

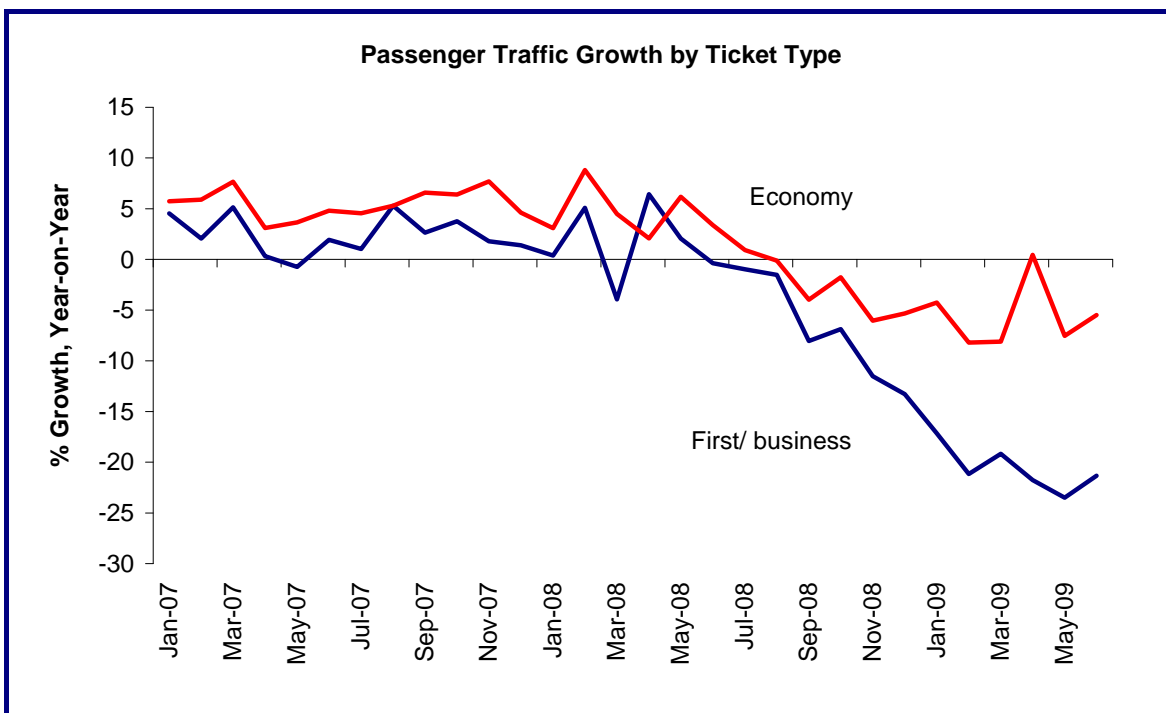
# PREMIUM TRAFFIC MONITOR

## JUNE 2009

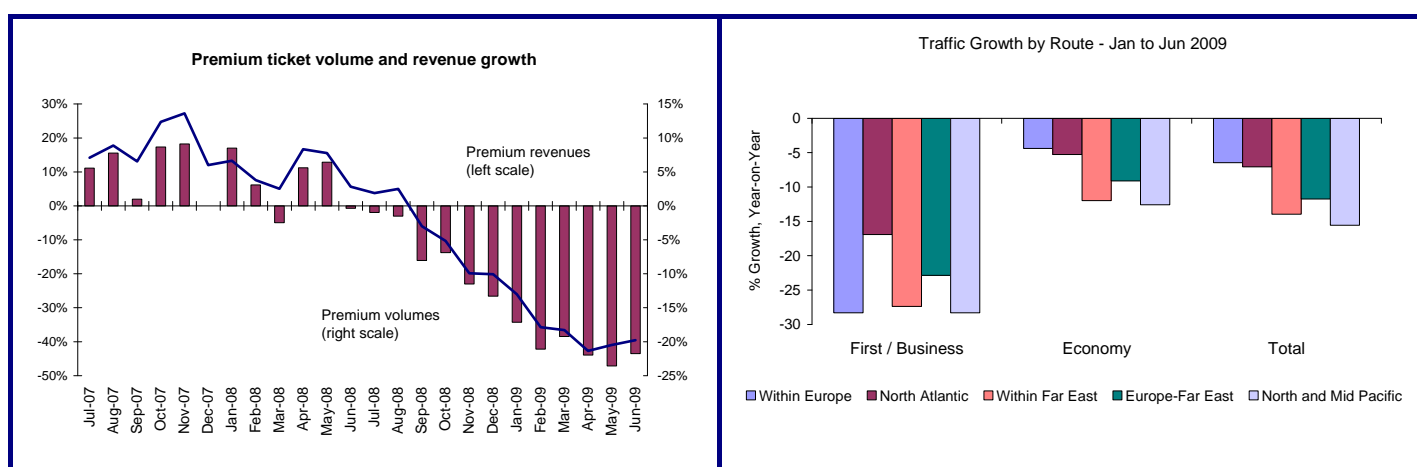
### KEY POINTS

- Passenger travel numbers in June are now indicating some stabilisation in air travel demand, with the decline in total passenger numbers on international markets from levels in the same month last year slowing from 9.2% in May to 7.1% in June. Adjusting for seasonal fluctuations passengers numbers were broadly unchanged in June compared with levels in May.
- Notably the decline moderated in both premium and economy travel in June. The number of passengers travelling on economy tickets has shown signs of reaching a floor since March, but until June that seemed largely due to business travellers switching from premium to economy seats rather than any underlying stabilisation of demand. In June numbers travelling on economy tickets fell by 5.5% compared to a larger 7.6% decline in May. The decline in premium travel numbers also moderated, from 23.6% in May to 21.3% in June.
- However, this improvement was not seen consistently across all geographical markets. Some key Asian markets saw a further deterioration in June. Since economic conditions improved in many key Asian economies during the second quarter this further deterioration in air travel is likely due to continued concerns over influenza A (H1N1). But in contrast, markets more directly affected by H1N1 saw this adverse impact moderate in June, with total passenger declines slowing from 62.4% in May to 45.2% within Central America and decelerating from a fall of 22.9% to 10.8% for travel between North and C America. There was also some evidence that more stable Q2 economic conditions in the US and Europe began to influence travel, with total passenger numbers across the N Atlantic falling by 'only' 3.5% in June compared with a 6.3% decline in May.
- But the issue now is that this stabilisation of passenger numbers is partly being achieved at the expense of much lower yields, as airlines seek to boost cash flow by making more cheaper seats available. Revenues from premium travel fell an estimated 33% in Q1 and 41% in Q2 and was still declining at a rate close to 40% in June.

### PREMIUM TRAFFIC GROWTH



- Passenger travel numbers in June are now indicating some stabilisation in air travel demand, with the decline in total passenger numbers on international markets from levels in the same month last year slowing from 9.2% in May to 7.1% in June. Adjusting for seasonal fluctuations passengers numbers were broadly unchanged in June compared with levels in May.
- During the first quarter passenger numbers on international markets was down 8.2%. That pace of declining moderated in the second quarter – as broader economic conditions began to stabilise – leaving passenger numbers for the first half of 2009 down 7.3%. That compares with a 7.6% first half decline in passenger kilometres flown on international markets.
