



July 2020 SURVEY

AIRLINE BUSINESS CONFIDENCE INDEX

KEY POINTS

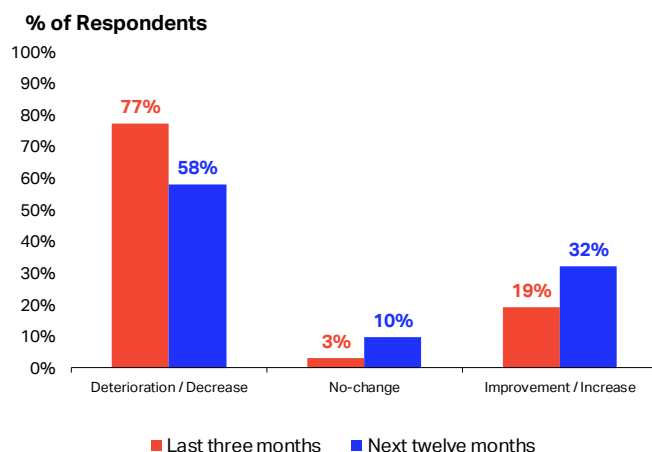
- Our July 2020 survey of airline CFOs and Heads of Cargo confirmed that the aviation industry experienced the sharpest quarterly fall in demand and profits since the global financial crisis. Moreover, weakness in profitability is expected to be maintained over the next twelve months.
- In Q2 2020, passenger demand collapsed while cargo demand improved slightly following a sharp decline in the previous quarter.
- Passenger and cargo yield developments continued to diverge in Q2. Passenger yields fell due to the lack of demand, while cargo yields continued to increase reflecting the lack of cargo capacity from the grounding of much of the passenger fleet.
- For the year ahead, the majority of respondents expect airfares to decrease in order to stimulate demand. Similarly, cargo yields are generally expected to unwind with the return of bellyhold cargo capacity.
- With the recovery in demand likely to be slow, 55% of respondents expect to have to decrease employment levels over the coming 12 months.
- Expectations for input costs are mixed. While low fuel prices and cost cutting programs were supportive, unit costs face upwards pressure from weak demand and accordingly low load factor levels.

PROFITABILITY OUTLOOK

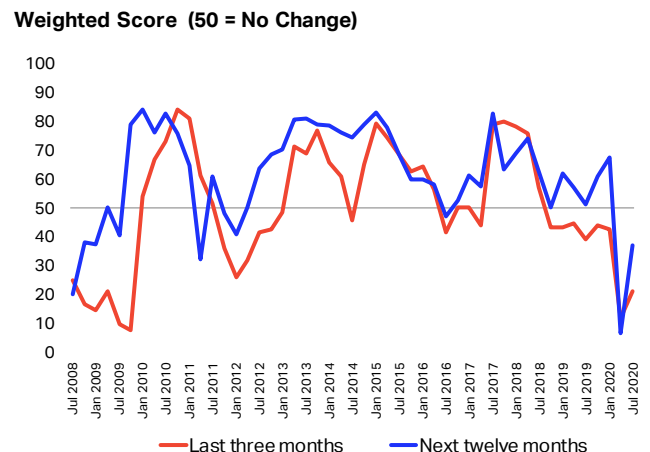
- The results of our latest survey of airline CFOs and Heads of Cargo, conducted in mid-July, confirms the severe impact of COVID-19 on the airline industry. The majority of respondents (77%) saw their profits decline in Q2 – a slightly lower share than the previous April survey. On the other hand, 19% of respondents reported an improvement in profitability, underpinned by the strong demand for air cargo. As the belly capacity disappeared with the grounding of much of the passenger fleet, cargo yields soared. As a result, some airlines quickly shifted their focus to the cargo business in the absence of passenger flights. Repatriation flight revenues also supported some airlines in the period of almost full grounding.
- Forward looking profitability expectations strengthened compared to April, but respondent expectations are still in contractionary territory. The majority (68%) expect a deterioration or no improvement in profits over the year ahead as a result of border restrictions being lifted only slowly and the restoration of passenger confidence to travel taking some time. On the other hand, around one third of those surveyed expect to see an improvement in profitability as passenger flights resume.

