Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of Andy Bowley from Forsyth Barr.

Andrew James Bowley
Forsyth Barr Group Ltd., Research Division

I got a couple of questions. And the first one regards the forward demand outlook, both in terms of tickets sold and yield expectations particularly over the next 6 months or so, looking at the balance sheet for end of December, it looks like revenue in advance is up only around 2.5%, but we got quite a big increase in capacity coming through in the second half. Wondering if you could comment on the forward outlook?

Christopher Mark Luxon
Former Chief Executive Officer

Good, listen, I mean, the headline is that forward demand and sales momentum remains really strong. I mean, obviously, that's been a very big part of our first half results. And as we go forward, we're actually really encouraged by where we set with demand creation. We have 11.7% increase in capacity coming in the second half. And I think as you probably aware of it, I think, 23% of it or 22% of it is directed into Asia. And a big part of that is obviously the Singapore alliance taking off from January 6. And obviously some increased capacity going from Japan as well. So and then up gauged flights and the full half impact of 787 and 777-200s going into Shanghai. So we are quite confident about the momentum that we have and our ability to be able to fill that demand. I mean, Rob, would you have anything else to say?

Robert Stuart McDonald
Former Chief Financial Officer

Yes, it's Rob here. There's just a couple of things on that forward sales that you just need to bear in mind. Some of the Asian foretells in -- and also Australian dollar, there's a weaker currency, so that translates through the foretells to a lower amount. Equally, the -- a lot of the growth in the second half is the Singapore route. And most of those sales on the initial month occurred with Singapore Airlines. So that sort of word come to us until it's flown. And so that's -- so it's a bit of an adjustment here. So probably just suppresses it than more it normally would.

Christopher Mark Luxon
Former Chief Executive Officer

But I don't think we feel -- we appreciate there's a lot of capacity coming in that second half. But as you know, we've been very demand-triggered here, so we feel quite comfortable with that.

Robert Stuart McDonald
Former Chief Financial Officer

Yes. And you saw it from the January stats that we slotted in very well into -- what was that, close to a 10% increase in that period, it went really well.

Andrew James Bowley
Forsyth Barr Group Ltd., Research Division

Great. Second question, inside into some extent with reference again to the jet fuel price chart that you've showed in the pack with regards to the $82 million net benefit and $249 million over the next 6 and 18 months, respectively. In terms of the kind of the caveat at the bottom, the competitive environment type issue. And you just mentioned January stats, one thing that was clear in the January stats was a slight or a lowering of the yield advancement that we'd seen, particularly on short-haul. What are your kind of the expectations with regards to the yield over the next 6 months? And have you seen any competitive type reaction to fuel prices on any of the routes that you provide currently?

Robert Stuart McDonald
Former Chief Financial Officer

Yes, maybe I'll just make some comments. I think, we clearly need to put a caveat in like that. And at particularly as you think about FY '16, what competitive things may occur and we don't know about. And they may or may not have occurred whether jet fuel had gone down or not. So at the moment, as we stand right now, we're not really seeing any significant adjustment to capacity going on. And I think the other point bearing in mind is the supply chain for aircraft is probably at a minimum for wide-body 30 months. And so that does sort of constraint on how much additional capacity can come in quickly into New Zealand market. And equally, everyone's network rises up at the same sort of same level not uniformly around their network necessarily, but certainly, in the case of New Zealand, which by and large, where everyone's a 12-hour trip that tends to get a little bit more competitive in other parts in the network. But equally, New Zealand is a big route for business process, it's not a high yield either. So in the end, a lot of the capacity, a lot network decisions will we made around what are the fundamental economic conditions in the market affecting that. So fuel clearly brings a fair few airlines that has struggled in recent years up above the water. And clearly, they can carry on and perhaps further repair their businesses. I'm just not sure that necessarily translates -- instantly translates to aggressive capacity growth.

Andrew James Bowley
Forsyth Barr Group Ltd., Research Division

But if -- what about yield, though? Have you seen any yield compression from lower fuel prices to date?

Christopher Mark Luxon
Former Chief Executive Officer

Not really.

Robert Stuart McDonald
Former Chief Financial Officer

No and I think the good thing in New Zealand, we haven't had fuel prices for many years. So the price has been -- the price and frankly, the price is set by demand and supply. And we -- it is -- when we look around our markets, some markets are biggest struggles, some markets in Asia, for example. Clearly, they've got some issues. But then we've grown well in that because we've executed well on the ground. Other markets such as New Zealand, U.S., fundamental economic conditions continue to give a good floor to demand.

Andrew James Bowley
Forsyth Barr Group Ltd., Research Division

But do you, I guess, putting numbers up like $249 million net benefit for next year is a pretty big number. And any kind of political media type backlash with regards to that kind of potential uplift in profitability. Do you expect pressure and the potential for yield compression even in the domestic business over the next 6 to 12 months?

Robert Stuart McDonald
Former Chief Financial Officer

I'll let Christopher touch on that, but I'll leave you with one statistic. As 10 years ago, oil price was about what it is now in terms of jet fuel. Currency was about what it is now, and the average domestic fare is what it is about now. And in the interim, a whole lot of increases across the general cost base, which we have seen off with productivity gains and competed away.

Christopher Mark Luxon
Former Chief Executive Officer

So Andy, I don't have more to add on what Rob said. But what I mean, yes, I mean, we're not saying at the moment could there be a more macro competitive environment in global aviation as a consequence, possibly, but we're quite comfortable where we sit for this half and going into next year, given that environment.

