

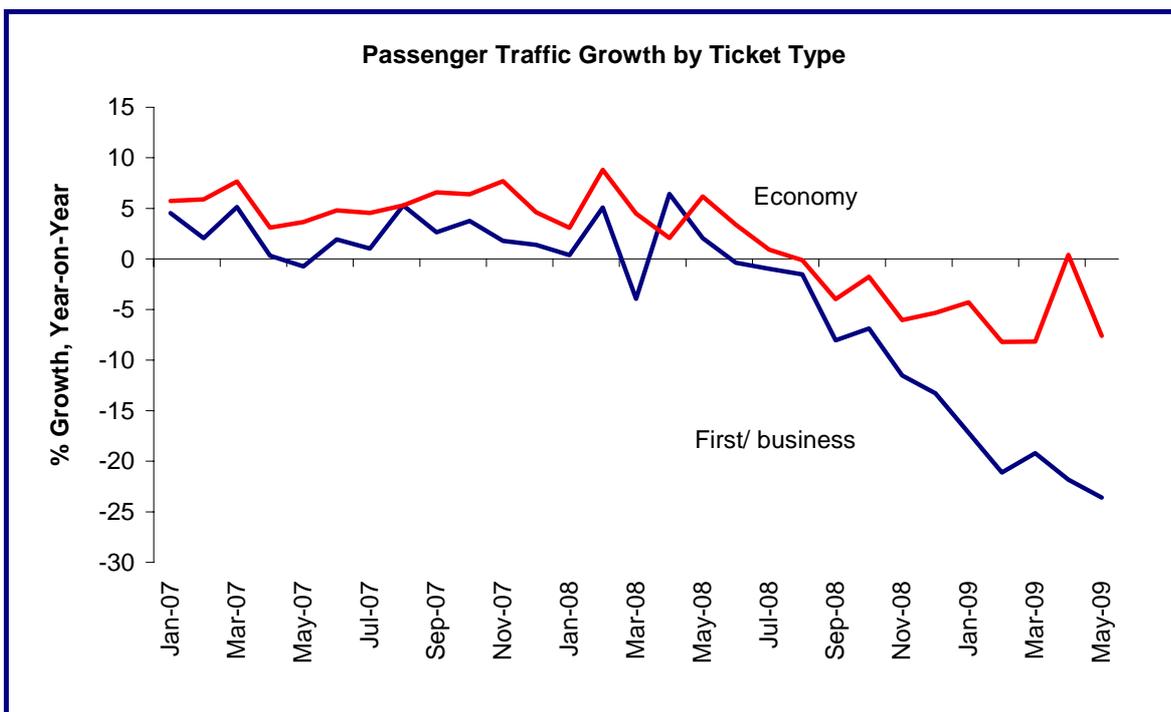
# PREMIUM TRAFFIC MONITOR

## MAY 2009

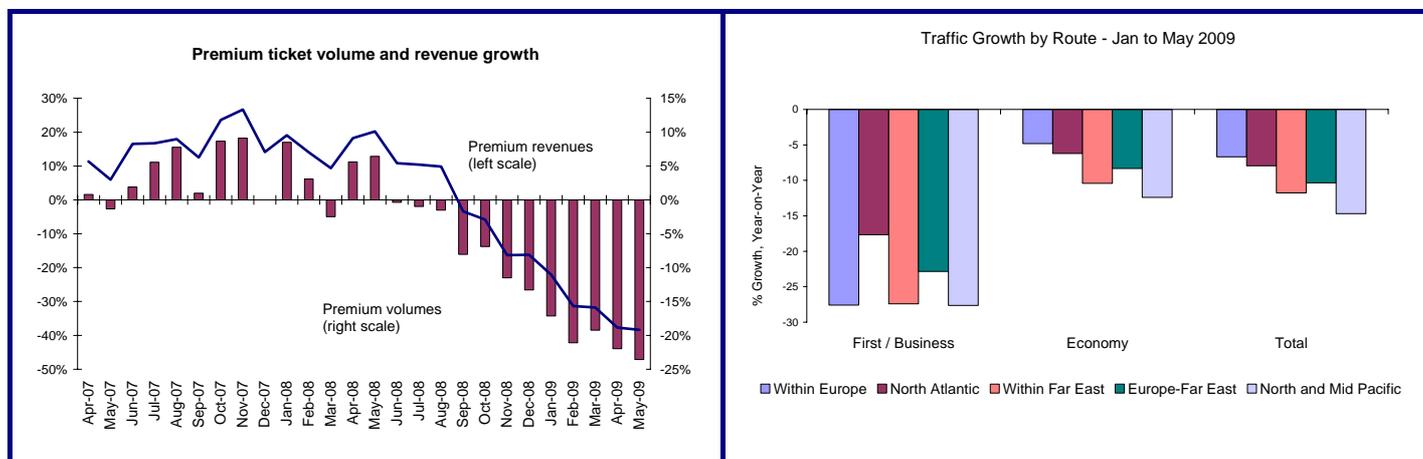
### KEY POINTS

- Passenger travel numbers in May cast doubt on the view that a bottom to the travel decline has been reached. The stabilisation seen earlier in passenger kilometres flown now appears to have been due to a small rise in the average distance flown, due to the geographical pattern of changing travel markets, and not to a stabilisation of passenger numbers. There are some promising signs but passenger numbers were still falling in May.
- Passengers travelling on premium tickets in May were down 23.6%, compared to a 22% decline in April and a 19.2% fall during the first quarter. Premium travel numbers have been in decline now for 12 consecutive months. Economy travel numbers were also down, by 7.6%, and total passenger numbers on international markets were down 9.2% in May after a fall of 8.2% in the first quarter.
- There was a very mixed picture across the regions. Markets from Europe-Middle East and Middle-Far East are growing for economy travel, but this may represent a shift by business travellers to the back of aircraft and a larger market share of Europe-Far East markets being gained by Middle Eastern airlines rather than any sign of travel demand revival. African cross-border markets (along with China's domestic travel) are perhaps the only unambiguous signs of growth, supported by growing economies, with premium travel up 1.1% in May.
- At the other end of the spectrum in May was Asia where travel deteriorated further, despite signs of an early economic revival, partly Influenza A(H1N1) concerns but potentially also a worrying sign of 'de-globalisation'. Within the Far East premium travel was down 31.6% in May, across the Pacific down 30.7% and from Europe to the Far East down 26.3%; all following rather smaller declines in the first quarter. The impact of H1N1 on air travel was shown more clearly in the 62.4% fall in total passenger numbers within central America during May.
- Showing signs of stabilisation but not revival as yet were the large transatlantic and the within-Europe travel markets. Premium travel across the Atlantic fell by 16.5% in May, compared to 18.4% in April and 17.8% in Q1.

