AIRLINE BUSINESS CONFIDENCE INDEX

JULY 2013 SURVEY

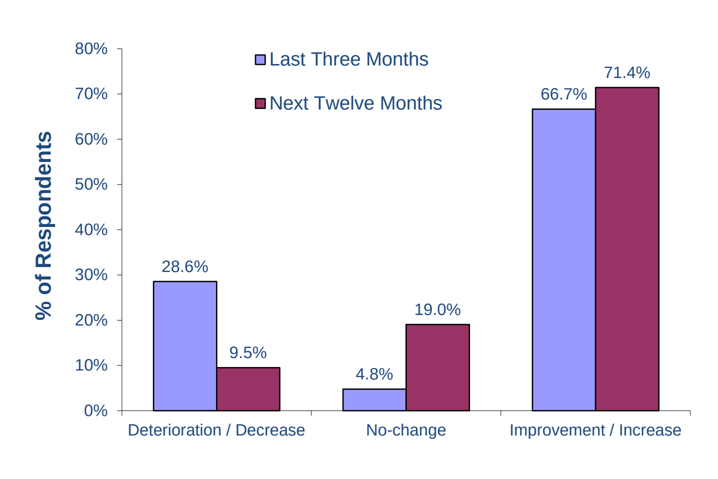
KEY POINTS

- Airline business confidence remains strong according to IATA's quarterly survey of airline CFOs and heads of cargo in July, with 71% of respondents expecting an improvement in profitability over the next 12 months;
- There is confidence over the growth of travel and cargo markets in the year ahead and, although yields are no longer expected to improve, the cost environment has stabilized. Part of the strength of confidence is due to the structural improvements that have taken place;
- Passenger markets continue to outperform cargo according to survey responses on recent past traffic volumes. Respondents foresee growth in both businesses over the next 12 months;
- Input costs are reported to have declined during the recent past, with jet fuel prices now at the bottom of the 2-year range. Expectations for input costs have also been revised down to the no change level for the year ahead;
- Passenger and cargo yields remained unchanged in Q2 2013 compared to the year ago period. The less optimistic outlook for yields over the next 12 months is consistent with easing input cost pressures;
- There was no change in employment during Q2 and the trend is expected to continue over the next 12 months. This is a slight deterioration on April when some growth in jobs was expected.

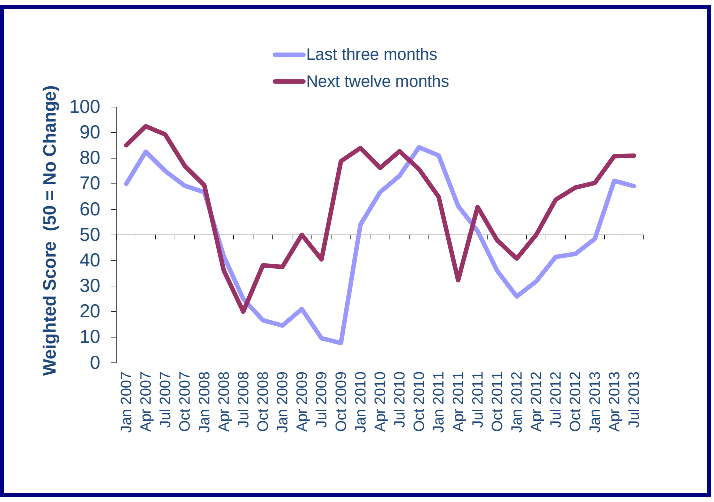
PROFITABILITY OUTLOOK

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

a) April 2013 survey



b) Compared to previous surveys



- The results of the July survey show that a majority of respondents expect to see improvements in profitability over the next 12 months. The outlook has been improving since early 2012, but in April 2013 there was a strong rise in the proportion of respondents anticipating stronger profits in the year ahead. That optimism carried through to July, with 71% of CFOs and cargo heads expecting an increase in profits over the next 12 months – that proportion was 73% in April.
- With respect to recent past performance, respondents reported seeing better profitability in Q2 compared to the year ago period. Almost 67% of respondents indicated an improvement, which is actually slightly up on the April response on Q1 performance, when 62% of CFOs and cargo heads said profits were up. Consolidation and

