AIRLINE BUSINESS CONFIDENCE INDEX

APRIL 2017 SURVEY

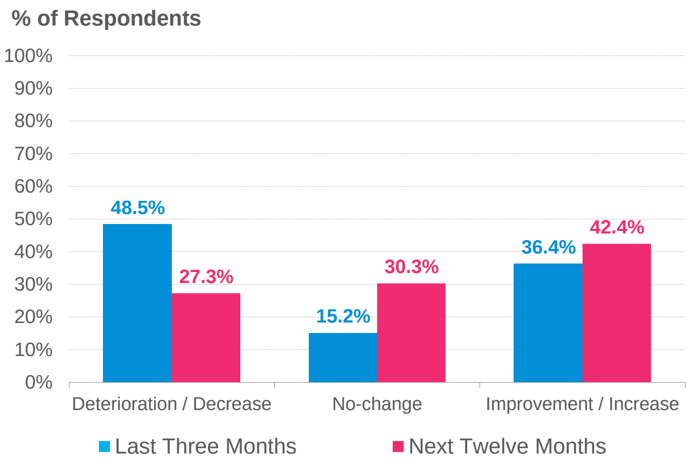
KEY POINTS

- When surveyed in early-April for IATA's quarterly business confidence index, airline CFOs and heads of cargo reported a decline in profitability in Q1 2017 compared to the same period of 2016. This is consistent with wider signs that the industry profit cycle peaked during the first half of last year.
- Industry heads expect profitability to rise over the coming 12 months. However, there was a wide range in the responses and, overall, the results were slightly less positive than in January's survey.
- On the demand side, the survey responses were consistent with the robust growth seen in both passenger and freight volumes at the start of 2017. Our respondents remain very positive about demand prospects for the year ahead: more than three-quarters expect passenger volumes to rise, while the forward-looking weighted-average score for freight has now risen in each of the past four quarterly surveys.
- 41% of respondents reported an annual increase in operating costs in Q1 2017 – the highest proportion in four years – reflecting a combination of higher fuel prices and rising labor cost pressures. These trends are expected to continue over the year ahead: the forward-looking weighted-average score rose to its highest level since April 2012.
- The downward trend in passenger yields has showed tentative signs of turning around in recent months, and 35% of our respondents reported higher yields in Q1 2017 compared to a year ago. Meanwhile, heads of cargo are confident about prospects for freight yields over the coming 12 months: the forward-looking weighted-average score for freight yields jumped above the 50-mark for the first time since July 2014.
- Airline employment activity increased for the ninth consecutive quarter in Q1 2017. More than one-third of respondents reported that they expect to increase employment levels over the next 12 months.

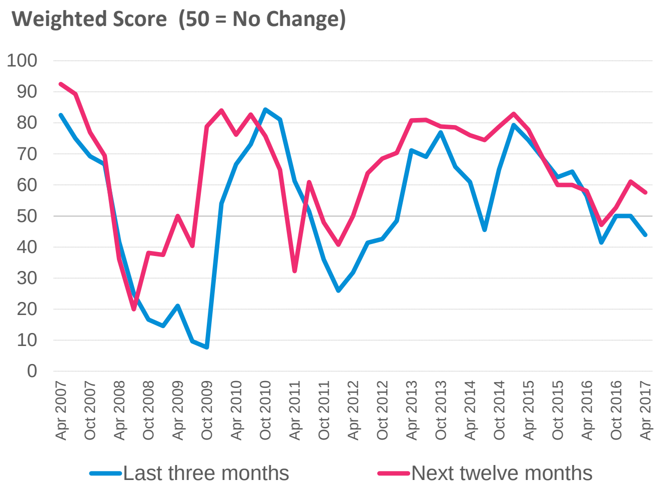
PROFITABILITY OUTLOOK

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

a) April 2017 survey



b) Compared to previous surveys



- The results of our latest survey of airline CFOs and heads of cargo, conducted in early-April, further underline signs that the industry profit cycle peaked in the first half of last year. With higher costs not being fully offset by higher yields, 49% of respondents reported that profitability fell in Q1 2017 compared to the same period in 2016 (although 36% reported an increase in profits). Having been consistent with no change in year-on-year profitability in the past two quarterly surveys, the weighted-average score fell back below the 50-mark this time.

