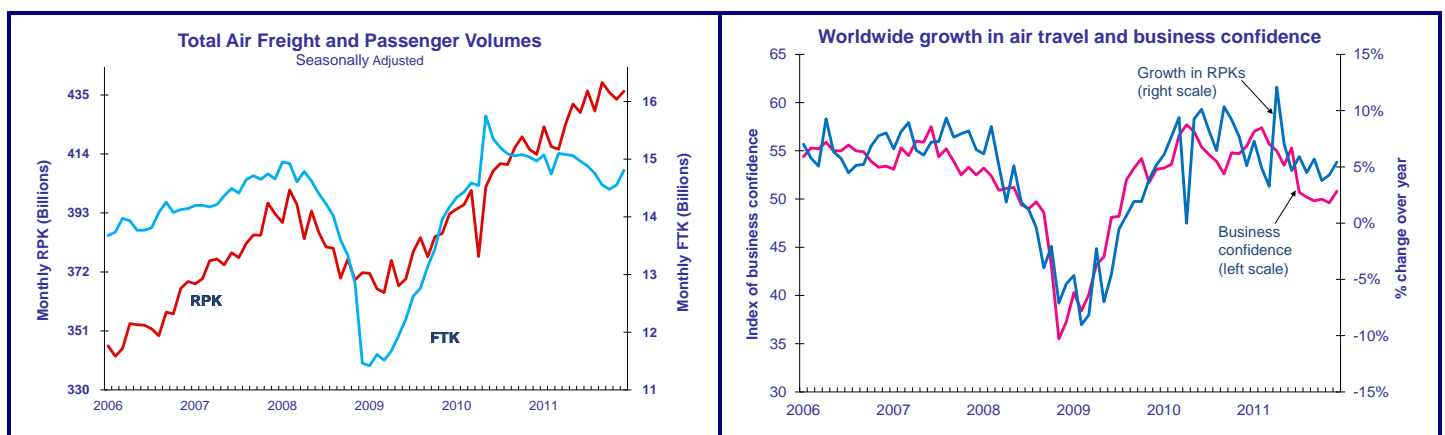


AIR TRANSPORT MARKET ANALYSIS

DECEMBER 2011

KEY POINTS

- Air freight markets turned up at the end of 2011, having shrunk through most of the second half of the year. Year-on-year growth in FTKs worldwide was 0.2% in December. A strong performance for North American airlines, but also in Asia, suggests improving economic conditions in some parts of the world were offsetting Eurozone weakness at the end of last year.
- Air travel also rose in December to a level 5.4% higher than the same month in the previous year. But the trend since mid-year has clearly slowed, as travel markets react with a lag to the falls in confidence that had weakened cargo in the second half of 2011.
- During the year as a whole, passenger travel markets performed well, given weak economic conditions in western economies. Passenger traffic grew 5.9%, with international travel expanding 6.9%. In international markets, European airlines posted the second fastest growth rates, behind Latin America. The emerging markets of Brazil, India and China all showed double-figure growth, while Japan declined 15.2% as a result of the earthquake in March. By December, however, the Japanese domestic market had recovered to levels 5% below pre-earthquake levels. Cargo markets contracted over the year by 0.7%. Asia/Pacific, the largest international cargo market and the major location for manufacturing activity, declined most, by 4.8% for international traffic and 4.6% in total. Latin America and the Middle East showed significant growth over the year.
- Load factors in passenger markets were high in the middle part of 2011, but declined in Q4 as airlines added capacity at a greater rate than traffic increased. Cargo load factors have shown significant decline since mid-2010, but strength in December traffic has resulted in a slight increase in load factors.
- Market conditions for air transport improved a little at the end of 2011, with an improvement in business confidence in December and January. In coming months we are likely to see stabilization in air transport markets.



Year on Year Comparison	December 2011 vs. December 2010						YTD 2011 vs. YTD 2010					
	RPK	ASK	PLF	FTK	AFTK	FLF	RPK	ASK	PLF	FTK	AFTK	FLF
International	6.4%	7.4%	76.2%	-0.8%	4.5%	50.8%	6.9%	8.2%	77.4%	-0.6%	5.2%	50.8%
Domestic	3.7%	3.8%	77.7%	5.5%	4.2%	30.7%	4.2%	3.1%	79.3%	-1.4%	0.2%	28.5%
Total Market	5.4%	6.1%	76.8%	0.2%	4.4%	46.1%	5.9%	6.3%	78.1%	-0.7%	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 DECEMBER TO NOVEMBER

