October 2020 SURVEY

AIRLINE BUSINESS CONFIDENCE INDEX

KEY POINTS

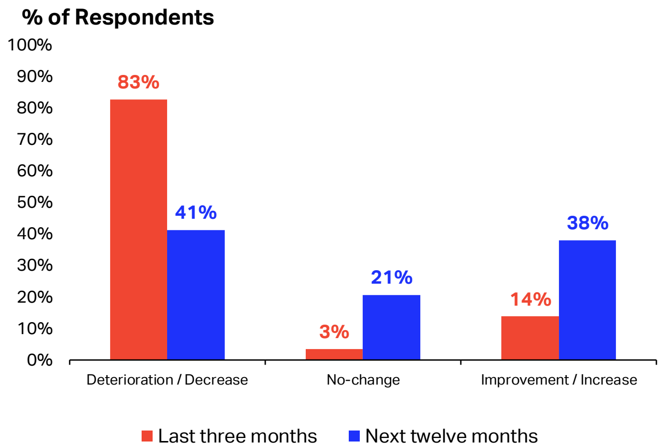
- IATA's October 2020 survey of airline CFOs and Heads of Cargo showed that airlines remained in a difficult financial situation in Q3 2020, with a wide majority of respondents reporting deteriorating losses. The industry's profitability outlook over the twelve months ahead remains pessimistic.
- In Q3, passenger demand did not improve from Q2 and remained at record-low values. Cargo demand improved slightly compared to the previous survey, but remained weak.
- Passenger yields declined sharply in Q3, with few business passengers and the need to stimulate demand. Cargo yields also fell in the October survey, but remain much higher than normal, supporting airlines' revenues. Besides, they are expected to increase in the next twelve months.
- With falling yields and no clear recovery in passenger traffic, 79% of the survey respondents were forced to reduce their workforce in Q3, the larger share in the series. Moreover, 59% of them expect to further decrease employment levels in the coming twelve months.
- Input costs fell for almost half of our respondents in Q3, due to lower fuel and labour costs. But for 41% of surveyed airlines, unit costs rose due to the combination of fixed costs for low levels of operation.

PROFITABILITY OUTLOOK

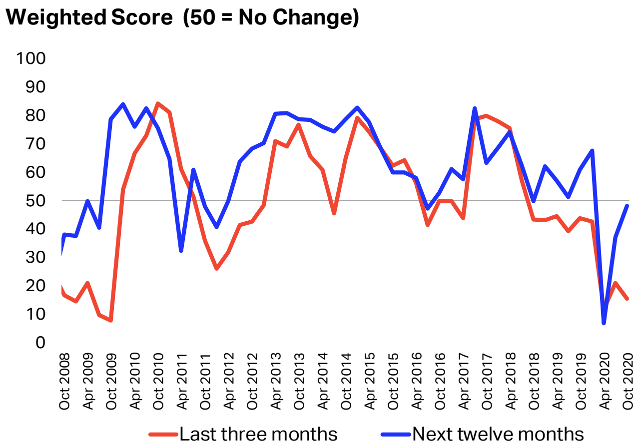
- The results of IATA's latest survey of airline CFOs and Heads of Cargo, conducted in October, show that many airlines remained in a difficult financial situation in Q3. 83% of surveyed carriers reported a deterioration in their profitability, up from 78% in the previous survey in July. Passenger traffic did not improve in Q3 while both passenger and cargo fares declined in the meantime. 14% of respondents pencilled in an improvement in profits, due to repatriation flights as well as e-commerce demand combined with tight cargo capacity, but this share was lower than in July (19%).
- Turning to the twelve months ahead, respondents remain pessimistic but much less so than at the peak of the crisis in April. In October, 38% of them expected profitability to improve. Fewer respondent (41%) compared to three months ago anticipate further deteriorations in incomes. Expectations of potentially better coordination between governments, fewer flight restrictions, and strong cargo demand in 2021 are the main reasons for the diminished pessimism for some airlines. The weighted score rose in Q3 but remains in contractionary territory.

