

AIRLINE BUSINESS CONFIDENCE INDEX

JULY 2014 SURVEY

KEY POINTS

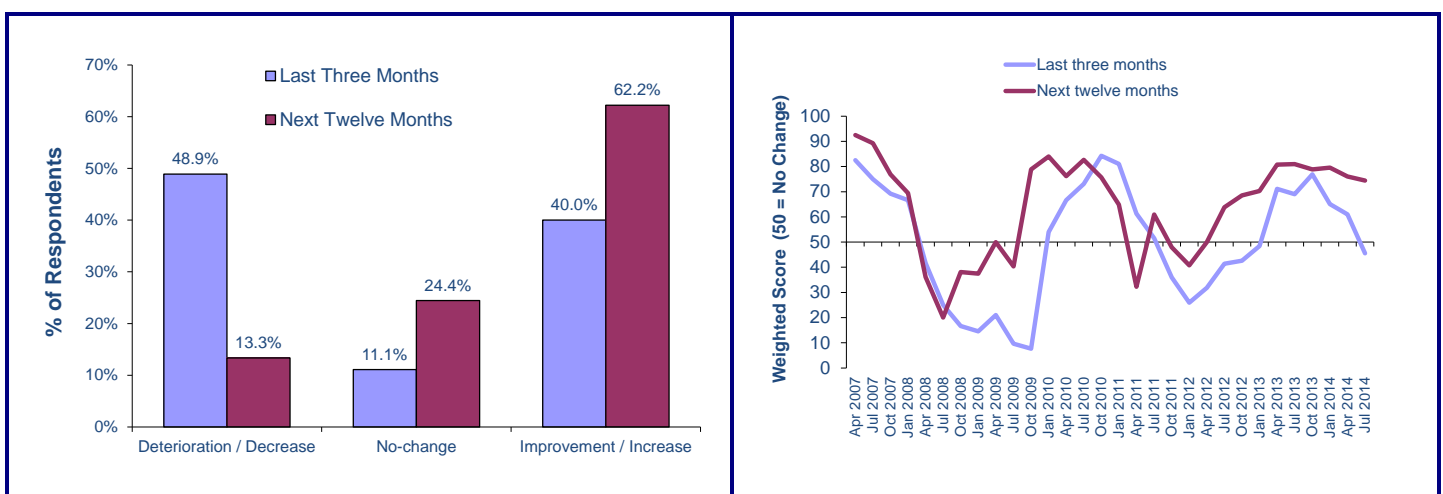
- ✦ Airline profit expectations for the year ahead are positive even though recent improvements in financial performance have paused, according to IATA's quarterly survey of airline CFOs and heads of cargo in July;
- ✦ Recent past financial performance is now in line with a year ago, after having shown improvement in previous quarters, but the outlook remains positive and suggests there will be further growth in profitability;
- ✦ Respondents reported declines in yields during Q2, but there is confidence about a rise in yields over the next 12 months, which is consistent with the positive outlook for profitability;
- ✦ There is confidence that air transport volumes will continue to expand over the next 12 months and support growth in yields, and that cost pressures will remain broadly stable;
- ✦ A majority of respondents expect passenger and cargo volumes to expand over the year ahead, consistent with a recent resumption in improvement in demand drivers;
- ✦ Yields are expected to increase during the year ahead, supported by the outlook for growth in air transport demand and potentially also by capacity management with views of a solid rebound in passenger yields ahead;
- ✦ Prior declines in input costs have reversed, with respondents now expecting costs to be stable during the year ahead, largely reflecting increases in oil prices over recent months due to conflict-related supply concerns;
- ✦ Airline employment activity is reported to have declined during Q2 compared to a year ago, and no growth is expected for the year ahead.

PROFITABILITY OUTLOOK

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

a) July 2014 survey

b) Compared to previous surveys



- ✦ Recent improvements in airline financial performance appear to be coming to an end with the July survey of airline CFOs and cargo heads showing no change in Q2 2014 profits compared to a year ago. This is in contrast to the outlook for profitability, which remains positive. There was a similar divergence in current performance and outlook back in 2009. That occasion, like this current divergence, is likely explained by survey responses on yield developments.

