

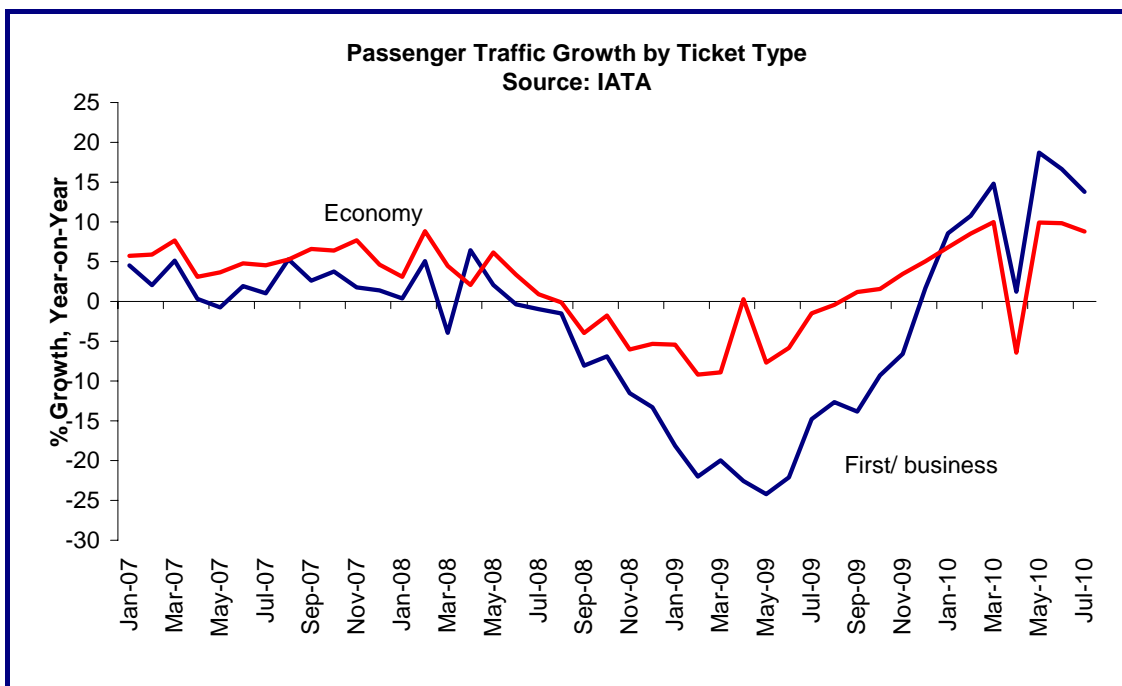
# PREMIUM TRAFFIC MONITOR

## JULY 2010

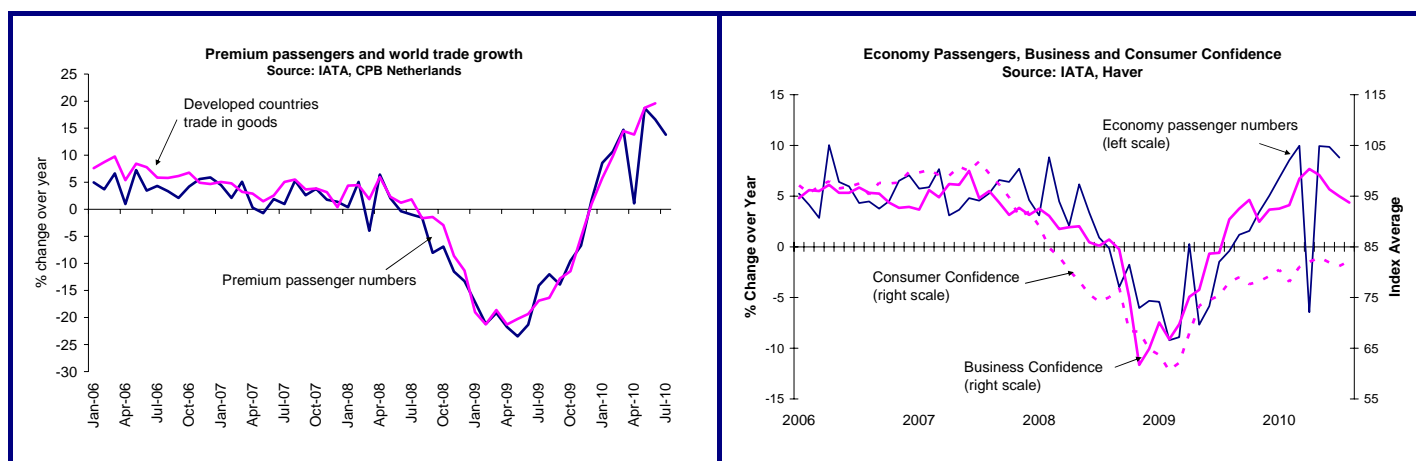
### KEY POINTS

- The number of passengers measured by flight segment continued to expand strongly in July. Passengers travelling in first and business class seats on international markets rose by 13.8% in July from the level seen the previous year, while numbers on economy seats were 8.8% higher.
- These year-on-year growth rates were a little weaker compared to growth rates observed during the first half of this year, as the comparison is now against the rising number of passengers seen during the second half of 2009. But looking at the pace of expansion in the number of passengers travelling in premium seats, adjusted for seasonality and the temporary impact of the closure of the European airspace, it appears that month-over-month growth in premium traffic was in fact accelerating (0.9%) in July compared to what we've observed during the second quarter of this year (0.3%). This is an annualized pace of expansion of more than 10%. Clearly business travel still has considerable momentum, despite the economic uncertainties in western economies, although weaker business confidence points to some slowdown in growth rates ahead.
- In July, growth in both seat classes continued to be driven by business travel rather than leisure. Indicators such as world trade and business confidence eased in July but remain positive, supporting the expansion of the premium market. However the development of air travel markets remains uneven. Persistently weak consumer confidence in the West suggests that leisure travel will remain soft during the second half of the year.
- The uneven geographical pattern was little changed in July and continued to be driven by divergent local economic conditions, stronger in the 'emerging' economies compared to the Western economies. Routes linked to Asia and Middle East continued to show strong double digit growth rates as strong Asian economies are generating trade and business travel. Within Europe traffic grew by 17.4% as, we believe, the number of long-haul premium passengers connecting via European hubs increased.

