April 2021 SURVEY

AIRLINE BUSINESS CONFIDENCE INDEX

KEY POINTS

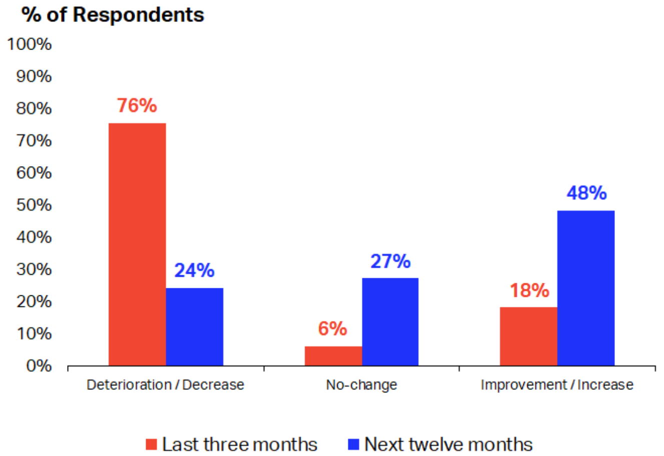
- Our April 2021 survey of airline CFOs and Heads of Cargo confirmed that Q1 2021 did not bring a relief for airline industry financials. However, respondents are more optimistic about the next twelve months in all metrics.
- Expectations for both passenger and cargo demand improved. Respondents anticipate passenger traffic to recover in the second half of the year with the support of vaccine rollout.
- Passenger yields stayed at low levels in Q1 but are expected to improve in the next twelve months. Similarly, cargo yields expected to continue to improve, supporting airline revenues.
- 70% of the respondents reported a reduction in their workforce in Q1 as the pandemic continues to affect airline operations. On the other hand, expectations for the future improved as only 15% of respondents expect a further decrease in employment levels in the next twelve months.
- The majority of surveyed airlines saw their input costs increase in the past three months due to high fuel prices and fixed costs. Moreover, more than half of the respondents expect their unit costs to continue to increase in the next twelve months with the resumption of air travel in the summer.

PROFITABILITY OUTLOOK

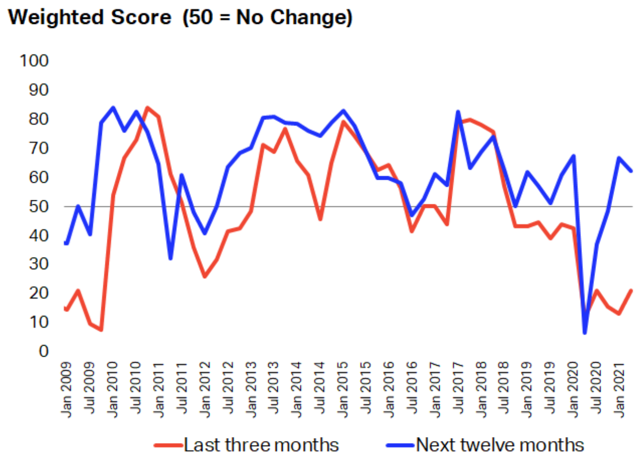
- The results of IATA's latest survey of airline CFOs and Heads of Cargo, conducted in April, show that 2021 did not bring a relief for airline industry financials. 76% of surveyed carriers reported a deterioration in their profits as the pandemic continued to affect travel demand. Respondents reported not only travel restrictions but also lower fares with increased competition as reasons behind the deterioration in profitability. Only 18% of respondents – are focused on the cargo business – reported improvement in their profits.
- On the other hand, survey respondents were optimistic about the next twelve months. 48% of respondents expect net losses to decline since they anticipate passenger traffic to recover in the second half of the year with the support of vaccine rollout. They also expect better coordination between governments to support recovery. On the other hand, almost one quarter of respondents expect further deterioration in profitability, as they envisage that the willingness to fly will be limited based on forward bookings data. The weighted score, which jumped to expansionary territory in the previous survey, eased slightly in this survey. However, it remains in the expansionary territory.

