

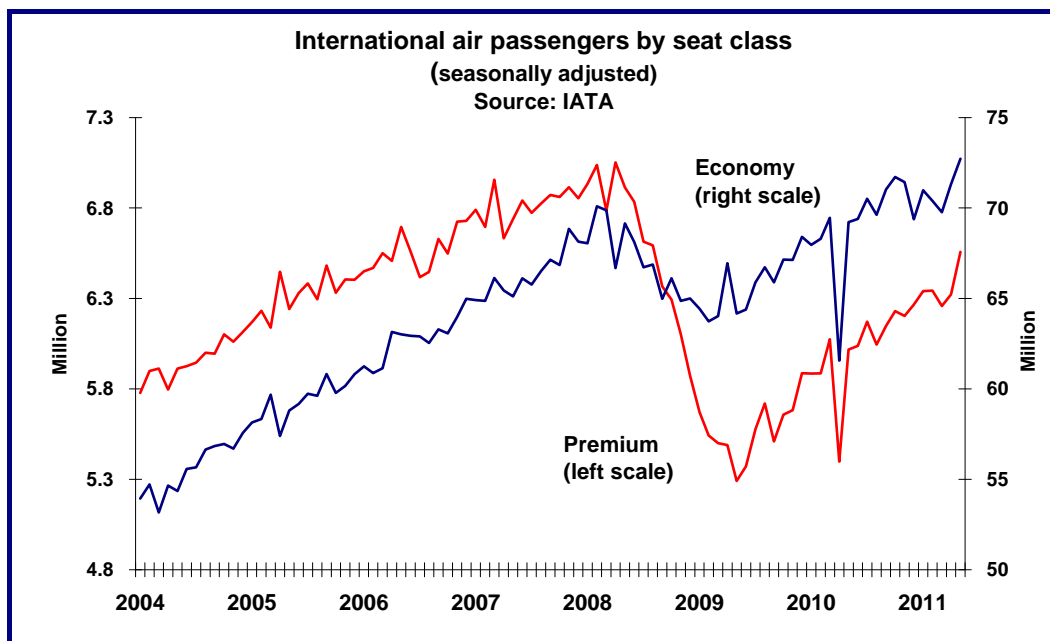
# PREMIUM TRAFFIC MONITOR

## MAY 2011

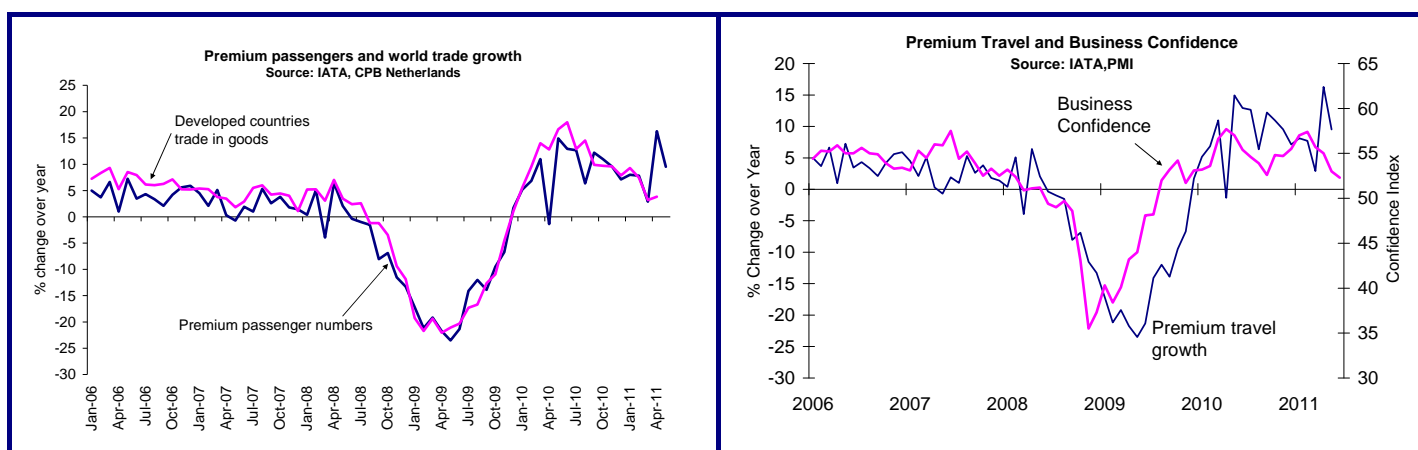
### KEY POINTS

- There was an improvement during May in passenger numbers travelling on premium and economy seats, taking international air travel above the weaker levels of the previous few months. Compared to the same month last year premium travel in May was up by 9.5%, while economy travel rose 5.5%. These year-on-year growth rates are lower than in April but that decline was due entirely to the distortion caused by the volcanic ash cloud last year;
- These are encouraging signs that air travel has been picking up in the second quarter after a disappointing first quarter. However, premium travel has typically grown in line with developed country international trade, which has been a good proxy for the drivers of business travel. That trade is growing at a pace of 3-4%. Moreover, a good leading indicator for premium travel has been business confidence, another driver of business travel, which has declined in the past couple of months to levels consistent with premium travel growth closer to the 3-4% growth of international trade. This suggests that the May data may be exaggerating the underlying growth of premium travel;
- Economy travel is no longer showing signs of being significantly damaged by the effects of high fuel prices which, although down on April peaks are still 25 \$/barrel up on the third quarter of last year. The rise in the level of this market segment in April and May has taken economy travel to a new peak 4% higher than the high point before the recession. This looks odd. It should be noted that both economy and premium travel have month-to-month growth rates with a standard deviation of 2-3%. The 2.2% rise in economy travel numbers between April and May, and part of the 2.7% rise in premium travel, could be noise - the normal volatility in the data. Another month or two of data is required to see whether the trend in air travel has recovered from the recent soft patch;
- There is still a mixed picture across route areas but it has been encouraging to see renewed strength in some major markets, such as the North Atlantic, where premium traffic is up 12.4% so far this year, reflecting a strengthening of international trade. The Europe-Far East market has also grown 13.2% so far. However, another key premium market, the Pacific, remains weak with growth of less than 4%, partly reflecting events affecting Japan.

