July 2021 SURVEY

AIRLINE BUSINESS CONFIDENCE INDEX

KEY POINTS

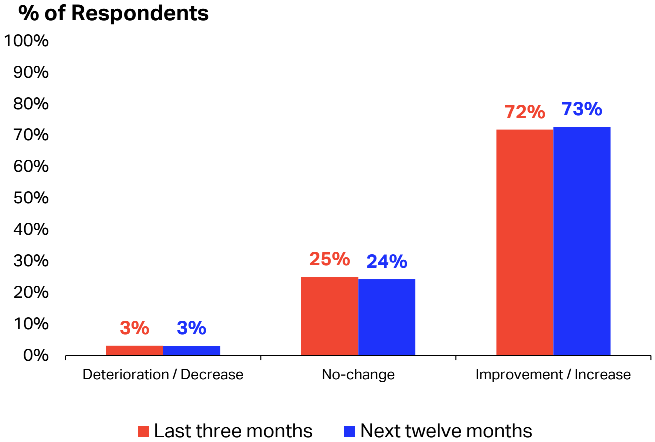
- Our July 2021 survey of airline CFOs and Heads of Cargo showed that Q2 2021 brought some relief to airlines' financials as air travel demand started to slowly recover in some markets. Respondents have also become more optimistic about the future air travel volumes and profitability.
- The majority of the sample reported that passenger yields stayed at low levels in Q2. However, they are expected to improve in the next twelve months as demand improves. Similarly, cargo yields are expected to remain elevated, supporting airline revenues.
- 55% of the respondents reported a reduction in their workforce in Q2 as airlines continued restructuring. 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 compared with 24% in the April survey.
- The majority of the respondents (52%) expects air travel demand to recover to 2019 levels in 2023, which is consistent with IATA's global passenger forecast. The North American region should lead the demand recovery while African routes should be the last to recover.

PROFITABILITY OUTLOOK

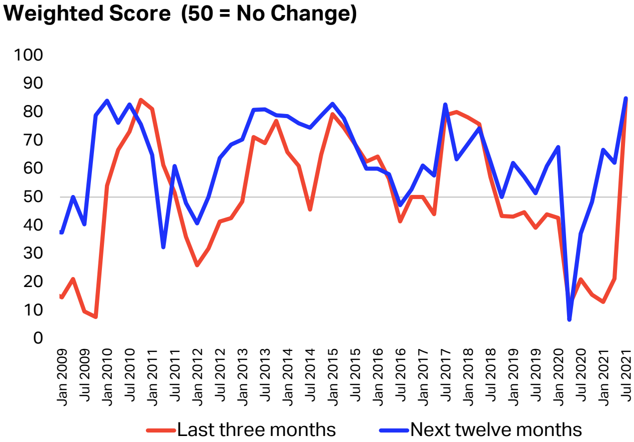
- The results of IATA's latest survey of airline CFOs and Heads of Cargo, conducted in July, showed that pressure on airline profitability eased. 72% of surveyed carriers reported smaller losses as the pandemic got better under control. Significant cost reductions and moderate gains in passenger demand contributed to the improvement this quarter. On the other hand, 28% of the sample reported that COVID continues to have a major impact on their operations.
- Turning to the year ahead, survey respondents are optimistic – 73% of them expect profitability to improve since they anticipate passenger traffic to recover further with the support of vaccine rollout. They also expect that passenger confidence will pick up and concerns about safety of air travel will recede. However, 25% of the respondents expect no change or deterioration in net losses due to the risk that new COVID waves and resulting lockdowns weigh on air travel recovery. Some respondents also mentioned that cancellation of government aid programs might offset revenues from rising passenger traffic in the future. Following the modest deterioration in April, the weighted forward-looking score (blue line in the chart below) jumped to the highest level since July 2007.

