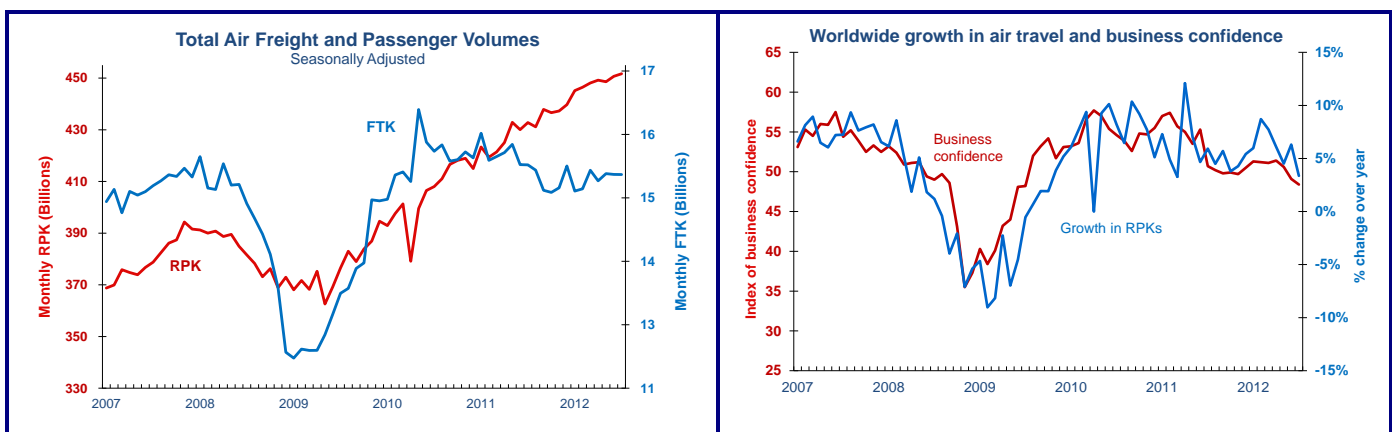


AIR TRANSPORT MARKET ANALYSIS

JULY 2012

KEY POINTS

- The expansion of air travel slowed in July. Compared to a year earlier the number of revenue passenger kilometers (RPKs) flown was up just 3.4%. In June this comparison was 6.3%. These year-on-year comparisons have been distorted in many recent months by events affecting travel last year, such as the Arab Spring. However, it has become clear that since early this year the pace of air travel expansion has slowed, largely as a result of falling business confidence and world trade.
- International air travel growth is holding up better than domestic air travel, as the year-on-year comparisons in the table below show. The slowdown in international air travel in the past 3-4 months has closely followed the decline in business confidence, but there is considerable regional variation. Despite recession conditions in Europe, airlines from this region have continued to expand on international markets. In fact one of the weakest regions is Asia-Pacific, where travel is being affected by changing trade flows and airlines facing strong competition in many markets. The Middle Eastern airlines are once more expanding rapidly, gaining share in a number of long-haul markets, having slowed in the aftermath of the 2008-9 recession. The other major component of slower growth is due to the North American airlines, which in large part is a result of decisions to cut capacity, particularly on the North Atlantic market.
- Domestic air travel has slowed more than international this year. But that is not true of all markets. The increasingly important Chinese domestic market is once more accelerating after a sharp slowdown in the middle of this year, reflecting the path of the economy. The cause of weakness in domestic air travel, apart from a moderate capacity-driven fall in the US, has been recent developments in India and Japan. After expanding at 20%+ rates through 2010 and the early part of 2011, the Indian market stopped growing at the end of last year. This abrupt change is due to a combination of factors, not least the sharp slowdown in the Indian economy. Weakening economic conditions have also caused the Japanese domestic market to shrink some 4% so far this year. After a rapid rise from the impact of the earthquake and tsunami last year, the recovery in domestic air travel hit a ceiling at the beginning of 2011 and the market is now still 10% smaller than pre-earthquake levels.
- Airlines have responded to slower air travel and air freight demand by slowing their expansion of capacity. Load factors in passenger markets slipped a little earlier in the second quarter, but have since stabilized. July always has one of the highest load factors in the year, since it is a peak travel month, but even taking this into account load factors are high relative to previous years. Airlines have also managed to stabilize load factors in air freight markets by cutting capacity. High load factors will help airlines limit the damage to profitability caused by the recent renewed rise in jet fuel prices. However, the slowdown of the growth in demand is hampering airline financial performance.
- Recent falls of business confidence in a number of major economies, as shown in the second chart below, suggests that growth in air travel and freight is likely to slow further in the next few months.



