# October 2021 SURVEY

# AIRLINE BUSINESS CONFIDENCE INDEX

## KEY POINTS

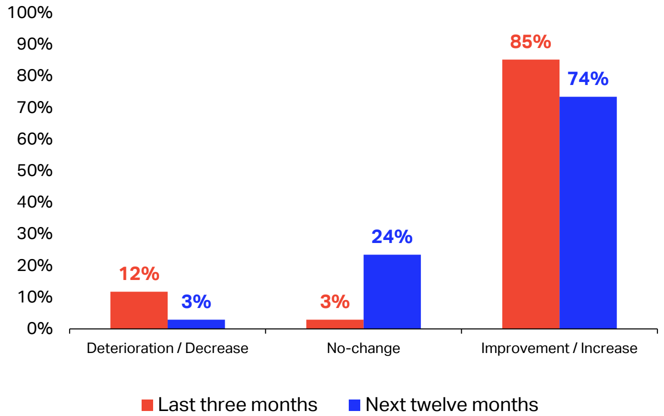
- IATA's latest survey of airlines CFOs and Heads of Cargo, conducted in early October, shows improvements in airline profitability continued in Q3. Respondents are also optimistic about profits in the next twelve months, indicating that the improvements in the bottom line may extend further.
- Large majorities of respondents reported improving passenger and cargo volumes in Q3 2021 compared to Q3 2020, and they also expect this to continue on both sides of the business for the twelve months ahead.
- While there were positive signs on the employment levels of respondents, workforces remain significantly smaller then prior to the crisis, and 47% of respondents expect no changes from a low base.
- 47% of respondents said their input costs rose in Q3 2021 year-on-year, driven by higher fuel prices, labour costs and supplier prices.
- A thin majority (52%) of surveyed airlines posted an increase in passenger yields in Q3 year-on-year, the first such majority since 2018. On the cargo side, respondents pointed to strong yields, both in recent months and looking forward. Combined with strong cargo volumes, this indicates that cargo revenues are expected to remain very supportive for airlines in the next twelve months.

## PROFITABILITY OUTLOOK

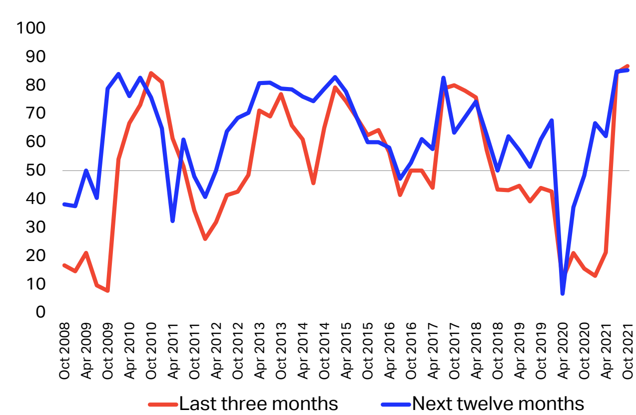
- The results of IATA's mid-October survey of airlines CFOs and Heads of Cargo show that improvements in airline profitability continued in the past three months. 85% of respondents reported increasing profits or smaller losses, up from 72% in the three months to July 2021. Respondents noted strong cargo traffic, fewer travel restrictions and a rebound in passenger revenues from a very low base as being supportive. Those reporting deteriorations pointed out labour challenges and renewed travel restrictions in their markets.
- Optimism remained strong regarding profits, as 74% of surveyed airlines expected an improving bottom line for the next twelve months. This is unchanged from the July survey, and suggests that the upward trend in actual profitability may continue. Moreover, several of the airlines that expect no-changes do so because they already are in a strong position, often due to air cargo. Although already close to its all-time high, the forward-looking weighted score rose again to 85.3.

