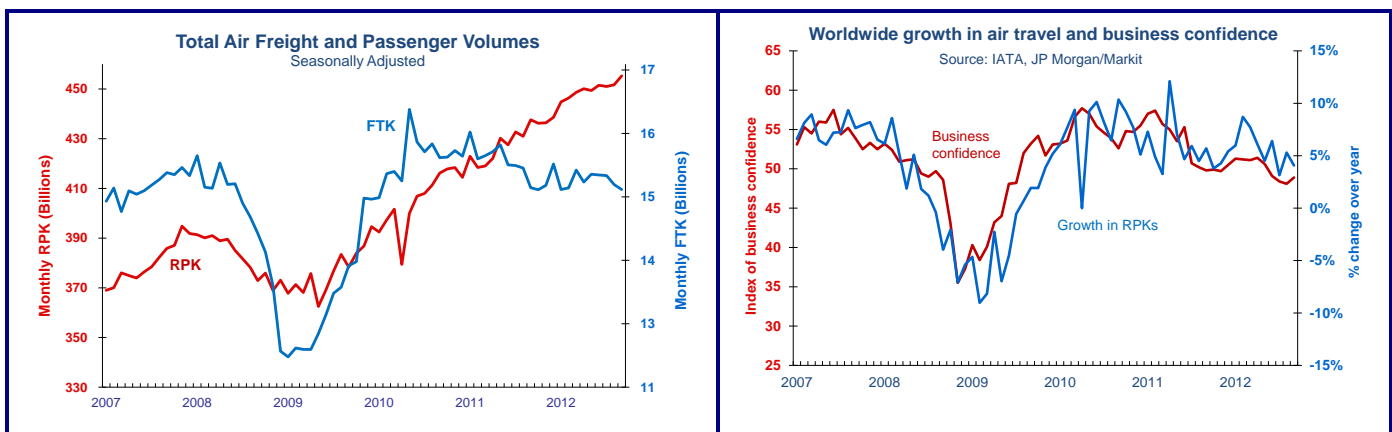


AIR TRANSPORT MARKET ANALYSIS

SEPTEMBER 2012

KEY POINTS

- Global air travel continued to expand in September, but at a slower rate than during the first half of the year. The year-on-year growth rate in September was 4.1%, which was down on August when this comparison was 5.3%, and lower than the 6% average growth seen throughout H1 2012.
- There was an improvement in the level of air travel in September compared to August, which is a standout in the trend over previous months. Global air travel levels have been mostly flat, held down by business confidence and slowing world trade growth. Because the business environment remains weak, that improvement in air travel is erratic rather than the start of a stronger trend.
- On international markets, European airlines continue to experience growth in air travel, increasing 5.4% in September on a year ago, despite recessionary conditions in several countries in the Eurozone. The Middle East continues to be the fastest growing region, expanding by a strong 13.3% in September on a year ago. North American airlines, which have been keeping capacity tight, saw demand increase 2.1% in September year-on-year. The major area of weakness was Asia-Pacific, with international traffic just 1.7% higher in September on a year ago.
- On domestic markets, air travel in China grew strongly, expanding 11.4% in September compared to the same month last year. Although China's economy may not yet have emerged from its slowdown, these domestic air travel results are consistent with recent data on industrial production and consumer spending and incomes, all of which show improvement and point toward an acceleration in economic growth. Conversely, slowing economic conditions in India and reduced available capacity are suppressing domestic travel, which contracted 9.9% in September compared to the year-ago period. Japan's domestic market was down slightly on a year ago, 0.3%, with current levels still 10% below those before the earthquake in 2011. Any boost the Japanese economy received from rebuilding after the earthquake could now be ending, as economic growth, industrial production and exports all showed decline in recent months.
- The level of air freight volumes fell further in September, contracting 0.6% compared to August and eroding the stability achieved earlier in the year. The market looks to be following, with a few months of delay, the falls in business and consumer confidence seen over recent months. However, the introduction of new consumer products such as the iPhone 5 could offset some of the downward pressure from the weak business environment, and potentially offer support to air freight volumes in the months ahead.
- After four months of decline, passenger load factors improved in September, on the back of increased traffic but also due to slower capacity expansion over the month. This will help airlines offset some of the pressure on profitability from high fuel prices.
- Despite a small improvement in business confidence last month, the demand environment for air travel and freight markets remains soft with businesses still expecting a decline in manufacturing activity overall and world trade growth continuing to slow.



