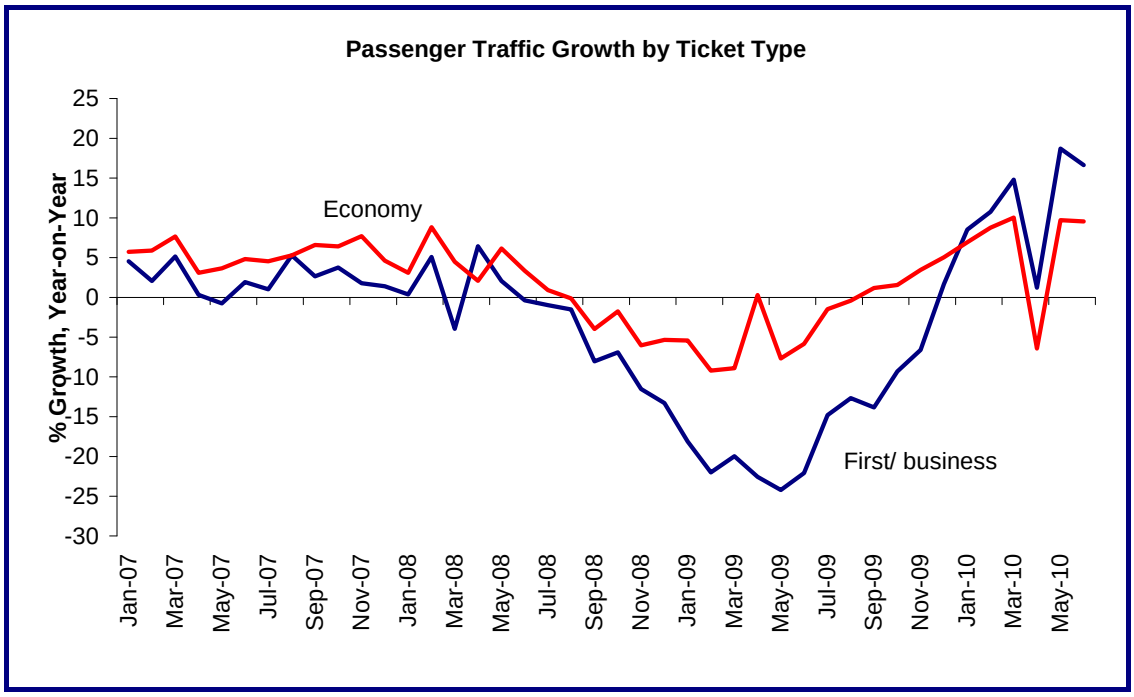
PREMIUM TRAFFIC MONITOR

JUNE 2010

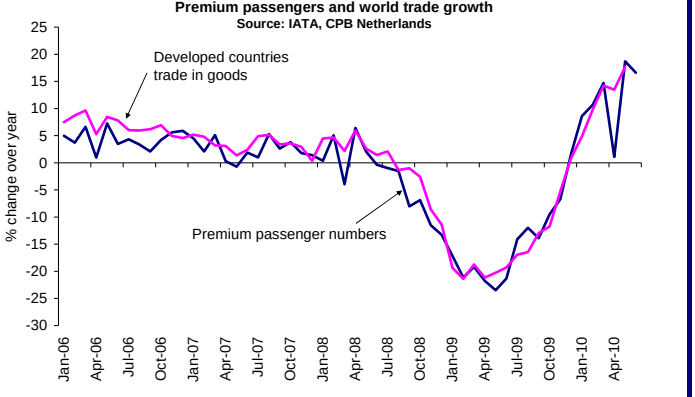
KEY POINTS

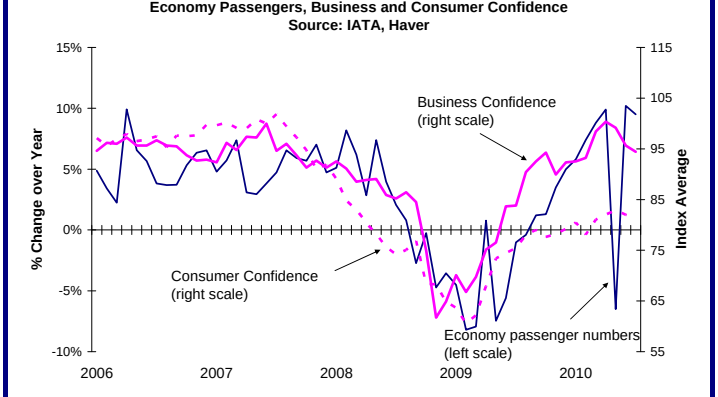
- June saw another rise in the number of passengers on international air travel markets. The numbers travelling on premium seats were 16.6% higher in June than the same month last year, while numbers on economy seats were 9.5% higher.
- These growth rates were a little weaker than in May, but that month did contain a number of trips that had been postponed from April due to the European airspace closures. Adjusting for the temporary impact of the European airspace closures shows that premium travel was expanding at an annualized rate of 9% in the second quarter, while economy travel expanded at an annualized rate of 6%. This pace of growth is slower than the first quarter and the second half of 2009, when air travel was rebounding from the depth of the 'Great Recession'. But they are still very healthy rates of expansion at or above the pre-recession trends.
- For the first half of 2010, even with the losses due to airspace closures in April, premium travel was up 11.9% and economy travel was up 6.3%. Total international passenger travel was up 6.8% in the first half of the year.
- Strong business travel is driving both market segments during this upswing. Coincident indicators like world trade have been very strong, rising 18% in May and supporting similar growth in premium travel. Forward-looking indicators such as business confidence have been similarly positive. However, there has been some slippage in recent months which is consistent with expecting some deceleration in year-on-year travel growth rates in the second half of this year. Still weak consumer confidence suggests leisure travel will remain soft.
- Regional differences remain, largely reflecting differing economic conditions. Asian markets continue to show strong growth, as do markets in South and Central America. Transpacific and Europe-Far East continue to show strength on the back of business travel generated by strong Asian economic growth. Transatlantic travel, with the weak European economies at one end, continues to underperform.

PREMIUM TRAFFIC GROWTH

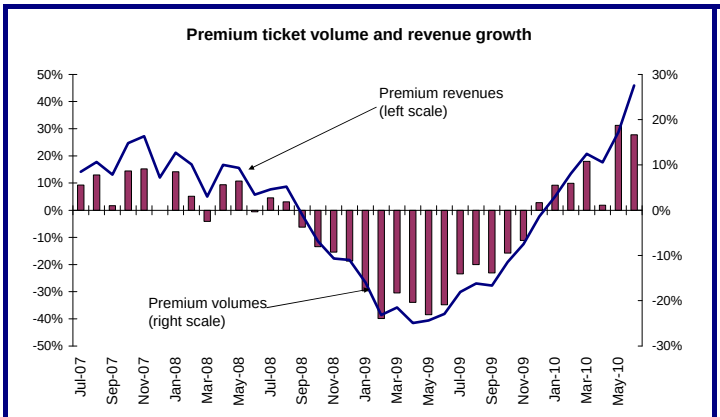


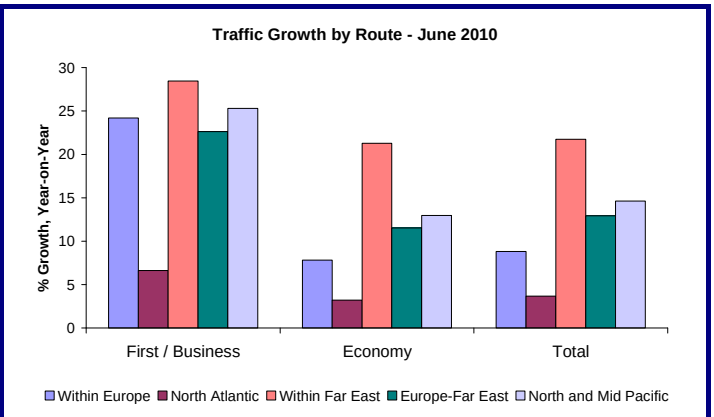
- The number of passengers travelling on premium and economy seats continued to follow an upward trend in June, however the pace of growth does now appear to be slowing down.
- The number of passengers travelling on premium seats was 16.6% higher in June than a year ago. Economy travel expanded by 9.5% during the same period. For the first half of 2010 premium travel volumes were up 11.9% on the previous year. After removing the distortion from the European airspace closure in April, we estimate that the number of passengers travelling on premium seats was expanding at a very strong annualized rate of 17% comparing the first half of 2010 against the second half of 2009. This estimated annualized rate for premium passengers is almost twice higher, in percentage terms, than the annualized growth rate observed for economy seats – a sign that the travel market is continuing to be driven by business passengers.