- Respondents have reported declines in yields during Q2, which is consistent with the pause in recent improvements in airline financial performance. But there is confidence about a rise in yields over the next 12 months, which is the likely driver of the positive outlook for profitability.

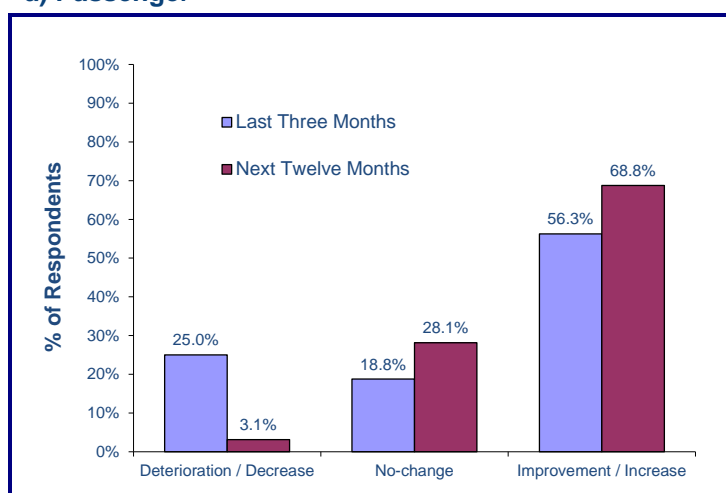
DEMAND GROWTH

- Passenger traffic increased during Q2 2014 compared to the year ago period. The rate of improvement in July slowed compared to April. This is likely reflecting a lull in air travel growth in earlier months due to some slowdown in improvement in demand drivers compared to late-2013. Latest data, however, saw there is resumption in both air travel growth and positive trends in demand drivers.
- Looking ahead, the demand backdrop suggests that growth in passenger volumes in the months ahead will be at least at the current rate. The proportion of survey respondents expecting a rise in traffic volumes is significant at 69%.
- The survey results for cargo were positive and reflect important developments in the demand environment. Respondents reported growth in air freight volumes over recent months, which is consistent with freight data and the resumption in growth in business confidence and world trade volumes. The outlook for cargo volumes remains positive with 56% of respondents expecting an increase in demand over the next 12 months.

