

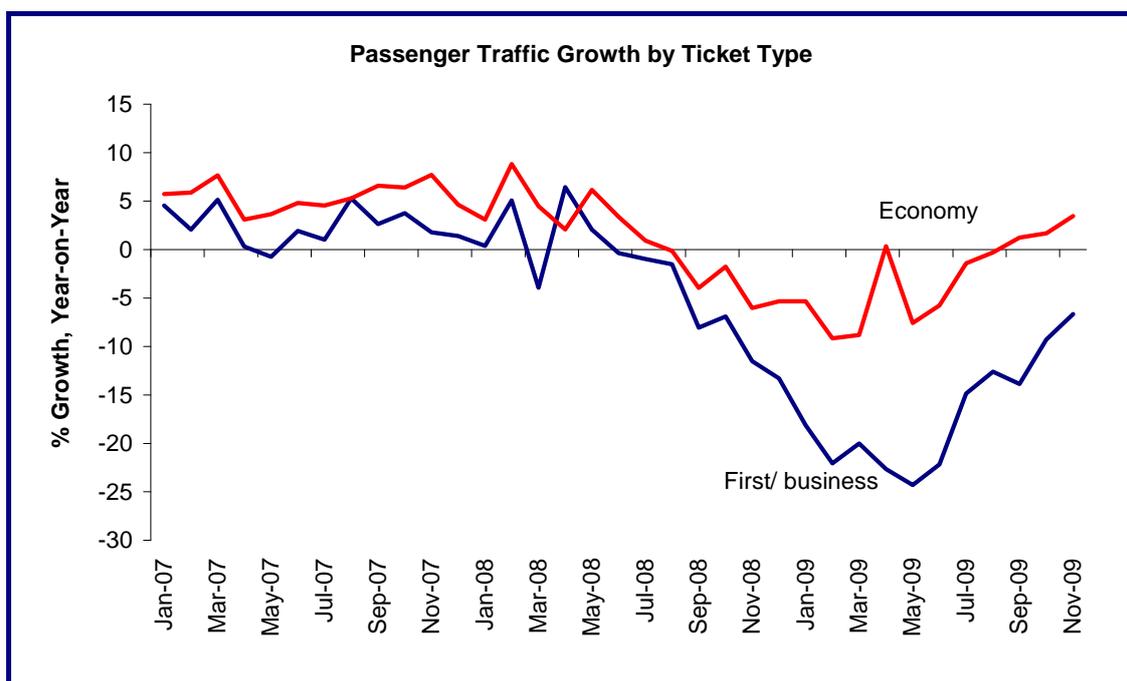
# PREMIUM TRAFFIC MONITOR

## NOVEMBER 2009

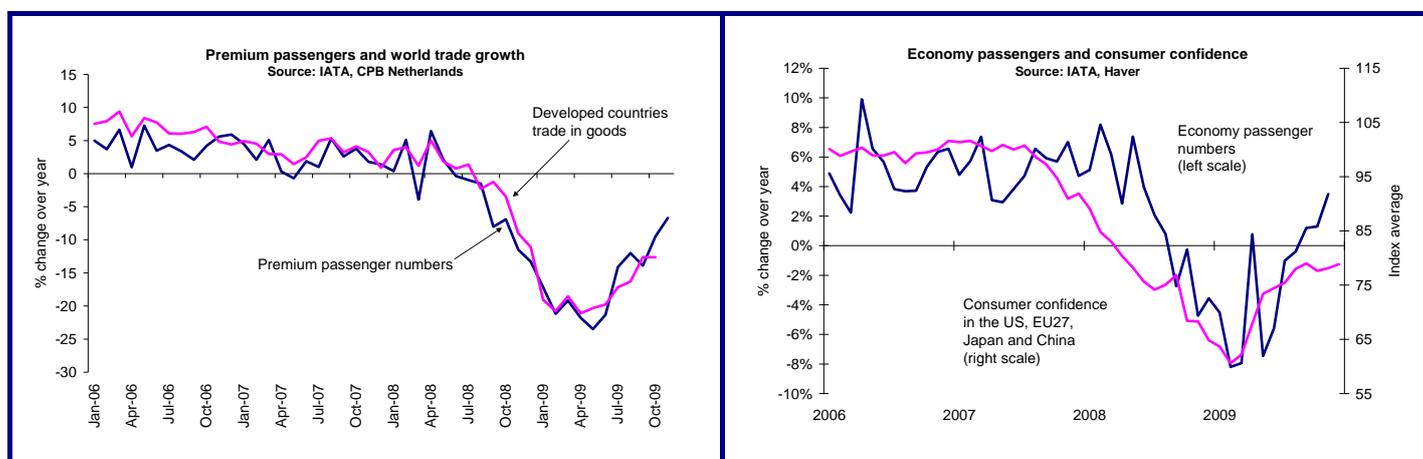
### KEY POINTS

- The number of passengers travelling on first or business class airline tickets during November was 6.7% lower than a year ago. The apparent improvement over the 9.3% decline in October was entirely due to the slump in business travel at the same time last year; month-to-month there was a slight fall in passenger numbers. There has been a rise in premium travel in recent months, which is now around 5% higher than its May low point, but much of the upturn took place mid-year, since then there has been little further progress once seasonal fluctuations are taken into account. Premium travel numbers are still over 20% lower than early 2008 levels.
- Economy travel is now showing positive year-on-year growth rates, up 3.5% in November, and economy travel levels are now just 4% below where they were in early 2008. Since economy travel represents over 91% of total international passenger numbers this has pulled total passenger travel into positive territory; up 2.4% on November last year. Total passenger numbers are some 6% away from recovering early 2008 levels.
- Although the seasonally-adjusted level of international passenger numbers fell slightly in November, from October levels, the trend since March remains upwards. Average annualised growth since that low point in total international passenger numbers has been around 6%, which is close to the trend of the past twenty years but only about half the pace of previous post-recession rebounds such as 1992.
- Large differences between geographical markets remain, reflecting the very different pace of economic recovery in major economies. So called developing economies, particularly in Asia and South America, are now growing strongly once more and this is reflected in (total) passenger growth of 11.1% within the Far East and 26% within South America. The US economy is showing reasonable growth but Europe remains weak. As a result within Europe international travel remains down 0.6% and transatlantic numbers are still down 3.9%. Middle Eastern markets are showing further growth with a rise of 13.9% within the region and 13.2% to the Far East.

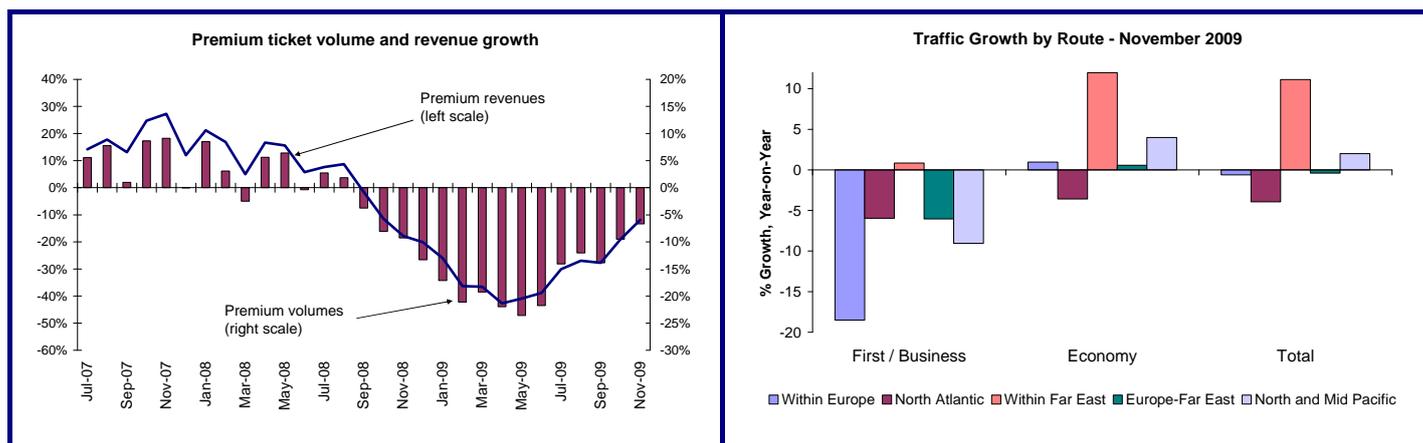