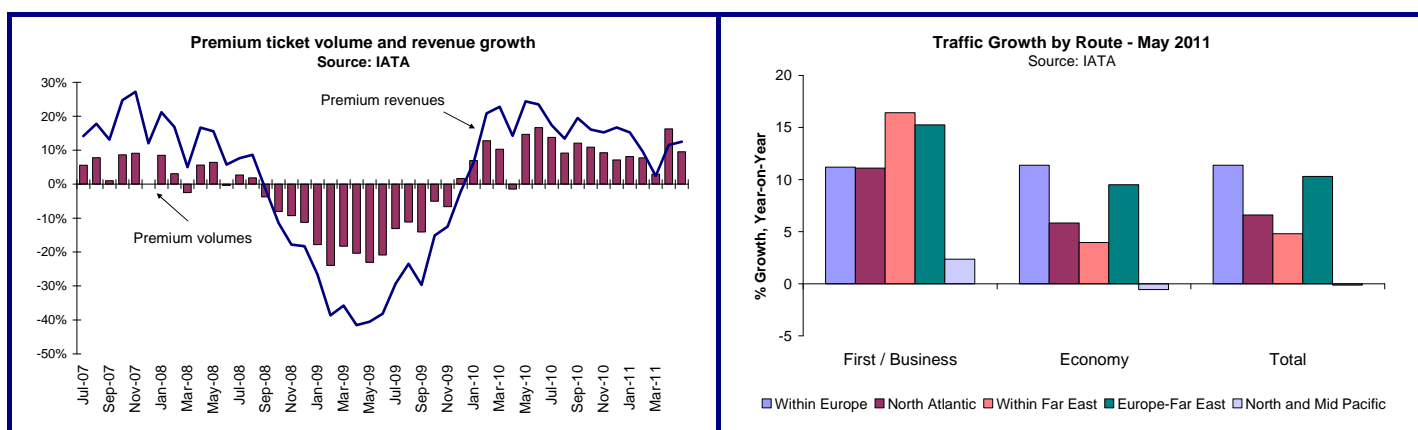
### PREMIUM TRAFFIC GROWTH



- Two reasons for being a little cautious before extrapolating the encouraging May data are provided in the charts below. Premium travel growth has closely followed growth in developed country export and import volumes. The latter is a good proxy for the factors driving business travel. The two series diverge when there are air travel specific shocks, such as the volcanic ash cloud last April. The spike upwards this April was its mirror. However, the growth rates did not fall back in line in May. Extrapolating the trade data into May and June would suggest a year-on-year rate of 3-4% for premium travel, which would imply a significant fall-back in June from the levels reached in May.
- The second indicator, business confidence in the major industrial economies, usually leads moves in the growth of premium travel by 3-6 months. Business confidence has been deteriorating steadily. In May and June confidence fell to the levels last seen at the very start of the economic recovery and in early 2008, when premium travel was growing at a low single figure pace. This is another reason for being cautious about the May data, suggesting that we may well see a slowdown to a more moderate pace of expansion.



- The experience with passenger yields differs a lot between markets. US airlines are continuing to see yields expanding close to 10% a year, though there has been some slowdown recently. However, the gains have been around half that in Europe. Industry wide we estimate that premium revenues are expanding at an annual pace in the low teens.



## PREMIUM TRAFFIC BY MAJOR ROUTE

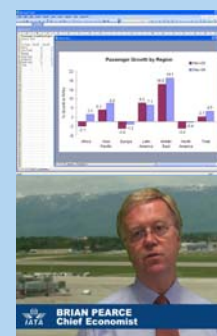
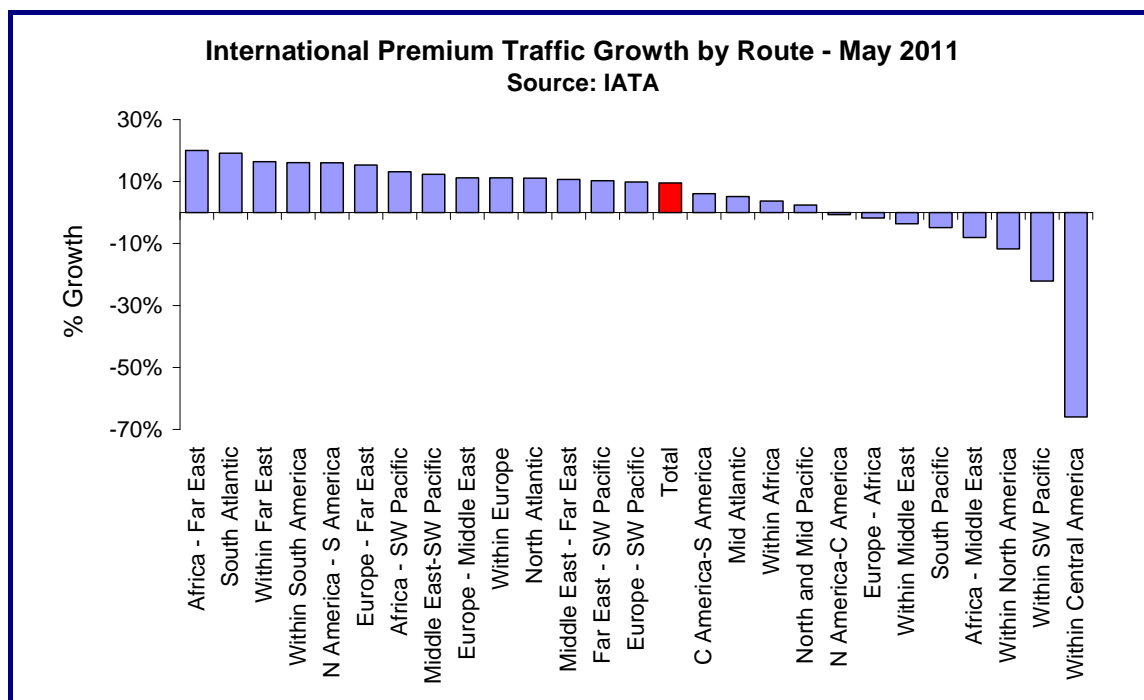
- ↗ The regional picture remains mixed, however some major routes showed encouraging signs of improvement. The North Atlantic market, which represents about 19% of traffic and 30% of revenue, grew by 12.4% so far this year boosted by international trade activities. However, some decline in business confidence for the US signals slower rates of expansion.