December 2011 vs. November 2011

Month on Month Comparison	RPK	ASK	PLF pt	FTK	AFTK	FLF pt
International	1.4%	1.2%	0.2%	1.5%	1.4%	0.0%
Domestic	-0.5%	0.5%	-0.8%	3.2%	1.5%	0.5%
Total Market	0.7%	0.9%	-0.2%	1.7%	1.5%	0.1%

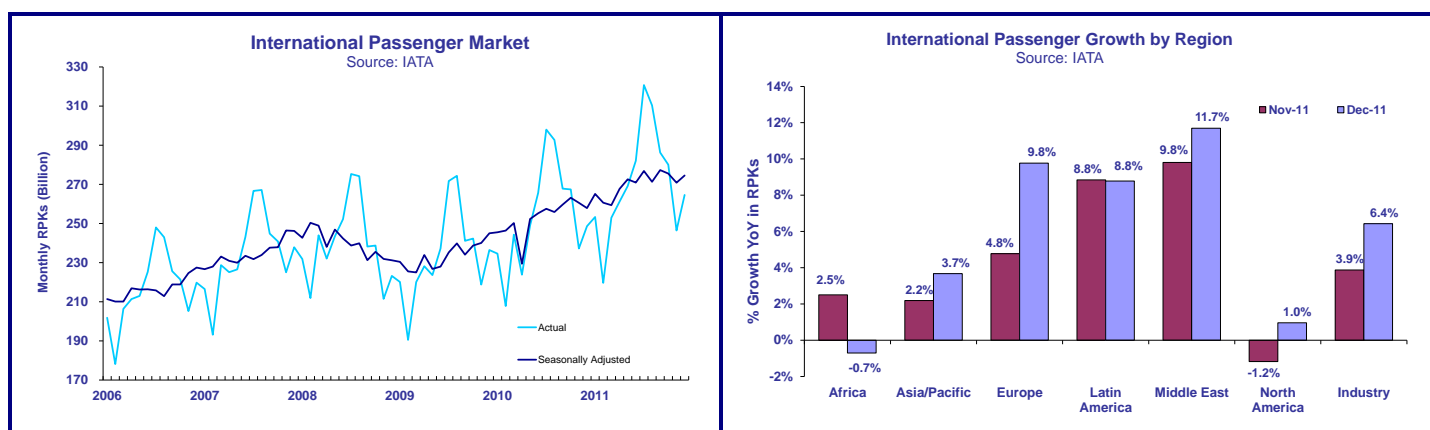
Data are seasonally adjusted.

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.

- The increase in passenger traffic resulted from strong performance in international markets, which grew 1.4% in December. Domestic markets contracted by 0.5%.
- The second month of growth in cargo markets was supported largely by domestic freight movements, which increased 3.2% during December. International cargo also performed well, growing 1.5%.

PASSENGER MARKET

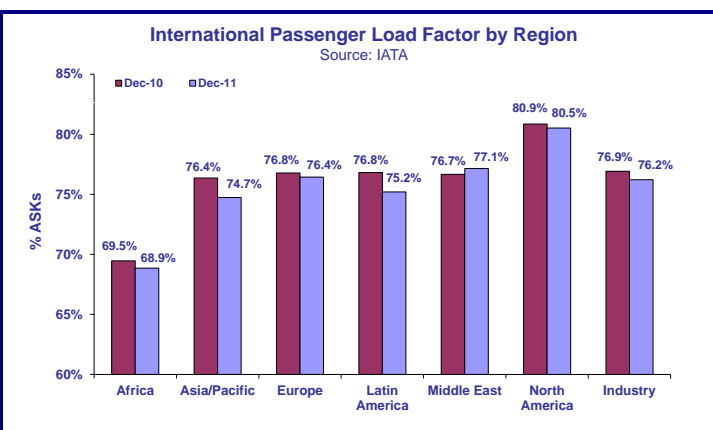
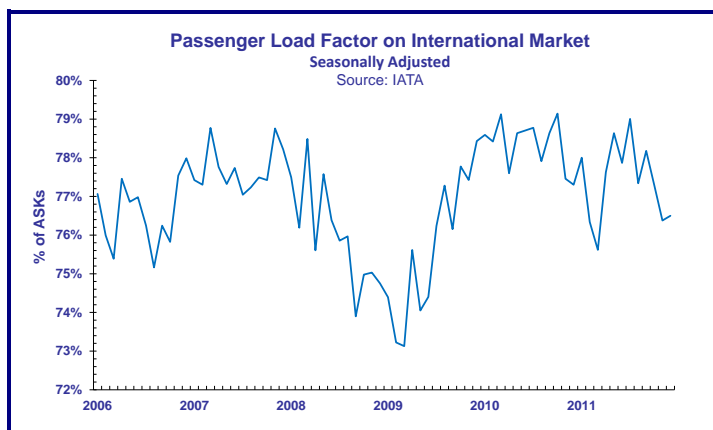
International Market



