



# January 2021 SURVEY

## AIRLINE BUSINESS CONFIDENCE INDEX

### KEY POINTS

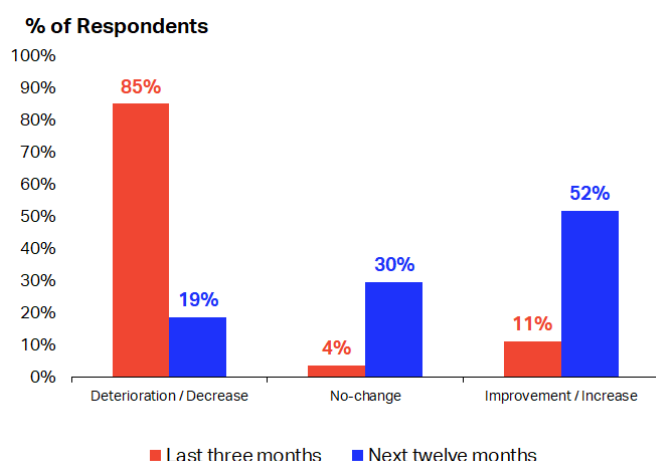
- Our January 2021 survey of airline CFOs and Heads of Cargo confirmed that weakness in airlines' financial situation extended to Q4 2020. As the survey was conducted prior to the imposition of recent travel restrictions amidst new virus variants, most of the respondents were positive about industry's financial outlook over the next twelve months.
- In Q4 2020, none of the respondents declared improvement in passenger demand. In addition, cargo demand declined compared to the previous survey. However, expectations for both passenger and cargo demand remained upbeat for 2021.
- Passenger yields stabilized at lower levels in Q4 but are expected to improve in the next twelve months. Cargo yields improved slightly in January survey and remained at elevated levels, supporting airlines' revenues.
- 78% of the survey respondents reported reduction in their workforce in Q4 due to delayed recovery in air passenger demand. However, expectations for the future improved as only 15% of respondents expect further decrease in employment levels in the coming twelve months.
- Input costs declined or remained unchanged for more than half of our respondents in Q4. Moreover, in the next twelve months, 82% of surveyed airlines anticipate unit costs to decrease or remain stable.

### PROFITABILITY OUTLOOK

- The results of IATA's latest survey of airline CFOs and Heads of Cargo, conducted in January, confirms that severe impact of COVID-19 on the airline industry financials extended to Q4. 85% of surveyed carriers reported a deterioration in their profitability due to weak passenger traffic with rising COVID-19 cases. On the other hand, 11% of respondents reported improvement in profits with the support of cargo business, but this share was slightly lower than in October (14%).
- Turning to the twelve months ahead expectations, respondents were optimistic at the time the survey was conducted. 52% of respondents expected net losses to diminish. Fewer respondent (19%) compared to the previous survey (41%) anticipated further deterioration in profitability. Expectations of resumption of international air transportation with potentially better coordination between governments and less restrictions are the main reasons for the optimistic for some airlines. The weighted score, which jumped to expansionary territory, got closer to pre-pandemic levels in January 2020 survey.

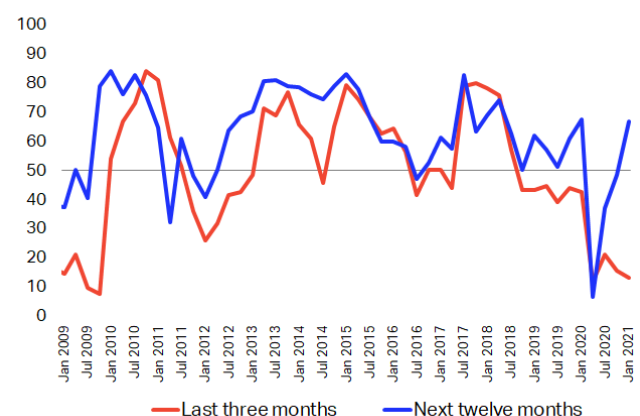
#### How has profitability changed? How do you expect it to change over the next twelve months?