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

a) October 2020 survey



b) Compared to previous surveys

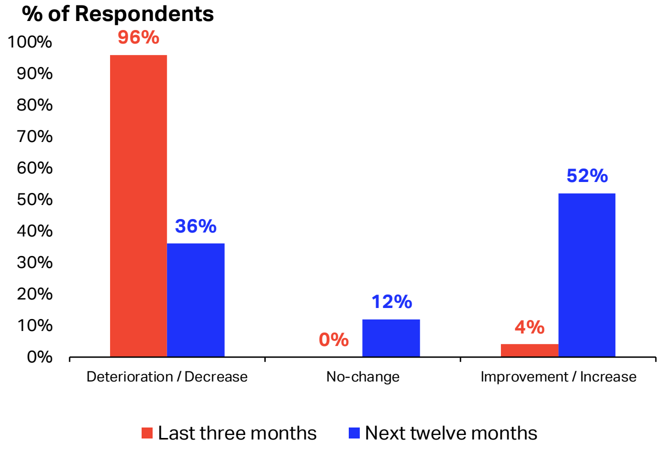


DEMAND GROWTH

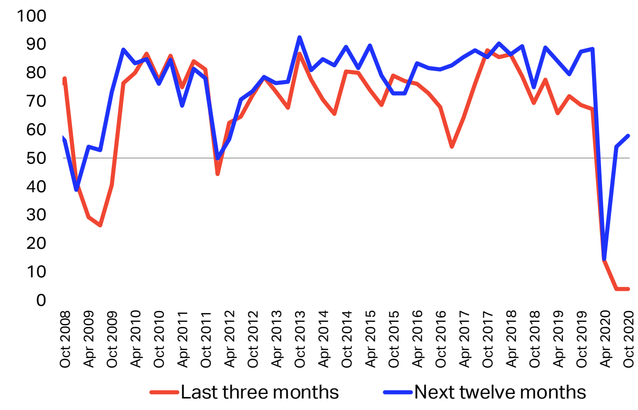
- International passenger traffic has shown only limited gains between Q2 and Q3 this year. This is reflected in the results of the October Business Confidence Survey, with almost all respondents noting a decline in passenger volumes in Q3 compared to last year. This is unchanged from the July survey, and the backward-looking weighted score consequently remains at an all-time low.
- Expectations for the twelve months ahead were also similar to July. Roughly half the respondents thought that demand would recover on the back of more efficient coordination between countries and gradual network reopening, but the other half anticipates a further deterioration or no improvement due to the continuation of the pandemic.

