

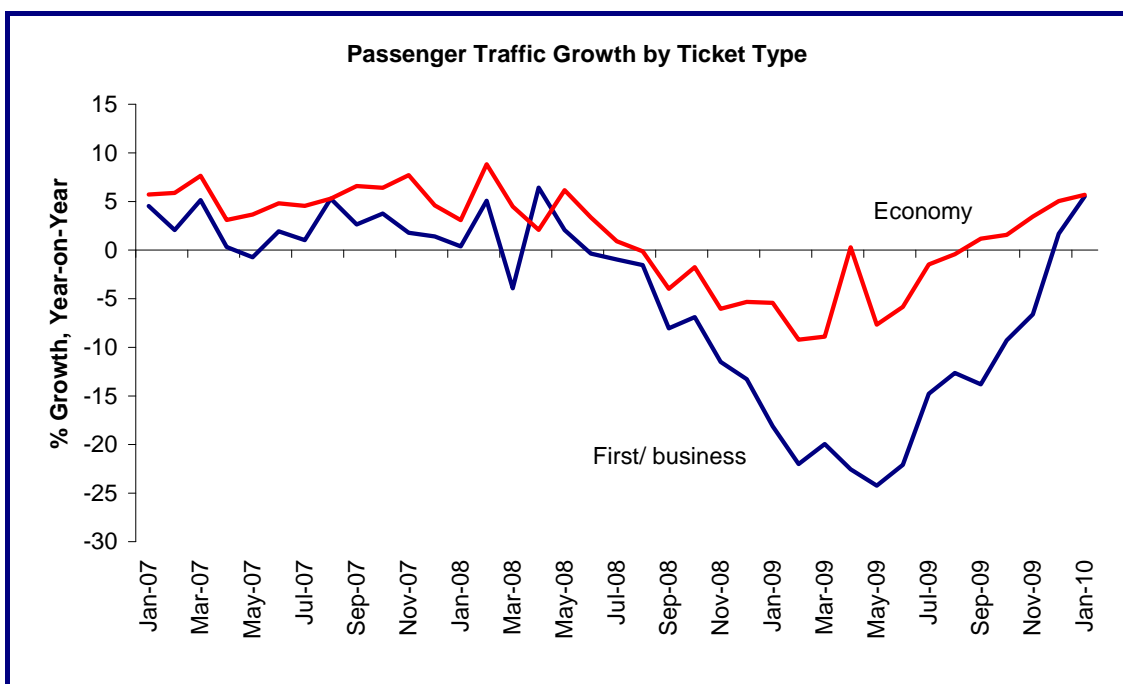
PREMIUM TRAFFIC MONITOR

JANUARY 2010

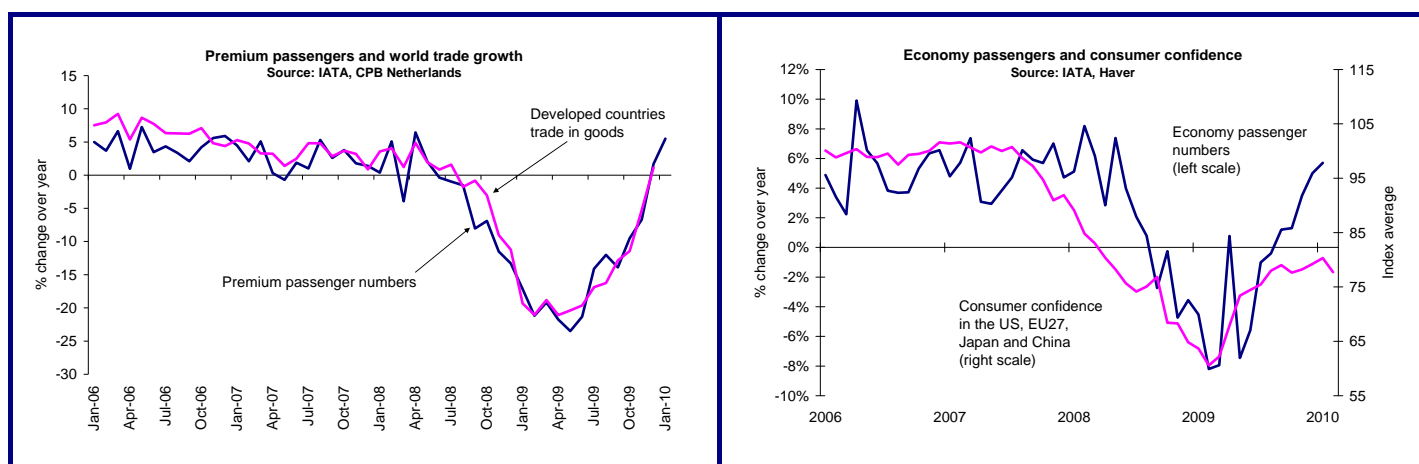
KEY POINTS

- Air travel, measured by passenger numbers, was 5.7% higher this January than it was a year earlier. Our earlier release showed that passenger kilometres flown (RPKs) is growing faster, by 6.4% in January, as average distances flown were increased by the concentration of the upturn in the relatively longer route areas of Asia.
- By seat class, both economy and premium travel are now growing at a similar pace, with the number of economy passengers up 5.7% in January and the number of premium passengers up 5.5%.
- However, these year-on-year growth rates give a misleading impression of the stage of the cycle in these air travel segments. Premium travel is recovering ahead of economy, rising 0.2% over December levels and is now 9.4% above its early 2009 low point. However, such was the earlier decline it remains over 16% below its previous peak. By contrast economy travel slipped 0.7% on its December level and is 6.9% above its low point. However, during the downturn economy travel benefited from a switch to cheaper tickets and so fell by much less than premium travel. Economy passenger numbers are now 2.9% below their early 2008 peak.
- A robust rise in world trade seems to be driving the upturn in premium passengers, which is largely business travel. It now looks as though the recession in premium travel has been cyclical rather than a permanent fall. Economy travel is also likely to be benefiting from the return of business travel. Faltering consumer confidence in the US and Europe, as unemployment and debt constrain spending, may be restricting the recovery in leisure travel. However, the consumer picture is much more positive in the emerging markets.
- Both premium and economy travel are rising most strongly in the regional markets of Asia and South America, reflecting the relative strength of the economies in these regions. North Atlantic markets saw positive growth but remain sluggish, although in the South Atlantic total numbers are up over 16%. Pacific markets also remain rather sluggish. Middle Eastern markets continue to benefit from long-haul market share gains by local airlines.

