

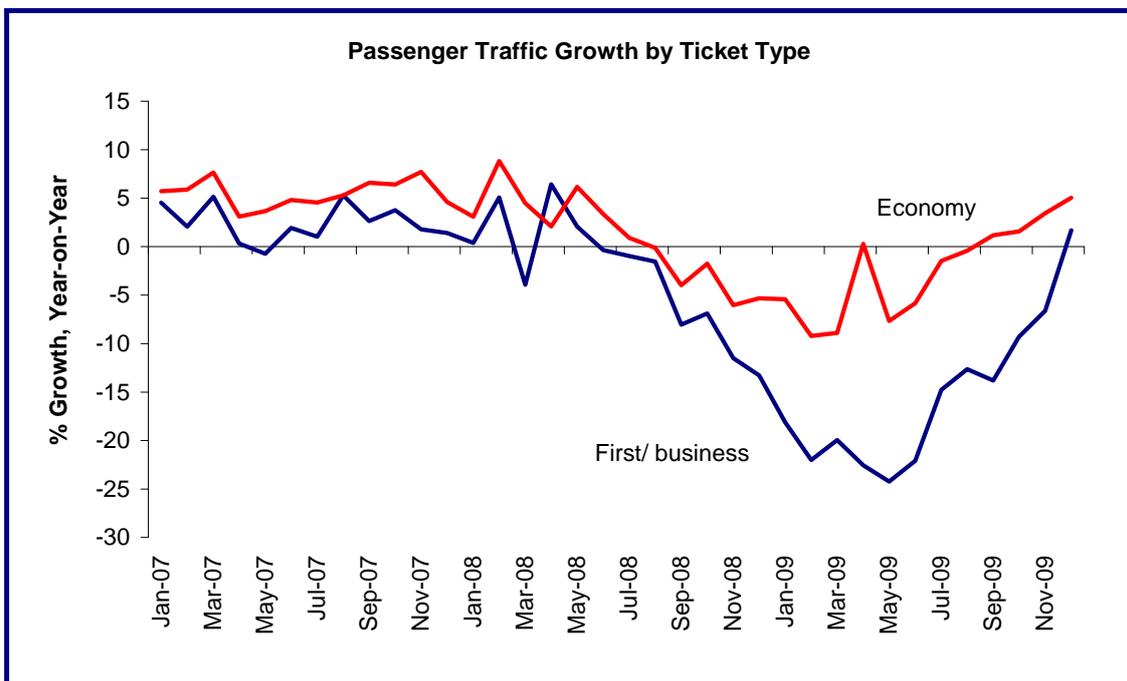
# PREMIUM TRAFFIC MONITOR

## DECEMBER 2009

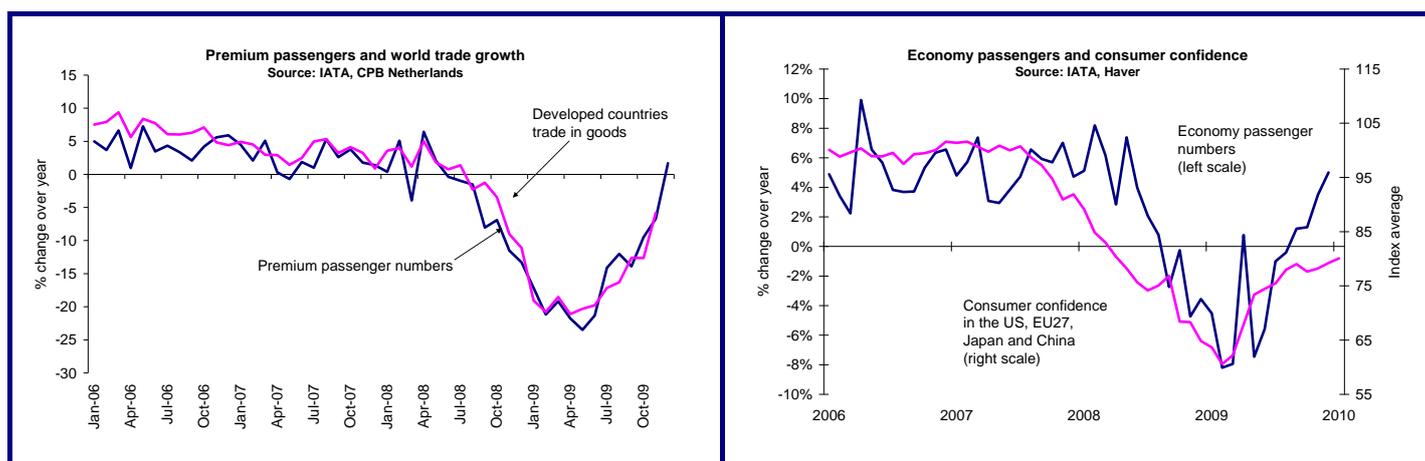
### KEY POINTS

- By December 2009 the number of passengers travelling on premium (business or first) seats on international markets had risen above year earlier levels for the first time since May 2008, to a level +1.7% above December 2008. Renewed positive growth rates have been seen for the number of passengers travelling on economy seats since September last year; by December economy passenger numbers were 5% above year earlier levels.
- 2009 was a year of two very distinct halves, with the final stages of severe recession impacting the first half and then the post-recession upturn in the second half. May marked the low point for premium travel, when numbers were 25% down on early 2008 levels. Although there has been an 11% upturn since then premium travel remained 17% below that previous 2008 high by December. Given trend growth of 5% a year, that implies that the industry has effectively lost 6 years of premium travel growth.
- The low point for economy travel was February, when numbers were down from early 2008 levels by over 9%. The 7% upturn since then took economy travel numbers to a level 3% below previous 2008 highs by December. As well as the boost from renewed economic growth there seems to have been a further switch by business travellers from premium to economy seats. By December economy travel had lost just over 2 years of growth.
