

# PREMIUM TRAFFIC MONITOR

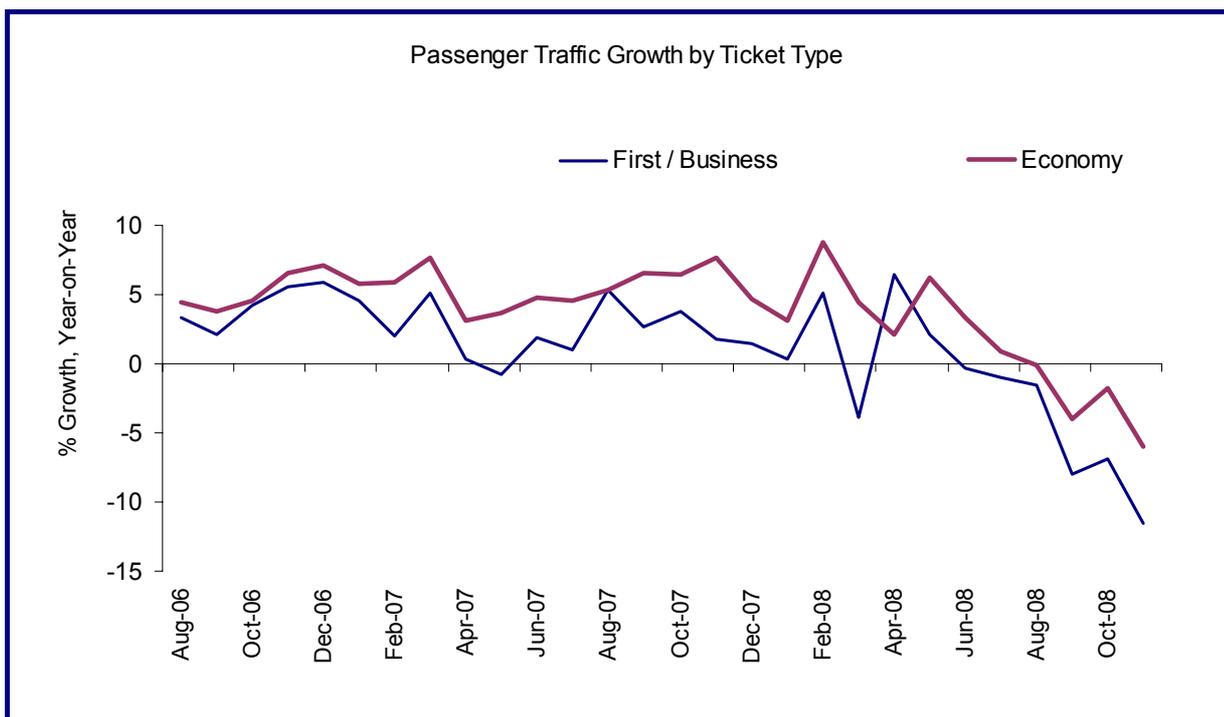
## NOVEMBER 2008

### KEY POINTS

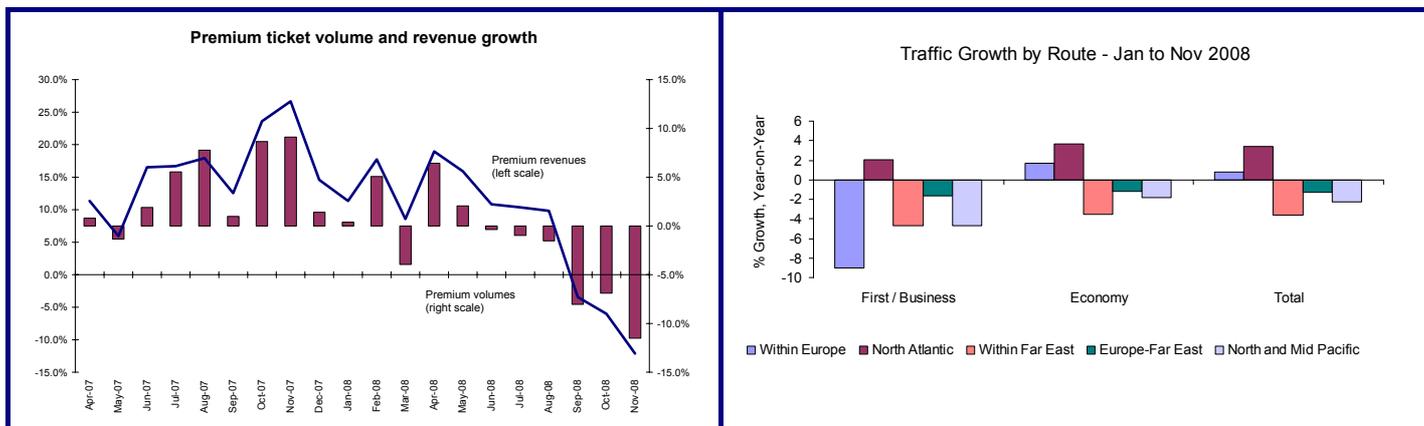
- Business travel slumped further in November. The number of passenger travelling on premium tickets fell by 11.5% in November, following a 6.9% decline in October. This reflects the sharp intensification of recession in major economies around the world and the contraction of world trade.
- Major long-haul markets saw the largest declines in premium travel during November with a 17.7% fall across the Pacific, a 9% fall across the Atlantic and a 9.9% fall in Europe to Asia travel.
- Now that the recession is causing widespread job loss and falling consumer confidence there has been a sharp contraction in those travelling on economy tickets as well. Economy travel numbers fell by 6% in November, following a 1.8% decline during the previous month.
- The low point for air travel has not yet been reached since the economic environment is still deteriorating. With yields now falling this is adding up to be the most difficult revenue environment the industry has faced.

### PREMIUM TRAFFIC GROWTH

- The rapidly deepening recession was clear from data showing an 11.5% fall, year-on-year, in the number of airline passengers travelling on premium tickets during November. Business and other premium travel has been fallen particularly sharply since the financial turmoil began in September last year. Despite growth in business travel at the start of last year, premium ticket travel over January-November 2008 fell -1.9%.
- Sharply declining business travel in November was driven by the further deterioration in economic conditions during the month and earlier. Industrial production and business confidence fell very sharply in major economies across North America, Europe and Asia.