Year on Year Comparison	September 2012 vs. September 2011						YTD 2012 vs. YTD 2011					
	RPK	ASK	PLF	FTK	AFTK	FLF	RPK	ASK	PLF	FTK	AFTK	FLF
International	4.9%	3.1%	80.9%	0.5%	-0.4%	49.5%	6.4%	4.4%	79.3%	-2.4%	1.3%	48.8%
Domestic	2.6%	3.1%	78.4%	1.3%	-1.4%	30.8%	4.4%	4.0%	79.6%	1.0%	-1.1%	28.7%
Total Market	4.1%	3.1%	80.0%	0.6%	-0.6%	45.6%	5.7%	4.3%	79.5%	-1.9%	0.7%	44.5%

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 SEPTEMBER TO AUGUST

Month on Month Comparison	September 2012 vs. August 2012					
	RPK	ASK	PLF pt	FTK	AFTK	FLF pt
International	1.0%	0.2%	0.7%	-0.9%	-1.0%	0.1%
Domestic	0.5%	0.3%	0.1%	1.4%	1.5%	0.0%
Total Market	0.8%	0.3%	0.4%	-0.6%	-0.4%	-0.1%

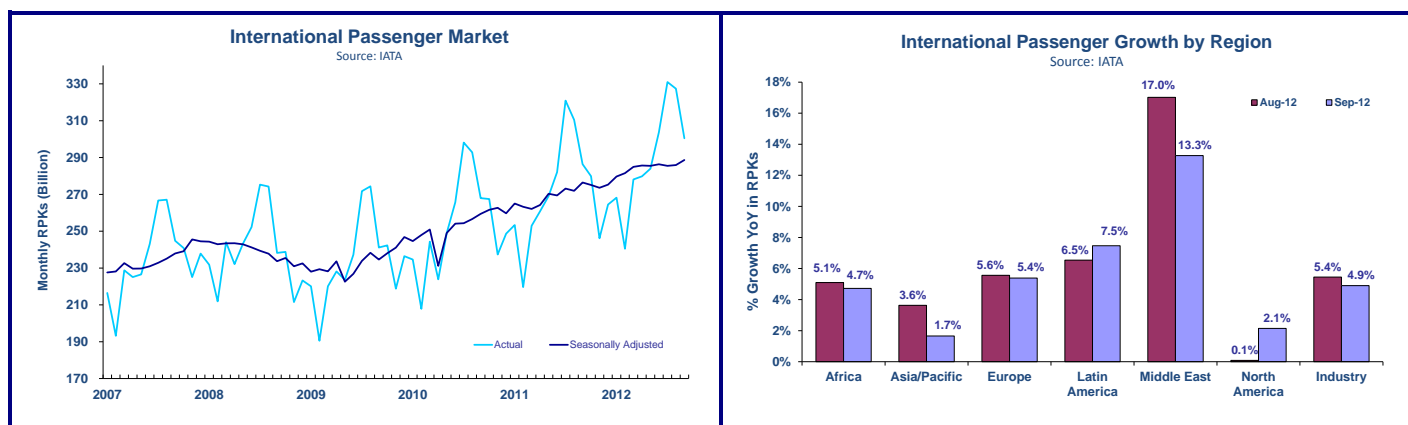
Data are seasonally adjusted.

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 showed solid growth of 0.8% in September compared to August, well above the recent trend of small or no growth. Capacity expanded by 0.3% over the month, which pushed load factors up 0.4pt over the same period.
- Freight markets contracted in September compared to August, falling 0.6%. Airlines cut capacity 0.4% in response, but not by enough to prevent a small decline in load factors of 0.1pt month-on-month.