Passenger

a) Recent and expected change in traffic volumes



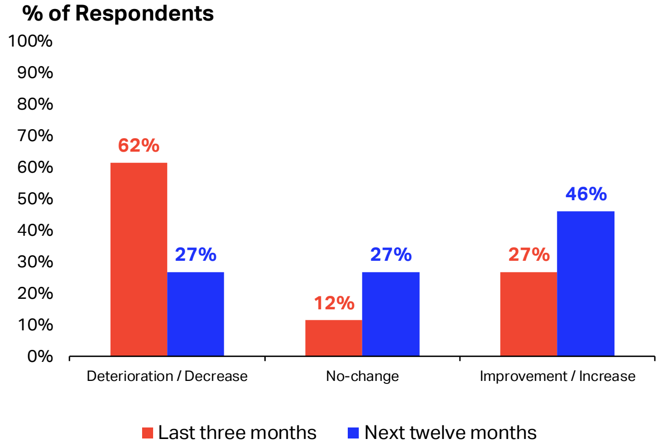
b) Compared to previous surveys



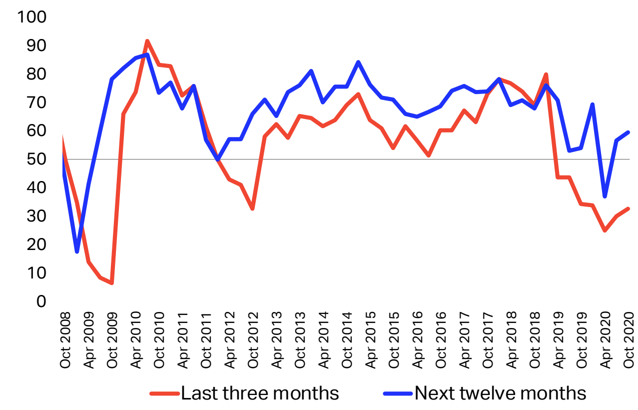
- More than 60% of the airline CFOs and Heads of Cargo we surveyed reported that cargo volumes had been lower than last year in Q3. While this is a slight improvement from Q2, the share of respondents pointing to an improvement (27%) has fallen marginally. The lack of belly-hold capacity remains a drag, and some surveyed airlines also mentioned difficulties due to high cargo fares.
- Looking ahead, slightly less than half of the respondents anticipate cargo demand to increase, in line with the outcome of the July survey. 27% of them think cargo volumes will deteriorate in the coming twelve months, slightly less than in July. Consequently, the forward-looking score improved in Q3, and remains above the 50 line associated with overall expectations of growing volumes.

Cargo

a) Recent and expected change in traffic volumes



b) Compared to previous surveys

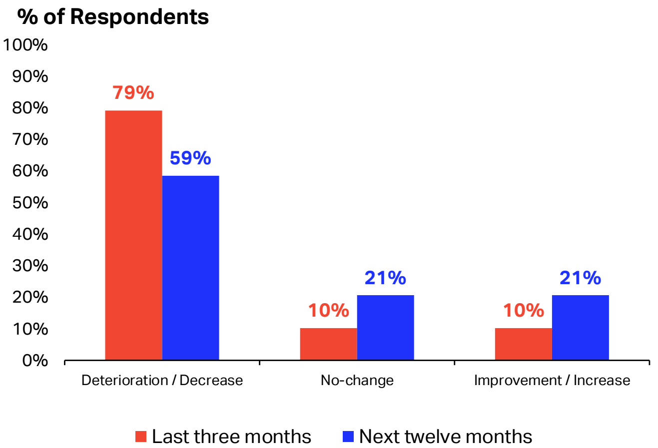


EMPLOYMENT

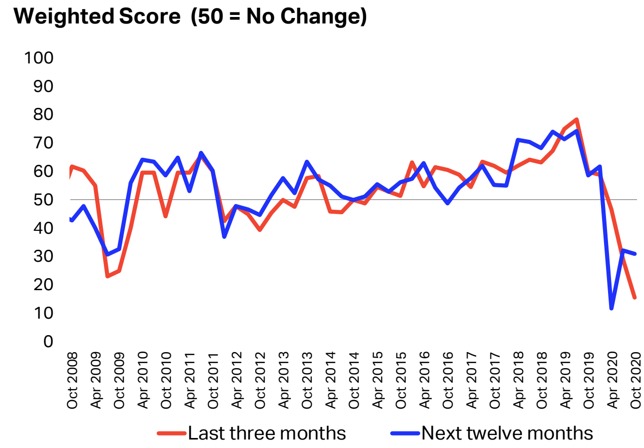
- With the crisis lasting longer than initially expected and government support being insufficient in some countries, 79% of the respondents to the October survey were forced to decrease the size of their workforce in Q3, the largest share in the history of our survey started in 2006. This is up from 45% in Q2. Respondents pointing to an increase in their employment levels are cargo-only airlines.
- Forward expectations of employment indicate that 59% of respondents may further decrease their number of employees, in line with July's result (55%) but below the record-high proportion seen in April (80%). More positively, 21% of surveyed carried hope to be able to increase employment in the twelve months ahead, as they have already shrunk to a minimal workforce.

