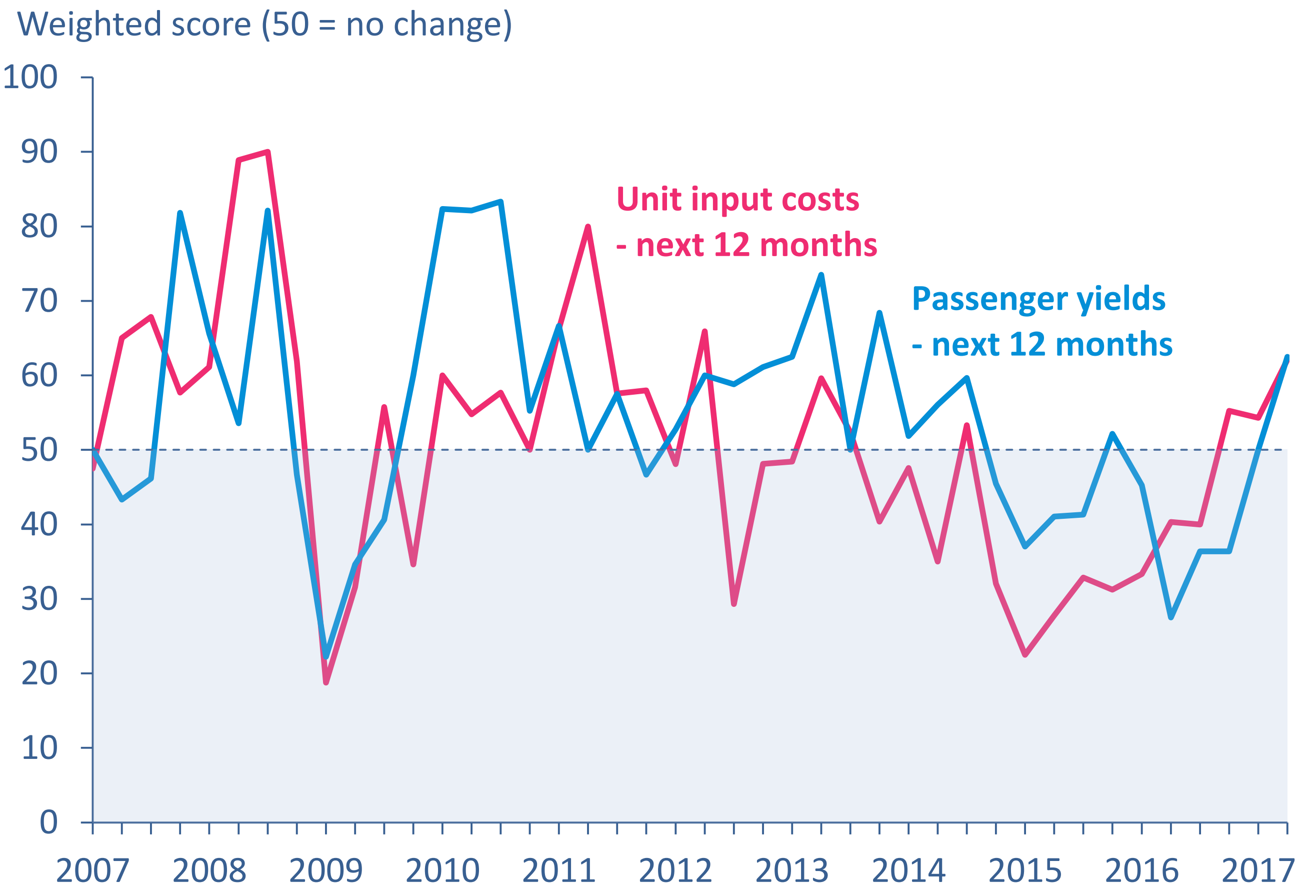
IATA ECONOMICS' CHART OF THE WEEK

28 APRIL 2017

IS THE SQUEEZE ON PROFIT MARGINS COMING TO AN END?



Source: IATA Business Confidence Index

- The squeeze on industry profit margins over the past year is clearly visible in the responses to IATA's quarterly survey of airline CFOs and heads of cargo. Indeed, as shown in today's chart, the four previous quarterly surveys have seen a greater proportion of respondents report that they expected yields to fall over the coming year than those who expected unit costs to decline. (That is, the blue line on the chart has fallen below the pink line). This marked a turnaround from the situation in the preceding years, when greater declines in unit input costs helped to support industry profitability.
- Our latest survey (link) showed tentative signs that the squeeze is easing. To be clear, our respondents still expect unit costs to rise over the year ahead, reflecting a combination of higher fuel prices and rising labor cost pressures in certain markets. But what is different this time around is that a similar proportion of respondents now expect passenger yields to keep pace with costs over the next 12 months, supported in part by the recent pick-up in global economic conditions.
- According to our respondents' expectations, then, there is light at the end of the tunnel for industry profit margins.

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