PASSENGER MARKET

International Markets



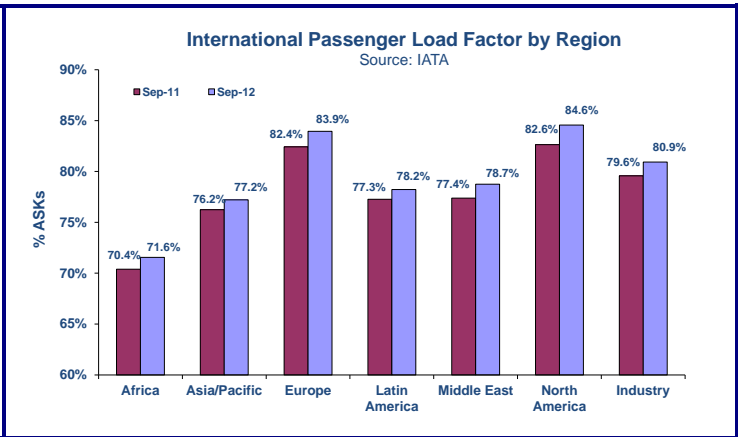
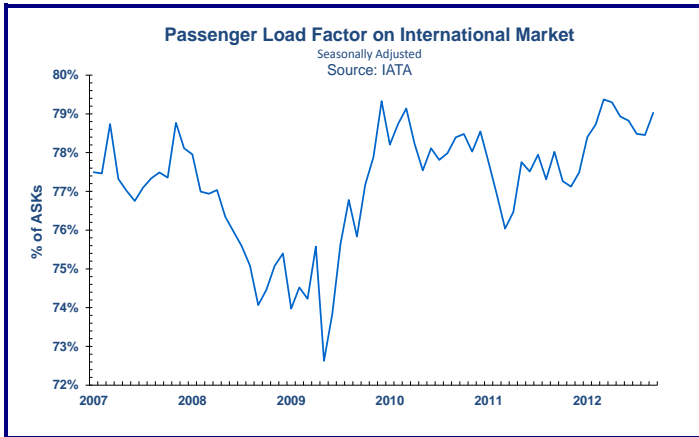
- The growth trend in international travel showed improvement in September, after months of almost no growth. The market increased by 1.0% in September compared to August. Other than a small advance in business confidence in September, there is little to support this uptick in the growth trend, suggesting it could be volatility rather than a sustainable improvement.
- Despite recession conditions in Europe, airlines from this region have continued to expand on international markets, and in fact were one of the major contributors to the growth seen month-on-month. Travel in Europe expanded by 5.4% in September compared to a year ago.
- Middle Eastern airlines continue to expand rapidly on international markets, yet again showing the strongest growth rate among regions. In September the market expanded by 13.3% year-on-year. Although this is down on the previous month, the year-on-year growth comparison in August was inflated by seasonal impacts, with Ramadan dampening air travel during the entire August 2011 calendar month. The underlying growth trend for Middle East airlines continues to be very strong, with the month-on-month rate trending 1% higher in September compared to August.

- In North America, capacity management has kept year-on-year growth comparisons down compared to other regions. In September, international travel on North American airlines expanded by 2.1% compared to a year ago.
- In contrast, one of the weakest regions was Asia-Pacific, where airlines face strong competition on long-haul markets. Asia-Pacific airlines experienced an increase of just 1.7% in September year-on-year, which is down on the August result of 3.6%. The growth trend also weakened further, with traffic slipping 0.3% in September compared to August.