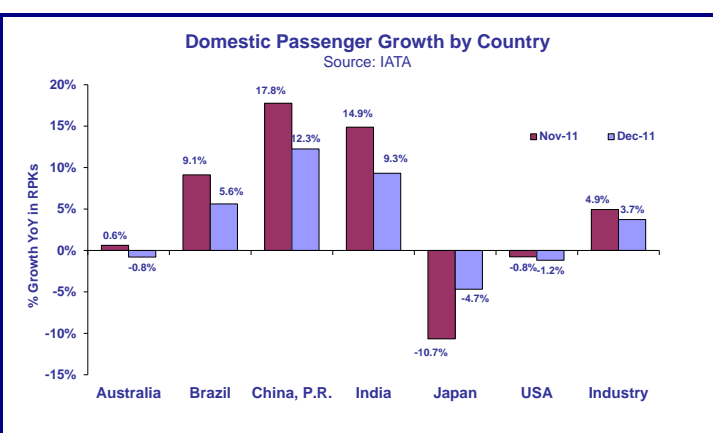
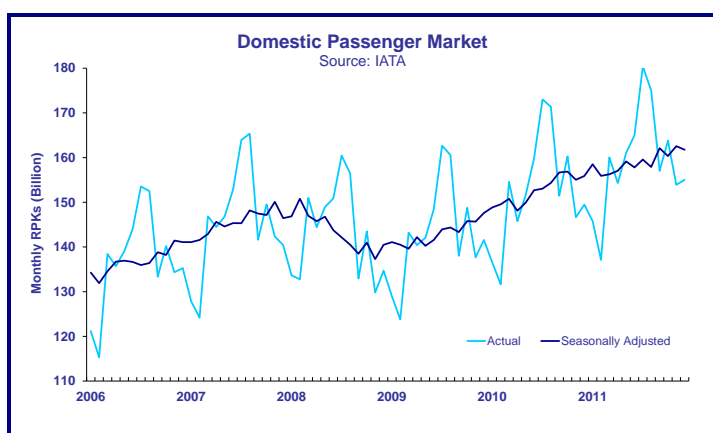
- International travel grew in December, but the progress since mid-year has been less pronounced than the growth which took place in the first part of 2011. From February through to July, international travel grew 6.2%, compared to 1.2% between September and December. Nevertheless, impressive growth in some regions has resulted in a positive end to 2011, and strong year-on-year results (6.4%).
- European markets recorded significant growth with a 9.8% increase year-on-year. However, this December result should be put in context, as the comparison is being made to an unusually weak December 2010, during which strikes and weather conditions suppressed traffic. Nevertheless, the month-on-month comparison does show strong traffic growth in Europe, at 2.1% in December. The results are somewhat surprising given the economic weakness throughout the economy; it is likely to be business travel related to exporting countries in Northern Europe and Germany that is supporting the growth.
- Latin America and the Middle East continue to show strong traffic growth in the international sector. Latin American air traffic is supported by robust economic conditions at home and continued trade activity; Middle East airlines can take advantage of price competitive products to increase share on long-haul markets.
- North American traffic posted a positive result in December, but growth rates still remain notably low. Despite the US economy gaining some positive momentum, capacity management measures by airlines have kept traffic growth contained. Load factors, in the chart below, are clearly highest for the North American region.
- Although all regions except Africa added capacity in December, this was exceeded by the growth in international traffic and load factors rebounded slightly. Load factors increased by 0.2ppt in December month-on-month.

Predict future demand and minimize investment risk.