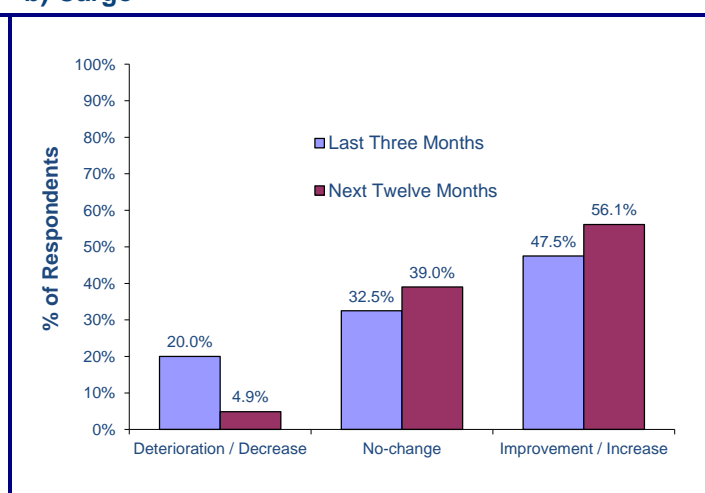


Recent and expected change in traffic volumes

a) Passenger

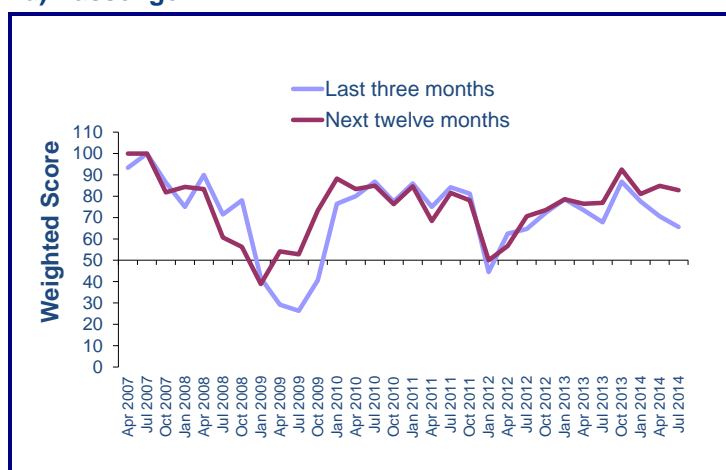


b) Cargo

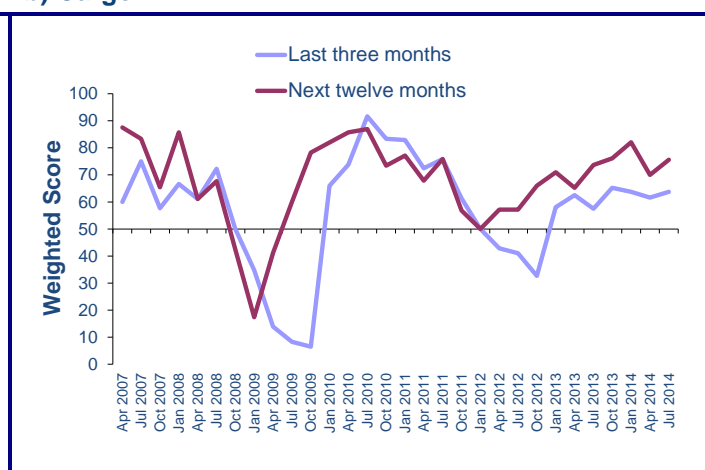


Compared to previous surveys

a) Passenger



b) Cargo



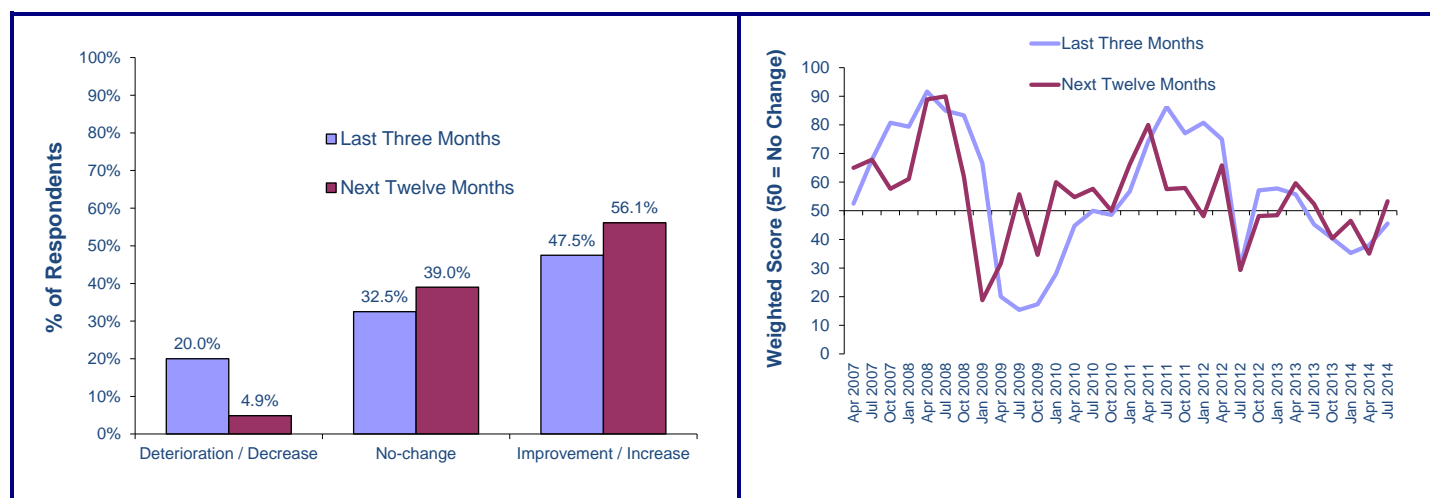
INPUT COSTS

- July survey results show that prior declines in input costs have reversed. With respect to Q2, respondents now see no decline in input costs compared to a year ahead (as they had done in prior quarters) – costs are now in line with Q2 2013. The rise in input costs largely reflects increases in oil prices over recent months due to conflict related supply concerns.
- Moreover, recent developments have likely caused survey respondents to expect no change in input costs during the year ahead – compared to declines they were expecting before. Prior surveys responses included reference to cost cutting measures as reasons for decline in current/future cost expectations, but recent increases in crude oil prices (and the implications for jet fuel prices) appear to be outweighing those gains.

