APRIL 2019 SURVEY

AIRLINE BUSINESS CONFIDENCE INDEX

KEY POINTS

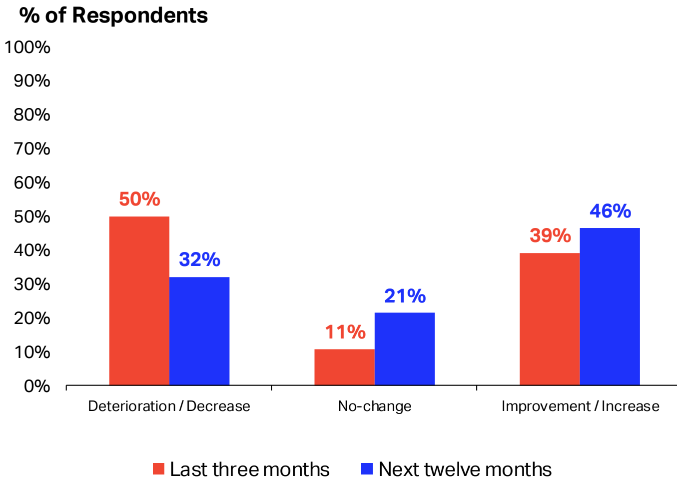
- Our April 2019 survey of airline CFOs and Heads of Cargo indicates that the challenging business environment experienced through 2018 continued into the first quarter of the new year.
- Q1 2019 saw a deterioration in each of the demand, yields and profitability indicators compared with Q1 2018. The demand outcomes for both passenger and (especially) freight touched multi-year lows, and yields for both market segments were lower than their level of a year previous. Unsurprisingly, profits were also weaker than in the same period last year; the third consecutive quarter where this has been the case.
- However, the industry is expecting conditions to improve over the coming twelve months. Notably, more than 75% of respondents expect passenger demand to improve in the year ahead, although higher input costs remain a key concern in an environment where only around 40% expect to see higher yields. Profits are expected to be a higher than in the past year, although the level of optimism eased a little this quarter.
- Despite the challenges in Q1, almost 50% of respondents indicated that they had increased employment and only 7% had reduced their workforce, delivering a record high weighted score this quarter (for a series dating back to 2006). Employment intentions for the year ahead also remain close to historical highs.

PROFITABILITY OUTLOOK

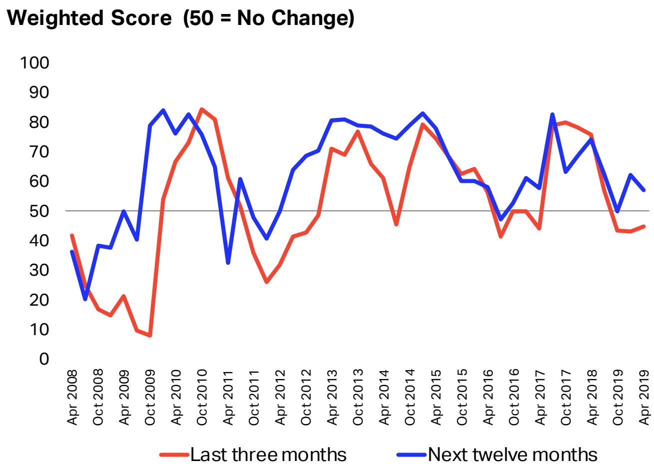
- The results of our latest survey of airline CFOs and Heads of Cargo, conducted in mid-April, point toward a continuation of the squeeze on profitability in Q1 2019. Half our respondents saw a decrease in profits in the first three months of the year, up from 45% in the January survey. At the same time, a higher share of respondents also reported improved profitability, at 39% compared with 31% previously. The weighted backward-looking score improved marginally, but remains below the 50-mark for the third consecutive quarter, indicating that overall profits are lower than in Q1 2018.
- The outlook for profitability over the coming year is more upbeat, although respondents are not quite as optimistic as they were in January. Around 1/3 expect profits to be lower in 12 months' time, unchanged from January, however the share of respondents expecting an improved profit performance slipped to 46%, from 55% previously. The weighted forward-looking score eased a little this quarter, but remains above 50, suggesting a modest overall improvement in profits over the coming year.

