

MONTHLY TRAFFIC ANALYSIS

JULY 2009

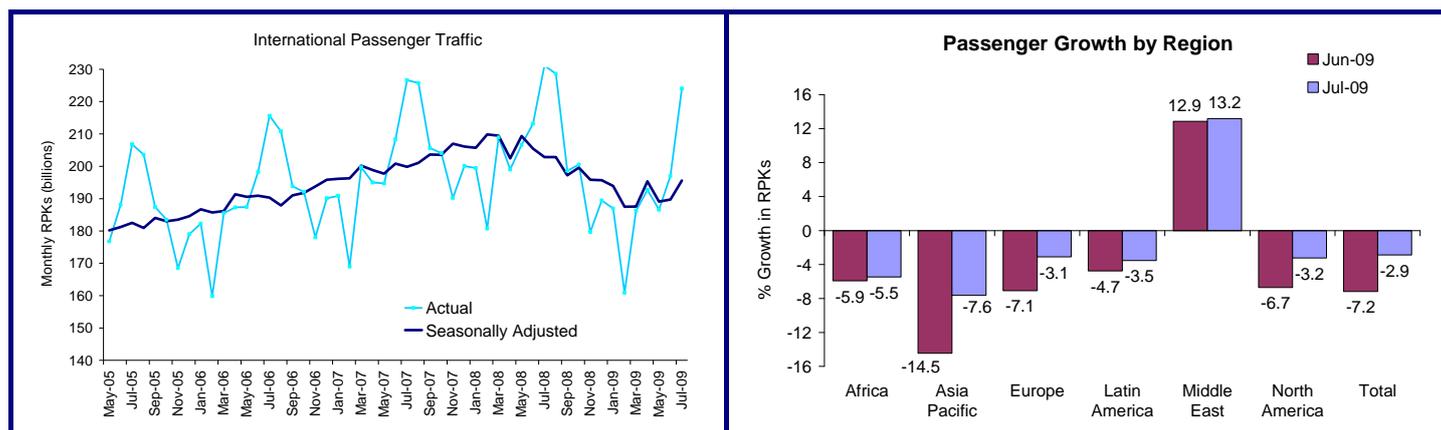
KEY POINTS

- There was an improvement in passenger travel and air freight during July, albeit from exceptionally depressed levels. Both markets are still below levels seen at the same time last year, but activity has risen materially since June.
- Passenger kilometers flown on international markets were down 2.9% in July, compared with a 7.2% decline in June. The improvement is clear when compared with the first seven months of the year when air travel volumes were down 6.8%.
- Freight tonne kilometers flown were down 11.3% in July, after a 16.5% fall in June. During the first seven months of the year air freight volumes were down 19.3%.
- Comparing air travel and freight volumes in July, after adjusting for seasonal fluctuations, with the level in June shows both up more than 3%. The data can be rather volatile but this does confirm earlier signs that a recovery in demand for air transport has begun, though there are good reasons for expecting the path of further recovery to be volatile and weaker than recoveries from previous recessions.
- The varied geographical pattern to the recovery remains. Passenger traffic carried by the Asia-Pacific airlines remains the weakest but has improved materially and they have seen a material improvement in air freight which is likely to reflect the second quarter economic recoveries evident in a number of Asia economies. Airlines in Europe and North America have seen larger improvements in passenger volumes but lesser improvement in freight. With major economies still weak in these regions, travel improvements may reflect earlier large cuts in average fares. Elsewhere, the Middle Eastern airlines continue to achieve the largest increases in both passenger and freight carried during July.
- Another significant development in July was that passenger capacity moved much more in line with travel demand in July, bringing the damaging expansion in excess capacity seen over the past 12 months to an end. Passenger load factors averaging 80.3% were in line with utilisation rates at the same time last year. This is encouraging but load factors need to start rising to help ease the recent intensification of downward pressures on average fares and revenues.
- The same was not yet true for air freight market conditions, despite the stronger month-to-month recovery in air freight demand. Freight capacity continues to be cut at a faster rate than passenger capacity but such was the earlier collapse in freight demand it has not been sufficient to prevent the emergence of even more excess capacity. Downward pressure on freight rates and revenues continues to increase.

