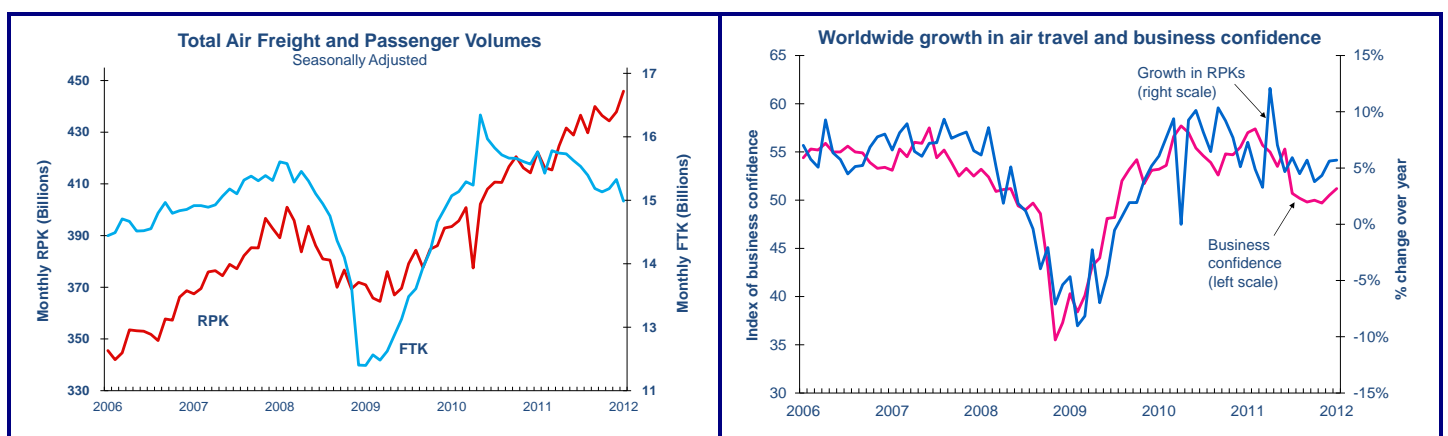


AIR TRANSPORT MARKET ANALYSIS

JANUARY 2012

KEY POINTS

- 2012 began with a further rise in air travel, but a decline in air freight. Worldwide revenue passenger kilometers flown were 5.7% higher in January than the same month a year ago, a slight acceleration over December. Air freight kilometers flown were down 8% on a year ago, a sharp decline from December's outturn;
- However, there were major distortions to the data in January due to the Chinese New Year holiday occurring a month earlier than last year, in January. Holiday travel and factory closures boosted revenue passenger kilometers and depressed air freight kilometers by several % points;
- A better view of the trend in air traffic volumes can be seen in the first chart below. Even after correcting for the Chinese New Year distortion to air travel, the trend remains upwards, albeit at a slower pace than during the first half of 2011. The decline of air freight markets came to an end in the fourth quarter of 2011 – the fall in January was large but seems almost entirely due to the Chinese New Year.
- The modest revival of business confidence and export orders at the turn of the year supports the view that air freight markets have, for the moment, stabilized and that business travel is still expanding.
- Asset utilization for airlines on passenger markets also improved in January, with a sharp rise in load factors. Freight load factors fell. Both were exaggerated by the impact of the Chinese New Year. The trend in passenger load factors shows them remaining at historically high levels, which is positive for unit revenues in the first quarter. Freight load factors are clearly trending down, under pressure from capacity arriving with new wide body passenger aircraft, as well as weak markets. Freight profitability remains under downward pressure.
- There was a lot of regional variation in January. The strongest passenger markets in January were domestic markets in China, India and Brazil and the international traffic carried by Asia Pacific airlines. Airlines in the other major regions of Europe and North America faced flat or weaker passenger and freight markets.



Year on Year Comparison	January 2012 vs. January 2011						2011 vs. 2010					
	RPK	ASK	PLF	FTK	AFTK	FLF	RPK	ASK	PLF	FTK	AFTK	FLF
International	5.5%	4.2%	76.6%	-8.1%	-0.6%	45.3%	6.9%	8.2%	77.4%	-0.5%	5.2%	50.8%
Domestic	6.1%	4.1%	76.6%	-7.0%	-0.5%	25.7%	4.3%	3.2%	79.3%	-1.7%	0.2%	28.5%
Total Market	5.7%	4.2%	76.6%	-8.0%	-0.6%	41.0%	5.9%	6.3%	78.1%	-0.6%	4.1%	45.9%

RPK: Revenue-Passenger-Kilometers; ASK: Available-Seat-Kilometers; PLF: Passenger-Load-Factor; FTK: Freight-Tonne-Kilometers; AFTK: Available Freight Tonne Kilometers; FLF: Freight Load Factor;
 All Figures are expressed in % change Year on Year except PLF and FLF which are the load factors for the specific month.

