January 2022 SURVEY

AIRLINE BUSINESS CONFIDENCE INDEX

KEY POINTS

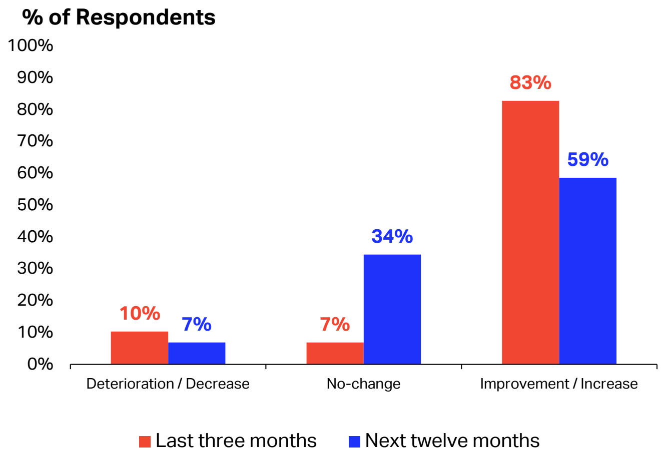
- IATA's survey of airlines CFOs and Heads of Cargo, conducted in December 2021-January 2022, shows that pressure on airline profitability diminished in Q4. The improvement is expected to continue in the year ahead. However, the respondents were more cautious than in the previous survey due to the Omicron impact, soaring jet fuel prices and rising market competition that puts pressure on yields.
- A majority of survey participants reported improving passenger and cargo volumes in Q4 2021 versus Q4 2020. They also expect this trend to continue in the future – notably on the passenger side of the business.
- The survey results suggest no significant change in employment levels in Q4 2021 versus the same period a year ago. On a positive note, 59% of respondents expect increased hiring in the next twelve months thanks to recovering passenger operations.
- 55% of the survey participants recorded higher input costs in Q4 year-on-year, largely due to soaring jet fuel prices and staff shortages. The same share of respondents expects further input cost increase in the future.
- Two thirds of airlines in the survey predict that passenger yields will stabilize at current levels or fall due to increased competition in the market. On the cargo side, 58% of respondents expect the yields to remain elevated or to rise further – down from 68% in the previous survey.

PROFITABILITY OUTLOOK

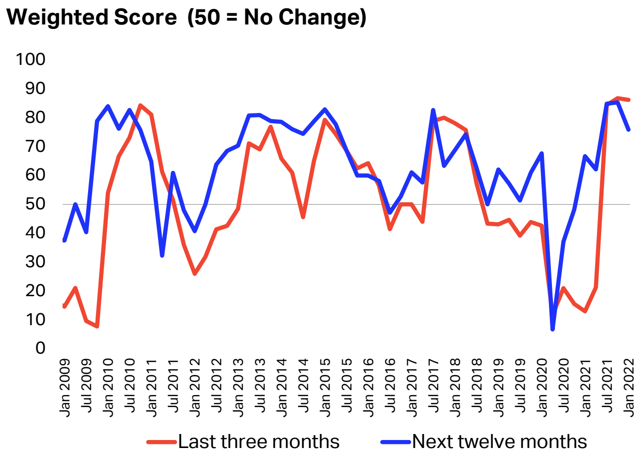
- A significant majority of participants in our survey reported improved airline profitability over the past three months. 83% of respondents stated that their income increased (or losses diminished) compared with the same period a year ago – broadly unchanged from the October survey (85%). The improvement remained driven by the gradual recovery in passenger traffic as travel restrictions were eased, and by strong cargo demand combined with elevated cargo yields. Those who reported a deterioration mentioned the increase in the jet fuel price and COVID outbreaks in key markets.
- Looking ahead, the survey suggests that the bottom-line figures will continue to improve, although the optimism is somewhat weaker compared with Q3. The share of respondents who expect higher incomes fell from 74% in the October survey to 59% currently. Meanwhile, the proportion of 'no change' answers grew from 24% to 34%. Carriers mentioned concerns about the Omicron impact on travel demand, higher jet fuel prices and pressure in yields due to increased competition. Taken together, the forward-looking weighted score ticked down from 85 to 76.