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

a) July 2020 survey



b) Compared to previous surveys

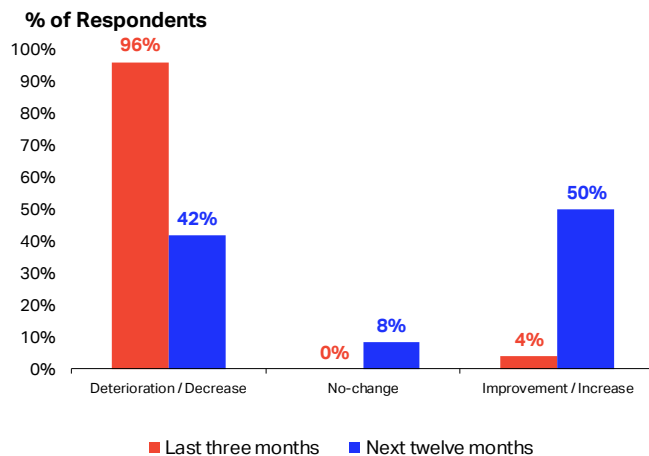


DEMAND GROWTH

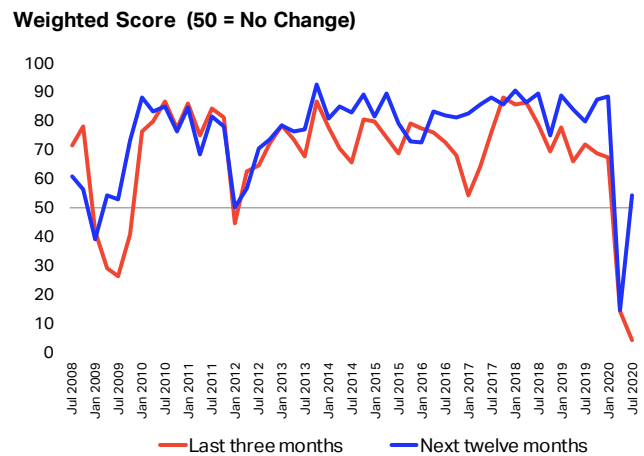
- The July survey shows that almost all respondents (96%) experienced a deterioration in passenger demand in Q2. Given the widespread and large scale aircraft grounding – apart from some domestic and repatriation flights – this comes as little surprise. Overall, this month’s outcome resulted in a sharp fall in the weighted backward-looking weighted index (to just 4).
- For the next twelve months, respondents have mixed views; 50% expect passenger demand to either decline further or remain stable, while the other half expect passenger demand to increase. The latter represents a significant lift in sentiment compared with the April survey where just 12.5% expected to see an improvement and the forward-looking weighted-average score of the index improved as a result. Nonetheless, those expecting to see a recovery in demand remain cautious and mindful that the situation will be challenging.

