

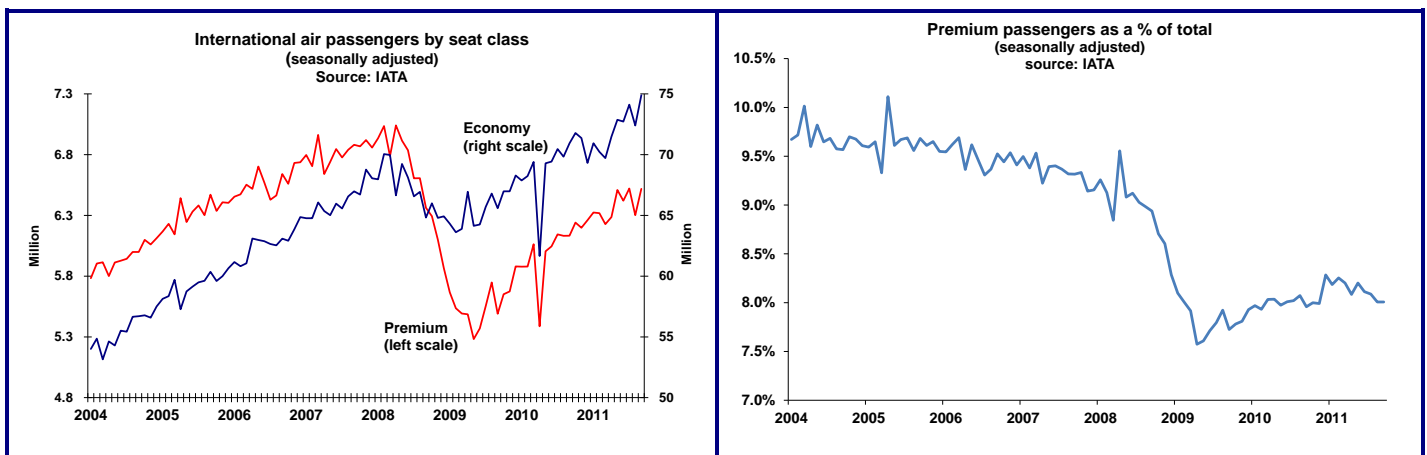
PREMIUM TRAFFIC MONITOR

SEPTEMBER 2011

KEY POINTS

- The number of passengers flying on premium seats once again rebounded despite declining business confidence and economic uncertainty. In September, premium (business + first) passenger numbers rose to a level 6.7% higher than the same month last year, after slowing to 2.3% in August.
- In fact, all of this growth had occurred by May. As the first chart below shows, the September rebound returns the size of the international premium travel market to the level it had reached in May. Premium travel is significantly higher than last year, but has made no further progress since May.
- For the past few months, we have pointed to the lack of further growth in international trade and the sharp declines in business confidence as reasons for expecting a decline in business travel and premium seat sales. So far, this has not happened. However, as the charts on the next page show, it still looks a matter of time before the deteriorating economic conditions pull premium travel lower.
- The rebound in economy travel was stronger, taking this market segment to new highs in September. Compared to a year earlier, the number of passengers traveling on economy seats (including premium economy) was 5.8% higher. Although this growth rate is a little less than for premium travel, the chart below shows that the bounce in economy travel from the lower levels in August took passenger numbers well above previous highs.
- The strongest economy travel market segments in September were within-Europe and Europe-Far East. Given the worsening economic conditions in Europe and the sharp fall in consumer confidence, this growth is unlikely to have been driven by leisure travel. More likely business travellers have been trading down from premium to economy. As the second chart below shows, premium passenger numbers as a percentage of the total international travel market are starting once more to represent a declining proportion.
- Stronger premium and overall passenger numbers in September helped both airline yields and profits in the third quarter. We had not expected the strength to continue this long. An important question is whether strong travel will continue into the fourth quarter. Given deteriorating business confidence and economic conditions, we stick with our view that air travel markets will slow in the months ahead.