##### a) January 2021 survey



##### b) Compared to previous surveys

Weighted Score (50 = No Change)

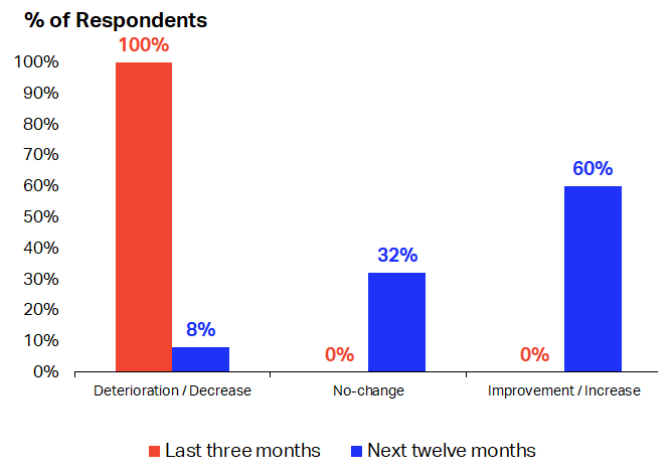


## DEMAND GROWTH

- All respondents reported a decline in passenger volumes in Q4 compared to last year as the recovery was limited following the lockdown period and operations were still impacted by pandemic-related travel restrictions. As a result, the backward-looking weighted score reached all-time low level.
- On the other hand, with the positive sentiment created by vaccine news, expectations for the twelve months ahead improved before the emergence of new variants of the virus. 60% of the respondents expect that the demand would recover with vaccine rollout resulting in gradual reopening of international markets. The remaining 40% anticipates a further deterioration or no improvement due to slow rollout of vaccines and continued travel restrictions with the impact of the pandemic.

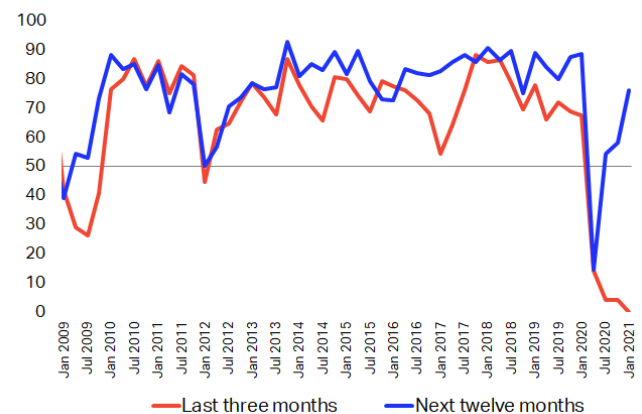
### Passenger

#### a) Recent and expected change in traffic volumes



#### b) Compared to previous surveys

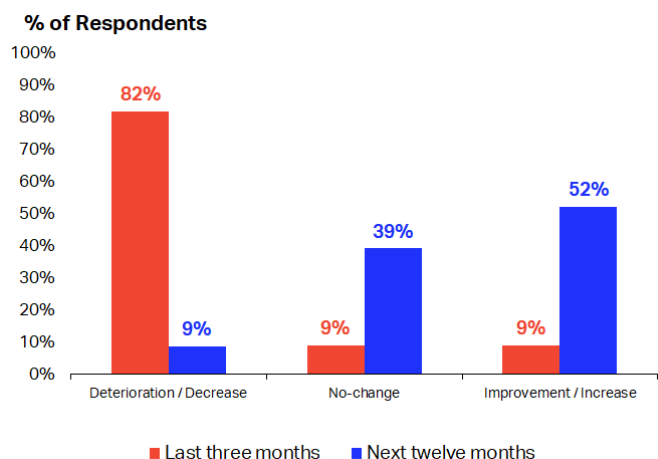
##### Weighted Score (50 = No Change)



- 82% of the respondents reported that cargo volumes had been lower than last year in Q4. The share of respondents pointing to an improvement (9%) has fallen sharply compared to the previous survey (27%). While some surveyed airlines mentioned improvement in domestic cargo operations, the lack of belly-hold capacity continues to affect international cargo operations.
- Looking ahead, slightly higher than half of the respondents expect cargo demand to increase, in line with the outcome of the previous July and October surveys. Some respondents expect the transportation of vaccines to provide momentum for the air cargo traffic. Only 9% of respondents expect that cargo volumes will deteriorate in the coming twelve months, much lower than the October survey (27% was expecting deterioration in cargo volumes). Hence, the forward-looking score improved sharply and returned closer to the levels before U.S. China trade war.