Passenger

a) Recent and expected change in traffic volumes



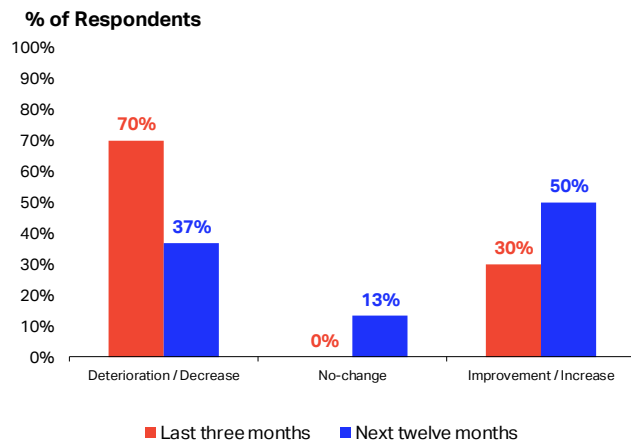
b) Compared to previous surveys



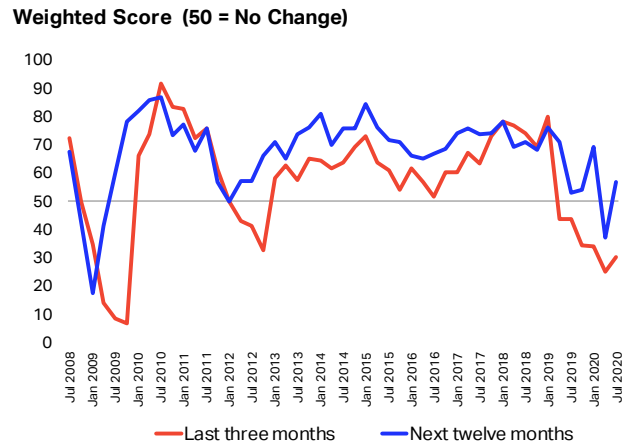
- 30% of respondents pointed to an improvement in cargo demand during Q2 2020. Despite a slight pick-up, the backward-looking score remained in contractionary territory. Some Airline CFOs and Heads of Cargo commented that the lack of capacity due to grounded belly capacity continued to drive cargo yields higher and demand for air cargo was resilient, particularly for those that shipped medical equipment.
- Looking ahead, again respondents are evenly divided with half expecting to see an increase in cargo volumes, bolstered by the anticipated improvement in the global economy and general business activity. The weighted average score rose back above the 50-mark, which is the level associated with overall expectations of increasing volumes.

Cargo

a) Recent and expected change in traffic volumes



b) Compared to previous surveys

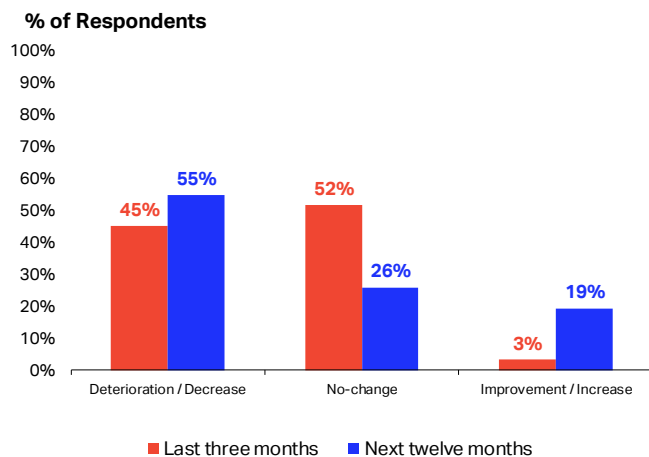


EMPLOYMENT

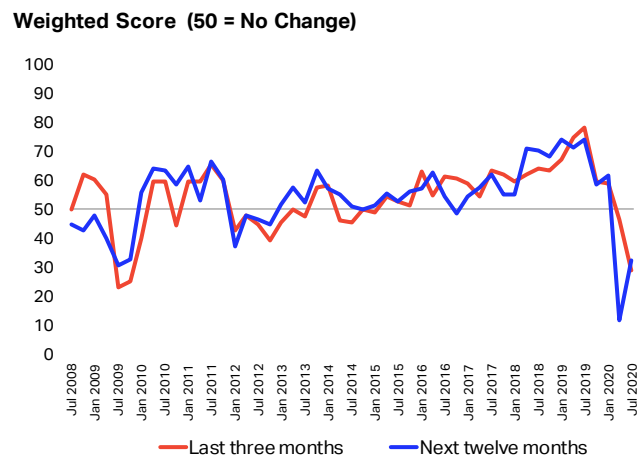
- While 45% of respondents to this quarter’s Business Confidence Survey reported a reduction in their staffing level in Q2 2020 due to cost cutting initiatives following the COVID-19 pandemic, 52% of the respondents reported no change in their workforce. For the latter group, government assistance, including furlough programs supported this employment outcome. As a result, the backward-looking index remains below 50 threshold level for the second consecutive month.
- Looking forward however, the majority (55%) of surveyed carriers expect to reduce their employment levels in the coming twelve months. Respondents indicated that the scope of their business operations was likely to be smaller due to the pandemic in the near-term and therefore airlines would need to focus on cutting costs further. On the other hand, 19% are expecting employment to improve when operations resume as they are currently working with the minimum labour force.