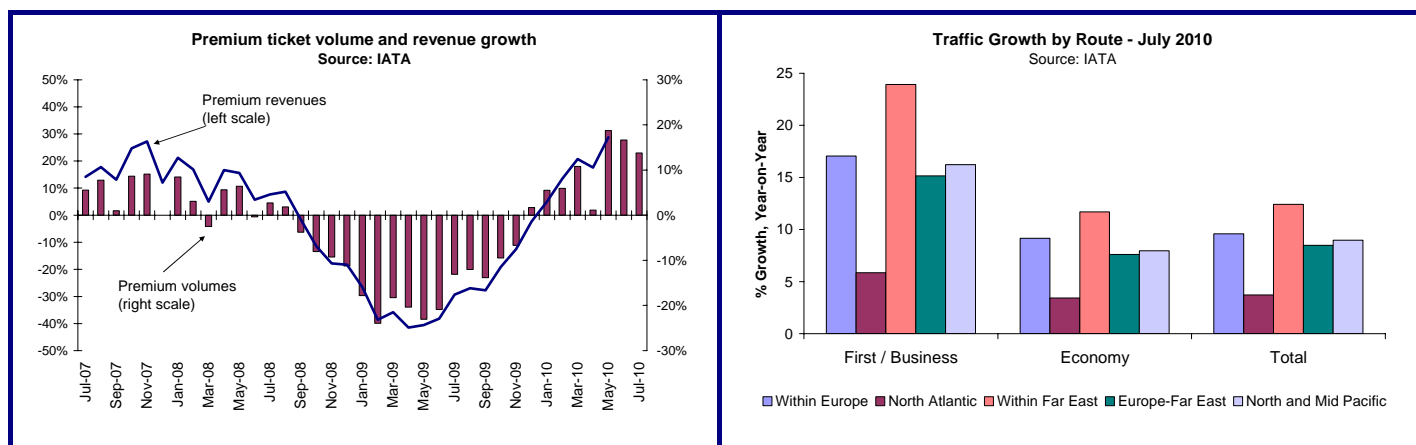
### PREMIUM TRAFFIC GROWTH



- The number of passengers measured by flight segment continued to expand in July. Passengers travelling in first and business class seats on international markets rose by 13.8% in July from the level seen the previous year, while numbers on economy seats were 8.8% higher.
- These year-on-year growth rates were a little weaker compared to growth rates observed during the first half of this year, as now the monthly comparison is done with rising number of passengers seen during the second half of 2009. Over the rest of 2010, it is expected to see lower year-on year growth rates.
- Looking at the pace of expansion in the number of passengers travelling in premium seats, adjusted for seasonality and the temporary impact of the closure of the European airspace, month-over-month growth in premium traffic was accelerating (0.9%) in July compared to the rate observed during the second quarter of this year (0.3%). Similarly, the number of passengers travelling on economy seats grew by 1.4% in July compared to June this year. This is above the 0.2% average month-over-month growth rate observed during the first quarter.
- Despite the acceleration observed in July, the number of passengers seated in premium class is still some 8% below its pre-recession peak, whereas economy travel is now some 3% above its pre-recession level.
- Year-on-year growth in premium passengers is now slowing down as the comparison with the previous year is against a higher base. However drivers of business travel such as world trade in goods for developed economies, which has been a good coincident indicator for business travel, is still positive as shown in the first chart below. In August, the confidence of manufacturing and service businesses – measured across major economies by Markit/JP Morgan remained high, but the rate of has eased from April's peak level. National data on business confidence showed slower rates of expansion for the US and the Eurozone, but growth accelerated in China reaching a four-month high. Drivers of business travel remain positive but there is clearly an uneven development in the premium market.
- Consumer confidence also eased in July and August as shown in the second chart below. Recent data on private consumption published by the US bureau of economic analysis reported that US consumers are saving more of their disposal income as concerns about unemployment are still high. This is certainly true also for many European countries. Most of the economy passengers are travelling for personal purposes, but growth in this travel class continues to be driven by business travellers sitting on economy seats rather than holidaymakers.



- In the first half of this year, passengers travelling on premium seats represented less than 8% of the total but contributed up to 27% of passenger ticket revenues. Clearly this market segment is key to profitability for most network airlines. Year-on-year premium revenues have been improving during the first half of the year, though it should be noted that this rise is from the low point of the revenue cycle. This better revenue picture continues to be driven not only by improvement in the number of passengers but also by a rise in average fare. For the first half of the year, average premium fares for international travel, adjusted for seasonality, have been growing by some 8%. We are currently revising the method of estimating premium revenues and expect to resume publishing these numbers in next month's briefing.



