

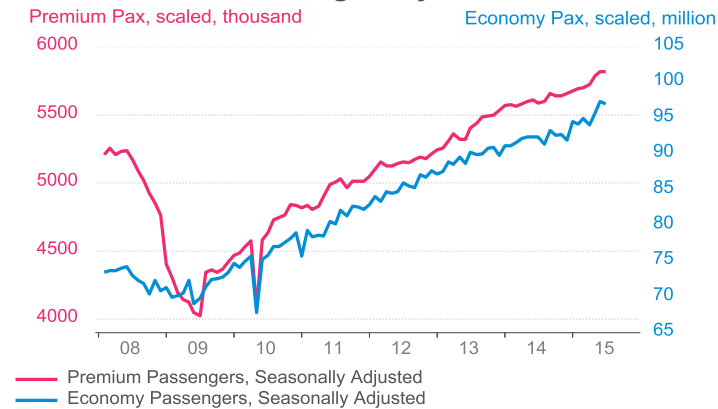
# PREMIUM TRAFFIC MONITOR

## JUNE 2015

### KEY POINTS

- ➔ Passenger travel on international markets rose by just 3.0% in June compared to a year ago, decelerating significantly on the May increase of 6.2% year-on-year. Economy class travel grew at a stronger rate than premium international air travel, but both classes experienced a notable slowdown within the Far East region;
- ➔ Economy class travel rose 3.2% in June year-on-year, a slowdown on May growth of 6.4%. Growth in economy class travel – the more price sensitive travel market – has been supported by lower fares over recent months;
- ➔ Premium travel was up just 1.4% in June year-on-year, down from May growth of 4.1%. Growth in premium travel has been reflecting continued weakness in business travel demand drivers, with global business confidence being dragged down by emerging markets;
- ➔ In June, the subdued performance in both travel classes was mostly a result of slow growth within the Far East. This result could be the first sign of weakness in air travel demand following months of sluggish economic performance in some parts of Asia;
- ➔ Looking ahead, although improvements in the Eurozone economy have translated into stronger demand for travel in both premium and economy classes over recent months, weakness in emerging markets could counter this positive trend. The June data suggests downside risks may already be materializing.

**International Air Passengers by Seat Class**



**Premium Passengers as % of Total**



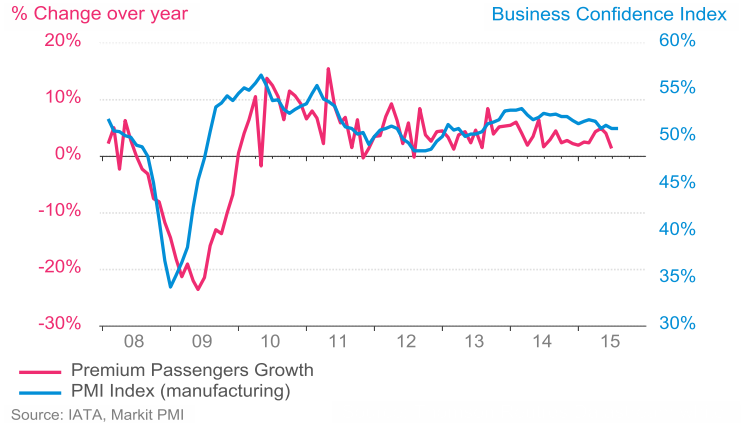
- ➔ The first chart above shows developments in international air passenger numbers by seat class. Increases in economy class air travel volumes have been supported by the fall in oil prices, which has led to lower fares. Economy class leisure travel is more price sensitive than business-related premium class travel. Premium passenger numbers have been growing but at a relatively slower pace due to overall weakness in business travel demand drivers. In June, volumes in both premium and economy class travel fell compared to May.
- ➔ The weakness was primarily concentrated 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. Surveys of purchasing managers by JP Morgan show that business activity in emerging economies has now dipped into contractionary territory – largely driven by developments in China.

