# AIRLINE BUSINESS CONFIDENCE INDEX

# OCTOBER 2018 SURVEY

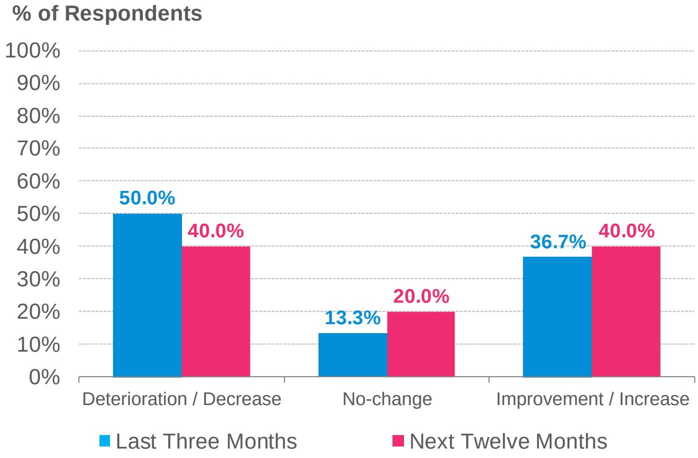
## KEY POINTS

- The October 2018 survey of airline CEOs and Heads of Cargo confirms continued pressure on airline profitability in Q3, primarily due to the ongoing rise in world oil prices. 50% of respondents indicated a decline in annual profitability in Q3, up from 36% last quarter.
- Looking ahead, 40% of respondents expect profitability to improve in the next 12 months, down from 58% in our last survey and prompting a second consecutive month of sharp decline in confidence regarding the profit outlook.
- 63% of respondents expect further increases in input costs over the year ahead. At the same time, a majority of respondents (56%) expect to see higher yields – for both passenger and cargo segments – over the same period, helping to offset the rising costs.
- The demand backdrop is expected to remain relatively robust; almost 60% of respondents expect higher passenger demand over the next 12 months, while 52% expect air freight volumes to rise over the coming year.
- The outlook for industry employment remains positive. Despite the challenging operating environment, an even 50% of respondents plan to increase employment over the next 12 months with a further 37% expecting to maintain current levels.

