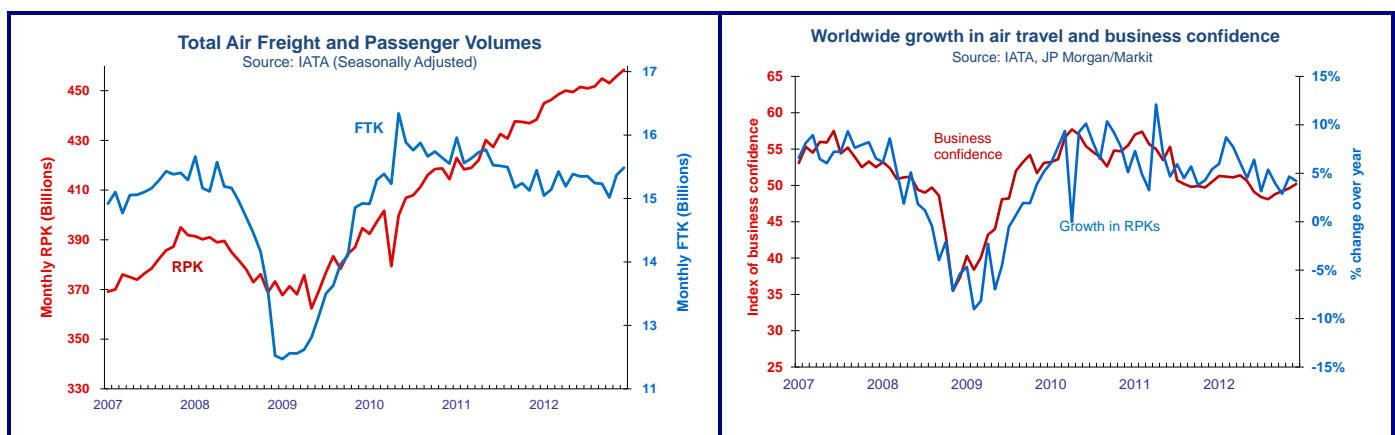


# AIR TRANSPORT MARKET ANALYSIS

## DECEMBER 2012

### KEY POINTS

- Global air travel markets were starting to improve at the end of 2012, with passenger travel up 4.2% in December compared to a year ago. Air freight markets were down slightly (0.3%) in December year-on-year, but the seasonally adjusted trend showed further recovery to mid-2011 levels.
- During 2012 air travel slowed from the high growth rates at the start of the year. Nevertheless, for the year as a whole air travel grew 5.3%, only slightly down on 2011 growth of 5.9%, and above the 5% twenty-year average. International travel grew at a faster rate than domestic traffic.
- International travel expanded by 6% in 2012, with a majority of the growth coming from emerging markets, including Middle Eastern airlines which had growth of 15.4%. The Eurozone crisis and consolidation efforts in the US saw international travel on European and North American airlines slow down considerably in 2012 (5.3% and 1.3%) compared to 2011 (9.5% and 4.1%).
- Domestic air travel markets expanded 4% in 2012 compared to 2011. Strong growth in China (9.5%) and Brazil (8.6%) was in contrast to smaller expansion in the US domestic market (0.8%), which constitutes almost half of global domestic travel, and a 2.1% contraction in India. Japan's domestic market expanded by 3.6%, but December 2012 traffic was still 7% below pre-tsunami levels.
- Air freight markets declined further in 2012, contracting 1.5% after falling 0.6% in 2011. A sharp slowdown in world trade growth and shifts in commodity mix favoring sea transport placed further downward pressure on air freight demand in 2012. Asia-Pacific airlines were most affected, seeing contraction of 5.5% in 2012. The exceptions were Middle Eastern and African airlines, with growth of 14.7% and 7.1% in 2012, supported by new trade lanes and developing trade links between Africa and Asia.
- The growth in traffic coupled with tighter airline capacity management kept passenger load factors very close to record levels throughout 2012, and has also allowed freight loads to rebound in Q4. Both of which should help airline financial performance in the face of high fuel costs.
- The downward pressure on air transport demand seen throughout 2012, particularly air freight markets, appears to be easing. Business confidence continues to improve and current levels indicate stable growth in the months ahead. Air transport still faces strong headwinds from continued global economic weakness and high fuel prices, which is likely to moderate the expected improvement.



