

AIRLINE BUSINESS CONFIDENCE INDEX

JULY 2015 SURVEY

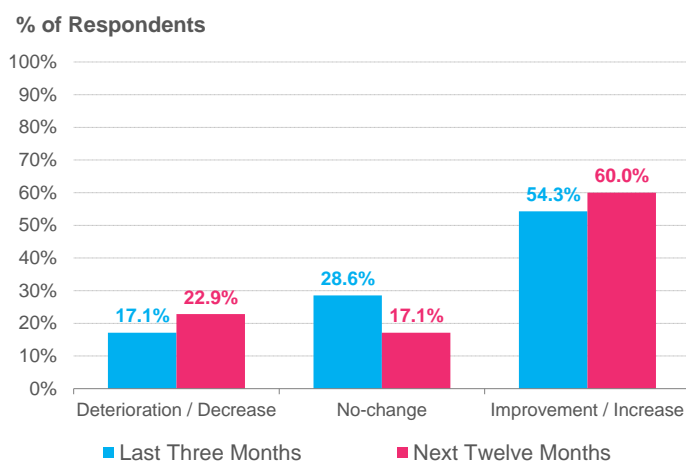
KEY POINTS

- ➔ Airline profit expectations for the year ahead have dipped from previous highs but remain positive, according to IATA's quarterly survey of airline CFOs and heads of cargo in July;
- ➔ The rate of expected improvement in profitability over the next 12 months has fallen in July compared to the April survey, suggesting that improvements in key drivers might have peaked earlier in the year;
- ➔ Recent gains in profitability have been driven by strong growth in traffic volumes and falling input costs;
- ➔ Respondents reported seeing a decline in input costs in Q2 compared to a year ago, but at a slower rate than in Q1. Similarly, input costs are expected to decline during the year ahead but not by as much as was anticipated earlier this year;
- ➔ Both passenger and cargo volumes were reported to have expanded during Q2, but at a weaker rate than in Q1, suggesting that growth in transport volumes may have peaked in previous months;
- ➔ There is also a view that volume growth will continue in the year ahead, but not at the strong pace that was expected earlier in the year, likely reflecting concerns over weakness in the global business environment and emerging market economies;
- ➔ Respondents continue to report declines in yields in both businesses, for the recent past and the coming year, reflecting downward pressure from falling fuel prices. But the survey suggests those declines may have bottomed out as they are stable compared to the Q1 survey;
- ➔ Airline employment activity is reported to have increased slightly in Q2, reflecting the continuation of positive financial performance.

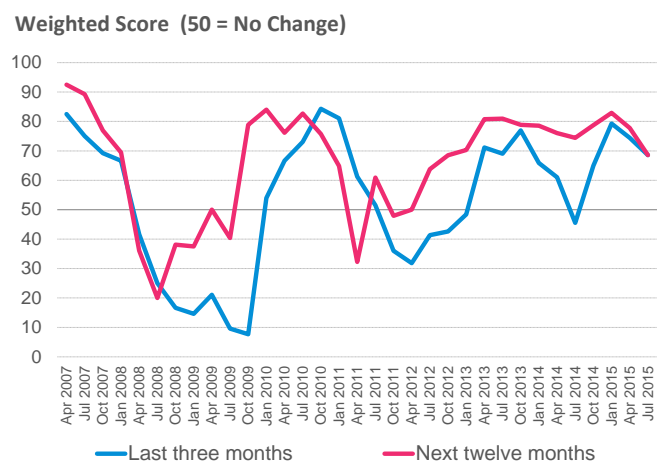
PROFITABILITY OUTLOOK

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

a) July 2015 survey



b) Compared to previous surveys



- ➔ The result of the July survey of airline CFOs and cargo heads shows that airline profitability expectations dipped compared to April. Recent past profitability continues to show gains on a year ago and the outlook remains positive, but the July survey



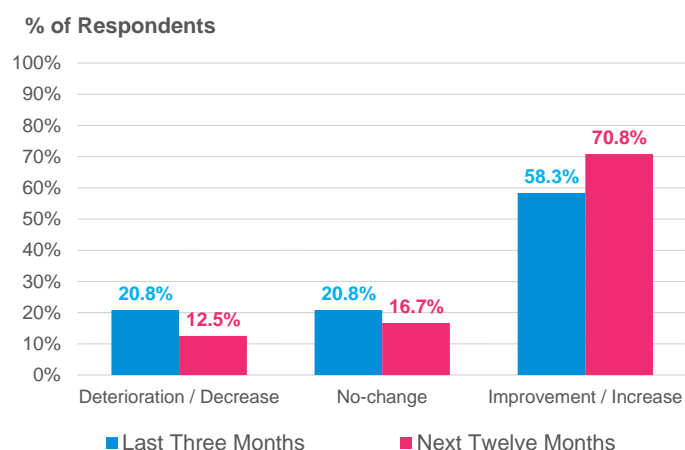
suggests that some of the drivers of strong profit expectations may have already peaked and are currently stagnant or weakening.