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

a) April 2019 survey



b) Compared to previous surveys

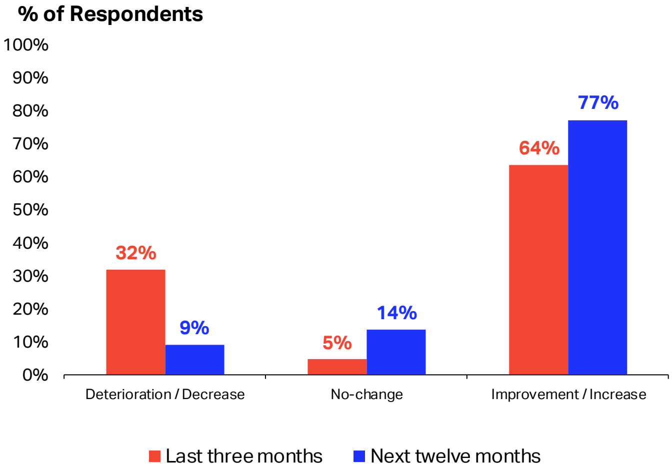


DEMAND GROWTH

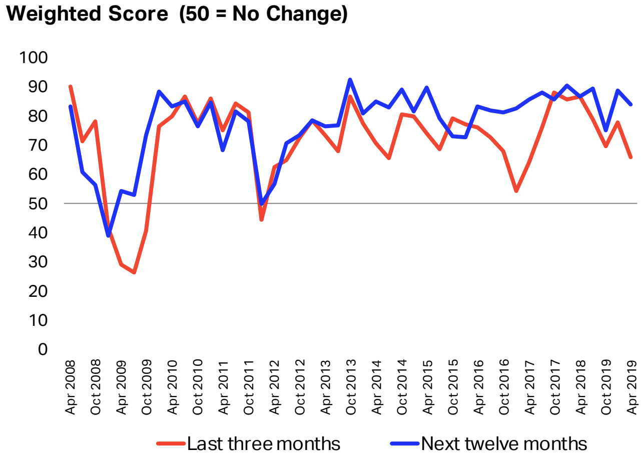
- The April survey shows a solid but moderating performance for passenger demand growth in Q1 2019. The share of respondents reporting higher volumes over the past three months compared with the same period a year ago slipped to 64% from 70% last quarter, with 1/3 of respondents reporting a *decrease* in pax volumes. The weighted backward looking score eased further, to its lowest level in two years. The moderation in passenger demand is consistent with the easing in global economic activity over a similar period.
- For the twelve months coming, survey respondents are slightly less confident than they were in January, with 77% expecting an increase in air passenger demand, compared with 85% in the previous survey. Even so, the level of the forward-looking index remains elevated, broadly in line with that observed over the period since around the start of 2017. A number of respondents mentioned plans to open new routes and develop new markets (network expansion) as a source of demand growth over the next 12 months.

