

PREMIUM TRAFFIC MONITOR

DECEMBER 2015

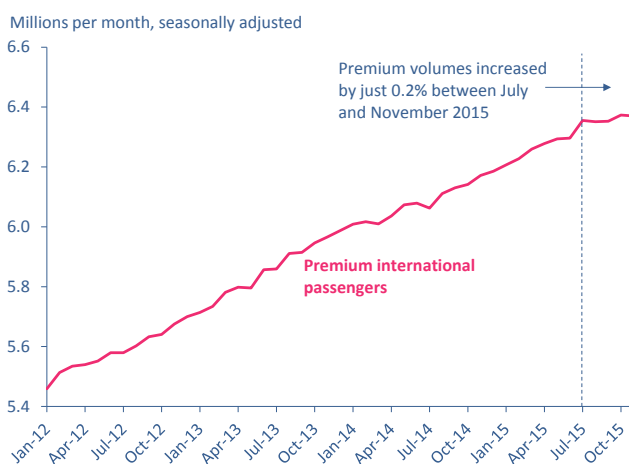
KEY POINTS

- ➔ Broad weakness in key demand drivers resulted in a soft end to 2015 for industry-wide premium-class travel volumes.
- ➔ The lack of strong momentum on the demand side means that growth is likely to remain only modest in the near term.
- ➔ Nonetheless, premium's share of revenues is holding up on key routes, providing a buffer for airline financial performance.

PREMIUM TRAFFIC OVERVIEW

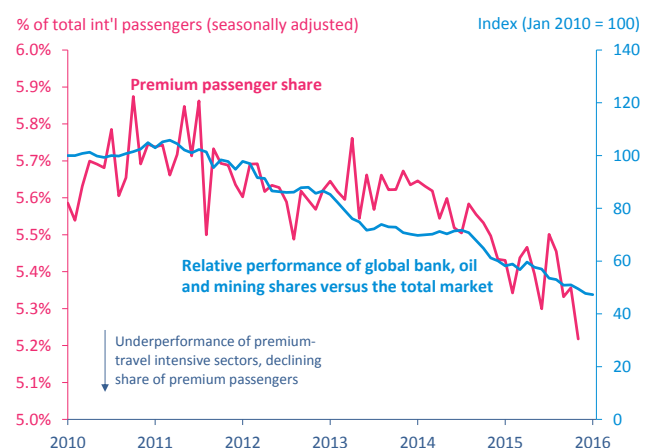
- ➔ Premium traffic volumes grew by an estimated 3.7% in 2015 as a whole. However, much of the growth was seen early in 2015, and the upward trend in the premium market eased over the latter months of the year. (See Chart 1.) Indeed, seasonally adjusted premium volumes increased by just 0.2% between July and November 2015, and traffic in December was just 1.7% higher than in the same month in 2014.
- ➔ The easing in the upward trend of premium traffic over the second half of last year relates to broad-based weakness in the drivers of premium travel demand, including the ongoing uneven pattern of global economic growth and the emergence of key economic risks. Comparatively strong economic performance in advanced economies has supported premium traffic on the North Atlantic, but slowing growth, and even recession, in a number of large emerging markets such as China and Brazil, has weighted on premium traffic growth in many markets.
- ➔ The second headwind for premium traffic has been the ongoing sluggishness of world trade growth (recall that trade growth tends to correlate with business-related premium travel demand). Admittedly, world trade volumes bounced back strongly in the second half of 2015 from the firm downward trend seen earlier in the year. Moreover, given the extent of the declines seen in the H1 2015, annual trade growth is likely to pick up sharply over the coming months too (we expect to see annual trade growth in the region of 5-6% during Q2 2016). But the key point is that the upward trend in world trade volumes was actually rather modest in the second half of the year – around 2% on an annualized basis.
- ➔ Finally, challenging conditions in some of the key industry sectors for premium travel – notably the banking sector, as well as the mining and energy sectors – presents a broader headwind for premium traffic growth. Certainly, tough times in these sectors over recent years – as proxied by the relative underperformance of these sectors' equities versus the total market – corresponds with premium's declining share of total traffic over the same period. (See Chart 2.)
- ➔ All told, the lack of strong momentum in the key premium-class demand drivers, particularly world trade, means that premium-class traffic is likely to continue to grow at just a modest rate in the near term.