DEMAND GROWTH

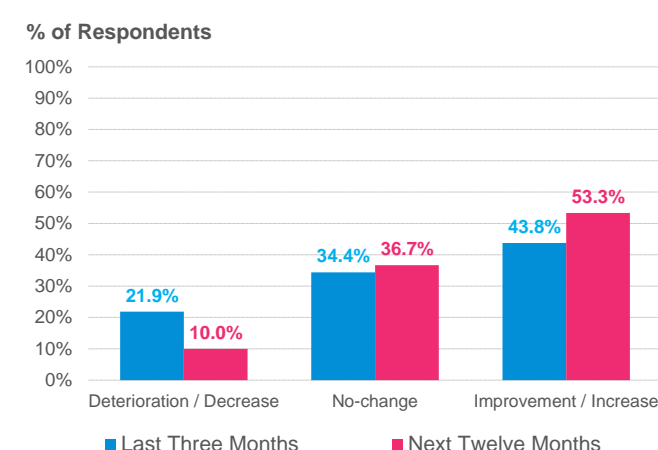
- ➔ Passenger traffic increased during Q2 2015 compared to the year ago period. The survey results are consistent with latest air transport data, which indicate that air travel is up 5-6% compared to a year ago. But the rate of improvement in Q2 is slower than that reported in July. Although the data continue to indicate solid growth overall, some regions are starting to show weakness.
- ➔ The survey also suggests that growth in passenger volumes will continue in the coming months. But in similar fashion to the responses on recent past performance, the share of respondents expecting an increase in passenger volumes in the year ahead has fallen slightly since the April survey (79%), with 70% of respondents expecting growth during the year ahead.
- ➔ Respondents indicated that air freight volumes during the past 3 months were expanding, but at a slower rate than earlier in the year, which is consistent with the data which shows FTKs are still up on a year ago but that growth has flattened during recent months. The outlook for cargo volumes remains positive, but fewer (53%) of respondents expect gains in the year ahead compared to April (63%). Expectations have weakened slightly on the back of slower growth in world trade over recent months – with large declines in key markets like emerging Asia – as well as little improvement in business confidence due to sluggishness in some emerging markets.

Recent and expected change in traffic volumes

a) Passenger



b) Cargo



Compared to previous surveys

a) Passenger

Weighted Score (50 = No Change)



b) Cargo

Weighted Score (50 = No Change)

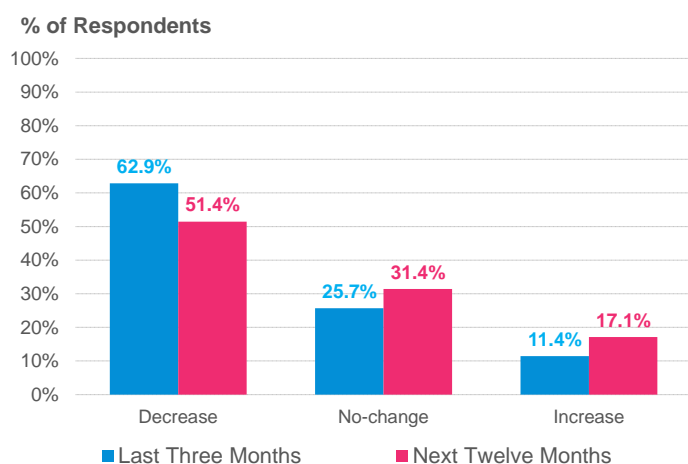


INPUT COSTS

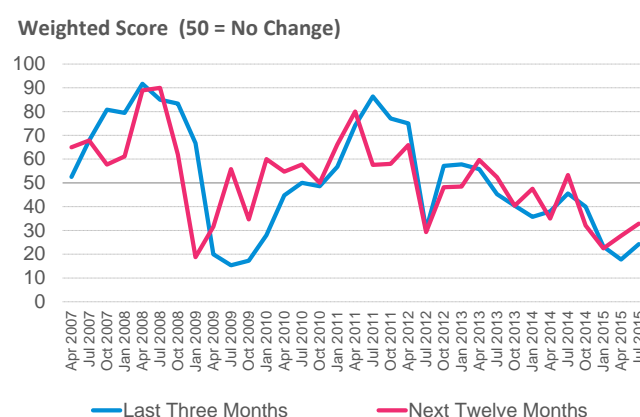
- ➔ July survey results show that input costs have declined during the past 3 months, but at a slower rate than indicated in the April survey. The decline in input costs in Q2 is a result of the fall in crude oil prices, which averaged about \$65/bbl in Q2, some 40% down on mid-2014 highs. Crude oil prices have declined due to several factors, including increasing oil supply in the US as well as a strengthening US dollar.
- ➔ Survey respondents expect the trend to continue during the year ahead, with an outlook for further declines in input costs, but once again at a slower rate than earlier in the year. Previous survey responses included reference to cost cutting measures as reasons for declines in current/future cost expectations, but the fall in fuel prices has been the key factor in both recent past and future expectations of lower cost pressures.