COMPARING JANUARY TO DECEMBER

January 2012 vs. December 2011

Month on Month Comparison	RPK	ASK	PLF pt	FTK	AFTK	FLF pt
International	1.6%	-0.3%	2.0%	-1.9%	-1.7%	-0.2%
Domestic	2.2%	0.5%	1.3%	-6.4%	-1.1%	-1.5%
Total Market	1.8%	0.0%	1.4%	-2.5%	-1.5%	-0.4%

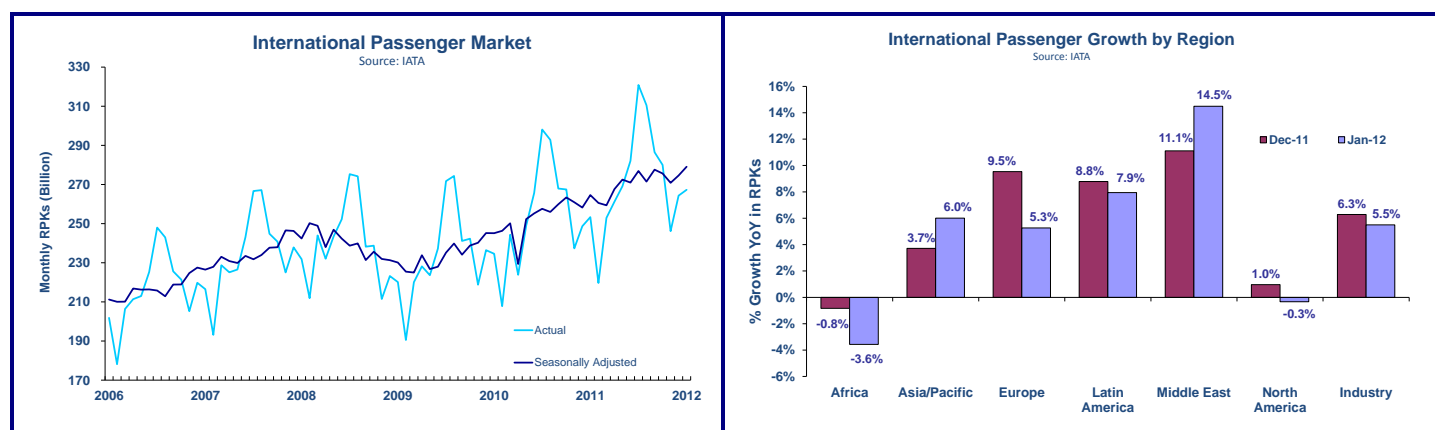
Data are seasonally adjusted.

All figures are expressed in % change month on month except, PLF pt and FLF pt which are the percentage point difference between load factors of two consecutive months.

- A large part of the increase in RPKs and the fall in FTKs was due to Asia-Pacific airlines – and much of that appears due to the Chinese New Year falling in January this year.
- Passenger capacity was more or less flat in January and freight capacity reduced. This enabled significantly stronger load factors on passenger markets, though freight markets deteriorated further.

PASSENGER MARKET

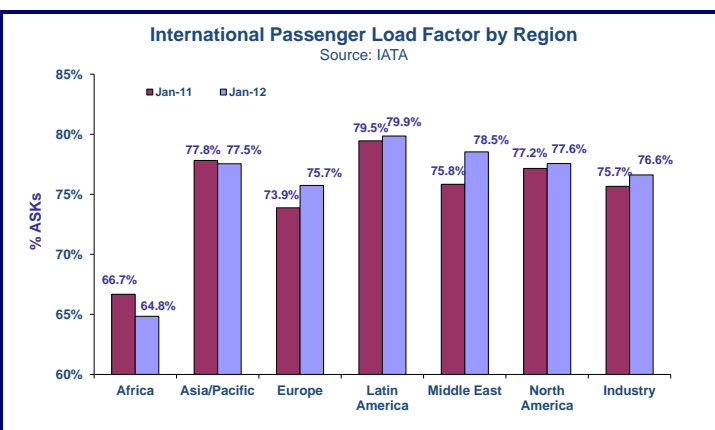
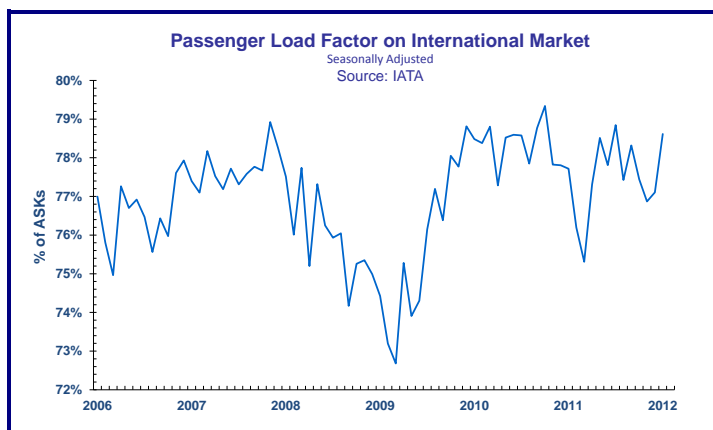
International Markets



