

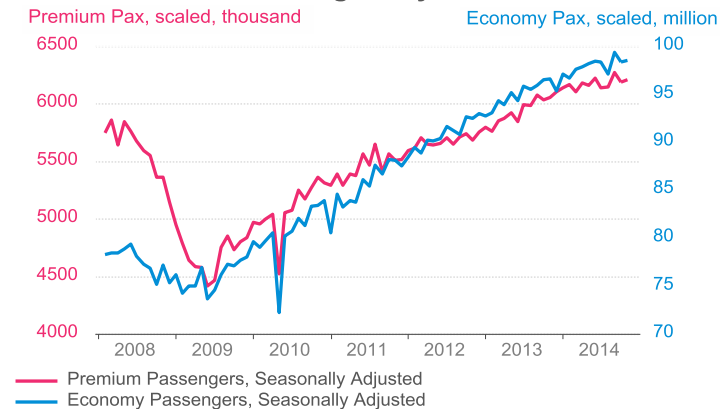
PREMIUM TRAFFIC MONITOR

OCTOBER 2014

KEY POINTS

- ➔ Growth in international air passengers rose 3.6% in October compared to a year ago. This is in line with growth year-to-date, and stronger than the September rise of 2.3%. Premium passenger numbers were up at a slower rate (2.9%) in October than economy class passenger numbers (3.7%);
- ➔ Growth so far this year in premium and economy class air travel has equalized. As a result, there has been no further increase in premium's share of total traffic, which could suppress growth in premium yields and revenues;
- ➔ Several markets showed improvement in October compared to a year ago. The within Far East market recorded a stronger rise in October, up 2.9%, compared to the trend so far this year (0.4%). Trade in emerging Asia has been growing solidly over recent months, which has provided a boost to business related air travel;
- ➔ In addition, despite the recent weakening of the Eurozone economy, air travel within the region rose 4.7% in October year-on-year, almost a percentage point above the trend growth so far this year;
- ➔ The outlook for international air travel remains positive overall, but recent slowdown in major economies like China and the Eurozone could place downward pressure on demand in coming months. Moreover, although growth in world trade has been supportive of business-related air travel over recent months, the lack of improvement in business confidence since mid-2014 suggests those gains in international trade could be limited.

International Air Passengers by Seat Class



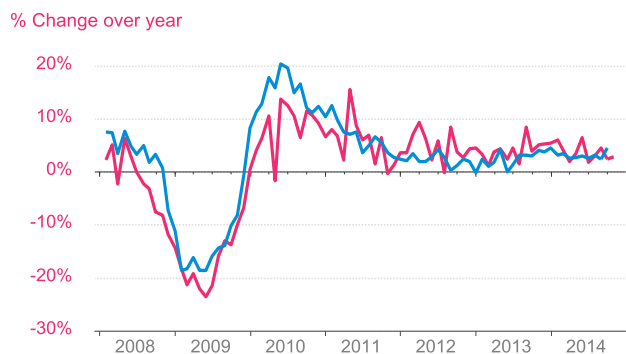
Premium Passengers as % of Total



- ➔ There was a stronger rise in international air travel in October compare to a year ago (3.6%) than in September (2.3%). The number of international air passengers also increased slightly in October compared to September, by 0.4%. There were signs of stronger growth earlier in Q3, after a period of notable weakness mid-year, but that positive momentum appears to be slowing once again, despite the expansion in October. Although the global economy continues to expand, latest data show a widespread slowdown in key economies at the start of Q4. The US economy appears to be set for steady growth, but at a slower pace in Q4 than was seen in earlier months, according to Markit's indicators of business activity. In the Eurozone, the French economy has started to signal contraction and growth is losing momentum in Italy. China has been struggling with weak business activity in both services and manufacturing.