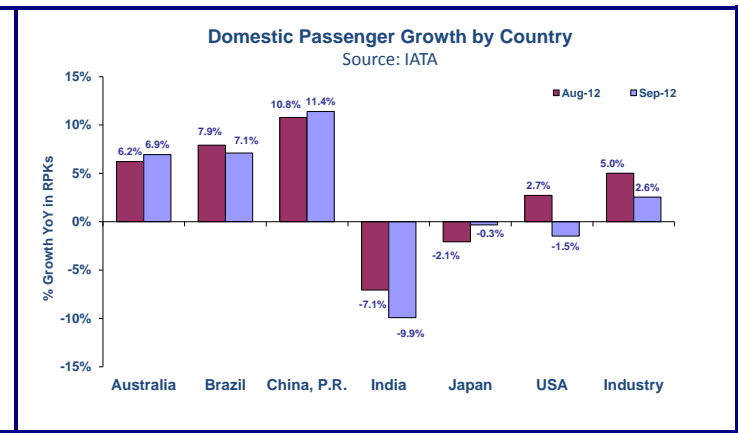
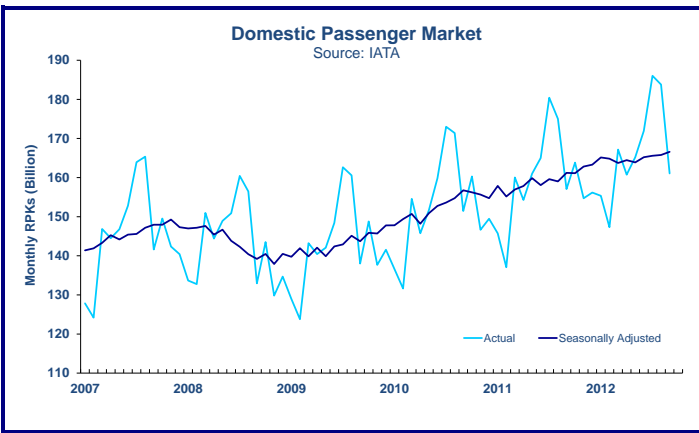
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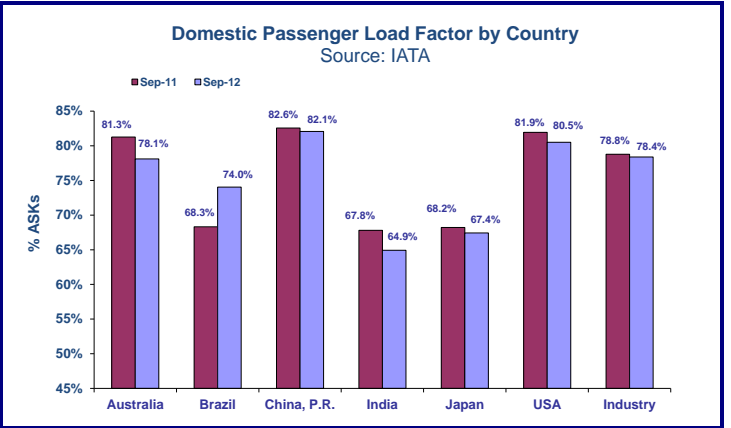
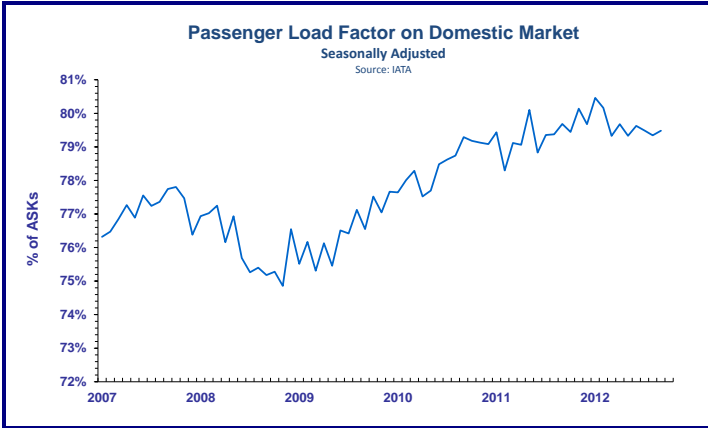