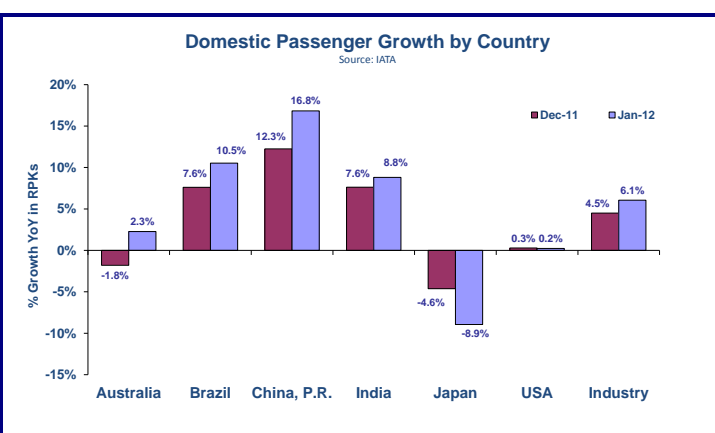
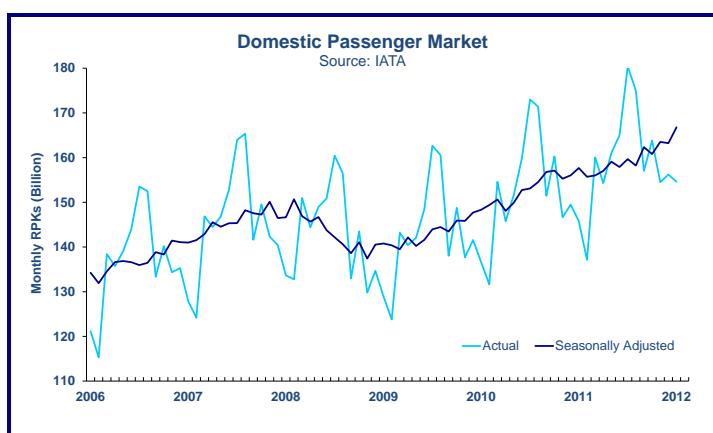
- There was clearly a significant one-off boost to international air travel volumes from the Chinese New Year, which mainly benefited the Asia Pacific airlines. Year-on-year growth would have been several % points softer had it not been for the additional holiday travel from China.
- The two other large markets for European and North American airlines were significantly weaker in January. The lower year-on-year growth rates were partly a result of a strong January last year, but traffic was down on December as well.
- A notable development was the re-acceleration of the growth in traffic carried by Middle Eastern airlines in December and January. For much of 2011 European airlines had grown faster than Middle Eastern airlines on international markets. January saw much faster growth being achieved in the Middle East than in Europe. The impact of the Eurozone crisis and the recession in peripheral Europe may finally be impacting the airline business in this region.
- Latin American airlines continued to see robust growth in their passenger business. Economic growth has slowed from last year but remains stronger than most parts of the world. Sub-Saharan African economies also continued to show strong economic growth, generating stronger air transport markets. However, unlike Latin American airlines, those in Africa are having a tough time maintaining their share of these growing markets.
- Load factors improved substantially in January, partly due to the traffic boost from the Chinese New Year. But even after adjusting for this one-off boost it does look like airlines are managing to keep the trend in load factors on international markets at historically high levels. In past cycles capacity would have run far ahead of demand at this stage, leading to lower load factors and much greater downward pressure on profitability.

Predict future demand and minimize investment risk.