Passenger

a) Recent and expected change in traffic volumes



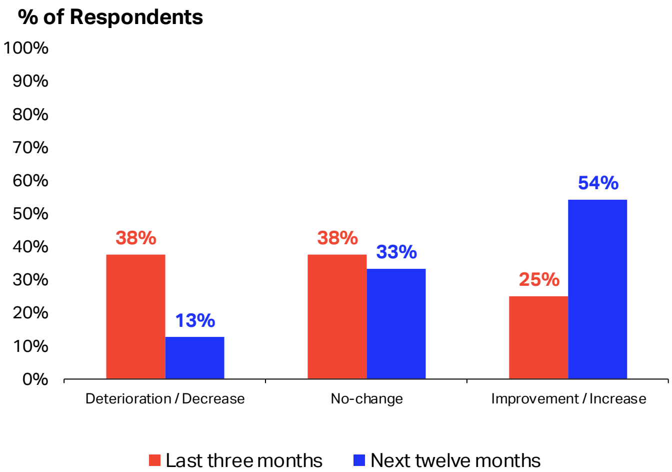
b) Compared to previous surveys



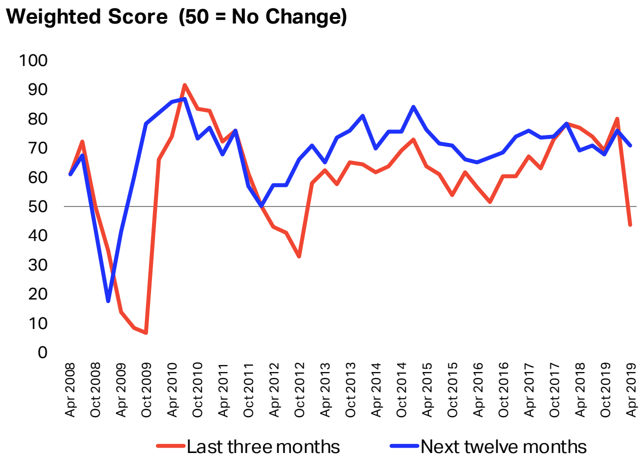
- Turning to freight demand, around 75% of survey respondents reported a decrease or no change in cargo volumes in Q1, the largest share since Q3 2012. Consequently, the weighted score collapsed sharply, falling to 44, and is now below the 50-mark corresponding to no change in overall volumes for the first time since Q3 2012. This outcome is consistent with the recently observed decrease in world trade volumes and industry-wide FTKs.
- In contrast, respondents were considerably more optimistic regarding the year ahead. More than half expect air freight volumes to increase over the year ahead, with just 13% expecting a further deterioration. Consequently, the weighted score remains around its 5-year average level, driving a marked separation to the backward-looking score.

Cargo

a) Recent and expected change in traffic volumes



b) Compared to previous surveys

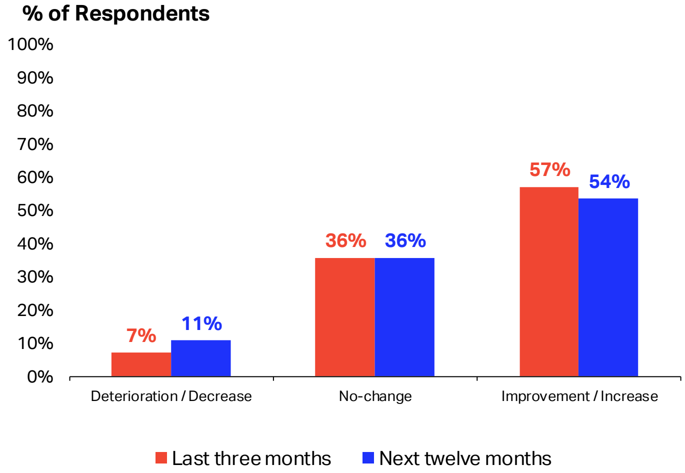


EMPLOYMENT

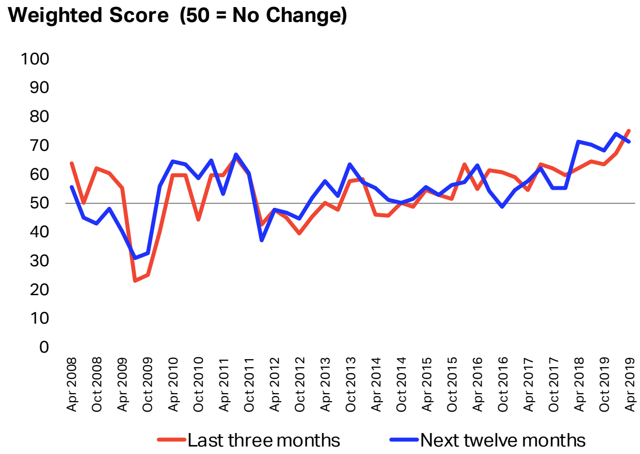
- Almost 60% of respondents indicated that they had increased employment levels in the past 3 months – the 5th consecutive quarterly increase. Just 7% noted a decline in workforce over the same period. The resulting weighted backward-looking score of 75 is a record high outcome since the launch of the BCS in 2006.
- Looking forward, 54% of respondents expect to increase employment in the next 12 months, unchanged from last quarter's survey. The percentage expecting to reduce employment lifted slightly compared to January (11% vs 7%), but remains well below the long-term average. The weighted forward-looking score eased a little but remains close to historical highs.

