OCTOBER 2019 SURVEY
AIRLINE BUSINESS CONFIDENCE INDEX

KEY POINTS

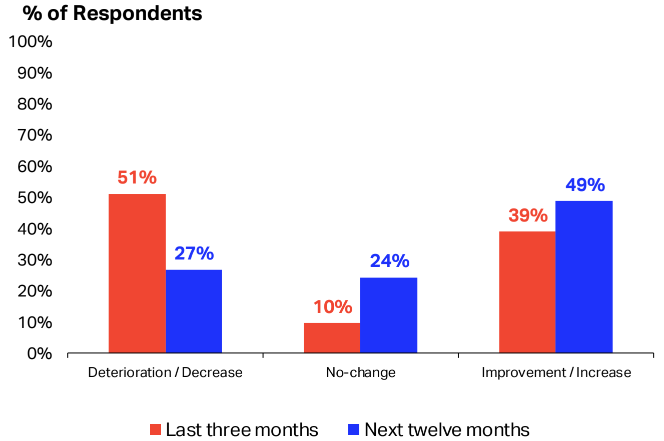
- Our October 2019 survey of airline CFOs and Heads of Cargo shows that the business environment remained challenging for airlines in Q3 2019 but expectations for the future in terms of passenger demand and profitability are more positive compared to the previous survey.
- In Q3 2019, passenger demand improved modestly, while cargo demand continued to deteriorate. For the year ahead, expectations for the passenger segment are positive, but the cargo business is expected remain under pressure. On the yield side, both passenger and cargo yields eased in Q3. Looking forward, passenger yields are expected to increase, underpinned by network improvement and better revenue management practices. Cost pressures eased with lower fuel prices and expectations are slightly positive compared to the previous survey, but inflation and fuel price volatility are still seen as key risks.
- Profits in Q3 2019 were weaker compared to the previous year but for the next twelve months almost half of the respondents expect profitability to improve. Airline employment stalled during Q3 compared to a year ago and the index declined from all-time high level. The industry also became more cautious about the employment outlook, with almost 50% of respondents not expecting to change employment levels.

PROFITABILITY OUTLOOK

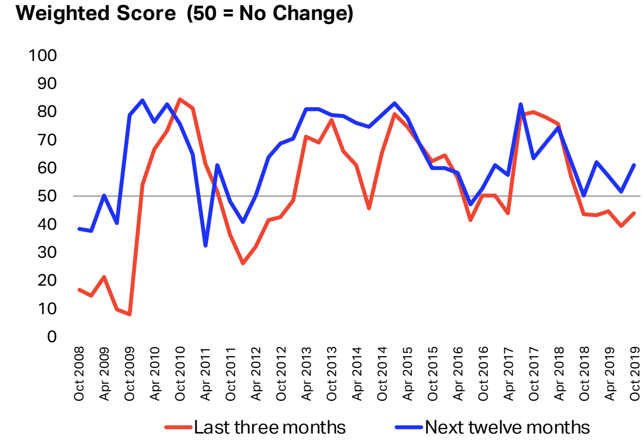
- The results of our latest survey of airline CFOs and Heads of Cargo, conducted in mid-October, showed that profitability remained under pressure during Q3 2019. Although the weighted index improved compared to the previous survey, it was still in contractionary territory (below the 50-mark). The number of respondents reporting improved profitability increased by 9.3 pp to 39% compared to the July survey, with the support of new routes and increasing yields with stronger passenger demand. However, most of the respondents (61%) still reported a decline or no change in their profitability in Q3 2019. Ongoing US-China trade tensions and increased competition in some regions were the main underlying reasons noted for weaker profitability.
- Forward looking profitability expectations are more upbeat compared to the previous survey. The percentage of respondents expecting improvement increased from 35% to 49% in October stemming from capacity addition or route expansion plans. Moreover, only 27% of respondents expect profits to be lower in the year ahead, which is ~5% lower than the past three surveys. As a result, the weighted forward-looking score ticked up above 50, indicating an expectation of improved profits over the coming year. Trade tensions and a slow-down in economic activity were highlighted as the key risks to the outlook.