- However, there are signs that this very strong post-recession rebound in travel may be slowing. Even after adjusting for the European airspace closures the expansion during the first half of 2010 has been slower than the rebound in the second half of 2009.
- Such a slowdown is not unexpected, once pent-up travel decisions and the business inventory cycle have been completed. Adjusting for the airspace closures shows premium travel volumes slowing from an annualized pace of 11% during the second half of 2009, over 20% in the first quarter to just under 9% in the second quarter. Although slower growth, this is still double the average 4.5% growth rate in premium travel seen in the expansion years before the recession. A similar slowdown is visible in economy travel volumes, from 9% growth in the first quarter, to 6% second quarter growth (adjusted for the airspace closures). Economy travel is now expanding in line with the trend growth rate seen before the recession.
- At the moment the comparisons with the low point of the cycle is boosting the year-on-year growth rates to near or above double figures. The comparisons will produce smaller year-on-year growth rates from now on, due to the strong second half rebound in 2009. Over the rest of 2010 these growth rates will fall to the underlying growth rate, which appears at present to be in the region of 6% for economy and a little higher for premium.
- Although air travel has slowed from the pace of the first quarter the outlook remains positive. Coincident indicators of business travel, such as world trade, are supporting the growth of premium travel as the chart below shows. InterContinental Hotels reported good results in Q2. Exports and imports remain strong in most regions but the outlook is also for a slowdown to more normal trend growth of around 6%. Forward-looking indicators such as business confidence and financial market activity have been slipping in recent months, as the second chart below shows, however they remain at historically high levels. This indicator would also suggest that premium travel growth rates are likely to slow towards 6%.
- But there is little sign of a widespread revival in leisure travel. Consumer confidence eased in June, especially in Europe and in the US where fears of renewed economic weakness are high. Unemployment and consumer debt are still major concerns and consumers, in Europe at least, appear to be taking a cautious view on their spending by delaying travel for holidays. TUI report weak Q2 results and poor visibility on customer booking for leisure. This upcycle in economy travel is being driven more by business rather than consumer conditions, as the second chart below shows. The bulk of economy travellers are still travelling for leisure and to visit friends and family, but changes in this market segment are being driven by business travellers sitting at the back, rather than the front of the plane.





