

MONTHLY TRAFFIC ANALYSIS

OCTOBER 2008

KEY POINTS

- Passenger traffic in October was not quite as bad as September's 2.9% decline but, with international RPKs 1.3% lower than a year ago, the downward trend continues.
- With international RPKs now up only 2.8% in the year to October, the outcome for 2008 as a whole is unlikely to exceed much more than 2%. When IATA surveyed the industry in the middle of the year airline expectations were for international growth this year of around 5%.
- Africa remained the weakest region and deteriorated further in October with a 12.9% decline in passenger traffic. Airlines in the Asia-Pacific region also suffered a further steep decline of 6.1% with traffic. This once booming region is only up 0.3% in the year to October and looks set to produce a decline for the year as a whole. Europe and North American airlines are in little better shape on international markets with growth of just 1.8% and a decline of -0.8% respectively. Even the strongest growth regions of Latin America and the Middle East have now been hit hard with growth of just 4.5% and 3.5% in October.
- Recession is driving declines in both passenger and air freight volumes. The fact that air freight volumes were even worse in October, down 7.9%, than September suggests the recession is deepening following the recent near collapse of the banking system.
- Airlines are responding with sharp reductions in planned capacity. International passenger capacity is now growing by only 0.9% and falls are shown in the schedules for coming months. However, the recession-induced collapse in air traffic has exceeded the ability of airlines to adjust capacity. Load factors are still falling sharply as a result. At 75% the average load factor in October was around 2% points lower than the same month last year, adding to the downward pressure on profitability.

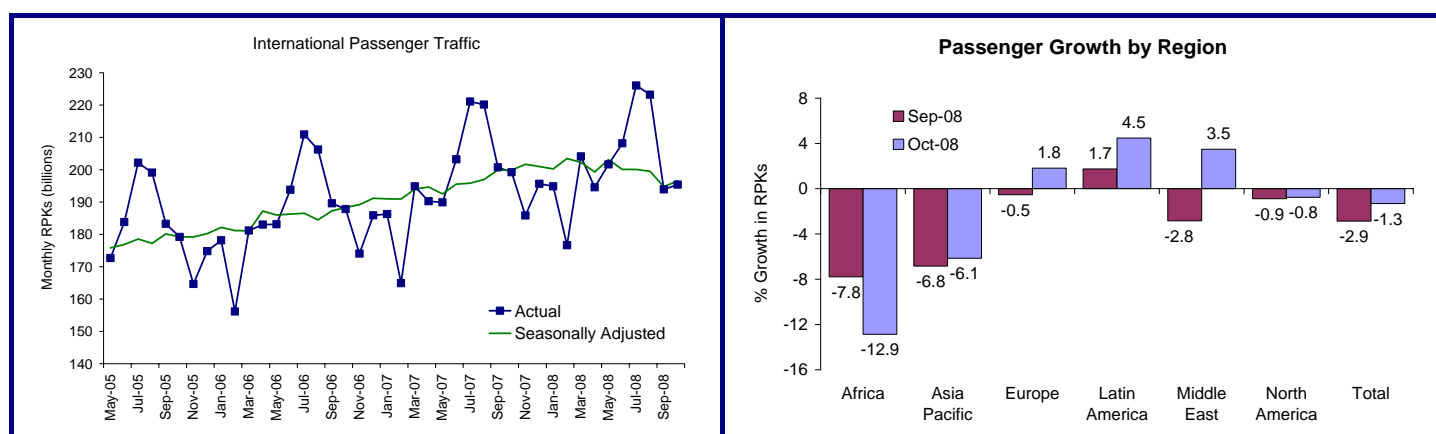
	Oct 2008 vs. Oct 2007					YTD 2008 vs. YTD 2007				
	RPK Growth	ASK Growth	PLF	FTK Growth	ATK Growth	RPK Growth	ASK Growth	PLF	FTK Growth	ATK Growth
Africa	-12.9%	-11.6%	69.4	3.0%	-13.8%	-4.1%	-4.7%	70.6	-1.8%	-7.8%
Asia/Pacific	-6.1%	-2.3%	72.2	-11.0%	-6.1%	0.3%	2.7%	74.3	-3.3%	-1.1%
Europe	1.8%	3.8%	77.0	-5.4%	2.7%	2.7%	4.8%	76.6	0.5%	4.2%
Latin America	4.5%	5.7%	72.5	-11.4%	1.6%	11.8%	10.0%	74.4	-12.2%	7.0%
Middle East	3.5%	4.1%	73.0	1.0%	3.5%	7.2%	8.5%	75.2	8.9%	9.2%
North America	-0.8%	0.4%	78.7	-7.6%	-0.2%	4.3%	5.2%	80.4	1.3%	4.4%
Industry	-1.3%	0.9%	75.0	-7.9%	-1.3%	2.8%	4.5%	76.2	-0.8%	2.7%

