

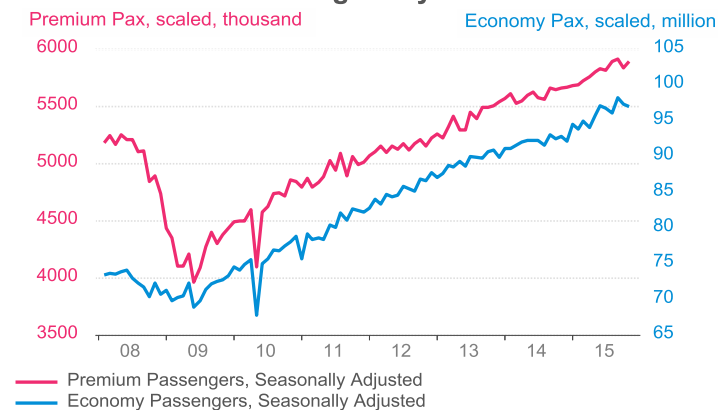
PREMIUM TRAFFIC MONITOR

OCTOBER 2015

KEY POINTS

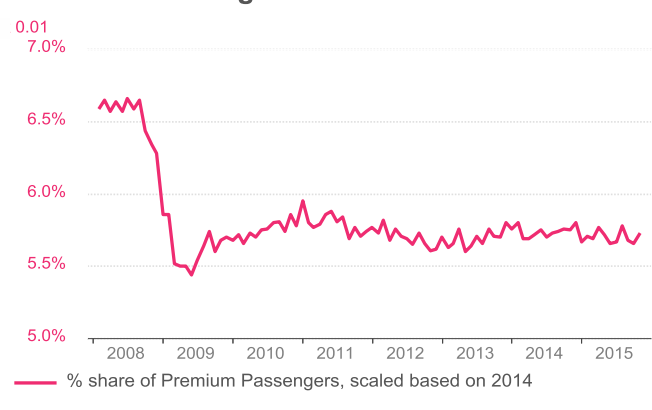
- ➔ Passenger travel on international markets was up 4.5% in October year-on-year, overall. For economy class travel, passenger numbers were up 4.6% but that was due to weakness in the year-ago period, rather than growth over the last month. Premium travel, by contrast, was supported by growth in volumes in October compared to September, rising 3.9% year-on-year;
- ➔ Since there can be notable volatility in the monthly passenger volumes, looking at a longer period can provide a better indication of the trend in air travel. The first chart below suggests that for 2015 so far, the trend has been broadly positive in both travel classes, and in fact growth in economy class travel has been relatively stronger. Weakness in business confidence has dampened demand for business-related air travel, while economy class travel – the more price sensitive travel market – has been supported by lower fares over recent months;
- ➔ At the route-level, during more recent months, growth has been supported by the Within Europe market, which includes segment traffic as part of longer-haul journeys. Air travel across the North Atlantic has also started to accelerate, up 6.9% in October year-on-year, which is a good sign for yields and revenues;
- ➔ However, weakness in air travel on the Within Far East market have been placing downward pressure on the industry growth trend. Slower than expected growth in China and weak trade activity have translated to declines in international air travel growth in the region;
- ➔ The outlook for international passenger growth remains mixed because the growth over recent months has been narrowly based, and supported mostly by the Within Europe and North Atlantic markets. Weakness in other regions, like Asia, remains a concern and is likely to keep international passenger growth from accelerating beyond current trends.