#### Year on Year Comparison

#### December 2012 vs. December 2011

#### 2012 vs. 2011

	RPK	ASK	PLF	FTK	AFTK	FLF	RPK	ASK	PLF	FTK	AFTK	FLF
<b>International</b>	5.0%	2.8%	77.9%	-0.5%	-2.0%	51.9%	6.0%	4.0%	78.9%	-1.9%	0.6%	49.5%
<b>Domestic</b>	2.9%	2.7%	77.9%	1.0%	-1.5%	30.8%	4.0%	3.8%	79.5%	1.4%	-1.2%	29.2%
<b>Total Market</b>	4.2%	2.7%	77.9%	-0.3%	-1.9%	47.0%	5.3%	3.9%	79.1%	-1.5%	0.2%	45.2%

RPK: Revenue-Passenger-Kilometers; ASK: Available-Seat-Kilometers; PLF: Passenger-Load-Factor; FTK: Freight-Tonne-Kilometers; AFTK: Available Freight Tonne Kilometers; FLF: Freight Load Factor; All Figures are expressed in % change Year on Year except PLF and FLF which are the load factors for the specific month

## COMPARING DECEMBER TO NOVEMBER

### November 2012 vs. October 2012

Month on Month Comparison	RPK	ASK	PLF pt	FTK	AFTK	FLF pt
International	0.6%	0.3%	0.2%	0.6%	-0.4%	1.0%
Domestic	0.6%	0.5%	0.0%	2.2%	-0.1%	0.7%
<b>Total Market</b>	<b>0.6%</b>	<b>0.4%</b>	<b>0.1%</b>	<b>0.8%</b>	<b>-0.3%</b>	<b>0.5%</b>

Data are seasonally adjusted.

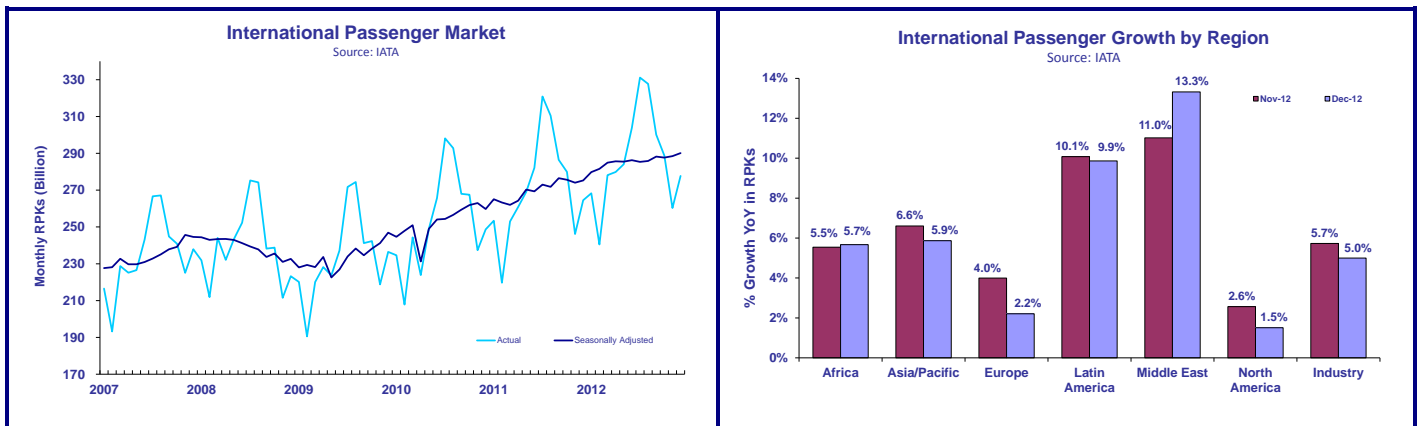
All figures are expressed in % change month on month except, PLF pt and FLF pt which are the percentage point difference between load factors of two consecutive months.

➤ Seasonally adjusted data shows the level of global RPKs expanding 0.6% in December compared to November, with capacity increasing by less at 0.4%. As a result, load factors improved 0.1pt month-on-month.

➤ Air freight volumes increased further in December, expanding 0.8% on November levels. With a 0.3% reduction in capacity, airlines increased freight load factors 0.5pt over the month.

## PASSENGER MARKET

### International Markets



➤ The seasonally adjusted growth trend in international travel had flattened throughout the year, but due to robust growth toward the end of 2011 and start of 2012, levels throughout the year remained high. There was a solid increase in the trend in December, with passenger traffic expanding 0.6% compared to November.