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

a) January 2022 survey



b) Compared to previous surveys

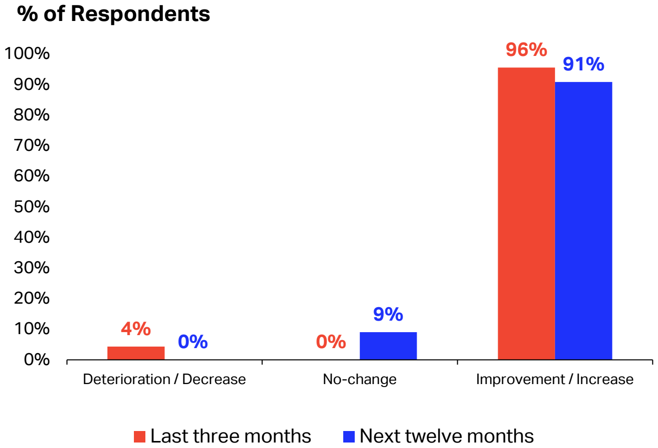


DEMAND GROWTH

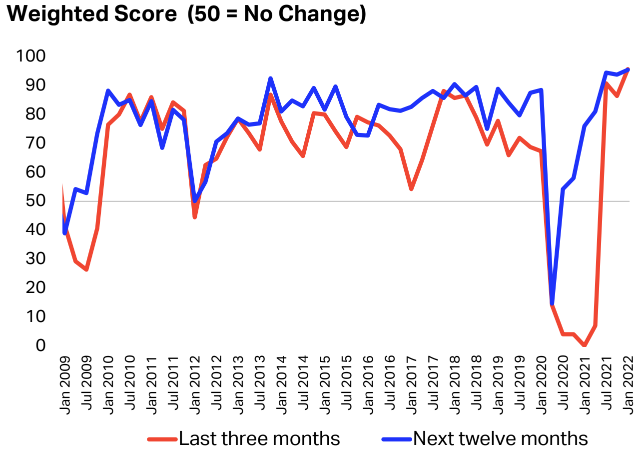
- Almost all respondents (96%) reported an increase in passenger numbers during Q4 compared with the same period a year ago – an improvement from 86% in October and 81% in July. The air travel recovery had been driven by the relaxation of cross-border travel restrictions in some key markets, including the reopening of transatlantic routes in early-November. The backward-looking weighted score picked up, reaching the highest level since 2007.
- A vast majority of survey participants (91%) expects that the recovery in passenger traffic will continue in the coming twelve months despite the Omicron outbreak. The remaining respondents assume no change in the current levels. The further relaxation of travel restrictions and more efficient pandemic containment were cited as the key drivers behind the expected air travel rebound.