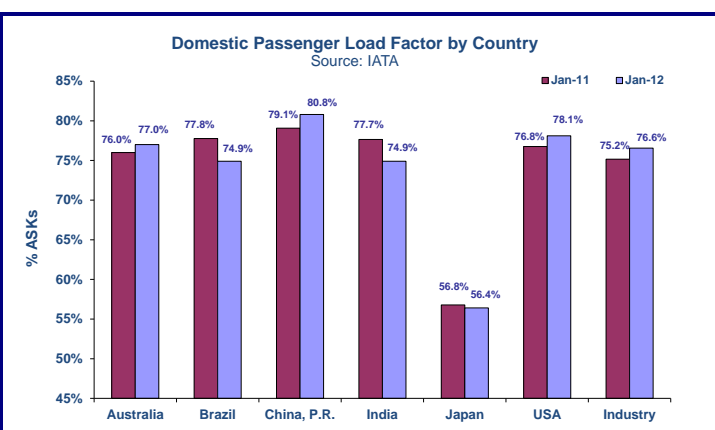
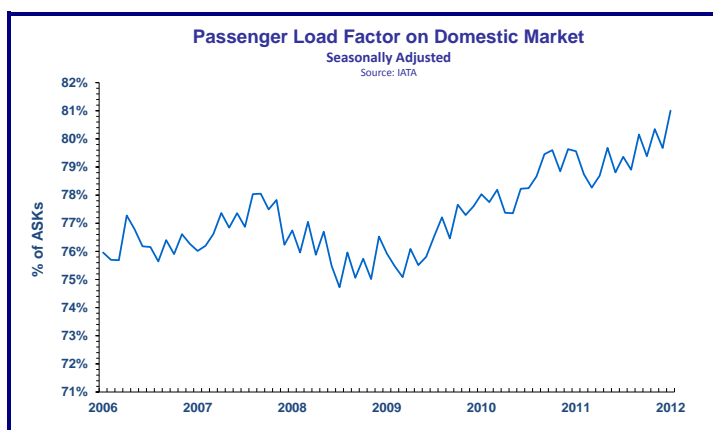
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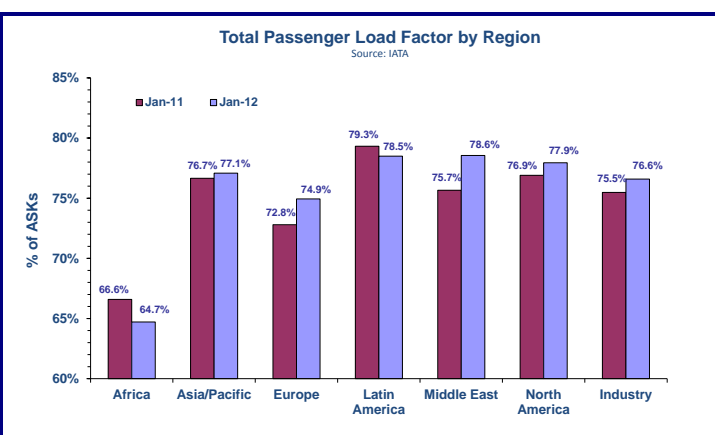
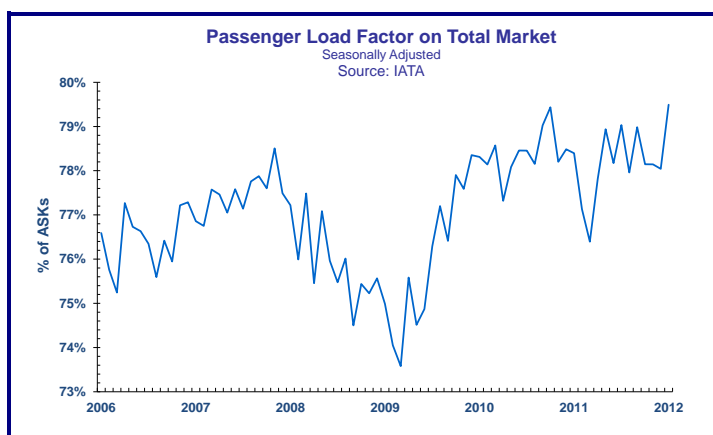
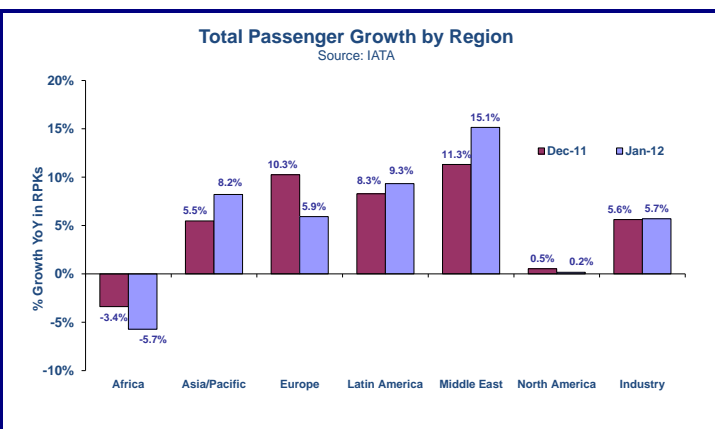
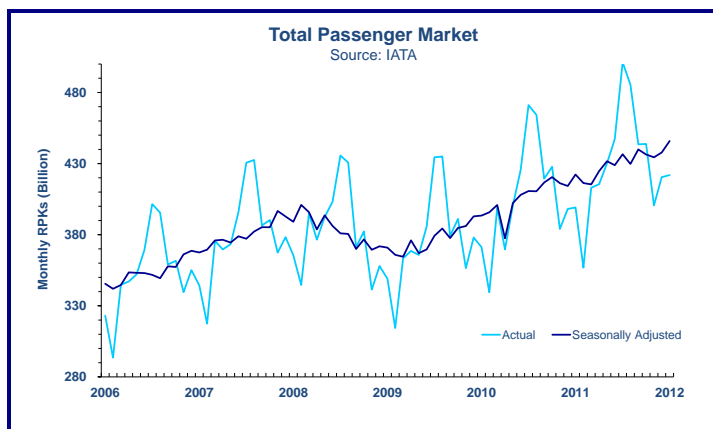
Domestic Market