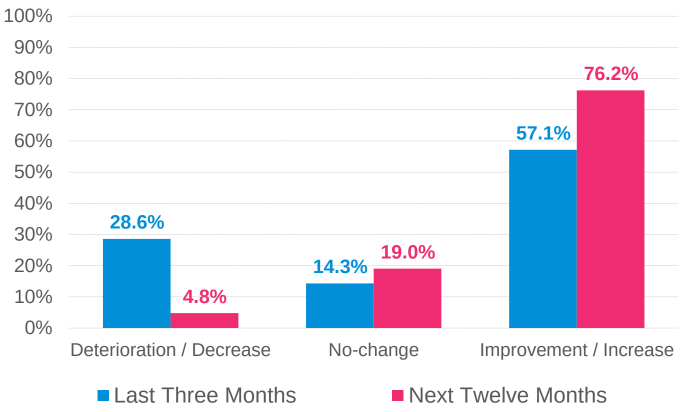
- The weighted-average score for profitability over the next 12 months also fell slightly from that in the previous survey, although it remained consistent with expectations of rising profitability over the year ahead. However, given the ongoing pressure on profit margins, the proportion of respondents who expect profits to increase over the next 12 months (42%) remained well below the 60-70% levels that were normal a few years ago.

DEMAND GROWTH

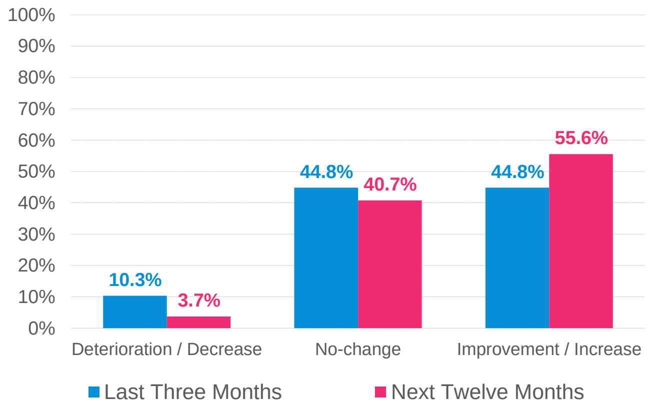
- The latest survey results are consistent with the robust backdrop for demand seen so far in 2017. The majority of respondents (57%) reported a year-on-year increase in passenger traffic in Q1 2017. This helped to drive a modest rebound in the backward-looking weighted-average score, which fell to a four-year low last quarter based upon disruption and uncertainty in particular markets, particularly Turkey.
- Amid ongoing signs of a broad-based upturn in global economic conditions, more than three-quarters of respondents expect passenger volumes to continue to increase over the next 12 months – the highest proportion since April 2015. All told, the forward-looking weighted-average score increased from January and rose above its five-year average level.
- The responses on the cargo side were also consistent with the upward trend in traffic seen since mid-2016. Just 10% of respondents reported a year-on-year fall in cargo volumes in the April survey – the lowest share since the October 2010 poll – and 45% of respondents reported an increase in traffic over the same period. Heads of cargo are increasingly confident that volumes will continue to grow over the year ahead: the forward-looking weighted-average score has now risen in each of the past four surveys and is at its highest level in two years.

