



NEWS

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Strong Demand Continues -Recovery Enters Second Slower Phase-

25 August 2010 (Sydney) - The International Air Transport Association (IATA) announced international scheduled traffic statistics for July which showed continued strengthening of demand for both passenger and cargo traffic. Compared to July 2009, international passenger demand was up 9.2% while international scheduled freight traffic showed a 22.7% improvement.

These year-on-year comparisons for July were less than the June growth data showing 11.6% and 26.6% increases for passenger and cargo traffic, respectively. The apparent slowdown was entirely due to the fact that by July 2009 traffic was already starting to recover. After adjusting for seasonality, the improvement in demand was faster month-to-month in July than it was in June.

It is clear that the recovery has entered a slower phase. During the second half of 2009, demand was rebounding at an annualized rate of 12% for passenger and 28% for cargo. In the year to July, the annualized growth rates had dropped to 8% for passenger and 17% for air freight. However, this is still considerably above the industry's traditional 6% growth trend.

"The recovery in demand has been faster than anticipated. But, as we look towards the end of the year, the pace of the recovery will likely slow. The jobless economic recovery is keeping consumer confidence fragile, particularly in North America and Europe. This is affecting leisure markets and cargo traffic. Following the boost of cargo demand from inventory re-stocking, further growth will be largely determined by consumer spending which remains weak," said Giovanni Bisignani, IATA's Director General and CEO.

Passenger

- July global passenger traffic was 3% higher than the pre-crisis levels of early 2008.
- **Asia-Pacific carriers** outperformed the industry average with a 10.9% growth in July. This is consistent with the region's 10.6% growth measured year-to-date. A July capacity increase of less than half the demand growth (5.1%) pushed load factors higher. Leading the industry recovery, the region's carriers are expected to report a profit of US\$2.2 billion. This will be the largest gain in dollar terms in 2010 compared to 2009.
- **European airlines**, beleaguered by the region's weak economy, saw little growth when the recovery took off in the second half of 2009. These airlines are now benefiting from long-haul expansion in 2010. In July, passenger demand was up by 6.2% over the same month in 2009. But the region's slow start in the recovery process has seen it deliver the weakest demand performance among all the regions over the first seven months of the year (+3.6%).
- **North American carriers** recorded a 7.9% improvement in passenger demand in July over the same month in the previous year. Over the first seven months of the year, the region's carriers recorded a 6.3% increase, but kept capacity expansion to just 1.0%, raising load factors to 82.0% and producing strong gains in unit revenues that will support the region's return to profitability this year.

- **African airlines** are now benefiting significantly from the economic and travel upturn, outperforming the industry with 13.0% growth in passenger demand in July, which is consistent with the year-to-date improvement of 13.1%. Capacity is quickly coming back into the market with a 10.4% increase in July, limiting improvements in both load factors and financial performance.
- **Latin American carriers** outperformed the global average with passenger growth of 14.2% in July (10.9% for the first seven months of the year). Faster capacity additions have seen load factors drop, which will limit gains in financial performance.
- **Middle Eastern carriers** continue to add the largest amount of capacity (12.8% in July and 13.2% over the first seven months of the year). The region's carriers have managed to increase demand at even higher levels (16.8% in July and 19.4% over the first seven months of the year). Load factors and financial performance will record improvements this year.

Cargo

- July global cargo demand was 4% higher than pre-crisis levels in early 2008.
- A slowdown in air freight markets is expected in the second half of the year as the economic cycle moves into a new phase. Extraordinary freight growth rates in late 2009 and early 2010 were supported by businesses re-stocking their inventories. With the re-stocking cycle completed, air freight demand will be driven by consumer spending and business capital expenditure. Weak consumer confidence in Europe and North America will be a negative factor. But strengthening corporate profits are supporting an increase in capital expenditure that could continue to drive robust freight growth.
- The two-speed recovery continues to see weak growth by **European carriers** of 12.1% in July, less than half the 25.3% increase by **Asia-Pacific carriers** or the 27.1% growth recorded by **North American carriers**.

"Improving demand is an important component of the recovery. But it must translate to the bottom line. The anticipated 2010 profit of \$2.5 billion is only a 0.5% return on revenues. Hence, the financial situation of the industry remains fragile. We must go beyond recovery to secure sustainable profitability at levels exceeding the 7-8% cost of capital. For this, we need a change in the industry's structure," said Bisignani.

"Costs are a critical element. This year has been marked by strikes and threats of strikes at airlines, and with airports and air navigation service providers. Avoiding strikes at BAA and AENA, Spain's provider of air navigation services, were major accomplishments. We are all in this together—including all our partners in the value chain and those who work in this financially fragile industry. It is not the time for strikes. We must work together to secure our future by finding solutions to reduce costs," said Bisignani.

Bisignani also noted the need for a regulatory structure that facilitates consolidation across political borders. "The crisis has seen consolidation in Europe and the US. This month's merger announcement by LAN and TAM brings Latin America into the picture. And trans-national brands are serving customers effectively in many parts of the world. But we remain an industry of over a thousand players with only very limited opportunities to consolidate as a result of the antiquated bilateral system's restrictions on ownership. The business realities of the industry are changing. It is critical that governments find a modern regulatory structure that is free of outdated ownership restrictions and able to facilitate opportunities for consolidation globally—something that other industries take for granted," said Bisignani.

-IATA-

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Notes for Editors:

- IATA (International Air Transport Association) represents some 230 airlines comprising 93% of scheduled international air traffic
- We have launched a Twitter account *@iata2press*, specially catered for the media. Follow us now at <http://twitter.com/iata2press> for the latest industry updates.
- Explanation of measurement terms:
 - RPK: Revenue Passenger Kilometers measures actual passenger traffic
 - ASK: Available Seat Kilometers measures available passenger capacity
 - PLF: Passenger Load Factor is % of ASKs used. In comparison of 2009 to 2008, PLF indicates point differential between the periods compared
 - FTK: Freight Tonne Kilometers measures actual freight traffic
 - AFTK: Available Freight Tonne Kilometers measures available total freight capacity
 - FLF: Freight Load Factor is % of AFTKs used
- IATA statistics cover international scheduled air traffic; domestic traffic is not included.
- All figures are provisional and represent total reporting at time of publication plus estimates for missing data. Historic figures may be revised.
- International passenger traffic market shares by region in terms of RPK are: Europe 40.7%, Asia-Pacific 25.2%, North America 16.0%, Middle East 10.7%, Latin America 4.1%, Africa 3.3%
- International freight traffic market shares by region in terms of FTK are: Asia-Pacific 44.7%, Europe 24.3%, North America 16.6%, Middle East 10.4%, Latin America 2.8%, Africa 1.3%