Operator

Your next question comes from the line of Marcus Curley from UBS.

Marcus Curley
UBS Investment Bank, Research Division

Just one point of clarification on that last sort of set of questions. So if I'm interpreting what you're saying correctly, yes, you wouldn't be anticipating your underlying constant currency yield declines for the overall business in the second half?

Christopher Mark Luxon
Former Chief Executive Officer

There's a couple of caveats I'd make is the mix is going to change as we grow. So a lot -- most of this growth is coming from long-haul, so by definition that will -- the average yield for the business will come down, by virtue of mix. But we're not seeing any material yield in the coming quarter, for example, that we didn't expect any material yield moves since. [indiscernible] next year is a long way, away but the mess are the mess, and that's what we've here in terms of...

Marcus Curley
UBS Investment Bank, Research Division

Sure. I appreciate the discretion tell you the truth. And just extending that discussion on yields to Singapore. By default, and I suppose you answered this question is probably you're not expecting to see any material impact on your long-haul yields from opening up Singapore route?

Christopher Mark Luxon
Former Chief Executive Officer

No, I mean, Singapore has been very well sold in the back end of last year, and we're off to a very good start there. I mean, a few operational issues we're ironing out commercially working our way through, but now I'm feeling good about that.

Robert Stuart McDonald
Former Chief Financial Officer

Yes. Certainly we got very, very good demand. But again, I say that as you're just starting into those routes, you will have a lower average yield than the rest of the network and oncoming years, we'd look to build that up.

Marcus Curley
UBS Investment Bank, Research Division

Okay. And then, yes, could you talk a little bit about labor costs? Your first and foremost, yes, there's 80-odd people added in the first half, is there more to come in the second half with the capacity. And secondly, could you talk a little bit about, I suppose, labor rates? And then thirdly, I suppose one-off cost, one would assume -- I suppose, historically, you've talked about you have quite a bit of an up front costs within that, is that sort of starting to come out of the business?

Christopher Mark Luxon
Former Chief Executive Officer

So I mean, the sort of macro headlines markets would be that obviously, we had last year, and we were dealing with the training bubble as we put on this fleet and new growth. We had a lot of pilots and cabin crew that we had to carry in order to get ourselves through training all the new staff that were coming on board. We're largely through all of that. In fact that sort of working its way out of that system, really well. And certainly the aircraft are helping because they're sort of being more efficiently used, where they're probably a bit lazy as we were trying to get the people trained on the 787 in the back half of last year. So really from a labor point of view, we've done some big resets as we've talked about before to make sure we're competitive moving forward. We're very -- again, we're very comfortable with where we are heading in labor. Rob, anything you'd add to that?

Robert Stuart McDonald
Former Chief Financial Officer

Yes. The point I'd make just in the terms of headcount, there's a couple of issues there. One is altitude, which is around 100 people left the business, so that's an adjustment to make. So the actual operational staff increase was around 200, just a little or around 2% which sort of equates to ASKs. But the reality is that was a build that then triggered into close to a 10% growth in January. So I guess if you reflect on the last 18 months around labor, as Christopher mentioned, lots of pilot training, lots of cabin crew training, lots of fleet changes, lots of seat changes for pilots, et cetera. And we're pretty well there now. We are well on the way down of that hell of bubble on that. And you're starting to see some of that where that's a relatively modest labor increase, but I think we can be pretty sure that we'll see in the second half, and from a unit cost perspective with way more flying, we should be looking a lot more labor.

Christopher Mark Luxon
Former Chief Executive Officer

I think, Marcus, in the last year 40% of our pilots, just to give you a feel for it, changed seats. So it just gives you a scale of the magnitude of the training bubble that we had to work our way through in the coming year, I think, it's another 10% to 15%, we'll move seats again. So we're really through the hump of all of that.

Marcus Curley
UBS Investment Bank, Research Division

Okay. And then finally for me, just when you think about the end of the year and the balance sheet, Rob, can you give us a better bit of color in terms of how the board came to the decision around special dividends? If profits are substantially hit again this year versus last year? Is that thought process around the capacity to pay special dividends any different this time around?

Robert Stuart McDonald
Former Chief Financial Officer

No, I can't, really. And the -- if I just -- the comments or maybe is just more of a reflection if I look backwards to where we got. In the previous capital management initiative, which was a special dividend, that certainly was a reflection of where the cash flows is. I mean, you don't want to confuse equity and liquidity. And one of the initiatives now -- as we continue well into this fleet program is we will borrow less funds for these aircraft and create -- or more equity in them. That's where the 44% increase in dividends, I think that's very reflective of saying where we think earnings is traveling. So dividends are discussion at every 6 months -- I never or Christopher or I never prejudge it.

Marcus Curley
UBS Investment Bank, Research Division

And okay, so when you talk about the rate of growth in the first half, given obviously, you hired an underlining earnings. Is the signal there for a higher sustainable payout? Or are you effectively just saying that as you've already flagged, you're probably expecting stronger growth in the second half earnings? And so it's more of a reflection of that than the higher payout for the full year?

Robert Stuart McDonald
Former Chief Financial Officer

I think the latter would be way if I am standing back and interpreting it.

Christopher Mark Luxon
Former Chief Executive Officer

Yes.

Operator

There are no further questions. Please continue.

Christopher Mark Luxon
Former Chief Executive Officer
Okay, so no further questions on the line. Guys, thanks again for your time, really appreciate it. And appreciate the support as well, and look forward to catching up with you soon. See you. Bye.