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

a) October 2019 survey



b) Compared to previous surveys

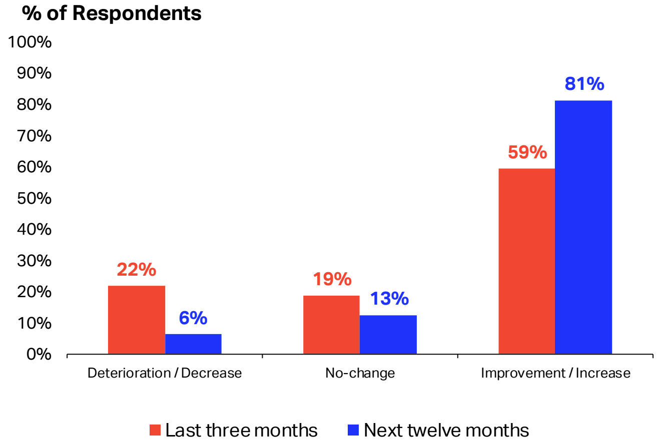


DEMAND GROWTH

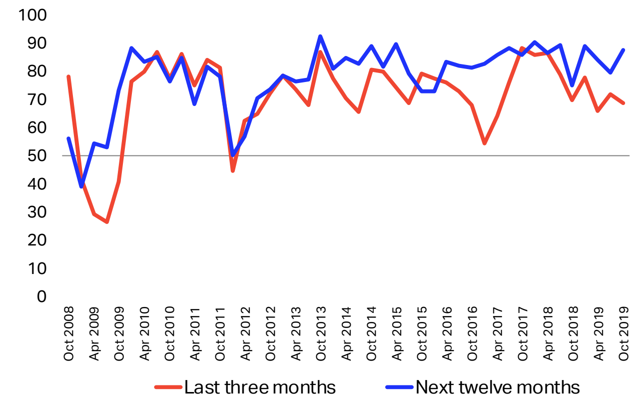
- The October survey shows that passenger demand moderated in Q3 2019. Only 59% of respondents experienced an increase in year-on-year demand, down from 69% in last quarter's survey. On the other hand, the ratio of respondents reporting a deterioration in pax volumes also declined to 22% from 32% in the previous survey. Overall, the weighted backward-looking score declined modestly following a temporary improvement in Q2 2019.
- For the next twelve months, the ratio of respondents expecting improvement in passenger volumes increased sharply, to 81% from 66% in July, while the ratio expecting a reduction in demand remained stable at 6%. Although several respondents stated their worries regarding the slowdown in economic activity and trade tensions, there are airlines that are planning to open up new routes and are also expecting higher passenger numbers with the support of tourism over the next 12 months. Overall, the forward-looking weighted-average index went up and the score remains elevated at 88.

