

AIR TRANSPORT MARKET ANALYSIS

JUNE 2010

KEY POINTS

- Air travel and freight markets continued to show strong growth in June. Strong results in consecutive months of May and June indicate that the dip in traffic experienced in April due to ash plume airspace closures in Europe was a temporary shock to the strong recovery in demand seen this year. Passenger travel on international markets, measured by RPKs, was 11.9% higher in June than a year earlier. Freight traffic, measured by FTKs was 26.5% higher.
- In June passenger traffic expanded at an annualized rate of just over 6%. Although this is below the 9% seen in the first quarter of 2010, it is still certainly robust growth. This growth, on the back of economic recovery, has seen international passenger traffic now rise to levels 1-2% higher than their pre-recession peak in Q1 2008.
- On a seasonally adjusted basis, freight traffic declined from May to June, however the rise seen the previous month was exceptionally high and it is likely that volatility in the monthly data may be affecting the results here. In the first six months of the year international freight traffic has grown at an annualized rate of 26% - well above historical trend rates of growth. The level of international air freight in June was 6% higher than its previous peak in early 2008 before the recession.
- The passenger load factor on international markets was 79.8% in June. After stripping out seasonal factors, the load factor is 78.3%, remaining in the 78-79% range seen over the last six months. Since the beginning of the year capacity has been added at a similar rate to the growth in demand, resulting in this consistent load factor picture. In June capacity on international passenger markets was being added at an annualized rate of 10% which outpaced demand growth. It is too early to say if a downward trend in load factors has begun. However significant new aircraft orders like the 400+ announced at the Farnborough air show point to an increased risk of downward pressure on load factors if additions to capacity accelerate.
- The balance of June's results would point to continued growth going forward. There does not appear to be significant evidence of a loss of momentum. Some recent economic news has created uncertainty about economic prospects for Europe and even the US. However business confidence indicators remain relatively high. The completion of inventory restocking and the tailing off of government fiscal stimulus means entry into a new phase for air transport markets. However, it is likely that this will be a phase of slower growth rather than a 'double dip', so further growth is expected over the months ahead.

Year on Year Comparison	June 2010 vs. June 2009						YTD 2010 vs. YTD 2009					
	RPK	ASK	PLF	FTK	AFTK	FLF	RPK	ASK	PLF	FTK	AFTK	FLF
Africa	21.3%	12.1%	69.0	54.0%	23.3%	28.7	13.2%	8.6%	67.9	46.3%	14.8%	28.5
Asia/Pacific	15.5%	4.4%	77.9	29.8%	20.5%	66.6	10.5%	1.0%	77.2	35.1%	14.8%	66.6
Europe	7.8%	4.3%	81.0	15.3%	2.1%	52.0	3.3%	-0.4%	77.3	12.6%	-4.6%	53.0
Latin America	14.7%	9.5%	73.8	44.9%	25.3%	43.2	10.2%	3.8%	74.8	48.2%	24.9%	42.5
Middle East	18.0%	13.1%	76.6	39.6%	17.9%	48.0	20.1%	13.2%	75.0	34.1%	15.8%	46.8
North America	10.8%	5.6%	86.6	24.2%	5.9%	41.5	5.9%	0.1%	81.0	29.4%	0.6%	44.0
Industry	11.9%	5.9%	79.8	26.5%	12.2%	53.8	7.9%	2.0%	77.1	28.3%	6.8%	54.5

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.