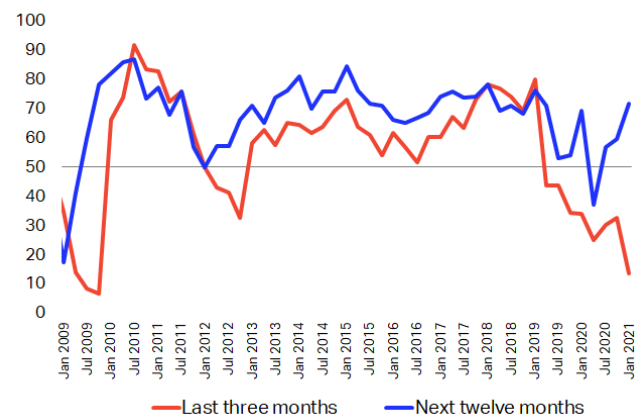
### Cargo

#### a) Recent and expected change in traffic volumes



#### b) Compared to previous surveys

##### Weighted Score (50 = No Change)

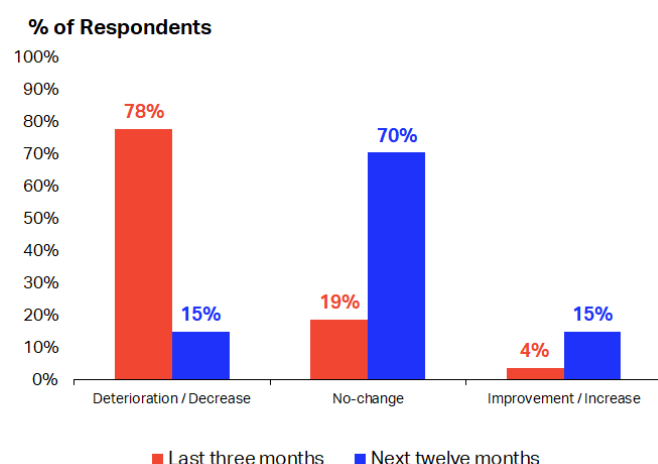


## EMPLOYMENT

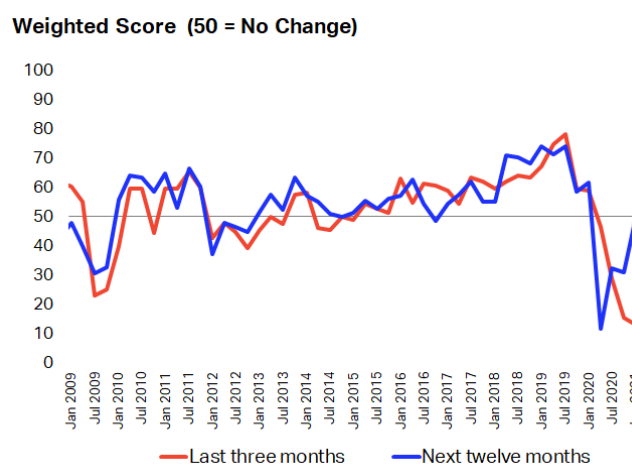
- 78% of the respondents reported a reduction in their workforce due to the unprecedented impact of crisis on operations. This is the largest share in the history of our survey started in 2006. Only 4% of the respondents, which are cargo-only airlines, declared an increase in their employment levels.
- Forward expectations of employment indicate that 15% of respondents may further decrease their number of employees, which is lower than October survey's result (59%). On the other hand, with more positive note, 15% of surveyed carried hope to be able to increase employment in the twelve months ahead with the resumption of international traffic.