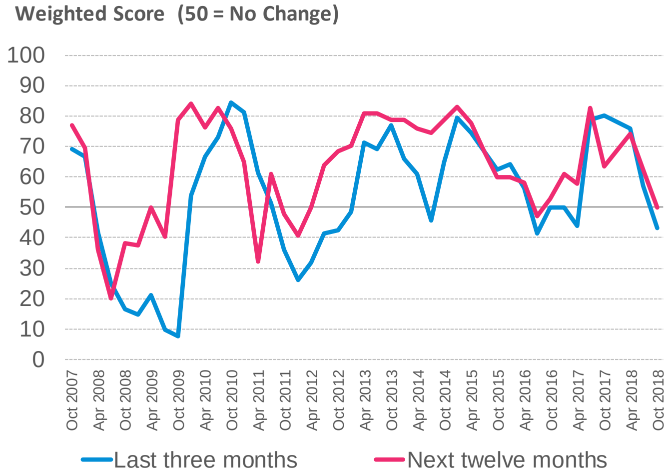
## PROFITABILITY OUTLOOK

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

**a) October 2018 survey**




**b) Compared to previous surveys**



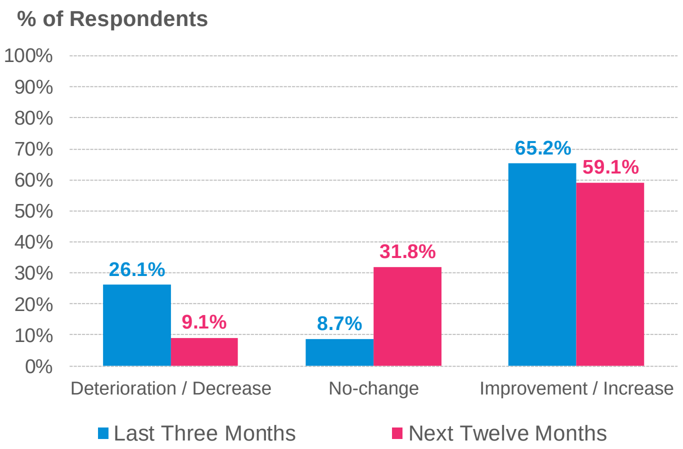

- The results of our latest survey of airline CFOs and Heads of Cargo indicate that the downward pressure on airline profit margins from higher input costs continues in Q3 2018. 50% of respondents reported that profitability decreased in annual terms in Q3, up from 36% last quarter and the highest proportion since July 2016. As a result, the backward-looking weighted-average score fell below the 50-mark that is consistent with no change for the first time in the past 18 months.
- The proportion of respondents who believe that profits will either remain stable or increase over the next year decreased to 60%, eight percentage points lower than the July survey. The increasing pessimism is caused mostly by the prospect of ongoing increases in fuel prices and thus higher operating costs for the airlines.

# DEMAND GROWTH

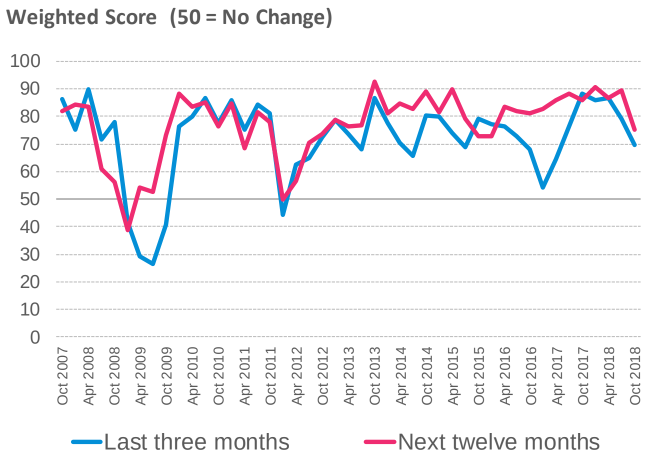
- The results from the October survey indicate that momentum in passenger demand is slowing. 65% of respondents reported an increase in year-on year demand in Q3, which was nine percentage points lower than in the previous survey and below the average over the past five years (67%). The weighted-average backward-looking score has trended sharply downwards for a second consecutive quarter.
- Respondents' expectations about future passenger demand are less optimistic than in recent surveys. 59% of respondents predict passenger volumes to increase over the next twelve months – the lowest proportion since January 2016. On the top of that, the forward-looking weighted-average score dropped for the second quarter in a row. All told, however, the score remains elevated and well above 50-mark that is consistent with no change, but the sharp change in trend bears watching nonetheless.
- In terms of freight demand, 58% of respondents reported a rise in air freight volumes in Q3 compared with a year ago – down 7 percentage points from the previous survey but still well above the average over the past five years (51%). A number of respondents noted a combination of increasing load factors and stable demand for air cargo as the reason for the increase.
- The outlook for air freight demand softened for the third consecutive survey. This reflects a moderation in the upward trend in freight demand following the end of restocking cycle last year and increasing concerns about the growing trade tensions between the US and China. 52% of respondents expect increasing volumes over the next 12 months, down somewhat from 58% last quarter.