	July 09 vs. July 08						YTD 2009 vs. YTD 2008					
	RPK Growth	ASK Growth	PLF	FTK Growth	AFTK Growth	FLF	RPK Growth	ASK Growth	PLF	FTK Growth	AFTK Growth	FLF
Africa	-5.5%	0.9%	72.0	-25.9%	-9.4%	24.2	-8.6%	-4.3%	69.5	-22.9%	-34.6%	25.2
Asia/Pacific	-7.6%	-7.6%	76.3	-9.5%	-12.9%	62.6	-11.3%	-7.9%	71.6	-20.5%	-21.0%	57.8
Europe	-3.1%	-3.7%	82.3	-16.2%	-9.6%	45.1	-6.9%	-4.6%	74.9	-20.8%	-20.8%	44.6
Latin America	-3.5%	1.3%	76.4	-1.2%	2.9%	32.0	-3.0%	1.2%	71.3	-17.0%	-17.1%	30.4
Middle East	13.2%	15.3%	78.8	1.0%	16.2%	40.5	8.2%	13.0%	72.3	-4.5%	8.2%	40.2
North America	-3.2%	-4.4%	85.5	-14.6%	-10.2%	35.4	-8.0%	-5.2%	78.0	-21.2%	-21.3%	34.2
Industry	-2.9%	-2.8%	80.3	-11.3%	-8.1%	47.6	-6.8%	-3.8%	73.9	-19.3%	-18.9%	45.7

INTERNATIONAL PASSENGER TRAFFIC UP SIGNIFICANTLY IN JULY

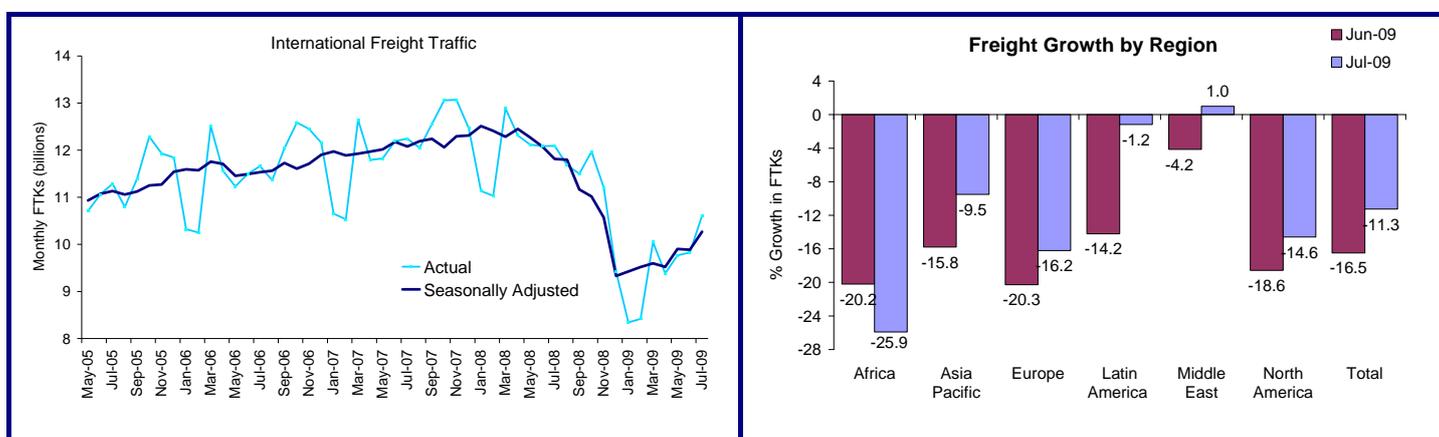
- There was a material improvement in air travel volumes during July. The chart below shows that, adjusting for seasonal fluctuations, passenger kilometers flown on international markets increased by a bit more than 3% in July compared with June. This took international RPKs to a level 2.9% lower than where they were in July last year, whereas in June travel volumes were down 7.2% and over the period January to July down 6.8%. Changes from month to month have been volatile but it now looks as though a floor to the decline was reached around the end of the first quarter. By July, air travel volumes, seasonally adjusted, had lifted to a point 4.3% above that low point.