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

a) July 2021 survey



b) Compared to previous surveys

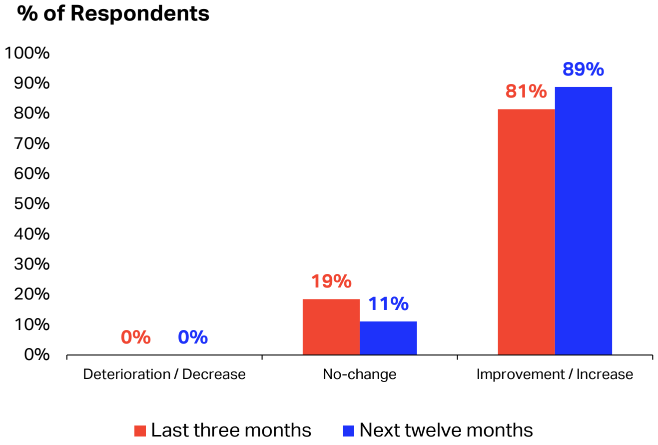


DEMAND GROWTH

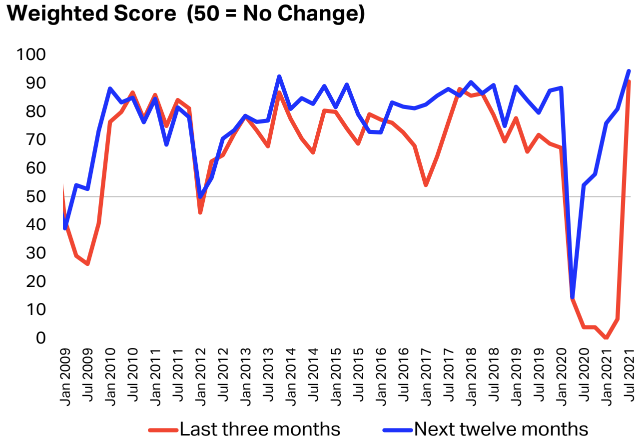
- 81% of the survey sample reported an increase in passenger volumes in Q2 2021 compared with Q2 last year when passenger traffic was de facto non-existent amidst large-scale travel bans and sharp capacity cuts. As a result, the backward-looking weighted score rose strongly, although it had been even higher in 2007. This is due to the nature of the index rather than passenger traffic volumes. Respondents that reported no change said traffic had been minimal in both periods.
- Looking ahead, expectations about passenger demand are optimistic. Respondents stated that vaccine rollout and easing of travel restrictions should continue boosting air travel volumes. 89% of the respondents anticipate that demand would recover with the reopening of markets. The remaining 11% expect no change in the current air traffic volumes due to new COVID waves and uncertainty about vaccine progress.

Passenger

a) Recent and expected change in traffic volumes



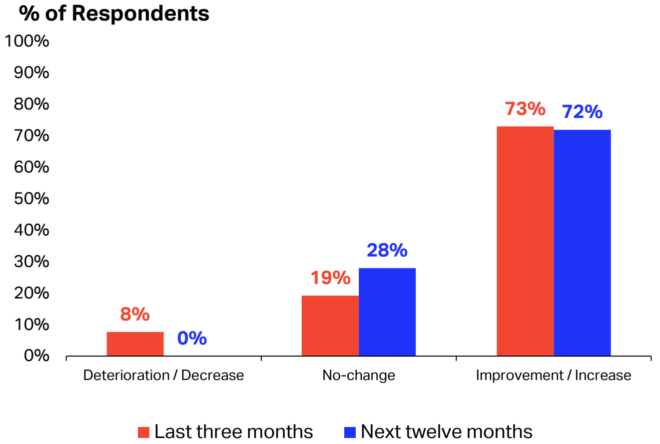
b) Compared to previous surveys



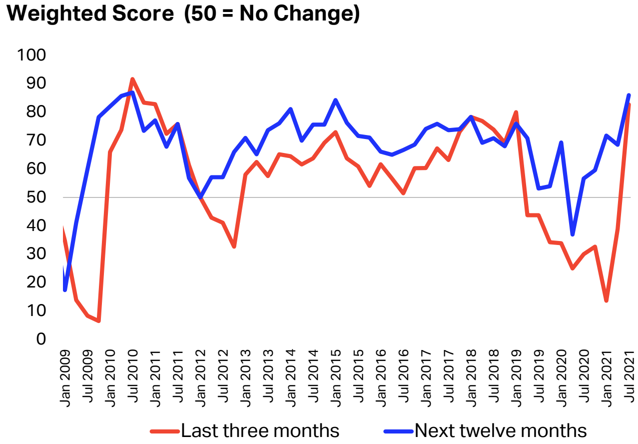
- Demand developments were positive also on the cargo side. 73% of the respondents reported that cargo volumes had been higher than last year in Q2 as rising number of passenger flights eased the pressure on belly cargo capacity. Some respondents also mentioned that they continued to offset the lack of capacity by using preighters. The remainder of the respondents reported no change or deterioration in cargo demand compared with the trough of the crisis last year.
- Turning to the twelve months ahead, 72% of sample expects cargo demand to increase – an improvement compared with the previous survey (56%). Gains expected ahead should come on the back of further capacity improvements as passenger flight activity picks up. The rest of the surveyed sample expects cargo volumes to be unchanged over the next year, citing uncertainty over COVID resurgence as new virus mutations emerge. After a modest deterioration in April, the forward-looking weighted score rose further into expansion territory (anything above 50).