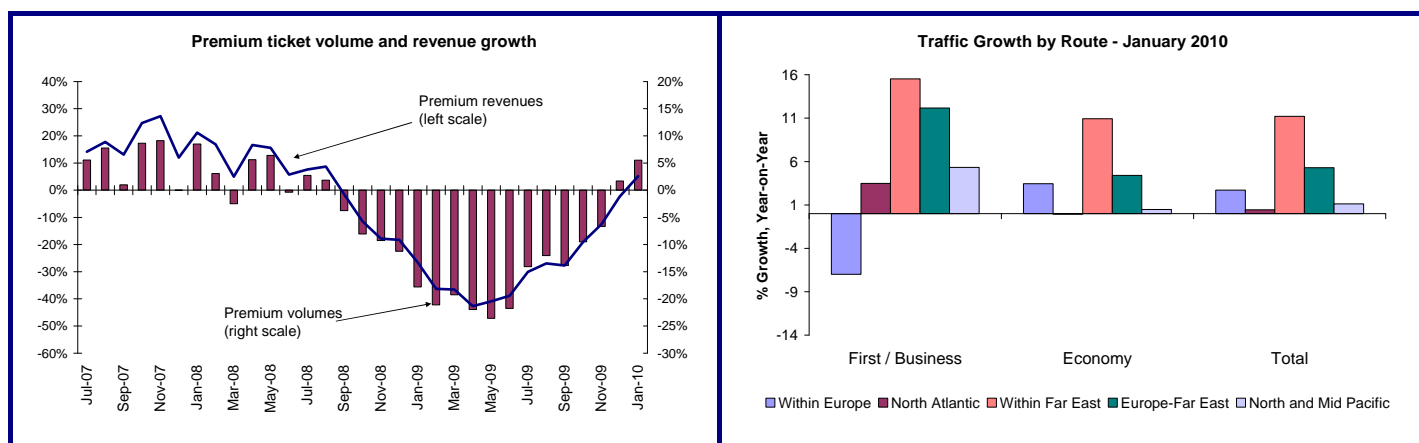
PREMIUM TRAFFIC GROWTH



- Since premium travel numbers fell 16% in 2009 an important question is whether that decline was cyclical and likely to be reversed, or a permanent structural loss. The chart below suggests that what we saw was a very large cyclical fall. The decline in premium travel matched very closely the decline in world trade. Not all business travel is export related but world trade is a reasonable proxy for international financial and consulting activity too. World trade started to pick up at a robust pace from the middle of last year. Premium passenger numbers followed that upturn very closely. At the moment there is no reason to expect this trade upturn to stop so further gains in business and premium travel are likely in the months ahead.
- Of course some business travellers will be buying economy tickets, particularly on shorter-haul markets. There has been a steady and structural shift of business travellers from premium to economy seats on the within-Europe market, although this has been less evident on long-haul markets. On most markets the majority of economy passengers are on vacation or visiting friends and relatives. This segment is driven by income growth and confidence, as well as price. The chart below shows that consumer confidence started to fall sharply early in 2008, as the financial crisis deepened, but economy travel held up until the second half of the year before falling. This maybe because consumers see air travel as more of a necessity than before, or economy travel may be more influenced now by the business travel cycle. Certainly the recent upturn in economy travel is stronger than would be expected from leisure travel, given that the improvement in consumer confidence has essentially been flat since mid-2009.



- Of course what matters for the bottom line is not passenger numbers but revenues. Yields are key to this volume growth becoming profitable. Since load factors have reached record levels on international markets airlines are finding that a degree of pricing power has returned. Average fares have risen by around 10% for both premium and economy seats since the middle of last year. This pulled international passenger revenues up 20% from their mid-2009 lows by January, after an 18% full year decline in total international passenger revenues and a near 30% fall in revenues from premium passengers. But even though premium revenues are up 20% from their low and showing positive year-on-year growth rates again there is a further 30% to be regained before early 2008 premium revenues levels are reached. Economy revenues are now 7% below their previous peak.



PREMIUM TRAFFIC BY MAJOR ROUTE

- The large geographical differences in passenger growth remains. The chart above shows that in four out of the five largest premium markets year-on-year growth rates are positive once more, but very uneven. Within-Far East or Asian markets continue to show very strong growth, reflecting the strong economic upturn being experienced in this region. The Chinese economy is once more growing at a pace of more than 10% a year. This region generates a large proportion of world trade activity and that will have boosted business and premium travel. Moreover, consumers are less burdened by debt in this region and unemployment rates are not high. Economy travel is also strong in this region as a result.