Recent and expected change in traffic volumes

a) Passenger

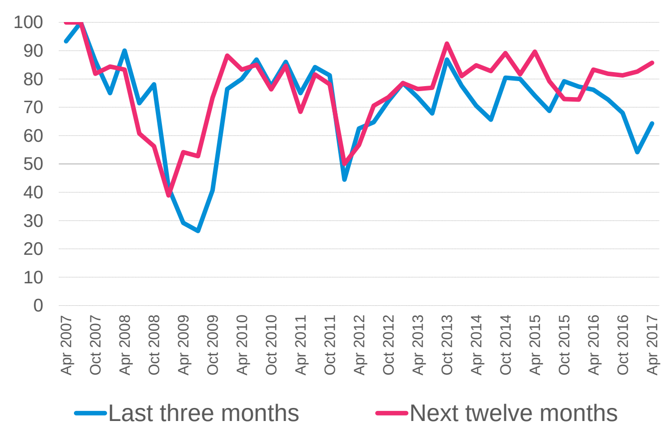


b) Cargo

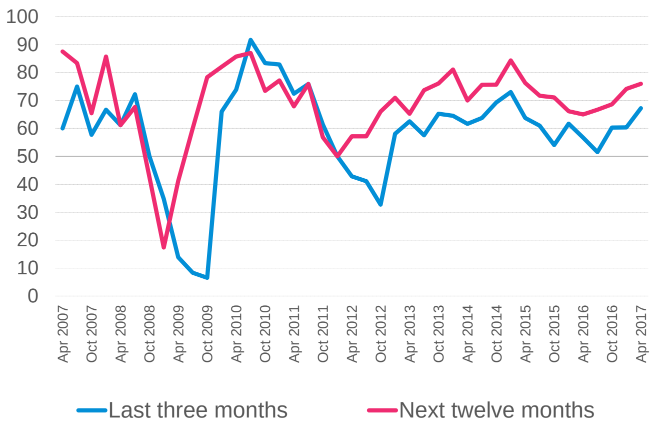


Compared to previous surveys

a) Passenger



b) Cargo

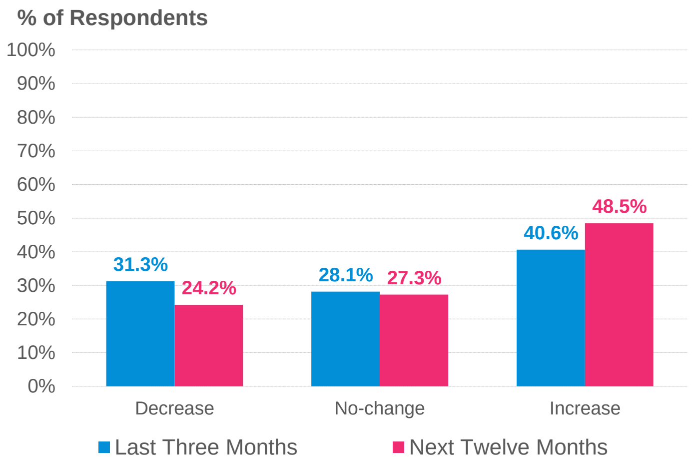


INPUT COSTS

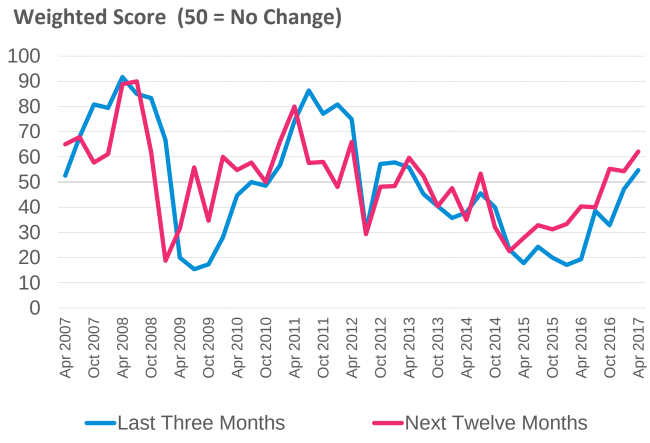
- Jet fuel prices were nearly 50% higher in Q1 2017 than they were in the same period last year. Different hedging practices within the industry, as well as differing movements in exchange rates against the US dollar in which oil prices are typically quoted, mean that there was once again a wide range in responses amongst our survey participants. Nonetheless, 41% of respondents reported an annual increase in input costs in Q1 2017 – the highest proportion in four years. A number of our respondents noted rising labor cost pressures.
- Just under half the respondents reported that they expect input costs to increase over the coming 12 months. The forward-looking weighted-average score increased to its highest level since April 2012.