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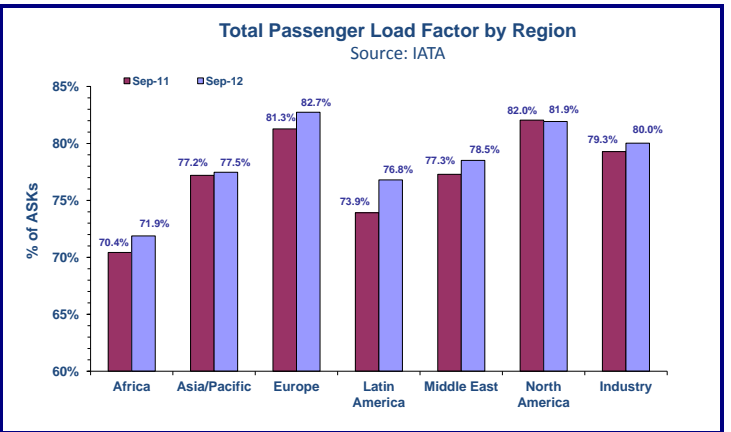
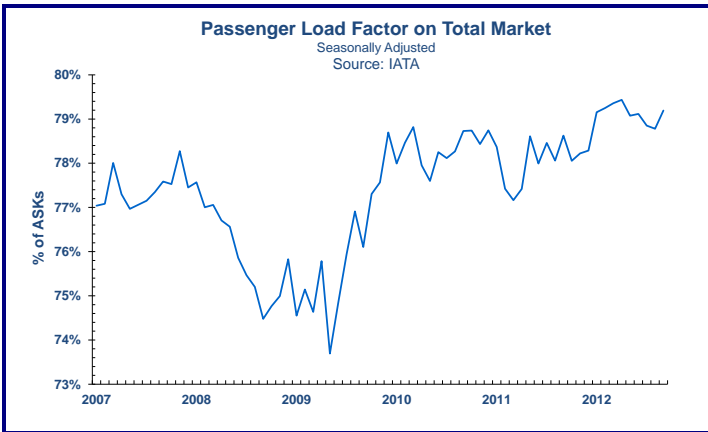
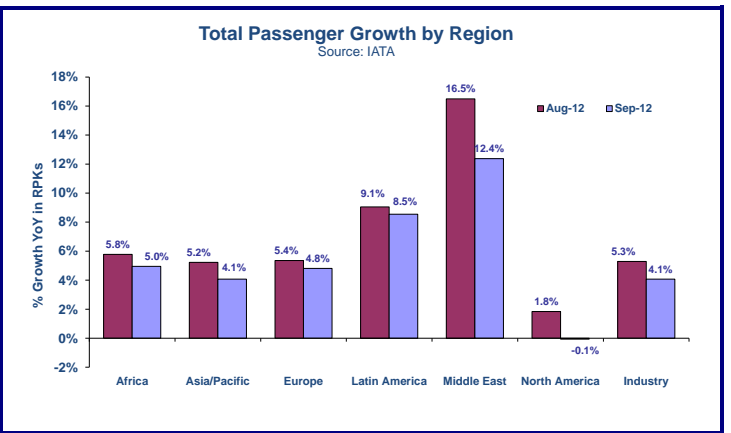
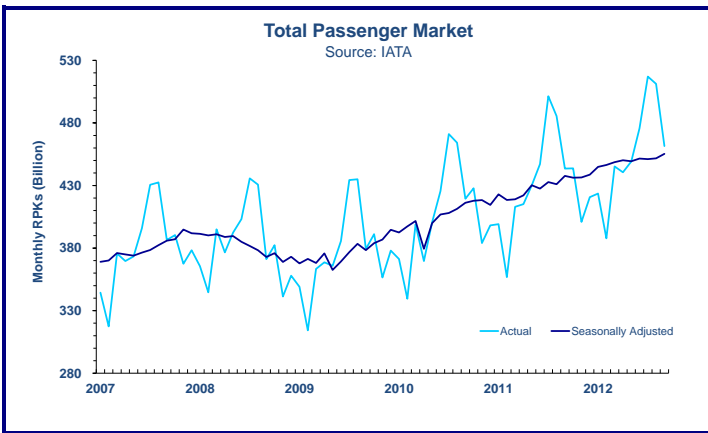
Domestic Market