Passenger

a) Recent and expected change in traffic volumes



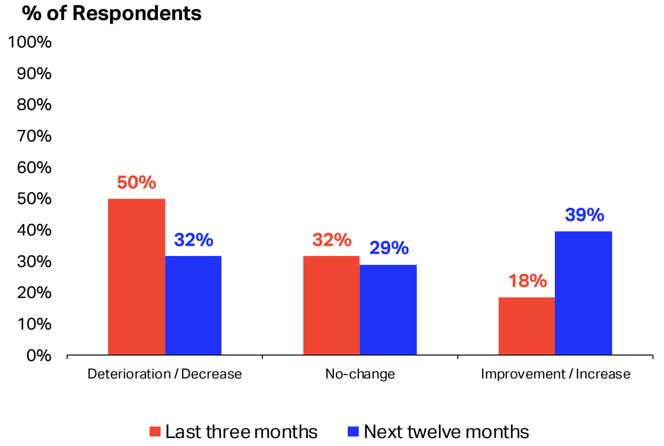
b) Compared to previous surveys



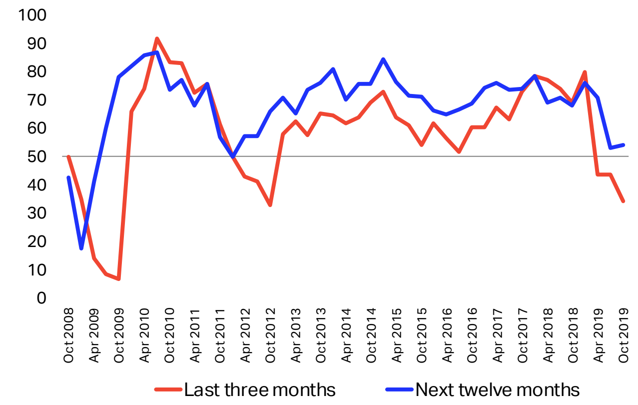
- For freight, half of the respondents reported a decrease in cargo volumes in Q3, the largest share since the October 2012 survey. Moreover, the respondents that reported improvement in their cargo business declined sharply from 34% to 18%. As a result, the weighted score collapsed sharply to 34, the lowest reading over the last seven years. This outcome is consistent with the recently observed decrease in world trade volumes and industry-wide FTKs.
- Looking forward, even though the percentage of respondents expecting higher freight volumes in the coming period rose to 39%, one third of the respondents expect further deterioration in freight volumes. Consequently, the weighted score remains close to the 50 index level which signals little change is expected.

Cargo

a) Recent and expected change in traffic volumes



b) Compared to previous surveys

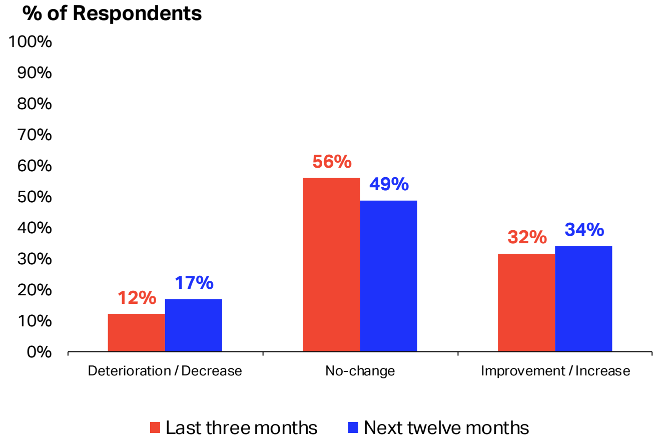


EMPLOYMENT

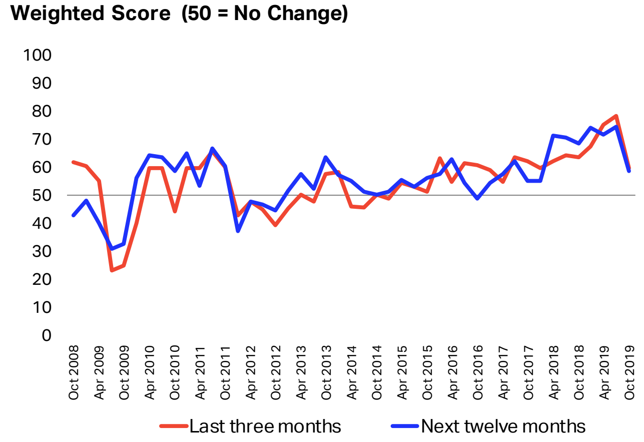
- In contrast to the July survey in which respondents indicated an improvement in the employment, on this occasion most of the respondents reported that their employment levels remained stable in the past three months. At the same time, 12% of the respondents noted a decline in their workforce up from a single digit level last quarter. As a result, the weighted backward-looking score fell sharply to 59.8 from its all-time high level of 78.4.
- Looking forward, expectations of our respondents also became more pessimistic. Only 34% of survey participants expect higher employment in the next 12 months, down from 60% recorded in the July survey. The percentage expecting to cut employment also increased from 11% to 17%. The weighted forward-looking score dipped sharply from historical highs to its lowest level in the last 18 months.

