

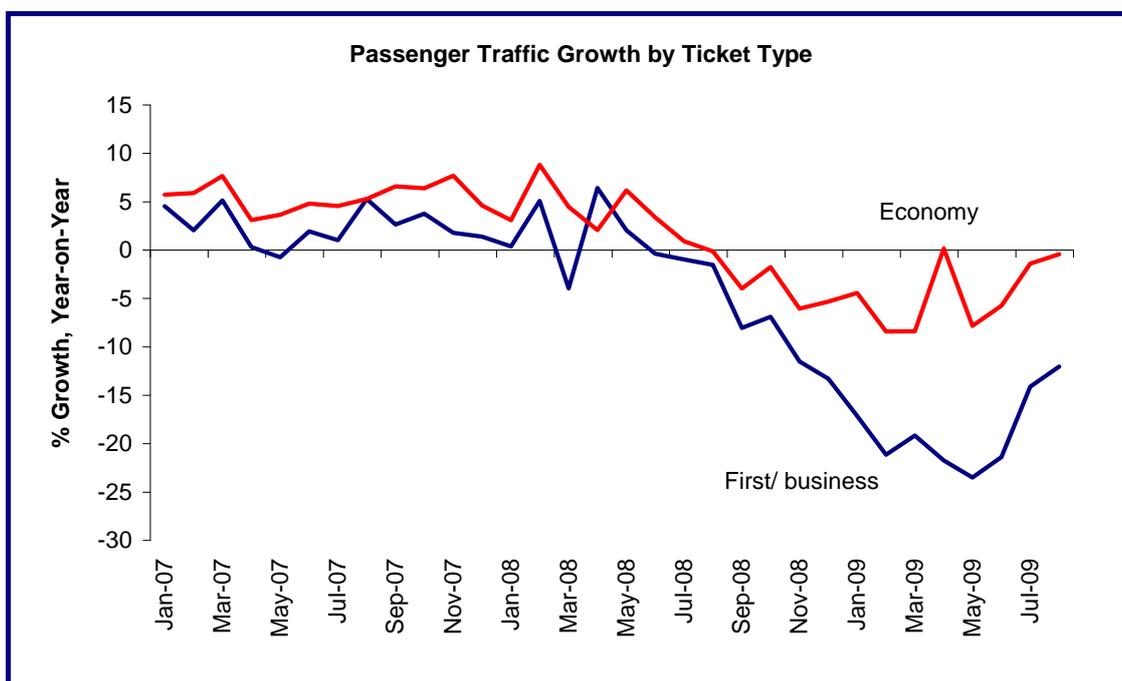
PREMIUM TRAFFIC MONITOR

AUGUST 2009

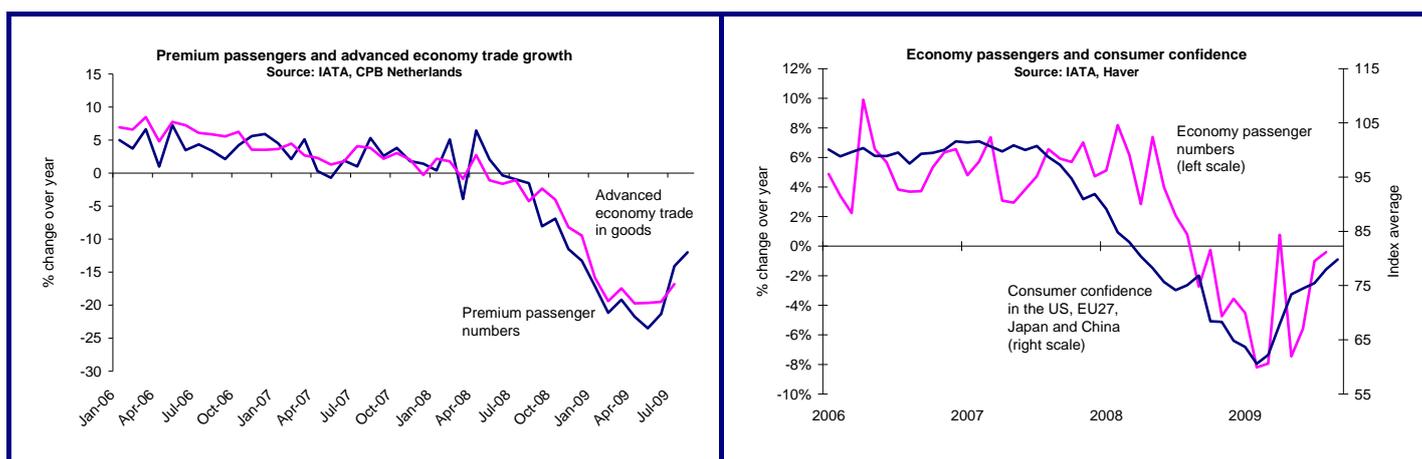
KEY POINTS

- Travel numbers improved further in August. Total passenger numbers flown on international markets were 1.5% lower than the previous year in August, a marked improvement on the 9.7% decline recorded at the low point in February, though of course still down on last year.
- Over 90% of passengers travel on economy seats and this market segment was down 0.4% in August, compared to its low point in February when it was down 8.4%. There has been some shift of business travellers to cheaper seats at the back of aircraft which has moderated the decline in economy numbers, but the size of this impact is small. The turnaround in economy travel has been driven by consumer confidence in major economies, which has been rising since hitting a low in February. However, the rise in confidence so far does not support much more than zero growth in economy travel numbers.
- Passengers travellers on premium seats represent less than 10% of the total but would normally contribute up to 30% of passenger ticket revenues. The recovery of this market segment is key for a return to profitability for most network airlines. In August premium paying passenger numbers were still down 12%. However, compared to their low point in May when they were down 23.5% that is a larger improvement than that seen in economy travel. World trade has picked up since June but not sufficiently to warrant a significant rise in premium travel. The reported rise in premium passenger numbers remains fragile.
- Higher load factors are now starting to raise average economy and premium fares, as the cheaper seat categories do not have to be left open quite so long. In April average premium fares were down almost 27%. During the second quarter fares stabilised. By July and August a slow upturn had begun. We estimate premium fares are now down 18% compared to levels a year ago. Even though the situation is now better than it was in the first half of the year, revenues from premium passengers were still down an estimated 30% in August.

