INPUT COST PRESSURES TO REMAIN, BUT YIELDS LIKELY TO HELP OFFSET

Source: IATA Airline Business Confidence survey

* The weighted average scores are based on the % of respondents expecting an increase/decrease/no change in the variable over the coming year.

- This week saw the release of our latest quarterly Business Confidence index (see here for details), which surveys airline CEOs and Heads of Cargo for their views on the industry outlook. Survey respondents expect the challenging environment for profits to continue over the next 12 months. Unsurprisingly, this mainly reflects expectations of higher input prices (the left panel of today’s chart); the weighted average year-ahead score for input costs is at its highest level since April 2011.

- Airlines are addressing this challenge in various ways. A number of respondents this quarter noted that they have already implemented specific strategies to monitor and reduce costs, while others are trying to take advantage of economies of scale. At this stage, job cuts do not appear to be a key part of the cost reduction strategies; only 13% of respondents expect to decrease employment levels over the coming year. Notably, the majority of respondents – around 56% for both pax and freight – also expect to increase yields over the year ahead. The right hand panel of the chart shows that the weighted scores for year-ahead yields remain elevated, albeit down slightly on their recent peaks.

- With airlines expecting the demand backdrop to remain supportive, higher yields will help to offset the impact of the ongoing cost pressures. In turn, this will help to support the industry’s financial performance. Notwithstanding the well-documented downside risks to the global economic outlook, it is reassuring to see that airline CEOs and Heads of Cargo generally remain upbeat despite facing a challenging operating environment.

Terms and Conditions for the use of this IATA Economics Report and its contents can be found here: www.iata.org/economics-terms

By using this IATA Economics Report and its contents in any manner, you agree that the IATA Economics Report Terms and Conditions apply to you and agree to abide by them. If you do not accept these Terms and Conditions, do not use this report.