- We estimate premium revenue in June was up by just over 40% compared to the same month last year. This is not only due to the improvement in the number of passengers, but it is also driven by a strong rise in the average fare and yield supported by tighter supply-demand conditions. There is a lot of regional variation. US airlines are seeing yields and revenues rising very strongly. However, the 20% rise in the US dollar so far this year means that non-US dollar revenues do not look as buoyant when converted into US dollars. Whereas the seasonally adjusted passenger yield for US airlines (based on ATA data) is up 8% so far this year, industry wide average fares in US dollar terms have moved sideways after a significant second half of 2009 increase. Partly for this reason, despite large growth rates from the low point, the current level of premium revenues is still around 20% below its pre-recession peak.





PREMIUM TRAFFIC BY MAJOR ROUTE

- In June, the regional picture was consistent with what we observed early this year and continued to be driven by divergent economic conditions. The strong rebound in premium passenger numbers in emerging markets of Asia and Middle East continues, while routes linked to Europe remain sluggish as domestic demand remains weak.
- Routes linked to Asian markets, which represent more than 30% of premium revenues continued to show the strongest development despite a deceleration of economic activity in some countries in the region. There are concerns that China is slowing as the government acts to moderate very strong bank lending and potential inflation pressures. However, the expectation is that economic growth in this region will remain strong, albeit with a slower pace of expansion.
- In June, Middle East markets showed solid growth rates in premium passenger numbers. Economic conditions in this region are forecast to pick up in 2010, as GDP is expected to reach 4.3%, supported by high oil prices and supportive domestic policy conditions. Connecting traffic through the region is also expected to continue to expand at a strong pace.
- On the other end of the spectrum, the North Atlantic, which represents about 30% of revenue, remained sluggish in June, suffering from weak economic conditions in Europe in particular. On this market, the number of passengers, premium and economy travellers combined, rose by just 0.1% during the first half the year.
- African routes have been positively impacted in June by activities surrounding the FIFA world cup hosted by South Africa. The total number of passengers travelling from Europe to Africa rose by some 10.3%.
- The unexpected result is for travel within Europe, where the number of passengers travelling on premium class grew by 24.2%. This short/medium-haul market has been structurally weak in recent years as business travellers increasingly move to economy seats in this region. The growth is to a large part a one-off rebound from the exceptional lows at this time last year. It may also represent some business traffic connecting through the region to destinations in more economically buoyant parts of the world. However, Europe external trade is strong and European companies have generated strong profits during the first half of this year. This may have stimulated business and premium travel for this region. We would not expect these growth rates to persist.