- Historically long-haul markets have developed much faster than short-haul, raising the average distance flown and causing passenger kilometres flown on international markets in total to rise some 1% point a year faster than growth in passenger numbers. Recession and the collapse in world trade and associated business travel has hit long-haul markets leading to a convergence in the growth of these two measures of air travel volumes.
- On domestic markets passenger numbers are falling faster than on international markets in North America and Europe, according to data from the airports. However, domestic travel in Asia – dominated by the Chinese market – was rising at an average rate of around 4% during the first half of 2009. As a result overall passenger numbers on domestic markets appear to be falling at a rate of around 6-7% during the first half of the year i.e. at a slightly slower rate than the decline on international markets. However, stronger growth in Asia Pacific domestic markets in recent months reduced this rate of decline to 2.5% by June (ACI International).
- The decline in revenues continue to get worse in the second quarter, as shown by many of the results recently announced by airlines. However, at the end of the second quarter there were tentative signs of a floor being reached for revenues as well as passenger numbers. Even so we estimate that revenues from passengers travelling on premium seats was still declining at a rate close to 40%.



## PREMIUM TRAFFIC BY MAJOR ROUTE

- Improvement in June was not seen consistently across geographical markets. In particular a number of key Asian markets showed some further deterioration during June, in spite of early signs of recovering economic growth in a number of economies in the region. In particular within Far East passengers numbers showed an accelerated decline of 19.3% in June, after a 17.1% fall in May and an 11.7% Q1 fall. Notably much of the accelerated decline in this market was due to passenger travelling on economy tickets, consistent with the view that this deterioration was probably due to the impact of influenza A (H1N1) concerns. A similar decline was seen on the Europe to Far East market, where premium travel was down 23.7% in June. However, this was not true of all Asian markets. Across the North and Mid Pacific there was a moderation in the decline of total passenger numbers from 18.9% in May to 16.3% in June. Premium travel was down 27.9% on this market.
- There was a further improvement in passenger numbers travelling between the Middle East and Asia. Premium travel remains down on last year but economy is up sharply, taking total passenger numbers up 14.6% in June after a rise of 9.4% in May. Partly this reflects the investment in tourism in the Middle East and direct travel to the region. However, the numbers in this report reflect the segments travelled by passengers. Europe to Middle

East passenger numbers were also up 7.5% in June. Part of the growth in these two markets, compared to the decline in direct Europe to Far East markets reflects the success of Middle Eastern airlines in gaining market share from the direct flights by flying passengers via their hubs.