- The geographical pattern of this tentative recovery in air travel was mixed, though all regions saw some improvement between June and July.
- Amongst the large regions airlines in the Asia-Pacific continued to see the largest declines in air travel volumes compared to last year. However, this was largely due to the scale of the earlier decline. The improvement from a 14.5% decline in June to a 7.6% fall in July was the largest seen worldwide. Economic growth returned during the second quarter in a number of Asian economies, to a much larger extent than elsewhere, and this is likely to have driven the improvement in July. There may also have been some easing in the impact fears over influenza A (H1N1) had been having in May and June. In June H1N1 appeared to have contributed 3-4% points to the 14.5% decline. July's outcome suggests, at the least, that the improvement in Q2 economic growth in the region has more than offset any remaining impact from H1N1.
- Airlines in Europe and North America also saw material improvements from declines of 6-7% over the year earlier in June to levels in July just over 3% below where they were in the same month last year. This picture is little changed if the LCCs are included in these figures. In total, including the LCCs whose RPKs grew almost 10%, the European airline industry carried 1.4% fewer passenger in July this year than last. LCC growth reflects the divergence that network airlines are seeing between demand for economy and premium seats – passengers have been trading down to cheaper seats in the face of recession pressures. Moreover, airlines have been leaving cheaper seat categories open for much longer in the face of growing excess capacity and intensifying competition. Average fares have fallen very sharply as a result. Since economic activity was still shrinking during the second quarter in the UK and in a number of European economies the improvement in travel demand seen in July looks likely to have been due to cheaper fares rather than stronger incomes and consumer confidence.
- The strongest growth was seen once more for airlines in the Middle East. Substantial additions to capacity and gains to market share on long haul transfer markets over Middle Eastern hubs increased the passenger kilometers flown by these airlines by 13.2% in July. Over the first seven months of this year air travel volumes carried by 8.2%. There has been a substantial acceleration in recent months. Improvements were also seen for airlines in Latin America and Africa, although the traffic carried by these airlines remained below levels achieved in the same month last year.