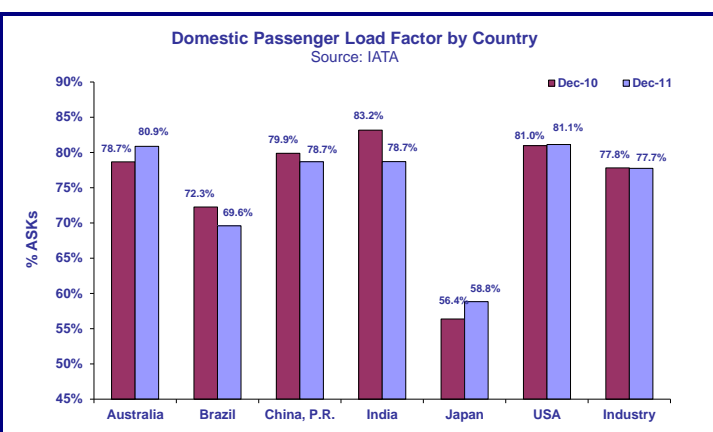
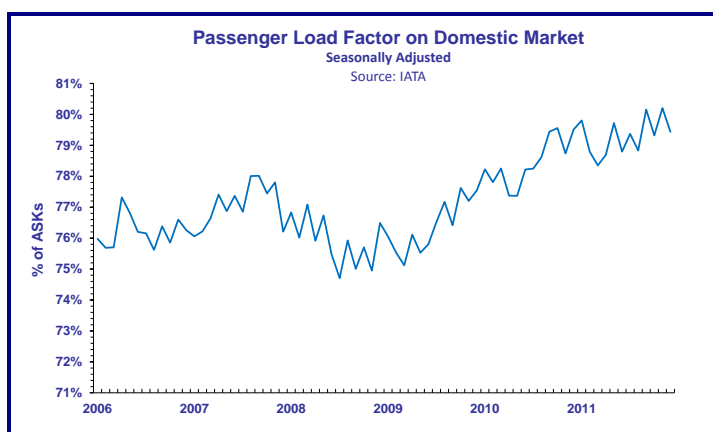
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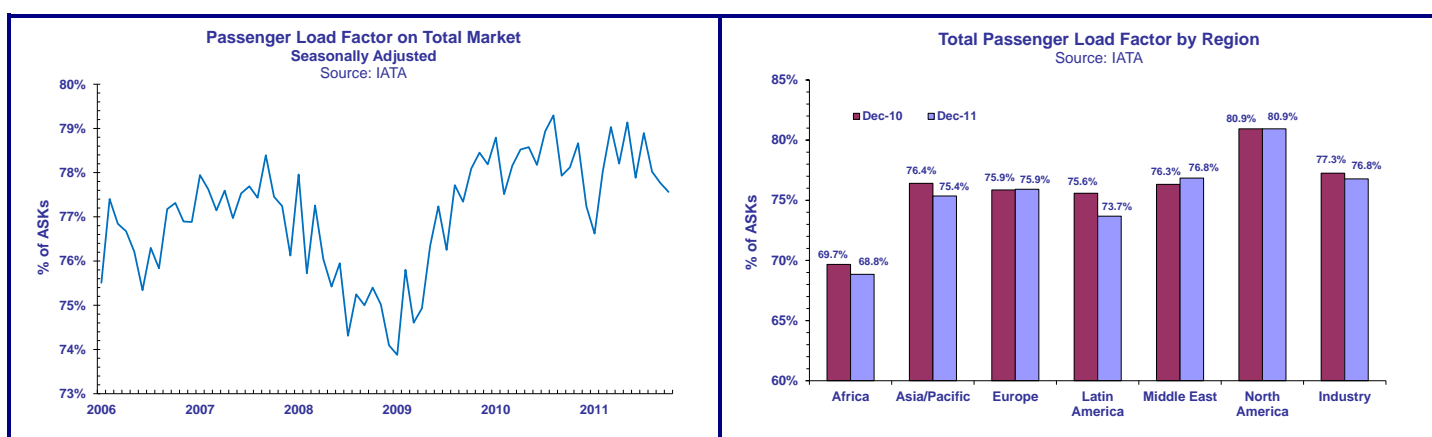
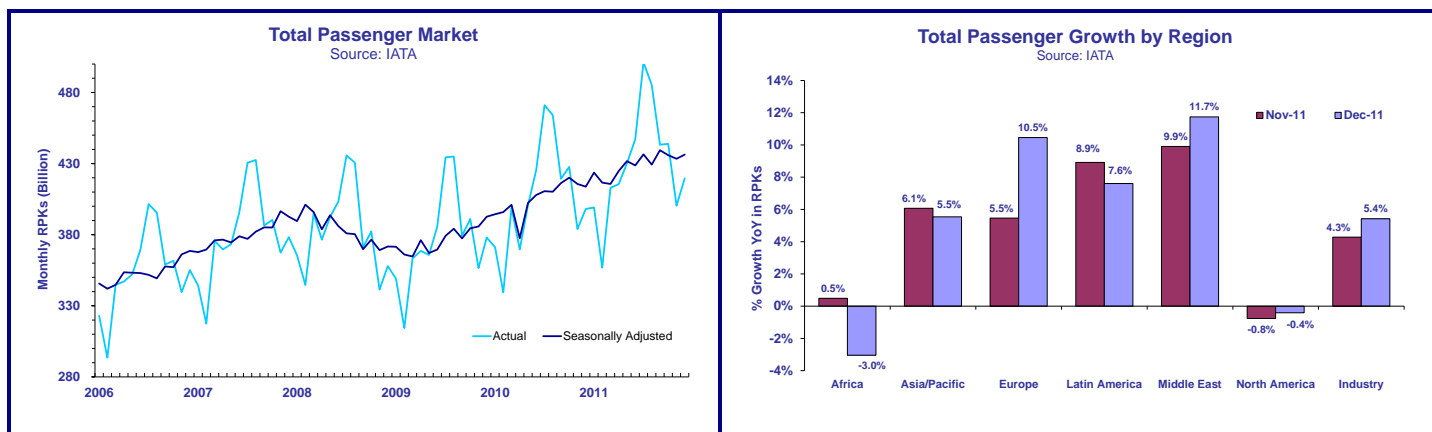
Domestic Market