- There were also large geographical differences in 2009. Economic recovery in Asia was evident in a strong second-half travel upturn within the Far East, and to a lesser extent on long haul markets to that region. Within Far East premium travel was up 14.5% by December. South America also showed a strong upturn, boosting long-haul markets to Europe; South Atlantic premium travel was up 7.7% in December. By contrast the North Atlantic saw large capacity cuts on both sides which, together with weak economic recoveries, led to premium travel levels still 1.1% down on the previous year by December, and economy travel down 2.9%. Flight segments to the Middle East continued to benefit from market share gains by Middle Eastern airlines

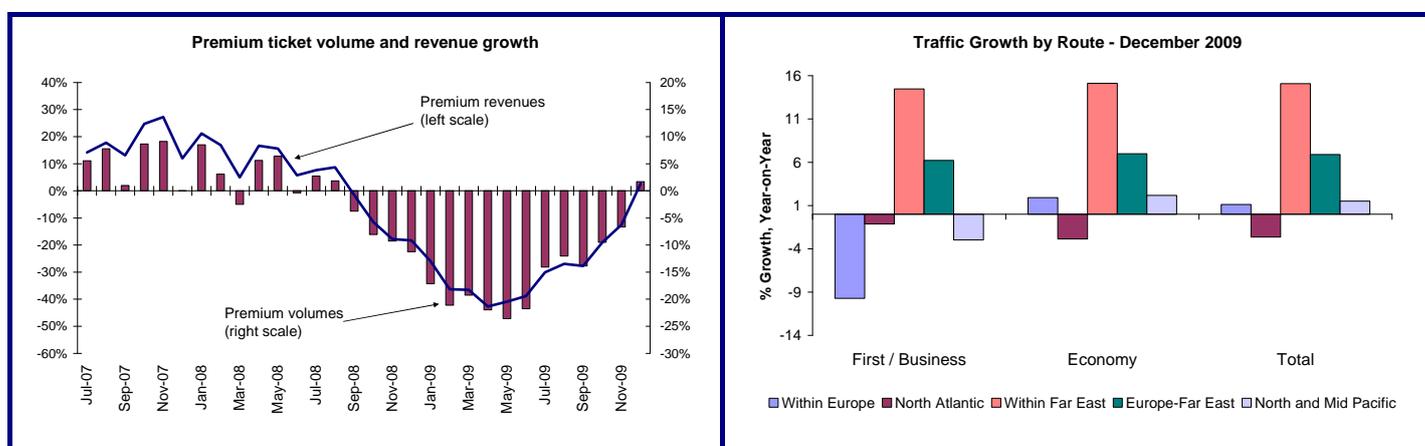
### PREMIUM TRAFFIC GROWTH



- Adjusting the data for seasonal fluctuations confirmed the strong end of the year for premium travel, with a rise from November to December of just under 3%. Since its low point in May premium travel numbers have been volatile month-to-month but have been growing at an average annualised rate of over 10% i.e. at twice the pace of trend growth. As pointed out above, with 6 years of lost growth, there is still a very long way to go despite the strong upturn seen since last May.
- The question is to what extent is that lost growth a structural shift or a cyclical fluctuation. Without further econometric analysis we cannot give a conclusive answer to this, but the chart on the left below suggests there is a significant cyclical element in the 2008-09 premium travel collapse. Not all those buying premium seats are on export business, but growth in the imports and exports of developed economies has moved by a very similar extent to premium travel. World trade has picked up significantly since May, to a similar extent as premium travel.