Cargo

a) Recent and expected change in traffic volumes



b) Compared to previous surveys

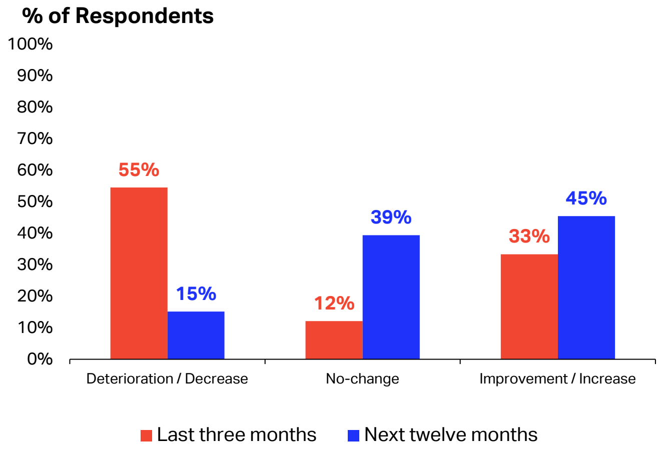


EMPLOYMENT

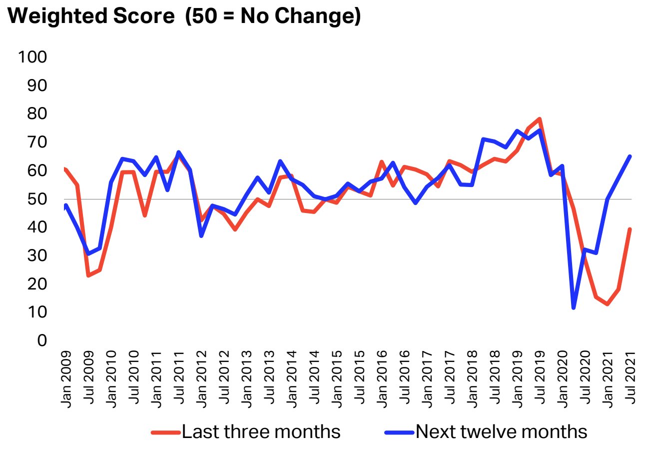
- The slow recovery in air travel has been positively reflected in employment results. Moreover, in some instances, layoffs were limited by government regulations. 33% of the respondents reported an increase in their workforce versus a 6.1% share in our April survey. That said, the majority of the respondents (55%) continued to report falling employment levels as airlines needed to adjust their operations to a new pandemic normal.
- Forward expectations regarding employment also improved modestly as airlines expect that the rise in scheduled services will require hiring more staff. 45% of respondents expect to see an increase in the employees numbers, up ~6ppts vs. April survey. However, nearly 40% of the sample expects to record no change in employment, since the modest rise in traffic might not be enough to justify hiring in their business. Some also mentioned the need to keep cost base low amidst uncertain pandemic developments. 15% of the respondents expect to see further layoffs since organizational restructuring has not been finished. Overall, the forward-looking score (blue line in the chart below) rose further into expansion territory.