Year on Year Comparison	July 2012 vs. July 2011						YTD 2012 vs. YTD 2011					
	RPK	ASK	PLF	FTK	AFTK	FLF	RPK	ASK	PLF	FTK	AFTK	FLF
International	3.5%	3.5%	83.3%	-3.3%	-0.1%	48.1%	6.8%	4.7%	78.7%	-2.8%	1.6%	48.9%
Domestic	3.1%	3.8%	82.6%	-2.4%	-2.2%	26.9%	4.5%	4.1%	79.4%	0.6%	-1.1%	28.4%
Total Market	3.4%	3.6%	83.1%	-3.2%	-0.6%	43.7%	6.0%	4.5%	78.9%	-2.4%	1.0%	44.6%

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 JULY TO JUNE

Month on Month Comparison	July 2012 vs. June 2012					
	RPK	ASK	PLF pt	FTK	AFTK	FLF pt
International	0.3%	0.2%	0.1%	0.1%	-0.7%	0.9%
Domestic	0.2%	0.4%	-0.2%	-1.1%	0.1%	-0.3%
Total Market	0.2%	0.3%	0.0%	0.0%	-0.6%	0.2%

Data are seasonally adjusted.

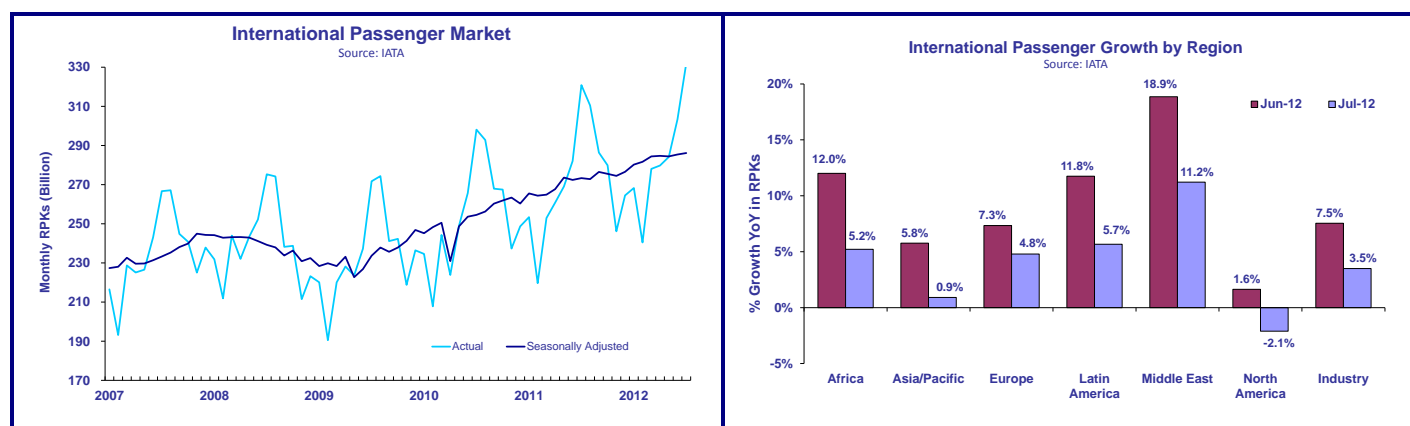
All figures are expressed in % change month on month except, PLF pt and FLF pt which are the percentage point difference between load factors of two consecutive months.

➤ After adjusting the air travel data for seasonal factors, passenger markets recorded an increase of 0.2% in July compared to June. Capacity expanded by 0.3% over the month, leaving passenger load factors unchanged over the month.

➤ Freight markets showed no advance in July compared June. Airlines cut capacity, however, by 0.6% in response to the slowdown in demand growth, allowing freight load factors to increase by 0.2% in July compared to June.