- It also looks as though the factors driving business travel are increasingly important for driving the number of passengers sitting on economy seats as well as premium. Travel for leisure will be quite closely related to consumer confidence. Indeed the low point in economy travel coincided with the low point in consumer confidence – in the US, EU, Japan and China – in February. Yet economy travel growth continued at around 6% a year for 6 months after consumer confidence started to decline in late-2007. Moreover, in the recent period of upturn, economy travel has continued to turn up despite the improvement in consumer confidence levelling off. Looking at the charts it is clear that the cycle in world trade provides a better fit than consumer confidence to the fall and then rise in economy travel. At this stage this is our interpretation of the data, and has not yet been confirmed by solid statistical analysis, but we think it reasonable to assume that changes in the number of economy as well as premium seat sales are being driven to a larger extent by business travel rather than leisure.



- The decline in premium and business travel numbers may have been cyclical (and we did see a similar 25% fall in 2001 and a larger 35% decline in 2003) but it is revenue that matters for an airline, and there are more grounds for thinking that there may have been a structural decline in yields from premium seats. The evidence above suggesting that business travellers are increasingly travelling on economy seats would certainly be one significant downward pressure on yields from seats at the front of the aircraft.

- ↗ There has been an upturn in the average fares (excluding fuel surcharges and taxes) on business and first class seats on international markets, since the middle of last year. Load factors have risen significantly, as capacity cuts have combined with returning travel demand. However, even given that 10% rise since last April, average premium fares are still 20% lower than they were in the second quarter of 2008.
- ↗ That 10% rise in fares from their low point, coupled with slightly larger percentage increase in premium travel numbers, took revenues from premium passengers to an estimated level 2.6% higher than December 2008. However, with premium volumes down 17% from early 2008 highs and average fares down 20% this implies premium revenues are still over 35% lower than airlines were earning in early 2008.

## PREMIUM TRAFFIC BY MAJOR ROUTE

- ↗ The deepest recession in air travel (and freight) was experienced in the Far East, and long-haul markets connected with the region, during the latter part of 2008 and early 2009, as the financial crisis turned into a slump in demand for manufactured goods, which disproportionately hit the Asian economies. However, these economies have been the first to recover due to Government stimulus actions, while the large western economies remain constrained by banking and private sector balance sheet problems. As a result there was a sharp upturn in premium and economy travel in this part of the world in the second half of 2009. By December premium travel numbers were up 14.5% on the previous year within the Far East. Economy travel was up 15.1%.
- ↗ With recovery sluggish at the US and European ends of the North Pacific and North Atlantic markets, the benefits of Asian economic revival was less marked than regional travel within Asia. Nonetheless, by December premium travel from Europe to the Far East was up 6.2%, while across the Pacific -3% was a distinct improvement on an average 20.2% decline for 2009 as a whole. Economy travel was up 7% and 2.2% respectively.
- ↗ The other major long-haul market – the North Atlantic – showed weaker travel development. Premium travel was down 1.1% by December and economy travel was down 2.9%. The economies of both ends of this market remain subdued. US GDP has been rather stronger than in Europe, but there is little sign of consumer regaining their confidence while unemployment continues to rise.
- ↗ Within Europe premium travel continues to remain weak. During 2009 there was a 25% fall in premium travel. By December numbers were still 9.7% down on the previous year. However, economy travel suffered much less in this market, falling 3.2% during the year as a whole and rising 1.9% year-on-year in December. Both classes of travel were hit by Europe's recession but a significant structural shift in business travellers from premium to economy seats on this short-medium haul market region accentuated the decline in premium travel and moderated the fall in economy.
- ↗ Flight segments to the Middle East stand out as showing continuous growth despite recession in the major economies. Since this data records flight segments rather than ultimate origin-destinations a large part of the growth reflects market share gains by Middle Eastern airlines on long-haul markets via their Middle Eastern hubs. This is supported by the stronger gains in economy rather than premium. Many business travellers will still value direct flights rather than connections, however efficient and well served. From Europe to the Middle East economy travel grew 9.6% in 2009 and was 13.8% up by December. Premium travel did fall, by 5.9% in 2009, but was up 7% by December. The Middle East to Far East segment showed a similar pattern with economy travel up 14.3% in 2009 and 18.6% by December, while premium travel fell 4% in 2009 but was up 15.8% by December.
- ↗ Central and South America suffered from the swine flu outbreak early in 2009. Within Central America premium travel fell over 40% in 2009 as a result. However, the more robust economies of South America generated significant travel growth. Within South America premium travel was up 21.5% by December. There was also a significant upturn generated for travel between South America and Europe, with premium travel on the South Atlantic up 7.7% by December and economy travel up 6.8% - in contrast to the more sluggish markets on the North Atlantic.