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

a) April 2021 survey



b) Compared to previous surveys

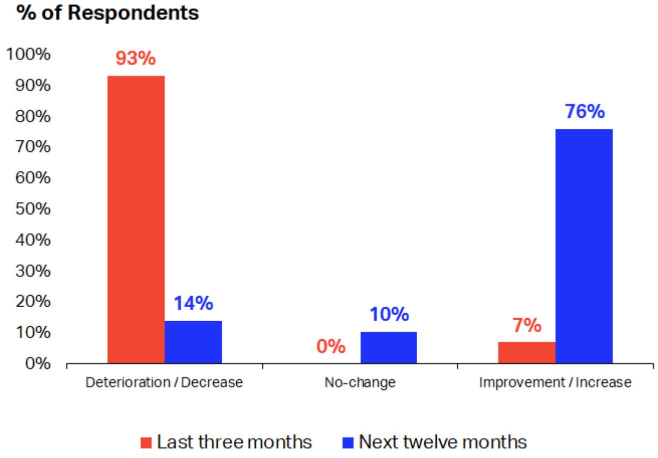


DEMAND GROWTH

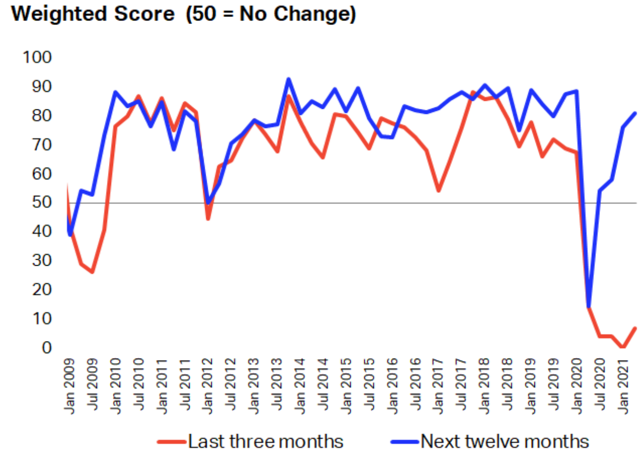
- In April, almost all respondents reported a decline in passenger volumes in Q1 compared to last year as COVID-19 cases remained elevated and strict travel restrictions were in place. As a result, the backward-looking weighted score remained close to all-time low levels.
- Turning to the twelve months ahead, expectations remain upbeat as opposed to backward-looking index. Respondents expect vaccine rollout to lead reopening of markets. 76% of the respondents anticipate that the demand would recover with the reopening of markets. The remaining 24% anticipates a further deterioration or no improvement due to slow vaccination rates.