International Air Passengers by Seat Class



Source: IATA Monthly OD Statistics

Premium Passengers as % of Total

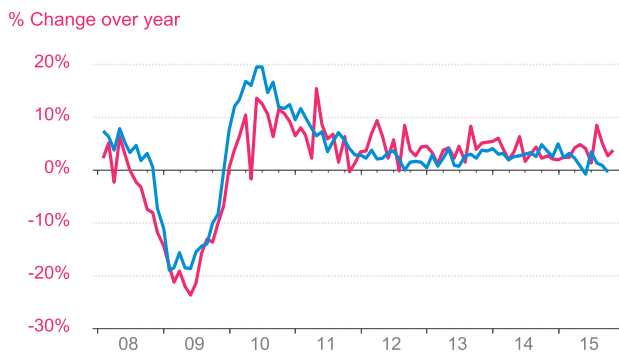


Source: IATA Monthly OD Statistics

- ➔ The first chart above shows developments in international air passenger numbers by seat class. Increases in economy class air travel volumes have been supported by the fall in oil prices, which has led to lower fares. Economy class leisure travel is more price sensitive than business-related premium class travel. Premium passenger numbers have been growing but at a relatively slower pace due to overall weakness in business travel demand drivers.
- ➔ Over the past few months, we have seen weakness on the Within Far East market, which suggests that recent adverse economic developments in parts of Asia have finally started to place downward pressure on air travel demand.
- ➔ In contrast, economic conditions have shown modest but steady improvement in the Eurozone, and that has supported growth in international air travel. Markit surveys of purchasing managers have shown that the Q3 average of business activity growth is the highest seen since the Q2 2011, despite weakness in major economy France. This positive trend has continued into Q4.

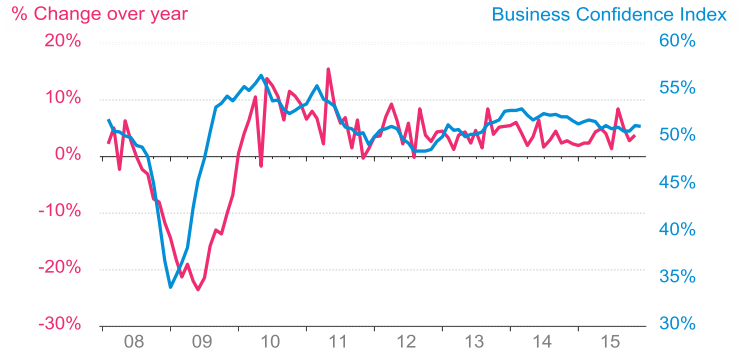
- In 2013 and early 2014, when premium travel was expanding at a faster pace than economy travel, there was a slight boost to the share of premium travel from total travel. This was positive for airline yield growth and revenues. That trend did not continue into 2015, with relatively stronger growth in economy class travel placing downward pressure on the share of premium seats from the total. As noted in the previous section, economy class leisure travel, the relatively more price sensitive travel market, has been given a boost by falling fares.
- Even though there has been no gain in premium's share of total traffic, growth on longer-haul markets has been robust. This has helped to support premium yields on some markets. In turn, this has supported the financial performance of the longer-haul network airlines, compared to shorter-haul, mainly leisure travel-focused, airlines in some, though not all, regions.
- At the start of 2015, we were seeing the negative impacts of earlier economic developments. World trade and industrial production accelerated during parts of 2014, but that trend failed to continue through to the end of the year – the lagged impact of that weakness in late 2014 was apparent in the sluggish growth trend for premium travel at the start of 2015. Improvements in advanced economies, particularly in Europe, started to revive the trend in international air travel (both travel classes) toward the end of Q1 2015. These positive developments remain intact, and although weakness in major Asian economies has been placing downward pressure on the Within Far East market, improvements in the Eurozone have supported growth in international air travel.

Premium Passengers and World Trade Growth



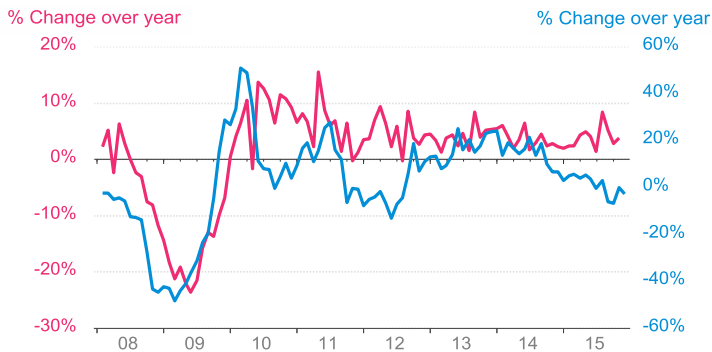
Source: IATA Monthly OD Statistics, Netherlands CPB