PASSENGER MARKET

International Markets



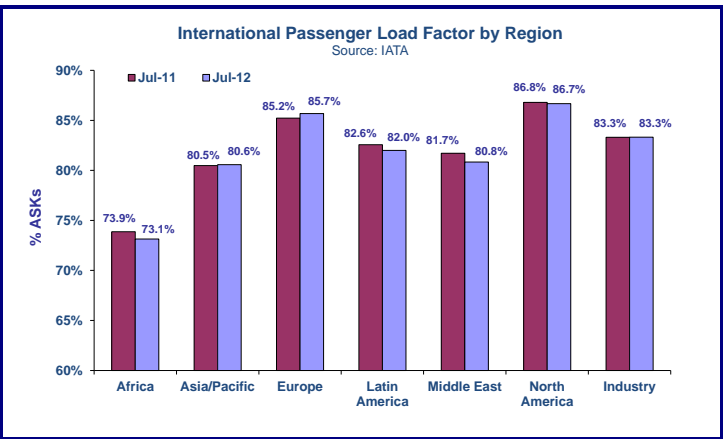
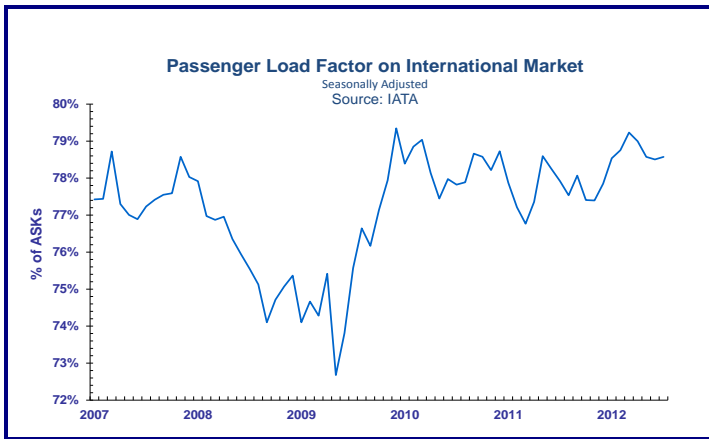
➤ The growth trend in international air travel continues to be weak. The market increased by 0.3% in July compared to June, which indicates growth at a slow 4% annualized rate. The slowdown in international air travel in the past 3-4 months has closely followed the decline in business confidence, but there is considerable regional variation.

➤ Despite recession conditions in Europe, airlines from this region have continued to expand on international markets. Travel in Europe expanded by 4.8% in July compared to a year ago. This is down from the June result of 7.3%, but still showing solid growth.

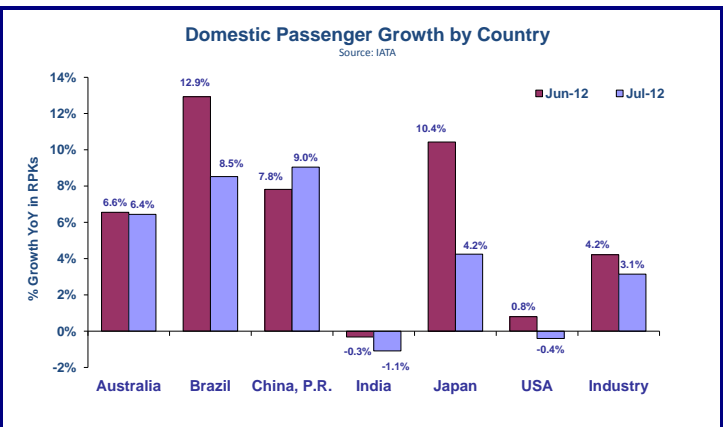
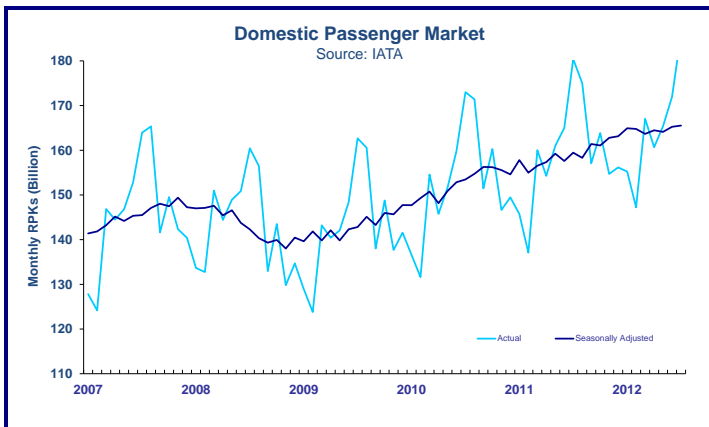
➤ One of the weakest regions is Asia-Pacific, where travel is being affected by changing trade flows and airlines facing strong competition in many markets. Asia/Pacific airlines experienced an increase of only 0.9% in July year-on-year, compared to 5.8% in June. In fact, the growth trend in international travel on Asia/Pacific airlines has become negative. The downward growth trend commenced in Q2 2012 and has now continued into July, when the market contracted 1.3% month-on-month.