DECLINE IN INTERNATIONAL PASSENGER TRAFFIC CONTINUES

- Passenger traffic in October was not quite as bad as September's 2.9% decline but, with international RPKs 1.3% lower than a year ago, the downward trend continues. International markets were still growing at a pace of 5.4% in the first half of this year, after more than 7% growth in 2007. With international RPKs now up only 2.8% in the year to October, the outcome for 2008 as a whole is unlikely to exceed much more than 2%. When IATA surveyed the industry in the middle of the year airline expectations were for international growth this year of around 5% and 4.7% in 2009; those expectations are being dashed by the increasing damage to air travel being wrought by the recession.
- This data is measured by region of airline registration rather than origin or destination of the passenger, so changes in market share as well as local economic conditions shape outcomes. Africa has been the weakest

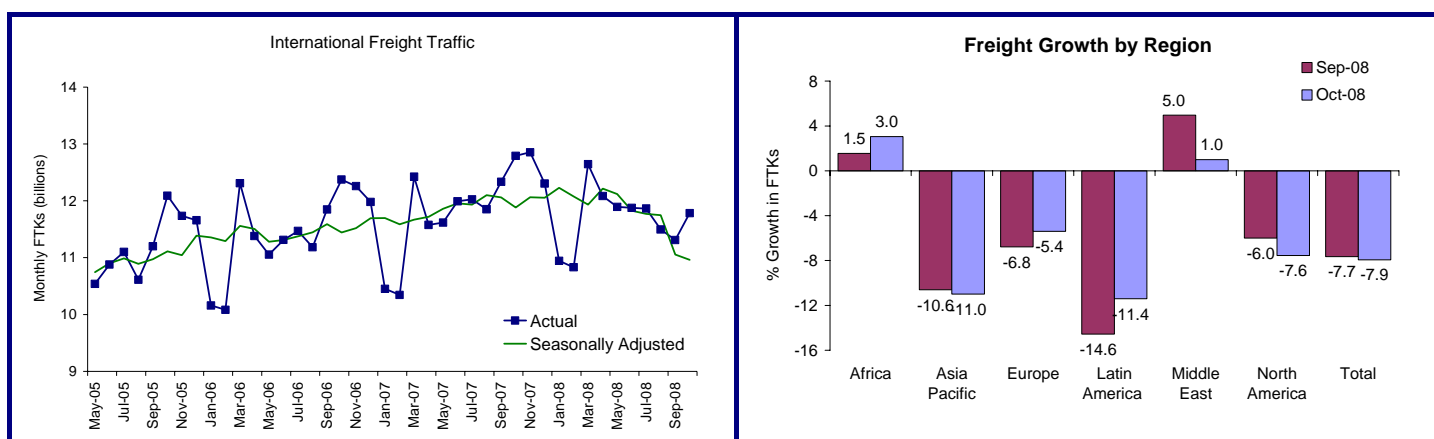
region all year, despite economic growth holding up. Air travel was also holding up well until September but within Africa travel is now slowing and intercontinental travel now falling. This is adding to the loss of market share suffered by African airlines, resulting in the 12.9% decline in traffic in October. This is the one region where traffic deteriorated relative to September.

- The two other recently booming smaller regions of Latin America and the Middle East both saw a slight improvement in October, to growth in international RPKs of 4.5% and 3.5% respectively. But even this growth is considerably worse than the double-figure rates of expansion seen during the first half of the year. Economic growth in these regions is forecast to stay positive in the 2-4% range over the next 12 months. But this is much slower than the growth that has previously helped to drive traffic growth. Moreover, airlines from these regions are mainly, particularly in the case of Middle Eastern airlines, serving long-haul connecting traffic. Recessions in the major airline markets of the US, Europe and Japan are now severely affecting the businesses of Middle Eastern and Latin American airlines.
- Of the major three markets Asia-Pacific airlines are suffering the most at present, with a 6.1% decline in traffic on their international markets, which is only slightly less than the 6.8% fall experienced in September. Japan, one of the largest markets with 15% of regional ASKs, is in recession with falls of GDP in both the second and third quarters. Already by August the number of passengers flying in and out of Japan was down almost 5% on the year. Elsewhere in the region international travel was still growing at quite a reasonable pace through August but there seems to have been a sharp fall in September on within Asia markets, routes across the Pacific and to Europe. However, there does seem to be an element of market share loss accounting for the fall in international RPKs carried by Asia-Pacific airlines. Origin-destination data shows Asia-Far East markets shrinking by 6-7% in September. However, data from the AEA shows European airlines with modest growth in passenger traffic on these markets.
- Much of Europe is also officially in recession with falls of national income in both the second and third quarters of this year. The international traffic carried by European airlines grew modestly by 1.8% in October, but data from the AEA shows that cross-border European traffic was falling as the recession hit travel within Europe. For European airlines travel across the Atlantic was flat during October, which may be the calm before the storm since last month marked the near collapse of the banking industry and a slump in business confidence generally. With both the US and European economies forecast to be in recession from now well into 2009 the fall in business travel across the Atlantic is likely to pull traffic for European as well as US airlines lower in the months ahead.
- North American airlines had enjoyed robust 5%+ international traffic growth through to August. This declined abruptly in September and continued to decline, by 0.9%, in October. Having switched much capacity from domestic markets onto previously more robust and profitable international markets, US airlines are being forced to reconsider their capacity plans.