- International business travel is driven to a large extent by international trade and services. The dislocation to financial sector activity from last September clearly reduced business travel associated with M&A deals and other financing. In November travel by manufacturers may also have fallen sharply, given the evidence of large declines in traded goods volumes. The US reported November export volumes down 5.8% on October and import volumes down 7.8%. The UK report non-oil export volumes down 6.8%. This extraordinary pace of decline in world trade is consistent with the 30% annualised fall in air freight volumes we reported in the November 'Monthly Traffic Analysis'.
- Premium revenues – a key source of profitability for the network airlines – are now falling faster than passenger numbers as average premium yields fall. Average premium fares (excluding taxes and surcharges) were rising at well over 10% a year until August but fell to low single figure increases by October. Yields are now falling as less of the more expensive fares are sold. We estimate premium revenues fell by more than 12% in November.
- Economy travel is also slowing sharply now. By November the number of passengers travelling on economy tickets had fallen to a level 6% lower than a year earlier, whereas this market segment had seen growth averaging around 5% in the first half of 2008. This part of the passenger market is sensitive to the cost of travel and some of the recent decline in numbers will reflect the impact of fuel surcharges raised in the middle of last year, following the doubling of fuel prices during that period. Underlying fares barely increased on average. Spot fuel prices have now fallen back but many airlines are locked into still high fuel prices through hedging contracts. However, once lower spot fuel prices feed through into the prices actually paid by airlines fuel surcharges should decline and provide some boost to economy travel numbers. But the scale of the volume boost may be limited both because consumer incomes and confidence are falling significantly. These powerful negative influences on travel of all segments are expected to keep passenger number growth negative throughout the first half of this year.