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

a) July 2014 survey

b) Compared to previous surveys



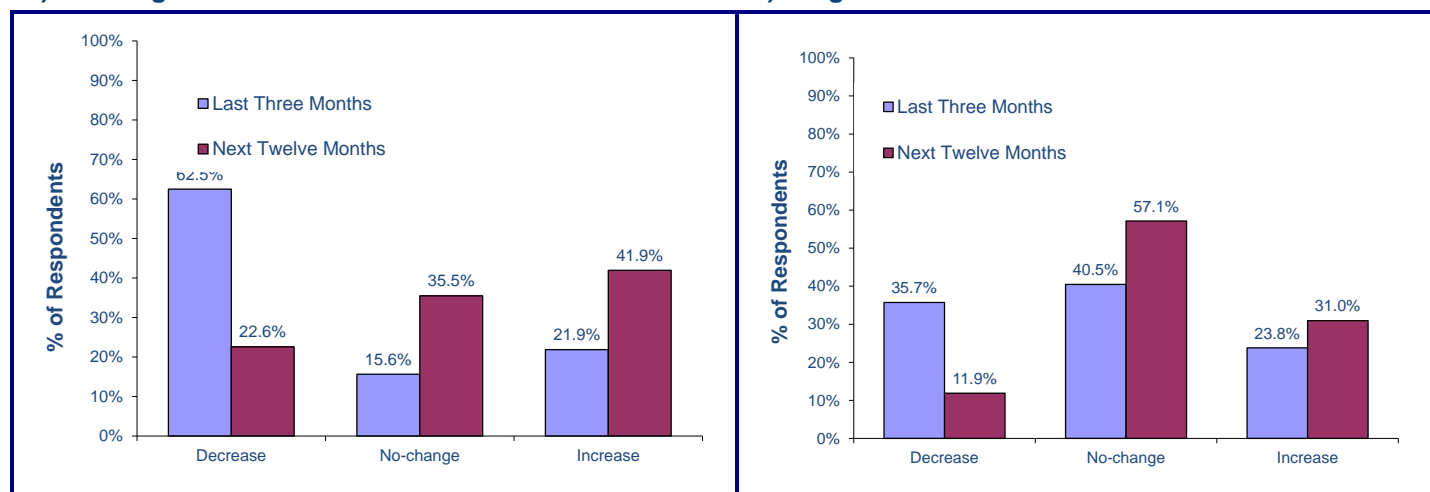
YIELD ENVIRONMENT

- The July survey results indicate that passenger yields declined in Q2 2014 compared to the year ago period. The outlook, however, points to a positive reversal in the trend, with 42% of respondents expecting to see an increase in yields during the next 12 months. The outlook is supported by growth in air transport demand and potentially also by capacity management since the view is for a solid rebound in passenger yields ahead.
- Consistent with recent signs of improvement in cargo demand, cargo yields were reported to have declined at a slightly slower pace in Q2 compared to a year ago. Moreover, the outlook for cargo yields for the next 12 months has improved. While a majority of respondents said they expect no change during the year ahead (57%), an increasing proportion believes there will a rise in yields (31%).

