

# AIRLINE BUSINESS CONFIDENCE INDEX

## OCTOBER 2017 SURVEY

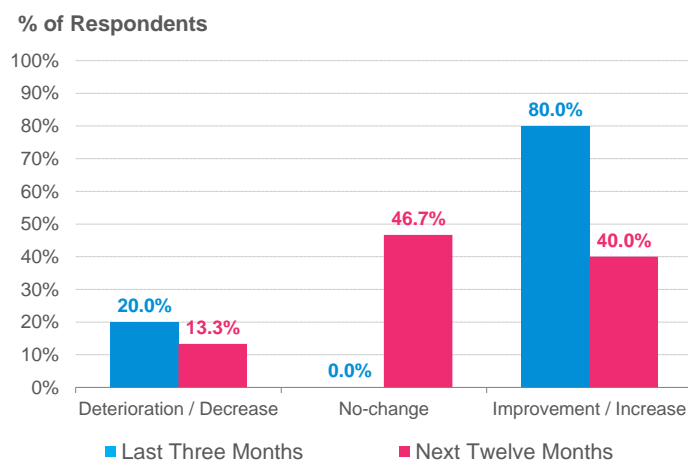
### KEY POINTS

- ➔ 80% of airline CFOs and Heads of Cargo indicated an improvement in year-on-year profitability in Q3 2017 compared with the same period in 2016 – the strongest outcome in 10 years.
- ➔ Furthermore, 87% of respondents believe that the profit outlook will be unchanged or improve over the year ahead, supported by ongoing robust demand; none of this quarter’s survey respondents expect to see a reduction in either their passenger or freight volumes over the next 12 months.
- ➔ A higher share of respondents have seen their input costs increase this quarter compared with the Q2 survey, driven by gains in the world oil price. This upward trend in oil prices is broadly expected to continue to impact airline costs in the year ahead.
- ➔ Matching the rise in input costs, 65% of respondents indicated that passenger yields have risen in Q3 – the highest proportion in six years, further supporting the view that passenger yields have bottomed. Almost half of respondents indicated an increase in freight yields over the same period.
- ➔ The outlook for industry employment over the next 12 months remains positive, with more than 40% of respondents expecting to increase employment and a further 28% expecting to maintain current levels.

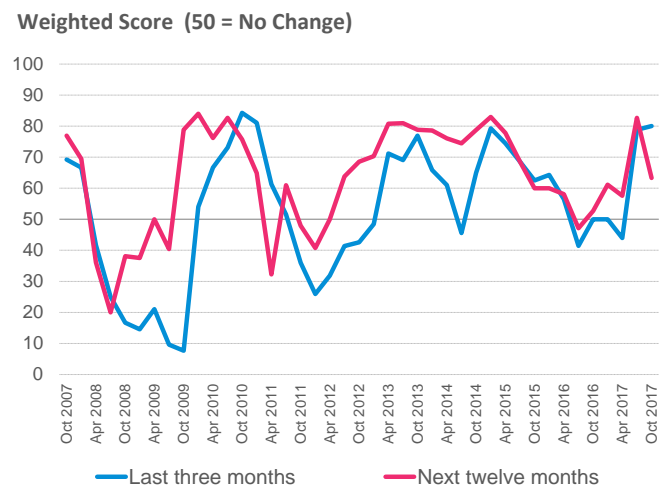
### PROFITABILITY OUTLOOK

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

#### a) October 2017 survey



#### b) Compared to previous surveys



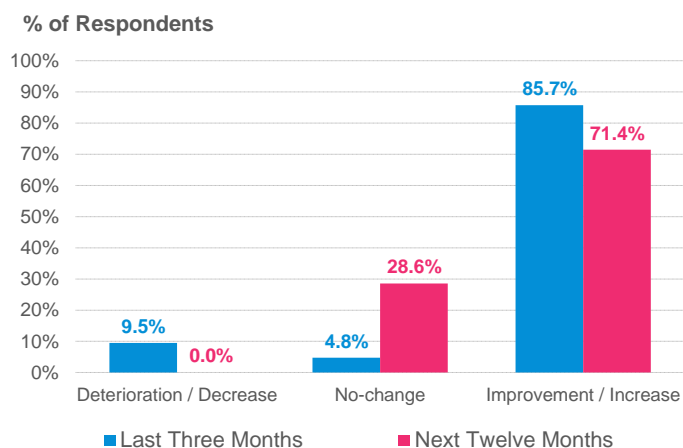
- ➔ The results of our latest survey of airline CFOs and Heads of Cargo, conducted in early-October, point to a continued strong financial performance into the second half of the year. An even 80% of respondents reported that profitability increased in year-on-year terms in Q3 2017 – up from just 36% in Q1, which appears to be the high point of the squeeze on industry finances. This response represents the strongest outcome in 10 years, and contributed to the modest gain in the backward-looking weighted average score this quarter.
- ➔ The weighted average score for the year-ahead profitability outlook fell back this quarter but remains comfortably within expansionary territory. The number of respondents expecting to see their profit performance increase in the coming year eased to 40%, down from 69% last quarter. At the same time, the share of respondents expecting a decrease in profitability rose from its seven-year low of 4% in Q2, to 13% this quarter.

