

# MONTHLY TRAFFIC ANALYSIS

## FEBRUARY 2007

### KEY POINTS

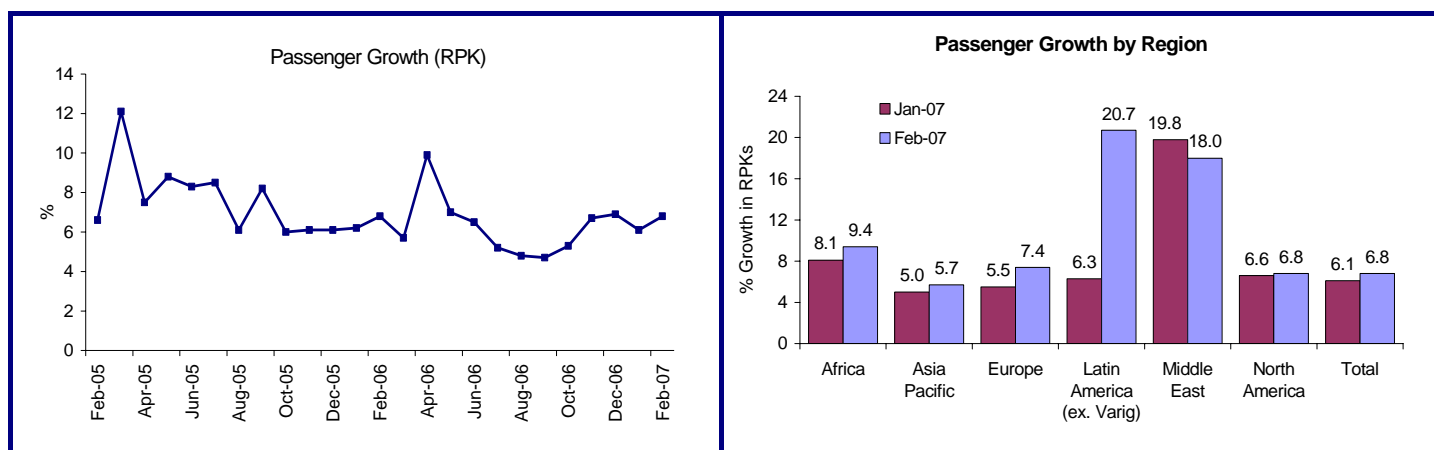
- International air passenger growth continued its strong start to 2007 in February. Passenger traffic **grew by 6.8% in February**, up from 6.1% growth in January and well above the average growth rate of 5.9% for 2006. The fundamental factors supporting passenger demand growth remain positive, led by strong economic growth in Asia and the Middle East and the development of new routes and services across all regions.
- While economic growth provides the short-term support, moves towards greater liberalisation will help to boost demand growth into the future. Agreement on an EU-US Open-Skies deal will help to generate additional demand on routes between the US and Europe following its planned implementation in March 2008. For example, the Brattle report estimates that the first stage of this deal could generate an additional 2-4 million transatlantic passengers annually. The EU-US deal will also hopefully act as a stepping-stone for further liberalisation on these routes and in other regions too, helping to support further global passenger demand growth over the longer-term.
- However, international air freight growth continues to disappoint. Freight traffic **grew by just 2.4% in February**, down from 3.0% in January and continuing the trend of lower growth seen since mid-2006. High fuel costs and strong competition from other modes are acting as a constraint on air freight growth in key regions, particularly on shorter haul routes. Though stronger than expected growth in the US economy has helped to support passenger demand it has had less of an impact for freight. North American airlines saw freight volumes decline by 0.5% in February compared with growth of 6% in 2006. The boost to freight demand as US airlines restructured towards international markets in 2006 now appears to have less of an impact.
- The Middle East remains the fastest growing region, with both passenger and freight growth rates continuing to be above 15% in February. The Middle East also continues to see a large increase in passenger capacity, but at a slightly lower rate than demand, helping to improve load factors. Ensuring that capacity growth does not outpace demand growth remains a key challenge for airlines in the Middle East and other regions in 2007.

