PREMIUM TRAFFIC MONITOR

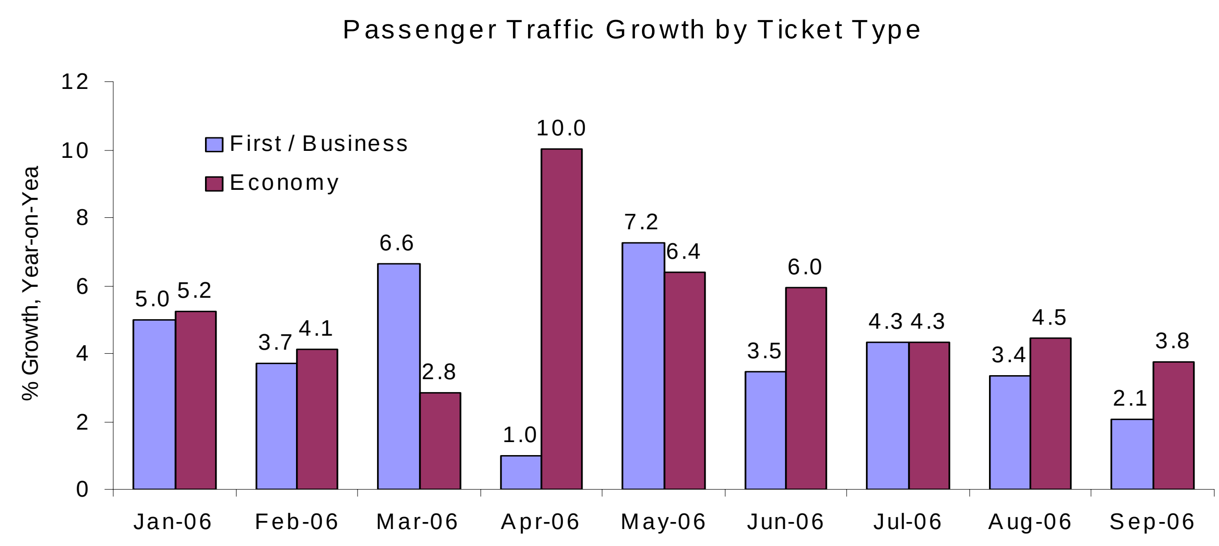
SEPTEMBER 2006

KEY POINTS

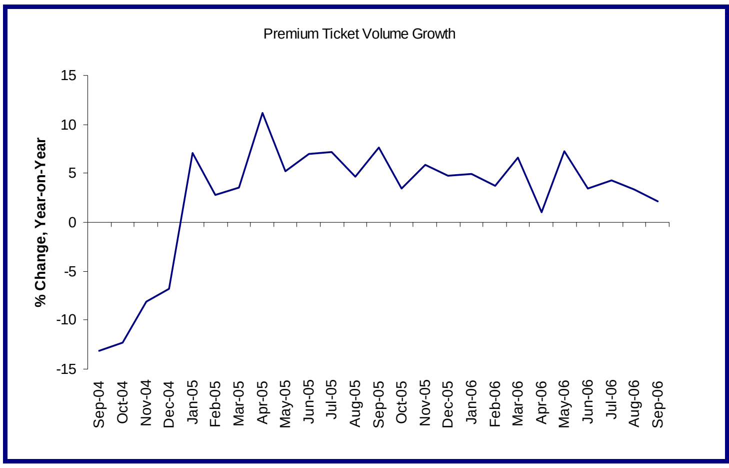
- Premium traffic growth on international routes slowed to 2.1% in September, down from 3.4% in August. Though premium traffic has now grown for 21 consecutive months, September represented the second slowest rate of growth over that period. Once again, it was a fall in premium traffic on short-haul routes within Europe – reflecting structural as well as cyclical factors – that led to a slower aggregate rate of growth.
- Expectations of airline financial performance have been exceeded this year because of the boom in revenues, reflected in improved financial results in the second and third quarters of 2006. However, a period of slower growth in premium traffic could remove one of the key driving factors supporting higher revenues. The global economy remains buoyant, and we expect premium traffic growth to slow rather than turn negative in 2007, but the risk of a sharper-than expected slowdown in the US economy could have a significant impact. As such, as revenue growth slows, the focus for airlines is to address any remaining non-fuel cost inefficiencies.
- Premium traffic growth remains high on routes between the Middle East and Asia and between the Middle East and Africa, reflecting strong economic growth in these regions and the introduction of new capacity on these routes. Europe to Asia also continues to see strong growth. South American routes saw a large fall in volumes, though this largely reflects restructuring in capacity at Varig, with demand shifting to both IATA and non-IATA member airlines.