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

a) April 2017 survey



b) Compared to previous surveys

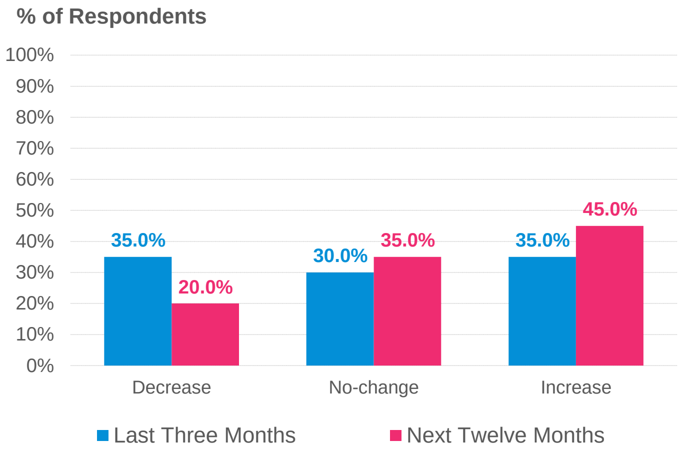


YIELD ENVIRONMENT

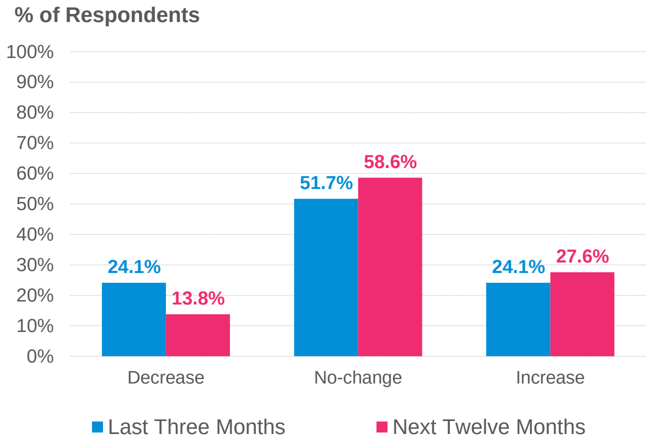
- The downward trend in passenger yields has showed tentative signs of turning around in recent months, and 35% of our respondents reported higher yields in Q1 2017 compared to a year ago – the highest proportion since the January 2014 survey. 45% of respondents expect passenger yields to increase over the year ahead (up from 23% last time), which reflects optimism that airlines can continue to reverse the trend in unit revenues in key markets.
- Nearly one-quarter of respondents reported an annual increase in freight yields in Q1 2017 – the highest share in two years. Freight yields have stabilized alongside a recovery in the industry-wide load factor, and 28% of respondents expect yields to rise further over the year ahead. As a result, the forward-looking weighted-average score jumped above the 50-mark for the first time since the July 2014 survey.