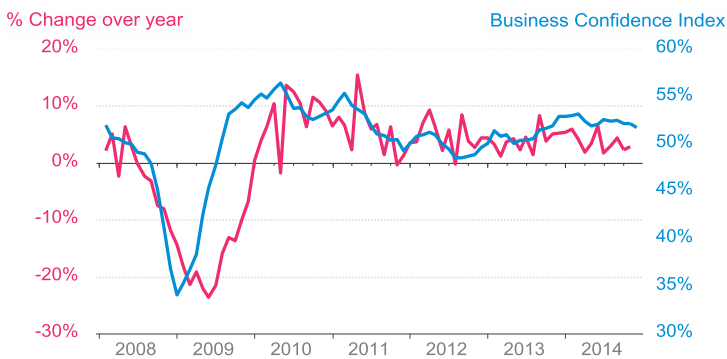
- Travel on premium seats rose 2.9% in October compared to a year ago, slower than the rate of increase in economy passenger numbers, 3.7%. Current performance is relatively weak for both travel classes; year-to-date expansion is 3.6% for both travel classes. In 2013 and during earlier parts of 2014 premium travel was expanding at a faster pace than economy travel, which was providing a boost to the share of premium travel from total travel. This was positive for yields growth and revenues. Over recent months, however, the rate of growth in economy and premium class travel has more or less equalized, and improvements in premium's share have paused, as can be seen in the second chart above.
- The profile of air travel growth, with a strong second half in 2013 and relatively slower growth during the earlier months of 2014, has been driven by wider economic developments. World trade and industrial production accelerated during the second half of 2013, but that trend failed to continue in 2014, with growth slowing for both measures in Q1. Over the course of more recent months, however, there has been another pick-up in world trade activity, mainly in Emerging Asia.
- But the outlook for world trade activity contains some downside risks. Business confidence, a good leading indicator of trade activity and demand for business-related air travel, has not seen any improvement since mid-2014. Although the consensus view is that the global economic recovery will continue, these recent results suggest that the strength of the upturn is still weak and fragile.
- With respect to air travel growth, these developments suggest that there is still enough demand to sustain a positive trend over the coming months, but that further acceleration – particularly on some markets – is now unlikely.