Chart 1 – Premium-class international passengers



Source: IATA Monthly Statistics

Chart 2 – Premium-class passenger share vs. relative equity market performance of key travel-intensive sectors

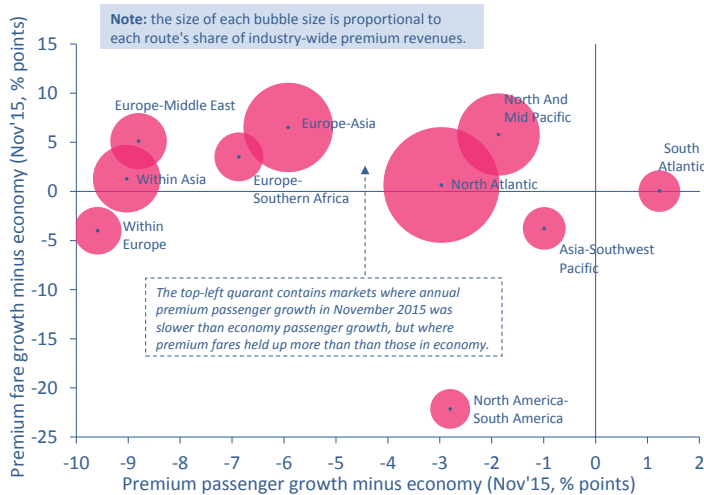


Sources: IATA Monthly Statistics, Thomson Reuters Datastream

PREMIUM MARKETS

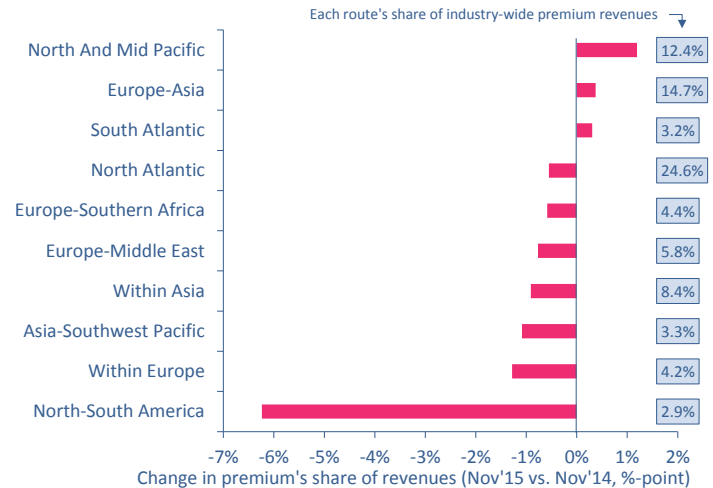
- ➔ Premium-class traffic growth lagged behind that of its economy counterpart on most origin-destination markets towards the end of 2015. (See Chart 3.) This is of course not surprising given that economy travel is more price sensitive than business-related traffic, and economy traffic has responded as lower fuel prices translated into lower airfares during 2015.
- ➔ Premium traffic on the North Atlantic – the largest market in terms of revenue – is estimated to have grown by a healthy 4.5% in 2015 as a whole, supported by solid economic growth in the US and a modest cyclical upturn in Europe too.
- ➔ By contrast, the weakness of premium-demand drivers in emerging Asia means that premium volume growth underperformed significantly on some of the region’s key passenger markets. Trade volumes to and from emerging Asia contracted on a month-on-month basis for five consecutive periods during the second half of 2015, and economic growth slowed in key regional economies (notably China). The underperformance of premium travel was most stark on the (origin-destination) within Asia market and also to and from Europe. The one exception was on the Transpacific, where exposure to the stronger US economy looks to have helped to support demand and premium volumes.
- ➔ Nonetheless, while premium passenger growth lagged behind economy volumes growth on most routes at the end of last year, premium fares in general held up better. As a result, premium’s share of revenues on some routes actually increased compared to November 2014. (See Charts 3 and 4.) This was particularly the case on the Transpacific and Europe-Asia markets, which together account for just over one-quarter of industry-wide premium-class revenues.
- ➔ In the current environment where lower fuel prices and competition in the industry are placing downwards pressure on economy yields, the high-yielding premium-segment offers an important buffer for overall airline financial performance.
- ➔ One notable exception is the North-South America market, where premium demand fell sharply alongside acute economic pressures in the key Latin American countries – notably Brazil. Premium fares have fallen relative to those in economy to stimulate demand but this has reduced premium’s share of revenues on the market. Business confidence indicators in Brazil have bounced back from a six-year low in recent months, but they continue to point to contracting economic activity.