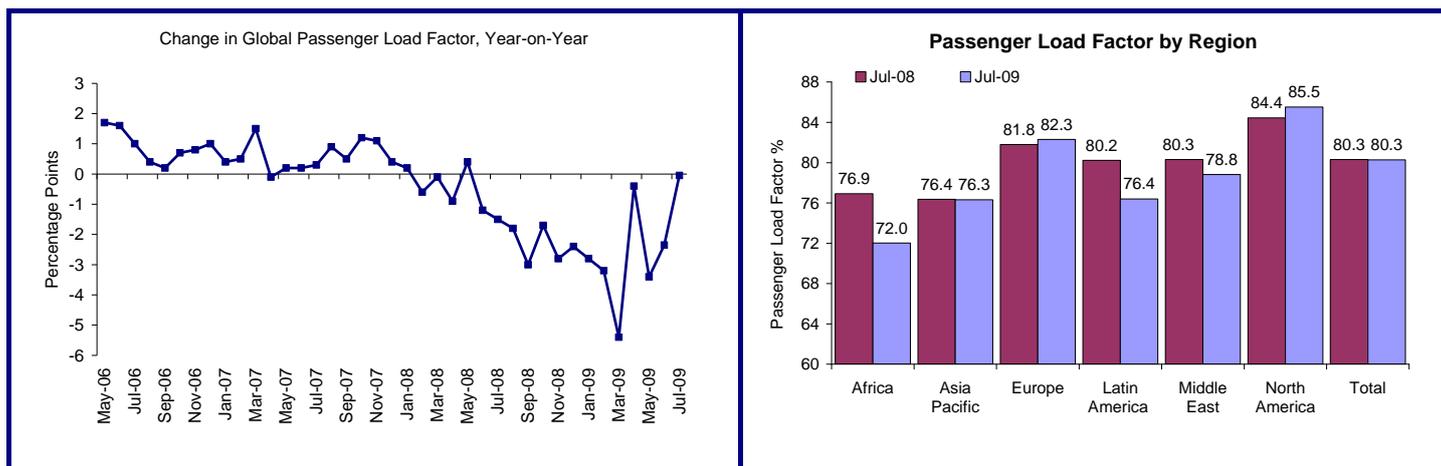
AIR FREIGHT VOLUMES NOW RISING AT A SLIGHTLY FASTER PACE

- Freight tonne kilometres flown on international markets were still 11.3% lower in July than a year earlier, but that was a considerably better result than the previous month, when freight volumes were 16.5% down. Moreover, the change between June and July, adjusted for seasonal variations, was an increase of over 3%. Compared with the low point of the downturn in December, the level of air freight volumes in July was 10% higher.
- Previous research has shown that air freight volumes are a good lead indicator for developments with world trade and economic growth. The levelling out of air freight volumes during the first quarter and the beginnings of a recovery in the second quarter reflect developments in the broader economic recovery, particularly in Asia.
- Surveys of purchasing managers in manufacturing industries around the world have been indicating a slow but steady improvement in planned shipments since late last year, as excessively high levels of inventories start to decline. The shape of the downturn, stabilisation and tentative recovery has matched very closely moves in business inventory to sales ratios in the major economies. Excessive business inventory levels relative to sales led to the collapse in air freight in the second half of last year, and then, as destocking slowed, air freight volumes began to recover.
- However, the inventory cycle will only take the recovery in air freight so far. Once inventories are at desired levels in relation to sales the stimulus to increasing air freight volumes will end. Faster and more sustained growth in air freight will depend on a recovery in consumer and business investment. So far the first signs of economic recovery in the second quarter, in some economies, have not yet developed into significant recoveries in private sector spending, beyond that stimulated by tax cuts. Growth so far has been due to an end (pause?) in destocking and large government stimulus spending programmes. Given the large overhang of private sector debt and excess capacity in many economies a recovery in consumer spending and business investment is widely expected to be weak and slow to recover. Many economists are concerned that we are at the start of a 'W' shaped, rather than the usual 'V' shaped economic recovery. As a result a sustained recovery of air freight is still not yet assured.



PASSENGER LOAD FACTORS STABILISE

- For the first time since June 2008 changes in capacity have not been far below changes in passenger demand. Capacity reductions had lagged behind the slump in passenger demand until July, causing load factors to remain some 3% points below levels in the previous year for much of the past 12 months. The improvement in travel demand brought capacity more in line and so average load factors on international markets were 80.3% in July this year, as they were at the same time last year.
- Note however that load factors had already fallen last July. Excess capacity remains, as does downward pressure on average fares and revenues. Load factors will need to rise for this intense competitive pressure to ease.



FREIGHT LOAD FACTORS STILL FALLING BUT AT SLOWER RATE

➤ Air freight markets have faced a much larger imbalance of supply and demand following the collapse of air freight volumes late last year. At the low point of the market air freight capacity utilisation was down almost 10% points. Since then airlines have been parking freighters and taking out belly capacity as wide-body passenger capacity was reduced. The stabilisation of air freight demand in Q1 and its improvement in Q2 has helped reduce the rate at which excess capacity has been growing. But such was the collapse in air freight demand late last year that freight load factors are still lower than levels seen at the same time last year. As a result downward pressure on freight rates and revenues continued to intensify in July.