- In 2013 and during earlier parts of 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 has reversed during the recent past, 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 support premium yields on some markets, which in turn 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.
- The profile of air travel growth was starting to show improvements prior to June, driven by better demand conditions in some 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 were 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. Although those positive developments remain intact, June data have shown some reversal of the improvements in prior months, likely owing to the slowdown in emerging markets.

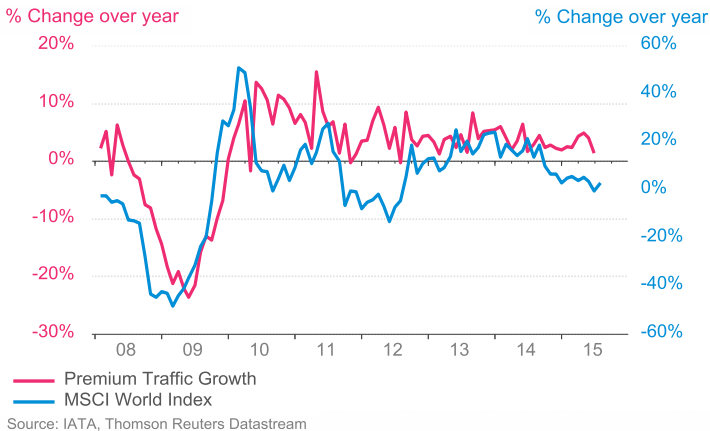
### Premium Passengers and World Trade Growth



### Premium Travel and Business Confidence



### Premium Travel & Global Financial Market Performance



### Traffic Growth by Route - Jun 2015



## TRAFFIC GROWTH BY MAJOR ROUTE

- ➔ Results for the Within Far East market eased significantly in June, with growth of just 2.4% year-on-year, compared to 13.8% in May. The June result could be the first sign of weakness in air travel demand, which would be consistent with weakening economic growth in some key economies and declines in trade to/from the region. In China, a slump in Chinese exports has weakened manufacturing for the past several months, and trade to/from the region overall was down 8% in May compared to the end of 2014. Forward-looking indicators like export orders point to continued weakness in trade activity for the region.
- ➔ Economic conditions in the Eurozone remain fragile in the midst of ongoing troubles with the Greek economy, but there have been some positive developments with early Q3 data showing increases in business activity. Efforts by the ECB to stimulate economic growth have led to an improvement in business and consumer sentiment in the region and this has now started to translate to stronger demand for air travel with the region. Premium travel growth within Europe was up 6.6% in June year-on-year. Economy class travel rose at a slower 3.1% rate, but is still above the trend year-to-date growth rate.
- ➔ Markets connected to the Middle East have also seen solid growth over recent months, particularly in premium class. Major economies in the Middle East, including Saudi Arabia and the United Arab Emirates, have seen notable declines in non-oil sectors in Q2 2015 (Markit), but the rates of economic growth remain robust and this should help to sustain solid growth in air travel demand to/from the region. The June result for markets connected to the Middle East was weakened due to the timing of Ramadan, which started in June this year and took place mostly in July in 2014; the holy month tends to subdue demand for air travel. International air travel growth on Africa-Middle East (4.6%), Europe-Middle East (3.5%) and Middle East-Far East (-0.1%) were all slower in June when compared to their respective year-to-date trends.