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

a) July 2015 survey



b) Compared to previous surveys

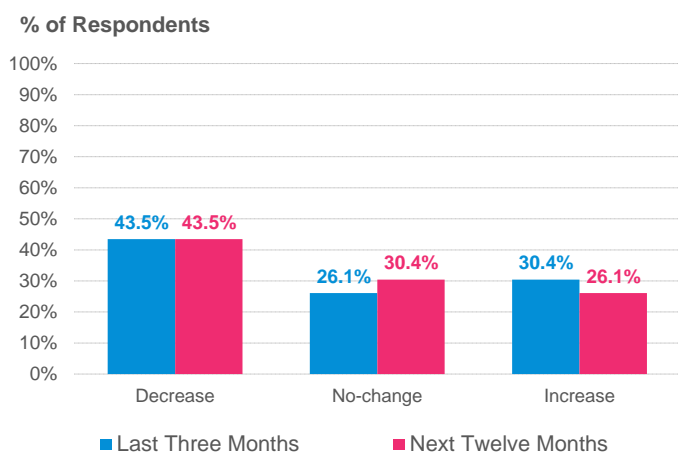


YIELD ENVIRONMENT

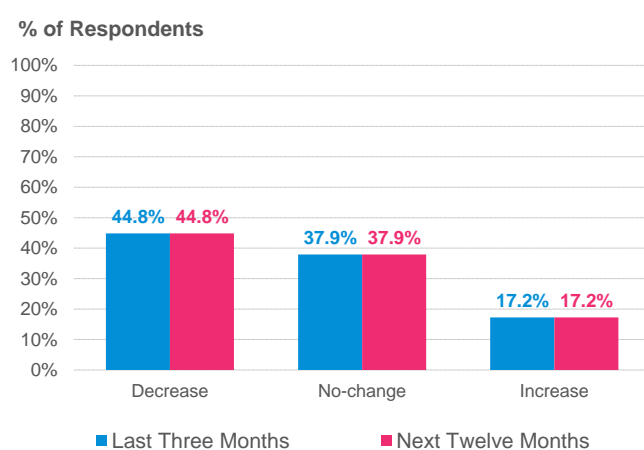
- ➔ Survey respondents indicated that passenger yields continued to decline, at a similar rate in Q2 compared to Q1. The outlook moving forward is much the same, reflecting the implications of lower fuel-related costs.
- ➔ Cargo yields are showing similar developments, with respondents indicating declines in Q2. The results of the July survey suggest that yields will decline during the year ahead. There could be further declines in yields once hedging positions unwind – although some of those would already have done so – but the survey does not predict further falls than those anticipated in April.

Recent and expected change in yields

a) Passenger



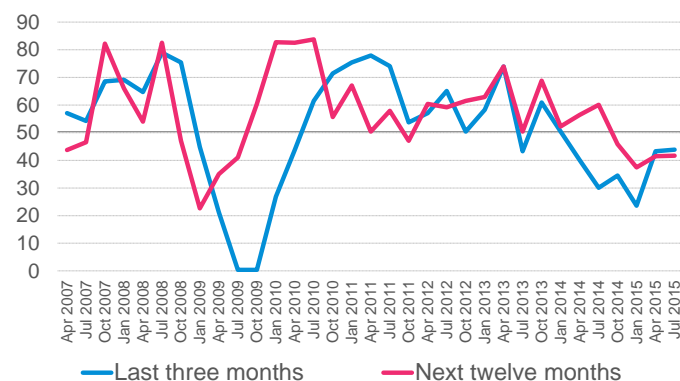
b) Cargo



Compared to previous surveys

a) Passenger

Weighted Score (50 = No Change)



b) Cargo

Weighted Score (50 = No Change)



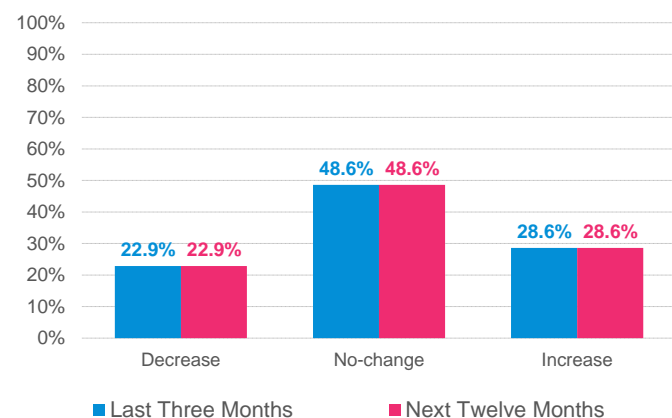
EMPLOYMENT

- Airline employment activity is reported to have increased slightly in Q2 compared to a year ago. Similarly, the July survey reveals that CFOs and cargo heads expect a small amount of growth in employment in the year ahead. These developments are consistent with positive financial performance seen over the recent past, as well as the expectation for continued positive profits during the next year, albeit at a slower rate than was expected in Q1.

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

a) July 2015 survey

% of Respondents



b) Compared to previous surveys

Weighted Score (50 = No Change)



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