

# AIR TRANSPORT MARKET ANALYSIS

## SEPTEMBER 2009

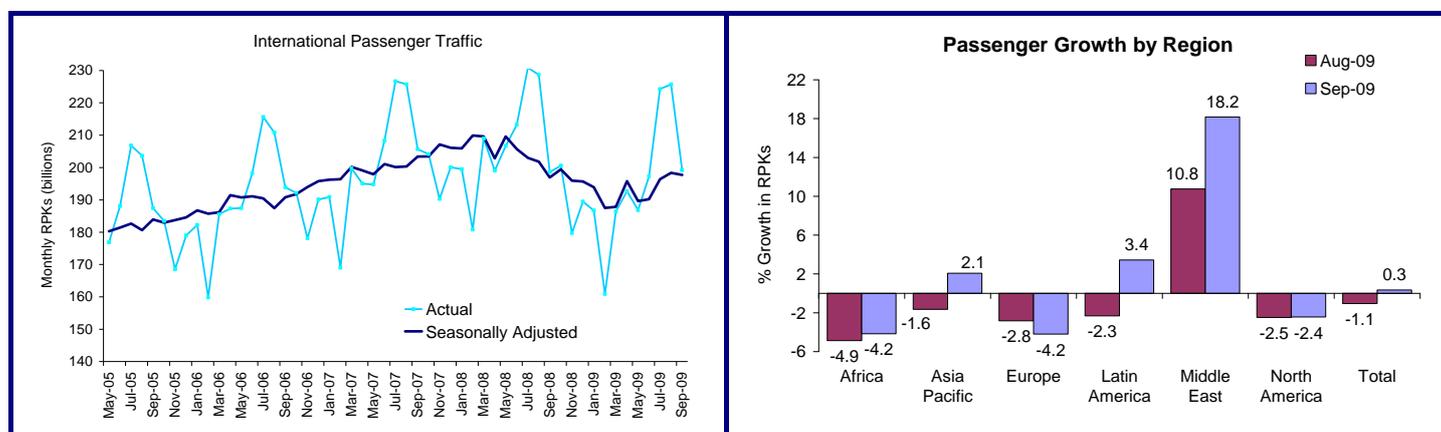
### KEY POINTS

- International passenger travel growth turned positive in September, up 0.3% on the same month last year, for the first time in 12 months. In August travel was down 1.1% and was 7.6% down during the first half of the year. It is clear that there has been an upturn in travel numbers since the low point in the market was reached at the end of the first quarter. The level of international passenger kilometers flown – seasonally adjusted - is now over 5% higher than that low. However, the improvement in the year-on-year growth rate in September was due entirely to the weakness last year, when the onset of the financial crisis hit travel hard. In fact travel volumes – seasonally adjusted – fell from August to September, as the chart below shows.
- The same was true for air freight volumes. There was a sharp improvement in the year-on-year growth rate from down 9.6% in August to down 5.4% in September. Again that was purely due to the big fall in September 2008. Comparing September with August – seasonally adjusted – shows a decline in freight volumes.
- The question is whether this dip is just statistical noise or a break in the recently established upward trend in travel and freight volumes. Since it reflects a similar September dip in business and consumer confidence in the US and other economies the answer to this question depends critically on how durable is the economic upturn. There still seems to be further to go for the inventory cycle to boost air freight, but consumer confidence will need to improve more to support additional gains in air travel.
- Geographically, the biggest improvements were seen for airlines in the Asia-Pacific region – where the revival of economic growth has been strongest – in Latin America and in the Middle East. European airlines saw a renewed deterioration, while North American airlines experienced little further improvement on international markets. This very patchy improvement in air transport demand appears to reflect underlying economic conditions, and illustrates the fragility of the current situation.
- Airlines have kept passenger capacity – adjusted for seasonality – unchanged throughout this year, while air freight capacity has edged up only a little in the past two months. As a result the upturn in air transport demand has fed straight through to higher load factors, which are now back to pre-recession levels in both the passenger and freight businesses. Aircraft are fuller than they have been for the past 12 months, which should at least slow the crippling collapse in yields. On the other hand airlines have been unable to keep their fleet in the air for as long as normal. Average daily hours flown are down 3% for some aircraft, which will be raising unit costs.