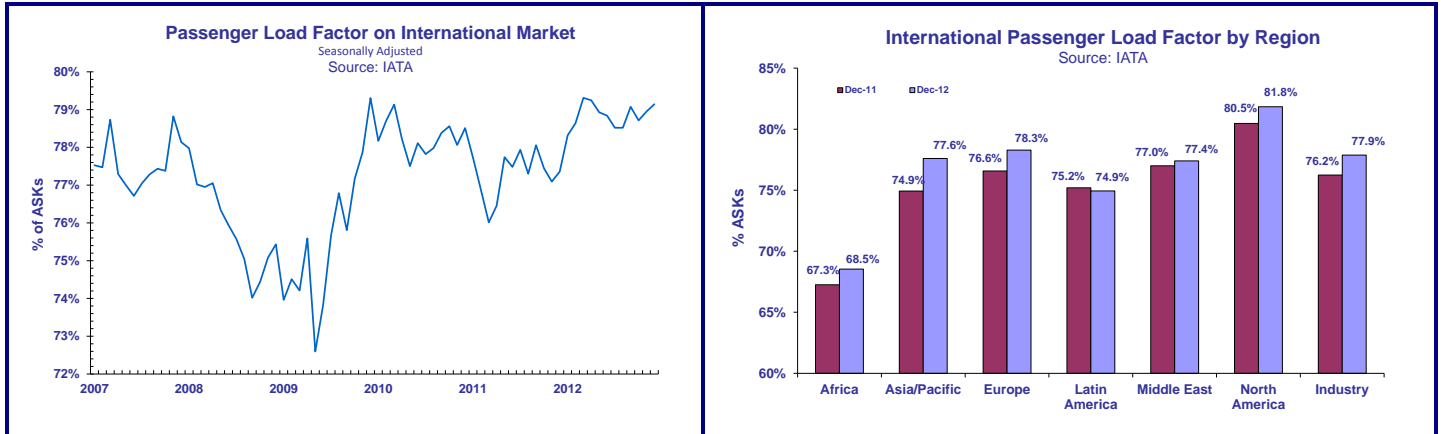
➤ Compared to 2011, international air travel has experienced strong growth of 6%, with emerging regions driving a majority of that growth. Middle Eastern airlines contributed almost a third of the growth in international travel in 2012. While in 2011 the pace of international travel was less than the capacity expansion from significant aircraft deliveries, that was not the case in 2012. Middle Eastern airlines experienced international traffic growth of 15.4% in 2012, 6.5pt faster than 2011 and well above the expansion in capacity (12.5%).

➤ International air travel on Asia-Pacific airlines also contributed to the growth in overall international travel, almost a fifth of the total. Airlines in the region saw a 5.2% increase in international air travel in 2012, up on 2011 when the expansion was 4%. The region had seen a slowing growth trend in the middle months of the year, but over the last quarter there was acceleration in growth, contributing to the solid overall performance. Recent months have shown signs of a revival in the Chinese economy, with business confidence moving further into expansionary territory. Furthermore, growth momentum in both Asian imports and exports picked up in Q4 2012, also providing a boost to air transport demand in the region.

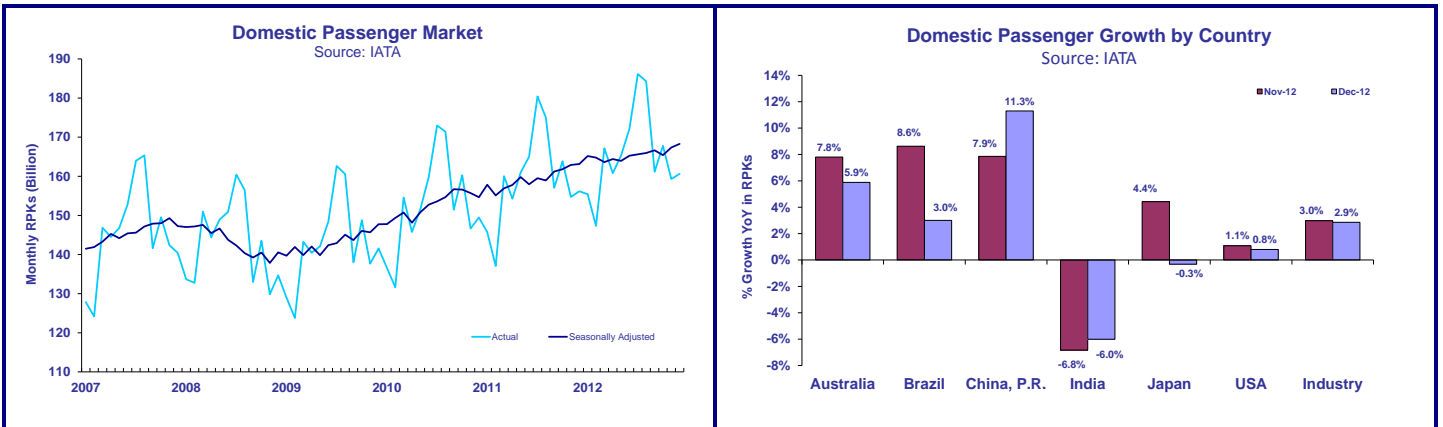
➤ African airlines carry a smaller share of total international RPKs, but they experienced solid growth year-to-date. In fact, airlines in the region recorded one of the strongest growth rates for 2012, increasing 7.5% in 2012. The strength of domestic markets, with some African nations posting the fastest economic growth rates globally, has provided sustained demand for air transport services. International travel on Latin American airlines had similar performance, with the second strongest growth rate in 2012 of 8.4%. Robust demand in major economies like Brazil is being driven by rising incomes and falling unemployment.