- The other major component of slower growth is due to the North American airlines, which in large part is a result of decisions to cut capacity, particularly on the North Atlantic market. Airlines in the region actually saw international traffic contract in July compared to a year ago, by 2.1%, falling from the small increase in June of 1.6%.
- The Middle Eastern airlines are once more expanding rapidly, gaining share in a number of long-haul markets, having slowed in the aftermath of the 2008-9 recession. The market expanded by 11.2% in July year-on-year. And although this is down on the June result of 18.9%, it is likely that several percentage points of the fall is due to Ramadan commencing a month earlier than last year.

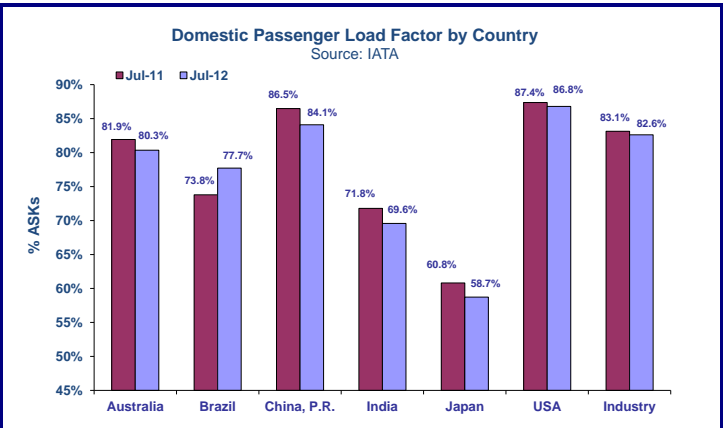
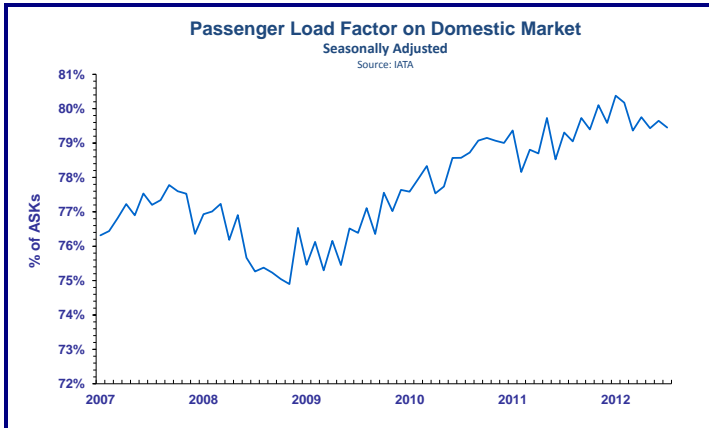
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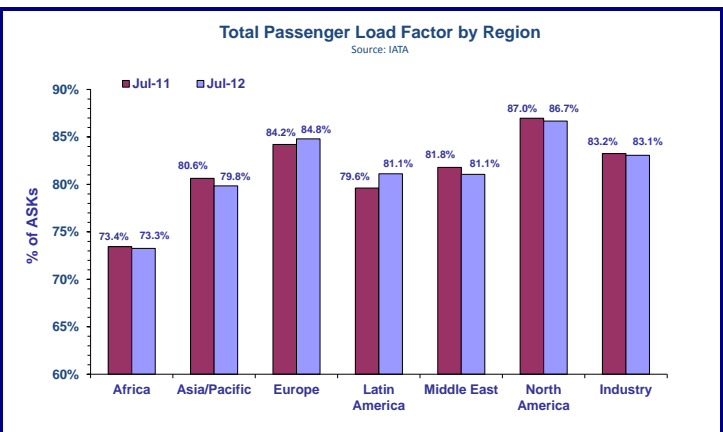
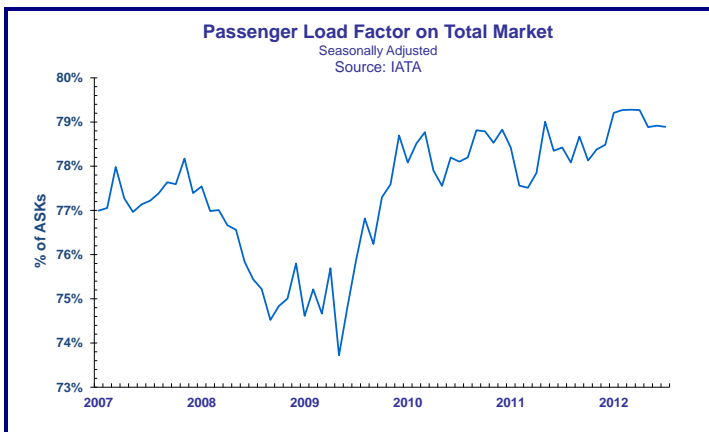
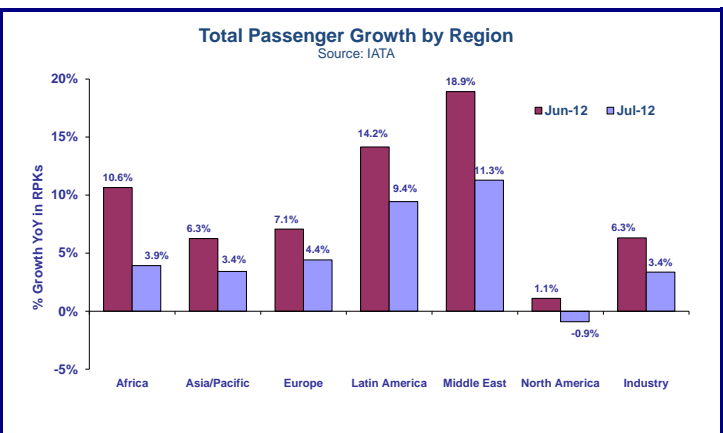
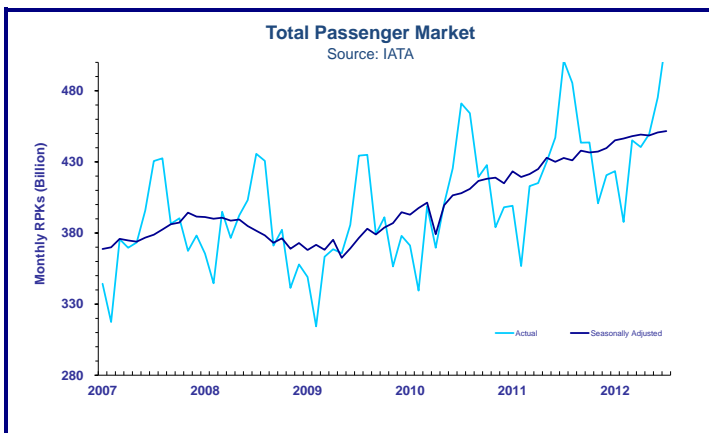
Domestic Market