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

a) October 2020 survey



b) Compared to previous surveys

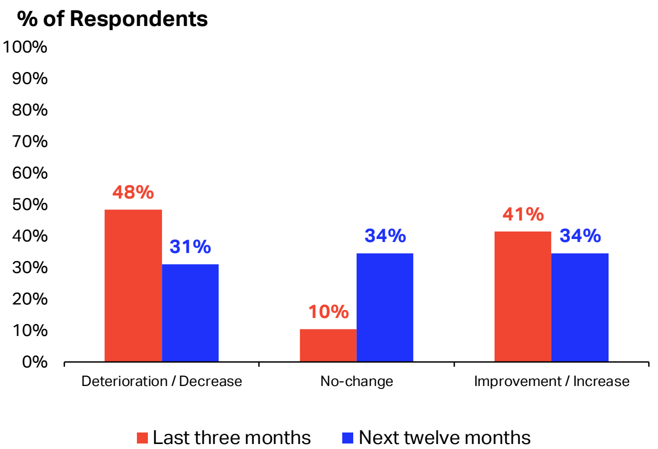


INPUT COSTS

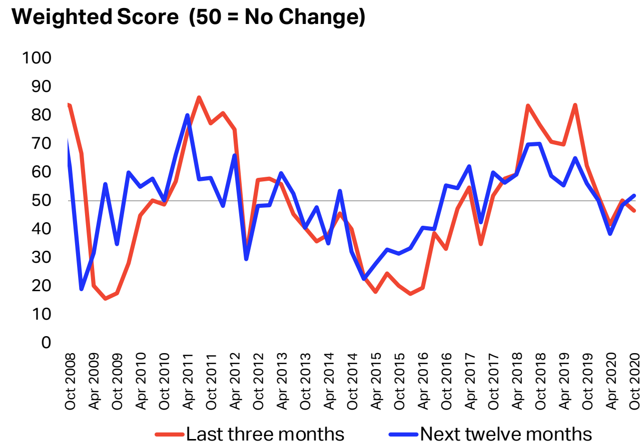
- Almost half of the respondents pencilled in a decrease in input costs in the past three months, slightly more than in July (42%). This is driven by a decline in fuel costs as well as reduced salaries and employment levels. That said, 41% of surveyed airlines saw their unit costs increase in Q3, due to fixed charges and having too much aircraft compared to levels of operation.
- Almost a third of respondents said they expect their unit costs to decrease over the next twelve months. This is slightly lower than in July, as costs have already fallen to a degree. Another third replied that their input costs would increase, and commented that operations remain limited, and that suppliers may stop making concessions to airlines once they stabilize.

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

a) October 2020 survey



b) Compared to previous surveys

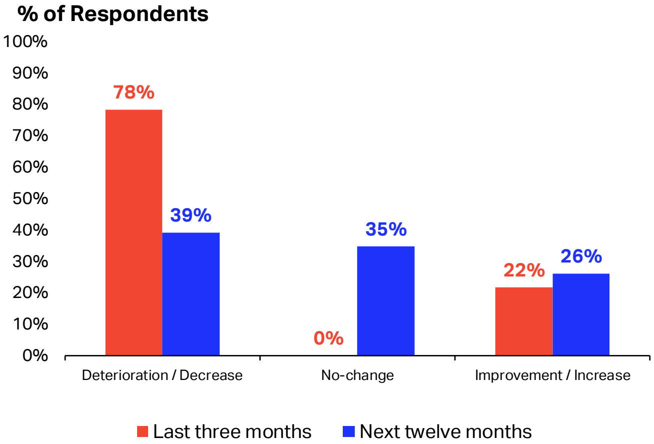


YIELD ENVIRONMENT

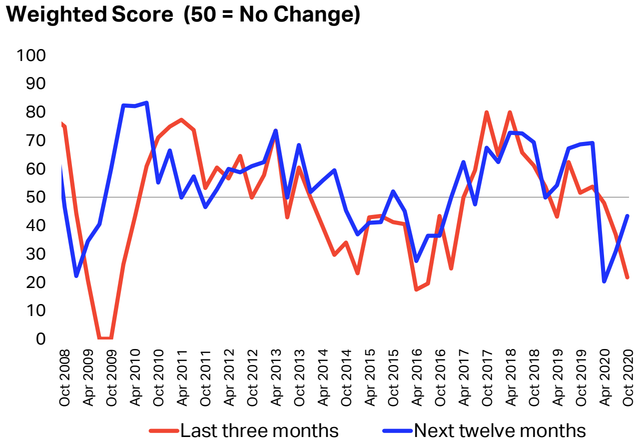
- A wide majority (78%) of respondents reported that passenger yields of their airlines had decreased in the last three months. This is the largest share in the series, as airlines need to encourage travel with lower fares. On the other hand, a significant proportion of respondents noted increasing yields, partly driven by a decrease in the intensity of competition.
- Looking ahead, 39% of respondents expect passenger yields to decline in the next twelve months, and 35% think they will remain stable at low levels. Only 26% of surveyed airlines expect yields to recover, as air space begins to open up. While the weighted score lifted in Q3, it remains in territories consistent with strong pressure on profitability.