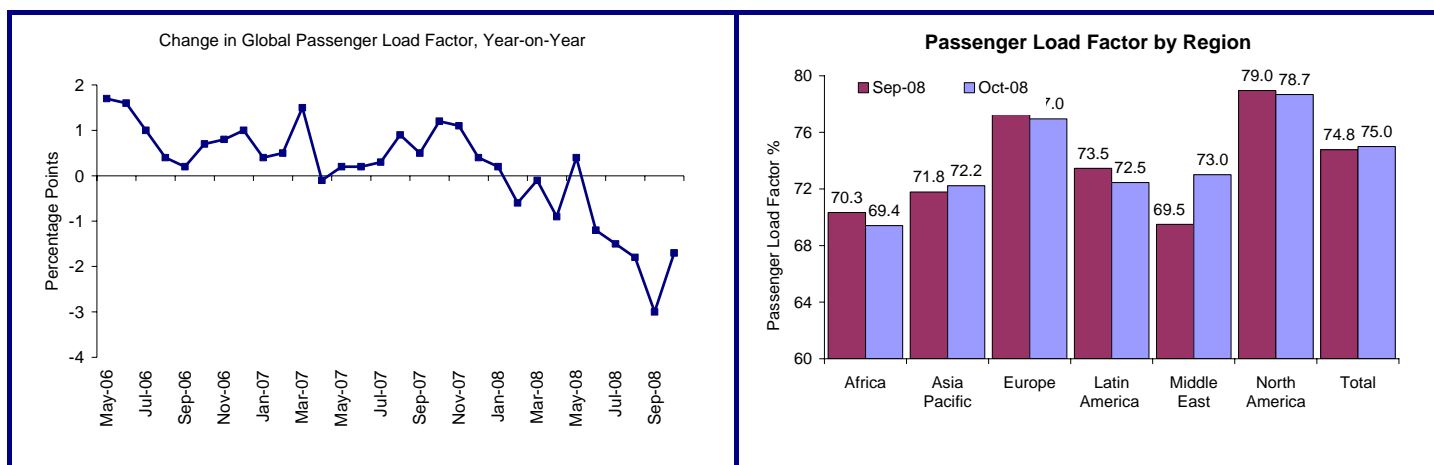
SHRINKAGE IN FREIGHT VOLUMES REMAINS AT LOW

- Passenger markets may have paused in October but international air freight volumes continued their steep decline. The level of international FTKs was down a further 7.9% in October, following September's 7.7% fall. International FTKs for the year to October are now down 0.8%. With further declines expected the average for 2008 now looks set to be in the region of -1.5%. With key air freight customers such as the Semiconductor Industry Association now forecasting a 5.9% decline in sales in Q4 and a 5.6% fall in 2009, further weakness should be expected in the months ahead.
- Air freight seems to be holding up for the African airlines, unlike the steep declines in their passenger business. This may reflect continued growth of trade in the region and perhaps more of a competitive advantage in the air freight market than with international passengers. Middle Eastern airlines also continued to expand air freight as wide-bodied capacity continues to be added by airlines in the region.
- However, there were steep declines in air freight in all other regions with double figure declines in both Latin America and Asia-Pacific. The fall in the freight business is particularly important for airlines in the Asia-Pacific region where it forms a much large part of revenues and profitability than for European or North American airlines. European and North American airlines are only suffering slightly less precipitous declines in the air freight volumes they carry with falls of 6.4% and 7.6% respectively.
- Recessions almost always hit air freight markets before passenger markets, since international trade falls before jobs start to be lost and consumer incomes damaged. The acceleration in the decline of air freight volumes suggests the recession got worse at the start of the fourth quarter. Since the recessions already seen in Q2 and Q3 were too early to have been driven by the fallout from the near collapse of the banking sector in September and October there is clearly worse to come.



LOAD FACTORS DOWN AS FALLING DEMAND OUTPACES CAPACITY CUTS

- Load factors and aircraft utilisation generally had been trending down throughout this year as accelerated aircraft deliveries and the consequent increase in capacity outpaced traffic growth that was still reasonable but not stellar during the first half of this year. The spike in fuel prices in June and July led to rapid action by airlines, particularly in the US to cut planned capacity in the rest of the year and into 2009. Now the recession and the slump in traffic has added to the need for capacity to be shrunk to better match expected demand. Those planned cutbacks are only now taking effect with growth of less than 1% in international ASKs in October.
- As a result of both the slightly better (less worse) traffic in October and the start of significant capacity changes, load factors were not as low compared to the previous year as in September when they were 3% points down. At 75% international load factors were around 2% points lower than they were in the same month last year.
- Significant 10%+ cuts are planned for US domestic markets. However, to date, schedules data suggests capacity on international markets will still be growing slightly in the months ahead, albeit dramatically slower than the 7-10% growth of earlier this year. With further declines in passenger traffic likely that implies some more decline in load factors and downward pressure on profitability.



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