

PREMIUM TRAFFIC MONITOR

SEPTEMBER 2015

KEY POINTS

- ➔ Passenger travel on international markets was up 5.1% in September year-on-year, similar to the August 5.4% result. But the September rise is due to weakness in the year ago period, rather than growth over the month. Looking at the results by travel class, premium travel rose just 2.9% year-on-year, down from 5.3% in August, reflecting weakness on markets connected to the Far East;
- ➔ International passenger numbers, as presented in the first chart below, continue to show a broadly positive trend for both economy and business travel classes in 2015, despite a fall in volumes in both travel classes in September compared to August. But economy class travel – the more price sensitive travel market – has experienced slightly stronger growth so far this year, supported by lower fares over recent months;
- ➔ Growth in premium international travel has been relatively slower due to weakness in business travel demand drivers, with global business confidence being dragged down by emerging markets;
- ➔ In both travel classes, growth has been supported by the Within Europe market during recent months, which includes segment traffic as part of longer haul journeys. Air travel across the North Atlantic has also started to accelerate, up 6.3% year-on-year, which is a good sign for yields and revenues;
- ➔ However, declines in air travel on the Within Far East market have placed downward pressure on the industry growth trend. Deteriorating economic performance of some key economies in the region is taking a toll on air travel demand;
- ➔ 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. Moreover, growth on other markets like the Within Far East has decelerated recently and, given continued weakness in business confidence and trade, the demand environment remains fragile.

International Air Passengers by Seat Class



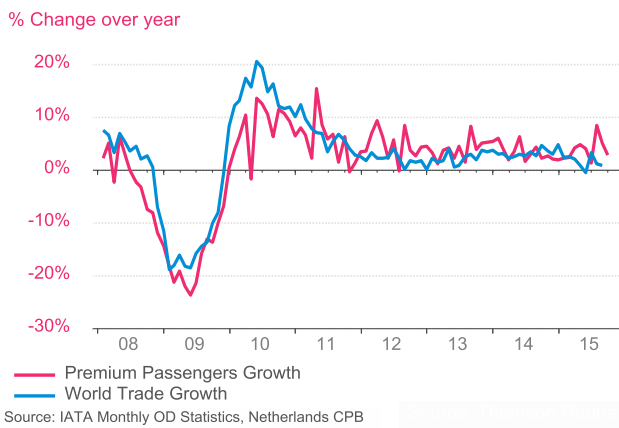
Premium Passengers as % of Total



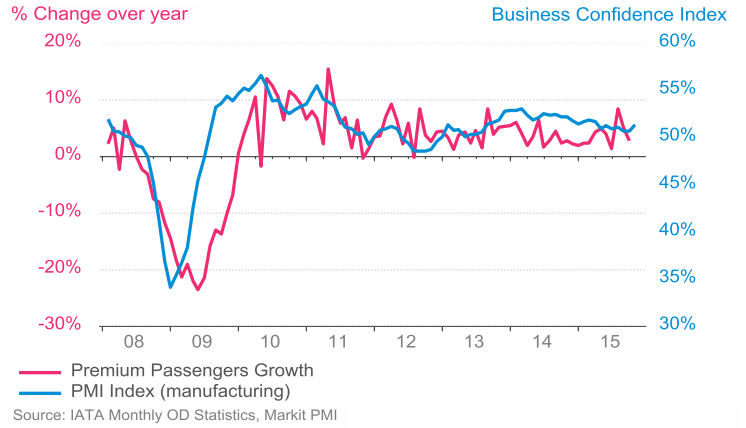
- ➔ The first chart above shows developments in international air passenger numbers by seat class. Increases in economy class air travel volumes have been supported by the fall in oil prices, which has led to lower fares. Economy class leisure travel is more price sensitive than business-related premium 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, 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.

- In 2013 and early 2014, when premium travel was expanding at a faster pace than economy travel, there was a boost to the share of premium travel from total travel. This was positive for airline yield growth and revenues. That trend reversed in 2015, with relatively stronger growth in economy class travel placing downward pressure on the share of premium seats from the total. As noted above, 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 marked 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.