## PREMIUM TRAFFIC BY MAJOR ROUTE

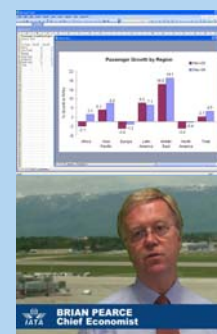
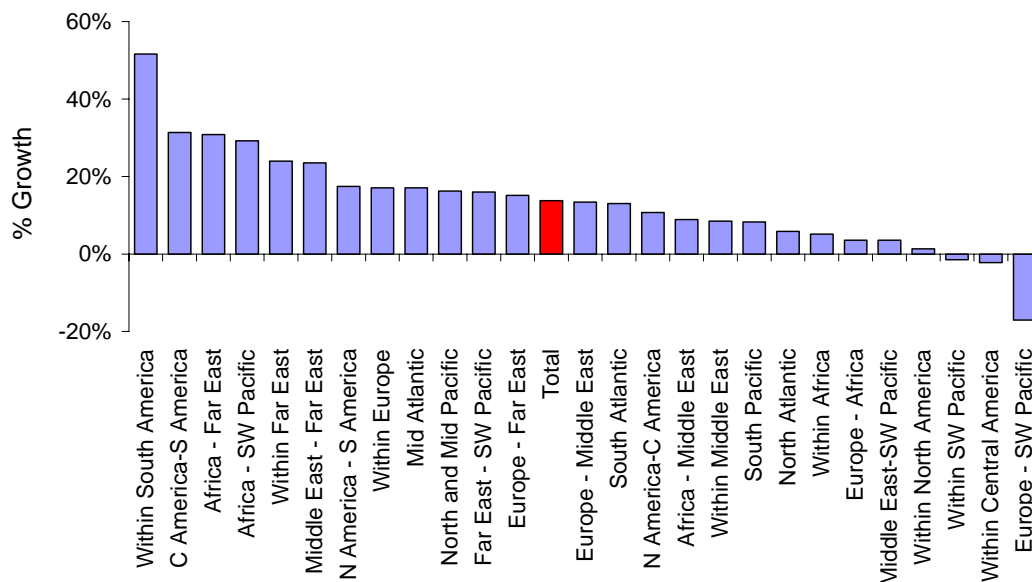
- The geographical growth pattern seen so far this year remains in July and continues to be driven by divergent local economic conditions, stronger in the Eastern emerging countries compared to the Western economies.
- The largest percentage expansions were seen in routes linked to the emerging markets of Asia, Middle East and Latin America. Within Far-East, which represents about 10% of traffic, rose by a strong 23.9% in July, following a 28.5% rise in June. The new economic co-operation agreement signed between China and Taiwan early September is likely to boost trade between these two countries which would stimulate further business travel activities in this region. Routes across the Pacific rose by 16.2%, following a rise of 25.3% in June and growth of 15% during first half of this year.
- The largest expansion in July was for Within South America (51.6%). Although this is a relatively small market in size, routes within this region have been expanding strongly since beginning of 2010 with an average growth rate of 22% and have been accelerating since May. Economic conditions in this region, boosted by strong economies such as Brazil and Argentina, are good with GDP expected to reach 5.4% in 2010. This is supporting the development of travel markets in this region.
- On the other end of the spectrum, the two largest markets of our sample, the North Atlantic and Within Europe, which represent about 40% of traffic in July, rose by 5.9% and 17.1% respectively.
- The North Atlantic market is still suffering from weak economic conditions in Europe. The outlook for most Western European countries is for only a small recovery with a GDP expected to grow by only 0.8% in 2010. The end of the fiscal stimulus package in most European economies and the need to reduce budget deficits, will act as headwinds to faster economic growth and may hamper business and economy travel growth.