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

a) April 2019 survey



b) Compared to previous surveys

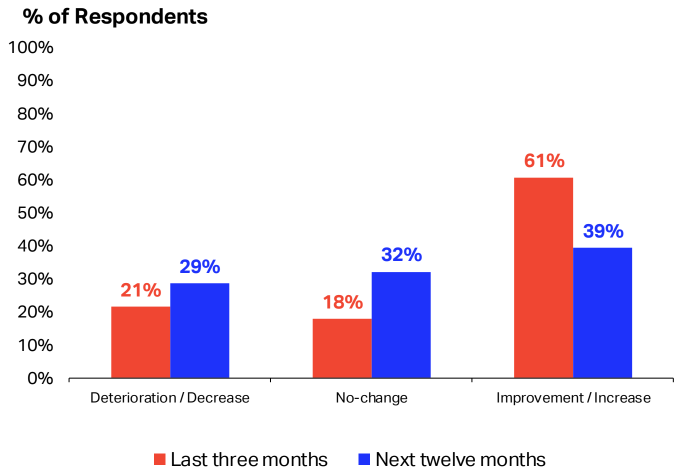


INPUT COSTS

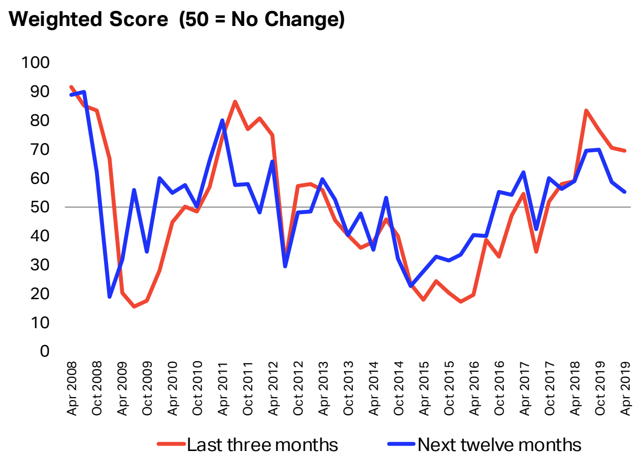
- A majority (61%) of respondents to the Q1 2019 survey noted an increase in input costs over the past three months. However, this share has fallen for the 3rd consecutive quarter, from a peak of 78% in July 2018. Similarly, the weighted backward-looking score eased further on this occasion but remains well above 50, suggesting that costs are still increasing. Respondents continue to highlight higher fuel prices and, in a number of cases, unfavourable currency movements against the USD as the main sources of rising input costs.
- In the next twelve months, expectations are more balanced, although a sizeable proportion (40%) expect input costs to increase further over this period. The remainder are split evenly between no change and declining costs. While the outlook for rising input costs has eased from its peak in Q2 2018, this quarter's survey confirms that costs are likely to remain a key challenge for the industry into 2020. Indeed, a number of respondents reported various initiatives underway to help address these ongoing cost pressures.