Passenger

a) Recent and expected change in traffic volumes



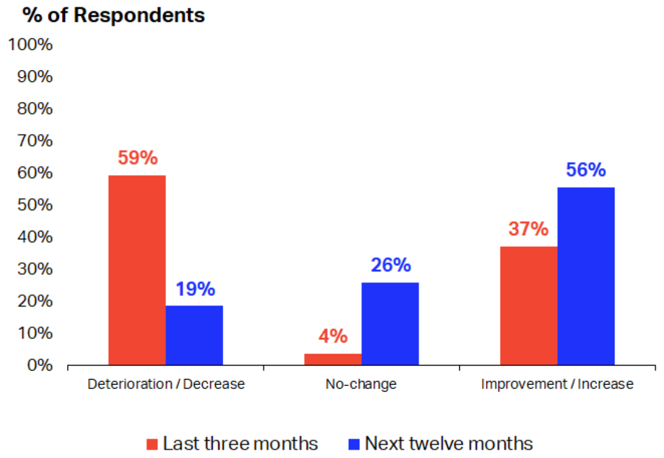
b) Compared to previous surveys



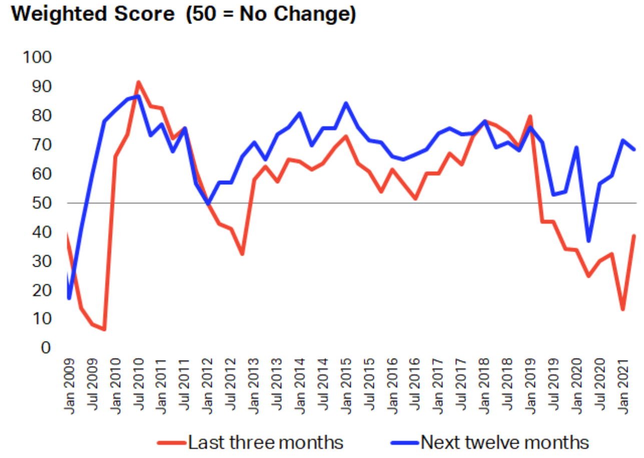
- More than half of the respondents reported that cargo volumes had been lower than last year in Q1 since the lack of belly-hold capacity continued to affect international cargo operations. Nevertheless, the share of respondents (37%) pointing to an improvement increased compared to the previous survey (9%).
- Looking ahead, more than half of the respondents expect cargo demand to increase, similar to the outcome of the previous survey. On the other hand, 19% of respondents expect cargo volumes to deteriorate in the coming twelve months, higher than the January survey (9% was expecting a deterioration in cargo volumes). Hence, the forward-looking score eased slightly but remained in expansionary territory and close to the levels seen before U.S. China trade war.

Cargo

a) Recent and expected change in traffic volumes



b) Compared to previous surveys

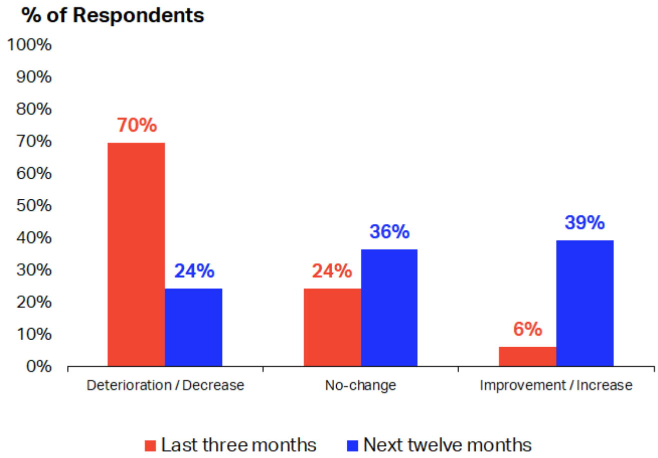


EMPLOYMENT

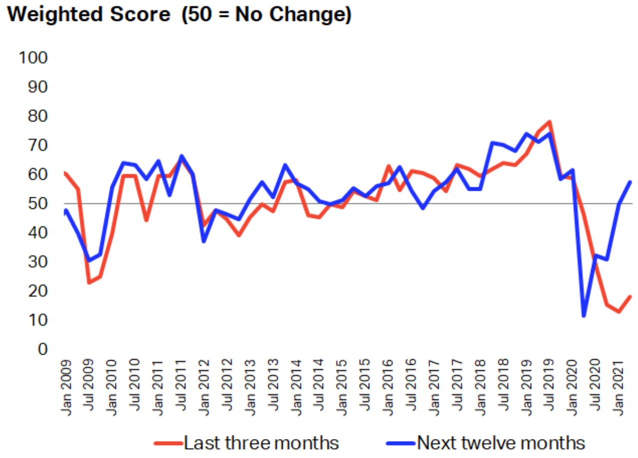
- 70% of the respondents reported a reduction in their workforce as the pandemic continues to affect airline operations. Only cargo airlines (6% of the respondents) cited an increase in their employment levels in the last three months.
- On the other hand, forward expectations regarding employment improved. Airlines expect the restart of operations in the second half of the year to have a positive impact on employment. 39% of respondents expect to see an increase in their number of employees, which is more than double the result of January survey (15%). The proportion of respondents expecting to see no change in employment has declined sharply from 70% in January survey to 36%. As a result, the weighted score jumped to expansionary territory.