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

a) July 2021 survey



b) Compared to previous surveys

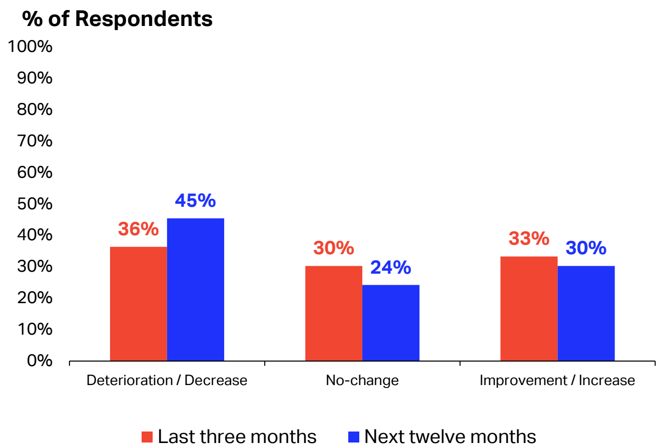


INPUT COSTS

- Responses about the recent developments in input costs were mixed. A bit more than one third (36%) of surveyed carriers saw their unit input costs decrease in the past three months as rising capacity was spread over fixed costs. One third reported an increase in unit costs, since the rise in their capacity was not enough to offset the increase in fuel costs. Finally, 30% reported no change in unit costs vs. Q2 2020.
- Looking ahead, 45% of the sample said that unit costs would decrease over the next year, which is a ~15ppts gain compared to each of the last three surveys (Q3, Q4 20 and Q1 21). As in the backward-looking picture, the higher capacity spread over fixed cost was the main reason for the expected unit cost decrease. On the other hand, 30% of the respondents expect higher unit costs amid rising fuel costs and airport charges.

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

a) July 2021 survey



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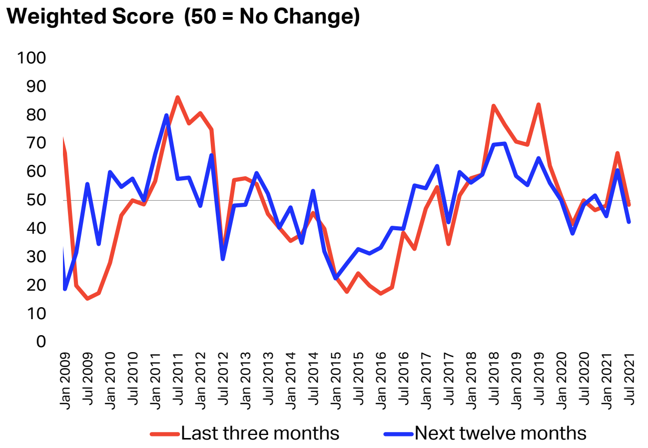
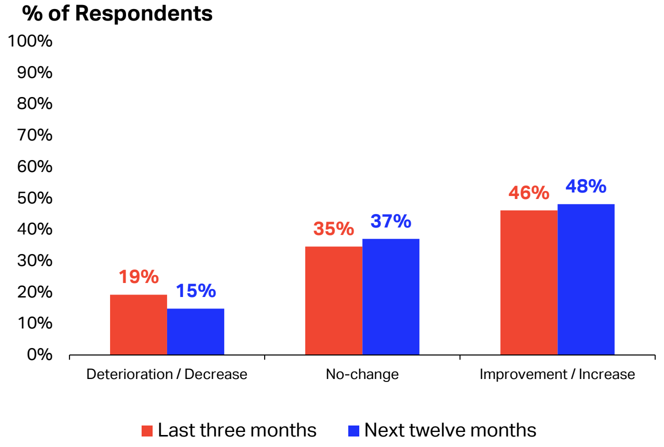


YIELD ENVIRONMENT

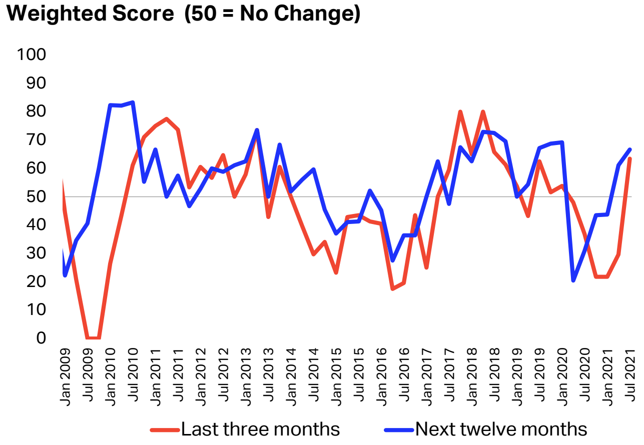
- The majority of the respondents (54%) reported no change or a decrease in passenger yields compared with Q2 2020 as airlines continued to stimulate demand by competitive pricing. The remainder of the sample stated their passenger yields increased vs. last year, although this could be partly attributed to a low base year effect in 2020.
- Looking ahead, 48% of respondents expect passenger yields to increase in the next twelve months as air travel begins to slowly recover and airlines start to adjust their fares to this demand uptick. 37% expect yields to be stable and 15% think they will decrease due to tougher competition among airlines for the few travellers available in the market.