## DEMAND GROWTH

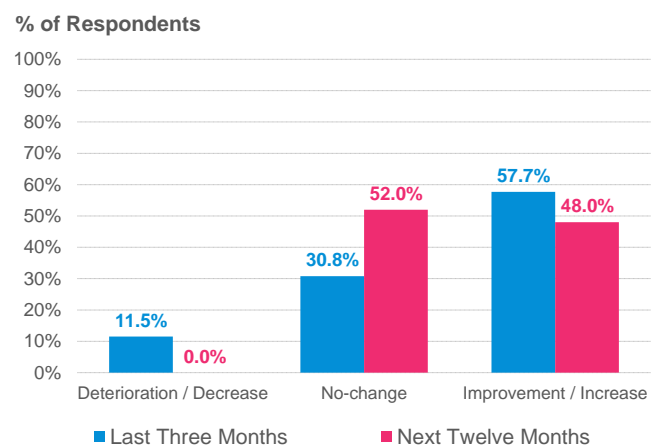
- ➔ On the passenger side, the October survey indicates that the robust demand environment also continued into the second half of the year. A very strong 86% of respondents experienced an increase in year-on-year demand in Q3 2017, up from 71% in last quarter's survey. This response took the backward-looking weighted-average score to its highest level since April 2008.
- ➔ Almost ¾ of respondents (71%) expect passenger volumes to rise further over the year ahead, down from 81% last quarter. However, in the latest survey none of the respondents expect their volumes to decrease over the coming 12 months. The forward-looking weighted-average score retraced some of its recent gains, but remains at an elevated level.
- ➔ For freight, the October survey showed 58% of respondents – unchanged from last quarter – reported a year-on-year rise in volumes in Q3 2017. Interestingly, on this occasion, just 12% of respondents experienced a decrease in freight volumes, down significantly from 32% last quarter. Consequently, the backward-looking weighted-average score stepped up, rising to its highest level since July 2011.
- ➔ Looking ahead, 48% of respondents reported that they expect a further increase in freight volumes over the year ahead, down from 58% last quarter. However, as was the case with the passenger segment, none of the respondents currently expect their volumes to decrease over the next 12 months, down from 11% last quarter. The forward-looking weighted average score ticked up slightly, but remains broadly in line with its performance over the past three quarters.

### Recent and expected change in traffic volumes

#### a) Passenger



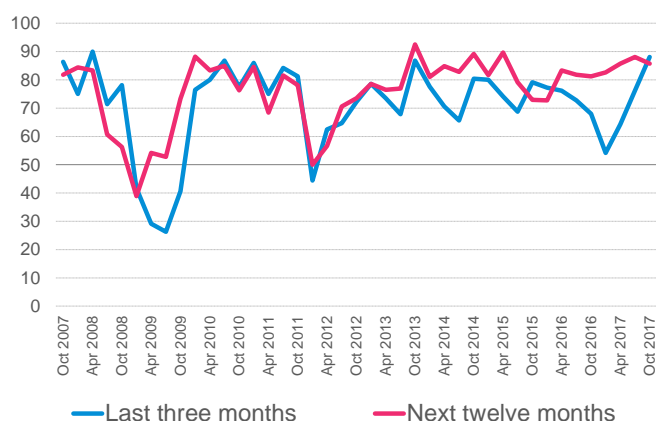
#### b) Cargo



### Compared to previous surveys

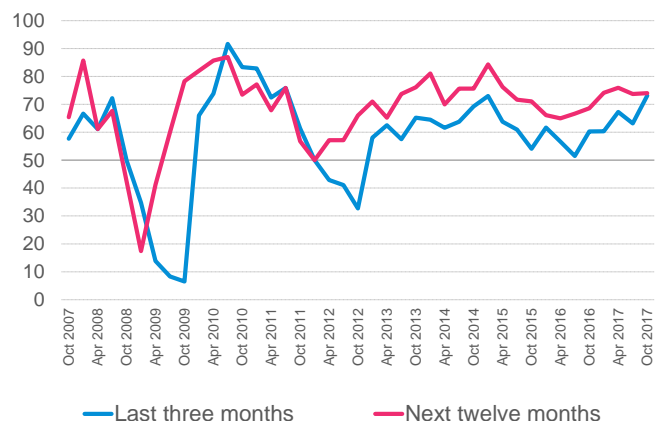
#### a) Passenger

Weighted Score (50 = No Change)