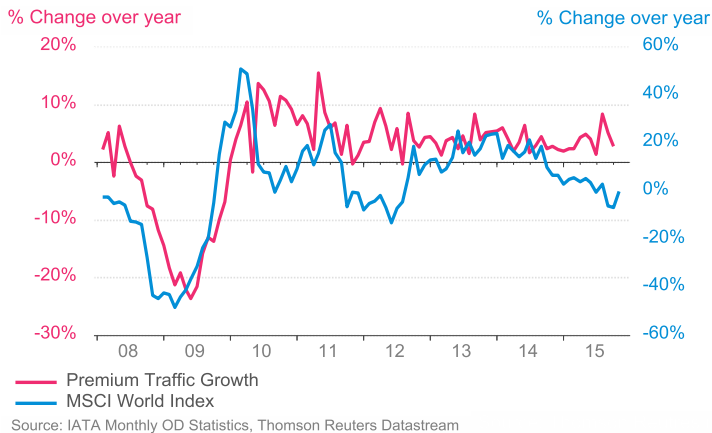
Premium Passengers and World Trade Growth



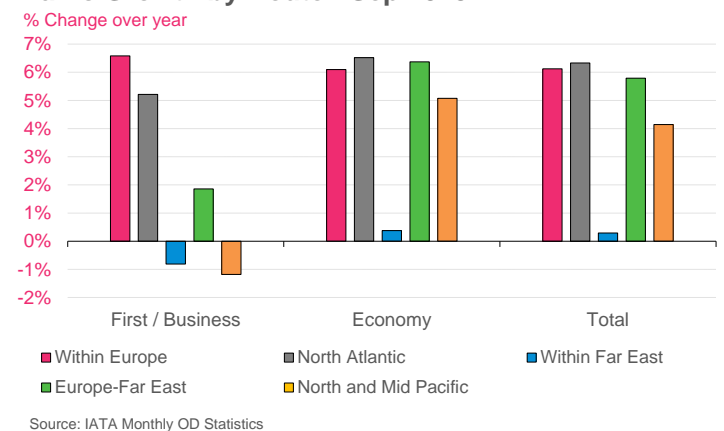
Premium Travel and Business Confidence



Premium Travel & Global Financial Market Performance



Traffic Growth by Route - Sep 2015



TRAFFIC GROWTH BY MAJOR ROUTE

- ➔ Premium class travel was up 2.9% in September year-on-year, down on the 5.3% result in August. The slowdown is mostly a result of weakness on markets connected to Asia. Within Far East, North and Mid Pacific and Middle East – Far East all contracted in September, down 0.8%, 1.2% and 3.6%, respectively. These results are 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.
- ➔ Economic conditions in the Eurozone remain fragile, but growth has been slow and steady for several months now. In fact, 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. Premium travel growth within Europe was up 6.6% in September year-on-year. Economy class travel rose at a slightly slower 6.1% rate, but still above the 3.8% 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.
- ➔ Improvements in the Eurozone have also given a boost to business-related travel across the North Atlantic. Premium travel rose 5.2% in September year-on-year, above the 4.6% growth trend so far this year. This is a key market, representing 36.8% of total international travel revenues. The acceleration in demand will be beneficial to yields and financial performance of carriers serving this market.
- ➔ Air travel on markets connected to the Middle East are showing mixed results in September. International air travel growth on Europe-Middle East was up strongly, 9.4% in September. In contrast, Africa – Middle East and Middle East – Far East were relatively weaker, up 2.9% and 1.2%, respectively. This is likely due to adverse developments in Asia and Africa, rather than any major downturn in the Middle East. Although key economies in the Middle East, including Saudi Arabia and the United Arab Emirates, have seen notable declines in non-oil sectors throughout 2015 (Markit), the rates of economic growth remain robust and this should help to support growth in air travel demand to/from the region.

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ANNEX:

TRAFFIC GROWTH BY ROUTE – AUGUST 2015

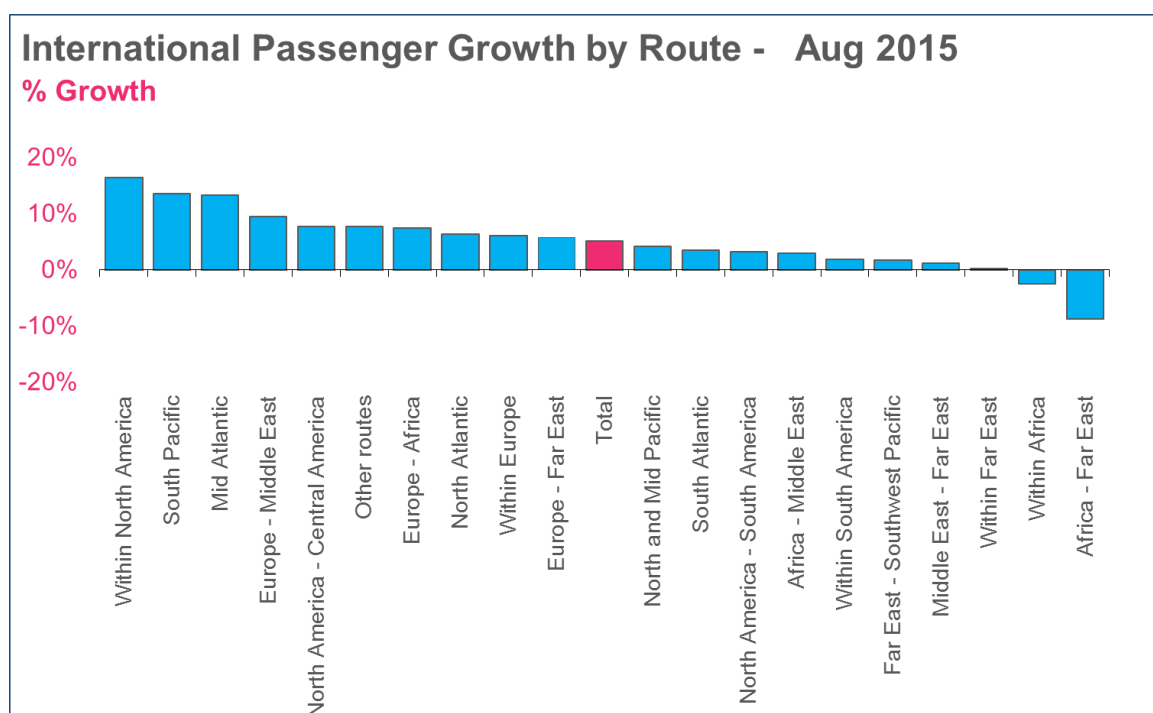
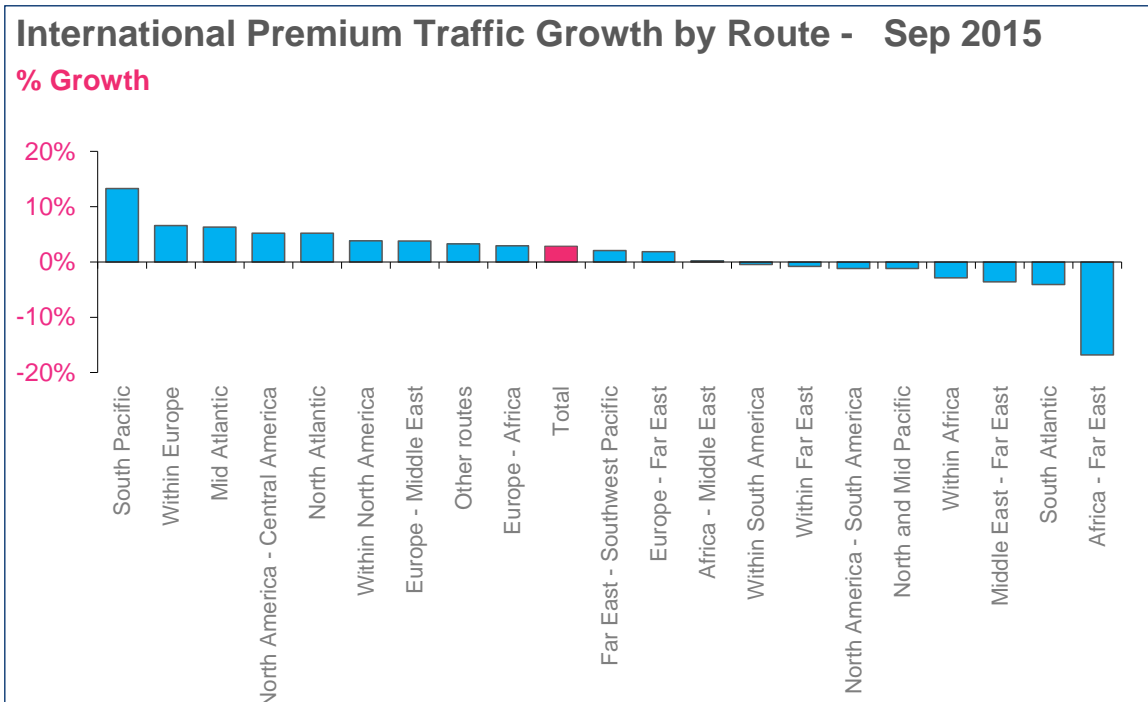
	Premium Traffic Growth		Economy Traffic Growth		Total Traffic Growth	
	Sep 15 vs. Sep 14	YTD 2015 vs. YTD 2014	Sep 15 vs. Sep 14	YTD 2015 vs. YTD 2014	Sep 15 vs. Sep 14	YTD 2015 vs. YTD 2014
Africa - Far East	-16.8%	-17.1%	-8.0%	-12.5%	-8.8%	-12.9%
Africa - Middle East	0.2%	8.5%	3.2%	6.6%	2.9%	6.7%
Europe - Africa	2.9%	-3.7%	8.0%	0.2%	7.4%	-0.3%
Europe - Far East	1.9%	2.7%	6.4%	4.9%	5.8%	4.6%
Europe - Middle East	3.8%	8.1%	10.2%	9.1%	9.4%	9.0%
Far East - Southwest Pacific	2.1%	4.4%	1.6%	5.0%	1.7%	4.9%
Mid Atlantic	6.3%	10.3%	14.0%	7.3%	13.2%	7.6%
Middle East - Far East	-3.6%	5.9%	1.7%	5.4%	1.2%	5.5%
North America - Central America	5.2%	2.8%	8.0%	6.4%	7.8%	6.0%
North America - South America	-1.2%	-5.4%	3.9%	-1.1%	3.3%	-1.6%
North and Mid Pacific	-1.2%	2.2%	5.1%	5.4%	4.1%	5.0%
North Atlantic	5.2%	4.6%	6.5%	4.4%	6.3%	4.4%
Other routes	3.3%	1.6%	8.1%	7.1%	7.7%	6.6%
South Atlantic	-4.1%	-1.0%	4.4%	1.1%	3.4%	0.9%
South Pacific	13.3%	7.0%	13.6%	8.4%	13.6%	8.2%
Within Africa	-2.9%	-6.0%	-2.5%	-4.7%	-2.5%	-4.8%