Passenger

a) Recent and expected change in yields



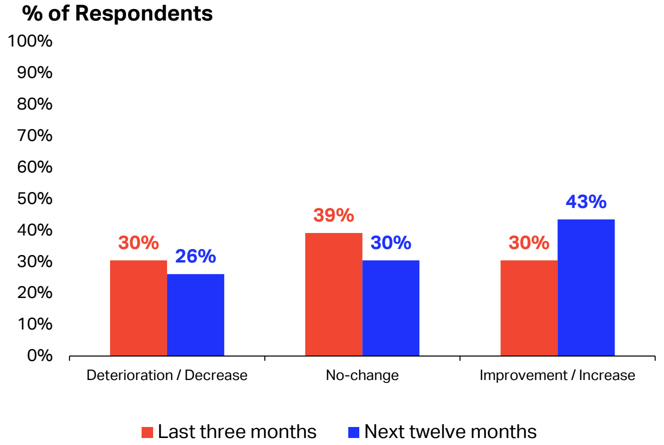
b) Compared to previous surveys



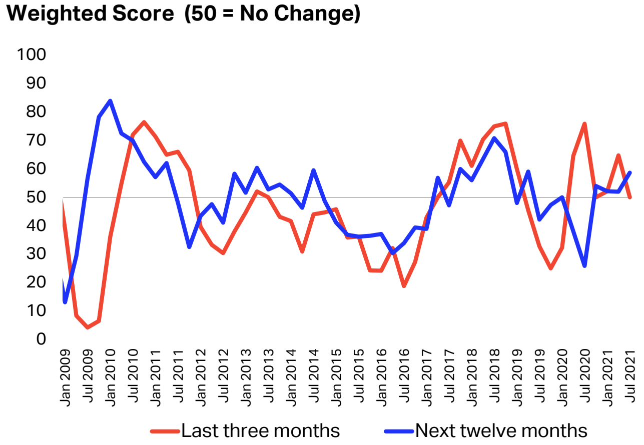
- The great majority of the respondents (69%) stated that cargo yields either improved or were unchanged at high levels vs Q2 2020. The recovering cargo demand against still limited cargo supply was cited as one of the main reasons for the rising yields. The rest of the sample reported decrease in cargo yields compared with last year, when cargo prices had also been elevated.
- Turning to the twelve months ahead, surveyed carriers remain positive about the future. 43% of respondents expect to see further growth in cargo yields over the coming year – up from 36% in April. The ongoing cargo demand recovery is stated as the main reason for the yield increase. However, there were 26% of respondents who expect a decline in yields from high levels over this period. Overall, the weighted score rose close to its highest level since April 2019.