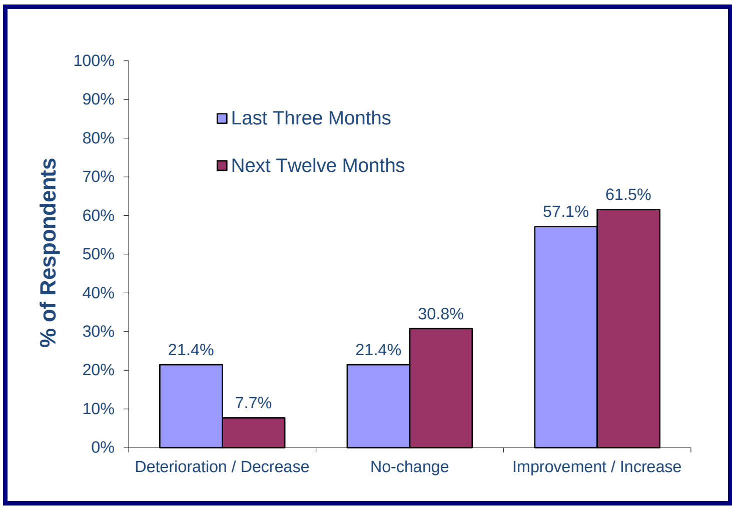
efficiency gains have helped airlines in some regions increase profits in Q1 2013, particularly after restructuring costs. These improvements are supporting the optimistic outlook for airline financial performance in 2013.

DEMAND GROWTH

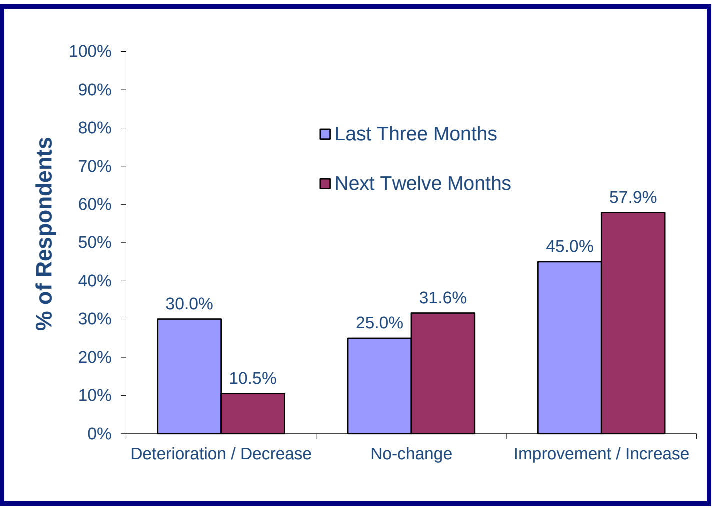
- Traffic volumes in the passenger business increased during Q2 2013, according to survey responses about the past three months. The rate of improvement in July, however, declined slightly on the previous survey - the proportion of respondents reporting increased growth in air travel slipped from 65% in April to 57% in July. Nonetheless, growth in air travel is expected to continue in the year ahead.
- On balance, a majority of survey respondents saw a small rise in cargo traffic volumes in Q2 compared to a year ago. However, the proportion of respondents seeing cargo demand improve in the recent past declined in the July survey compared to the April survey.
- Despite current weakness, the outlook for air cargo is optimistic. For the year ahead, 58% of respondents expect to see an increase in cargo traffic, a rise on the April survey when less than half (44%) of cargo heads said they expect to see growth in air freight volumes over the next year. Recent signs of stabilization in the Eurozone should alleviate some of the pressure on global demand in the months ahead, which in turn would provide a more supportive business environment for air freight.