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

a) April 2021 survey



b) Compared to previous surveys

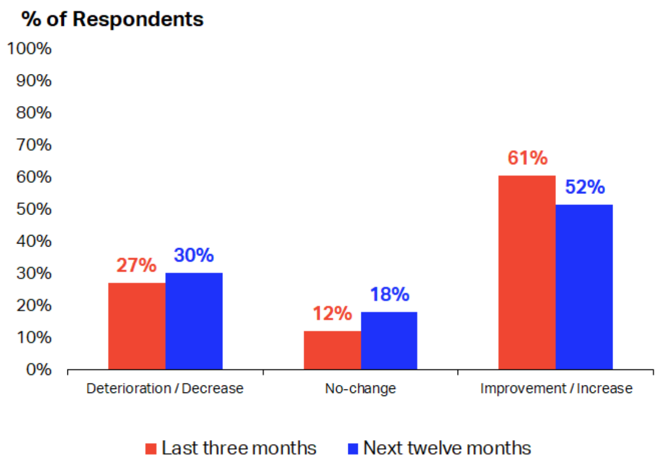


INPUT COSTS

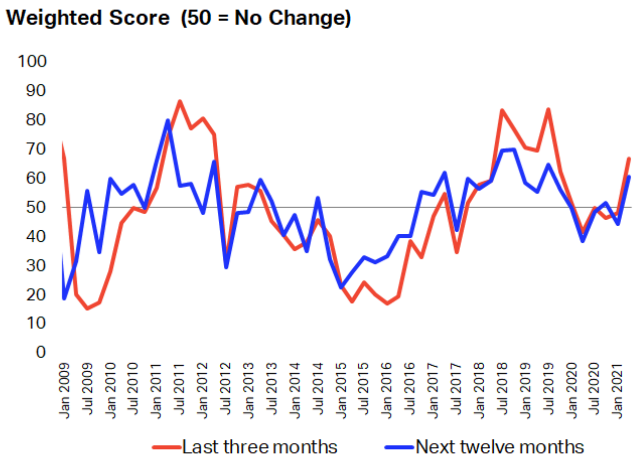
- A majority (61%) of surveyed airlines saw their input costs rise in the past three months due to high fuel prices and fixed costs. The share of airlines reporting lower unit costs in Q1 declined to 27% from 44% in the January survey.
- 30% of respondents said they expect their unit costs to decrease over the next twelve months, which is in line with the previous two surveys. On the other hand, 52% of the respondents expect their unit costs to increase. This is more than triple the outcome of January survey (19%). Airlines expect input costs to increase along with the restart, as oil prices are higher and staff costs would rise.

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

a) April 2021 survey



b) Compared to previous surveys

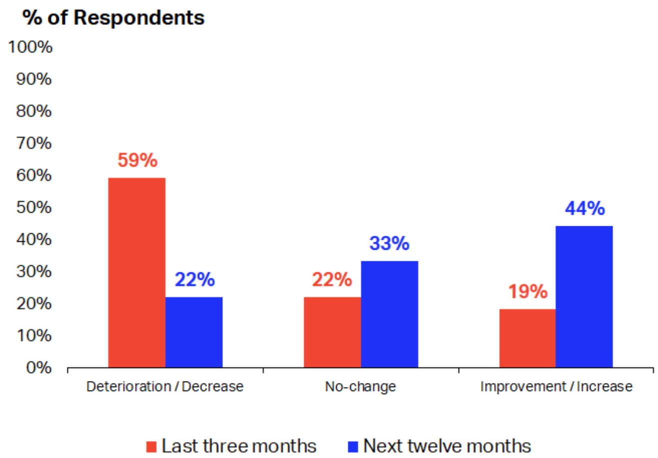


YIELD ENVIRONMENT

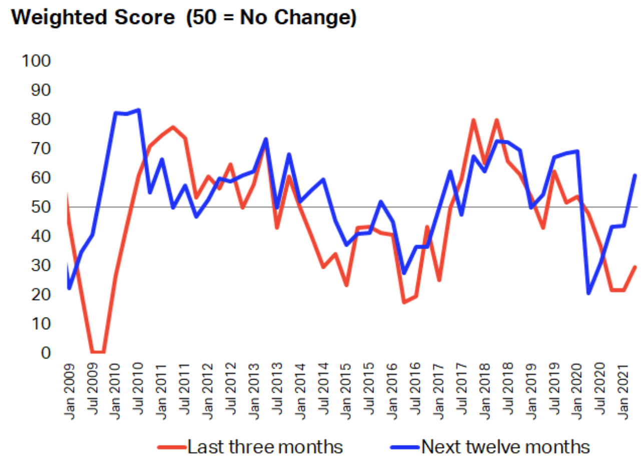
- A wide majority (59%) of respondents continue to report declining passenger yields in the last three months, as airlines targeted to revive travel demand by competitive pricing. On the other hand, 19% of respondents reported an increase in yields due to a low base year effect in 2020.
- Looking ahead, 22% of respondents expect passenger yields to decline in the next twelve months, and 33% expect yields to be stable at low levels. 44% of surveyed airlines expect yields to increase as air travel begins to recover starting in the summer quarter. In January's survey, only 17% were expecting yields to improve. As a result, the weighted score jumped to the expansionary territory for the first time during the COVID-19 crisis.