Cargo

a) Recent and expected change in yields



b) Compared to previous surveys

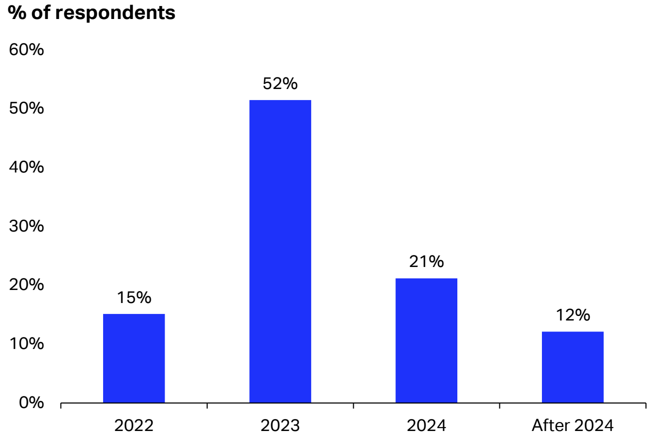


COVID-19 IMPACT

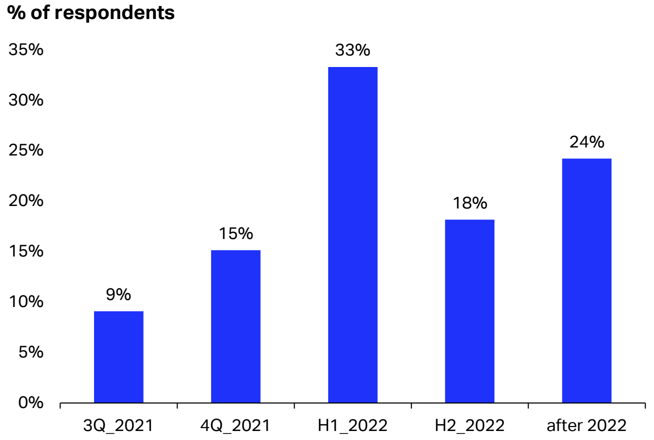
- We asked Airline CFOs and Heads of Cargo about their expectations on the timing of the recovery in demand, and gathered information about the regions expected to recover first and last, as well as likely changes to business models. The replies have been summarized in the charts below.
- In this survey, the majority of the respondents (52%) expects air travel demand for their airlines to recover in 2023, which is consistent with IATA's global passenger forecast. One third of surveyed carriers is more pessimistic, expecting the demand to reach the pre-crisis level in 2024 or later. The remaining 15% believe that demand recovery will take place already next year, for their airlines. As for the restart of long-haul traffic, 75% of the respondents anticipate it will happen in 2022 or later.
- The expectations about which regions will return to 2019 levels first and last changed between April and July surveys. While in the first quarter, the majority of the respondents (42%) expected Asia Pacific to lead the recovery to 2019 levels, the latest survey version shows North America to be the main front-runner. This is followed at some distance by Europe and Asia Pacific (21% of respondents each). On the other hand, Africa switched place with Europe to become the region with the longest expected air traffic recovery based on July survey.
- Some of carriers' long-run strategies have changed during Q2. In particular, there has been more optimism about the future of flight services. 27% of the respondents said that they would reduce flight frequencies and 36% would shrink their network in July survey compared with 67% and 55% respondents in the April survey. What has not changed are expectations about extending cargo networks and changing business models (low cost, short haul…) – 36% of the sample expects to do so in the long run, same as in April.

COVID-19

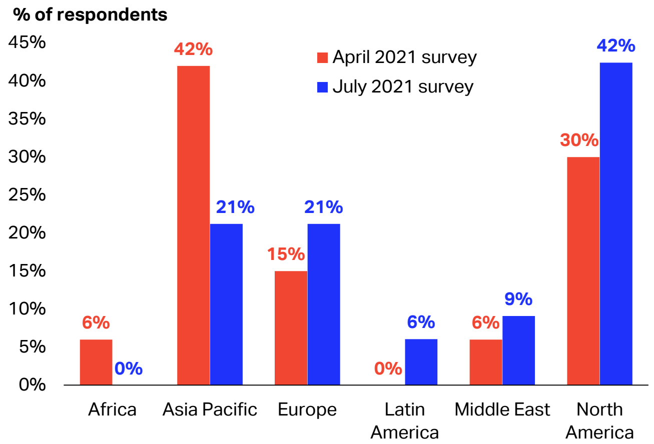
a) Timing of the demand recovery (2019 levels)



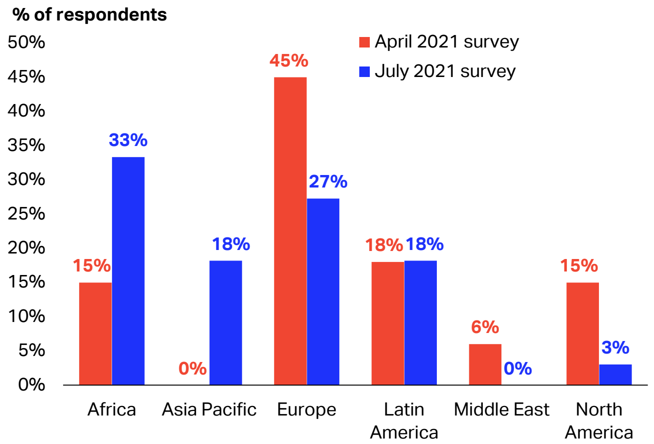
b) Timing of the restart in long haul traffic



b) Region to return to 2019 level first



c) Region to return to 2019 level last



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