Recent and expected change in traffic volumes

a) Passenger

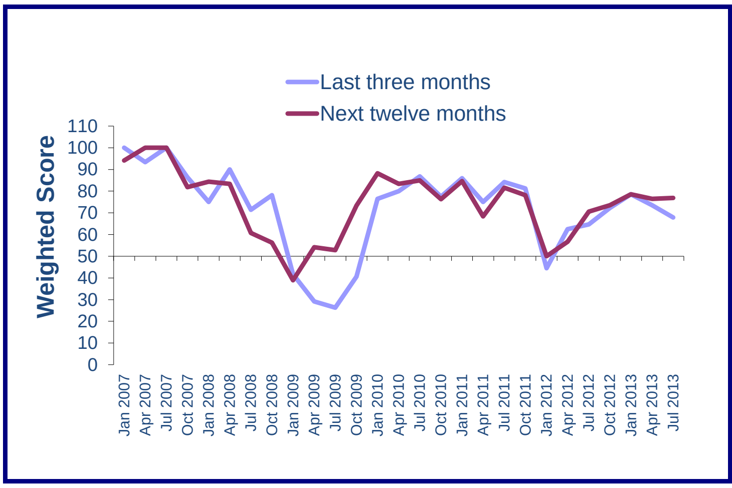


b) Cargo

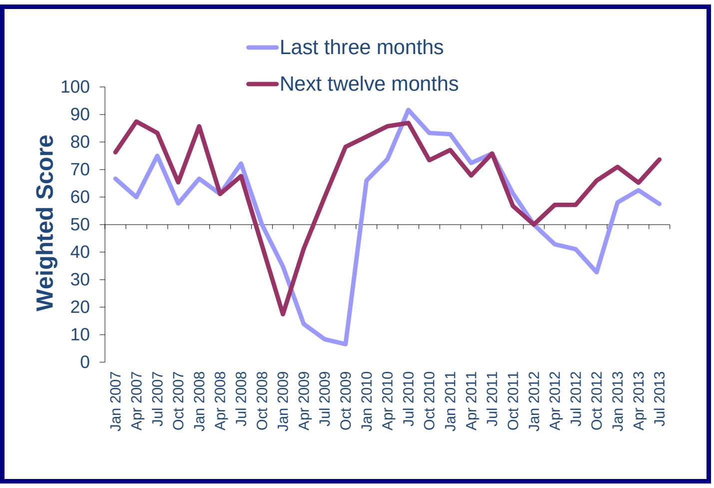


Compared to previous surveys

a) Passenger



b) Cargo

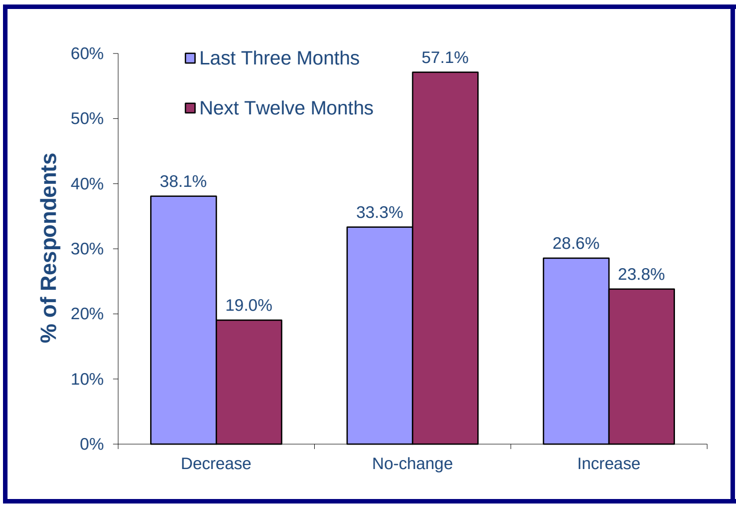


INPUT COSTS

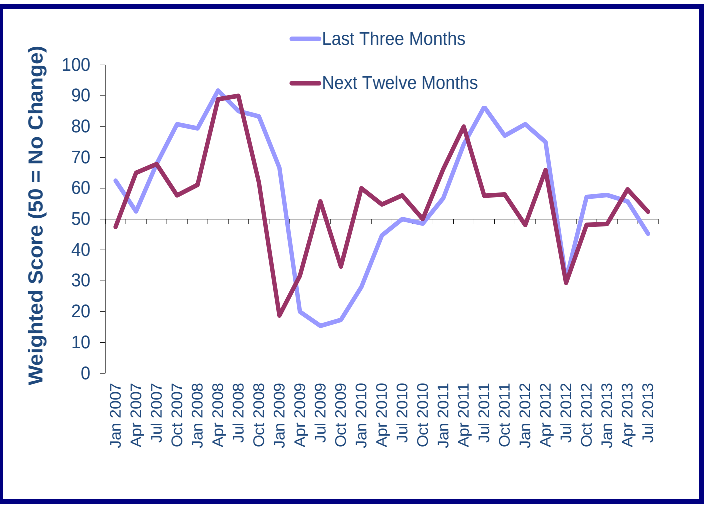
- Survey respondents indicated a decline in input costs during Q2. The decline in input costs during the past three months is consistent with the decline in jet fuel prices since the Q1 peak. Jet fuel prices averaged $118/bbl in June, about $20 down on the high in February. Current prices are at the bottom of the range for the past 2 years, as crude oil supply increases outstrip growth in demand.
- There has also been a downward revision to the outlook for input costs, with fewer respondents (24%) expecting a rise in inputs costs over the next 12 months compared to April when that proportion was 39%. On balance, survey respondents now expect no change in input costs over the next 12 months.