### PREMIUM TRAFFIC GROWTH



- Premium tickets are bought mostly by passengers travelling on business. Business travel continues to be closely correlated with moves in world trade – largely the trade in goods by the large developed economies. The chart below shows both world trade and premium travel growth bottomed out in May and have been improving in line with each other since then. World trade in goods rose particularly sharply in July and then September. Further gains in the rising trend seen since May in both world trade and business travel are likely in the next couple of months judging by the indication given from particularly strong air freight growth in November.
- Premium paying passenger numbers were around 5% above their May low point by November. This is a reasonable rebound but weaker than previous post-recession recoveries and there is still over 20% to go before early 2008 levels are regained. The same pattern is apparent in world trade, which is still 16% below its early 2008 level and financial market activity or stock prices have similarly only regained part of the losses seen in the past year or so. This would suggest that the majority of the decline in business travel seen over the past year was cyclical and should return with economic growth. Of course that depends on economic growth continuing, and most forecasts for growth in the developed economies – which support the majority of business travel – are for below trend growth over the next couple of years.
- Economy travel numbers are 4% above their low point this year but some 6% below where they were in early 2008. Business travellers are increasingly travelling on economy seats, particularly on the shorter haul markets, like within Europe, but the majority of this travel segment is for leisure and visiting friends and family. Leisure travel at least is closely correlated to consumer confidence. As the chart below shows both economy travel growth and consumer confidence in the major economies bottomed out in February, since when both have trended upwards. However, consumer confidence has stopped improving in recent months in the US, Japan and China and only half the 2008 decline has been regained. Rising unemployment and potential tax increases ahead may be keeping consumers cautious. This may limit the pace of further gains in economy travel, until the economic recovery spreads into rising employment and consumer incomes.