- The markets hit initially and most severely by influenza A (H1N1) in Central America saw the impact on passenger numbers moderate in June. Within Central America total passenger numbers fell 45.2% in June, a massive decline compared to last year but rather less severe when compared with the 62.4% decline experienced in May. US airlines have also reported material impacts on their services to this region during the second quarter. By June the North to Central American market had also seen a moderation of this impact with a 10.8% decline following a 22.9% fall in May. The experience of SARS in 2003 was for a very sharp but 'V'-shaped profile to growth rates. The results for June in this, first affected, region are consistent with a similar pattern. However, it is only one month's data and, even if it does represent a moderation of impact on air travel, H1N1 may return in a more virulent form later in the year. H1N1 still seems to be affecting Asian travel and even in American markets it is too soon to say whether an end is in sight to its adverse impact on travel.
- France and Germany have just declared an end to their recessions, following the marginal rise of GDP in their economies during the second quarter. Stronger economic gains were seen in some Asian economies, such as China and South Korea. Economic activity was still declining during the second quarter in the US, the UK and some other European economies, but at a much slower pace than the precipitous declines at the end of 2008 and during the first quarter of this year. This improvement in economic conditions, albeit extremely modest, has already been seen in improved air freight volumes. Passenger travel usually lags any recovery in industrial production and trade because unemployment and consumer confidence only stabilise once the economic recovery has become strong enough to be seen as sustainable. However, we may be seeing some early signs of the impact of more stable economic conditions on some travel markets.
- Across the North Atlantic total passenger numbers moderated to a decline of 'only' 3.5% in June, after a decline of 6.3% in May and 10.8% in the first quarter. Month to month, after seasonal adjustment, passenger numbers are now starting to rise on this market. The improvement is most visible in economy travel where numbers were just 1.7% down on levels last year, after first quarter numbers were down 9.5%. The same is not true for premium travel. Bankers may be getting bonuses again but the level of financial market activity remains low and that is a key driver for business travel on this market. Passengers travelling on premium tickets across the North Atlantic remained down 13.9% in June.
- European airlines have been reporting improving travel numbers in recent months, still down on last year but falling at a much slower rate through May, June and July (according to the AEA). However, that is not evident in premium travel in the region. Within Europe travel on premium tickets declined even more in June at a rate of 31.3%, compared with a 30.6% decline in May and a 24.2% fall in the first quarter. Economy travel on this market is moving in the opposite direction with a moderation in the recent decline to 3% in June, after 4.9% in May and a 7% decline in the first quarter. The deterioration in premium travel is despite the better economic news declared by Germany and France. There are lags in any cyclical recovery but on this short/medium-haul market this does suggest some further structural decline in premium travel. Passengers who had previously paid premium fares to travel on these markets and have now moved to the back of the aircraft, or onto low fare airlines, may not return.

IATA Economics  
18<sup>th</sup> August 2009

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## PREMIUM TRAFFIC GROWTH BY ROUTE

	Share of Total Premium:		Premium Traffic Growth	
	Traffic	Revenues	Jun 09 vs Jun 08	YTD 2009 vs YTD 2008
Africa - Middle East	1.1%	0.7%	-5.6%	-9.3%
Africa - SW Pacific	0.0%	0.1%	-30.4%	-18.3%
C America-S America	0.3%	0.1%	-35.7%	-26.1%
Europe - Far East	8.1%	13.0%	-23.7%	-22.9%
Europe - Middle East	4.8%	5.2%	-8.9%	-9.7%
Europe - SW Pacific	0.1%	0.3%	-9.5%	-10.7%
Africa - Far East	0.2%	0.3%	-27.2%	-28.6%
Within Africa	0.6%	0.4%	-14.8%	0.7%
Within Central America	0.1%	0.0%	-56.6%	-49.9%
Within Far East	8.4%	6.8%	-29.0%	-27.4%
Within Middle East	2.0%	0.8%	-11.6%	-9.6%
Within North America	1.3%	0.4%	-26.3%	-19.0%
Within SW Pacific	0.4%	0.2%	-3.6%	-12.1%
Within South America	1.0%	0.3%	-14.5%	-11.7%
Mid Atlantic	1.0%	1.1%	-18.2%	-13.7%
Middle East - Far East	2.6%	1.9%	-5.0%	-12.7%
Middle East-SW Pacific	0.5%	0.8%	0.1%	-16.5%
North Atlantic	20.7%	32.9%	-13.9%	-16.9%
N America-C America	5.4%	1.9%	-9.3%	-10.6%
Europe – Africa	4.1%	4.8%	-7.4%	-8.1%
N America - S America	2.4%	3.1%	-9.8%	-12.7%
Far East - SW Pacific	1.4%	2.0%	-27.8%	-20.6%
North and Mid Pacific	5.7%	12.2%	-27.9%	-28.3%
South Pacific	0.4%	0.9%	-12.1%	-22.5%
South Atlantic	2.5%	2.7%	-10.0%	-12.3%
Within Europe	24.9%	7.0%	-31.3%	-28.3%
<b>Total International</b>	<b>100.0%</b>	<b>100%</b>	<b>-21.3%</b>	<b>-20.7%</b>