## Passenger

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

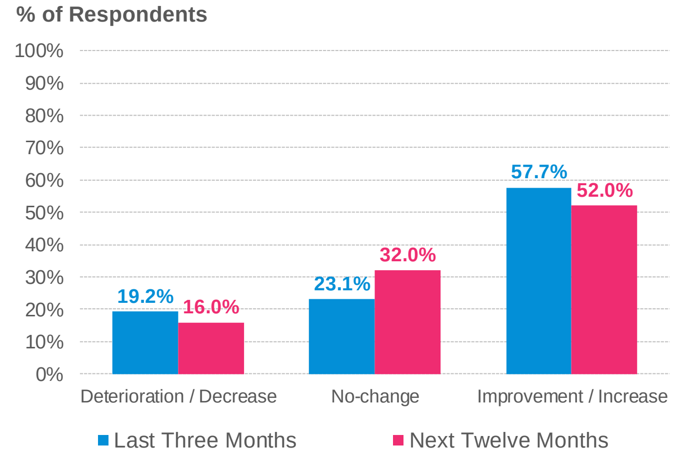



### b) Compared to previous surveys

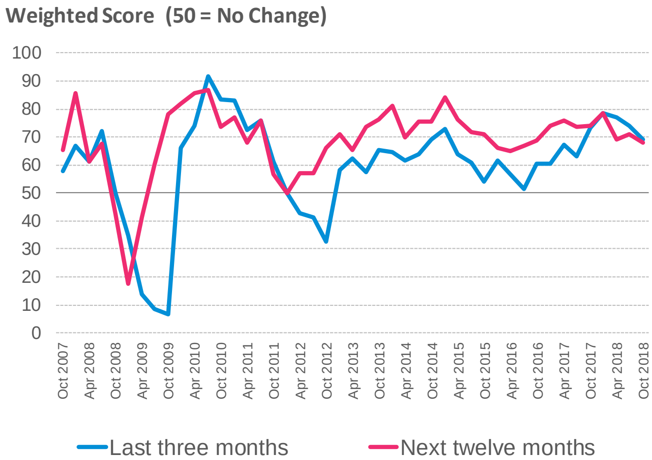



## Cargo

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




### b) Compared to previous surveys

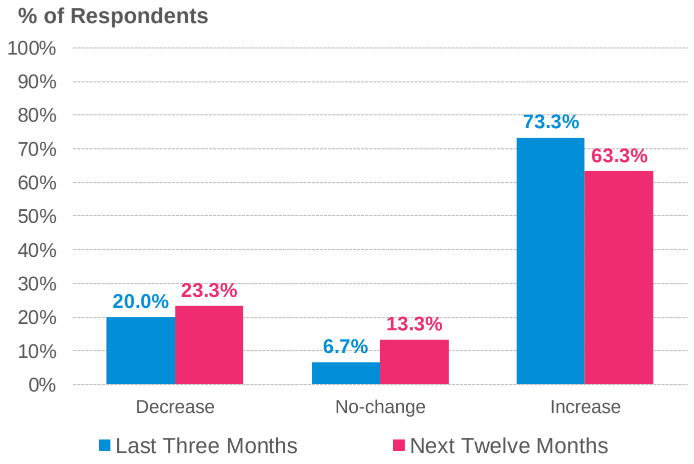


# INPUT COSTS

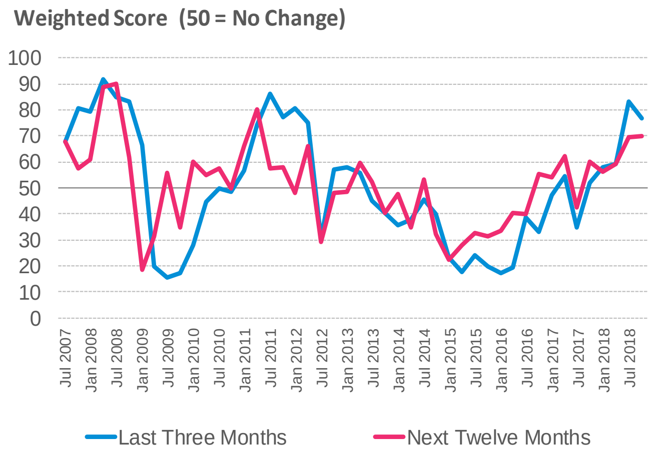
- The majority (73%) of respondents reported an increase in input costs in Q3 2018 compared to the same period a year ago. This proportion was moderately lower than the 78% in our previous survey. Unsurprisingly, high fuel prices were identified as the main reason for the increase.
- Looking ahead, high fuel prices continue to be cited as a key driver for the 63% of respondents (10pp higher than last quarter) who reported that they expect input costs to increase over the next 12 months. That said, almost a quarter of our respondents (23%) expect that input costs will decrease in the future, up from 14% in Q2. An increased focus on cost-effectiveness and economies of scale are stated as the main reasons amongst those respondents expecting to see a fall in input costs.