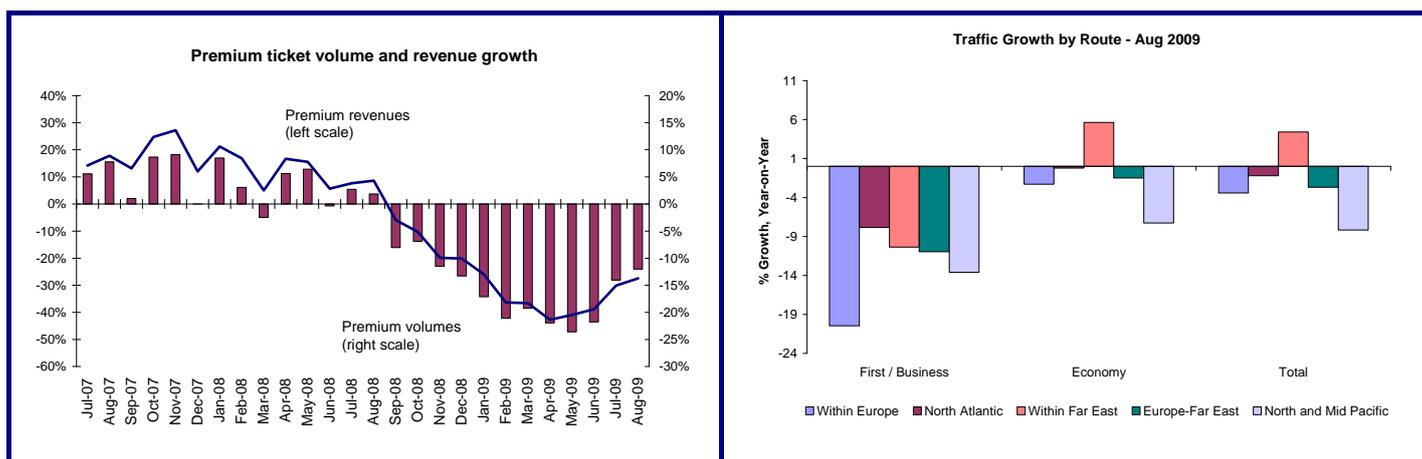
PREMIUM TRAFFIC GROWTH



- The 1.5% fall in passengers numbers on international markets is slightly larger than the 1.1% decline in passenger kilometres flown, reported earlier. Average distances flown have risen modestly as longer-haul Asian markets have started to improve relative to shorter-haul markets in Europe and elsewhere, reflecting the uneven nature of the current economic upturn.
- As world trade improves with the return to economic growth business travel is picking up. Most passengers in premium seats are on business. However, premium travel is more closely correlated with the international trade in and out of the developed economies. This has risen in both June and July but not sufficiently to warrant a substantial improvement in premium travel. Since the data reported here measures numbers sitting in seat classes rather than purchasing tickets some of the rise in premium travel could be upgrades with little benefit to yields. Even if the numbers represent genuine premium ticket sales the upturn in premium travel numbers still appears fragile, given the still modest rise in international trade and other cross-border business activity. Given the volatile month to month past pattern in premium travel and the relatively weak upturn in world trade, some fall back in premium travel in September would not be unexpected.
- The same is true for economy travel, which has shown a particularly volatile growth path so far this year. The trend now seems to be upwards from its February low. However, consumer confidence although much improved has only regained half the ground lost during the recession and, in September, appears only strong enough to justify zero growth in economy travel. A further rise in consumer confidence will be necessary to generate positive growth in economy travel. Some fall back in September is possible.



- A turning point has been seen for revenues as well as passenger numbers as the chart for premium revenues below shows. The direction is now up, though the pace of improvement is weaker than for passenger numbers because average fares have only just begun to increase. Overall passenger load factors are now back to pre-recession levels. This applies more to economy than premium seats but nonetheless supply-demand conditions have now tightened. The cheaper fare categories do not have to be left open for quite so long, which has helped improve average fares in recent months. Having reached a low almost 27% down on the previous year in April, average premium fares were down an estimated 18% in August.



- Revenues from premium paying passengers are an important source of profitability for network airlines. Early in the second quarter these revenues on international markets were 40-45% down on a year earlier. Premium revenues are now improving but, at an estimated 30% down year-on-year in August, there is an awful long way to go before positive growth resumes.