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

#### a) January 2021 survey



#### b) Compared to previous surveys

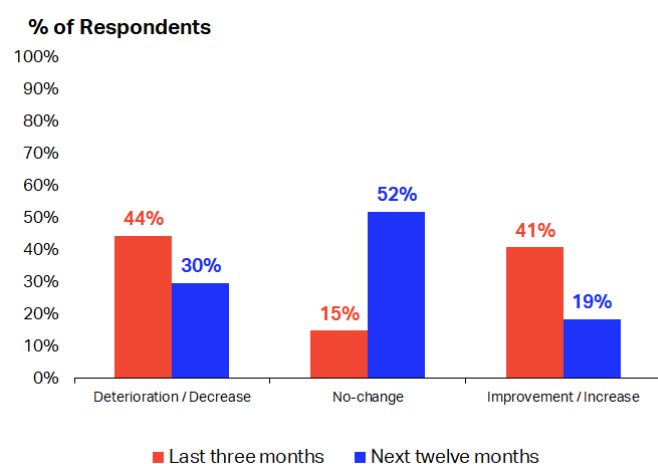


## INPUT COSTS

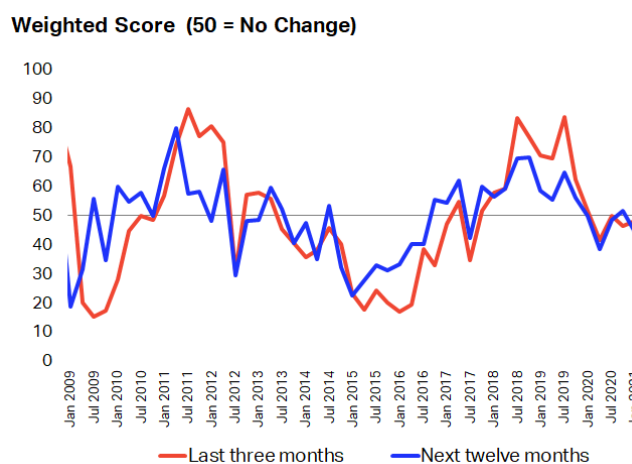
- 44% of the respondents saw their input costs decrease in the past three months, slightly less than in October survey (48%). This is driven by a decline in fuel costs and stringent measures taken to reduce operating costs especially on the employment side. 41% of surveyed airlines saw their unit costs increase in Q4 mostly due to high fixed costs.
- 30% of respondents said they expect their unit costs to decrease over the next twelve months, which is in line with October survey. Only 19% of the respondents, which is much lower than the outcome of October survey (34%), replied that their input costs would increase with the resumption of operations and recovery in oil prices. Almost half of the respondents do not expect a change in their unit cost as they anticipate airlines to continue to implement cost control measures until they see a sensible recovery in traffic volumes.

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

#### a) January 2021 survey



#### b) Compared to previous surveys

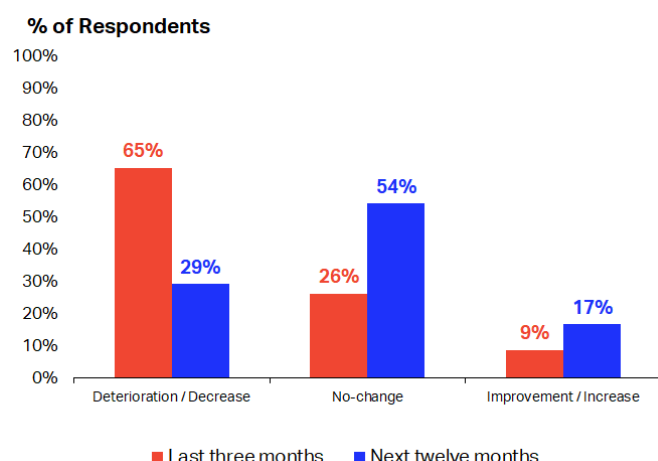


## YIELD ENVIRONMENT

- A wide majority (65%) of respondents reported that passenger yields had decreased in the last three months as airlines tried to encourage the travel demand by lowering fares. On the other hand, only 9% of respondents reported increase in yields which was driven by reduced competition on some routes.
- Looking ahead, 29% of respondents expect passenger yields to decline in the next twelve months, and 54% think they will remain stable at low levels. 17% of surveyed airlines expect yields to increase as air travel begins to recover starting the summer quarter. The weighted score remains in the contractionary territory, indicating the continuous pressure on profitability.