- The growth trend in domestic markets was also slow in July, continuing the weakness which started in early 2012. Over the month, domestic markets increased just 0.2% in July compared to June.
- The weakness, however, is not widespread. The increasingly important Chinese domestic market is once more accelerating after a sharp slowdown in the middle of this year, reflecting the path of the economy, and recorded 9.0% growth in July compared to a year ago.
- Weakness in domestic travel has come mostly from recent developments in India and Japan. After expanding at 20%+ rates through 2010 and the early part of 2011, the Indian market stopped growing at the end of last year. There have been several reasons for the change in trend, including the weakening Indian economy. The market contracted by 1.1% in July compared to a year ago.
- The Japanese domestic market has also been impacted by weak economic conditions, contracting by 4% so far this year. After a rapid rise from the impact of the earthquake and tsunami last year, the recovery in domestic air travel hit a ceiling at the beginning of 2011 and the market is now still 10% smaller than pre-earthquake levels.

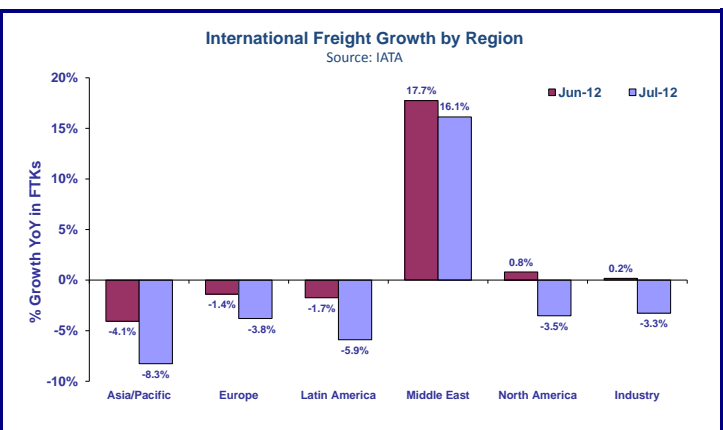
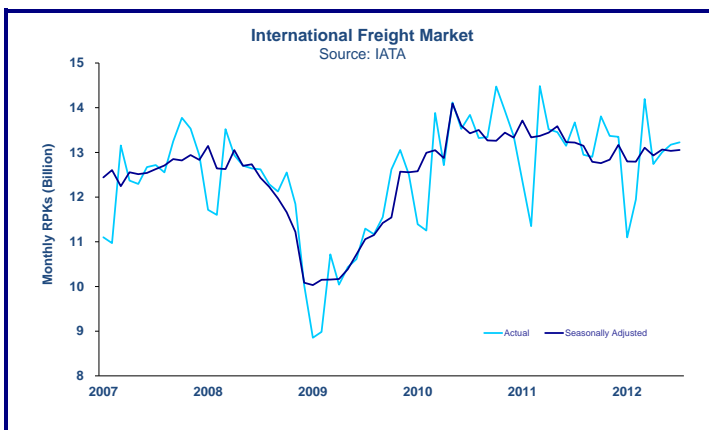