	February 2007 vs. February 2006					Year to Date 2007 vs. Year to Date 2006				
	<i>RPK Growth</i>	<i>ASK Growth</i>	<i>PLF</i>	<i>FTK Growth</i>	<i>ATK Growth</i>	<i>RPK Growth</i>	<i>ASK Growth</i>	<i>PLF</i>	<i>FTK Growth</i>	<i>ATK Growth</i>
<b>Africa</b>	9.4%	8.7%	67.2	-2.0%	8.5%	8.7%	8.2%	68.5	0.0%	8.5%
<b>Asia/Pacific</b>	5.7%	6.2%	73.5	4.4%	7.4%	5.2%	5.3%	74.1	3.8%	6.8%
<b>Europe</b>	7.4%	5.3%	72.4	-0.6%	3.9%	6.6%	5.4%	73.0	-0.4%	3.5%
<b>Latin America</b>	1.3%	1.4%	72.5	-20.2%	-4.4%	-1.5%	-1.0%	73.3	-8.9%	-1.8%
<b>Middle East</b>	18.0%	16.1%	73.5	15.4%	17.0%	18.7%	17.3%	75.0	16.1%	18.0%
<b>North America</b>	6.8%	5.7%	74.4	-0.5%	3.0%	6.8%	6.0%	75.8	0.2%	4.0%
<b>Industry</b>	6.8%	6.1%	73.3	2.4%	5.6%	6.5%	6.1%	74.0	2.6%	5.7%

### PASSENGER GROWTH CONTINUES ITS STRONG START TO 2007.

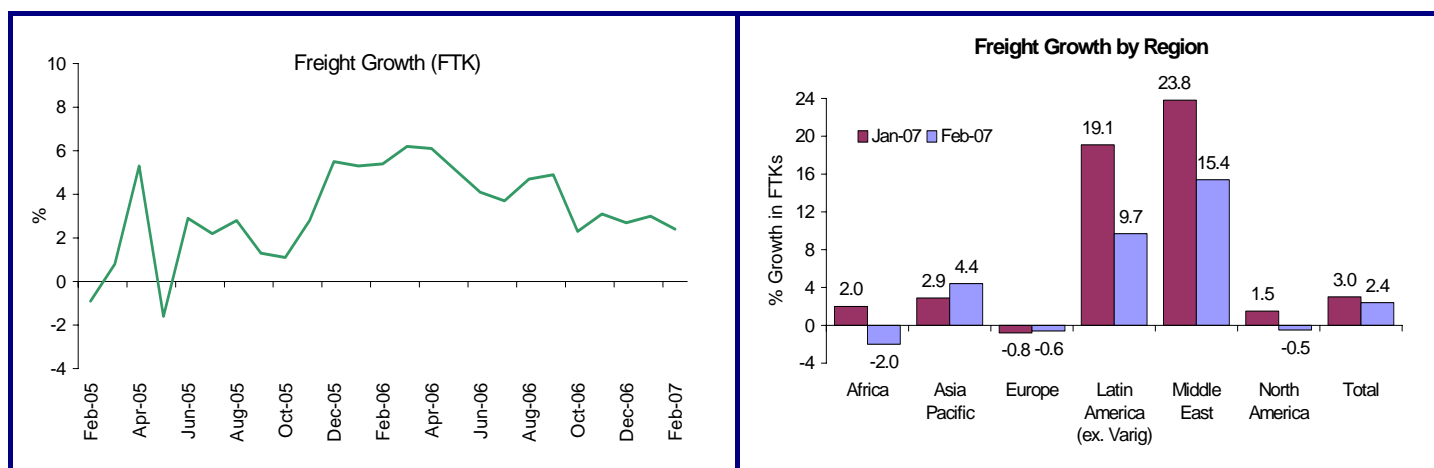
- Passenger demand growth was 6.8% in February, up from 6.1% in January and well above the level of growth for 2006 as a whole of 5.9%. Passenger demand growth has maintained its positive momentum into the start of 2007, boosted by strong economic growth in Asia and the Middle East and by higher than expected economic growth in North America and Europe.

- Airlines in the Middle East saw another month of strong growth, with year-on-year demand growth of 18% higher than the 16% increase in capacity. Latin American airlines saw passenger growth of just 1.3% in February, though this continued to be affected by the restructuring at Varig and the shift in demand to other airlines. Excluding Varig, Latin American airlines saw a large increase of 20.7% in RPKs in February.
- Demand growth also remains above average for African airlines, boosted by the development of new routes within Africa and routes to Asia and the Middle East. European airlines saw a pick-up in the growth rate to an above-average level, boosted by stronger economic growth in the region. North American and Asia Pacific airlines saw a slight increase in the rate of growth compared to levels in January.