- Strong domestic air travel growth was seen on markets in Brazil, China and India. The US domestic market remains the world's largest but China is catching up fast with a share, now 20%, up 4% points from just over a year ago. India and Brazil, with shares of 3% and 5% respectively, are small markets but growing fast as strong economic growth and the emerging middle income classes boost travel demand.
- The Japanese market, hit very badly by the earthquake and tsunami last March, faced another set-back in January with a significant fall in traffic following weak economic growth in the fourth quarter. The level of the domestic market in January was still 7% down on where it was before the earthquake.
- The weak US market is partly due to still sluggish US economic growth and a very mature market. However, it is also partly a result of US airline strategic moves to consolidate capacity. Capacity was cut significantly more than the fall in demand during January, strengthening domestic load factors for US airlines.

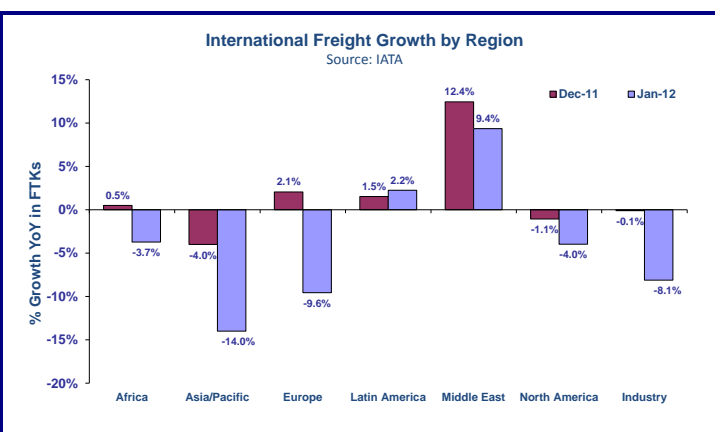
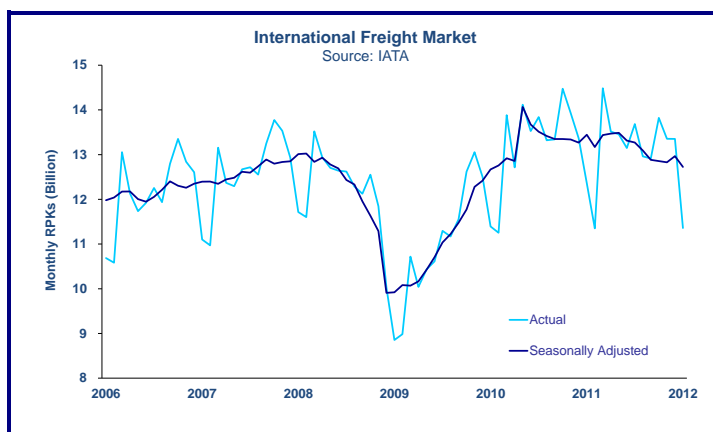