Total Market (Domestic + International)

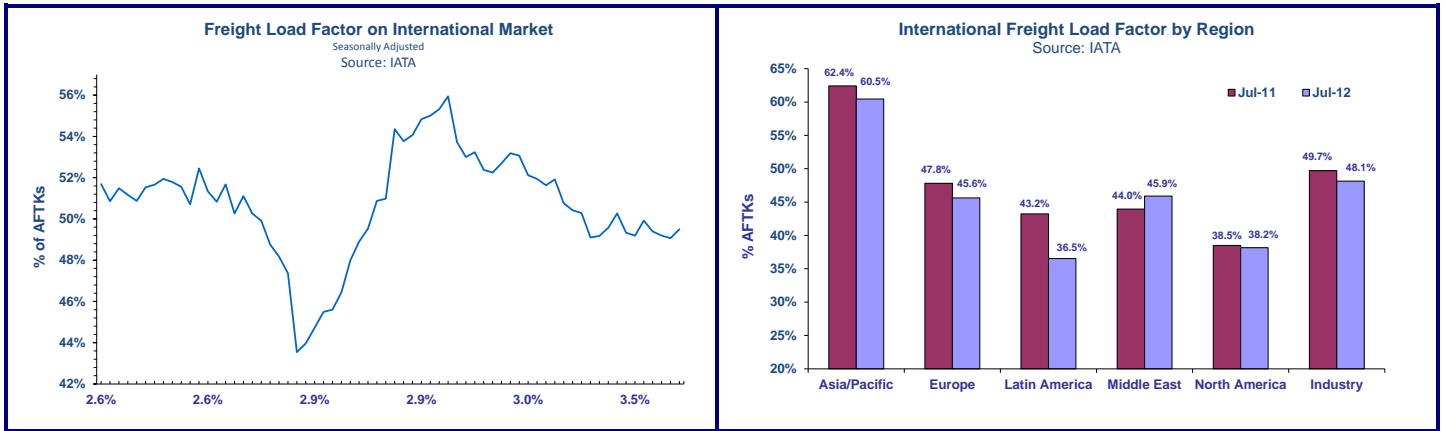


FREIGHT MARKET

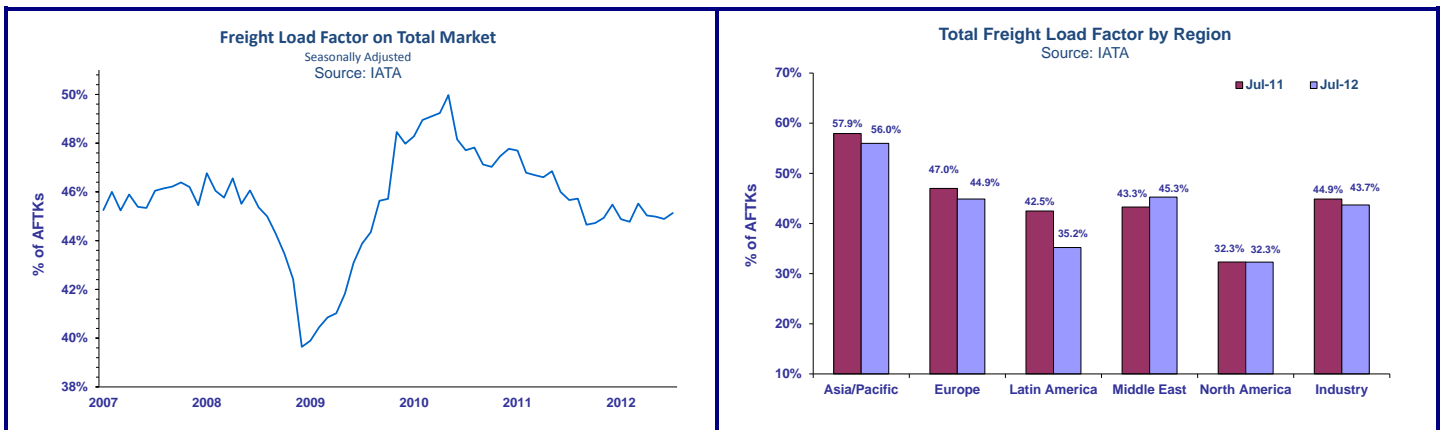
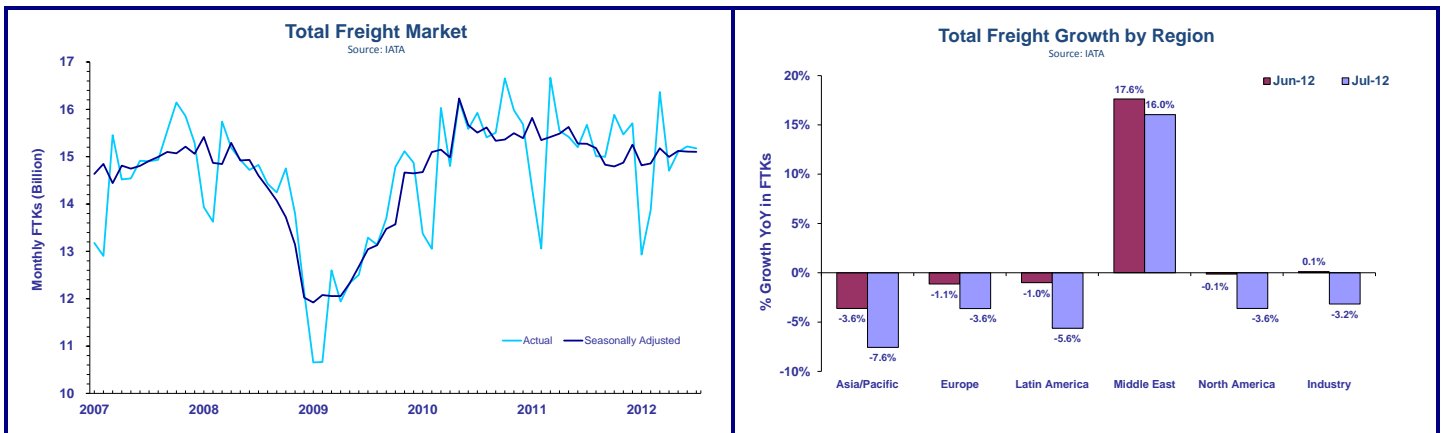
International Market



- The trend for international air freight made no significant progress in July, increasing just 0.1% in July compared to June. International air freight had been showing signs of improvement since the end of 2011, but the recent decline in business confidence and slowdown in world trade growth could now be starting to weaken the market. The international air freight market was down 3.3% in July compared to a year ago.



Total Market



- Total air freight volumes weakened in July, with the market 3.2% smaller than a year ago, after a slight increase of 0.1% in June. Other than the Middle East, which experienced a 16% increase in air freight demand in July year-on-year, all markets showed decline compared to a year ago. Also, air freight markets made no progress in July compared to June. The minor recovery in air freight markets seen since the end of 2011 has stagnated.
- In fact, the trend in air freight markets could potentially be weaker if it was not for the performance of Middle Eastern airlines. Asia/Pacific airlines, which have the largest share of the air freight market, have made no advance in the level of traffic since the end of 2011 – with FTKs in that market just 0.2% higher in June compared to Q4 2011. It is a similar case in Europe, where the air freight market is only 1% higher in July than Q4 2011.
- As was the case with passenger markets, airlines have responded quickly to slower air freight demand by slowing their expansion of capacity. Air freight load factors managed to increase slightly, by 0.2% in July compared to June, on the back of a 0.6% reduction in capacity over the month.