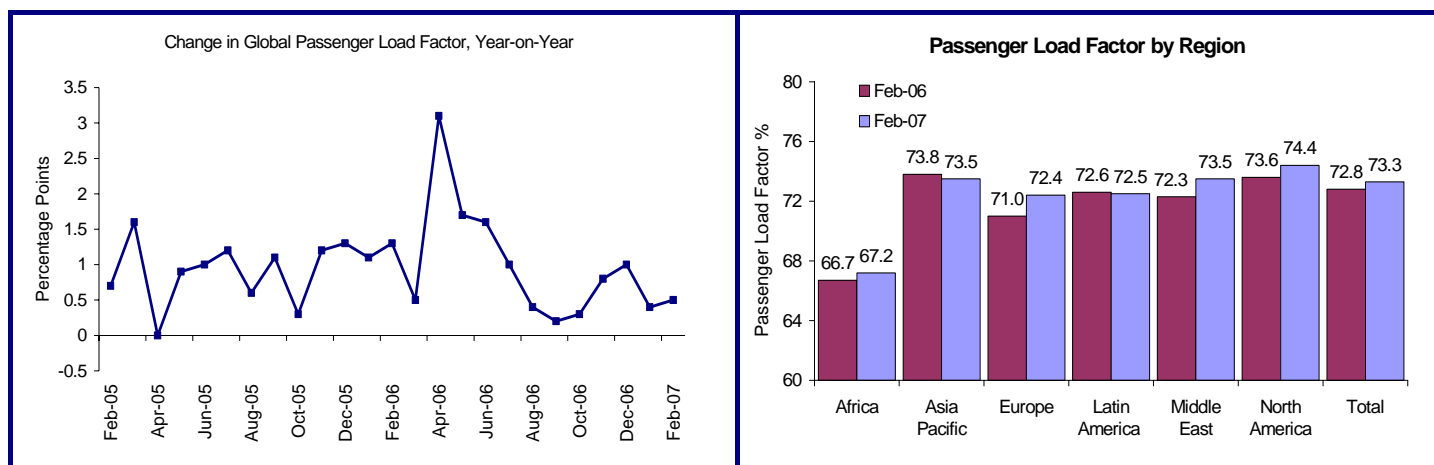
## FREIGHT GROWTH CONTINUES TO DISAPPOINT

- International air freight growth was 2.4% in February, down from 3.0% in January and well below the 4.6% level of growth seen for 2006 as a whole. The relatively weak level of growth seen in the second half of 2006 has continued into the start of 2007 – even though global economic and trade growth remains relatively strong.
- Air freight continues to grow strongly in the Middle East, boosted by oil-led GDP growth in the region and by increases in capacity. Middle Eastern growth slowed in February, but was still a very strong 15.4%. Excluding Varig, other Latin American airlines saw freight growth of 9.7% in February, as they rapidly expand their operations on the freight side.
- Freight growth in other regions continues to disappoint. High fuel costs and strong competition from other modes are acting as a constraint on air freight growth in key regions, with both North America and Europe seeing declines in traffic levels in February. However, the decline in volumes appears to be concentrated on short-haul routes (i.e. within Asia, within Europe) where competition from other modes is greatest. Air freight continues to grow relatively strongly on longer-haul routes, especially those to and from Asia and the Middle East.



## LOAD FACTORS REMAIN HIGH

- Average international passenger load factors increased to 73.3% in January, 0.5 percentage points higher than in February 2006. North American airlines had the highest load factor (74.4%) and also the highest increase in load factors (0.8 percentage points) compared to February 2006. However, Latin American and Asia Pacific airlines saw a slight fall in load factors compared to the previous year.
- Higher load factors have been a key factor behind in the improvement in airlines financial performance. The positive passenger demand environment at the start of 2007, with RPKs continuing to grow at a faster rate than ASKs, suggests that load factors are continuing to provide a boost, as airlines take advantage of over two years of consecutive monthly increases in year-on-year load factors.
- However, capacity (ASK) growth is also beginning to increase and further improvements in load factors will become increasingly difficult to achieve. So far, many of the new aircraft delivered have been replacements for older, less fuel-efficient aircraft. However, with a significant number of new aircraft due to be delivered over the next five years (especially in regions such as China, India and the Middle East), capacity as a whole is set to increase rapidly. A major challenge for the airline industry is to ensure that the pace of new deliveries continues to match future demand growth in order to avoid the emergence of excess capacity.



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