

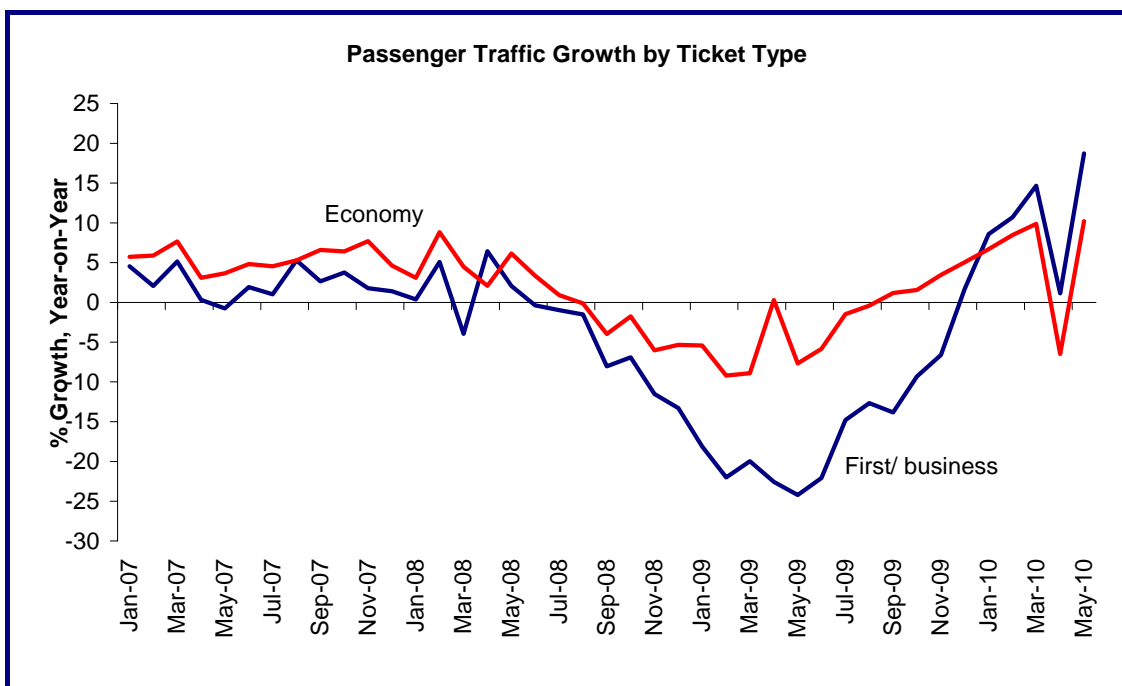
PREMIUM TRAFFIC MONITOR

MAY 2010

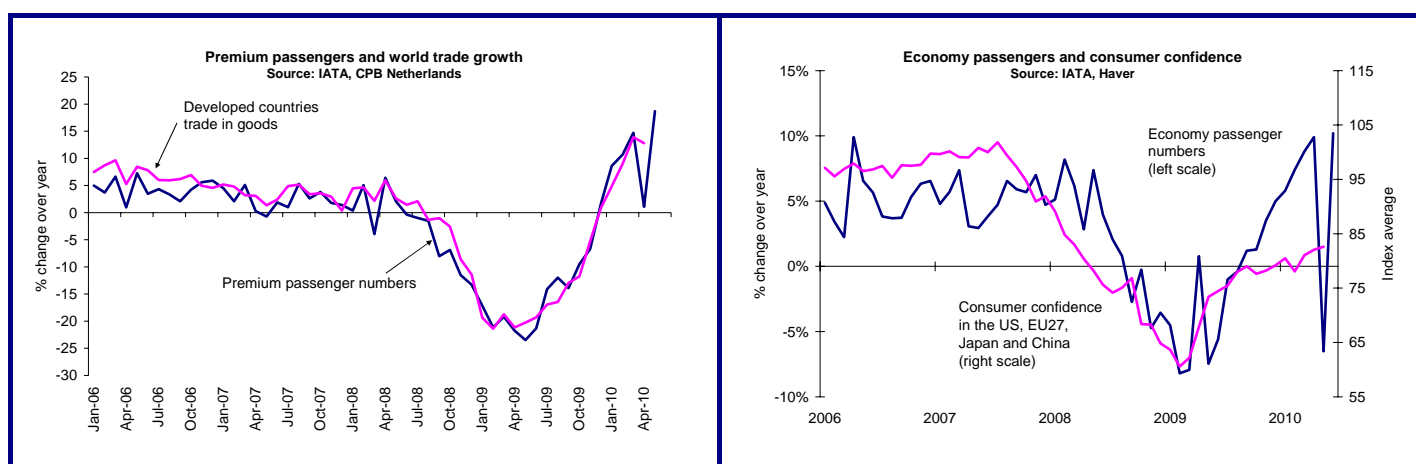
KEY POINTS

- The upturn trend in air travel is back on track after being dented in April by the closure of the European airspace, following the eruption of the Icelandic volcano. Premium traffic expanded by a strong 18.7% in May, after slowing to a rise of 1.1% in April. Total passenger numbers on international markets expanded by 10.9% from the level seen the previous year.
- Economy travel was 10.2% higher in May this year than a year ago. In the first five months of the year, its level averaged 5.5% higher than a year ago while premium averaged 10.5% over the same period. The pace of expansion for premium ticket travel continued to exceed economy travel.
- Both travel classes have been rising strongly from the very low levels reached during the 2008-2009 “Great Recession”. Adjusted for seasonality, premium travel has risen almost twice as far in percentage terms from its 2009 low as economy travel but, such was the depth of the fall of the premium segment, current levels are still 10% below pre-recession peaks whereas economy travel is now 5% above its pre-recession peak.
- Growth in premium and economy classes is being driven by business travellers rather than holidaymakers. As world trade and business confidence continue to expand, passengers travelling on business have returned. Risk of unemployment and consumer debt remaining high in most developed economies, has led consumers to take a conservative approach on their spending by cutting their travel budget for holidays. This has been slowing the pace of recovery in leisure travel.
- The regional picture of growth remains unchanged with strong rebound in premium passenger numbers in Asia and Middle East while routes linked to Europe and North America are lagging behind with modest growth rates due to weak economic conditions. On the North Atlantic market, total passenger numbers were down 0.4% during the first five months of the year.