Recent and expected change in yields

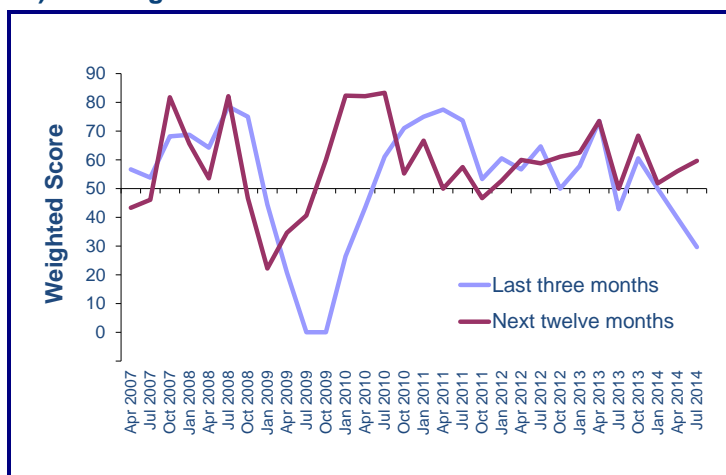
a) Passenger

b) Cargo

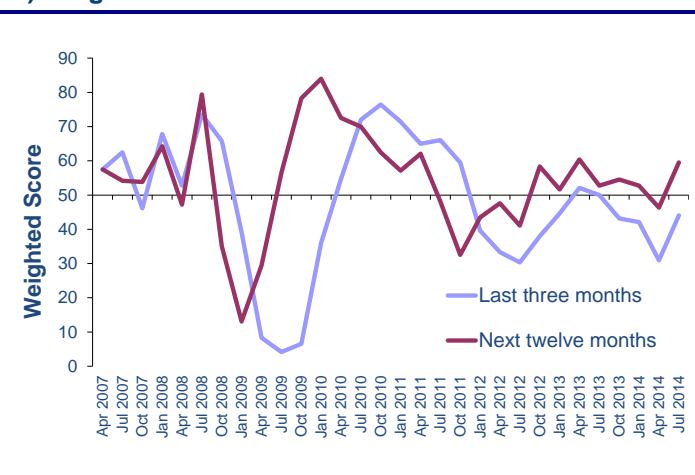


Compared to previous surveys

a) Passenger



b) Cargo

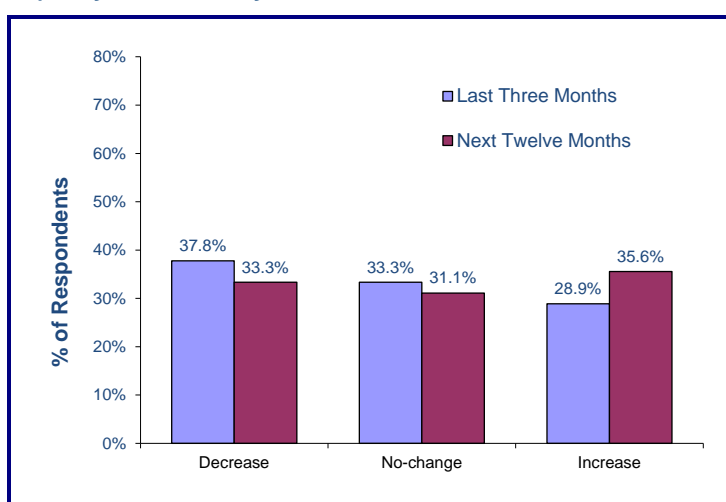


EMPLOYMENT

- Airline employment activity is reported to have declined during Q2 compared to a year ago. Moreover, the July survey reveals that CFOs and cargo heads expect no growth in employment in the year ahead.

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

a) July 2014 survey



b) Compared to previous surveys