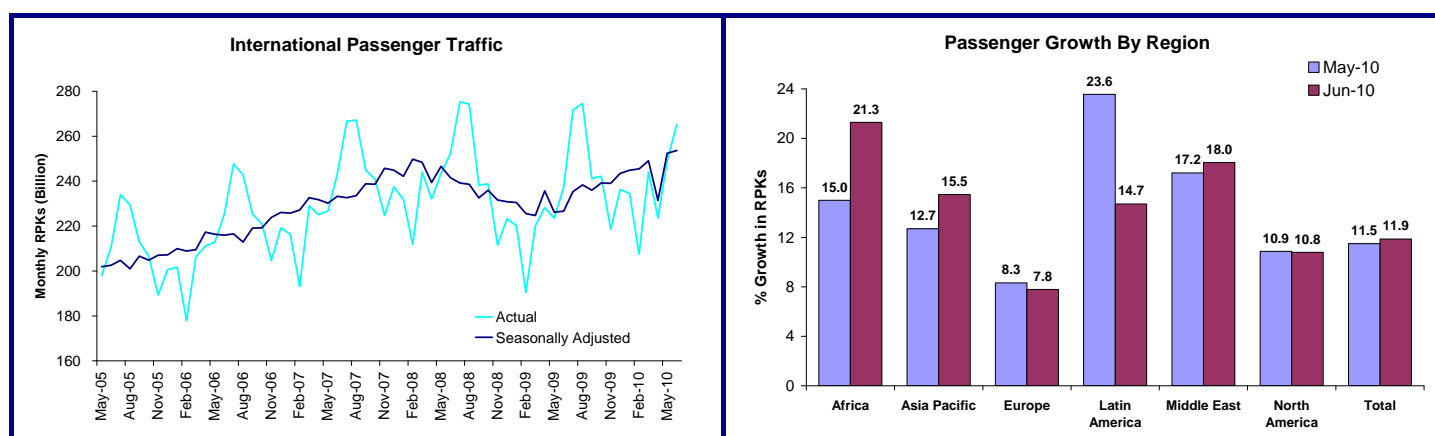
COMPARING JUNE TO MAY

June 2010 vs. May 2010						
Month on Month Comparison	RPK	ASK	PLF pt	FTK	AFTK	FLF pt
Africa	3.5%	2.5%	0.6	2.4%	0.5%	0.6
Asia/Pacific	-0.9%	0.2%	-0.9	-3.0%	-1.1%	-1.2
Europe	0.5%	1.0%	-0.4	-4.8%	0.1%	-2.8
Latin America	-0.4%	0.9%	-1.0	-3.0%	-0.4%	-1.2
Middle East	1.7%	1.3%	0.3	2.6%	1.4%	0.6
North America	1.8%	0.7%	0.8	-6.0%	0.5%	-3.0
Industry	0.5%	0.8%	-0.3	-3.3%	-0.1%	-1.8

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.

- Looking at the month-to-month change after removing normal seasonal variation gives a good view of recent developments in markets, although care needs to be taken because the comparison between months can be obscured by data volatility.
- In June, airlines in Europe and North America – regions still experiencing relatively weak economic recovery – returned some of the higher passenger growth rates. Asia Pacific and Latin American airlines showed negative growth on the month, but this is more a function of data volatility than a reflection of market dynamics – these regions are experiencing strong economic growth which will drive additional traffic.
- Freight results were negative in many regions as a result of the exceptionally large increases reported in May. The overall growth trend remains positive.

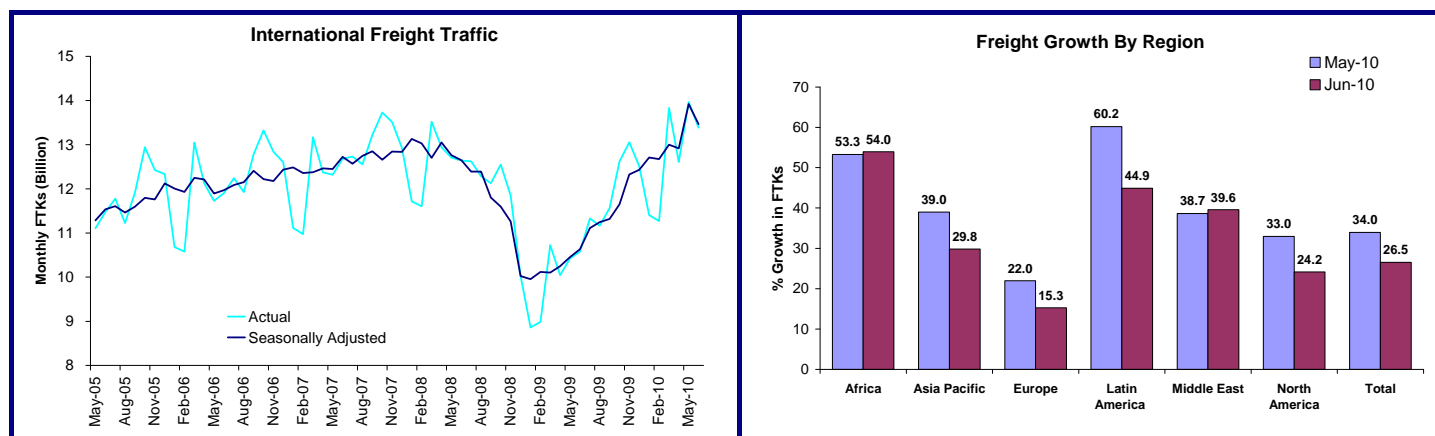
AIR TRAVEL VOLUME RECOVERY TREND CONTINUES



