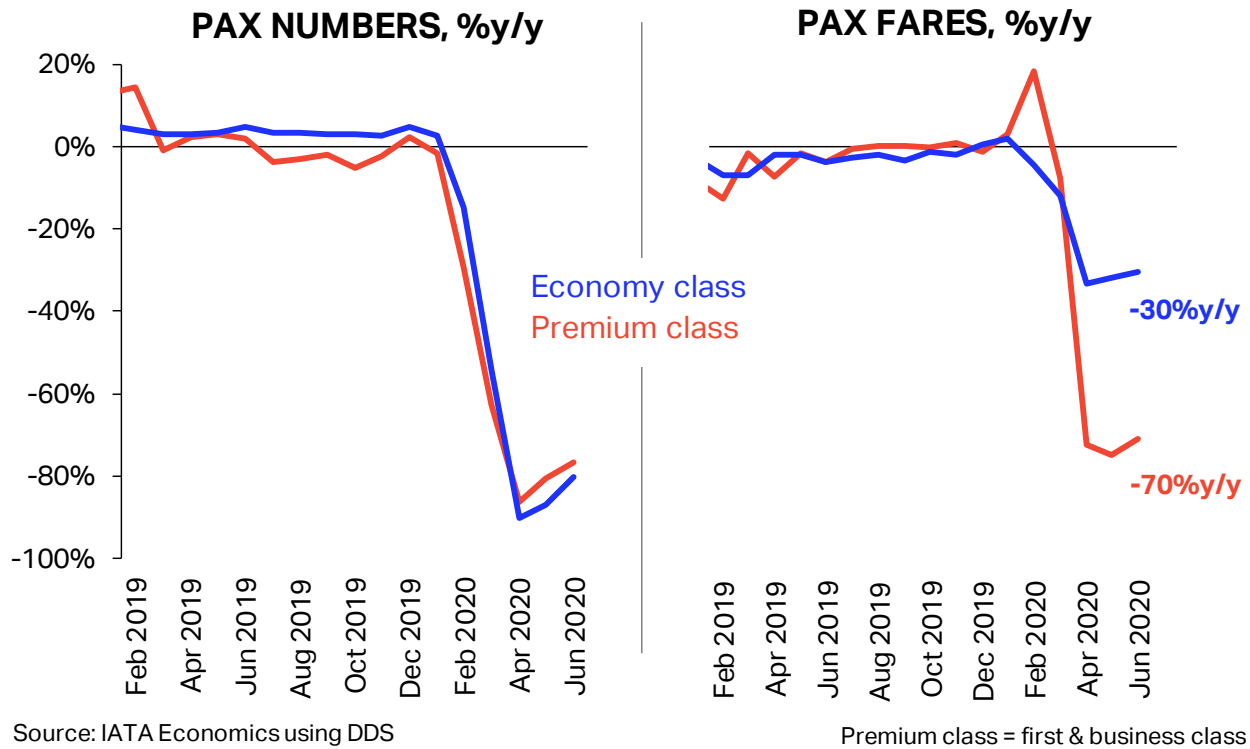




IATA Economics' Chart of the Week

04 September 2020

Economy passengers moving into business class



Source: IATA Economics using DDS

Premium class = first & business class

- This week, IATA Economics published its [monthly passenger note](#), showing that the limited rise in global passenger volumes continues to be driven by domestic markets. Our weekly chart takes a closer look at what role premium and economy service classes have played in this recovery.
- Although fares in premium class have been falling more than twice faster than in the economy class, volumes at the front and back of an aircraft have been recovering in similar pace. One explanation could be that corporate travelers – frequent users of premium class – are generally less sensitive to falling price compared to leisure travelers ([price elasticity](#) is -0.7 for business vs. -1.5 for leisure on short-haul routes). This difference in price sensitivity along with difference in fares explains the similar growth in passenger volumes. However, since corporate travelers are largely grounded due to limited travel budgets and online conferencing, demand for premium class might be coming from leisure segment.
- In the pre-COVID period, premium class was on average about five times more expensive than the economy counterpart. However, premium fare shrank to less than 1/3 during the pandemic, making the premium class just twice as expensive. As a result, the first and business class became more affordable, and also increasingly more attractive for passengers who would typically travel economy. As flying became less regular amidst restrictions, some leisure travelers can spend their annual travel budget on pricier premium class which provides more comfort and also makes social distancing easier.
- In 2019, premium class was a crucial source of airlines' profit, representing ~30% of international revenues. Whether it is corporate or leisure travelers who drive the recovery in the premium demand, 70% lower premium fares will bring limited support to the industry, which is in high need for cash.

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