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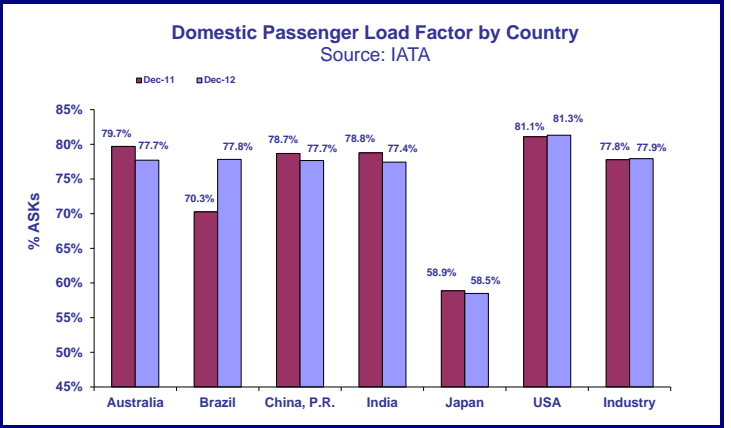
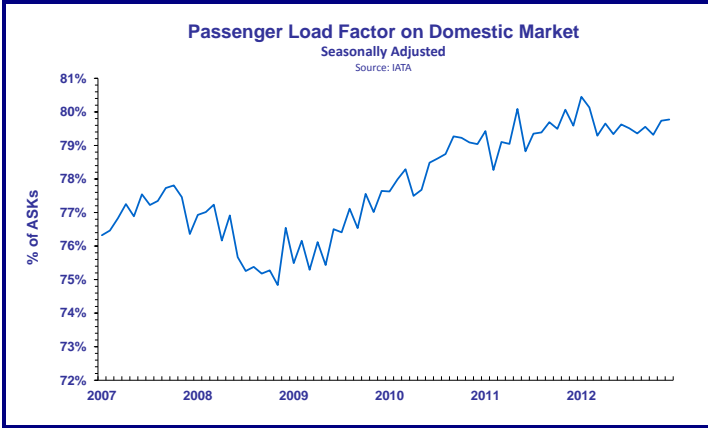
- European airlines have seen international air travel expand 5.3% in 2012, but that is a sharp slowdown on 2011 when growth was 9.5%. The Eurozone crisis negatively impacted employment and consumer confidence in many countries. In fact, about a quarter of the growth in European airlines' international traffic in 2012 has come from outside the Eurozone. Nevertheless, airline capacity management has increased load factors in 2012 compared to 2011, and that has helped improve financial performance for European carriers.
- North American airlines experienced the slowest growth in international air travel in 2012, expanding just 1.3%. Moreover, this result is a fraction of the 4.1% growth in 2011. The slower growth in 2012 is a result of restructuring and consolidation efforts in both home and overseas markets.



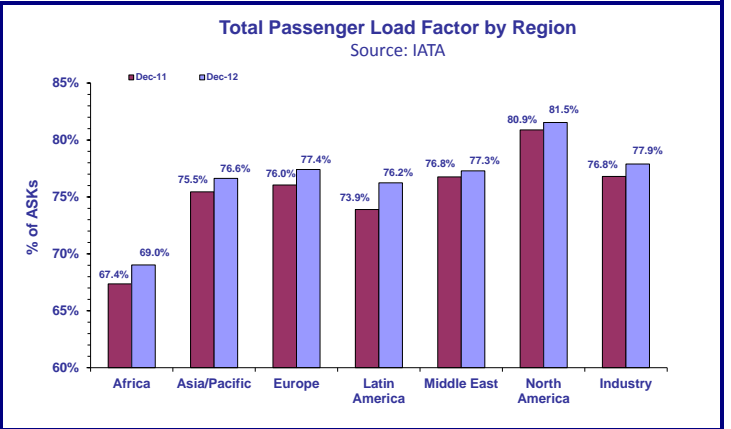
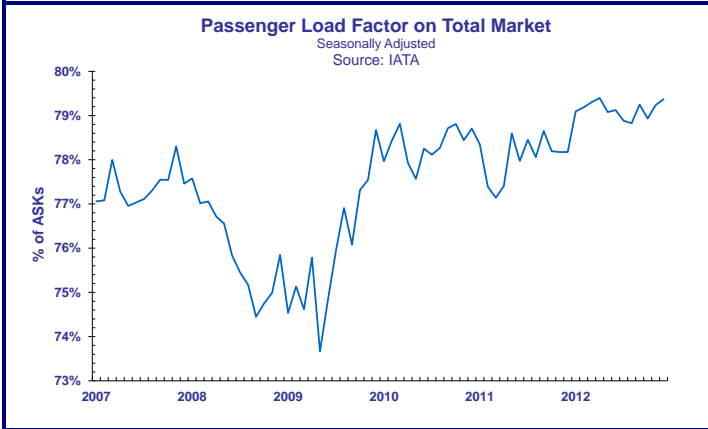
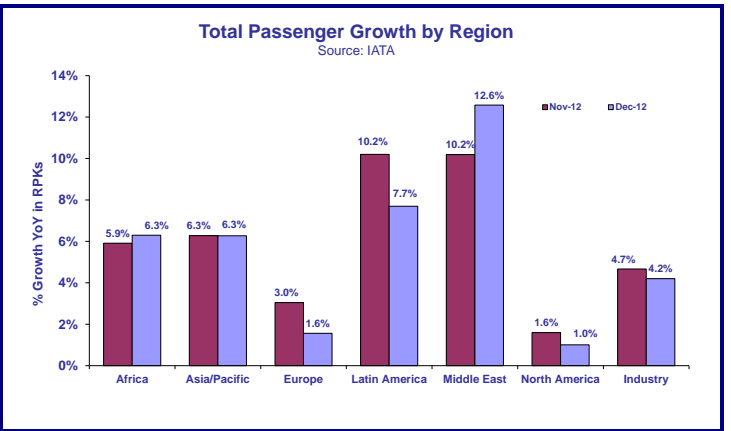
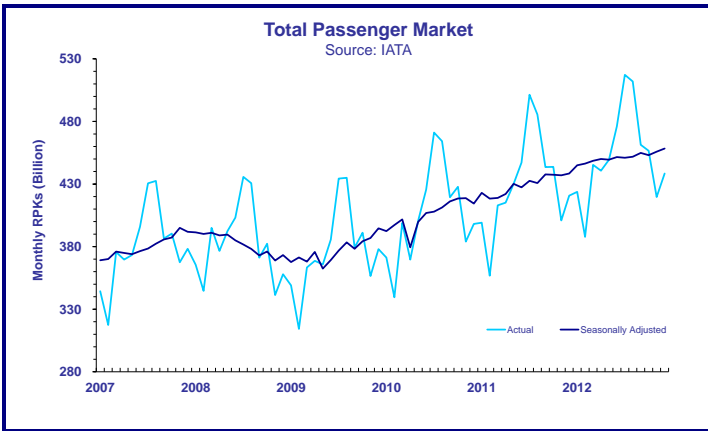
### Domestic Market