Passenger

a) Recent and expected change in yields



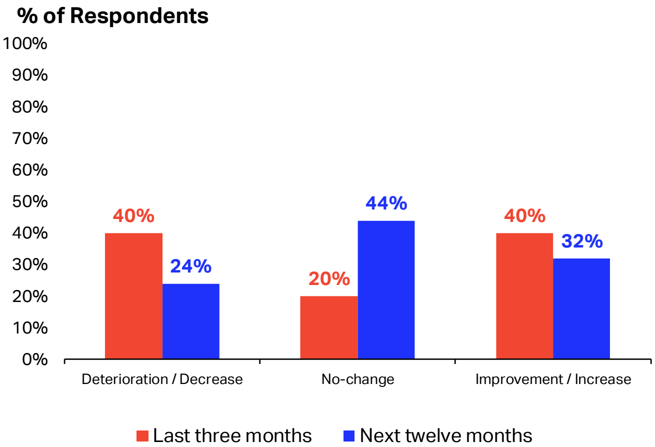
b) Compared to previous surveys



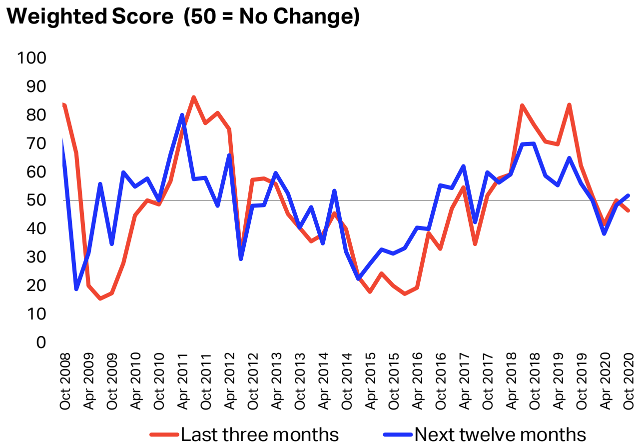
- The strong spike in cargo yields observed in Q2 eased somewhat in Q3, with 40% of respondents reporting increasing yields in October, versus a record-high 67% in July – but 20% of them noting no significant change. As a result, the weighted score fell back to 50. Respondents continue to mention the capacity crunch as a source of elevated yields, and the situation remains strongly supportive of cargo airlines' revenues.
- Turning to the twelve months ahead, the share of respondents expecting cargo yields to decrease was at 24%, down from 62% in the July survey. This lifted the weighted forward-looking score to 54, consistent with growing expectations on aggregate. Surveyed carriers point to capacity constraints and new personal protective equipment shipments as drivers for high yields in the future.