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

a) Recent and expected change in traffic volumes



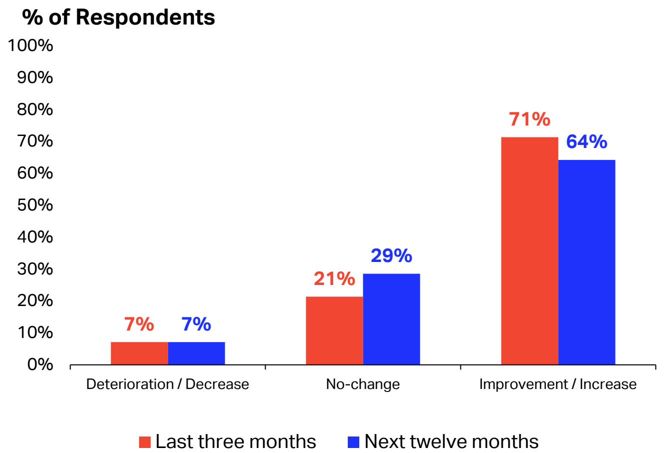
b) Compared to previous surveys



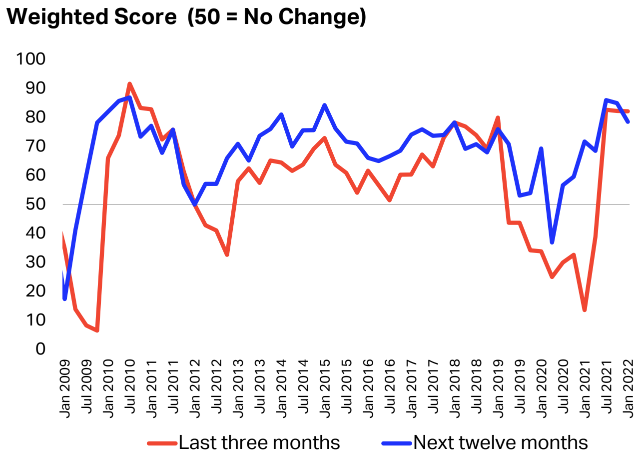
- On the cargo side, 71% of respondents reported growing volumes in Q4 2021 compared to Q4 2020, while 21% indicated no change. Those stating improvement mentioned higher demand for air cargo during the peak season partly thanks to congested supply chains in the shipping industry. Another supportive factor was also recovering belly-hold capacity with the restart of passenger operations. The backward-looking weighted score trended sideways at elevated levels.
- The industry remains optimistic about cargo demand in the year ahead. Nearly two-thirds (64%) of survey respondents predicted further improvement in air cargo traffic while 29% expected no change from already very strong cargo positions. All told, although the forward-looking weighted score ticked down in January, it remained consistent with robust cargo performance in the future.

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

a) Recent and expected change in traffic volumes



b) Compared to previous surveys

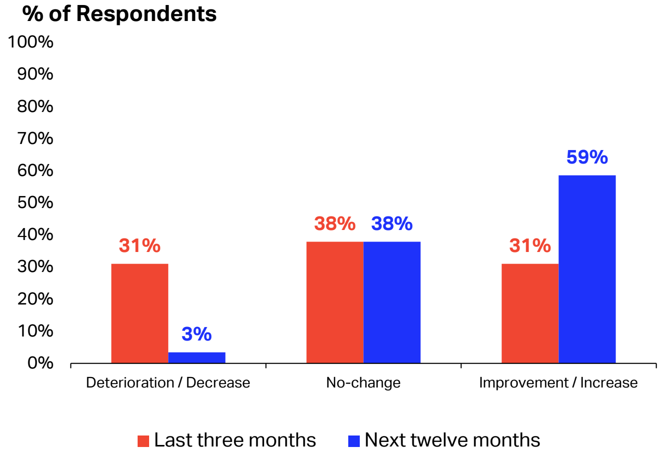


EMPLOYMENT

- Developments in employment levels in Q4 2021 were mixed with 31% of respondents reporting an increase in hiring compared with the same period a year ago, while the same proportion cited falling employment. Airlines with positive answers mentioned that more staff was needed to meet recovering travel demand. Those with negative answers were facing business restructuring. Together, the backward-looking score moved sideways.
- On a positive note, airlines became more optimistic in general about employment levels in the twelve months ahead. Tellingly, 59% of the survey sample expect increases in payrolls – an improvement on 47% in October and 45% in July. The staff hiring should be fuelled by the ramp up of passenger operations as travel demand improves. All told, the forward-looking weighted score surpassed pre-crisis levels for the first time since the pandemic started.