Premium Passengers and World Trade Growth



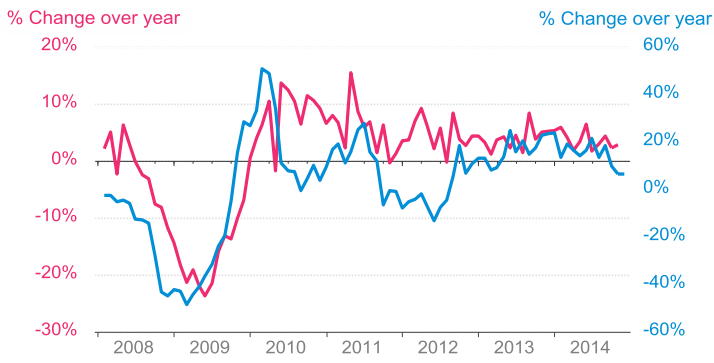
Source: IATA, Netherlands CPB

Premium Travel and Business Confidence



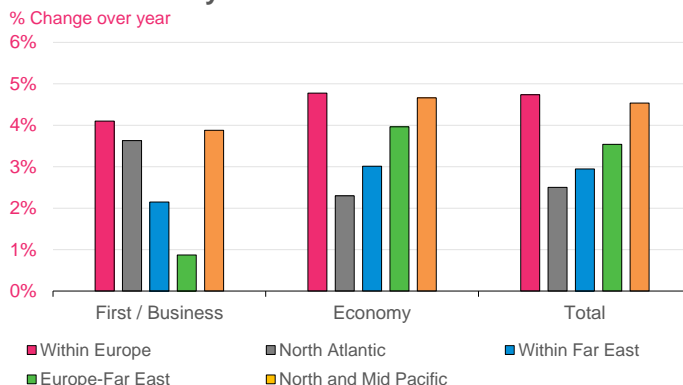
Source: IATA

Premium Travel & Global Financial Market Performance



Source: IATA, Thomson Reuters Datastream

Traffic Growth by Route - October 2014



Source: IATA

TRAFFIC GROWTH BY MAJOR ROUTE

- The within Far East market remains weak so far this year, but the October result was much better than the trend year-to-date. Total international travel within the Far East rose 2.9% in October year-on-year, compared to the weak expansion of 0.4% year-to-date. Trade in emerging Asia has been growing solidly over recent months, which has provided a boost to business-related air travel. However, performance of this market likely will be impacted by developments in China. Markit's Purchasing Managers Indices (PMI) have shown reason for concern with year-end data indicating weakness in domestic conditions in China, both in services and manufacturing.
- In addition, despite the recent weakening of the Eurozone economy, air travel within Europe rose 4.7% in October year-on-year, almost a percentage point above the trend growth so far this year. However, economic conditions in the region fragile at best. The Eurozone PMI of business activity improved slightly in December compared to November, but Q4 levels are down significantly relative to mid-2014.
- Longer-haul markets continue to increase, but performance in October showed signs of weakness compared to prior months. Growth on the North Atlantic market was 2.5% in October year-on-year, slower than the trend so far this year (3.6%), but still a notable contributor to the expansion in international passenger numbers. Premium revenues comprise a significant share (up to 47% on the North Atlantic market) on these markets. Total international air travel on the North and Mid Pacific market was up by a strong 4.5% in October compared to a year ago. Although this is down on growth year-to-date (6.7%), steadily improving demand conditions in the US have helped support both business and leisure travel growth on this market.
- Markets connected to the Middle East have also seen solid growth over recent months, particularly in premium class. Premium travel on Africa – Middle East, Europe – Middle East and Middle East – Far East all increased strongly in October year-on-year (11.2%, 8.2% and 11.3%, respectively). Major economies in the Middle East, including Saudi Arabia and the United Arab Emirates, continue to show robust economic performance. Markit measures of business activity (both manufacturing and services) show sustained economic growth ahead, with the latest whole economy PMI for the United Arab Emirates surging strongly at the start of Q4 to reach the highest level since the Indices' creation (2008).
- By contrast, the North America – South America total market has also been weak, falling 2.9% in October compared to a year ago. The weakness comes primarily from factors concerning South America. Part of the weakness is a result of regional carriers (US and South American) significantly reducing capacity to Venezuela over recent months due to challenges in repatriating funds held by the government. In addition, there are fundamental demand weaknesses – the Brazilian economy remains weak despite ending a technical recession in Q3 2014 and the crisis in Argentina is adding further downward pressure.

TRAFFIC GROWTH BY ROUTE – OCTOBER 2014

	Premium Traffic Growth		Economy Traffic Growth		Total Traffic Growth	
	Oct 14 vs. Oct 13	YTD 2014 vs. YTD 2013	Oct 14 vs. Oct 13	YTD 2014 vs. YTD 2013	Oct 14 vs. Oct 13	YTD 2014 vs. YTD 2013
Africa - Far East	-8.0%	-2.5%	-6.9%	-3.9%	-7.0%	-3.8%
Africa - Middle East	11.2%	10.1%	4.8%	6.4%	5.4%	6.7%
Europe - Africa	-1.5%	0.1%	1.0%	0.5%	0.7%	0.4%
Europe - Far East	0.9%	3.9%	4.0%	5.0%	3.5%	4.9%
Europe - Middle East	8.2%	7.8%	5.8%	7.6%	6.1%	7.6%
Far East - Southwest Pacific	3.0%	6.2%	-1.2%	-0.6%	-0.8%	0.1%
Mid Atlantic	18.3%	12.9%	10.4%	4.8%	11.2%	5.5%
Middle East - Far East	11.3%	9.7%	9.3%	9.3%	9.5%	9.4%
North America - Central America	2.9%	7.3%	5.4%	8.8%	5.2%	8.7%
North America - South America	-5.2%	1.4%	-2.6%	0.5%	-2.9%	0.6%
North and Mid Pacific	3.9%	5.2%	4.7%	6.9%	4.5%	6.7%
North Atlantic	3.6%	3.7%	2.3%	3.6%	2.5%	3.6%
Other routes	-3.4%	2.0%	-0.2%	5.1%	-0.4%	4.9%
South Atlantic	0.5%	-0.3%	1.0%	0.3%	0.9%	0.2%
South Pacific	-11.0%	-2.1%	-2.5%	-1.4%	-3.8%	-1.5%
Within Africa	-4.1%	-3.1%	-4.2%	-1.9%	-4.2%	-2.0%
Within Europe	4.1%	3.9%	4.8%	3.8%	4.7%	3.8%
Within Far East	2.1%	0.3%	3.0%	0.4%	2.9%	0.4%
Within North America	1.8%	2.3%	14.3%	4.4%	13.2%	4.3%
Within South America	-4.8%	-8.1%	2.8%	-2.5%	2.3%	-2.9%
Total	2.9%	3.6%	3.7%	3.6%	3.6%	3.6%