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

a) October 2019 survey



b) Compared to previous surveys

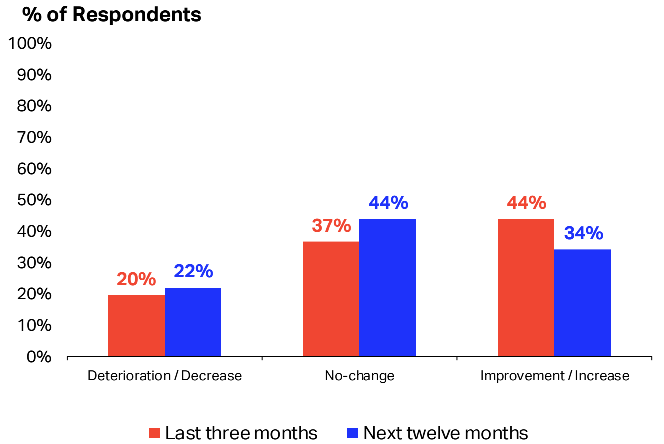


INPUT COSTS

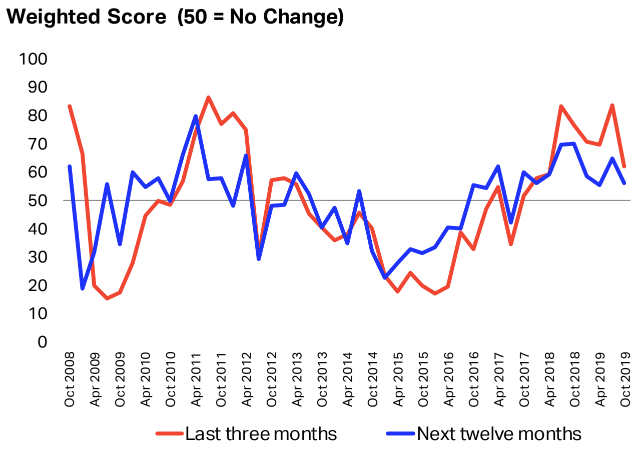
- A higher share of respondents (20% vs 5% in the July survey) experienced a decline in input costs over the past three months, thanks mainly to lower oil prices and specific measures taken to limit cost increases. At the same time, the proportion of respondents reporting higher unit costs fell sharply, from 73% to 44% in October survey. As a result, the weighted backward-looking score declined for the first time since the beginning of this year. Respondents reporting increased costs pointed to fuel price volatility, aircraft groundings and rising inflation as the main reasons behind the rise.
- A similar pattern is evident in the response for the expectations for the next 12 months. A lower proportion of respondents (34% vs 49% in the July 2019 survey) expect input costs to increase and a slightly higher proportion (22%) expect a decline in input costs compared to the previous survey (19%). Overall, inflation and volatility in fuel prices are viewed as the main challenge for the industry to manage costs.