- Domestic air travel markets expanded 4% in 2012. All markets increased except for India, but there was significant variation in growth rates among countries.
- China and Brazil were the strongest domestic markets in 2012. Air travel in China started to pick up pace mid-way through 2012, ahead of the economic recovery which has become more evident over recent months. The market finished 2012 with a 9.5% rise in passenger travel. Strong domestic demand in Brazil helped to support domestic air travel in that country, with 8.6% growth in 2012 compared to 2011.
- The US domestic market also increased in 2012, but the expansion was relatively slower at 0.8% and weaker than 2011 when the market grew 1.5%. Airline restructuring and consolidation tightened capacity in 2012 and limited growth in traffic volumes. The result for US airlines load factors was positive with carriers achieving the highest load among domestic markets, above 80%.
- Japan's domestic market expanded 3.6% in 2012, but December traffic results are still 7% below pre-tsunami levels. The market started to recover strongly after the disaster, but made little additional progress throughout 2012 as the economy was impacted by declining exports from the Eurozone weakness.
- Indian domestic travel was the only market to contract in 2012, shrinking 2.1% in 2012 compared to 2011. This has been a sharp reversal from 2011, when the market expanded 16.2%. The decline in 2012 has resulted from a significant weakening in the Indian economy as well as market adjustment from previously unsustainable levels, leading to falling capacity growth compared to 2011 and rising costs of travel.

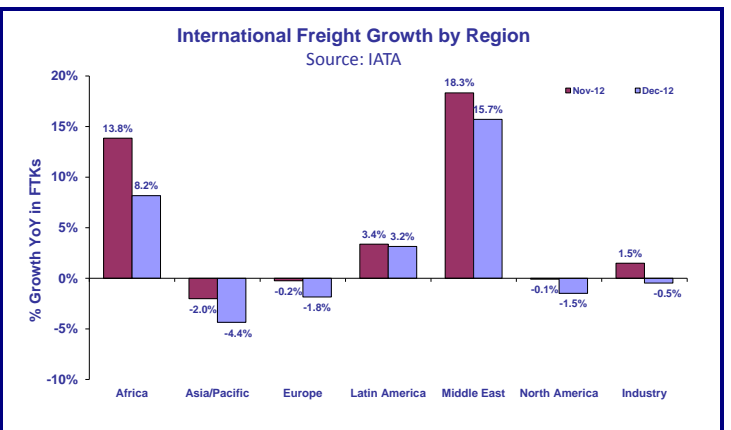
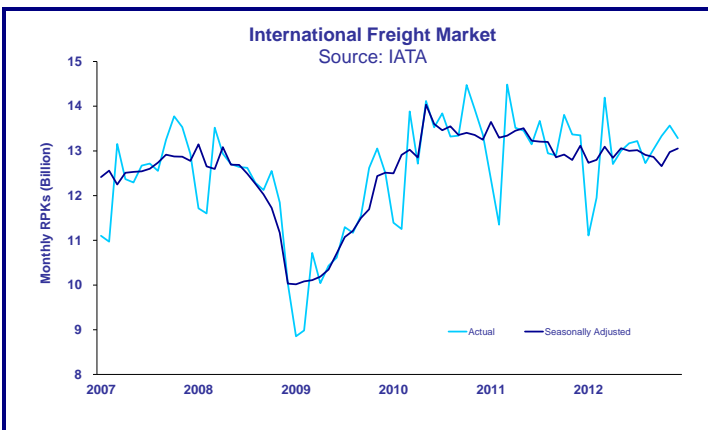