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

**a) October 2021 survey**




**b) Compared to previous surveys**

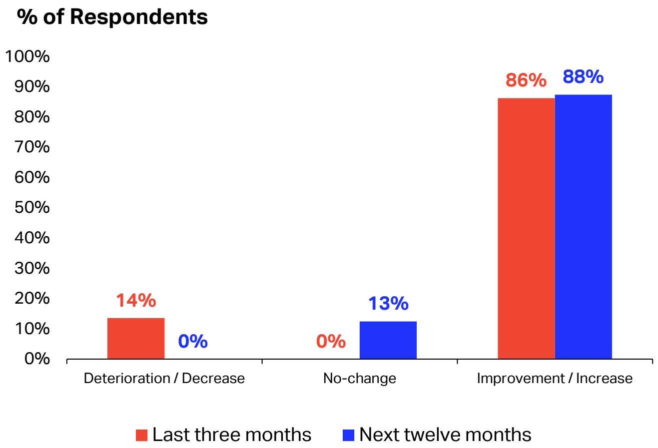


# DEMAND GROWTH

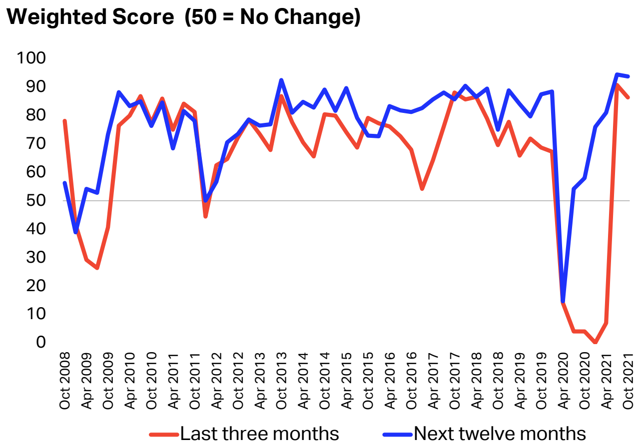
- Demand is following similar trends to profitability, as 86% of the surveyed airlines reported an increase in passenger demand in Q3 2021 year-on-year, up from 82% in Q2. That said, 14% of the respondents noted a deterioration in traffic volumes, which mean that the backward-looking weighted score eased a bit in October. This was justified by travel restrictions being reinstated in Q3 amid outbreaks of the Delta variant.
- Looking ahead, expectations about passenger demand for the next twelve months were almost unchanged in Q3 compared to Q2, with the wide majority of respondents being optimistic. They expect travel restrictions to continue easing and demand to return, with additional destinations becoming available and a more predictable environment, although traffic is rebounding from a very low base.