	Sep 09 vs. Sep 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	-4.2%	2.2%	68.6	-6.9%	-2.0	29.5	-8.9%	-4.5%	69.6	-19.1%	-4.6	26.0
Asia/Pacific	2.1%	-4.2%	75.5	-3.1%	-10.1	64.5	-8.8%	-7.3%	72.9	-17.0%	-14.5	59.3
Europe	-4.2%	-5.4%	79.5	-13.0%	-11.4	47.2	-5.9%	-4.4%	76.3	-19.3%	-9.6	44.8
Latin America	3.4%	3.8%	73.5	1.8%	6.2	33.9	-2.3%	1.5%	72.0	-12.7%	-2.8	30.9
Middle East	18.2%	15.2%	71.8	3.6%	5.5	43.5	9.4%	13.2%	72.9	-2.6%	5.0	40.8
North America	-2.4%	-5.1%	81.1	-5.0%	-11.2	40.6	-6.7%	-5.1%	79.2	-17.9%	-10.4	35.2
Industry	0.3%	-2.4%	77.1	-5.4%	-8.5	50.8	-5.3%	-3.4%	75.0	-16.4%	-9.8	46.6

## INTERNATIONAL PASSENGER TRAFFIC FELL IN SEPTEMBER

- We warned in the last issue of the Premium Traffic Monitor that it would not be unexpected to see a dip in travel in September. Premium passenger numbers had already risen substantially compared to the rise in world trade, while economy passenger numbers looked to need a further rise in consumer confidence. Since both world trade and consumer confidence dipped in the latest month, a similar setback for air passenger travel looks entirely consistent.
- International passenger kilometers flown were 0.3% higher this September than September last year, but adjusting for seasonality this represented a small decline from August. The improvement in year-on-year growth from down 1.1% in August to up 0.3% in September was entirely the result of the weakness last September, when the Lehman Brothers bankruptcy marked the start of the financial and economic crisis.
- However, the monthly dip looks minor compared with the 5%+ rise already seen in the seasonally-adjusted level of passenger kilometers flown since the end of the first quarter. Since that increase implies average monthly gains of around 1% some moderation in the trend rise is more than likely. Given the relatively fragile economic growth expected next year we would not expect average growth in 2010 to exceed 4%.