#### b) Cargo

Weighted Score (50 = No Change)

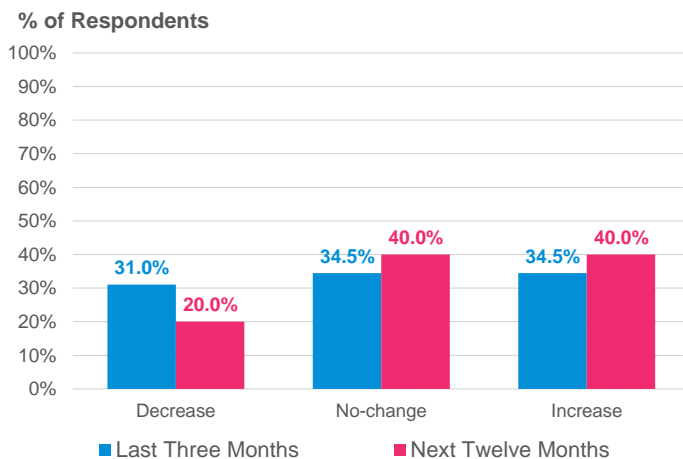


## INPUT COSTS

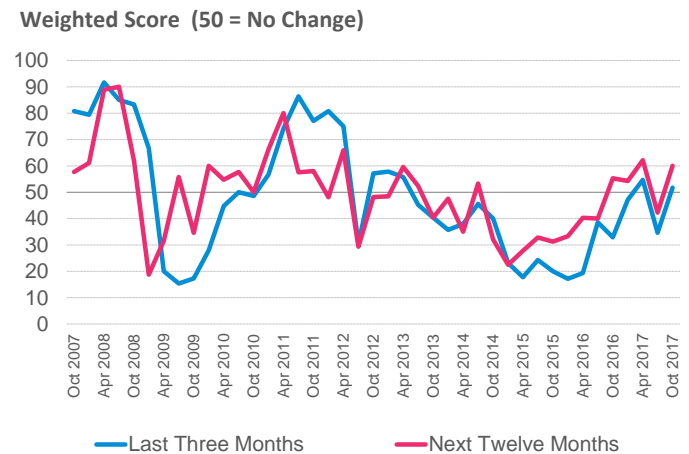
- ➔ Developments in input costs divided respondents relatively evenly this quarter. 31% saw their unit input costs decrease in Q3 2017 compared with a year ago – down from 50% in Q2. Those experiencing either no change or an increase in costs were equally split at 35%, with the latter up from 19% last quarter.
- ➔ Looking ahead, 40% of respondents expect input costs to increase over the coming 12 months – a sharp turnaround from last quarter, where only 19% expected input costs to rise. Numerous respondents highlighted recent developments in oil prices, and the expectation of further price increases to come, as a key input into their response. A modest 20% expect input costs to ease over the year ahead, down from 35% in Q2, and primarily driven by internal productivity gains and cost reduction programs.