**Passenger**

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



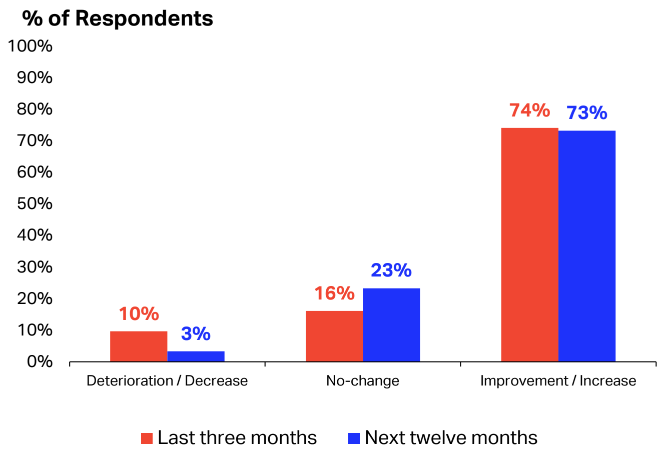

**b) Compared to previous surveys**



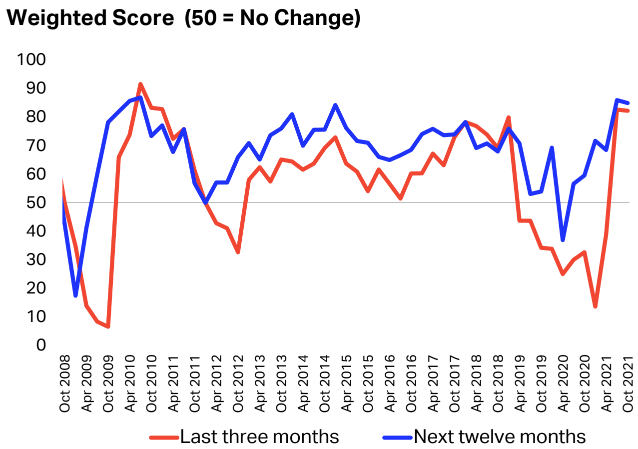

- Turning to air cargo demand, the wide majority (74%) of respondents reported growing volumes in Q3 2021 compared to Q3 2020, although industry-wide results indicate that a large part of the improvement probably happened in late-2020 and early 2021. Respondents pointed out a shift to more air cargo to compensate for the lack of passenger traffic, and the transport of medical equipment and vaccines, as supportive forces. A few respondents indicated air cargo volumes deteriorated, partly on the back of increased competition.
- 73% of surveyed airlines expect air cargo volumes to continue trending upward in the next twelve months, the largest share since 2010. This is in spite of volumes already being at elevated levels in 2021, which underlines the strength of the optimism in this market. That said, 23% of respondents anticipate no changes (was 28% in Q2), partly driven by the ongoing lack of capacity.

**Cargo**

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




**b) Compared to previous surveys**

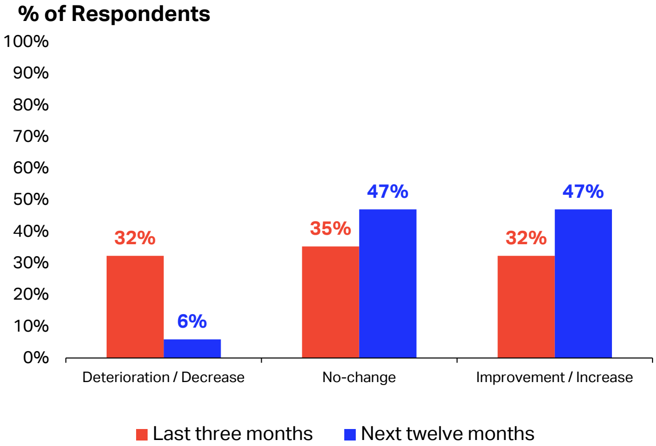


# EMPLOYMENT

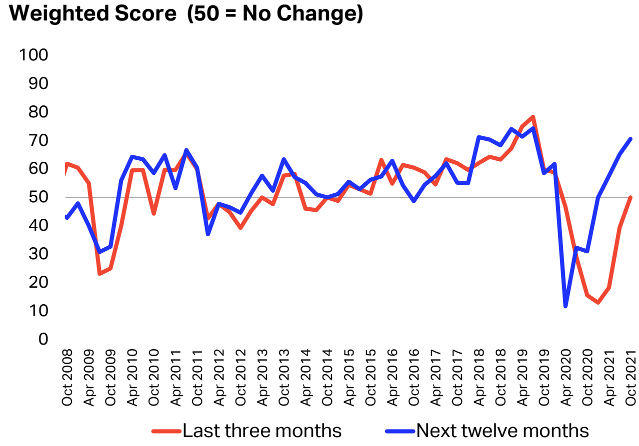
- The employment levels of survey respondents continued stabilizing in Q3 2021, with the backward-looking weighted score increasing for the third consecutive month in a row, and reaching the 50 mark associated with no change compared with Q3 2020. Indeed, 32% of respondents reported a fall in employment year-on-year, compared to 55% in Q2 and 70% in Q1. In any case, workforces remain significantly smaller than prior to the pandemic.
- Expectations of employment for the twelve months ahead are also rising. Only 6% of respondents expect further cuts to workforces, down from 15% in Q2 2021 and an all-time high of 80% in the April 2020 survey. That said, it is not good news that almost half the respondents do not expect any change in their employment levels, as this is from a low base.