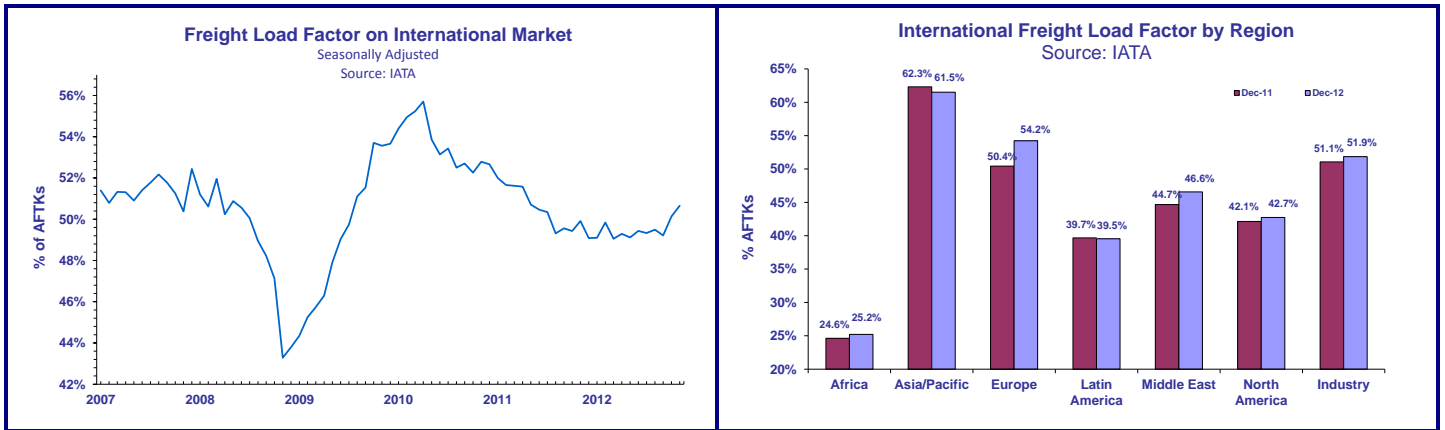
## Total Market (Domestic + International)



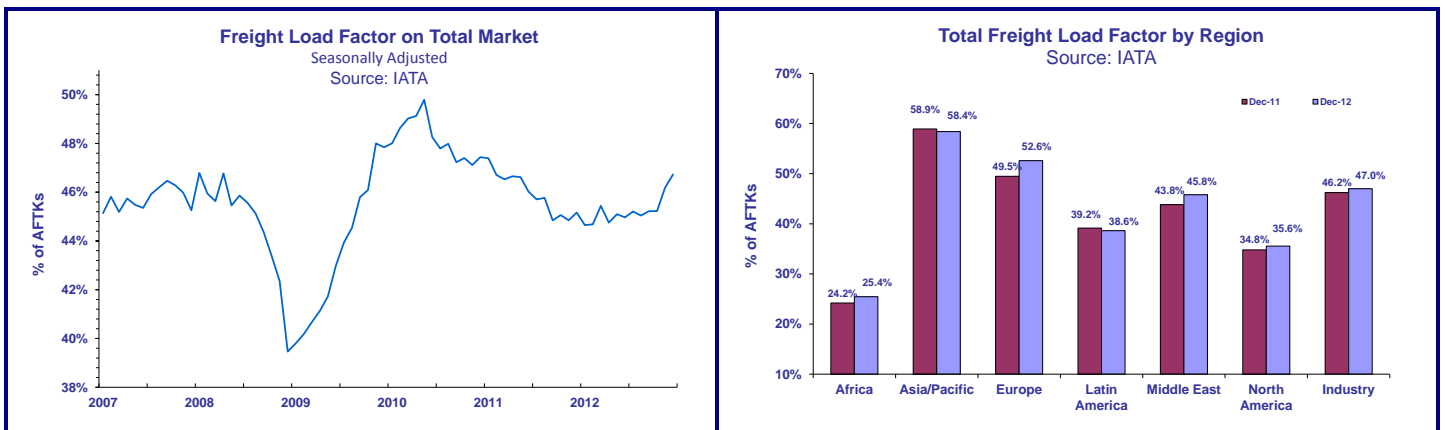
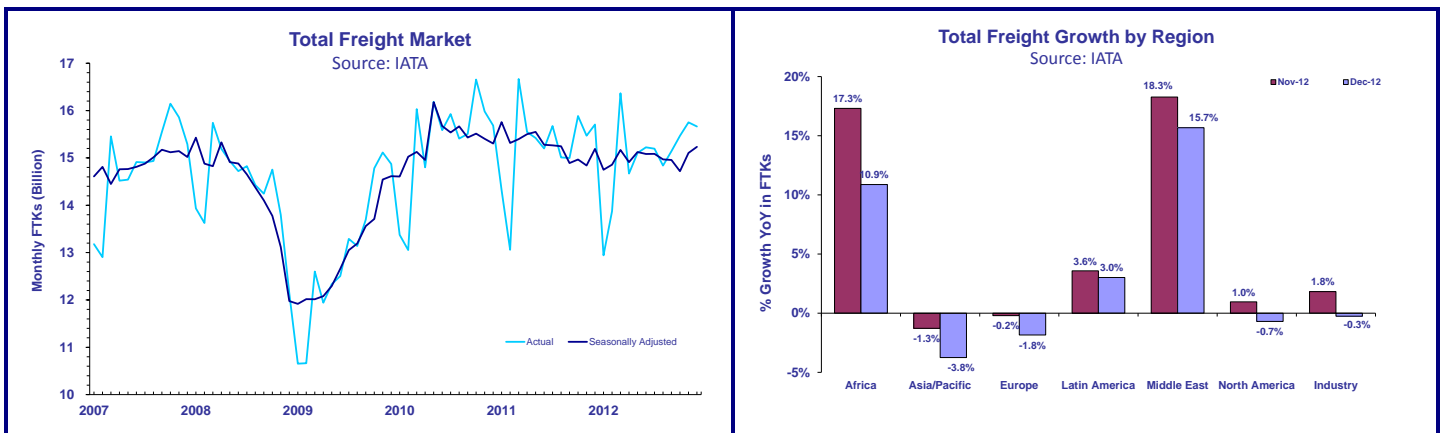
## FREIGHT MARKET