- The growth trend in domestic markets improved in September compared to August, increasing by 0.5%. There was also an expansion in September compared to a year ago, but at a weak rate of 2.6%, down on the August result of 5.0%.
- The resurgence of Chinese domestic travel demand continued in September with expansion of 11.4% compared to a year ago. Domestic travel growth was also strong in Brazil, increasing 7.1% year-on-year. The growth trend in this market has been weak throughout 2012, but signs of improvement were present again in September, with a month-on-month increase of 1.7%. This is likely being supported by a turning point in Brazil's economy, with improved growth expected in the later parts of 2012.
- The improvement in domestic demand is not widespread, however, with travel in India and Japan still showing decline. India's slowing economy has suppressed domestic travel, which contracted in September by 9.9% compared to a year ago. Similarly, Japan's domestic market was down 0.3% in September year-on-year, still 10% smaller than pre-earthquake levels. The export-dependent economy continues to suffer from weak demand for its products due to the global slowdown, which is placing significant downward pressure on domestic economic growth and providing little support to air travel markets.

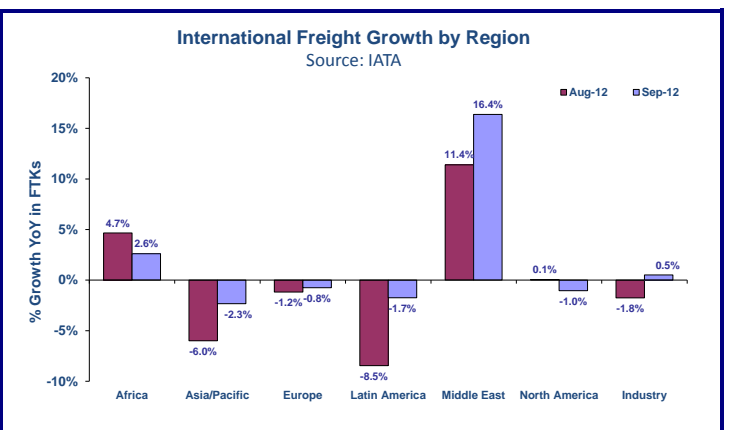
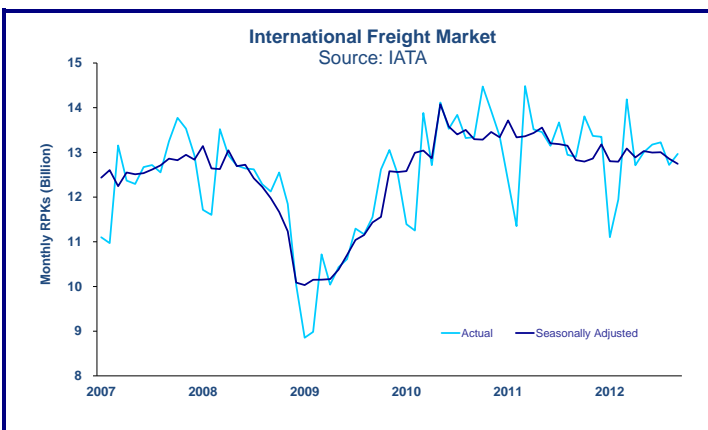


Total Market (Domestic + International)