- Domestic travel declined in December, from the level in November, despite posting growth of 3.7% year-on-year. The monthly decline of 0.5%, however, did occur after a month of strong growth – so the results could be reflecting a combination of noise as well as particular market conditions in some regions.
- The US domestic market contracted 1.2% in December. Shrinking capacity could be the primary reason, and with ASKs in December falling by a greater degree (1.4%) than traffic, this is likely to be the explanation for weak domestic traffic.
- Domestic traffic in China remains strong, where economic growth continues to support internal activity and travel. India, too, has had good growth over the year, but that appears to have paused in December. Capacity has grown more rapidly than traffic, pushing load factors below break-even levels, ultimately resulting in losses.
- Japan's domestic market continues to show decline over the year, but in December the degree of decline was notably less than in November. In December, traffic grew 3.4% month-on-month. Increases in industrial production and employment numbers have helped support domestic activity.



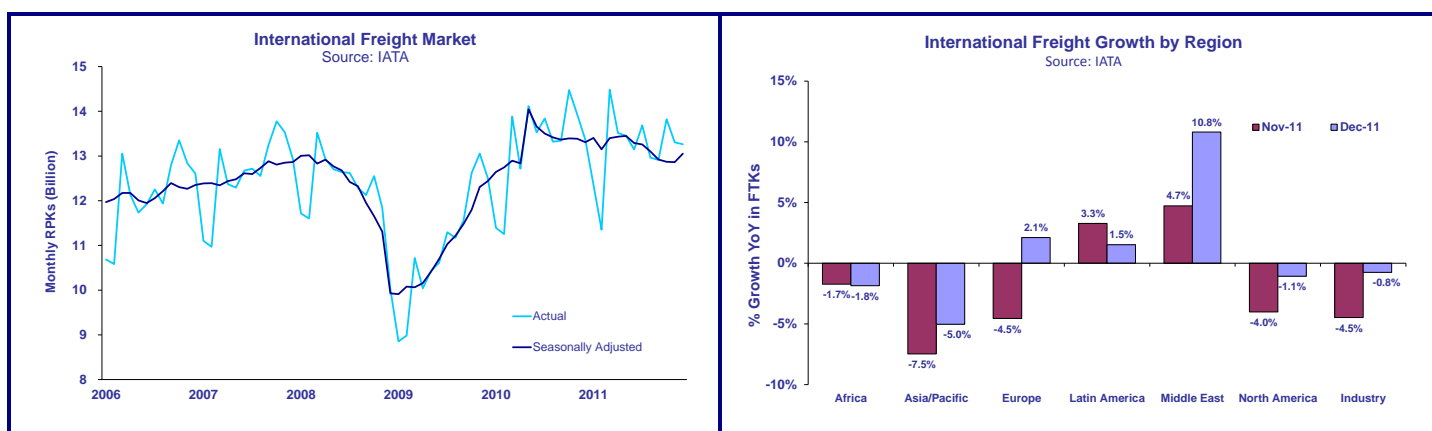
Total Market (Domestic + International)