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

a) October 2019 survey



b) Compared to previous surveys

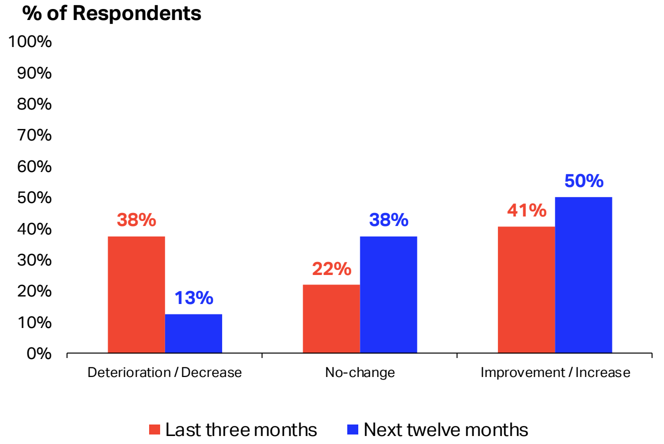


YIELD ENVIRONMENT

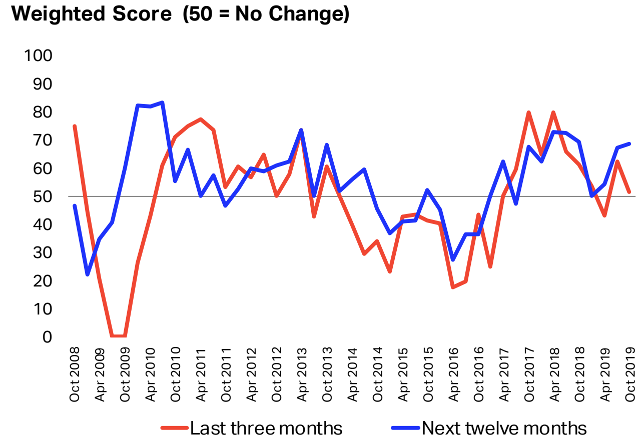
- Following a temporary improvement in Q2 2019, passenger yields declined but the weighted score stayed above the 50-level benchmark. The share of respondents reporting higher yields in the past three months eased to 41% from 44%, while the share experiencing a deterioration in yields doubled compared to the previous quarter (38% vs 19% in Q2 2019). While cargo yields declined with accelerated trade tensions, passenger yields were pressured by weaker business travel demand.
- Looking ahead, 88% of respondents expect passenger yields to either remain steady or to improve over the year ahead. The share of respondents expecting a decline eased by 6 pp to 13%. As a result, the weighted average index improved this quarter. Airlines that expect passenger yields to increase are planning to improve their route network, operating times and revenue management practices.

Passenger

a) Recent and expected change in yields



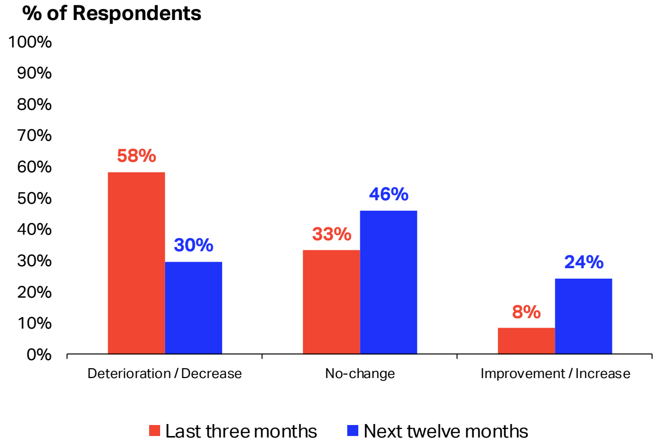
b) Compared to previous surveys



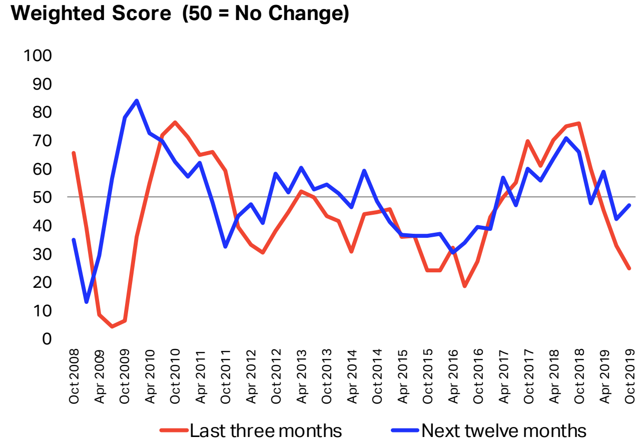
- Cargo yields remained under pressure, as well. The share of respondents reporting higher yields remained in single digits (8%). Over the same period, the share of respondents indicating deteriorating yields increased by 18 ppt to 58%. Overall, the weighted score fell further, remaining well below the 50-level.
- Despite a modest improvement compared with July, forward expectations also remained below the 50-mark this quarter. One quarter of respondents expect higher yields over the next 12 months. However, 30% of respondents now expect yields to deteriorate over the year ahead compared to 38% in the previous survey.

Cargo

a) Recent and expected change in yields



b) Compared to previous surveys



IATA Economics
31 October 2019
E-Mail: economics@iata.org