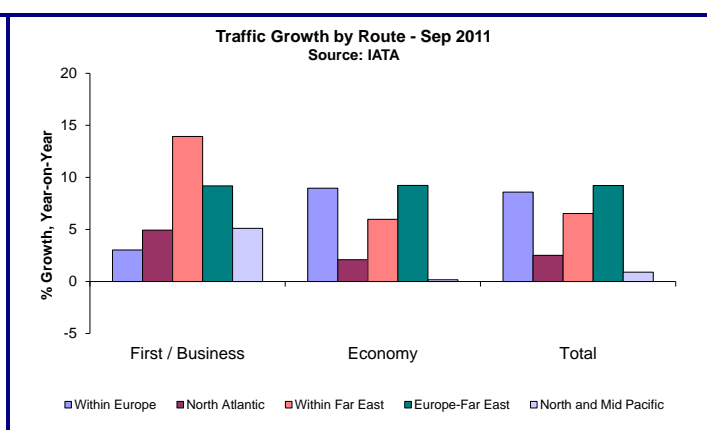
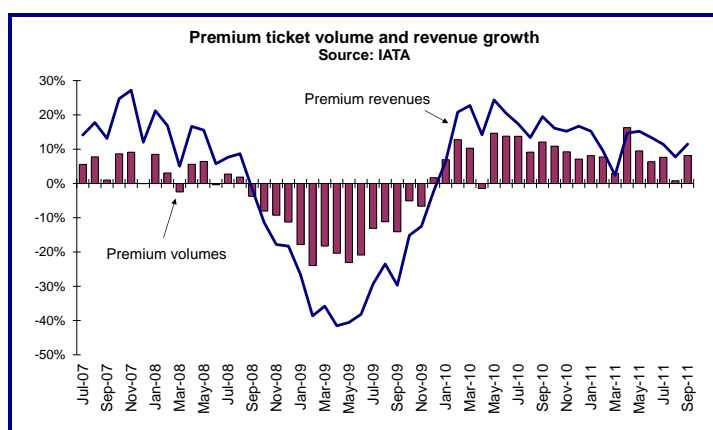
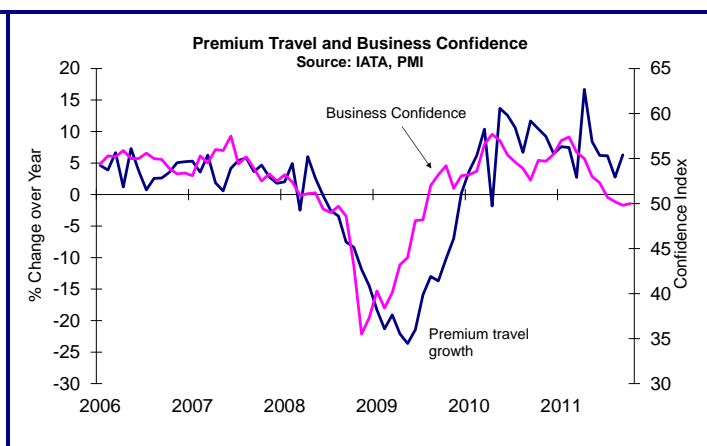
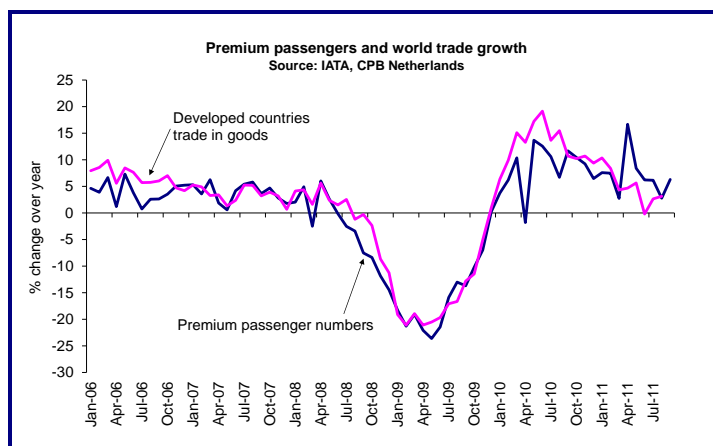
PREMIUM TRAFFIC GROWTH