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

a) April 2013 survey



b) Compared to previous surveys

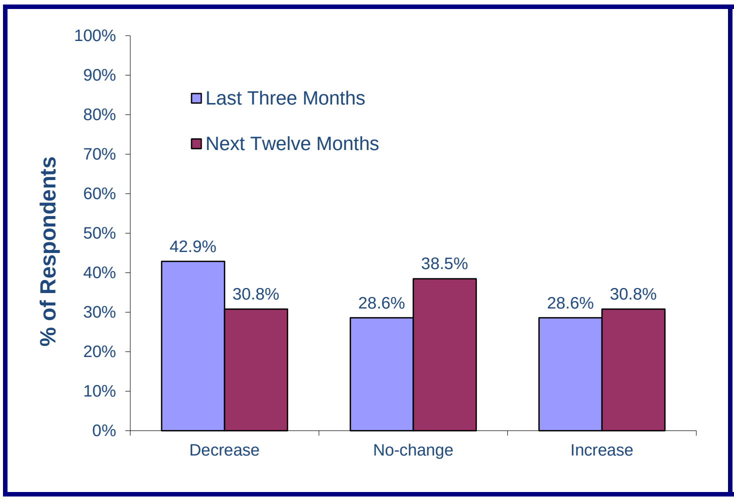


YIELD ENVIRONMENT

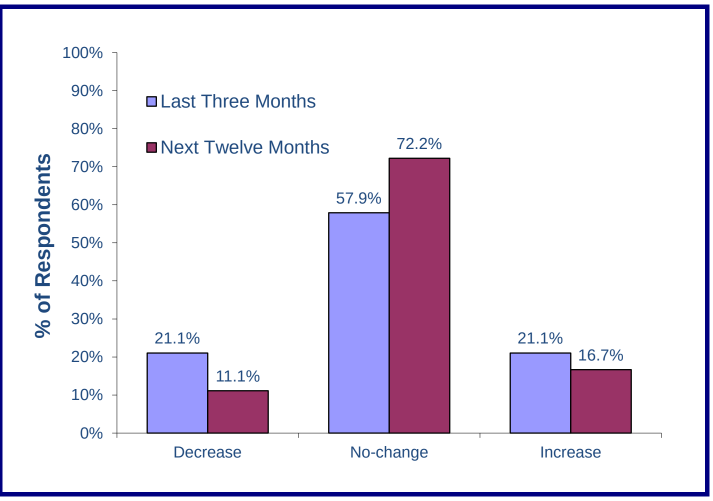
- The July survey results suggest that yields remained unchanged in Q2 2013, after showing an increase in April. Just 29% of respondents said yields increased during Q2 compared to the year ago period, while back in April more than half (53%) indicated stronger yields. Cargo yields showed no change in July, similar to the result in April.
- The outlook for passenger and cargo yields was similar to the response on recent past performance – CFOs and cargo heads expect no change in yields for the year ahead. For both passenger and cargo yields, this is a deterioration on the April survey, when on balance most respondents expected growth in yields. The outlook for no change in yields could be influenced by the expectation that there will also be no change in input costs.