- ↗ Premium traffic Within Europe slowed to a still strong 11.2% in May from 30.2% in April but this decline was due entirely to the distortion caused by the volcanic ash cloud last year. Industrial production and import/export activities in the Euro zone slowed during the last few months. Business confidence still positive for most of the European nations, but rates of increase in May and June were among the weakest since the recovery. In other countries, such as Italy and Spain business confidence is deteriorating. Another month or two of data is necessary to assess if the encouraging development seen in May is exaggerated or not.
- ↗ The other major route in terms of number of passengers and revenues is the Within Far East. In May the number of passengers, traveling on premium seats grew by 16.4% from 5.6%. Similarly, other markets linked to Far East, such as Africa-Far East showed strong +20% year-on-year growth rates as international traffic to Japan is now recovering.
- ↗ The two major routes connected to the Middle East, i.e. Europe-Middle East and Middle East-Far East were rising at a pace of 11% in May as strong oil revenues continue to drive economic activity. The region is also benefiting from long-haul passengers connecting through Middle Eastern hubs.
- ↗ So far this year premium travel on the North and Mid Pacific route, which includes flights from the American continent and Asia across the Pacific Ocean, grew by less than 4%, reflecting the events in Japan.
- ↗ The other strongest route segments, but smaller in volumes, are those connected to South America. Within South America grew by 16.1% in May. Similarly, premium travel on the North America-South America grew by 16% so far this year. Economic growth in Latin America is supported by trade activities and investment boosting business travel. Private consumption is also strong reflecting recovery in employment and wages. So far this year, the number of passengers traveling on premium and economy seats grew by over 10% on those particular routes.