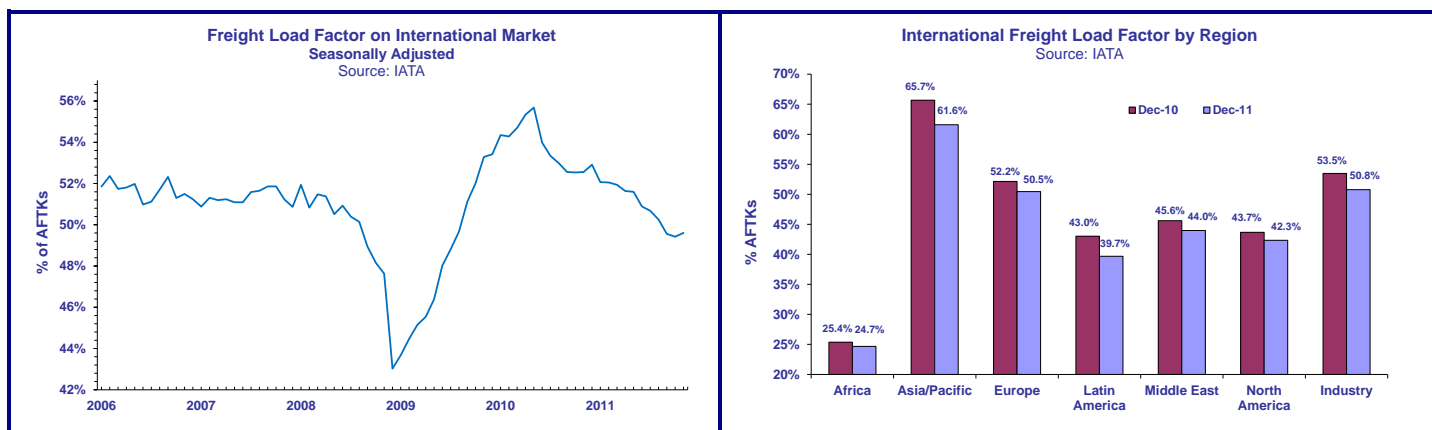
➤ The airline industry across all domestic and international markets shows growth close to trend, both over the year and comparing December to the previous month. All regions except North America and Africa experienced growth, with Middle Eastern air travel leading the result, followed by the European market. In addition, all regions also added capacity in December, to a degree that brought load factors down overall.