ANNEX

Year on Year Comparison	Jul 2012 vs. Jul 2011						YTD 2012 vs. YTD 2011					
	RPK	ASK	PLF	FTK	AFTK	FLF	RPK	ASK	PLF	FTK	AFTK	FLF
Africa*	5.2%	6.3%	73.1%				9.8%	9.2%	66.4%			
Asia/Pacific	0.9%	0.8%	80.6%	-8.3%	-5.3%	60.5%	5.9%	3.7%	77.8%	-7.5%	-2.4%	59.5%
Europe	4.8%	4.2%	85.7%	-3.8%	0.8%	45.6%	6.2%	3.9%	79.8%	-4.2%	1.1%	47.7%
Latin America	5.7%	6.4%	82.0%	-5.9%	11.4%	36.5%	9.4%	7.9%	78.9%	-1.1%	5.1%	39.0%
Middle East	11.2%	12.4%	80.8%	16.1%	11.2%	45.9%	17.0%	12.8%	78.1%	15.0%	13.6%	45.3%
North America	-2.1%	-2.0%	86.7%	-3.5%	-2.7%	38.2%	1.5%	0.1%	81.2%	-2.1%	0.1%	40.5%
International	3.5%	3.5%	83.3%	-3.3%	-0.1%	48.1%	6.8%	4.7%	78.7%	-2.8%	1.6%	48.9%
Australia	6.4%	8.5%	80.3%				4.1%	4.4%	77.5%			
Brazil	8.5%	3.0%	77.7%				9.2%	9.9%	69.9%			
China P.R.	9.0%	12.1%	84.1%				9.2%	11.0%	81.1%			
India	-1.1%	2.1%	69.6%				4.0%	5.4%	74.7%			
Japan	4.2%	7.9%	58.7%				6.6%	2.8%	59.3%			
US	-0.4%	0.2%	86.8%				1.0%	0.3%	83.5%			
Domestic	3.1%	3.8%	82.6%	-2.4%	-2.2%	26.9%	4.5%	4.1%	79.4%	0.6%	-1.1%	28.4%
Africa*	3.9%	4.2%	73.3%				8.4%	7.6%	67.0%			
Asia/Pacific	3.4%	4.4%	79.8%	-7.6%	-4.3%	56.0%	6.7%	5.7%	77.5%	-6.8%	-1.9%	55.3%
Europe	4.4%	3.7%	84.8%	-3.6%	0.9%	44.9%	6.1%	3.6%	79.0%	-3.9%	1.2%	46.8%
Latin America	9.4%	7.4%	81.1%	-5.6%	13.9%	35.2%	10.4%	9.5%	76.1%	-1.2%	7.4%	36.9%
Middle East	11.3%	12.3%	81.1%	16.0%	11.0%	45.3%	17.3%	13.1%	78.2%	14.8%	13.4%	44.6%
North America	-0.9%	-0.6%	86.7%	-3.6%	-3.6%	32.3%	1.3%	0.2%	82.7%	-1.1%	-1.4%	34.4%
Total Market	3.4%	3.6%	83.1%	-3.2%	-0.6%	43.7%	6.0%	4.5%	78.9%	-2.4%	1.0%	44.6%

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	July 2012 vs. June 2012						Market Share	
	RPK	ASK	PLF	FTK	AFTK	FLF	RPK	FTK
Africa*	1.4%	0.0%	0.9%				3.4%	1.4%
Asia/Pacific	-1.3%	0.5%	-1.4%	0.6%	0.5%	0.0%	24.4%	41.2%
Europe	-0.6%	0.3%	-0.7%	-0.3%	0.1%	-0.2%	41.9%	24.5%
Latin America	-1.9%	0.1%	-1.6%	-1.9%	1.0%	-1.1%	4.2%	2.9%
Middle East	0.1%	0.4%	-0.2%	4.1%	0.3%	1.7%	11.5%	13.8%
North America	-1.3%	-0.2%	-1.0%	-2.8%	-2.3%	-0.2%	14.7%	16.1%
International	0.3%	0.2%	0.1%	0.1%	-0.7%	0.9%	100.0%	100.0%
Australia	0.6%	2.0%	-1.4%				3.2%	
Brazil	-2.3%	-0.4%	-1.9%				3.6%	
China P.R.	1.3%	2.1%	-0.6%				20.1%	
India	-0.6%	0.9%	-1.1%				2.5%	
Japan	-1.0%	0.8%	-1.1%				2.6%	
US	-0.5%	0.0%	-0.4%				47.1%	
Domestic	0.2%	0.4%	-0.2%	-1.1%	0.1%	-0.3%	100.0%	
Africa*	0.8%	-0.3%	0.7%				2.4%	1.3%
Asia/Pacific	-0.6%	0.9%	-1.1%	0.5%	0.6%	-0.1%	27.5%	39.4%
Europe	-0.6%	0.1%	-0.6%	-0.3%	0.1%	-0.2%	29.8%	21.8%
Latin America	-0.6%	0.0%	-0.4%	-1.7%	-1.1%	-0.2%	5.3%	2.9%
Middle East	0.2%	0.3%	-0.1%	4.1%	0.3%	1.7%	7.8%	12.1%
North America	-0.6%	-0.2%	-0.4%	-2.4%	-1.7%	-0.3%	27.3%	22.7%
Total Market	0.2%	0.3%	0.0%	0.0%	-0.6%	0.2%	100.0%	100.0%

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.

*Africa freight statistics are not published due to data limitations this month.

IATA Economics
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29TH August 2012

FURTHER ANALYSIS AND DATA

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