Cargo

a) Recent and expected change in yields



b) Compared to previous surveys

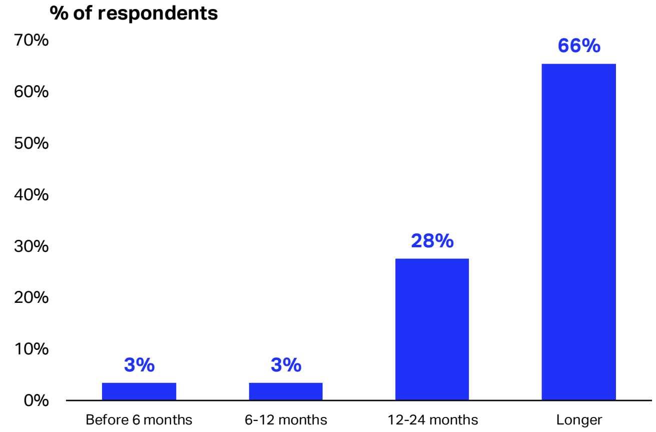


COVID-19 IMPACT

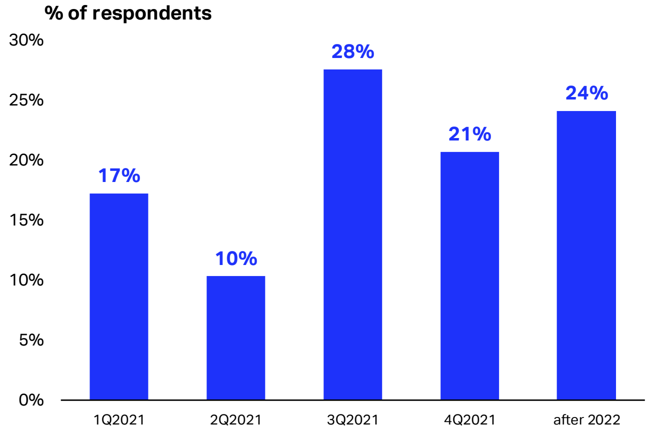
- In the October 2020 survey, we asked Airline CFOs and Heads of Cargo their expectations about the timing of the recovery in demand. In addition, we also gathered information about the regions expected to recover first and last, as well as likely changes to business models. The replies have been summarized in the charts below.
- 66% of surveyed carriers expect the demand recovery to pre-crisis levels will take longer than two years, up from 42% in July. The proportion of respondents anticipating a recovery within 12 months has fallen from 19% to 6% in October. The majority of respondents (72%) think that long-haul travel will restart in H2 2021 or later, but 17% of them said this might be as early as Q1 2021.
- Asia Pacific is expected to recover first. Latin America is forecast to return to 2019 levels of demand later than elsewhere, but respondents thought that all the regions excepted Asia may also recover late.
- A significant share of surveyed carriers is considering various changes to their strategy in the long-run. 59% of the respondents said they would reduce flight frequencies but keep current networks, and 28% replied that they might switch to smaller aircraft. 41% of respondents expect to extent their cargo networks. 21% of our respondents even expect to significantly change their business models (low cost, short haul…).

COVID-19

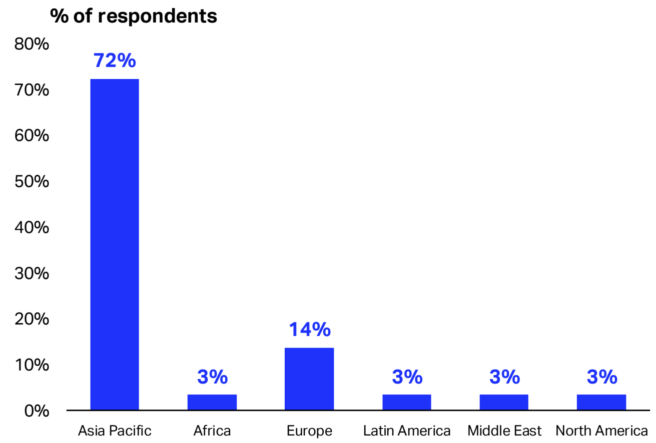
a) Timing of the recovery (2019 levels)



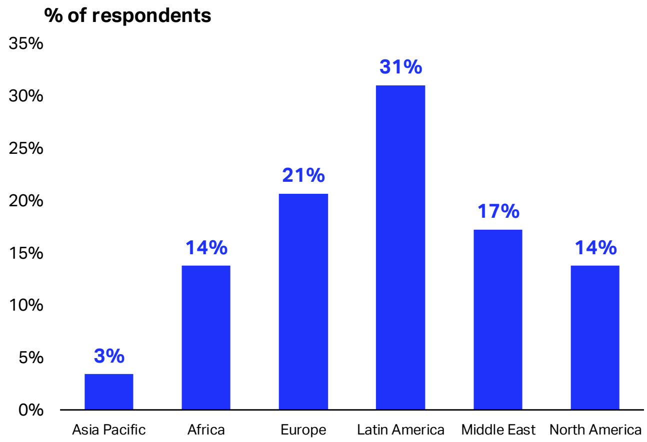
b) Timing of the restart in long haul traffic



b) Region to return to 2019 level first



c) Region to return to 2019 level last



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