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

a) January 2022 survey



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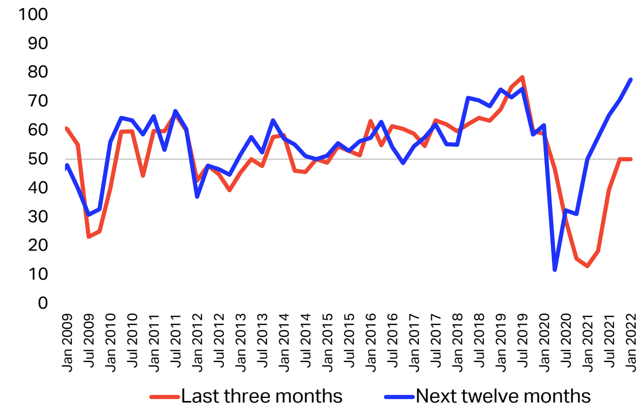
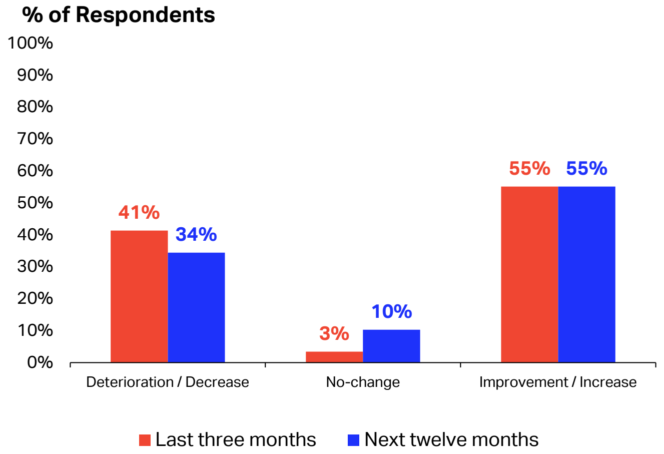


INPUT COSTS

- The share of respondents who noted that their input costs increased compared with a year ago grew from 47% in October to 55% in the latest survey. The majority of the remaining survey participants (41%) noted a decrease in input costs. Airlines with higher costs frequently mentioned rising jet fuel prices, inflation but also higher expenses on crew and ground handling due to staff shortages. Those with lower costs pointed out scale advantages due to increased operations.
- Looking ahead, a thin majority (55%) of airlines in the January survey predicted increasing input costs in the coming next twelve months – up 11 percentage points compared with October. Respondents were mostly concerned about further increases in jet fuel prices but also about inflation that threatens to impact a wide range of services and products.

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

a) October 2021 survey



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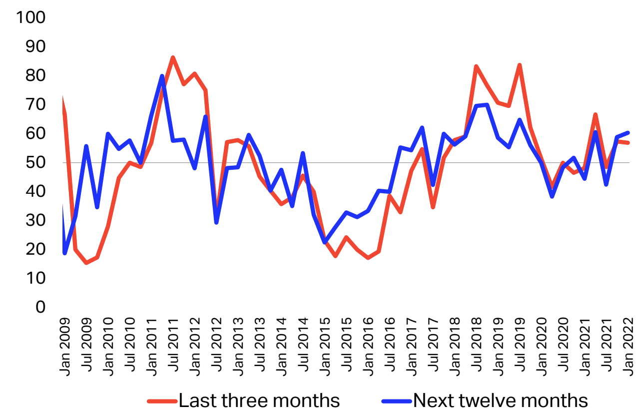
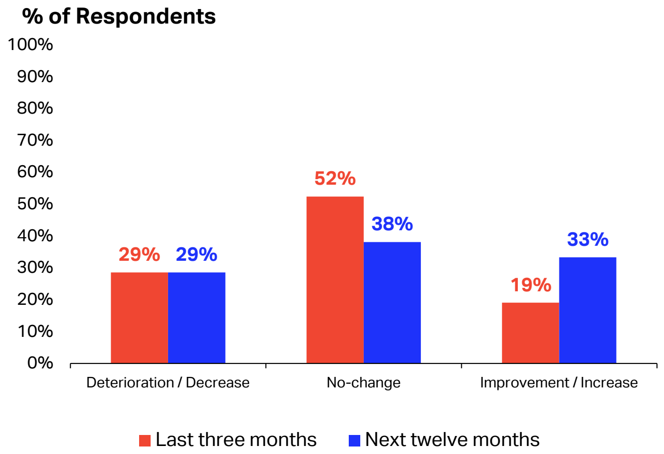