### International Market





**Total Market**



- Air freight markets declined further in 2012, contracting 1.5% after falling 0.6% in 2011. The sharp slowdown in world trade growth and shifts in commodity mix favoring sea transport placed further downward pressure on air freight demand in 2012.
- Asia-Pacific airlines were most affected, seeing contraction of 5.5% in 2012. The region is a major manufacturing center and source of outbound freight to Europe and North America, which suffered from weak Western economy demand throughout 2012. The exceptions were Middle Eastern and Africa airlines, with growth of 14.7% and 7.1% in 2012, supported by new trade lanes and developing trade links between Africa and Asia, particularly China. These results are a significant improvement on 2011 for both regions, when Middle Eastern airlines had expanded 8.2% and African airlines experienced contraction of 2.1%.
- Air freight capacity was reduced throughout 2012, but the decline in traffic demand was greater leading to a slight fall in load factors in 2012 compared to 2011. Asia-Pacific airlines, which have the largest share of the air freight market (39.1%), experienced the steepest decline in freight load factors in 2012, hurting cargo profitability. Middle Eastern airlines expanded capacity more than any other region, but also managed to improve load factors.

## ANNEX

Year on Year Comparison	Dec 2012 vs. Dec 2011						2012 vs. 2011					
	RPK	ASK	PLF	FTK	AFTK	FLF	RPK	ASK	PLF	FTK	AFTK	FLF
Africa	5.7%	3.7%	68.5%	8.2%	5.6%	25.2%	7.5%	7.1%	67.1%	6.1%	9.2%	24.8%
Asia/Pacific	5.9%	2.2%	77.6%	-4.4%	-3.1%	61.5%	5.2%	3.0%	77.5%	-6.2%	-2.9%	60.1%
Europe	2.2%	0.0%	78.3%	-1.8%	-8.7%	54.2%	5.3%	3.1%	80.5%	-3.1%	-0.1%	48.2%
Latin America	9.9%	10.2%	74.9%	3.2%	3.5%	39.5%	8.4%	7.5%	77.9%	-1.3%	2.9%	39.9%
Middle East	13.3%	12.7%	77.4%	15.7%	11.0%	46.6%	15.4%	12.5%	77.4%	14.8%	11.6%	45.5%
North America	1.5%	-0.2%	81.8%	-1.5%	-2.8%	42.7%	1.3%	-0.3%	82.0%	-1.3%	-1.0%	41.1%
<b>International</b>	<b>5.0%</b>	<b>2.8%</b>	<b>77.9%</b>	<b>-0.5%</b>	<b>-2.0%</b>	<b>51.9%</b>	<b>6.0%</b>	<b>4.0%</b>	<b>78.9%</b>	<b>-1.9%</b>	<b>0.6%</b>	<b>49.5%</b>
Australia	5.9%	8.6%	77.7%				5.3%	7.6%	77.5%			
Brazil	3.0%	-7.0%	77.8%				8.6%	4.8%	71.8%			
China P.R.	11.3%	12.8%	77.7%				9.5%	11.3%	80.9%			
India	-6.0%	-4.4%	77.4%				-2.1%	0.3%	72.9%			
Japan	-0.3%	0.3%	58.5%				3.6%	2.3%	62.0%			
US	0.8%	0.5%	81.3%				0.8%	0.4%	83.4%			
<b>Domestic</b>	<b>2.9%</b>	<b>2.7%</b>	<b>77.9%</b>	<b>1.0%</b>	<b>-1.5%</b>	<b>30.8%</b>	<b>4.0%</b>	<b>3.8%</b>	<b>79.5%</b>	<b>1.4%</b>	<b>-1.2%</b>	<b>29.2%</b>
Africa	6.3%	3.7%	69.0%	10.9%	5.5%	25.4%	7.2%	6.5%	67.7%	7.1%	9.2%	24.7%
Asia/Pacific	6.3%	4.6%	76.6%	-3.8%	-2.9%	58.4%	6.0%	5.2%	77.5%	-5.5%	-2.4%	56.1%
Europe	1.6%	-0.2%	77.4%	-1.8%	-7.7%	52.6%	5.1%	2.9%	79.6%	-2.9%	0.3%	47.2%
Latin America	7.7%	4.4%	76.2%	3.0%	4.4%	38.6%	9.5%	7.5%	76.1%	-1.2%	4.9%	38.3%
Middle East	12.6%	11.8%	77.3%	15.7%	10.7%	45.8%	15.2%	12.4%	77.5%	14.7%	11.4%	44.8%
North America	1.0%	0.2%	81.5%	-0.7%	-2.8%	35.6%	1.1%	0.1%	82.9%	-0.5%	-2.0%	35.0%
<b>Total Market</b>	<b>4.2%</b>	<b>2.7%</b>	<b>77.9%</b>	<b>-0.3%</b>	<b>-1.9%</b>	<b>47.0%</b>	<b>5.3%</b>	<b>3.9%</b>	<b>79.1%</b>	<b>-1.5%</b>	<b>0.2%</b>	<b>45.2%</b>