Premium Travel and Business Confidence



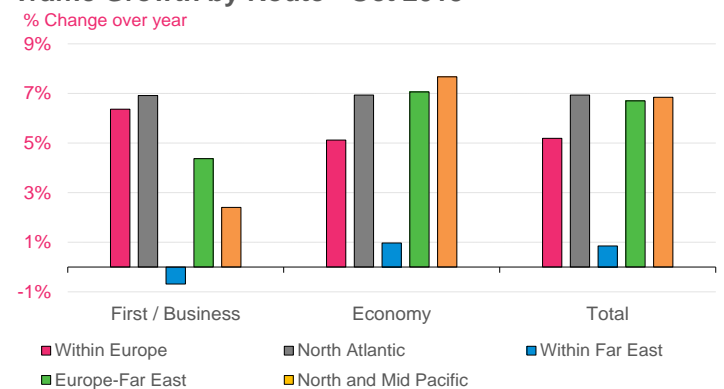
Source: IATA Monthly OD Statistics, Markit PMI

Premium Travel & Global Financial Market Performance



Source: IATA Monthly OD Statistics, Thomson Reuters Datastream

Traffic Growth by Route - Oct 2015



Source: IATA Monthly OD Statistics

TRAFFIC GROWTH BY MAJOR ROUTE

- ➔ Premium class travel was up 3.9% in October year-on-year, an improvement on the 2.9% result in September. The acceleration in premium passenger growth was mostly driven by a pick-up on the North Atlantic market, which was up 6.9% year-on-year. Although it is not clear if the US economy has recovered adequately from the recession to tolerate an increase in interest rates, indicators continue to suggest that improvements are on track, which bodes well for air travel demand. And while economic conditions in the Eurozone remain fragile, growth has been positive and steady for several months now. Better performance of Eurozone economies has helped support business-related air travel across the North Atlantic.
- ➔ The progress in the Eurozone economy has also helped premium travel growth within Europe, which was up 6.4% in October year-on-year. Economy class travel rose at a slightly slower 5.1% rate, but still above the 4.0% trend year-to-date growth rate. It is important to remember that this market includes segment traffic as part of longer-haul journeys as well, so part of the growth is reflecting stronger demand for travel that includes a segment within Europe.
- ➔ Overall growth in international air travel has been hampered by weakness in Asia. The Within Far East market was among the weakest performers in October, up just 0.9% year-on-year. This is consistent with economic weakness in some key Asian markets and sluggish trade to/from the region. In China, a slump in exports this year has weakened manufacturing activity, and placed downward pressure on business-related premium travel within the Far East as well as markets connected to the region.
- ➔ Air travel on markets connected to the Middle East continue to show mixed results. International air travel growth on Europe-Middle East was up 5.4% in October. In contrast, Africa – Middle East and Middle East – Far East were relatively weaker, +0.8% and -1.2%, respectively. This is likely due to adverse economic and political developments in Asia and Africa rather than any major downturn in the Middle East. After a decline in the first half of 2015, Q3 data from purchasing managers (Markit) pointed to further gains in business conditions across the non-oil producing private sectors of the UAE and Saudi Arabia, and this should help sustain solid expansion in air passenger demand for local carriers.

IATA Economics
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21st December 2015



ANNEX:

TRAFFIC GROWTH BY ROUTE – OCTOBER 2015

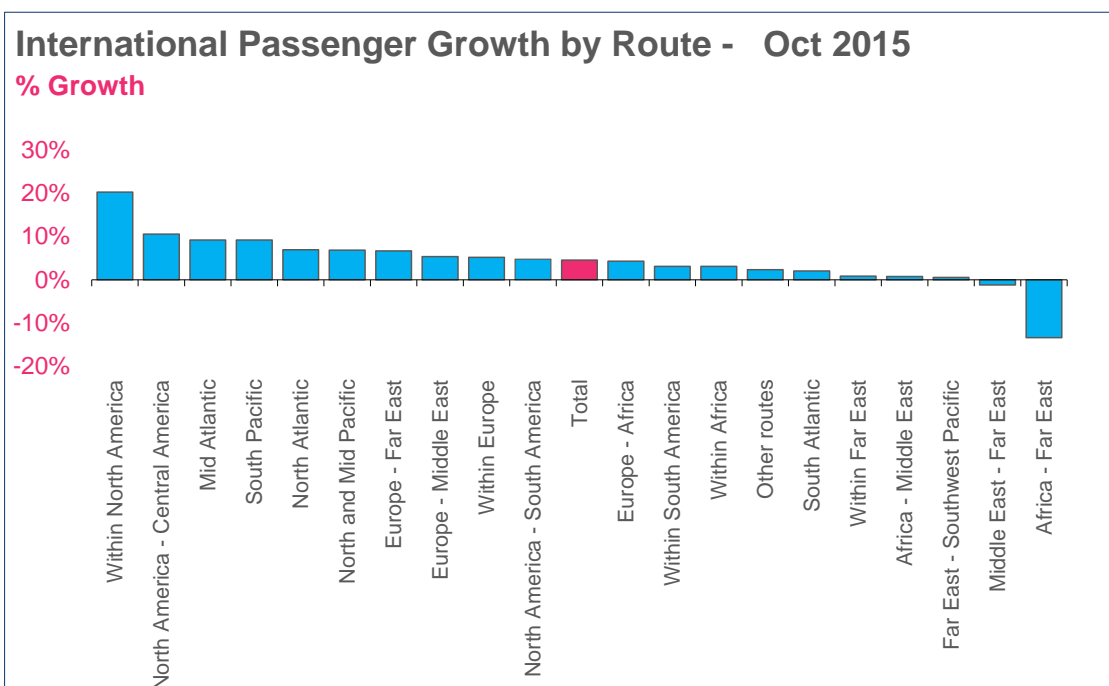
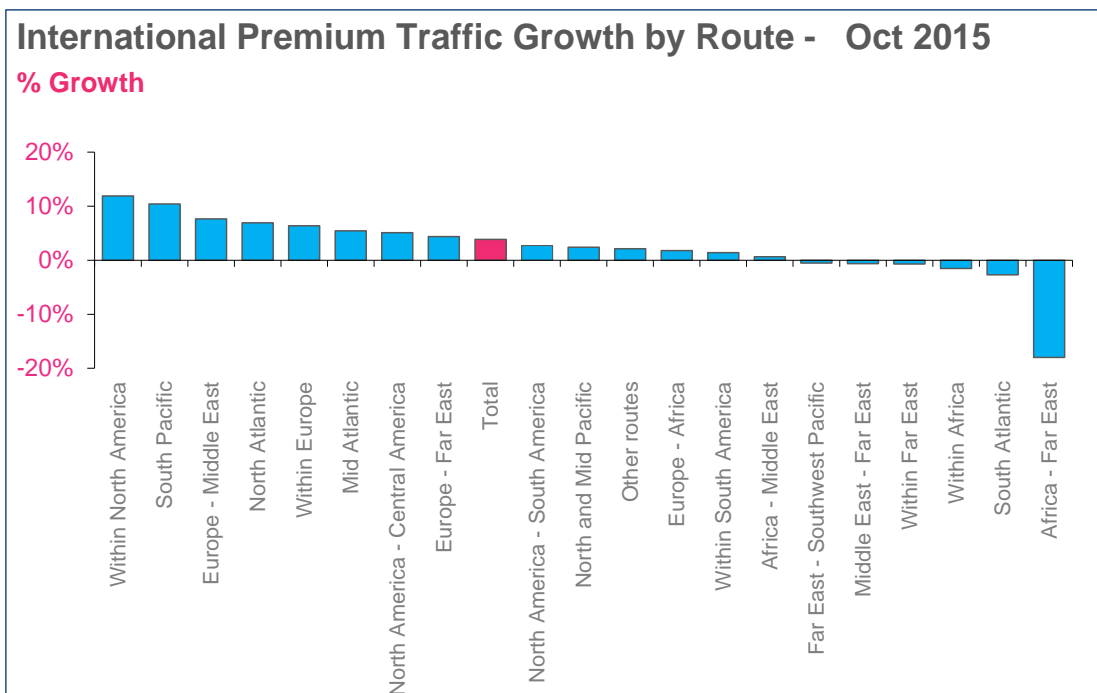
	Premium Traffic Growth		Economy Traffic Growth		Total Traffic Growth	
	Oct 15 vs. Oct 14	YTD 2015 vs. YTD 2014	Oct 15 vs. Oct 14	YTD 2015 vs. YTD 2014	Oct 15 vs. Oct 14	YTD 2015 vs. YTD 2014
Africa - Far East	-18.0%	-17.2%	-12.9%	-12.5%	-13.4%	-12.9%
Africa - Middle East	0.7%	7.7%	0.8%	6.0%	0.8%	6.2%
Europe - Africa	1.8%	-3.2%	4.6%	0.6%	4.3%	0.2%
Europe - Far East	4.4%	2.9%	7.1%	5.1%	6.7%	4.8%
Europe - Middle East	7.6%	8.0%	5.1%	8.7%	5.4%	8.6%
Far East - Southwest Pacific	-0.5%	3.9%	0.7%	4.6%	0.6%	4.5%
Mid Atlantic	5.4%	9.8%	9.6%	7.5%	9.2%	7.8%
Middle East - Far East	-0.6%	5.2%	-1.3%	4.8%	-1.2%	4.8%
North America - Central America	5.1%	3.0%	11.2%	6.7%	10.6%	6.4%
North America - South America	2.7%	-4.6%	5.1%	-0.5%	4.8%	-1.0%
North and Mid Pacific	2.4%	2.2%	7.7%	5.6%	6.8%	5.2%
North Atlantic	6.9%	4.8%	6.9%	4.6%	6.9%	4.6%
Other routes	2.1%	1.7%	2.4%	6.6%	2.4%	6.2%
South Atlantic	-2.7%	-1.2%	2.7%	1.3%	2.0%	1.0%
South Pacific	10.4%	7.3%	9.0%	8.4%	9.2%	8.3%
Within Africa	-1.5%	-5.6%	3.6%	-3.9%	3.1%	-4.1%
Within Europe	6.4%	7.0%	5.1%	4.0%	5.2%	4.1%
Within Far East	-0.7%	5.0%	1.0%	6.2%	0.9%	6.1%
Within North America	11.9%	4.1%	20.9%	13.0%	20.2%	12.2%
Within South America	1.4%	-0.3%	3.2%	4.5%	3.1%	4.2%
Total	3.9%	4.0%	4.6%	4.8%	4.5%	4.7%