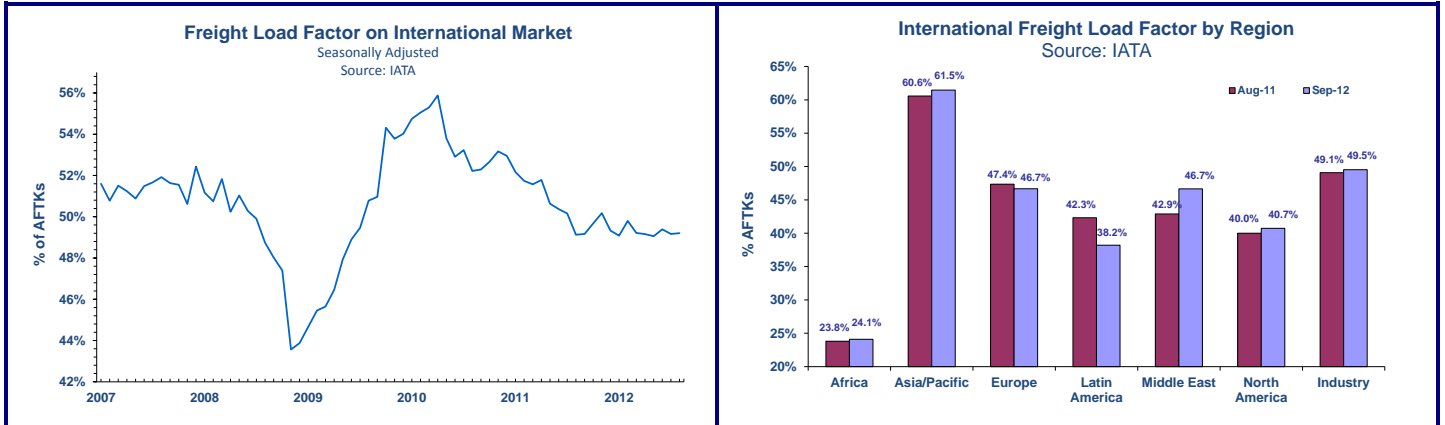


FREIGHT MARKET

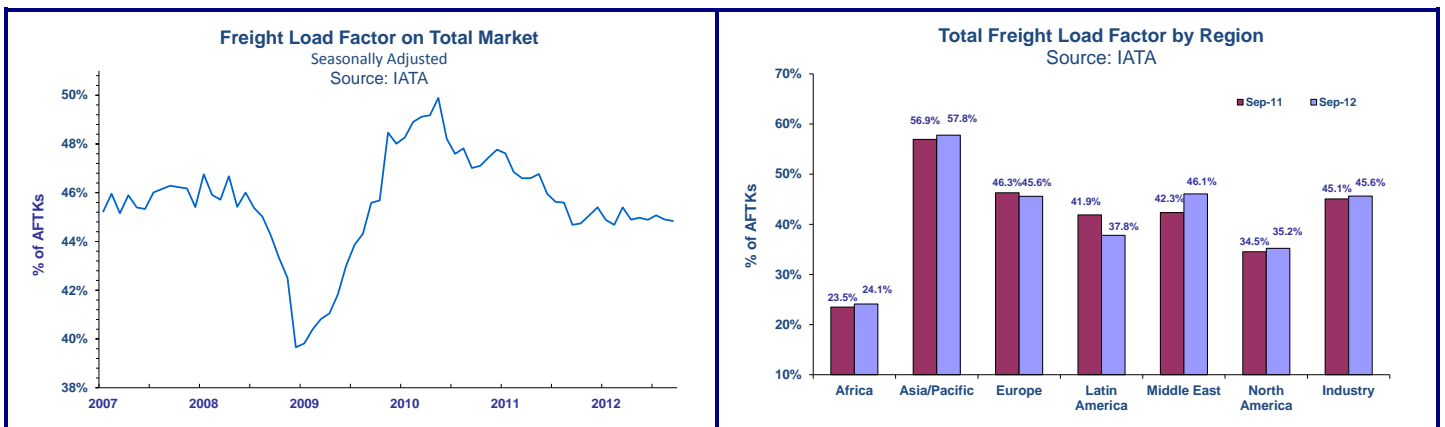
International Market



- In international air freight markets, the stability that had been achieved earlier in the year is now starting to erode. International air freight markets increased slightly in September compared to a year ago (0.5%) but the seasonally adjusted growth trend weakened further, declining 0.9% compared to August. These results are somewhat consistent with development over recent months, as consumer and business confidence has shown decline in major economies and world trade growth has slowed.



Total Market



- The weakness in global air freight continues to be focused on Asia-Pacific airlines. Total demand for air freight carried by the region's airlines was 1.6% lower in September compared to a year ago. This is an improvement on August, when the market contracted by 5.3% on a year ago, but still no progress on a year ago.
- Air freight carried by Middle Eastern airlines, in contrast, continues to expand strongly. In August airlines in that region experienced a 16.3% increase in air freight traffic compared to a year ago.
- Airlines reduced air freight capacity in September compared to August by 0.4%, but it was not enough to offset the drop in demand over the month (0.6%), causing load factors to decline slightly (0.1%). The trend in air freight load factors has not declined as much as the trend in traffic growth over recent months, as airlines have made efforts to reduce the rate of capacity increase in response to weakening demand.