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

a) April 2019 survey



b) Compared to previous surveys

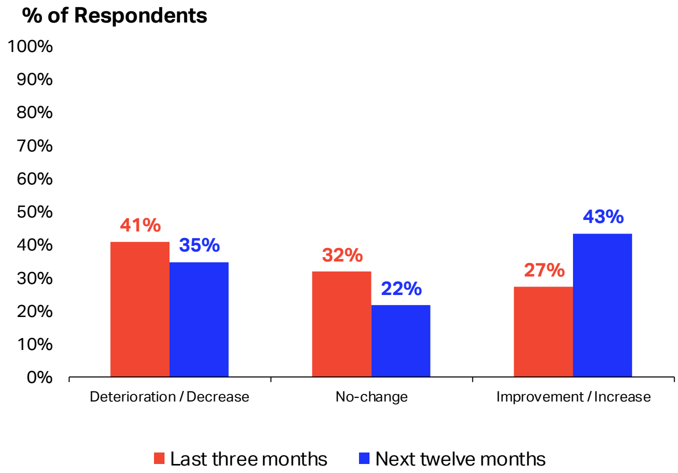


YIELD ENVIRONMENT

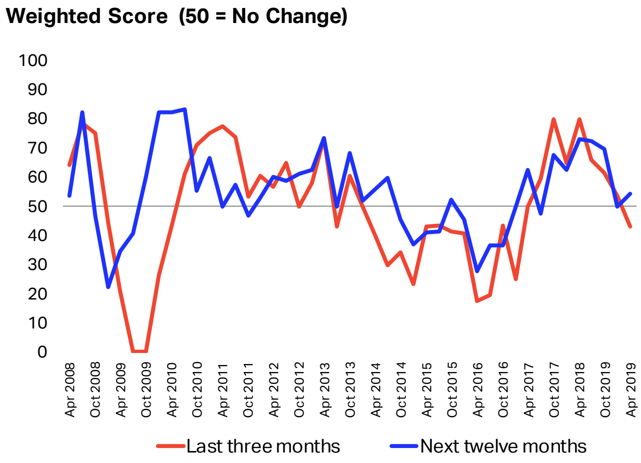
- At 27%, the share of respondents having seen passenger yields improving in Q1 2019 maintained the downward trend seen in the last four quarters. In contrast, 41% reported lower yields in the past three months. Respondents pointed to fierce competition and a softening in demand as key driving factors. The weighted score moved below 50 for the first time since January 2017.
- Looking to the year ahead, the share of respondents expecting an improvement in yields lifted considerably, to 43%, delivering a modest uptick in the forward-looking weighted score this quarter.

Passenger

a) Recent and expected change in yields



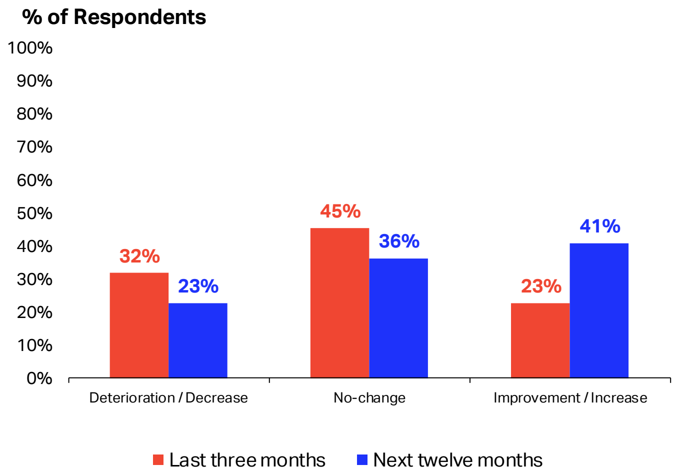
b) Compared to previous surveys



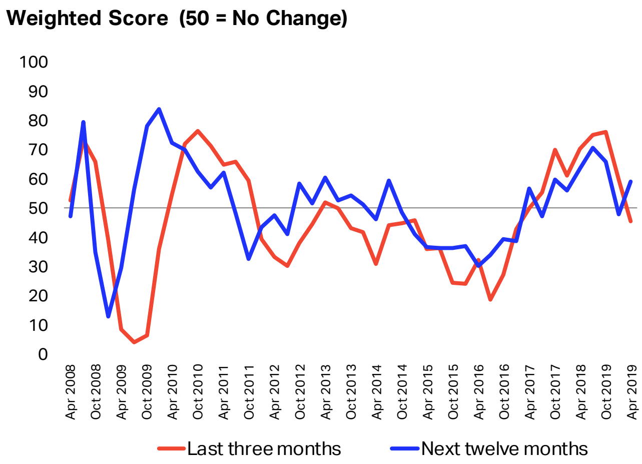
- A similar pattern is evident in the response for cargo yields, with the decline in the share of respondents noting higher yields in the previous quarter continuing, from a peak of 60% in Q3 2018 to 23% in Q1 2019. Over the same period, the share of respondents indicating deteriorating yields rose from just 8% to 32% currently. The weighted score fell below the 50-level for the first time since Q1 2017.
- Looking forward, the share of respondents expecting higher yields over the next 12 months recovered strongly this quarter, more than doubling from just 20% in January, to 41%. Nonetheless, just under one quarter of respondents expect yields to deteriorate over the year ahead. This quarter's weighted forward-looking weighted score lifted to 59 points, above its 5-year average.

Cargo

a) Recent and expected change in yields



b) Compared to previous surveys



IATA Economics
2 May 2019
E-Mail: economics@iata.org