Passenger

a) Recent and expected change in yields



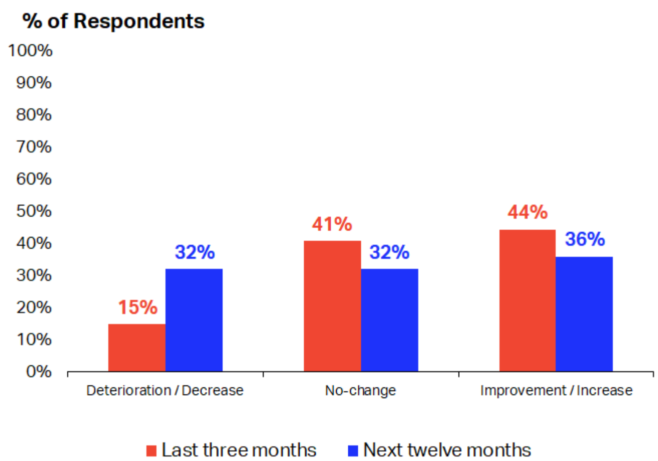
b) Compared to previous surveys



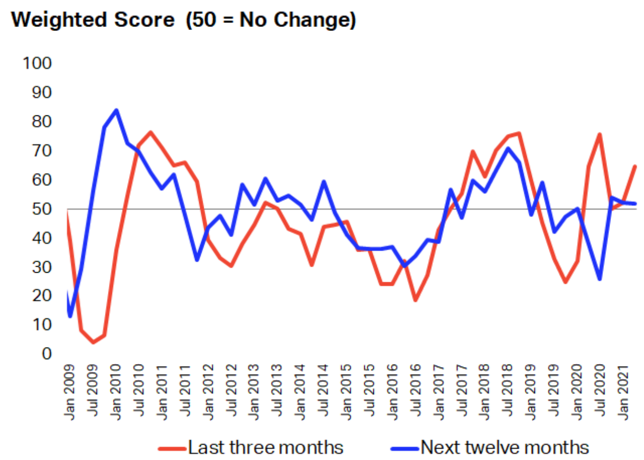
- Cargo yields improved in the first quarter of 2021, with 44% of respondents noting an increase and 15% a deterioration in yields. Respondents continued to cite the capacity crunch as the main reason for elevated cargo yields.
- Turning to the twelve months ahead, surveyed carriers remain positive about the future. 36% of respondents expect to see an improvement in yields over the coming 12 months – up from 22% in January. Carriers expect yields to increase arising from the demand for value added goods such as medical products and vaccines. However, there are also 32% of the respondent expecting a decline in yields over this period. Overall, the weighted score stayed in expansionary territory.