- The growth of international trade has proved to be a good indicator of business travel. There is an obvious link with the manufacturing sector, but trade has also been a good proxy for the drivers of business travel in other key sectors, such as finance and consulting. Currently, the signals from international trade are that business travel should slow further.
- The same signals for a sharp slowdown in premium travel are evident in the purchasing managers' index of business confidence, averaged across major economies. Changes in business confidence have been a good early warning indicator of changes in premium travel growth, leading changes by up to six months.
- The 2009 upturn in premium travel was signaled, by rising business confidence, six months earlier. This year, business confidence has been steadily declining for more than the last six months. Premium travel has slowed, but both trade and confidence point to very little further growth in premium travel, until economic conditions improve.

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TRAFFIC GROWTH BY MAJOR ROUTE

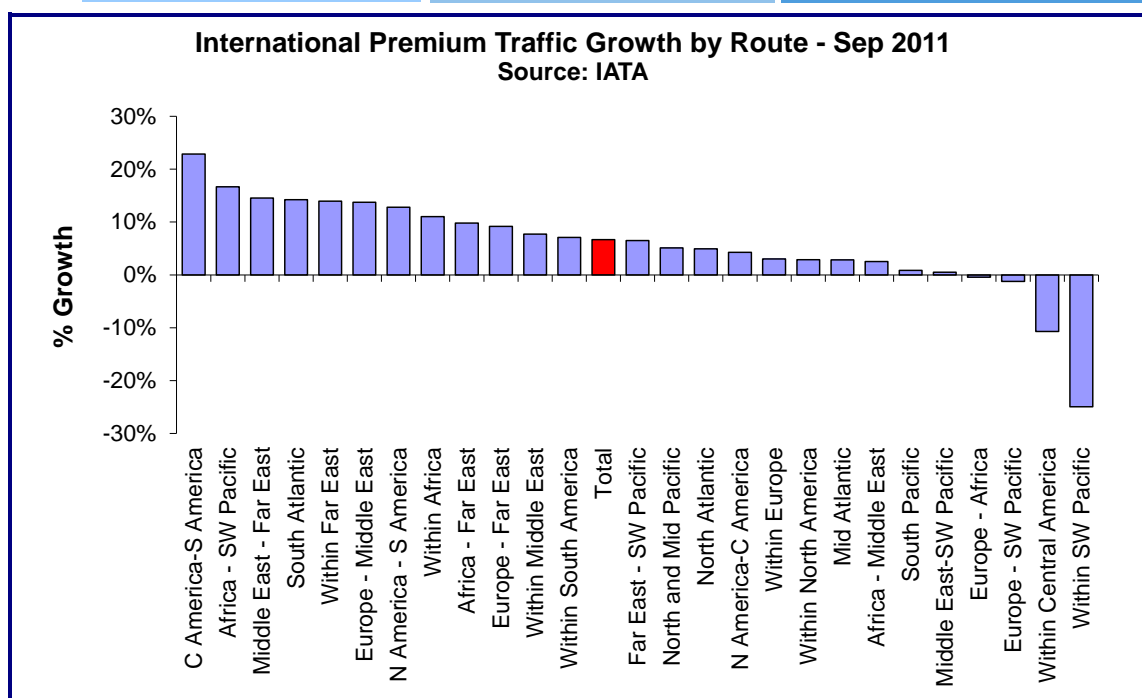
- The strongest of the larger international air travel markets in September were within-Europe and Europe-Far East. This appears incongruent with the Eurozone crisis and the sharp falls reported in European consumer and business confidence. Exports from some central and northern European markets are strong, which may account for the strength of Europe-Far East markets, but less so for travel within Europe. Premium travel weakened within-Europe but economy travel remained strong. This dataset is segment rather than final origin destination, so the rise may partly reflect passengers connecting on long-haul business trips. Even so, the dependence of air travel's strength on European markets seems a rather fragile foundation for future growth.