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16th August 2010
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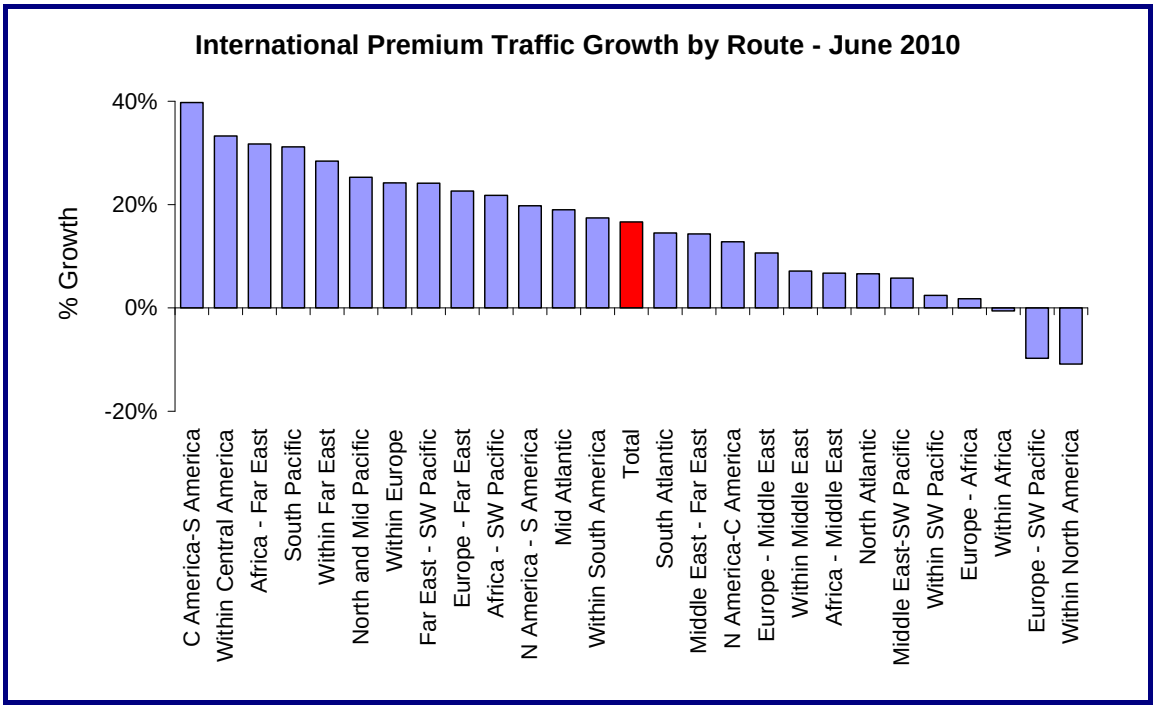
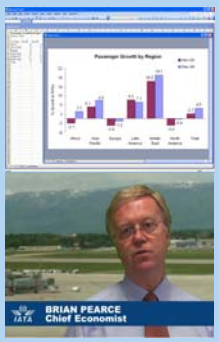
PREMIUM TRAFFIC GROWTH BY ROUTE

	Share of Total Premium:		Premium Traffic Growth	
	Traffic	Revenues	Jun 10 vs Jun 09	YTD 2010 vs YTD 2009
Africa - Middle East	1.0%	0.6%	6.7%	12.5%
Africa - SW Pacific	0.0%	0.1%	21.8%	-0.7%
C America-S America	0.3%	0.2%	39.8%	26.9%
Europe - Far East	8.8%	14.4%	22.6%	13.3%
Europe – Middle East	4.6%	5.0%	10.6%	9.9%
Europe - SW Pacific	0.1%	0.2%	-9.7%	-10.9%
Africa - Far East	0.2%	0.4%	31.7%	16.1%
Within Africa	0.8%	0.4%	-0.6%	-2.2%
Within Central America	0.1%	0.0%	33.3%	13.6%
Within Far East	8.9%	5.7%	28.4%	23.5%
Within Middle East	1.8%	0.6%	7.1%	8.3%
Within North America	1.0%	0.3%	-10.9%	-0.4%
Within SW Pacific	0.1%	0.0%	2.4%	4.7%
Within South America	1.0%	0.3%	17.4%	17.3%
Mid Atlantic	1.0%	1.1%	19.0%	10.1%
Middle East - Far East	2.5%	1.7%	14.3%	24.9%
Middle East-SW Pacific	0.4%	0.7%	5.8%	19.9%
North Atlantic	18.8%	29.8%	6.6%	3.6%
N America-C America	4.8%	1.7%	12.8%	9.3%
Europe – Africa	3.8%	6.3%	1.8%	-2.0%
N America - S America	2.4%	2.9%	19.8%	22.4%
Far East - SW Pacific	1.6%	2.2%	24.1%	10.9%
North and Mid Pacific	6.1%	14.2%	25.3%	15.3%
South Pacific	0.3%	0.7%	31.2%	32.6%
South Atlantic	2.6%	2.6%	14.5%	9.8%
Within Europe	26.9%	7.7%	24.2%	14.3%
Total International	**100.0%**	**100%**	**16.6%**	**11.9%**





FURTHER ANALYSIS AND DATA

Access video commentary and chart data related to this briefing through the Enhanced Edition: www.iata.org/premium-traffic