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

**a) October 2021 survey**




**b) Compared to previous surveys**

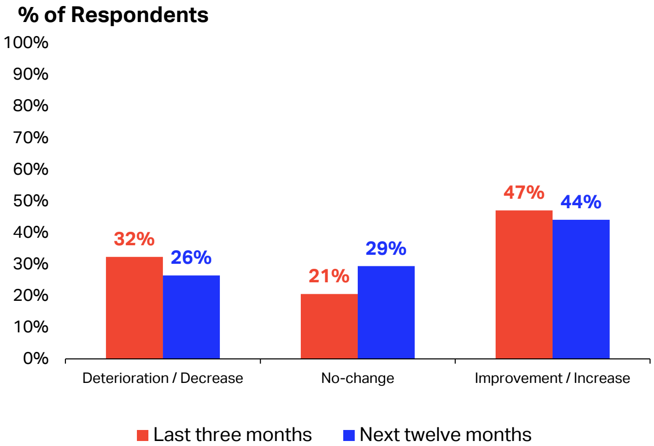



# INPUT COSTS

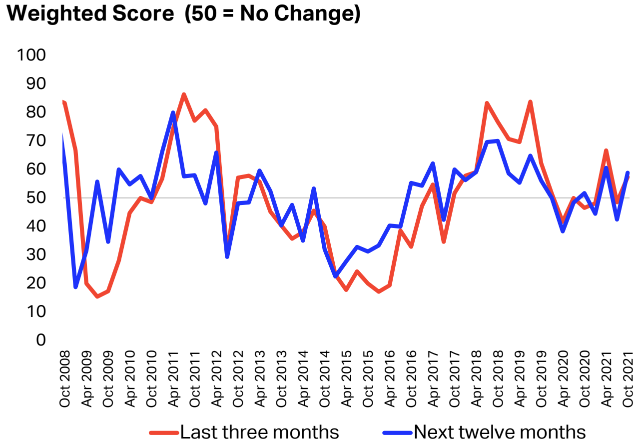
- 47% of surveyed airlines noted that their input costs increased in the three months to October 2021 compared to the same period in 2020, which is up from 33% in the July survey. Respondents mentioned climbing fuel prices, as well as higher labour costs and supplier prices as causes of concern, partly due to rising inflation in some markets. That said, as in previous surveys, many respondents indicated they were able to cut costs compared to last year. The backward-looking score shows input costs have gone up and down in recent quarters.
- The concerns surrounding fuel price increases and overall inflation were also captured in input costs expectations for the next twelve months. 44% of respondents anticipate an increase, up from 30% in the previous survey, and the share of respondents expecting a decrease dropped from 46% to 26% over the same interval.