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

#### a) October 2017 survey



#### b) Compared to previous surveys

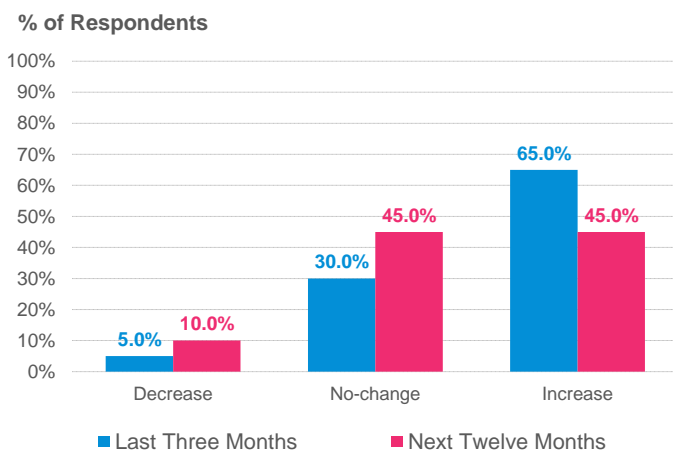


## YIELD ENVIRONMENT

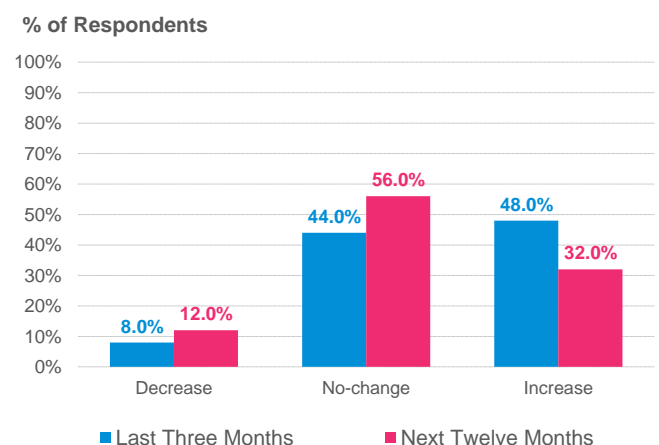
- ➔ 65% of our respondents reported higher passenger yields in Q3 2017 compared to a year ago – up from 43% last quarter and the highest proportion since July 2011. This result confirms broader signs that the downward trend in passenger yields has bottomed out as input costs have increased. Looking ahead, 90% of respondents expect yields to remain steady or increase over the year ahead, evenly divided between the two. The share of respondents expecting yields to rise jumped a sizeable 20pp, from 25% last quarter.
- ➔ Almost half (48%) of our respondents reported an annual increase in freight yields in Q3 2017 – the highest share since July 2011. Only 8% saw a decrease in yields. For the coming year, the bulk of respondents (56%) expect no change in yields (down from 72% last quarter), while 32% now expect yields to increase (up from 11%). The weighted average score rebounded this quarter, to its highest level in four years.

### Recent and expected change in yields

#### a) Passenger



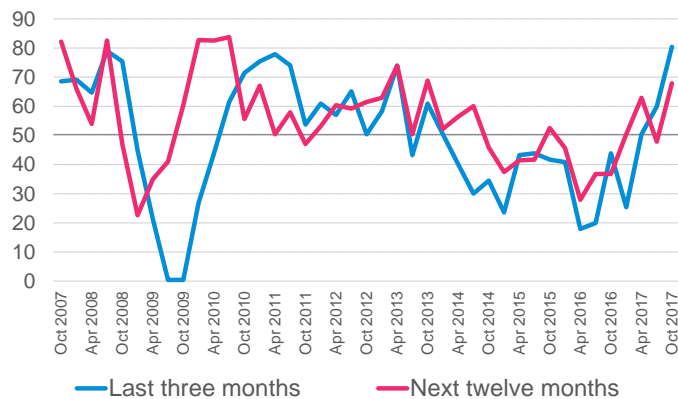
#### b) Cargo



## Compared to previous surveys

### a) Passenger

Weighted Score (50 = No Change)



### b) Cargo

Weighted Score (50 = No Change)



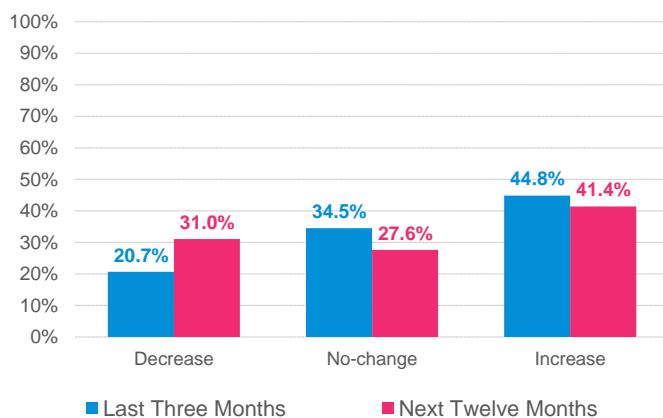
## EMPLOYMENT

- 45% of survey respondents reported an increase in employment levels in Q3 2017 relative to the same period in 2016, slightly above the outcome for Q2. 21% of respondents reported a decrease in employment levels in Q3, up from 15% last quarter, and enough to drive a modest dip in the backward-looking weighted-average score on this occasion.
- 41% of respondents reported that they expect to increase employment levels over the year ahead, down slightly on the 44% figure reported last quarter. Almost 1/3 of respondents indicated that they expect to decrease employment levels in the next 12 months as part of broader cost reduction programs. As such, the forward-looking weighted-average score unwound some of its recent gains but remains firmly in expansionary territory.

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

### a) October 2017 survey

% of Respondents



### b) Compared to previous surveys

Weighted Score (50 = No Change)



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