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18<sup>th</sup> August 2015

## ANNEX:

### TRAFFIC GROWTH BY ROUTE – JUNE 2015

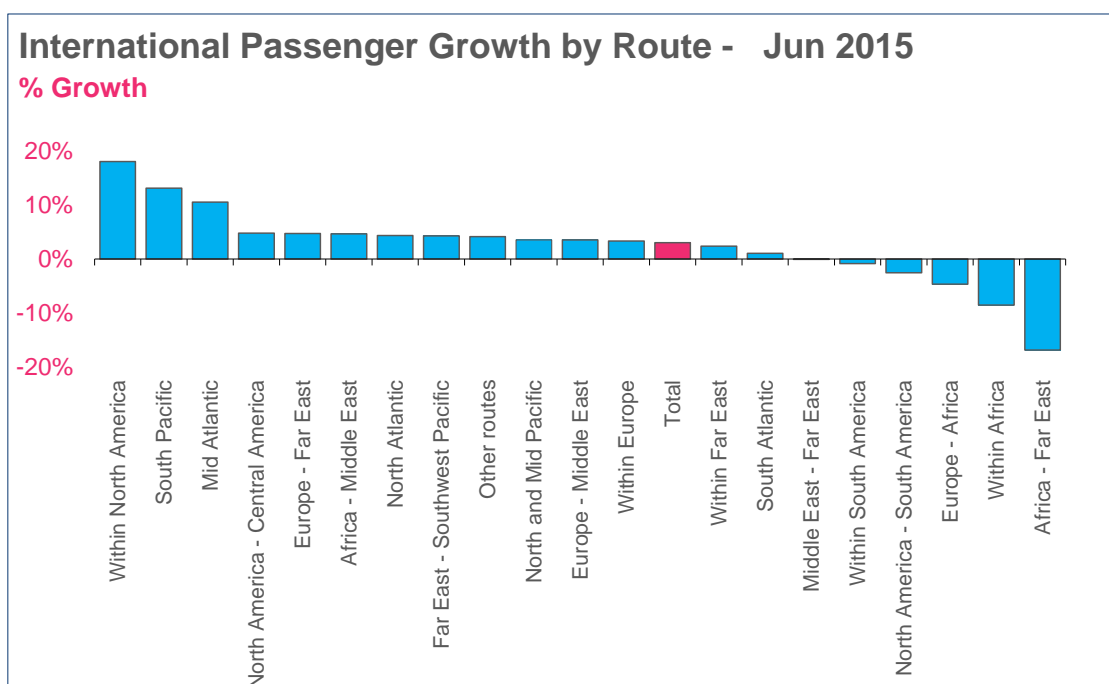
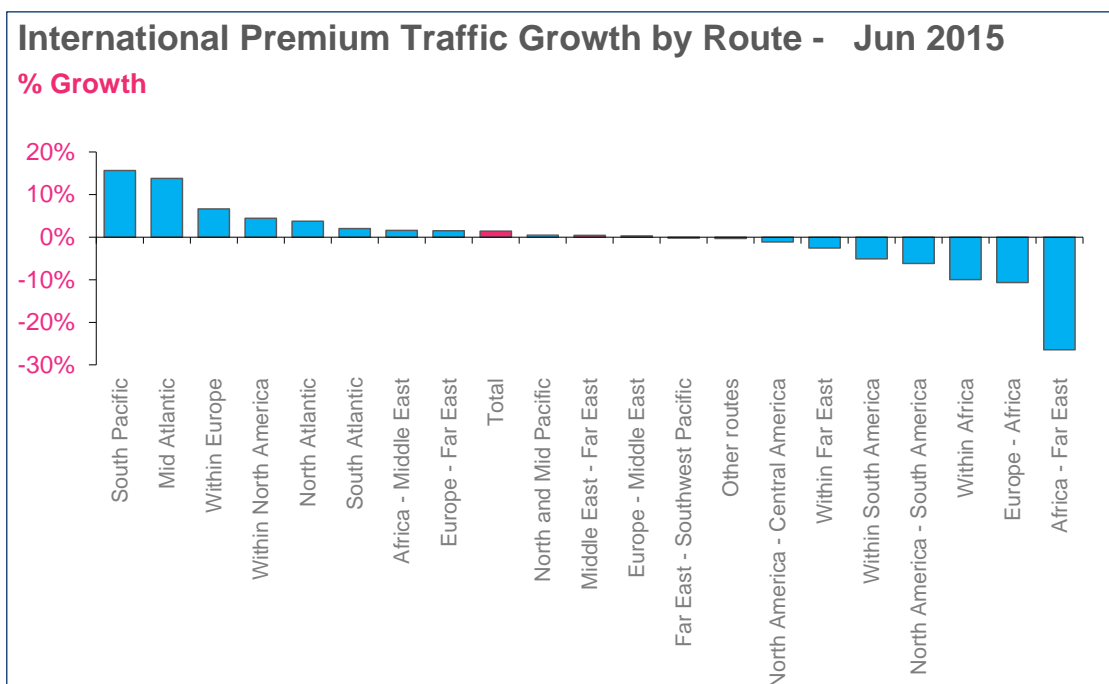
	Premium Traffic Growth		Economy Traffic Growth		Total Traffic Growth	
	Jun 15 vs. Jun 14	YTD 2015 vs. YTD 2014	Jun 15 vs. Jun 14	YTD 2015 vs. YTD 2014	Jun 15 vs. Jun 14	YTD 2015 vs. YTD 2014
Africa - Far East	-26.5%	-17.0%	-15.9%	-11.9%	-16.9%	-12.3%
Africa - Middle East	1.6%	8.7%	5.0%	6.6%	4.6%	6.8%
Europe - Africa	-10.7%	-5.5%	-3.9%	-1.8%	-4.7%	-2.2%
Europe - Far East	1.5%	2.2%	5.2%	4.1%	4.7%	3.9%
Europe - Middle East	0.3%	6.0%	3.9%	6.2%	3.5%	6.2%
Far East - Southwest Pacific	-0.2%	4.9%	4.8%	6.5%	4.3%	6.3%
Mid Atlantic	13.8%	10.0%	10.2%	5.8%	10.5%	6.2%
Middle East - Far East	0.4%	6.7%	-0.1%	5.1%	-0.1%	5.3%
North America - Central America	-1.1%	1.9%	5.4%	6.7%	4.8%	6.2%
North America - South America	-6.2%	-7.5%	-2.1%	-3.8%	-2.6%	-4.3%
North and Mid Pacific	0.5%	2.6%	4.0%	5.7%	3.5%	5.2%
North Atlantic	3.8%	3.3%	4.4%	2.6%	4.3%	2.7%
Other routes	-0.3%	-0.9%	4.6%	5.1%	4.1%	4.6%
South Atlantic	2.0%	-0.4%	0.9%	0.4%	1.0%	0.3%
South Pacific	15.7%	2.7%	12.8%	5.6%	13.1%	5.2%
Within Africa	-10.0%	-6.0%	-8.4%	-4.7%	-8.6%	-4.8%
Within Europe	6.6%	5.0%	3.1%	2.4%	3.3%	2.6%
Within Far East	-2.5%	7.8%	2.7%	10.0%	2.4%	9.8%
Within North America	4.5%	3.5%	19.4%	10.5%	18.1%	9.9%
Within South America	-5.1%	0.3%	-0.6%	5.9%	-0.9%	5.6%
<b>Total</b>	<b>1.4%</b>	<b>3.3%</b>	<b>3.2%</b>	<b>4.4%</b>	<b>3.0%</b>	<b>4.3%</b>