### PREMIUM TRAFFIC GROWTH



- The number of passenger travelling on business or first class fares continued to decline in May, falling to a level 23.6% lower than a year earlier. This follows a 22% decline in April and a 19.2% fall during the first quarter. Premium travel numbers have been in decline now for 12 consecutive months.
- Passengers travelling on economy tickets also fell at a faster pace in May, down 7.6% on a year earlier, having grown marginally by 0.3% in April. However, judging by the chart above it looks as though economy travel in May was similar to the declines seen in February and March. Is this consistent with a floor having been reached in the decline of economy travel? Unfortunately this does not seem to be the case. Both the February and March declines were exaggerated, the former by the comparison with the previous year when the Leap Year added an extra day and the later by the timing of Easter.
- Premium passengers are responsible for 25-30% of passenger revenues but only 7-10% of numbers, so total passenger travel is shaped mainly by movements in economy ticket numbers. Total passenger numbers on international markets fell 9.2% in May, compared to a fall of 2% in April. Although passenger numbers were down 9.3% in March that decline was exaggerated by the timing of Easter. In fact once these distortions are accounted for, the 9.2% fall in passenger numbers on international markets in May was the largest decline seen so far this year.
- How does this continued deterioration in passenger numbers through to May square with our previous report suggesting some sign of a stabilisation in passenger kilometres flown? Seasonally adjusted RPKs (revenue passenger kilometres) were also down sharply from April to May but remained slightly higher than March levels, given some grounds for thinking a floor had been reached. For most of this year RPKs have been falling faster than passenger numbers on international markets; average distance flown on journeys had been declining on average by 1% a year, as long-haul markets such as transpacific saw the largest declines in traffic. However, in May there was a sharper downturn in economy travel on the shorter-haul within Far East markets. This stopped the decline in average distance flown. Knowing this was driving the apparent stabilisation of RPKs now makes it much more difficult to conclude that passenger travel has begun to stabilise.