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

a) July 2020 survey



b) Compared to previous surveys

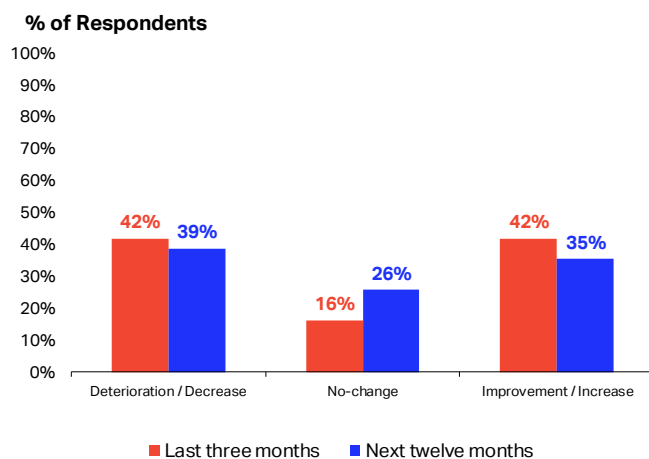


INPUT COSTS

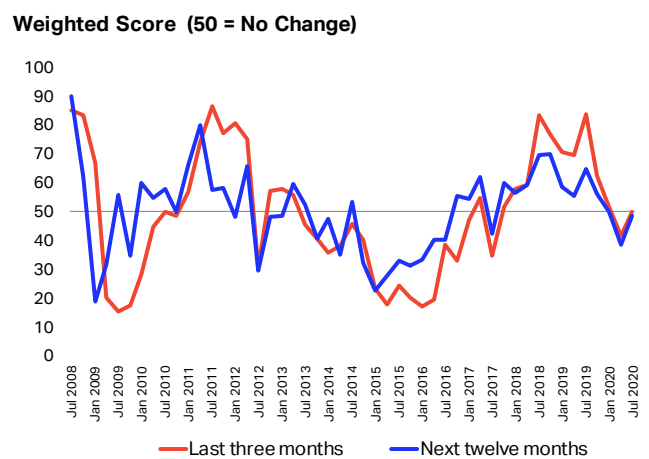
- 42% of respondents noted a decline in input costs in the past three months. The weighted score increased to the 50-mark consistent with input costs remaining stable. Respondents mentioned lower fuel and staff costs, efficiency gains due to cost reduction measures and supportive government policies as the main drivers for the overall decline. However, some other respondents noted that their unit costs had increased due to the high proportion of fixed costs in their business.
- Expectations for the next twelve months remain very much mixed. More than one third of respondents expect a reduction in input costs stemming from lower fuel prices amid weak global demand and suppressed operational costs, including staff costs. However, a similar proportion expect unit costs to increase due to low demand and accordingly low load factor levels.