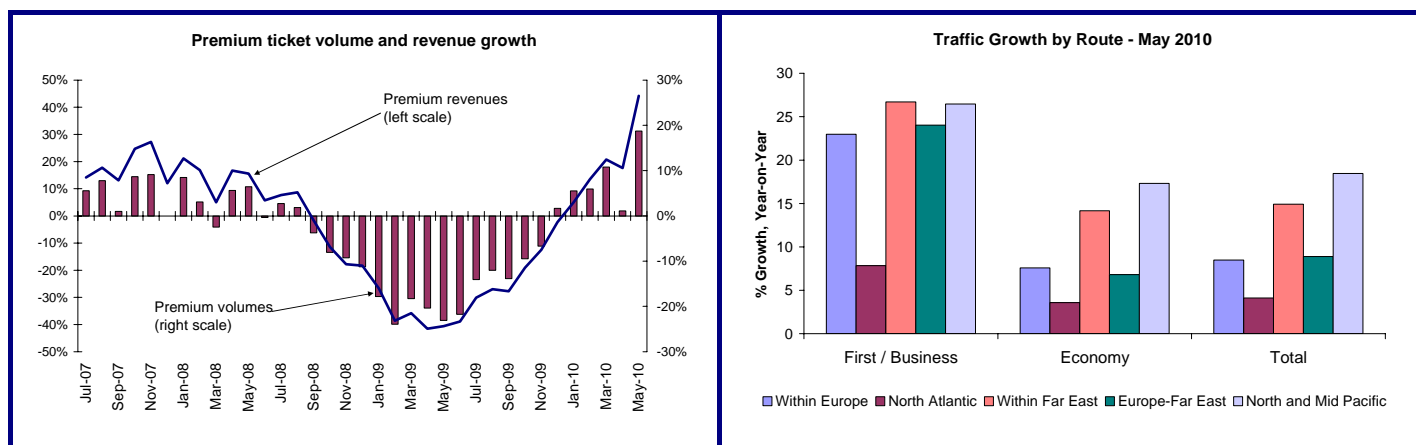
PREMIUM TRAFFIC GROWTH



- The strong figures of this month suggest that the sharp rise in the total number of passengers is back on track. It is clear now that the weakness in air travel seen in April was mainly due to the impact of the airspace closure in Europe. Passengers travelling on premium class expanded by a strong 18.7 % in May, while passengers travelling on economy seats rose by 10.2%.
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- Both travel classes have been rising strongly since the beginning of the year. This is not only due to the usual post-recession surge in travel demand. Drivers for premium and economy classes are improving.
- World trade in goods for developed economies, which has been a good leading indicator for premium travel, is still expanding, albeit slowing down in April due to the impact from the closure of the European airspace. The confidence in manufacturing and services businesses – measured across major economies by Markit/JP Morgan Index - indicates further expansion of global economic activity. While growth rates have eased during May and June -suggesting that growth of global economy may have passed its peak post-recession rebound pace - indicators of business travel remain positive.