ANNEX

Year on Year Comparison	Sep 2012 vs. Sep 2011						YTD 2012 vs. YTD 2011					
	RPK	ASK	PLF	FTK	AFTK	FLF	RPK	ASK	PLF	FTK	AFTK	FLF
Africa	4.7%	3.0%	71.6%	2.6%	1.4%	24.1%	8.3%	8.3%	67.1%	6.1%	10.8%	24.2%
Asia/Pacific	1.7%	0.4%	77.2%	-2.3%	-3.7%	61.5%	5.1%	3.1%	77.9%	-6.7%	-2.6%	59.6%
Europe	5.4%	3.5%	83.9%	-0.8%	0.7%	46.7%	6.1%	3.9%	80.9%	-3.4%	1.0%	47.3%
Latin America	7.5%	6.2%	78.2%	-1.7%	8.9%	38.2%	8.8%	7.3%	78.8%	-2.0%	6.4%	38.2%
Middle East	13.3%	11.3%	78.7%	16.4%	7.0%	46.7%	16.6%	12.8%	78.1%	14.3%	12.4%	44.9%
North America	2.1%	-0.2%	84.6%	-1.0%	-2.8%	40.7%	1.3%	-0.2%	82.3%	-1.5%	-0.9%	40.5%
International	4.9%	3.1%	80.9%	0.5%	-0.4%	49.5%	6.4%	4.4%	79.3%	-2.4%	1.3%	48.8%
Australia	6.9%	11.3%	78.1%				4.3%	6.4%	76.8%			
Brazil	7.1%	-1.2%	74.0%				9.1%	7.9%	70.6%			
China P.R.	11.4%	12.1%	82.1%				9.7%	11.3%	81.5%			
India	-9.9%	-5.9%	64.9%				0.2%	2.1%	72.6%			
Japan	-0.3%	0.8%	67.4%				4.5%	2.6%	61.2%			
US	-1.5%	0.3%	80.5%				1.0%	0.4%	83.6%			
Domestic	2.6%	3.1%	78.4%	1.3%	-1.4%	30.8%	4.4%	4.0%	79.6%	1.0%	-1.1%	28.7%
Africa	5.0%	2.8%	71.9%	4.1%	1.4%	24.1%	7.8%	7.5%	67.6%	6.3%	10.8%	23.9%
Asia/Pacific	4.1%	3.7%	77.5%	-1.6%	-3.0%	57.8%	6.2%	5.3%	77.8%	-6.0%	-2.1%	55.4%
Europe	4.8%	3.0%	82.7%	-0.4%	1.2%	45.6%	5.8%	3.6%	80.1%	-3.2%	1.2%	46.4%
Latin America	8.5%	4.5%	76.8%	-1.6%	9.0%	37.8%	10.1%	8.5%	76.2%	-2.0%	8.3%	36.6%
Middle East	12.4%	10.6%	78.5%	16.3%	6.9%	46.1%	16.6%	12.9%	78.2%	14.2%	12.3%	44.3%
North America	-0.1%	0.1%	81.9%	-1.1%	-3.1%	35.2%	1.2%	0.2%	83.1%	-0.7%	-1.8%	34.6%
Total Market	4.1%	3.1%	80.0%	0.6%	-0.6%	45.6%	5.7%	4.3%	79.5%	-1.9%	0.7%	44.5%

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	September 2012 vs. August 2012						Market Share	
	RPK	ASK	PLF pt	FTK	AFTK	FLF pt	RPK	FTK
Africa	1.0%	-1.2%	1.5%	-2.9%	-2.5%	-0.1%	3.3%	1.2%
Asia/Pacific	-0.3%	0.2%	-0.4%	-1.3%	-1.6%	0.2%	24.7%	41.5%
Europe	0.9%	0.3%	0.5%	-2.1%	0.0%	-1.0%	42.1%	24.5%
Latin America	2.7%	1.9%	0.6%	6.3%	1.6%	1.7%	4.4%	3.1%
Middle East	1.0%	0.5%	0.4%	0.6%	-1.1%	0.8%	11.7%	13.3%
North America	1.4%	0.3%	0.9%	-3.0%	-0.5%	-1.1%	13.8%	16.3%
International	1.0%	0.2%	0.7%	-0.9%	-1.0%	0.1%	100%	100%
Australia	1.0%	1.1%	-0.1%				3.5%	
Brazil	1.7%	-1.4%	3.2%				3.8%	
China P.R.	1.7%	1.0%	0.5%				21.4%	
India	-0.8%	0.4%	-0.9%				2.4%	
Japan	-0.2%	-0.4%	0.1%				3.2%	
US	-0.1%	-0.1%	0.0%				44.2%	
Domestic	0.5%	0.3%	0.1%	1.4%	1.5%	0.0%	100%	
Africa	0.8%	-1.2%	1.3%	-2.8%	-2.4%	-0.1%	2.4%	1.1%
Asia/Pacific	0.0%	0.5%	-0.4%	-1.0%	-1.2%	0.1%	28.4%	39.7%
Europe	0.7%	0.2%	0.4%	-2.0%	0.1%	-1.0%	30.6%	21.6%
Latin America	2.0%	0.7%	1.0%	5.9%	0.9%	1.8%	5.4%	3.0%
Middle East	0.8%	0.3%	0.4%	0.6%	-1.2%	0.8%	8.0%	11.5%
North America	0.5%	-0.2%	0.6%	-2.0%	-0.4%	-0.6%	25.3%	23.1%
Total Market	0.8%	0.3%	0.4%	-0.6%	-0.4%	-0.1%	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.

IATA Economics
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2ND November 2012

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