Recent and expected change in yields

a) Passenger

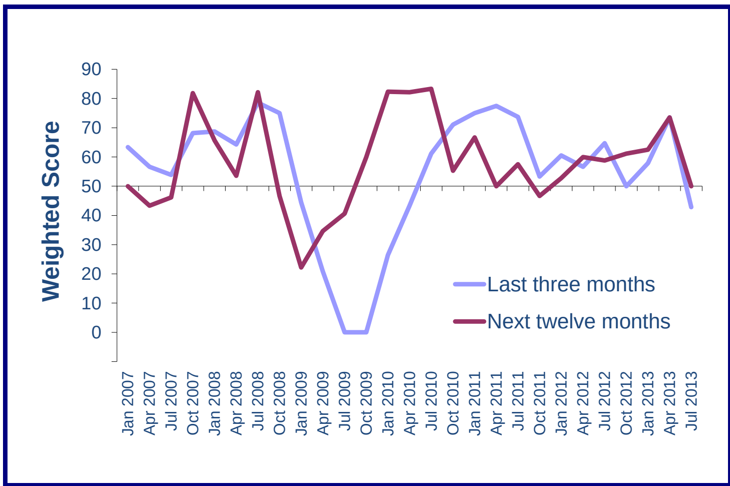


b) Cargo

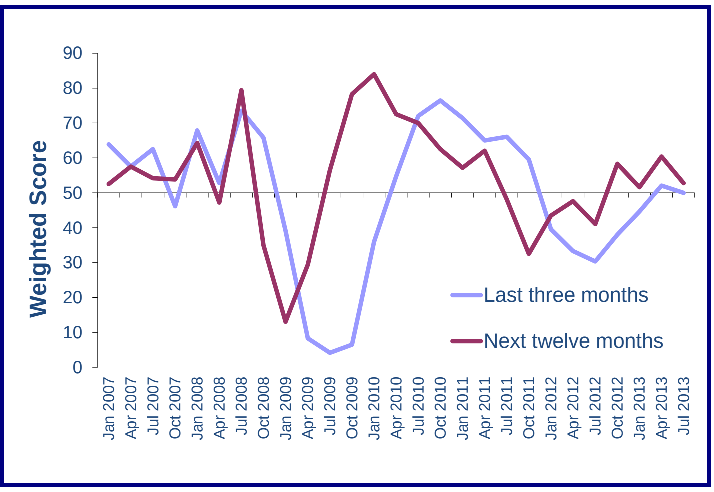


Compared to previous surveys

a) Passenger



b) Cargo

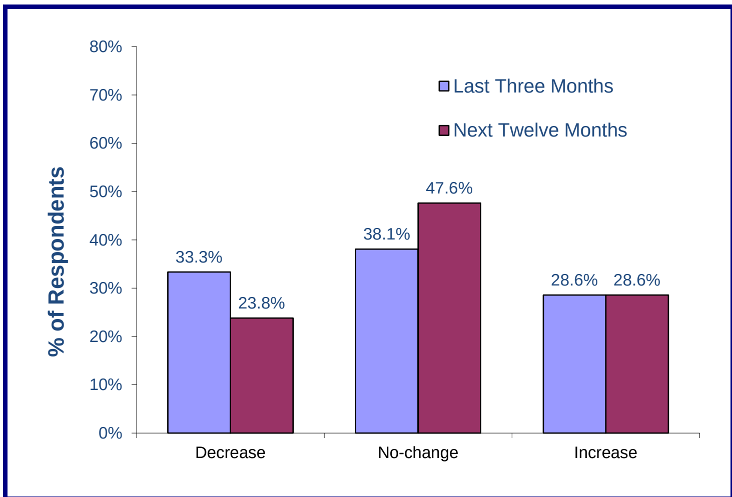


EMPLOYMENT

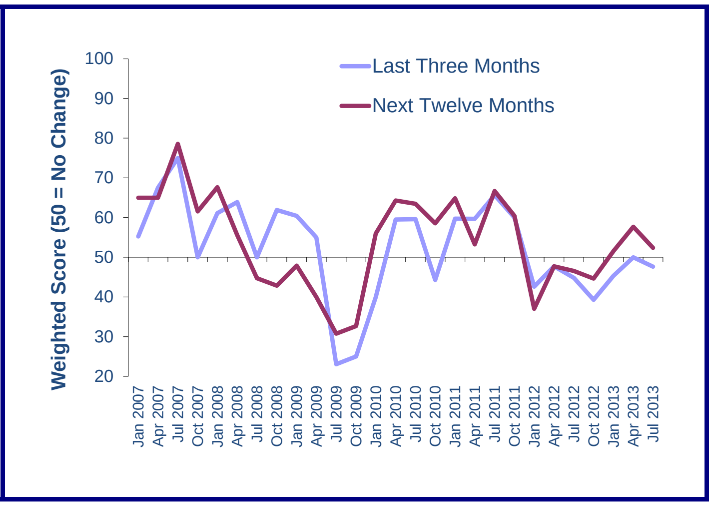
- On balance there was no change in employment during Q2 2013, similar to the April survey, but this is still an improvement on 2012 when CFOs and cargo heads were indicating declines in employment. Looking ahead, survey respondents also expect little change in employment over the next 12 months, which is a slight deterioration on April when some growth in jobs was expected.

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

a) April 2013 survey



b) Compared to previous surveys



IATA Economics
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E-Mail: economics@iata.org