- Volumes in international passenger markets, measured by RPKs, continued climb in June, resuming the upward trend which was interrupted temporarily by the ash plume airspace closures experienced in Europe during April. Passenger traffic grew at an annualized rate of 6%, reaching a level now 13% above the recession trough and 1-2% higher than the pre-recession peak.
- Growth in June was slightly slower than the 9% annualized rates seen during the first quarter of 2010 and this may indicate the beginning of a slower phase of growth. However, two months of data don't necessarily make a trend. While the seasonally adjusted regional data above shows Asia-Pacific airlines in negative territory for the month – possibly reflecting efforts to control economic growth in countries like China where GDP growth has 'slowed' to 10% – this is more likely to be volatility in the data. Latin American airlines (also showing negative results on the month-to-month comparison) recorded solid growth of 14.7% in June compared to the same month last year. While much lower than the 23.6% result reported for May, that is largely due to the May result being boosted by the significant fall in traffic in the region experienced in May 2009 as a result of the Influenza A H1N1 outbreak. Both these regions are expected to continue to see solid rates of traffic growth on the back of further economic expansion. They may have pulled down the overall industry growth rate this month on an exceptional basis.

- For the second consecutive month Europe was the only region where airlines reported single digit traffic growth over the 12 months to June. However, the month-to-month comparison points to respectable annualized growth of 6.2%, in line with the industry average. North American airlines expanded traffic volumes at an annualized rate of close to 24% in June - the fastest rate among the larger aviation markets. Airlines in this region are now operating a similar volume of international traffic as at the pre-recession peak. Strong growth, recovering volumes and industry leading load factors will all be contributing to the solid second quarter financial results for North American airlines now being announced.
- Middle Eastern airlines continue to experience strong traffic growth, reporting an 18% increase on June last year. Economic growth is strong in the region and airlines continue to attract additional long haul traffic through their hubs. African airlines also posted significant traffic growth in June, no doubt boosted by activity related to the football world cup held in South Africa.
- While concerns about the fragility of the economic recovery in several regions are warranted, the traffic results from June do not point to a significant change from recent trend growth over the months ahead. Further growth in volumes is expected, although it should be remembered that over 2 years of growth were lost during the recession.