Chart 3 – Relative premium-class performance for top-10 premium markets by revenue (% year-on-year, Nov’15)



Sources: IATA, DIIO

Chart 4 – Change in premium’s share of revenue for top-10 premium markets by revenue (Nov’15 vs. Nov’14)



Sources: IATA, DIIO

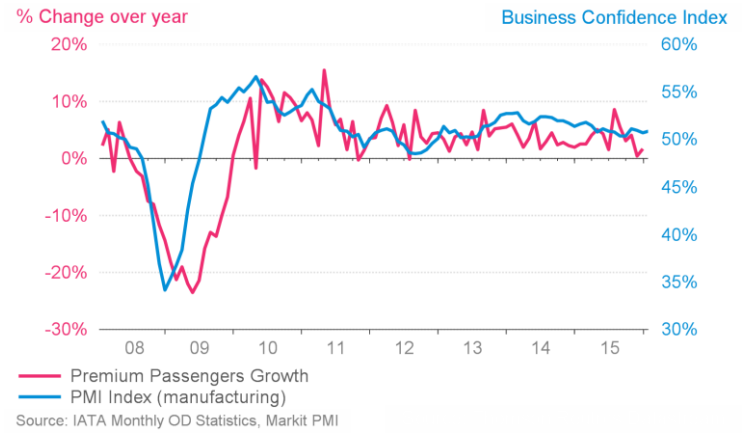
Please note that this is the last month that we will be producing a stand-alone *Premium Traffic Monitor*. Given the importance of premium-class traffic to airline financial performance, from this point forward developments in premium-class traffic will be covered as part of IATA Economics’ monthly *Airlines Financial Monitor*.

BACKGROUND CHARTS

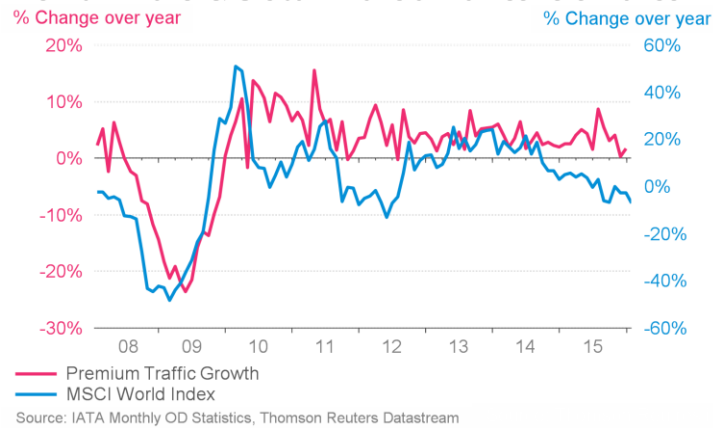
Premium Passengers and World Trade Growth