Cargo

a) Recent and expected change in yields



b) Compared to previous surveys

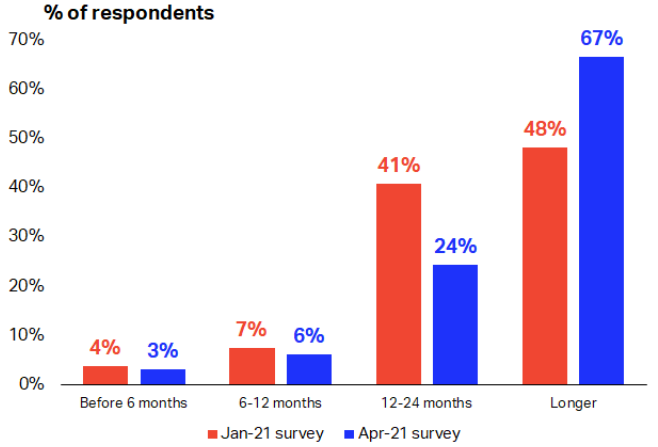


COVID-19 IMPACT

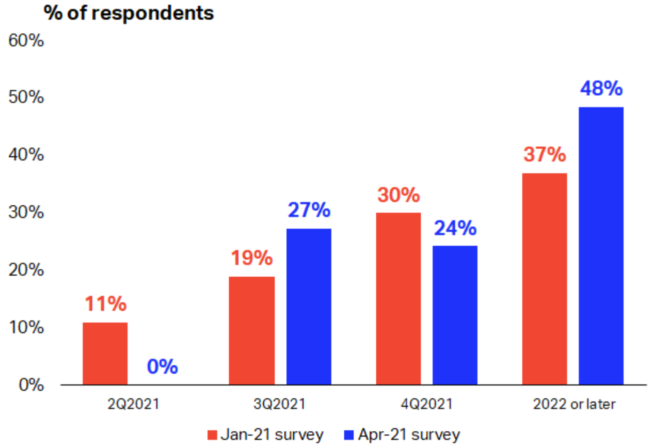
- We asked Airline CFOs and Heads of Cargo their expectations about the timing of the recovery in demand and gathered information about the regions expected to recover first and last, as well as likely changes to business models. The replies have been summarized in the charts below.
- In this survey, the respondents became more pessimistic about the timing of recovery and the restart in long-haul traffic. 67% of surveyed carriers expect the demand recovery to pre-crisis levels will take longer than two years. Only one fourth of respondents are now anticipating a recovery between 12-24 months. The expectations regarding long haul recovery moved forward as well. Almost half of the respondents anticipate long haul traffic to restart in 2022 or later.
- Among all regions, more than half of the respondents expect Asia Pacific to recover 2019 levels of activity first. This is followed by North America as in the previous survey. On the other hand, Europe is forecast to return to 2019 levels of demand later than elsewhere. 45% of respondents are now indicating Europe as the region to recover last. Note that only 26% were citing Europe as the last region to recover in the previous survey.
- Carriers are considering various changes to their strategy in the long run. 67% of the respondents said they would reduce flight frequencies while 55% replied that they would shrink their network. 36% of respondents expect to extend their cargo networks. Similarly, 36% of respondents expect to significantly change their business models (low cost, short haul…).

COVID-19

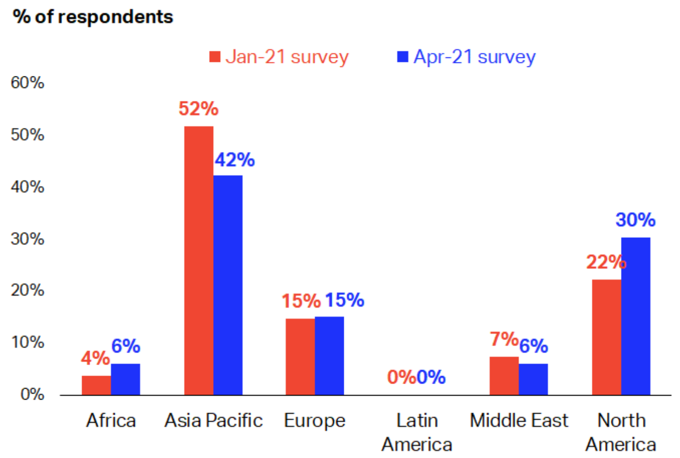
a) Timing of the recovery (2019 levels)



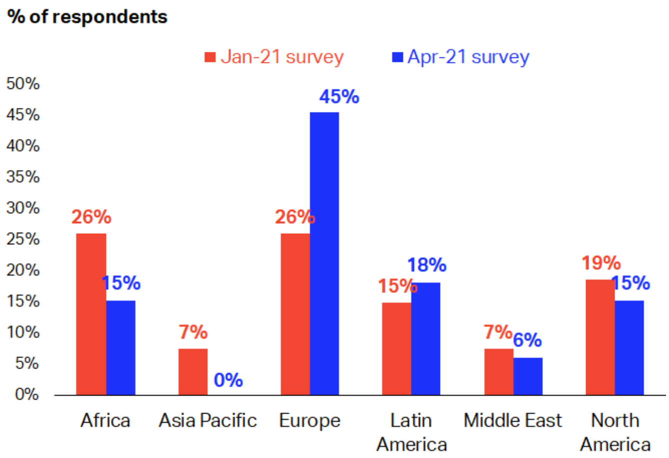
b) Timing of the restart in long haul traffic



b) Region to return to 2019 level first



c) Region to return to 2019 level last



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