Total Market (Domestic + International)



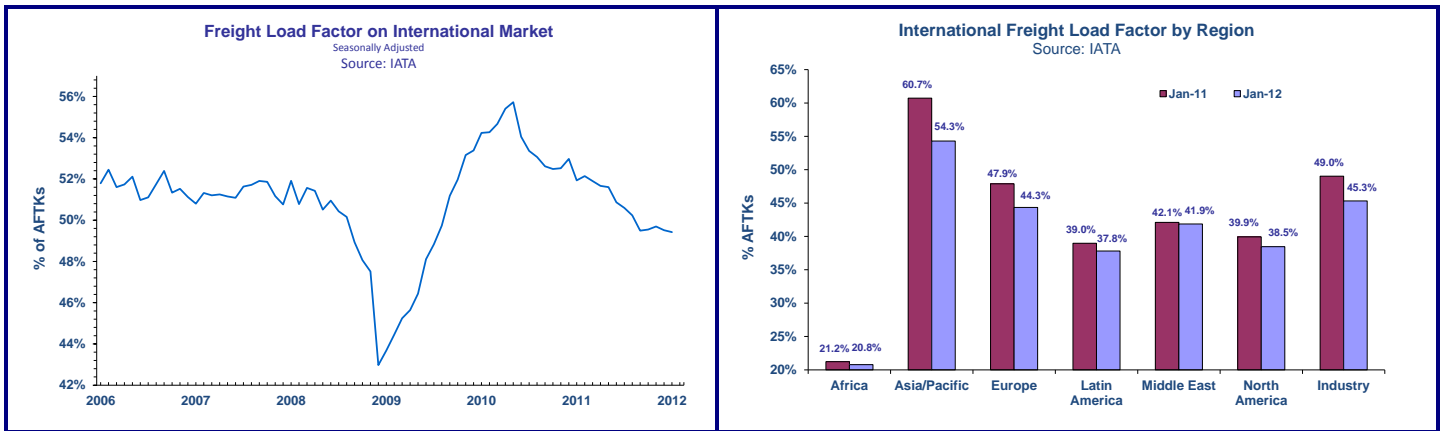
FREIGHT MARKET

International Market

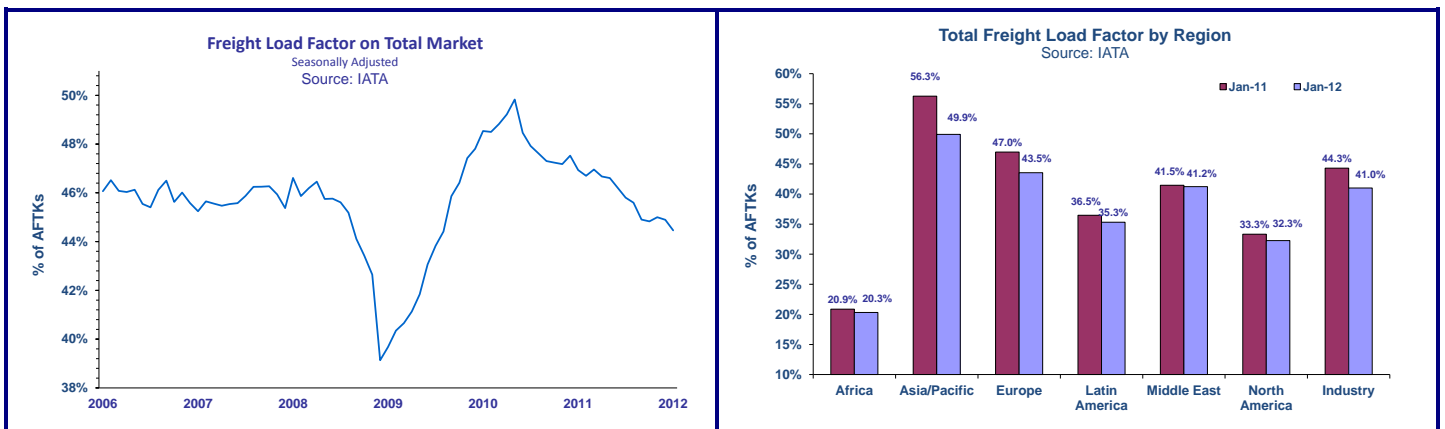
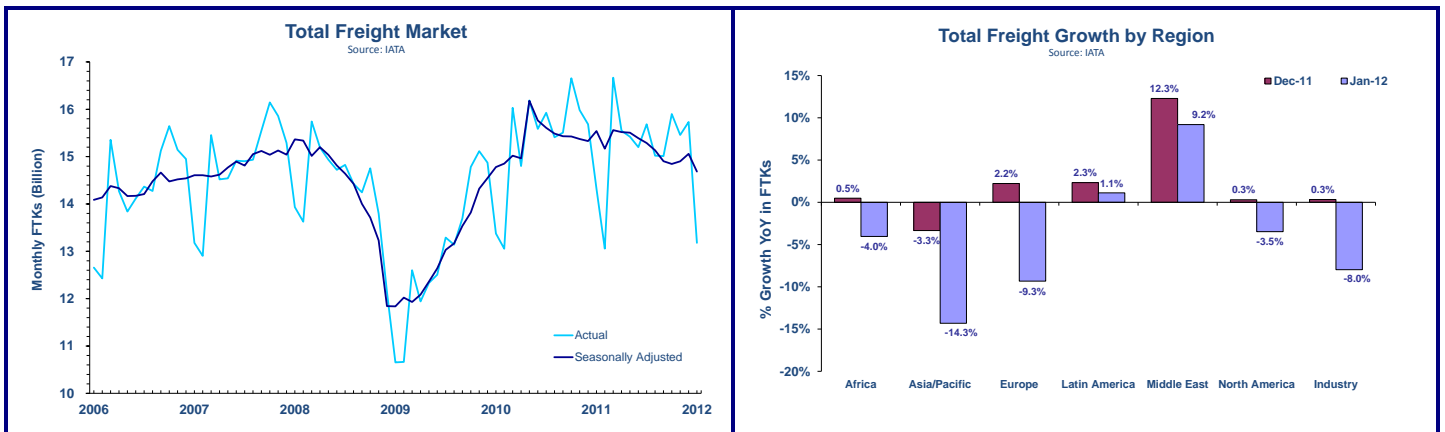