## PREMIUM TRAFFIC BY MAJOR ROUTE

- The most important premium market by revenue is the North Atlantic, though passenger numbers on premium tickets are higher within Europe. Because of earlier strength passenger numbers on the North Atlantic market were up 2% year-on-year over the January-November 2009. However, following the collapse in the banking sector in September there was a sharp decline. By November last year premium passenger numbers on the North Atlantic market had fallen to a level 9% lower than a year earlier. With deep recessions forecast this year at both ends of this market further declines in premium travel should be expected.
- The weakest of the three major long-haul premium travel markets is the Pacific, where passenger numbers slumped 17.7% in November. This has been a weak market for much of the year and for the period January to November 2008 premium passenger numbers were down 4.7%. The extent of this decline reflects the severity of recession. In the US jobs are being lost at a rate of over 500,000 a month, while in Japan industrial production fell very sharply at the end of last year to levels 8% down on the previous year.
- The third of the large long-haul markets, Europe-Far East, was also weak with a 9.9% fall of premium paying passengers in November. In all these markets economy travel has also weakened sharply now that consumer

confidence and incomes have fallen with declines of 13.6% across the Pacific, -3.8% across the Atlantic and -8.3% on Europe-Far East markets.

- ↗ There remains growth of premium travel in a few of the smaller markets. Within Africa and the Middle East there is growth, albeit much lower than previously, in both premium and economy travel. There is also some growth in travel numbers between these regions (still showing economic growth) and key export destinations such as Europe. However, the previously robust Latin American region is now in sharp decline as these economies are hit by the fall in commodities prices and the weakness of key trading partners in North America.

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## PREMIUM TRAFFIC GROWTH BY ROUTE

	Share of Total Premium:		Premium Traffic Growth	
	Traffic	Revenues	Nov 08 vs Nov 07	YTD 2008 vs YTD 2007
Africa – Middle East	1.1%	0.8%	0.0%	9.6%
Africa – SW Pacific	0.0%	0.1%	10.0%	6.0%
C America – S America	0.4%	0.1%	-0.6%	10.9%
Europe – Far East	9.5%	16.4%	-9.9%	-1.6%
Europe – Middle East	5.0%	7.0%	0.8%	7.9%
Europe – SW Pacific	0.1%	0.4%	-9.9%	-8.3%
Africa – Far East	0.2%	0.3%	-21.2%	-2.9%
Within Africa	0.7%	0.2%	8.2%	17.4%
Within Central America	0.1%	0.0%	-44.8%	-16.4%
Within Far East	10.3%	2.9%	-19.1%	-4.7%
Within Middle East	2.1%	0.7%	0.2%	10.8%
Within N America	1.1%	0.5%	-17.8%	-4.8%
Within SW Pacific	0.4%	0.2%	-5.6%	-1.1%
Within South America	1.0%	0.2%	-8.7%	7.5%
Mid Atlantic	1.3%	2.6%	-2.9%	3.0%
Middle East – Far East	2.7%	2.6%	-0.6%	7.7%
Middle East – SW Pacific	0.4%	1.1%	-14.1%	-7.4%
North Atlantic	15.9%	24.9%	-9.0%	2.0%
N America – C America	5.0%	1.8%	-5.0%	0.7%
Europe – Africa	4.5%	5.1%	-4.6%	2.8%
N America – S America	2.4%	3.5%	-2.9%	5.3%
Far East – SW Pacific	1.8%	2.3%	-9.1%	-2.4%
North & Mid Pacific	6.1%	14.1%	-17.7%	-4.7%
South Pacific	0.5%	1.5%	-12.8%	-7.6%
South Atlantic	2.7%	4.6%	-3.5%	10.7%
Within Europe	24.8%	5.8%	-17.4%	-9.1%
<b>Total International</b>	<b>100.0%</b>	<b>100.0%</b>	<b>-11.5%</b>	<b>-1.9%</b>