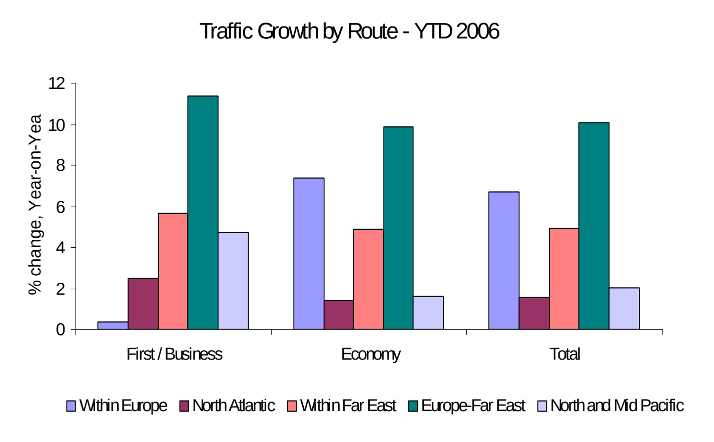
PREMIUM TRAFFIC GROWTH SLOWS AGAIN IN SEPTEMBER

- Premium traffic growth slowed to 2.1% in September, down from 3.4% in August. The rate of growth in September is below the 4.1% growth in premium traffic for the year-to-date in 2006. Premium traffic has grown at a lower rate than economy class traffic for three of the last four months. It now appears that premium traffic has entered a period of slower growth though, importantly, it remains positive. Premium traffic is expected to be lower in 2007 than in the last two years, influenced by a slowdown in the US economy. Nevertheless, reasonably strong demand from Asia and the Middle East should help to ensure that growth remains above zero next year.



- September represented the 21st consecutive month of growth in premium traffic, though it was the second slowest rate of growth over this period. The boom in revenues – supported by strong premium traffic – has helped to produce better than expected financial results for many airlines in 2006. However, growth in revenues is now passed its peak for this cycle, placing more importance on further efficiencies on the cost side to continue the improvement in airline financial performance in 2007.





PREMIUM TRAFFIC BY MAJOR ROUTE

- Of the five main premium traffic routes by volume (together accounting for 75% of total premium traffic), Europe to the Far East has seen the strongest rate of growth so far in 2006, boosted by strong Asian economic growth and liberalisation on some routes (e.g. UK to India). Routes across the North Atlantic and North Pacific saw a pick-up in growth in September, but growth slowed on routes within the Far East and turned negative on routes within Europe.
- Premium traffic has grown at a faster rate than economy traffic on all the major routes with the exception of those within Europe. There is a sharp divergence between economy class and premium class growth within Europe. Stronger economic growth in the region saw economy class travel grow by 7.9%, year-on-year, in September but premium class traffic fell by 3.2%. As such, the fall in premium traffic within Europe appears to be driven by structural rather than cyclical factors, for example from the ongoing strong competition from no-frills airlines on European short-haul routes, even for business traffic.

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16th November 2006
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PREMIUM TRAFFIC GROWTH BY ROUTE

	Share of total Premium Traffic	Premium Traffic Growth	
		Sep 06 Vs Sep 05	YTD Sep 06
Africa – Middle East	0.8%	20.1%	22.8%
Africa – SW Pacific	0.0%	-22.6%	5.8%
C America – S America	0.3%	-5.9%	-11.0%
Europe – Far East	8.3%	12.4%	11.4%
Europe – Middle East	3.9%	0.3%	8.2%
Europe – SW Pacific	0.2%	-6.0%	-5.1%
Africa – Far East	0.2%	-7.4%	11.5%
Within Africa	0.4%	17.2%	10.0%
Within Central America	0.2%	2.7%	9.0%
Within Far East	9.8%	3.4%	5.7%
Within Middle East	1.6%	-11.2%	7.1%
Within N America	1.4%	28.0%	-3.0%
Within SW Pacific	0.3%	4.2%	3.8%
Within South America	0.8%	-1.3%	-7.5%
Mid Atlantic	1.1%	11.8%	5.3%
Middle East – Far East	1.8%	17.8%	14.5%
Middle East – SW Pacific	0.4%	17.0%	23.2%
North Atlantic	15.9%	3.3%	2.5%
N America – C America	5.0%	3.7%	10.9%
Europe – N Africa	3.9%	6.7%	6.2%
N America – S America	2.0%	1.8%	1.8%
Far East – SW Pacific	1.5%	10.8%	5.2%
North & Mid Pacific	6.3%	6.4%	4.7%
South Pacific	0.5%	0.6%	0.9%
South Atlantic	2.2%	-3.7%	4.1%
Within Europe	31.2%	-3.2%	0.4%
Total International	**100.0%**	**2.1%**	**4.1%**