- The strongest premium travel market is in South America, which was up 31.6% in January. Central American economies, though now recovered from last year's influenza A (H1N1), are more closely tied to the economic health of the US. Whereas, many of the South American economies are now benefiting from strong Asian demand for commodities as well as from more stable economic policies. This trade and economic activity is generating very strong growth in business travel in the region.
- The other fast growing route areas are linked to the Middle East. Since this particular data set measures flight segments rather than origin-destination journeys, the double figure growth on Europe-Middle East and Middle-Far East almost certainly reflects market share gains by Middle Eastern airlines on Europe-Far East and other long-haul markets, flying long-haul passengers via their Middle Eastern hubs. This is likely to be the reason why economy travel has grown much faster than premium travel on these markets. Business travellers are more likely to favour direct over connecting routes.
- The weakest large premium market is within-Europe where premium travel numbers were still 7% down on the previous year in January, following a 25% decline in 2009. On these short/medium-haul markets there has been a steady shift of business travellers from premium to economy seats. This premium market does appear to be in structural decline.
- Economy travel is a little stronger within-Europe but, at +3.4% in January, cannot be said to be showing strong growth. This will be reflecting the very weak performance of European economies recently, with many experiencing a renewed decline in GDP during the fourth quarter. Unemployment remains high and consumer confidence is up but still relatively low. On the other side of the Atlantic the US economy grew at a rate of more than 5% in the fourth quarter, but almost all of this was due to a restocking of inventories. Consumer spending remains weak and in fact confidence fell back in January to a 10 month low. Not surprisingly then air travel across the North Atlantic remains weak. Premium travel is the stronger segment, up 3.5% in January, after falling 12% in 2009. Economy travel is flat. Markets across the South Atlantic, from South America to Europe, are showing much more robust growth with, in particular, a 9.2% rise in premium travel.
- The relative weakness of North and Mid Pacific markets is another indication that the strong US GDP growth in the fourth quarter exaggerates economic conditions. Premium travel is up 5.3% but economy travel rose only 0.5% in January, after 2.2% growth in December. However, business travel flows are turning up sharply between the US and South America, with a 23.8% rise in premium travel.
- African markets remain mixed. Early on in the recession premium travel markets in Africa continued to grow, as many of the continent's economies were relatively unscathed by the recession elsewhere. However, that changed in the second half of last year and premium travel remains down on levels last year in all the markets covered in the table below, except to the Middle East. But economy travel is growing steadily in many markets, with double figures expansions within Africa and to the Middle East.

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