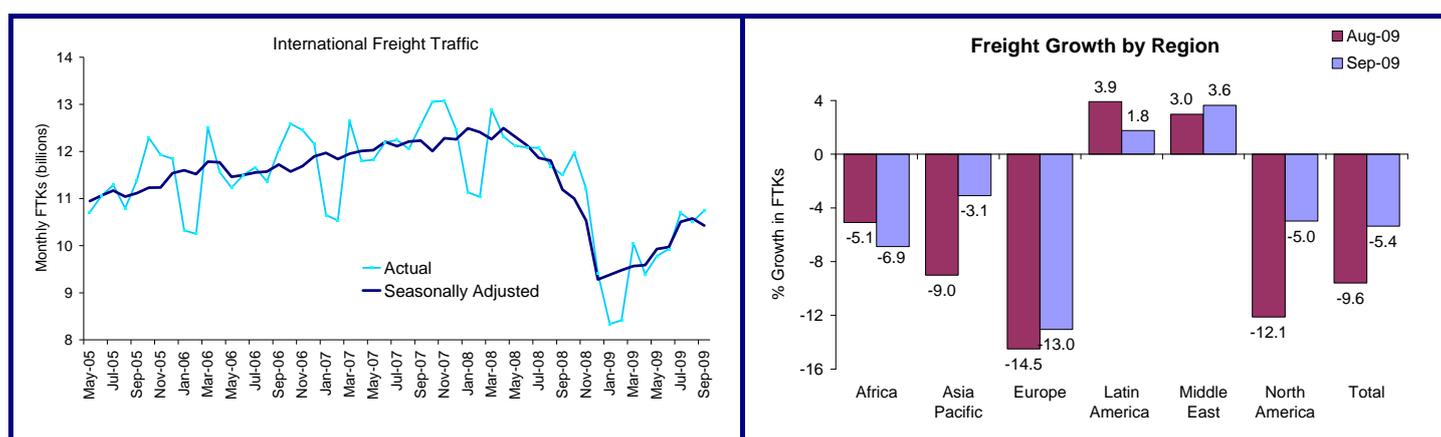


- Among the major regions, Asia-Pacific stands out as showing a return to growth, from a decline of 1.6% in August to growth of 2.1% in September. In fact the level of travel demand, seasonally adjusted, did grow almost 1% from August to September in this region; the slump last September was not the only reason for the improvement in the growth rate. Economic conditions certainly seem to be improving to a much greater extent in this region. Consumers are not burdened by so much debt, the banks are in better shape, and government stimulus packages have been large in many countries in this region.
- By contrast passenger markets deteriorated for European network airlines during September. There was some further loss of market share to LCCs on short-haul markets but the major part of the deterioration was on long-haul markets across the Atlantic and to Asia. Home bias on the part of passenger preferences probably explains much of this with the Asia-Pacific airlines picking up most of the new business generated by stronger regional growth. European economies are still weak (the UK shrank further in Q3) and are probably not generating much new travel demand at present. There was also a significant fall back in passengers carried across the Atlantic by both European and US airlines, which is likely to reflect the dip in business and consumer confidence during September in those economies.
- Middle Eastern airlines showed a particularly strong rise in September, but that was distorted by a return to travel after the Ramadan period, which started in late August this year compared to September during 2008. Averaging the past two months of growth for Middle Eastern airlines will give a better indication of the trend. The majority of this growth continues to be driven by market share gains on long-haul markets via Middle Eastern hubs. Weaker oil revenues continue to depress economic growth and domestic travel in the region.
- Latin American airlines also saw a shift from shrinkage to expansion on international markets, boosting growth to 3.4% in September. Airlines in this region are managing to take advantage of relatively robust economies. Economic growth in Africa has also been relatively resilient in the face of the global recession. However, by

contrast African airlines have struggled to hold on to market share and their passenger traffic was down 4.2% in September.

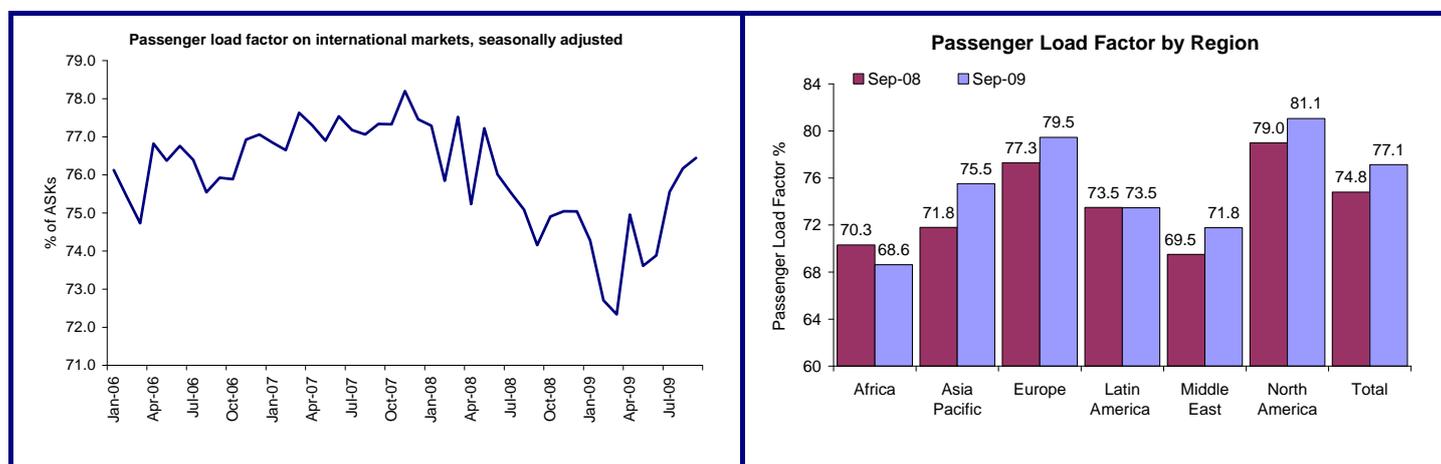
## AIR FREIGHT VOLUMES ALSO DIPPED IN SEPTEMBER