FREIGHT MARKET

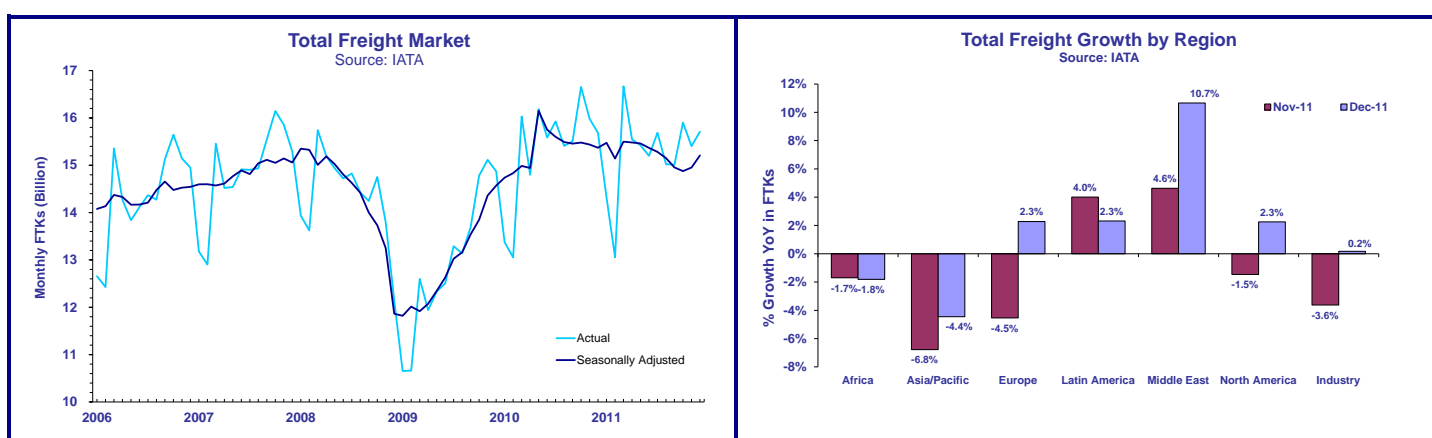
International Market



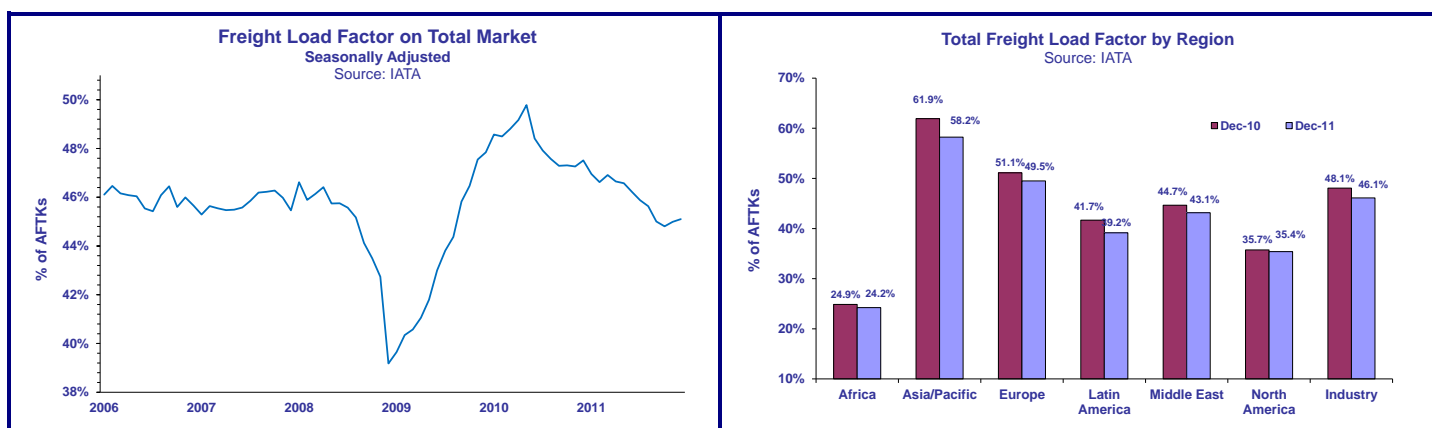
➤ International freight markets contracted by 0.8% in December versus December 2010, but increased by 1.5% from levels in November. The major air freight region, Asia/Pacific, had the strongest growth at 2.2% month-on-month. The Middle East market continues to experience strong traffic demand, and North America, despite contracting over the year, managed to expand 6.5% in December compared to November.



Total Market



- Freight markets have shown growth for 2 consecutive months, and December cargo traffic grew 1.7% compared to November. Business confidence measures, which act as a leading indicator for changes in cargo markets, entered expansion territory in December. Business confidence indicators for China, France and Germany also show positive signs for manufacturing activity. Furthermore, indicators of export orders showed strong growth in December. In total, these could all be signs of the freight downturn bottoming out, with potential for growth in the coming months. Nevertheless, risks from European financial and economic downturn do remain a possibility and they could suppress any potential upward moment in cargo traffic.
- Although passenger load factors had managed to hold up to levels of the previous year, 2011 saw freight load factors decline considerably. For freight the challenge of maintaining load factors, despite measures to reduce the cargo fleet, has been difficult as traffic has fallen away considerably, and additional capacity has entered through the passenger aircraft fleet – so losses, due to low load factors, have been the result.