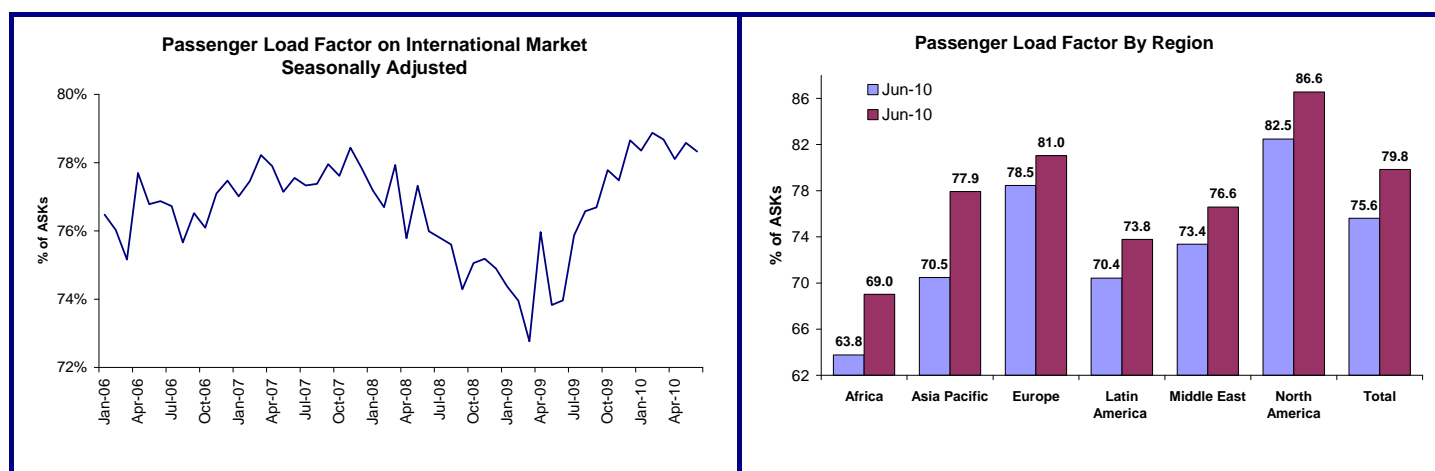
AIR FREIGHT VOLUME GROWTH MAY BE MODERATING BUT STILL STRONG



- International air freight volumes were 26.5% higher in June than during the same month last year. Following an exceptionally strong boost in May, the seasonally adjusted level of freight tonne kilometers fell by -3.3% in the month-to-month comparison. However, trend growth remains very strong with freight volumes expanding at an annualized rate of 26% during the first half of 2010, well above the 6-7% historical growth trend seen in the last two decades.
- This growth has driven air freight 6% beyond pre-recession levels, although as with passenger markets more than 2 years of growth have been lost in the interim. Freight growth across the regions continues to follow economic recovery and trade growth patterns. Over the first half of 2010 traffic for airlines based in the Asia Pacific, Middle East, Latin America and Africa has grown at annualized rates in excess of 30%. However in North America and Europe, regions experiencing weaker economic recoveries, annualized growth rates have only been half that rate. In June, freight volumes for European airlines were still 5-6% lower than the pre-recession peak making Europe the only region not yet to recover to pre-recession volumes. However annualized growth rates for Europe have improved from 12% in the first quarter of this year to 28% during the second quarter – so the freight markets in Europe may have turned a corner. Despite still weak economic conditions in the region, the low value of the Euro will be helping European exporters and driving freight volumes for airlines in the region.
- With inventory-sales ratios returning to pre-recession levels it is likely that the stimulus to freight traffic offered by the restocking phase of the economic recovery is drawing to a close. The June traffic data does not provide a clear indication on the extent to which this is being felt in the market – data for future months may reveal more.

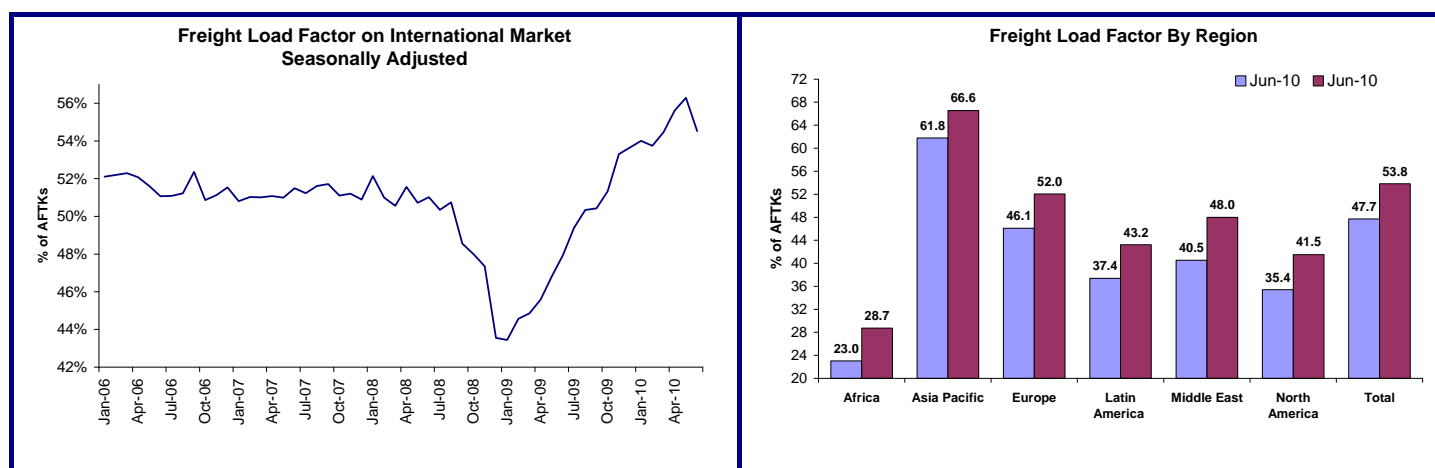
PASSENGER LOAD FACTORS REMAIN HIGH

- In the 12 months to June available capacity on international markets, in terms of ASKs, has grown by 5.9%, whereas traffic has grown at twice that rate. This has pushed up passenger load factors by 4.2 percentage points to 79.8%. Since the beginning of 2010, the rate of reintroduction of capacity has more or less matched the increase in traffic, keeping the PLF at a steady (but high) level of 78-79% on a seasonally adjusted basis.
- Higher load factors have supported yield increases which is helping airline revenues. June data from US airlines shows that year on year yield growth accelerated to 20-30% on international markets during the second quarter of this year – although yields have yet to return to pre-recession levels in absolute terms.
- From May to June capacity rose at a rate of 10% on an annualized basis – a higher rate than the growth in traffic. Historically the industry has struggled with over capacity contributing to lower load factors and poor profitability. If the 400+ large aircraft orders and commitments made at the Farnborough airshow in July are any indication, the risk of excess capacity putting downward pressure on load factors in the future remains.



FREIGHT LOAD FACTORS DIP FROM RECORD LEVELS

- The June seasonally adjusted data shows a sharp dip in freight load factors, but this appears to be more related to the month-to-month volatility seen in the demand data. The load factors remain at historically high levels. The divergence in load factors achieved also remains a feature, with trade-driven Asia Pacific topping the table.



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FURTHER ANALYSIS AND DATA

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