- Within Europe continued to show surprisingly strong double digit growth rates (17.1%), albeit slowing down compared to growth rates observed in June (24.2%) and May (23.0%) as the base of comparison is now higher. We believe, that this strong growth observed represents for a large part all long-haul premium passengers connecting through European hubs rather business travel within Europe. Our data represents segment data rather than origin-destination flows. The bulk of long-haul premium travellers connecting via Europe are travelling to the Far-East and to the Middle East.

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## PREMIUM TRAFFIC GROWTH BY ROUTE

	Share of Total Premium:		Premium Traffic Growth	
	Traffic	Revenues	Jul10 vs Jul 09	YTD 2010 vs YTD 2009
Africa - Middle East	1.1%	0.6%	8.9%	11.9%
Africa - SW Pacific	0.0%	0.1%	29.2%	2.8%
C America-S America	0.4%	0.2%	31.3%	27.6%
Europe - Far East	8.6%	14.3%	15.1%	13.6%
Europe - Middle East	4.9%	5.4%	13.4%	10.4%
Europe - SW Pacific	0.1%	0.2%	-17.0%	-11.9%
Africa - Far East	0.2%	0.4%	30.8%	18.2%
Within Africa	0.9%	0.4%	5.2%	-1.1%
Within Central America	0.1%	0.0%	-2.2%	10.9%
Within Far East	9.5%	6.3%	23.9%	23.5%
Within Middle East	1.9%	0.7%	8.5%	8.3%
Within North America	1.3%	0.3%	1.3%	-0.1%
Within SW Pacific	0.1%	0.0%	-1.5%	3.9%
Within South America	1.3%	0.4%	51.6%	21.9%
Mid Atlantic	1.2%	1.3%	17.0%	11.2%
Middle East - Far East	2.9%	1.8%	23.5%	24.7%
Middle East-SW Pacific	0.4%	0.8%	3.5%	17.2%
North Atlantic	18.5%	28.9%	5.9%	4.0%
N America-C America	5.3%	2.0%	10.7%	9.5%
Europe - Africa	4.0%	4.5%	3.6%	-1.2%
N America - S America	2.8%	3.0%	17.4%	21.5%
Far East - SW Pacific	1.7%	2.3%	16.0%	11.6%
North and Mid Pacific	5.9%	13.7%	16.2%	15.5%
South Pacific	0.3%	0.8%	8.3%	28.5%
South Atlantic	2.7%	3.2%	13.0%	10.3%
Within Europe	23.8%	8.4%	17.1%	14.7%
<b>Total International</b>	<b>100.0%</b>	<b>100%</b>	<b>13.8%</b>	<b>12.2%</b>

International Premium Traffic Growth by Route - July 2010  
Source: IATA



### 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)