- Air freight volumes fell in January, in large part due to the Chinese New Year factory closures. Asia-Pacific airlines faced the weakest markets as a result.
- European airlines also saw a sharp fall in freight volumes. Clearly the peripheral economies in this region have been in recession and so attracting very little inbound cargo. However, until recently this had been offset by strong outbound flows carrying exports from Germany and other Northern European economies.
- Of the smaller regions the Middle East stands out as having benefited from strong growth in recent months.

➤ Capacity continues to be a significant problem in freight markets, largely due to the capacity arriving with new wide bodied passenger aircraft. Load factors have fallen a long way from their peak in early 2010, putting increasing downward pressure on freight profitability.



Total Market



ANNEX

Year on Year Comparison	January 2012 vs. January 2011						2011 vs. 2010					
	RPK	ASK	PLF	FTK	AFTK	FLF	RPK	ASK	PLF	FTK	AFTK	FLF
Africa	-3.6%	-0.8%	64.8%	-3.7%	-1.7%	20.8%	2.1%	4.8%	66.9%	-1.5%	3.4%	25.6%
Asia/Pacific	6.0%	6.4%	77.5%	-14.0%	-3.8%	54.3%	4.0%	6.3%	75.9%	-4.7%	0.6%	62.3%
Europe	5.3%	2.7%	75.7%	-9.6%	-2.3%	44.3%	9.5%	10.2%	78.9%	1.5%	6.4%	49.7%
Latin America	7.9%	7.4%	79.9%	2.2%	5.4%	37.8%	10.2%	9.2%	77.2%	5.5%	5.6%	41.6%
Middle East	14.5%	10.6%	78.5%	9.4%	10.0%	41.9%	8.9%	9.5%	75.5%	8.3%	14.3%	44.3%
North America	-0.3%	-0.9%	77.6%	-4.0%	-0.3%	38.5%	4.0%	6.0%	80.7%	1.5%	6.8%	41.3%
International	5.5%	4.2%	76.6%	-8.1%	-0.6%	45.3%	6.9%	8.2%	77.4%	-0.5%	5.2%	50.8%
Australia	2.3%	0.9%	77.0%				2.2%	1.7%	79.3%			
Brazil	10.5%	14.8%	74.9%				13.9%	11.3%	69.3%			
China P.R.	16.8%	14.3%	80.8%				10.9%	7.8%	82.2%			
India	8.8%	12.8%	74.9%				16.0%	18.2%	74.7%			
Japan	-8.9%	-8.3%	56.4%				-15.2%	-11.5%	61.2%			
US	0.2%	-1.5%	78.1%				1.5%	0.7%	83.0%			
Domestic	6.1%	4.1%	76.6%	-7.0%	-0.5%	25.7%	4.3%	3.2%	79.3%	-1.7%	0.2%	28.5%
Africa	-5.7%	-3.0%	64.7%	-4.0%	-1.4%	20.3%	0.3%	2.6%	67.2%	-2.1%	2.8%	25.2%
Asia/Pacific	8.2%	7.6%	77.1%	-14.3%	-3.4%	49.9%	5.4%	5.9%	76.8%	-4.4%	0.5%	58.0%
Europe	5.9%	2.9%	74.9%	-9.3%	-2.2%	43.5%	9.0%	9.5%	78.0%	1.3%	6.2%	48.7%
Latin America	9.3%	10.5%	78.5%	1.1%	4.4%	35.3%	11.4%	9.8%	74.7%	6.0%	4.3%	40.7%
Middle East	15.1%	10.9%	78.6%	9.2%	9.8%	41.2%	8.5%	8.9%	75.6%	8.2%	13.8%	43.6%
North America	0.2%	-1.2%	77.9%	-3.5%	-0.3%	32.3%	2.3%	2.4%	82.1%	0.2%	3.7%	34.5%
Total Market	5.7%	4.2%	76.6%	-8.0%	-0.6%	41.0%	5.9%	6.3%	78.1%	-0.6%	4.1%	45.9%