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

**a) October 2018 survey**




**b) Compared to previous surveys**

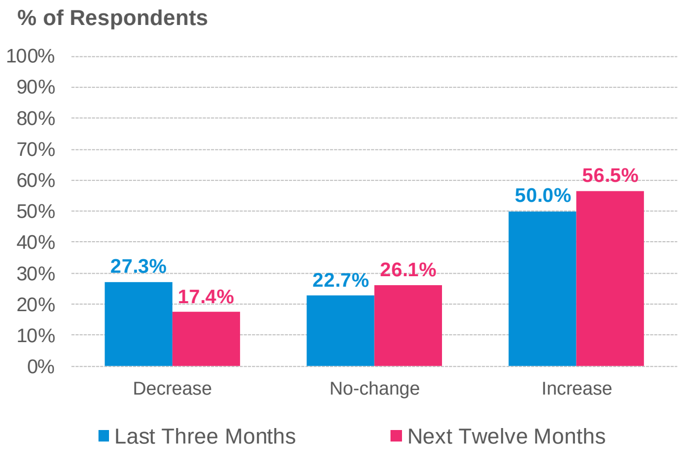



# YIELD ENVIRONMENT

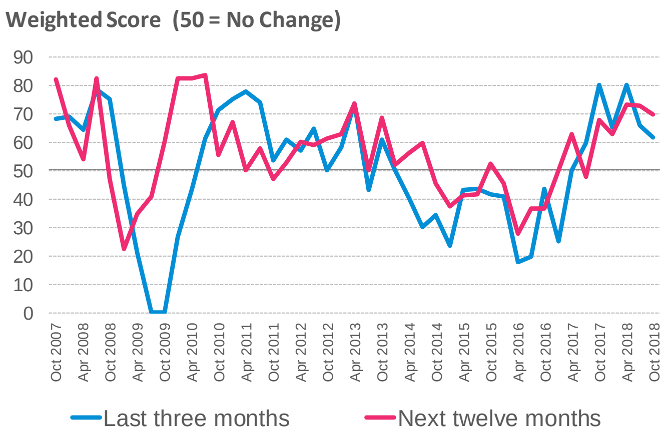
- Half of our respondents reported higher passenger yields in Q3 2018 compared to a year ago; this was a slight decline from 53% in the last survey but still well above the average proportion seen over the past five years. Looking ahead, the percentage of respondents expecting passenger yields to increase moved slightly higher, to 57% compared from 55% in last quarter.
- 60% of respondents reported an annual increase in freight yields in Q2 2018 – the highest proportion since October 2010. 56% of respondents expect yields to increase over the next 12 months, the 5th consecutive increase and the highest level since January 2010.
- Against a demand backdrop which remains broadly sound, most respondents expect to be able to pass-through at least some of the expected higher input costs.