IATA Economics  
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*E-Mail:* [electronics@iata.org](mailto:electronics@iata.org)

## PREMIUM TRAFFIC GROWTH BY ROUTE

	Share of Total Premium:		Premium Traffic Growth	
	Traffic	Revenues	May 11 vs. May 10	YTD 2011 vs. YTD 2010
Africa - Middle East	0.9%	0.6%	-8.1%	-3.7%
Africa - SW Pacific	0.0%	0.1%	13.1%	9.0%
C America-S America	0.4%	0.2%	6.1%	5.8%
Europe - Far East	9.5%	15.0%	15.3%	13.2%
Europe – Middle East	4.9%	5.2%	11.2%	14.2%
Europe - SW Pacific	0.1%	0.2%	9.8%	6.0%
Africa - Far East	0.2%	0.3%	20.0%	14.1%
Within Africa	0.9%	0.7%	3.7%	5.4%
Within Central America	0.0%	0.0%	-65.9%	-57.1%
Within Far East	10.3%	8.2%	16.4%	9.3%
Within Middle East	1.5%	0.6%	-3.6%	-0.1%
Within North America	0.9%	0.3%	-11.7%	-10.5%
Within SW Pacific	0.2%	0.1%	-22.1%	-18.8%
Within South America	1.1%	0.4%	16.1%	16.6%
Mid Atlantic	1.1%	1.2%	5.1%	6.8%
Middle East - Far East	2.8%	2.0%	10.6%	10.6%
Middle East-SW Pacific	0.4%	0.8%	12.3%	5.5%
North Atlantic	18.9%	29.8%	11.1%	12.4%
N America-C America	5.4%	1.8%	-0.7%	0.0%
Europe – Africa	3.4%	3.9%	-1.8%	-0.6%
N America - S America	2.8%	3.6%	16.0%	15.5%
Far East - SW Pacific	1.7%	2.3%	10.2%	9.1%
North and Mid Pacific	5.8%	12.4%	2.4%	3.8%
South Pacific	0.4%	0.9%	-4.8%	5.8%
South Atlantic	2.7%	2.8%	19.2%	17.0%
Within Europe	23.6%	6.5%	11.2%	9.8%
<b>Total International</b>	<b>100.0%</b>	<b>100.0%</b>	<b>9.5%</b>	<b>8.7%</b>



**FURTHER ANALYSIS AND DATA**

Access video commentary and chart data related to this briefing through the Enhanced Edition:  
[www.iata.org/premium-traffic](http://www.iata.org/premium-traffic)