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%	7.7%	24.3%
Africa - Middle East	1.9%	1.1%	6.5%	19.8%
Europe - Africa	3.8%	7.0%	5.8%	30.2%
Europe - Far East	9.8%	14.8%	10.6%	37.8%
Europe - Middle East	4.9%	5.6%	9.6%	38.4%
Far East - Southwest Pacific	2.5%	2.7%	7.4%	25.7%
Mid Atlantic	1.3%	1.5%	8.5%	27.0%
Middle East - Far East	2.6%	1.8%	4.0%	14.0%
North America - Central America	2.2%	1.0%	3.9%	9.7%
North America - South America	2.3%	2.8%	10.4%	26.3%
North and Mid Pacific	5.6%	10.8%	11.5%	34.0%
North Atlantic	15.5%	25.7%	12.2%	44.1%
Other routes	5.9%	4.6%	7.1%	25.0%
South Atlantic	2.4%	3.4%	12.2%	34.6%
South Pacific	0.8%	1.8%	10.1%	35.7%
Within Africa	1.6%	0.7%	7.6%	19.4%
Within Europe	20.3%	6.1%	2.8%	8.5%
Within Far East	14.6%	7.2%	4.9%	14.3%
Within North America	0.8%	0.5%	2.6%	8.7%
Within South America	0.7%	0.3%	4.2%	9.1%
Total	100.0%	100.0%	5.5%	25.4%

Source: Diio, IATA



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