YIELD ENVIRONMENT

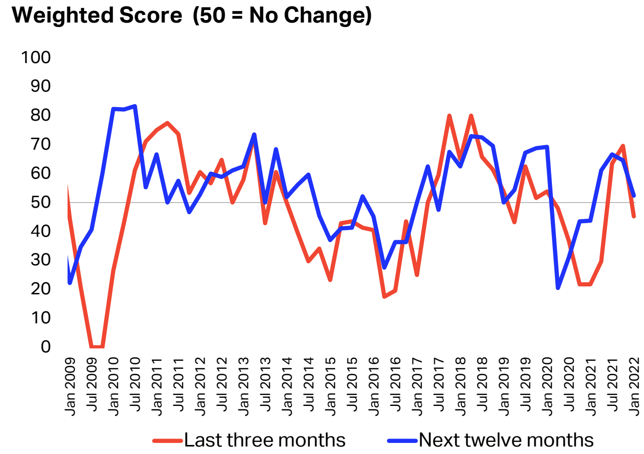
- The pressure on passenger yields increased in Q4 2021. 81% of survey respondents reported a deterioration or no improvement in this metric compared with a year ago – up significantly from 48% in the previous survey. The renewed weakness was driven by increased competition in the market as passenger operations restarted and by faltering demand on routes impacted by new COVID restrictions.
- The expectation about future passenger yields also turned more pessimistic. 67% of survey participants predict no change or a deterioration over the next twelve months, compared with 46% in the October edition. Respondents frequently mentioned increased market competition as the main challenge.

How have your passenger operations fares/output prices changed? How do you expect them to change over the next twelve months?

a) Recent and expected change in yields



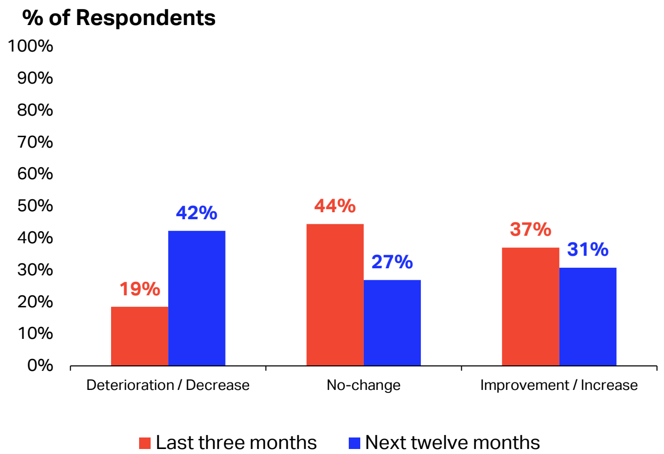
b) Compared to previous surveys



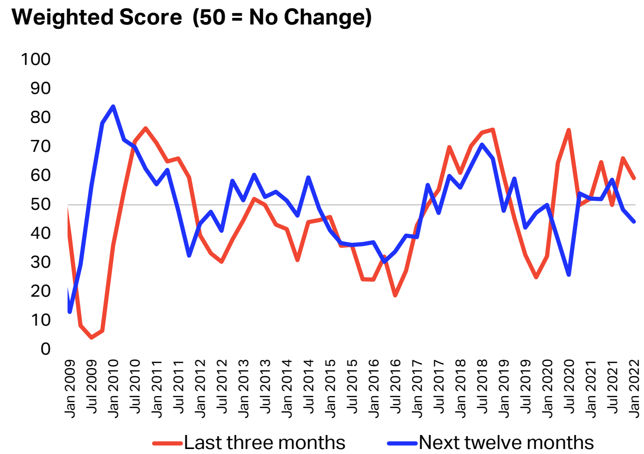
- On the cargo side, 81% of respondents stated further gains or no changes in already elevated yields in the three months to January compared with a year ago. Although this was a slight deterioration from 90% in the October survey, it continues to point to a robust cargo demand during the peak shipping season.
- The share of respondents who expect cargo yields to remain elevated or rise further fell from 68% to 58% between the October and January survey editions. Those expecting deterioration mention that the recovery in passenger operations will increase available cargo capacity in the market, which will in turn dampen the upward trend in cargo rates.

How have your cargo operations fares/output prices changed? How do you expect them to change over the next twelve months?

a) Recent and expected change in yields



b) Compared to previous surveys



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economics@iata.org