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

a) April 2020 survey



b) Compared to previous surveys

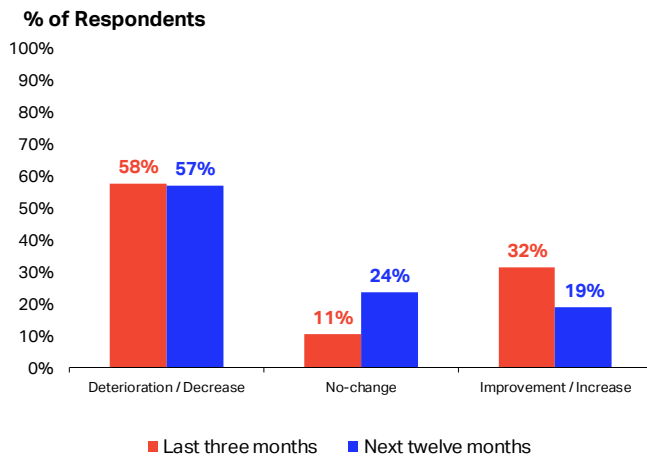


YIELD ENVIRONMENT

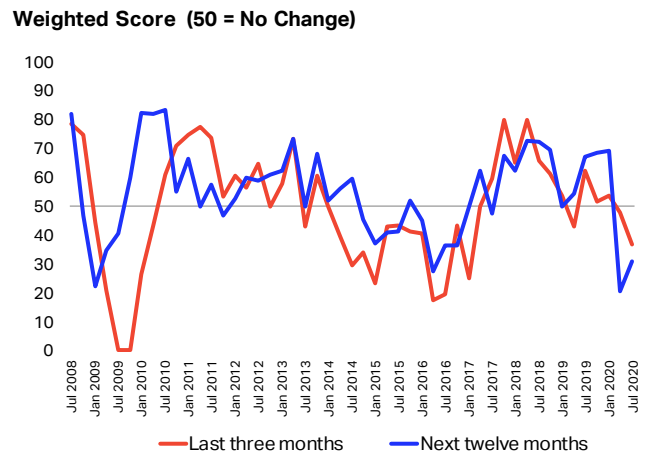
- Passenger yields for the past three months deteriorated further as respondents reported that the unprecedented fall in demand caused a sharp decline in yields. Both the share of respondents reporting improvement and no change in yields has eased in the past three months.
- Looking ahead, 57% of surveyed carriers expect passenger yields to fall in the next twelve months. Respondents point out that air fares could decrease due to the slow recovery in demand and highlighted the potential need for measures or incentives to help stimulate travel recovery. On the other hand, 19% of respondents expect prices to increase gradually once the supply and demand relationship is restored.

Passenger

a) Recent and expected change in yields



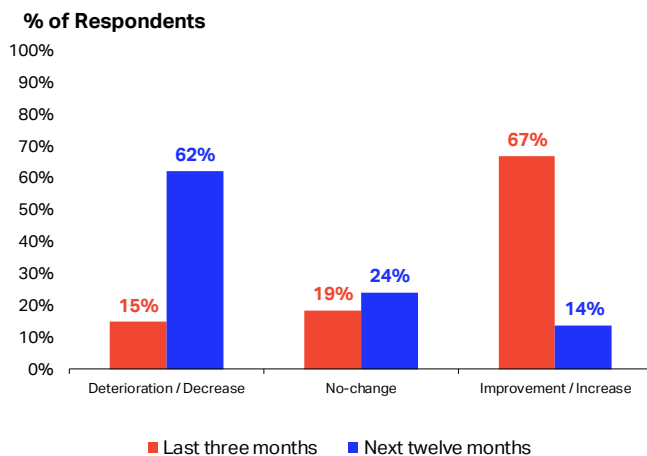
b) Compared to previous surveys



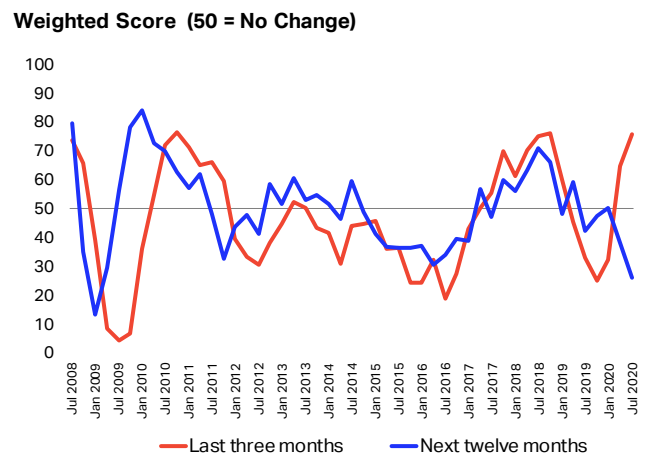
- Cargo yields improved substantially in Q2 2020, with 67% of respondents noting an increase in yields. The weighted index reached its highest level since January 2019. The weighted score continues to trend in expansionary territory. Strong demand for air cargo and the absence of bellyhold cargo capacity were the main drivers behind the improvement in cargo yields. Lucrative freight yields have provided some support for airline cargo revenues despite falling cargo demand.
- On the other hand, the future outlook looks more pessimistic. A majority of the respondents (62%) expect to see a deterioration in cargo yields over the coming year. The impact of the global economic downturn on air cargo and the expected easing of freight yields with the return of bellyhold cargo capacity were the main reasons given for the relatively downbeat outlook. Overall, the weighted score continues to trend in contractionary territory.