PREMIUM TRAFFIC BY MAJOR ROUTE

- There remains very wide geographical differences in both premium and economy travel. Note that the chart above shows growth for August rather than the year-to-date growth shown in last month's Monitor. Short-haul premium travel within Europe remains extremely weak, at over 20% down on last year, and that is on top of a structural decline as business passengers switch to cheaper seats. North Atlantic premium travel has improved as US and European economies begin to grow during the third quarter, but is still almost 8% down on last year. Headwinds from consumer debt and excess business capacity will continue to prevent a strong economic recovery – and therefore travel - in this part of the world.
- The strongest rise in economic and business activity has been seen in the Asia-Pacific regions, where private sector balance sheets are less encumbered with debt and bad assets. Moreover, government stimulus packages have been particularly large in economies such as China, producing a significant rise in domestic spending. Travel within the Far East saw the largest improvement in August. Premium travel in this region went from a 19.5% decline in July to a level 10.4% down on a year earlier in August. Economy travel rose strongly so overall passenger numbers in this region are now 4.4% higher than a year earlier.
- While economies and travel are improving within the Asia-Pacific region it is not benefiting long-haul markets connected with the region to the same extent. In fact passenger numbers across the North and Mid Pacific remain down 8.2% overall in both July and August as an improvement in premium travel was offset by a deterioration in economy. Travel between Europe and Asia did improve with total passenger numbers down 2.7% in August compared to a fall of 5.4% the previous month. This relative underperformance of these long-haul markets may reflect the domestic focus of government stimulus packages and the shortening of supply chains by international businesses.
- The Ramadan period, which started in late-August this year but September last year, has distorted the Middle East growth rates downwards. Middle Eastern airlines have been gaining market share on long-haul markets such as Europe-Far East, flying passengers via their own hubs. As the data here records travel by segment rather than ultimate origin-destination this shift in market share has been reflected in relatively strong Europe-Middle East and Middle-Far East numbers compared to the direct Europe-Far East market. In August the opposite was evident, due to the Ramadan distortion, with a deterioration in travel on Middle Eastern markets.
- The influenza A (H1N1) virus still appears to be damaging central American premium travel, which was over 45% down on a year earlier in August, compared with a 41% decline the previous month. However, markets that had suffered less direct impacts from H1N1 concerns saw either a diminution of its impact or other economic factors overwhelming. Asian markets now show little clear impact. Of course the concern is that this virus returns in a more virulent form as a result of the Northern winter.
- Latin American airlines have been performing relatively well so far this year, notwithstanding the impacts of H1N1. Within South America premium travel is still down over 9% but premium travel between South and North America is now only down a fraction. Between May and July travel was hit hard by outbreaks of H1N1 but is now recovering. But before that positive growth in the region reflected economies that had escaped the worst of the global recession.
- African economies also resisted much of the economic downturn. The benefits of earlier economic and travel market liberalisation were evident in the relative robustness of travel in this region. For the year to date total travel numbers within Africa, between Europe and Africa and between Africa and the Middle East are all positive.

PREMIUM TRAFFIC GROWTH BY ROUTE

	Share of Total Premium:		Premium Traffic Growth	
	Traffic	Revenues	Aug 09 vs Aug 08	YTD 2009 vs YTD 2008
Africa - Middle East	1.1%	0.6%	-12.3%	-8.9%
Africa - SW Pacific	0.0%	0.1%	-30.8%	-23.2%
C America-S America	0.4%	0.2%	-14.9%	-24.5%
Europe - Far East	8.5%	14.4%	-11.0%	-20.4%
Europe - Middle East	5.1%	5.8%	-6.8%	-8.3%
Europe - SW Pacific	0.1%	0.4%	0.1%	-7.6%
Africa - Far East	0.2%	0.3%	-27.4%	-28.5%
Within Africa	0.7%	0.3%	-6.4%	-1.8%
Within Central America	0.1%	0.0%	-45.7%	-48.3%
Within Far East	10.1%	5.6%	-10.4%	-24.4%
Within Middle East	1.9%	0.6%	-14.7%	-10.0%
Within North America	1.5%	0.4%	-20.0%	-19.4%
Within SW Pacific	0.3%	0.1%	-4.9%	-9.5%
Within South America	1.0%	0.3%	-9.2%	-13.4%
Mid Atlantic	1.1%	2.2%	-11.1%	-12.7%
Middle East - Far East	2.5%	1.5%	-10.4%	-11.0%
Middle East-SW Pacific	0.4%	0.9%	3.4%	-11.1%
North Atlantic	19.9%	28.8%	-7.8%	-14.8%
N America-C America	6.0%	2.1%	-2.9%	-8.7%
Europe - Africa	4.1%	4.7%	-10.0%	-8.1%
N America - S America	2.8%	3.3%	-0.3%	-9.5%
Far East - SW Pacific	1.6%	2.0%	-16.8%	-20.3%
North and Mid Pacific	6.6%	12.9%	-13.6%	-25.1%
South Pacific	0.4%	1.4%	-5.3%	-18.3%
South Atlantic	2.5%	4.8%	-9.9%	-11.2%
Within Europe	21.2%	6.6%	-20.5%	-26.7%
Total International	100.0%	100.0%	-12.0%	-18.8%