- Comprehensive fare data on international markets is released with a lag, but we know that premium fares were falling at an accelerating rate through April to a level around 20% lower than last year. Moreover, premium seats are being discounted on average much more than economy seats, despite the latter usually being the more price-sensitive segment of the market. This is likely a sign that airlines are seeking to generate any cash they can by filling these seats. We know from ATA data that US airlines saw their overall passenger yields down at a faster pace in May than April, with a yield decline of 24% on Atlantic markets and around 18% on the Pacific. This is a combination of lower average fares and fewer premium paying passengers. Nonetheless it is consistent with a further 20% decline in average premium fares on international markets in May and a 40-45% fall in premium revenues.

## PREMIUM TRAFFIC BY MAJOR ROUTE

- The regional pattern of changes to premium and economy travel volumes is becoming far less uniform which is consistent with what would be expected as a turning point is approached, even if that point has not quite been reached yet. Some route areas are deteriorating further, some are stabilising and a few are improving.

- Starting with the improving areas there has been a significant rise during the first two months of the second quarter in economy traffic on the Europe-Middle East and the Middle-Far East route segments. Premium travel was down though suggesting some shift by business travellers to the back of the aircraft. In May these economy markets were up 7.3% and 11.6% respectively, compared with a first quarter rise of 1.1% on Europe-Middle East and a rise of 9.8% on the Middle-Far East. There may well be some boost to OD traffic to the Middle East from the tourism development that has taken place. However, direct Europe-Far East economy travel numbers were down 10.3%. Part of the Middle East flows will represent an increase in the market share of Middle Eastern airlines flying Europe-Far East markets over their Middle Eastern hubs. Certainly this is supported by data showing that the Middle Eastern airlines reported a 9.5% increase in the RPKs they flew on all international markets in May, compared with declines of 9.4% and 14.3% for European and Asia-Pacific airlines respectively.
- Markets in South America, less affected by Influenza A(H1N1) than Central America, also saw economy travel expand by 3.7% in May after strong growth of 17.5% in April and 6% during the first quarter. This growth was despite the recession hitting major South American economies, such as Brazil, Argentina, Chile, albeit less severe than the impact on N America. The one market for premium travel that has continued to expand has been within Africa cross-border travel, where growth of 1.1% was reported in May, following similar growth in April and a 6.6% rise in the first quarter. Economy travel numbers also expanded on these markets by 7.3% in May after 5% growth in April. The South African economy is weak but economic growth remains positive in much of the rest of the continent, supporting the continued growth of air travel.
- Elsewhere the travel picture is far cloudier. There are signs of stabilisation on the large markets of the North Atlantic and within-Europe. On the former premium travel numbers slowed to a decline of 16.5% in May, after an 17.8% fall in the first quarter while economy travel fell 4.5% in May and 9.5% in Q1. Within-Europe premium travel continued to shrink faster as economic weakness is overlaid with a structural shift in business passengers to the back of the aircraft. Total passenger numbers on this market slowed to a decline of 6.9% in May after a first quarter drop of 8.4%. Signs that the recession is at least getting no worse have been emerging in the economies on both sides of the Atlantic and this appears to be supporting a levelling out in the recent decline of air travel activity in the region. Data from the AEA for June and the first week of July suggest that European airlines have seen a modest improvement in air travel since these May results.
- H1N1 is clearly causing significant damage to air travel within central America, where travel numbers were down 62.4% in May, down 46.7% in central-S American markets and N-central America where travel fell 22.9%
- Moreover, within Asia and markets linked to the region there seemed to be a further deterioration in travel during May, despite continued growth in China and signs in Japan and Australia that economic activity is starting to turn up. Domestic air travel within China is indeed up but within Asia as a whole there was a further deterioration with premium travel numbers down 31.6% in May, after a 26.6% first quarter fall. Economy travel was down 15.9%, after a 10.4% Q1 decline. On Pacific markets there was a similar decline of 30.7% in premium travel, after the first quarter's 27.2% fall and economy travel was down 16.8% following a 12.1% first quarter decline. The picture was not much better on Europe-Far East markets. Premium travel was down 26.3% and economy by 10.3% in May. A large part of this deterioration may represent the impact of passenger concerns about H1N1, with the region having been sensitised to these issues following the experience with SARS in 2003.
- However, there may be other more worrying influences at work. With most of Asia's private sector unburdened by the debt holding back a recovery in spending in North America and Europe, the Asian economies are expected to be the first out of recession. China's GDP is expected to accelerate in the second quarter. However, perhaps because the economic recovery is focused on generating a domestic recovery in each economy the boost to international travel is more limited. Many of the economic recovery packages introduced by Governments around the world have either explicitly or implicitly tried to focus additional spending on domestic production, including incentives for domestic bank lending at the expense of cross-border capital flows. There is a danger here that the boost to other economies through trade and capital links will be reduced. The deterioration in international air travel in, to and from Asia during May, despite recovering economies in the region, is a worrying sign of what is being called 'de-globalisation'.