- Travel markets within the Far East have been surprisingly weak in recent months. Although economic growth has slowed in China and other emerging markets, it is still expanding at a robust rate. In September, premium travel in particular rose back strongly in this region. Another important middle-income region, travel within South America, experienced slower growth in both premium and economy travel in September. Africa, still a small market, has proved to be very resilient and was boosted by the good growth rates being experienced in a number of economies in the continent. Both premium and economy travel are expanding at double figure rates.
- Travel markets connecting the emerging and developed economies, reflecting trade as well as tourism, are showing a mixed performance. Travel between North and South America continues to be one of the strongest markets but travel across the Pacific between North America and Asia has seen very little growth, with overall passenger numbers up less than 1% in September. Travel within Africa is growing strongly but the main trade lane between Europe and Africa is seeing travel decline. In fact, flows between emerging markets are stronger. Strong growth in travel between Africa and the Far East reflects the increasing investments and trade links between the regions.
- The direct segment Europe-Far East has been strong throughout 2011 and strength continued in September. Indirect travel between Europe and the Far East also appeared strong. Both the Europe-Middle East and Middle-Far East segments showed double figures growth in premium travel in September. There has been some distortion by holiday periods recently, and of course these segments are partly travel to and from the Middle East, but it would seem that both non-stop and connecting travel between Europe and Asia have been strong.
- We expect premium travel and air travel in aggregate to slow in the months and quarters ahead. However, market differences will remain. Economic weakness is originating from Europe. If the sovereign debt problems deteriorate into a renewed banking crisis then the resulting European recession is likely to weaken travel markets worldwide. If that scenario can be avoided then the fourth quarter and 2012 are likely to see a continuation of strong travel markets in the emerging economies and weak markets in the developed world, with the exception of business travel from developed markets driven by exports.

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17th November 2011
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PREMIUM TRAFFIC GROWTH BY ROUTE

	Share of Total Premium:		Premium Traffic Growth	
	Traffic	Revenues	Sep 11 vs. Sep 10	YTD 2011 vs. YTD 2010
Africa - Middle East	0.9%	0.6%	2.5%	-2.9%
Africa - SW Pacific	0.0%	0.1%	16.7%	6.8%
C America-S America	0.3%	0.2%	22.9%	12.3%
Europe - Far East	9.7%	16.4%	9.2%	10.3%
Europe - Middle East	4.9%	5.3%	13.7%	10.4%
Europe - SW Pacific	0.1%	0.3%	-1.2%	1.5%
Africa - Far East	0.2%	0.4%	9.8%	8.6%
Within Africa	1.0%	0.5%	11.0%	8.5%
Within Central America	0.0%	0.0%	-10.7%	-53.3%
Within Far East	10.6%	7.1%	13.9%	11.2%
Within Middle East	1.6%	0.6%	7.7%	2.2%
Within North America	0.9%	0.2%	2.9%	-8.5%
Within SW Pacific	0.3%	0.1%	-25.0%	-20.9%
Within South America	1.0%	0.3%	7.1%	12.6%
Mid Atlantic	0.9%	1.0%	2.8%	4.6%
Middle East - Far East	2.9%	1.9%	14.6%	10.4%
Middle East-SW Pacific	0.5%	0.9%	0.5%	5.4%
North Atlantic	18.3%	27.8%	4.9%	8.5%
N America-C America	3.8%	1.4%	4.3%	0.2%
Europe - Africa	3.6%	3.9%	-0.4%	-2.7%
N America - S America	2.7%	3.0%	12.8%	13.1%
Far East - SW Pacific	1.9%	2.6%	6.5%	8.8%
North and Mid Pacific	5.9%	14.1%	5.1%	3.9%
South Pacific	0.4%	1.0%	0.8%	2.7%
South Atlantic	3.1%	3.8%	14.2%	14.9%
Within Europe	24.3%	6.6%	3.0%	6.9%
Total International	100.0%	100.0%	6.7%	7.2%



FURTHER ANALYSIS AND DATA

Access data related to this briefing through the Route Tracker publication: www.iata.org/ps/publications/Pages/route-tracker

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