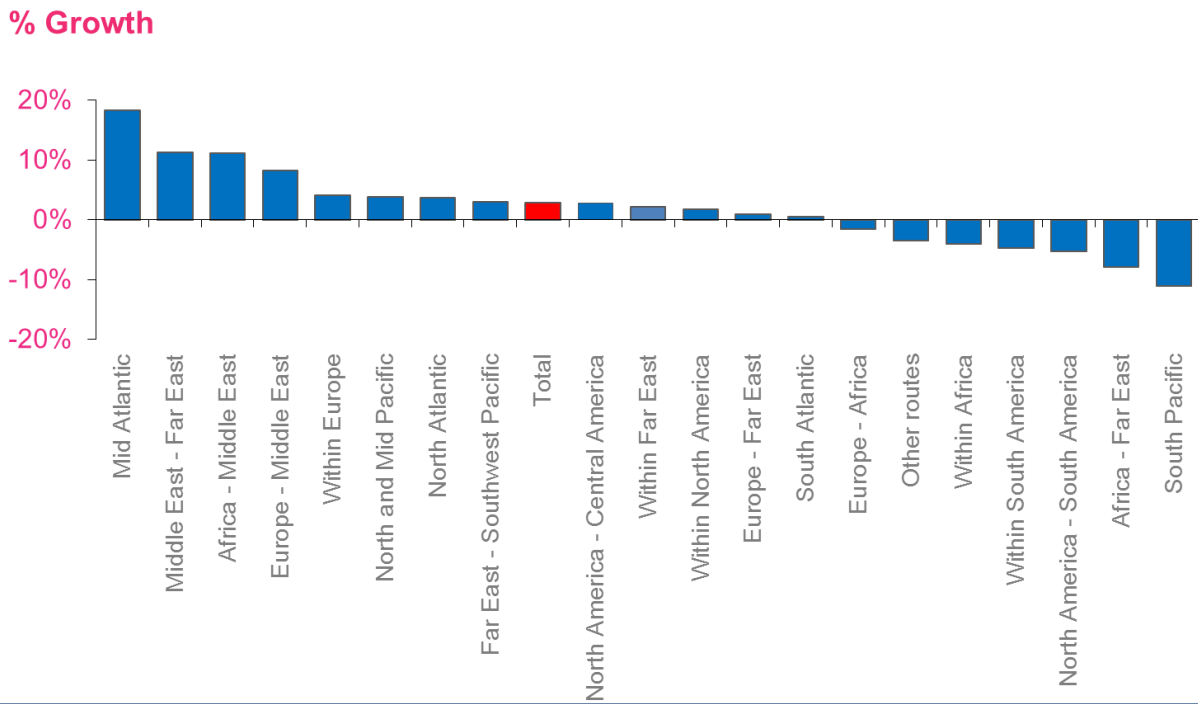
Source: IATA Origin-Destination Statistics

PREMIUM TRAFFIC BY ROUTE – PREVIOUS MONTH

	Share of Premium		Share of Total	
	Traffic	Revenues	Traffic	Revenue
Africa - Far East	0.6%	0.8%	8.0%	26.2%
Africa - Middle East	1.8%	1.1%	6.9%	21.2%
Europe - Africa	3.9%	7.4%	6.3%	30.9%
Europe - Far East	9.4%	14.2%	10.7%	37.6%
Europe - Middle East	4.7%	5.1%	10.6%	40.9%
Far East - Southwest Pacific	2.4%	2.7%	7.8%	27.3%
Mid Atlantic	1.0%	1.3%	7.7%	28.2%
Middle East - Far East	2.7%	1.8%	4.6%	15.9%
North America - Central America	2.0%	0.8%	4.1%	9.6%
North America - South America	2.4%	3.1%	11.2%	32.1%
North and Mid Pacific	5.4%	10.8%	12.2%	34.6%
North Atlantic	15.7%	25.6%	12.8%	45.5%
Other routes	5.6%	4.4%	7.7%	27.4%
South Atlantic	2.2%	3.5%	11.3%	33.1%
South Pacific	0.8%	1.9%	11.5%	39.2%
Within Africa	1.4%	0.6%	7.1%	18.6%
Within Europe	21.5%	6.9%	3.2%	10.2%
Within Far East	14.6%	7.3%	5.4%	15.5%
Within North America	0.8%	0.5%	2.7%	9.2%
Within South America	1.0%	0.3%	5.6%	10.2%
Total	100.0%	100.0%	5.9%	26.8%

Source: Diio, IATA

International Premium Traffic Growth by Route - Oct 2014



International Passenger Growth by Route - Oct 2014