## PREMIUM TRAFFIC GROWTH BY ROUTE

	Share of Total Premium:		Premium Traffic Growth	
	Traffic	Revenues	May 09 vs May 08	YTD 2009 vs YTD 2008
Africa - Middle East	1.2%	0.9%	-7.5%	-10.1%
Africa - SW Pacific	0.0%	0.1%	-32.9%	-16.1%
C America-S America	0.2%	0.1%	-55.1%	-24.2%
Europe - Far East	8.3%	13.2%	-26.3%	-22.8%
Europe - Middle East	5.0%	6.1%	-10.8%	-10.0%
Europe - SW Pacific	0.1%	0.4%	-10.4%	-13.9%
Africa - Far East	0.2%	0.3%	-26.7%	-28.9%
Within Africa	0.7%	0.3%	1.1%	4.2%
Within Central America	0.1%	0.0%	-66.8%	-48.7%
Within Far East	8.9%	2.5%	-31.6%	-27.4%
Within Middle East	2.1%	0.7%	-7.6%	-9.2%
Within North America	1.3%	0.6%	-22.7%	-17.1%
Within SW Pacific	0.4%	0.1%	-9.9%	-13.5%
Within South America	1.0%	0.2%	-16.7%	-11.2%
Mid Atlantic	1.0%	1.0%	-30.3%	-12.8%
Middle East - Far East	2.6%	2.2%	-12.3%	-14.1%
Middle East-SW Pacific	0.4%	1.1%	-13.9%	-19.6%
North Atlantic	19.9%	32.6%	-16.5%	-17.7%
N America-C America	4.8%	2.2%	-21.8%	-10.9%
Europe - Africa	4.1%	4.7%	-10.3%	-8.4%
N America - S America	2.3%	3.6%	-16.2%	-13.3%
Far East - SW Pacific	1.6%	2.6%	-27.0%	-18.8%
North and Mid Pacific	5.8%	13.3%	-30.7%	-27.6%
South Pacific	0.4%	1.0%	-19.3%	-24.2%
South Atlantic	2.6%	4.3%	-15.2%	-12.7%
Within Europe	25.0%	6.1%	-30.6%	-27.6%
<b>Total International</b>	<b>100.0%</b>	<b>100%</b>	<b>-23.6%</b>	<b>-20.6%</b>