- Air freight volumes also dipped in September from levels achieved in August. However, there was a particularly sharp decline last September so year-on-year growth improved from down 9.6% in August to down 5.4% in September. This is a marked improvement from the 20%+ decline experienced in the first half of the year. As the chart below shows the level of international freight tonne kilometres flown has picked up around 12% from its December low point. But it remains 17% below its early 2008 peak. There is still a long way to go before those early 2008 levels are restored.
- The question is whether this dip is noise or a break in the recent trend improvement. The dip coincided with a dip in business confidence in the US. However, broader measures of buying intentions in manufacturing suggest there is further to go in the inventory cycle boot to air freight volumes.
- Geographically the numbers are not as striking as for passenger markets, but that is because freight fell so much further at the end of last year. But similar patterns can be seen, driving by economic conditions, with Asia-Pacific airlines seeing a big improvement and positive growth being experienced by airlines in the Middle East and Latin America.



## PASSENGER LOAD FACTORS BACK TO EARLY 2008 UTILIZATION RATES

- Load factors on international passenger markets continued to improve in September, despite the dip in traffic. Airlines have successfully kept capacity more or less flat all year, so improvements in demand have fed straight through to fuller aircraft.

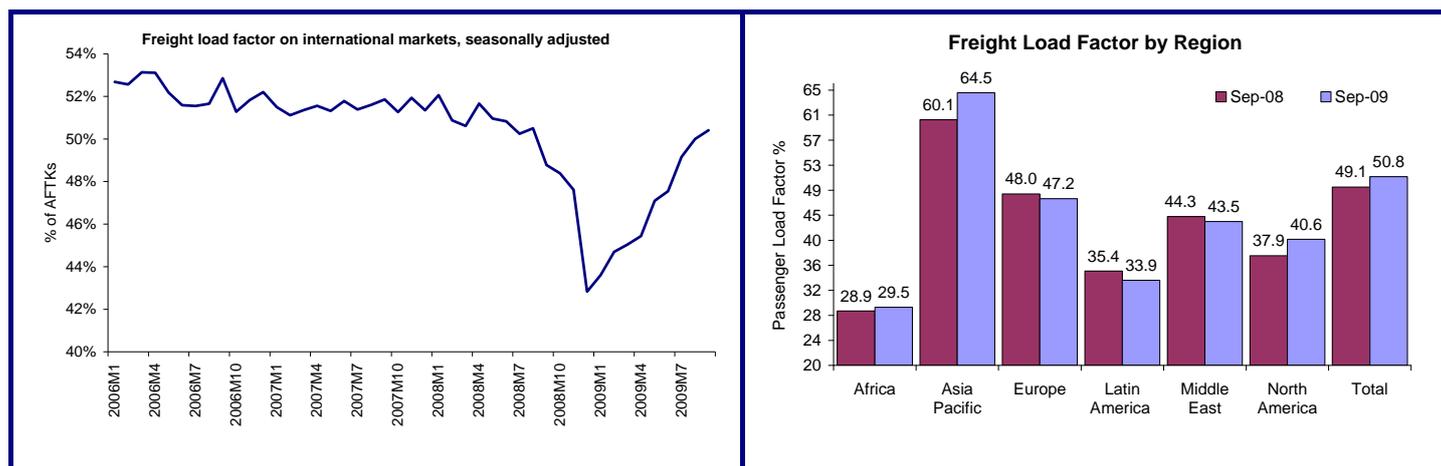


- Load factors are back to pre-recession levels. The late-2008/early-2009 surge in excess capacity had led to a collapse in fares and yields, both of which were down 20% or more in the second quarter. Tighter supply-

demand conditions do now appear to be stabilising fares. However, while airlines may start to see an improvement in yield there is a long way to go before recent falls are offset, and lower utilization of aircraft is an upward pressure on unit costs.

## FREIGHT LOAD FACTORS ALMOST BACK TO PRE-RECESSION LEVELS

- Typically freight load factors are much lower than the utilisation of passenger seats in an aircraft. However, the rise in freight demand combined with tight control of capacity has now pulled freight load factors back up to pre-recession levels. At 50.8% air freight load factors are the highest they have been for almost a year.



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