half of the survey respondents reported year-on-year decreases in cargo yields in Q1 2016. One brief foray aside, the weighted average score for yields over the past three months has been rooted in negative territory since the start of 2012. The results of the April survey show that cargo heads increasingly expect further falls in yields over the next 12 months; a combined 93% of respondents expect yields to remain unchanged or to fall further in the year ahead.

**Recent and expected change in yields**

**a) Passenger**

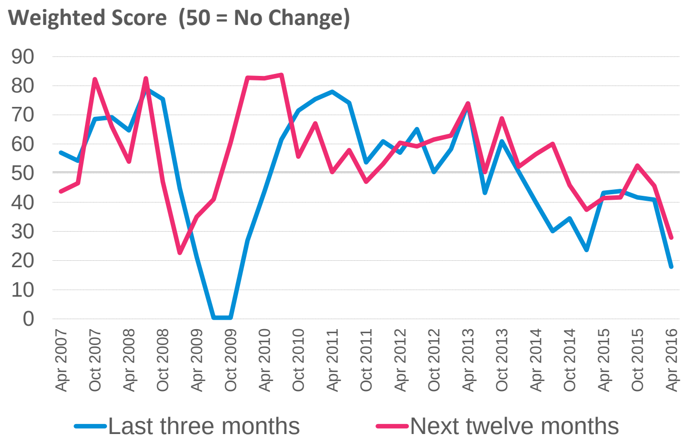



**b) Cargo**

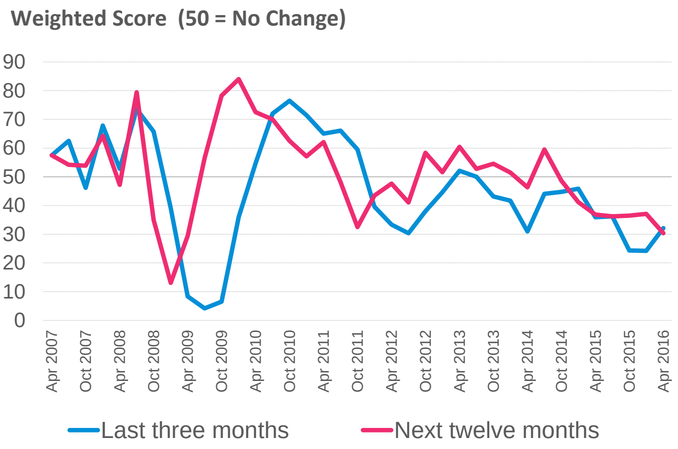


### Compared to previous surveys

#### a) Passenger




#### b) Cargo

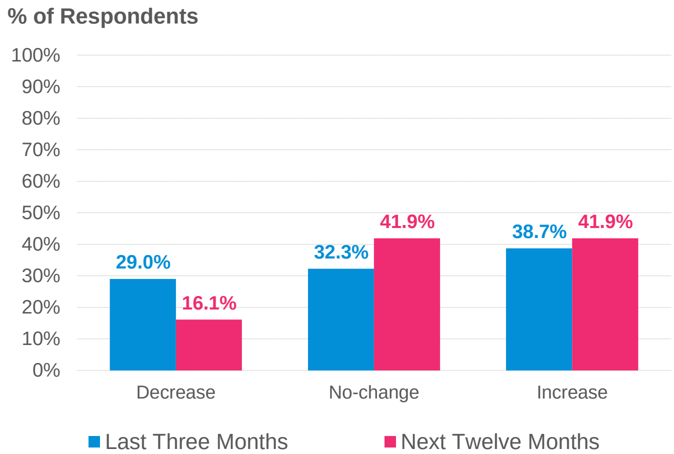



# EMPLOYMENT

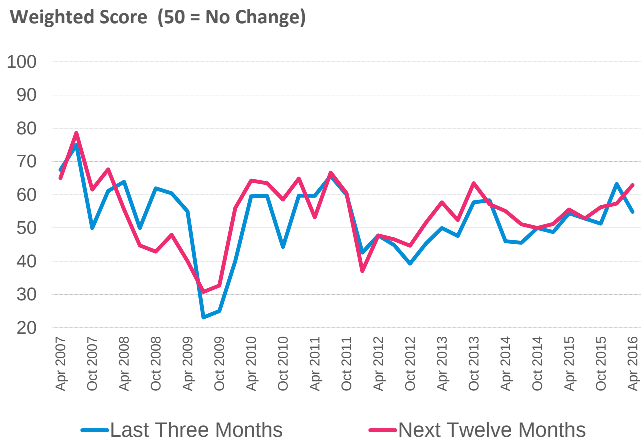
- With industry profitability remaining healthy, airlines have been hiring; while the outcome was not quite as strong as that seen in the previous survey (47.1%), nearly 39% of respondents reported an increase in year-on-year employment levels in Q1 2016.
- The latest survey results are consistent with airlines expecting to add more staff to meet higher demand levels over the next 12 months. At just under 42%, the proportion expecting to increase employment over the next 12 months was the highest since July 2011, with the same proportion expecting to keep levels unchanged. Only 16% of respondents expect to decrease employment levels over the year ahead.

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

#### a) April 2016 survey




#### b) Compared to previous surveys

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