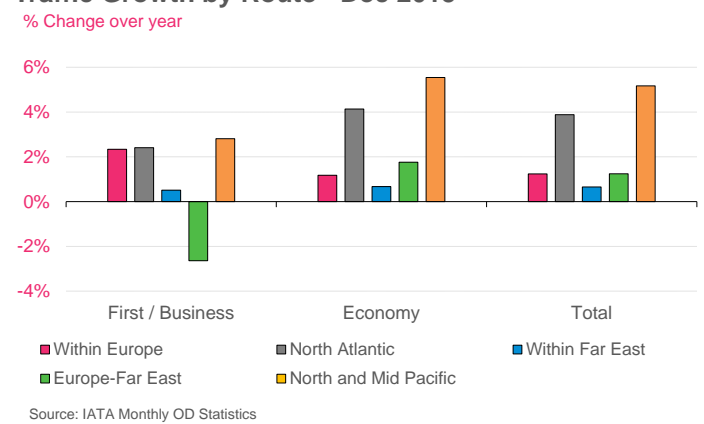
Premium Travel and Business Confidence



Premium Travel & Global Financial Market Performance



Traffic Growth by Route - Dec 2015



IATA Economics
Contact: David Oxley
oxleyd@iata.org

22nd February 2016

ANNEX: TRAFFIC GROWTH BY ROUTE – DECEMBER 2015

	Premium Traffic Growth		Economy Traffic Growth		Total Traffic Growth	
	Dec 15 vs. Dec 14	2015 vs. 2014	Dec 15 vs. Dec 14	2015 vs. 2014	Dec 15 vs. Dec 14	2015 vs. 2014
Africa - Asia	-11.7%	-16.5%	-2.3%	-8.1%	-3.2%	-8.9%
Africa - Middle East	1.9%	6.4%	15.1%	6.7%	13.8%	6.6%
Europe - Africa	1.5%	-2.7%	2.6%	1.1%	2.5%	0.7%
Europe - Asia	-2.6%	2.1%	1.8%	4.9%	1.2%	4.6%
Europe - Middle East	0.8%	6.7%	6.5%	8.2%	5.8%	8.1%
Asia - Southwest Pacific	-0.2%	3.1%	1.3%	4.1%	1.1%	4.0%
Mid Atlantic	9.1%	9.3%	12.6%	8.3%	12.3%	8.4%
Middle East - Asia	-1.1%	4.1%	6.2%	4.5%	5.5%	4.4%
North America - Central America	7.4%	3.5%	7.5%	6.9%	7.5%	6.6%
North America - South America	1.3%	-3.8%	0.7%	-0.6%	0.7%	-1.0%
North and Mid Pacific	2.8%	2.2%	5.5%	5.8%	5.2%	5.3%
North Atlantic	2.4%	4.5%	4.1%	4.8%	3.9%	4.8%
Other routes	0.6%	1.7%	6.4%	6.6%	6.0%	6.2%
South Atlantic	-0.5%	-1.5%	1.6%	1.5%	1.3%	1.2%
South Pacific	9.4%	7.0%	17.1%	9.4%	16.2%	9.1%
Within Africa	9.4%	-6.1%	0.6%	-4.5%	1.4%	-4.7%
Within Europe	2.3%	7.0%	1.2%	4.2%	1.2%	4.4%
Within Asia	0.5%	4.0%	0.7%	5.2%	0.7%	5.2%
Within North America	13.1%	6.1%	3.6%	12.6%	4.3%	12.1%
Within South America	-0.9%	-0.3%	7.8%	5.0%	7.3%	4.7%
Total	1.7%	3.7%	3.3%	4.8%	3.1%	4.7%

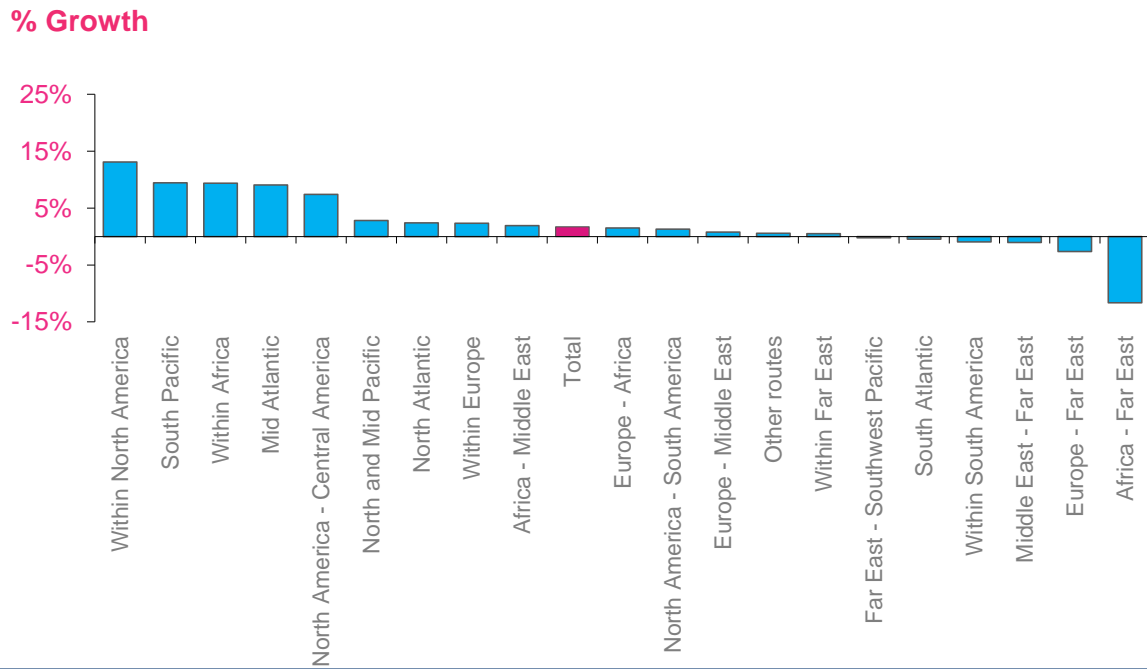
Source: IATA Origin-Destination Statistics

PREMIUM TRAFFIC BY ROUTE – NOVEMBER 2015 (LATEST)