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%	7.8%	26.7%
Africa - Middle East	1.7%	1.1%	7.1%	24.1%
Europe - Africa	3.8%	6.8%	7.0%	36.3%
Europe - Far East	9.0%	13.3%	11.0%	41.9%
Europe - Middle East	4.7%	5.1%	10.3%	44.2%
Far East - Southwest Pacific	2.4%	2.7%	8.1%	28.7%
Mid Atlantic	1.2%	1.6%	7.5%	30.0%
Middle East - Far East	2.5%	1.7%	4.0%	14.1%
North America - Central America	2.9%	1.3%	3.9%	9.6%
North America - South America	2.3%	3.2%	10.7%	31.3%
North and Mid Pacific	6.2%	12.4%	12.8%	39.4%
North Atlantic	16.2%	26.4%	13.7%	49.2%
Other routes	5.5%	4.2%	7.4%	26.9%
South Atlantic	2.1%	3.1%	12.1%	36.5%
South Pacific	0.8%	2.0%	12.8%	42.4%
Within Africa	1.5%	0.6%	7.7%	21.2%
Within Europe	19.8%	5.2%	3.0%	9.6%
Within Far East	15.2%	7.7%	5.0%	15.2%
Within North America	0.8%	0.5%	2.4%	8.8%
Within South America	0.7%	0.3%	4.7%	10.5%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>5.9%</b>	<b>28.3%</b>

Source: Diio, IATA



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