RPK: Revenue-Passenger-Kilometers; ASK: Available-Seat-Kilometers; PLF: Passenger-Load-Factor; FTK: Freight-Tonne-Kilometers; AFTK: Available Freight Tonne Kilometers; FLF: Freight Load Factor;

All Figures are expressed in % change Year on Year except PLF and FLF which are the load factors for the specific month.

Month on Month Comparison	January 2012 vs. December 2011						Market Share	
	RPK	ASK	PLF	FTK	AFTK	FLF	RPK	FTK
Africa	-0.9%	-0.4%	-0.3%	1.9%	-1.5%	0.8%	3.4%	1.3%
Asia/Pacific	4.7%	2.0%	2.0%	-9.2%	-0.9%	-5.2%	29.6%	41.3%
Europe	-0.3%	-0.2%	-0.1%	-2.4%	-1.2%	-0.6%	35.7%	23.8%
Latin America	-0.4%	-2.0%	1.2%	3.1%	-0.2%	1.3%	5.2%	3.4%
Middle East	2.2%	0.6%	1.2%	-0.1%	-0.8%	0.3%	12.2%	12.8%
North America	0.4%	-0.5%	0.7%	0.2%	-0.6%	0.3%	14.0%	17.4%
International	1.6%	-0.3%	2.0%	-1.9%	-1.7%	-0.2%	100%	100%
Australia	1.0%	3.1%	-2.0%				3.3%	
Brazil	6.5%	4.8%	1.6%				4.6%	
China P.R.	3.2%	3.4%	-0.1%				21.3%	
India	0.9%	2.1%	-0.8%				3.4%	
Japan	-2.3%	-0.3%	-1.3%				2.6%	
US	-0.3%	-1.0%	0.6%				42.8%	
Domestic	2.2%	0.5%	1.3%	-6.4%	-1.1%	-1.5%	100%	
Africa	-0.9%	-0.6%	-0.2%	1.4%	-1.4%	0.7%	2.4%	1.1%
Asia/Pacific	4.8%	2.5%	1.7%	-10.0%	-0.5%	-5.5%	31.9%	39.2%
Europe	-0.3%	-0.3%	0.0%	-2.4%	-1.1%	-0.6%	25.6%	20.9%
Latin America	2.0%	0.1%	1.4%	2.1%	0.3%	0.7%	6.5%	3.2%
Middle East	2.2%	0.7%	1.2%	-0.1%	-0.8%	0.3%	8.3%	11.1%
North America	0.0%	-0.7%	0.6%	-0.8%	-0.8%	0.0%	25.3%	24.5%
Total Market	1.8%	0.0%	1.4%	-2.5%	-1.5%	-0.4%	100%	100%

Data are seasonally adjusted.

All figures are expressed in % change month on month except, PLF pt and FLF pt which are the percentage point difference between load factors of two consecutive months.

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29TH February 2012

FURTHER ANALYSIS AND DATA

Access data related to this briefing through the Route Tracker publication:

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