ANNEX

Year on Year Comparison	December 2011 vs. December 2010						YTD 2011 vs. YTD 2010					
	RPK	ASK	PLF	FTK	AFTK	FLF	RPK	ASK	PLF	FTK	AFTK	FLF
Africa	-0.7%	0.2%	68.9%	-1.8%	0.9%	24.7%	2.3%	4.4%	67.2%	-1.2%	3.1%	25.7%
Asia/Pacific	3.7%	5.9%	74.7%	-5.0%	1.3%	61.6%	4.1%	6.4%	75.9%	-4.8%	0.6%	62.2%
Europe	9.8%	10.3%	76.4%	2.1%	5.5%	50.5%	9.5%	10.2%	78.9%	1.5%	6.4%	49.7%
Latin America	8.8%	11.1%	75.2%	1.5%	10.1%	39.7%	10.2%	9.2%	77.2%	5.5%	5.6%	41.6%
Middle East	11.7%	11.0%	77.1%	10.8%	14.9%	44.0%	8.9%	9.7%	75.4%	8.2%	13.9%	44.4%
North America	1.0%	1.4%	80.5%	-1.1%	2.1%	42.3%	4.0%	6.0%	80.7%	1.5%	6.8%	41.3%
International	6.4%	7.4%	76.2%	-0.8%	4.5%	50.8%	6.9%	8.2%	77.4%	-0.6%	5.2%	50.8%
Australia	-0.8%	-3.5%	80.9%				2.3%	1.7%	79.3%			
Brazil	5.6%	9.6%	69.6%				13.7%	11.2%	69.3%			
China P.R.	12.3%	14.0%	78.7%				10.9%	7.8%	82.2%			
India	9.3%	15.5%	78.7%				16.4%	18.6%	74.7%			
Japan	-4.7%	-8.7%	58.8%				-15.2%	-11.5%	61.2%			
US	-1.2%	-1.4%	81.1%				1.3%	0.5%	83.0%			
Domestic	3.7%	3.8%	77.7%	5.5%	4.2%	30.7%	4.2%	3.1%	79.3%	-1.4%	0.2%	28.5%
Africa	-3.0%	-1.9%	68.8%	-1.8%	0.7%	24.2%	0.5%	2.2%	67.6%	-1.8%	2.5%	25.3%
Asia/Pacific	5.5%	7.0%	75.4%	-4.4%	1.6%	58.2%	5.4%	6.0%	76.8%	-4.6%	0.4%	57.9%
Europe	10.5%	10.4%	75.9%	2.3%	5.6%	49.5%	9.1%	9.6%	78.0%	1.3%	6.2%	48.7%
Latin America	7.6%	10.4%	73.7%	2.3%	8.9%	39.2%	11.3%	9.8%	74.6%	6.0%	4.3%	40.7%
Middle East	11.7%	11.0%	76.8%	10.7%	14.5%	43.1%	8.6%	9.1%	75.5%	8.1%	13.4%	43.7%
North America	-0.4%	-0.4%	80.9%	2.3%	3.3%	35.4%	2.2%	2.3%	82.1%	0.4%	3.8%	34.5%
Total Market	5.4%	6.1%	76.8%	0.2%	4.4%	46.1%	5.9%	6.3%	78.1%	-0.7%	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	December 2011 vs. November 2011						Market Share	
	RPK	ASK	PLF	FTK	AFTK	FLF	RPK	FTK
Africa	-0.9%	-0.8%	-0.1%	-1.2%	-0.2%	-0.3%	3.5%	1.3%
Asia/Pacific	0.9%	0.8%	0.1%	2.2%	1.3%	0.5%	28.7%	42.9%
Europe	2.1%	0.6%	1.2%	1.4%	-0.2%	0.8%	36.4%	24.3%
Latin America	0.6%	0.6%	0.0%	-2.5%	1.5%	-1.6%	5.0%	3.3%
Middle East	1.4%	0.8%	0.5%	5.6%	1.3%	1.8%	12.2%	11.9%
North America	1.4%	1.2%	0.2%	6.5%	2.0%	1.8%	14.3%	16.4%
International	1.4%	1.2%	0.2%	1.5%	1.4%	0.0%	100.0%	100.0%
Australia	0.0%	-0.3%	0.3%				3.5%	
Brazil	0.1%	0.1%	-0.1%				3.9%	
China P.R.	-0.2%	0.8%	-0.8%				18.9%	
India	-4.5%	-2.1%	-1.8%				3.5%	
Japan	3.4%	-0.4%	2.4%				2.8%	
US	-0.4%	0.6%	-0.9%				46.6%	
Domestic	-0.5%	0.5%	-0.8%	3.2%	1.5%	0.5%	100.0%	
Africa	-1.1%	-1.1%	0.0%	-1.3%	-0.4%	-0.2%	2.5%	1.1%
Asia/Pacific	0.9%	0.5%	0.3%	2.1%	0.9%	0.6%	30.5%	40.0%
Europe	2.1%	0.7%	1.1%	1.4%	-0.2%	0.7%	26.0%	20.9%
Latin America	0.0%	0.4%	-0.3%	-2.4%	1.5%	-1.6%	5.8%	3.1%
Middle East	1.4%	0.8%	0.5%	5.6%	1.3%	1.8%	8.1%	10.1%
North America	0.0%	0.7%	-0.6%	4.7%	1.7%	1.0%	27.1%	24.9%
Total Market	0.7%	0.9%	-0.2%	1.7%	1.5%	0.1%	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.

IATA Economics
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31ST January 2011

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

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