Cargo

a) Recent and expected change in yields



b) Compared to previous surveys

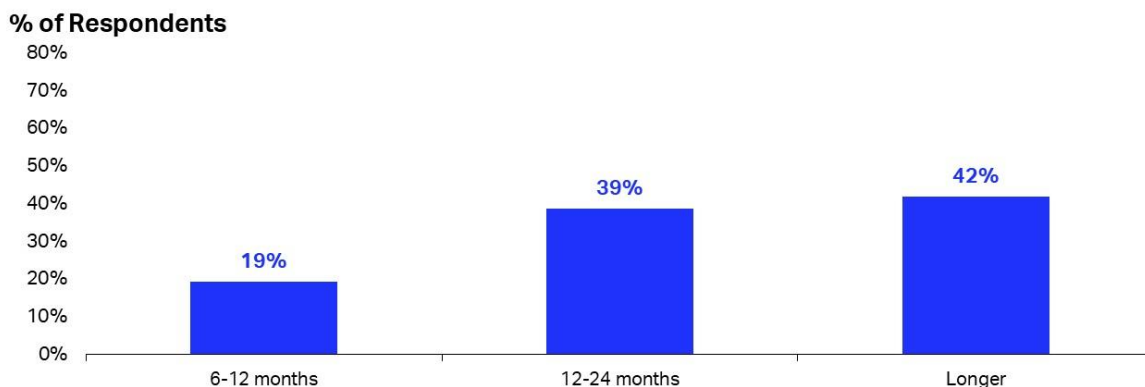


COVID-19 IMPACT

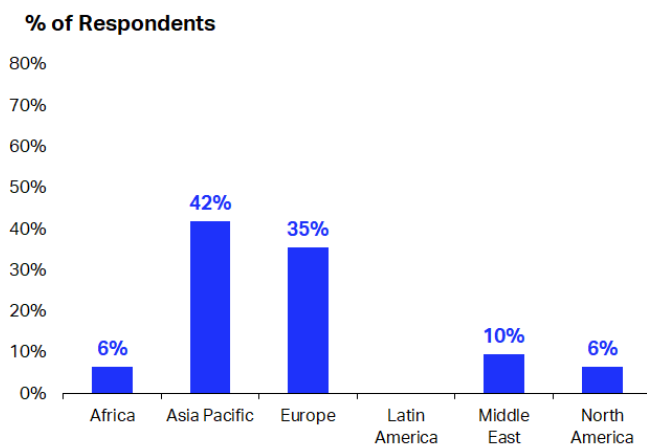
- In the July 2020 survey, we asked Airline CFOs and Heads of Cargo their expectations about the timing of demand returning to pre-COVID19 levels. In addition, we also gathered information about the regions expected to recover first and last. The replies have been summarized in the charts below.
- Unsurprisingly, a majority of respondents (42%) expect the demand recovery to pre-crisis levels will take longer than two years. Only 19% expect to see a recovery within 6-12 months.
- Asia Pacific and Europe are the regions expected to recover first, while the North and Latin America regions are expected to return to 2019 levels of demand later than elsewhere.

COVID-19

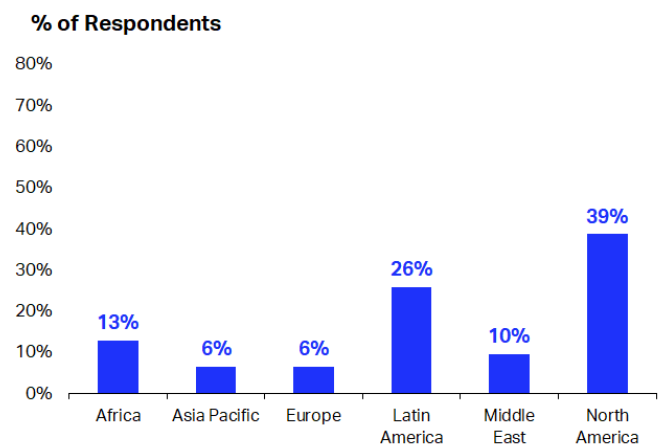
a) Timing of the recovery (2019 levels)



b) Region to return to 2019 level first



c) Region to return to 2019 level last



IATA Economics
3 August 2020
economics@iata.org

Terms and Conditions for the use of this IATA Economics Report and its contents can be found here: <http://www.iata.org/economics-terms>
By using this IATA Economics Report and its contents in any manner, you agree that the IATA Economics Report Terms and Conditions apply to you and agree to abide by them. If you do not accept these Terms and Conditions, do not use this report.