RPK: Revenue-Passenger-Kilometers; ASK: Available-Seat-Kilometers; PLF: Passenger-Load-Factor; FTK: Freight-Tonne-Kilometers; AFTK: Available Freight Tonne Kilometers; FLF: Freight Load Factor;  
All Figures are expressed in % change Year on Year except PLF and FLF which are the load factors for the specific month.

Month on Month Comparison	December 2012 vs. November 2012						Market Share	
	<i>RPK</i>	<i>ASK</i>	<i>PLF pt</i>	<i>FTK</i>	<i>AFTK</i>	<i>FLF pt</i>	<i>RPK</i>	<i>FTK</i>
Africa	0.4%	-0.6%	0.7%	-3.1%	0.6%	-1.0%	3.5%	1.4%
Asia/Pacific	0.1%	0.7%	-0.5%	0.7%	1.0%	-0.2%	28.9%	41.4%
Europe	0.1%	0.0%	0.1%	-1.2%	-8.7%	4.0%	35.4%	23.8%
Latin America	0.5%	1.3%	-0.6%	-2.4%	0.1%	-1.0%	5.2%	3.4%
Middle East	1.8%	1.3%	0.3%	1.9%	2.7%	-0.3%	13.0%	13.9%
North America	0.0%	0.2%	-0.1%	2.4%	0.6%	0.7%	13.9%	16.1%
<b>International</b>	<b>0.6%</b>	<b>0.3%</b>	<b>0.2%</b>	<b>0.6%</b>	<b>-0.4%</b>	<b>1.0%</b>	<b>100%</b>	<b>100%</b>
Australia	-0.9%	-0.7%	-0.2%				3.5%	
Brazil	-3.1%	-2.0%	-1.1%				3.9%	
China P.R.	2.0%	2.0%	0.0%				20.3%	
India	-2.1%	0.4%	-1.8%				3.2%	
Japan	-0.5%	-0.3%	-0.1%				2.7%	
US	0.5%	0.0%	0.4%				46.0%	
<b>Domestic</b>	<b>0.6%</b>	<b>0.5%</b>	<b>0.0%</b>	<b>2.2%</b>	<b>-0.1%</b>	<b>0.7%</b>	<b>100%</b>	
Africa	0.6%	-0.4%	0.7%	-3.2%	0.5%	-1.0%	2.5%	1.2%
Asia/Pacific	0.4%	0.8%	-0.3%	0.5%	0.6%	-0.1%	31.0%	39.1%
Europe	0.1%	0.4%	-0.2%	-1.2%	-8.3%	3.7%	25.3%	20.6%
Latin America	-0.9%	0.2%	-0.8%	-2.3%	-0.3%	-0.8%	6.0%	3.2%
Middle East	1.7%	1.3%	0.3%	1.9%	2.7%	-0.4%	8.7%	11.8%
North America	0.3%	0.0%	0.3%	2.6%	1.3%	0.4%	26.5%	24.1%
<b>Total Market</b>	<b>0.6%</b>	<b>0.4%</b>	<b>0.1%</b>	<b>0.8%</b>	<b>-0.3%</b>	<b>0.5%</b>	<b>100%</b>	<b>100%</b>

Data are seasonally adjusted.

All figures are expressed in % change month on month except, *PLF pt* and *FLF pt* which are the percentage point difference between load factors of two consecutive months.

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31<sup>TH</sup> January 2013

#### FURTHER ANALYSIS AND DATA

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