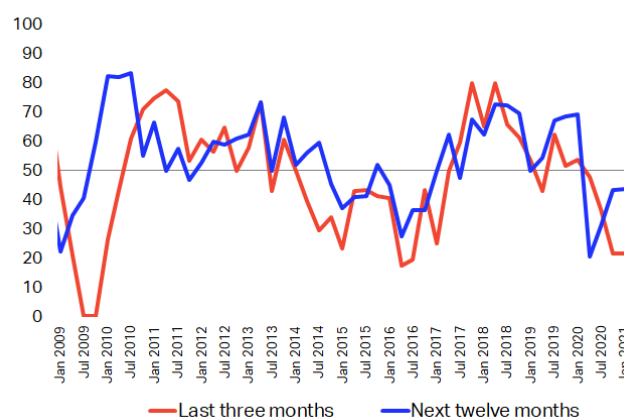
### Passenger

#### a) Recent and expected change in yields



#### b) Compared to previous surveys

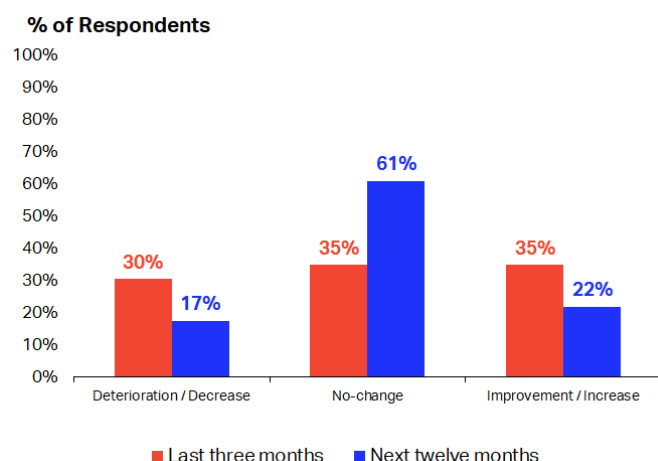
Weighted Score (50 = No Change)



- Following the strong spike in Q2, cargo yields eased in the second half of 2020. 35% of respondents reported increasing yields and another 35% of them noting no significant change. As a result, the weighted score remained close to 50. Respondents continued to mention the capacity crunch as a source of elevated yields, and the situation remains strongly supportive for cargo airlines' revenues.
- Turning to the twelve months ahead, the share of respondents expecting cargo yields to decrease was at 17%, down from 24% in the October survey, while majority (61%) anticipate yields not to change. Survey respondents indicate capacity constraints to keep cargo yields at elevated levels in the future.

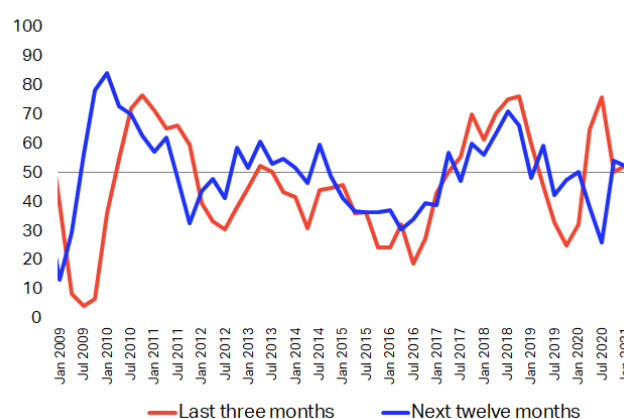
### Cargo

#### a) Recent and expected change in yields



#### b) Compared to previous surveys

Weighted Score (50 = No Change)