Within Europe	6.6%	7.0%	6.1%	3.8%	6.1%	4.0%
Within Far East	-0.8%	5.7%	0.4%	6.7%	0.3%	6.6%
Within North America	3.8%	3.4%	17.6%	12.2%	16.5%	11.4%
Within South America	-0.5%	-0.5%	2.0%	4.7%	1.9%	4.4%
Total	2.9%	4.0%	5.3%	4.8%	5.1%	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	0.7%	0.9%	8.2%	25.0%
Africa - Middle East	1.9%	1.2%	6.1%	19.0%
Europe - Africa	3.8%	7.1%	5.0%	25.6%
Europe - Far East	8.6%	13.1%	8.1%	30.7%
Europe - Middle East	5.0%	6.0%	8.2%	35.2%
Far East - Southwest Pacific	2.5%	2.9%	7.6%	25.4%
Mid Atlantic	1.3%	1.8%	6.3%	23.7%
Middle East - Far East	2.8%	1.9%	4.1%	13.1%
North America - Central America	3.2%	1.5%	3.8%	8.9%
North America - South America	2.2%	2.9%	8.8%	24.2%
North and Mid Pacific	5.9%	12.0%	10.4%	30.5%
North Atlantic	14.1%	23.9%	9.8%	36.8%
Other routes	5.3%	4.1%	6.2%	22.8%
South Atlantic	2.0%	3.0%	9.7%	29.8%
South Pacific	0.7%	1.6%	10.0%	35.0%
Within Africa	1.7%	0.7%	7.3%	18.9%
Within Europe	21.0%	6.3%	2.7%	7.9%
Within Far East	15.7%	8.1%	4.7%	13.5%
Within North America	0.8%	0.5%	2.2%	7.2%
Within South America	0.8%	0.3%	4.4%	9.5%
Total	100.0%	100.0%	5.0%	22.1%

Source: Diio, IATA



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