	Share of Premium		Share of Total	
	Traffic	Revenues	Traffic	Revenue
Africa - Asia	0.7%	0.9%	8.4%	28.4%
Africa - Middle East	1.6%	1.0%	7.3%	26.5%
Europe - Africa	4.1%	7.5%	6.8%	36.9%
Europe - Asia	10.1%	14.7%	11.4%	43.8%
Europe - Middle East	5.3%	5.8%	11.6%	47.8%
Asia - Southwest Pacific	3.1%	3.3%	8.0%	27.8%
Mid Atlantic	1.5%	1.8%	8.0%	29.1%
Middle East - Asia	2.7%	2.0%	4.2%	17.5%
North America - Central America	3.2%	1.4%	4.0%	9.6%
North America - South America	2.7%	2.9%	11.9%	28.8%
North and Mid Pacific	6.3%	12.4%	13.0%	41.0%
North Atlantic	14.5%	24.6%	16.0%	54.8%
Other routes	6.4%	2.5%	7.7%	24.3%
South Atlantic	2.3%	3.2%	13.0%	38.5%
South Pacific	0.9%	1.9%	12.1%	41.1%
Within Africa	1.6%	0.7%	7.1%	19.7%
Within Europe	14.2%	4.2%	2.7%	9.3%
Within Asia	17.5%	8.4%	5.1%	15.6%
Within North America	0.8%	0.4%	2.4%	8.4%
Within South America	0.6%	0.3%	3.0%	8.8%
Total	100.0%	100.0%	6.1%	29.4%

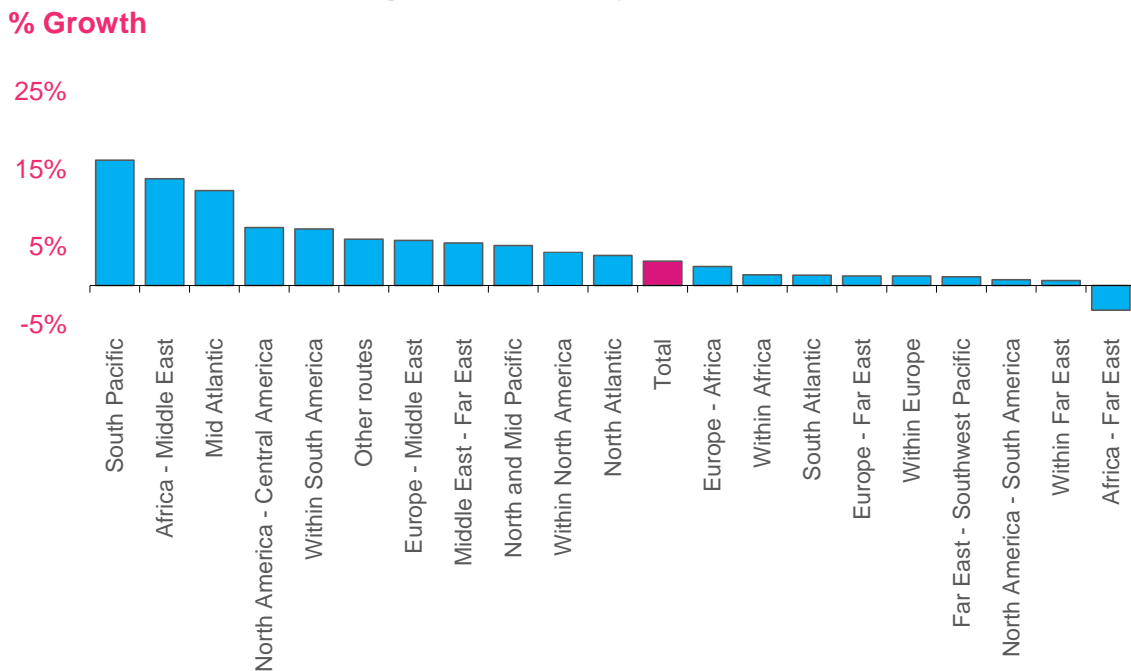
Sources: Diio, IATA

International Premium Traffic Growth by Route - Dec 2015



Source: IATA Origin-Destination Statistics

International Passenger Growth by Route - Dec 2015



Source: IATA Origin-Destination Statistics

Terms and Conditions for the use of this IATA Economics Report and its contents can be found here: <http://www.iata.org/economics-terms>
By using this IATA Economics Report and its contents in any manner, you agree that the IATA Economics Report Terms and Conditions apply to you and agree to abide by them. If you do not accept these Terms and Conditions, do not use this report.

FURTHER IATA DATA & STATISTICS

Access IATA data related to this briefing through the Monthly Statistics publication:
<http://www.iata.org/services/statistics/stats/pages/index.aspx>

SUBSCRIBE TO IATA ECONOMICS

To receive email notifications of new analysis from IATA Economics, select 'Economic Briefings' from:
www.iata.org/optin