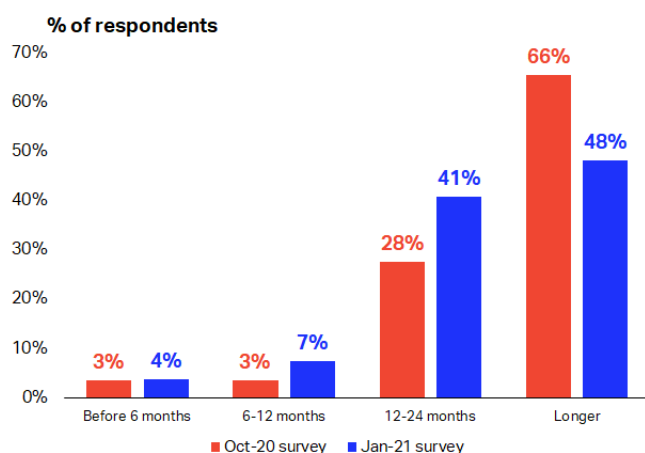


## COVID-19 IMPACT

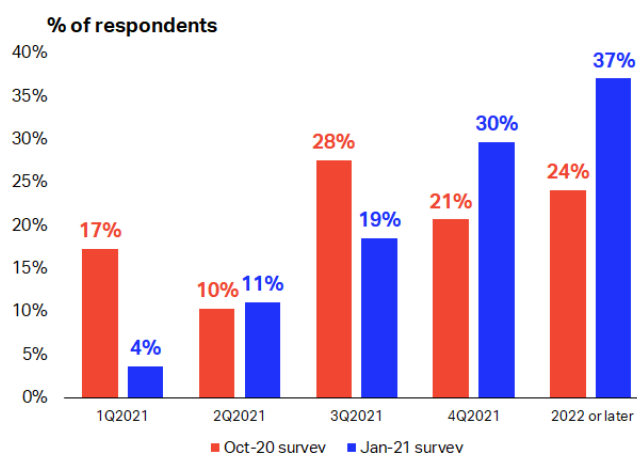
- We asked Airline CFOs and Heads of Cargo their expectations about the timing of the recovery in demand and gathered information about the regions expected to recover first and last, as well as likely changes to business models. The replies have been summarized in the charts below.
- 48% of surveyed carriers expect the demand recovery to pre-crisis levels will take longer than two years. The proportion of respondents anticipating a recovery within 12 months is only 7%, similar to the survey results conducted in October. Survey respondents became more pessimistic about the recovery in long-haul traffic. In the previous survey, 17% of respondents were expecting long haul traffic to restart in Q1 2021 but this proportion declined to 4% in January survey. The majority of respondents (72%) anticipate that long-haul travel will restart in H2 2021 or later.
- Among all regions, more than half of the respondents expect Asia Pacific to recover 2019 level of activity first. This is followed by North America, as 22% of respondents expect region to recover first. Both Europe and Africa are forecast to return to 2019 levels of demand later than elsewhere. In earlier July survey, only 6% of respondents had been indicating Europe as the region to recover last with the expectation of recovery in summer quarter.
- A significant share of surveyed carriers is considering various changes to their strategy in the long run. 59% of the respondents said they would reduce flight frequencies but keep current networks, and 26% replied that they might switch to smaller aircraft. 26% of respondents expect to extend their cargo networks. 22% of our respondents even expect to significantly change their business models (low cost, short haul...).

### COVID-19

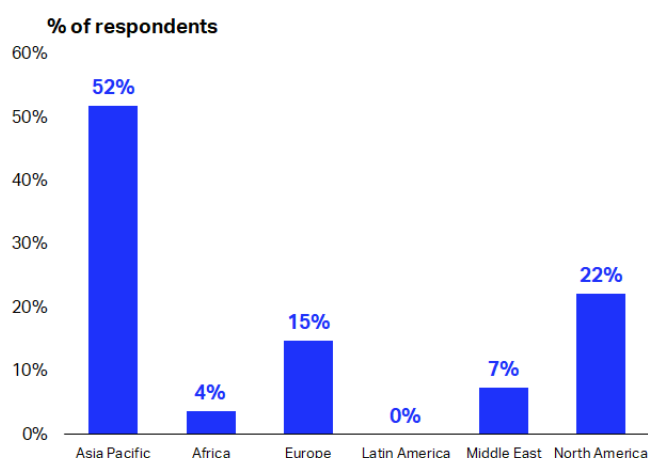
a) Timing of the recovery (2019 levels)



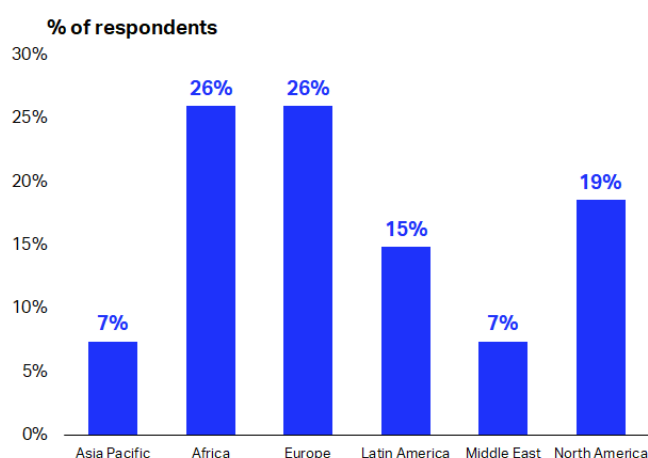
b) Timing of the restart in long haul traffic



b) Region to return to 2019 level first



c) Region to return to 2019 level last



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