Recent and expected change in yields

a) Passenger

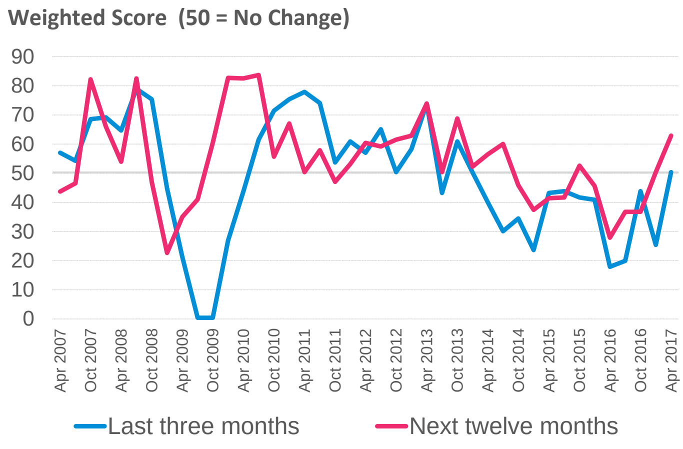


b) Cargo

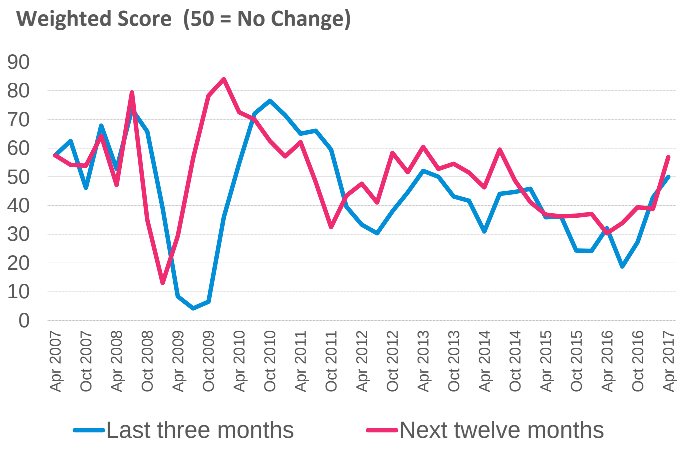


Compared to previous surveys

a) Passenger



b) Cargo

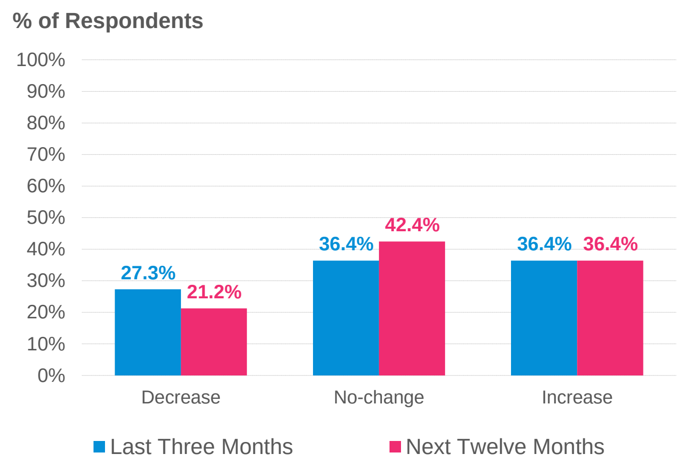


EMPLOYMENT

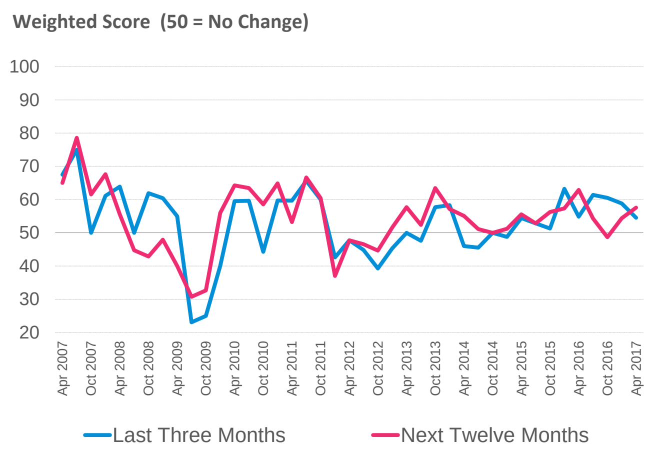
- 36% of survey respondents reported an increase in employment levels in Q1 2017 compared to the same period in 2016. The weighted-average score for employment activity over the past three months eased for the second consecutive quarter, but it has now been above the 50-mark for the past nine quarters.
- 42% of the respondents reported that they expect to keep employment levels unchanged over the year ahead. But with 36% expecting to increase employment levels over the next 12 months, the weighted-average score increased for the second quarter in a row and remained in expansionary territory.

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

a) April 2017 survey



b) Compared to previous surveys



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