**Passenger**

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

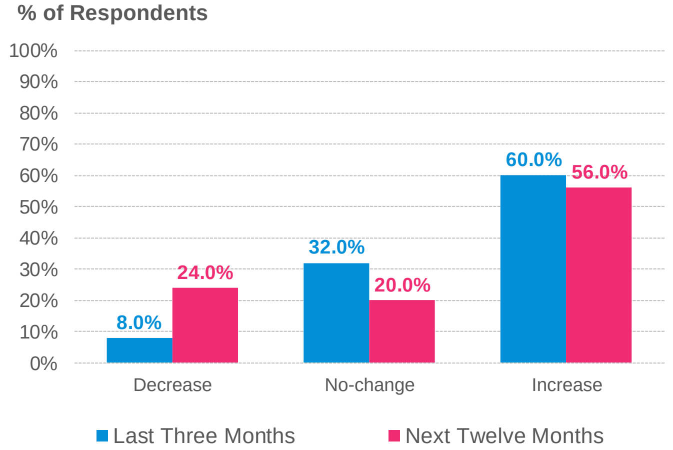



**b) Compared to previous surveys**

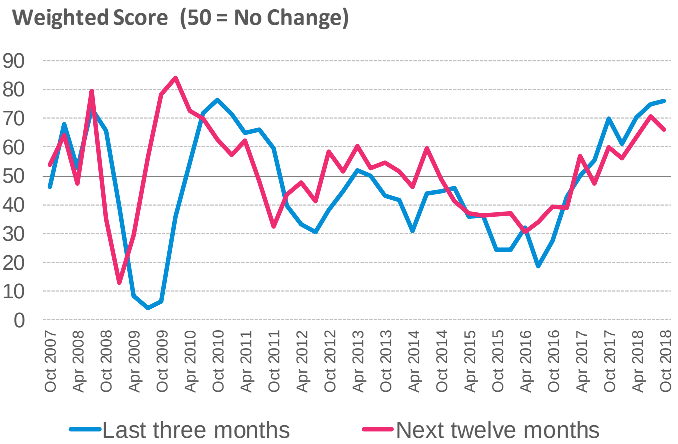


### Cargo

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




#### b) Compared to previous surveys

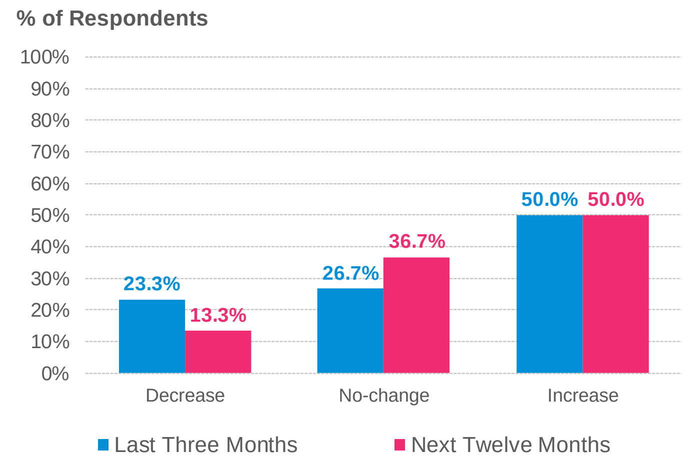



## EMPLOYMENT

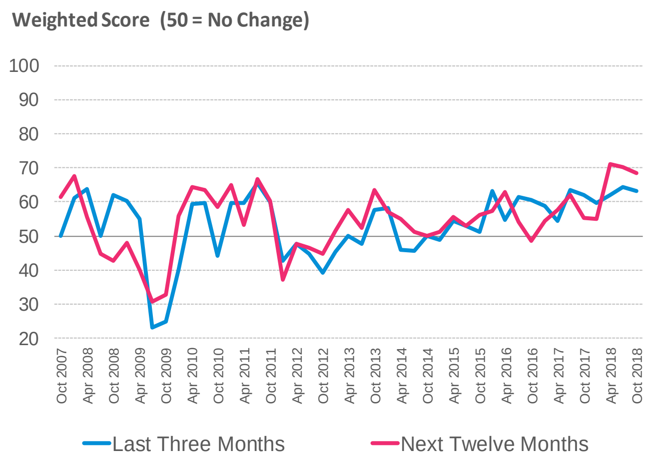
- 50% of survey respondents reported an increase in employment levels in Q3 2018 relative to the same period in 2017 – seven percentage points more than in the previous survey. That said, the share of responses reporting a drop in employment lifted from 14% in the last survey to 23% in this survey.
- The outlook for industry employment remains positive. Half of the respondents expect to add to employment levels over the year ahead. The proportion of respondents who plan to reduce staff numbers over the next year amounts to 13%, which is only slightly higher than in our last survey (11%). As a result, the weighted-average forward-looking score softened slightly over the past quarter, but still easily outperforms the long-run average.

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

#### a) October 2018 survey




#### b) Compared to previous surveys




**IATA Economics**
**25th October 2018**
**E-Mail: economics@iata.org**



### FURTHER IATA DATA & STATISTICS

**Access IATA data related to this briefing through the Monthly Statistics publication:**

http://www.iata.org/services/statistics/stats/pages/index.aspx

### SUBSCRIBE TO IATA ECONOMICS

**To receive email notifications of new analysis from IATA Economics, select ‘Economic Briefings’ from:**

www.iata.org/optin