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

**a) October 2021 survey**




**b) Compared to previous surveys**

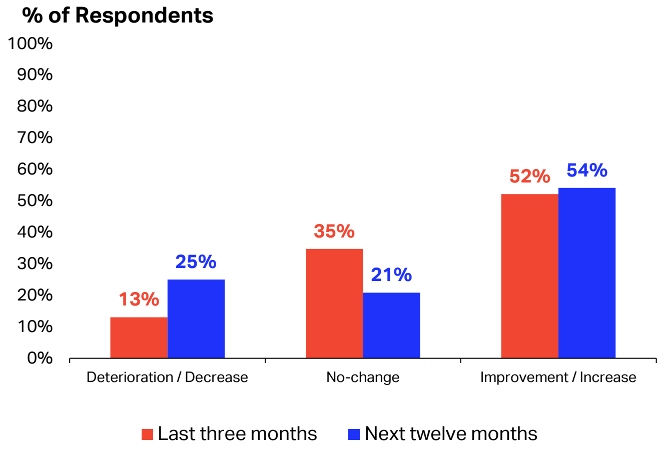


# YIELD ENVIRONMENT

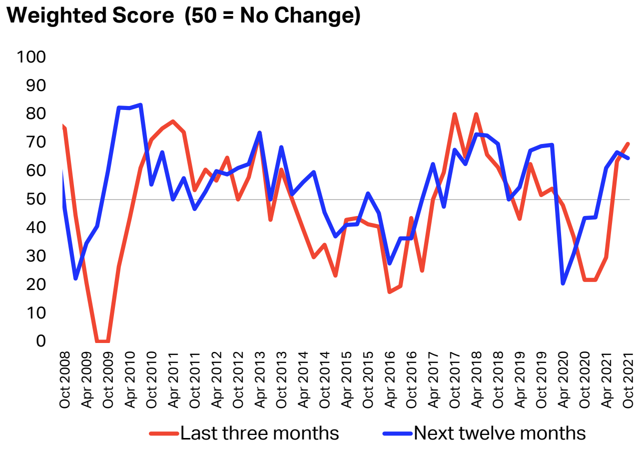
- A thin majority of survey respondents (52%) reported an improvement in passenger yields in Q3 2021 compared to Q3 2020, the first such majority since the October 2018 survey. The other respondents still indicate falling yields or yields that are flat at low levels, and a few airlines mentioned demand is not yet strong enough to raise fares. On the other hand, some respondents noted demand had become less price sensitive, as people now often travel for important purposes.
- Turning to the next twelve months, 54% of surveyed airlines anticipate an increase in passenger yields over that period, a slow progress from 48% in Q2 and 44% in Q1. Optimistic respondents point to rising demand, but those that expect a fall or no changes in yields blame it on stronger competition and insufficient recovery in demand on their markets.

**Passenger**

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



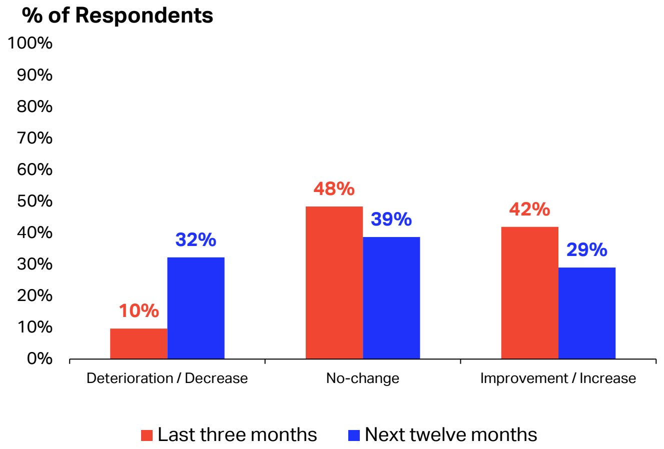

**b) Compared to previous surveys**



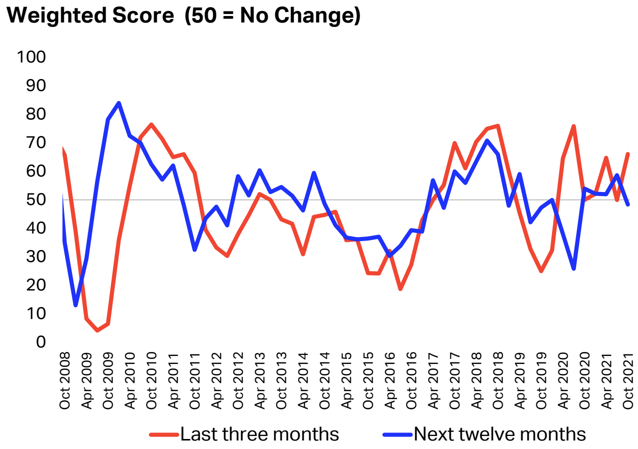

- Turning to air cargo yields, 90% of respondents reported further gains or no changes compared to Q3 2020, when yields were already close to record-highs. This is consistent with the upward trends in industry-wide cargo yields observed over the past few weeks ahead of the peak cargo season.
- As for the coming twelve months, 32% of respondents expect a fall in cargo yields. While this is more than in the Q2 survey (26%), this is similar to the Q1 survey (32%), and two thirds of respondents expect yields to increase further or stay at elevated levels. Combined with the strong optimism for cargo volumes, this means respondents foresee strong cargo revenues in the near-term, a positive news for the industry.

**Cargo**

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




**b) Compared to previous surveys**

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