- A driver of the leisure travel, consumer confidence, is improving but is still looking pretty weak as consumers are taking a cautious view on their spending by prioritising debt repayment over consumption. Unemployment rates and consumer debt remain persistently high in many countries despite improving economic conditions. Employment and unemployment are often lagging indicators, as companies are ready to rehire only once they are confident that business environment is improving. This is likely to continue to slow the recovery in leisure travel. The charts below suggest that recent changes in economy travel have been driven more by business travellers, sitting in economy class, rather than by holidaymakers who make up the bulk of this seat class.



- We estimate premium revenue this month is up by some 44% compared to the same month last year. This is driven not only by a strong rise in the number of passengers but also by an improvement in the average fare and yield. However, yields have not bounced back same way than passenger numbers. Despite a faster average growth rate of 8% during the first months of the year, yields and average fares are still below their pre-recession level by some 15%.

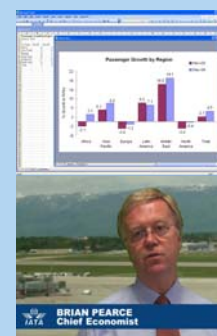
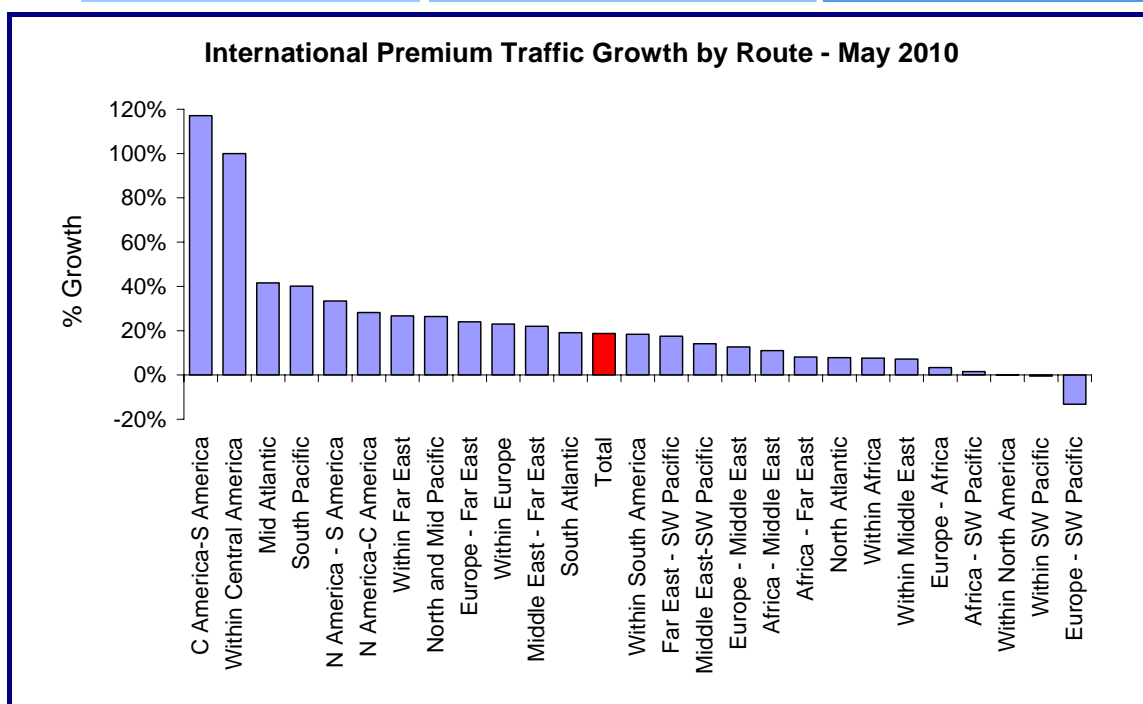