- Although premium passenger numbers represent less than 10% of total travel, higher yields mean they represent around 30% of passenger revenues for most network airlines. As a result the 30% fall in premium revenues in the first half of 2009 played a large part in the growth of airline net losses over that period.
- In response to the collapse in demand, total seat kilometres made available on international markets were cut by around 7% from early 2008 levels. This plus the upturn recently seen in travel demand allowed a recovery in load factors from the middle of the year. These tighter supply-demand conditions in turn allowed airlines to reduce the availability of cheaper fare categories and average passenger fares rose from the middle of the year – though they remain well below the levels of last year. Premium revenues have started to improve as a result and by November we estimate their level to be around 12% lower than November last year.



## PREMIUM TRAFFIC BY MAJOR ROUTE

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- Middle Eastern markets are showing further growth with a (total) rise of 13.9% within the region and 13.2% to the Far East. The European segment of long-haul Europe-Far East travel via Middle Eastern hubs also continued to show near double figure growth of 9.6%. African long-haul markets are also seeing growth in total passenger numbers with 17% to the Middle East, 6.8% to the Far East and 3.2% to Europe.
- However, much of the geographical growth described above has been in the economy seat category. Premium travel was down 18.5% on the within Europe market and down 5.9% on the transatlantic market in November. The strongest premium markets in November were within South America (up 18.2%), Middle East to Far East (up 13.7%) and N to S America (up 11.3%). Within Far East was also up 0.8%. These large differences reflect different growth in economic activity and world trade, as described above.
- Looking ahead it seems likely that premium travel – associated with increasing trade in goods and finance – will be given a further boost by the strong economic growth being experienced in Asia, South America and a few other locations. Economic recoveries are much weaker – particularly for consumer spending – in the big developed economies, in particular Europe. In these regions and across the Atlantic premium travel growth is likely to remain sub-trend for some time.

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18<sup>th</sup> January 2010

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## PREMIUM TRAFFIC GROWTH BY ROUTE

	Share of Total Premium:		Premium Traffic Growth	
	Traffic	Revenues	Nov 09 vs Nov 08	YTD 2009 vs YTD 2008
Africa - Middle East	1.1%	0.7%	3.3%	-5.9%
Africa - SW Pacific	0.0%	0.1%	-21.5%	-23.2%
C America-S America	0.4%	0.3%	9.2%	-18.0%
Europe - Far East	9.7%	15.6%	-6.0%	-17.1%
Europe - Middle East	5.3%	6.2%	-1.0%	-6.8%
Europe - SW Pacific	0.1%	0.3%	-6.8%	-6.6%
Africa - Far East	0.2%	0.3%	-15.5%	-25.7%
Within Africa	0.6%	0.3%	-12.9%	-4.4%
Within Central America	0.1%	0.0%	-24.0%	-42.6%
Within Far East	10.7%	6.3%	0.8%	-22.2%
Within Middle East	1.9%	0.7%	-1.1%	-9.7%
Within North America	1.0%	0.2%	-14.4%	-20.6%
Within SW Pacific	0.4%	0.1%	-12.9%	-9.2%
Within South America	1.3%	0.4%	18.2%	-7.4%
Mid Atlantic	1.3%	2.7%	-0.9%	-10.4%
Middle East - Far East	3.1%	2.4%	13.7%	-5.7%
Middle East-SW Pacific	0.4%	0.9%	14.0%	-4.9%
North Atlantic	16.1%	24.7%	-5.9%	-13.0%
N America-C America	5.2%	2.0%	-0.6%	-7.1%
Europe - Africa	4.6%	4.8%	-4.5%	-8.6%
N America - S America	2.8%	3.8%	11.3%	-5.2%
Far East - SW Pacific	1.7%	2.2%	-7.7%	-17.3%
North and Mid Pacific	5.8%	12.0%	-9.0%	-21.4%
South Pacific	0.5%	1.4%	0.7%	-14.2%
South Atlantic	2.9%	4.8%	-0.1%	-9.2%
Within Europe	22.5%	6.9%	-18.5%	-26.1%
<b>Total International</b>	<b>100.0%</b>	<b>100.0%</b>	<b>-6.7%</b>	<b>-17.1%</b>