PREMIUM TRAFFIC BY MAJOR ROUTE

- Premium passenger markets are now almost all in positive territory, but as clearly shown in the chart above, there are still some geographical differences, mainly due to different economic conditions.
- Larger routes linked to Asia and to North and Mid Pacific continue to show double digit growth rates of +20% compared to last year. Large fiscal stimulus packages and loose monetary conditions in most emerging countries in this region helped creating favourable economic conditions to boost trade and business travel. However a substantial proportion of demand in these “emerging markets” still depend on final demand in Western developed economies and there is some risks that weakness in the developed world will ultimately hold back emerging markets. Economy travel in those regions is still growing as consumer confidence continues to rise in countries, as seen in China and Japan, within these regions.
- Route segments linked to the Middle East region, which now represent more than 10% of international premium travelers and 9% of revenue, continued to expand sharply in May with growth rates within a range of 7-22%. These strong growth rates reflect not only the good economic conditions in the region, but also the increasing number of long-haul passengers connecting from Europe. This data measures passengers on flight segments rather than final origin-destination. Economic activity within this region is likely to remain strong this year.
- There are also other markets, smaller in volumes, that showed strong growth during May. Routes linked to South and Central America continue to expand reflecting new services and higher business demand in this region. The impressive year on year growth rates for Central and South America reflects also low market levels reached last year due to the impact of the Influenza A(H1N1) on the number of passengers travelling to those regions.
- The North Atlantic market, which represents about 18% of premium traffic and 25% of revenue, is still lagging behind Asian and Middle East routes. On this market, premium travel was up by just 7.8% and economy travel just 3.6% in May. The US economy has shown a strong economic rebound during the first quarter of this year, however recent data released in early July indicates that consumers lost confidence and the US is now experiencing a “jobless recovery”. This is likely to continue to prevent economy travel recovering quickly on this particular market.
- This month the Within Europe premium market showed an acceleration of the year on year growth rate to 23.0%, well above what we have seen during the first four months of the year. This is likely to reflect an increase in long-haul passengers connecting through major European hubs, rather than passengers having Europe as origin and final destination where economic and business activity remains relatively depressed.

PREMIUM TRAFFIC GROWTH BY ROUTE

	Share of Total Premium:		Premium Traffic Growth	
	Traffic	Revenues	May 10 vs May 09	YTD 2010 vs YTD 2009
Africa - Middle East	1.1%	0.8%	11.0%	13.7%
Africa - SW Pacific	0.0%	0.1%	1.6%	-4.1%
C America-S America	0.3%	0.2%	117.1%	24.9%
Europe - Far East	8.7%	13.4%	24.0%	11.2%
Europe - Middle East	4.8%	5.7%	12.7%	9.8%
Europe - SW Pacific	0.1%	0.2%	-13.2%	-9.4%
Africa - Far East	0.2%	0.3%	8.1%	14.2%
Within Africa	1.0%	0.8%	7.7%	-0.9%
Within Central America	0.1%	0.0%	100.0%	10.6%
Within Far East	9.0%	9.3%	26.7%	23.0%
Within Middle East	1.9%	0.9%	7.2%	8.5%
Within North America	1.1%	0.4%	0.1%	2.0%
Within SW Pacific	0.3%	0.3%	-0.5%	0.7%
Within South America	1.0%	0.4%	18.4%	17.2%
Mid Atlantic	1.1%	1.3%	41.6%	8.6%
Middle East - Far East	2.7%	2.5%	22.0%	27.0%
Middle East-SW Pacific	0.4%	0.9%	14.1%	23.2%
North Atlantic	18.1%	24.7%	7.8%	2.9%
N America-C America	4.7%	2.3%	28.3%	8.6%
Europe - Africa	3.7%	3.8%	3.4%	-2.7%
N America - S America	2.6%	4.1%	33.4%	22.9%
Far East - SW Pacific	1.5%	2.7%	17.5%	8.3%
North and Mid Pacific	6.0%	14.2%	26.5%	13.2%
South Pacific	0.5%	1.2%	40.2%	22.3%
South Atlantic	2.7%	2.9%	19.2%	8.8%
Within Europe	26.4%	6.4%	23.0%	12.0%
Total International	100.0%	100%	18.7%	10.8%



FURTHER ANALYSIS AND DATA

Access video commentary and chart data related to this briefing through the Enhanced Edition:
www.iata.org/premium-traffic