

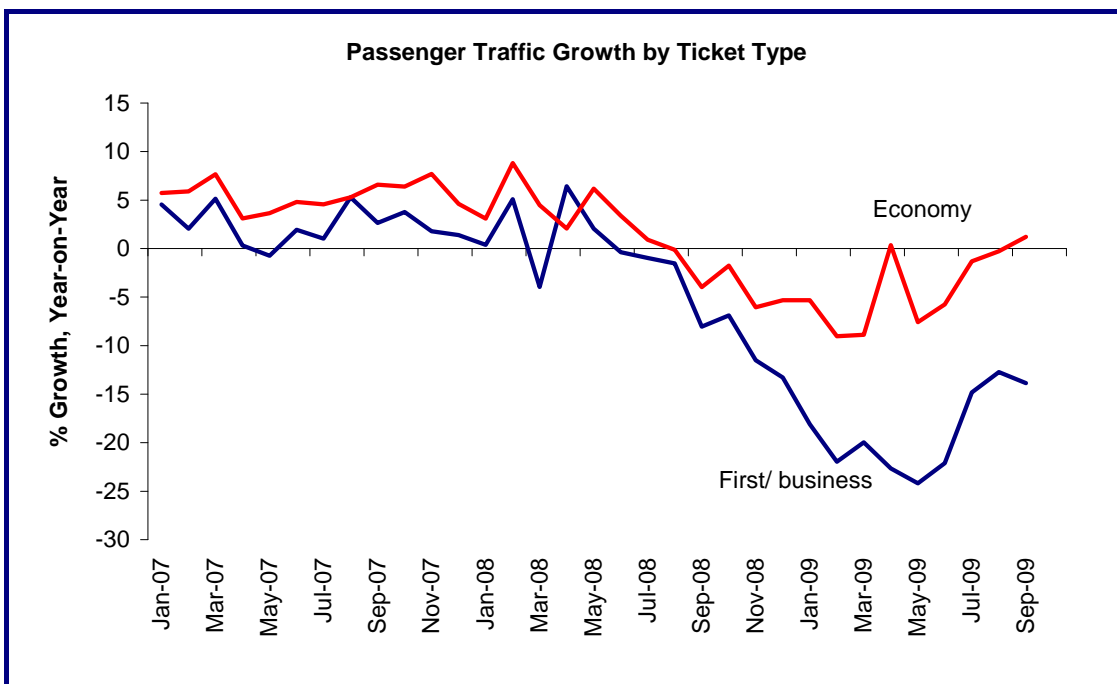
PREMIUM TRAFFIC MONITOR

SEPTEMBER 2009

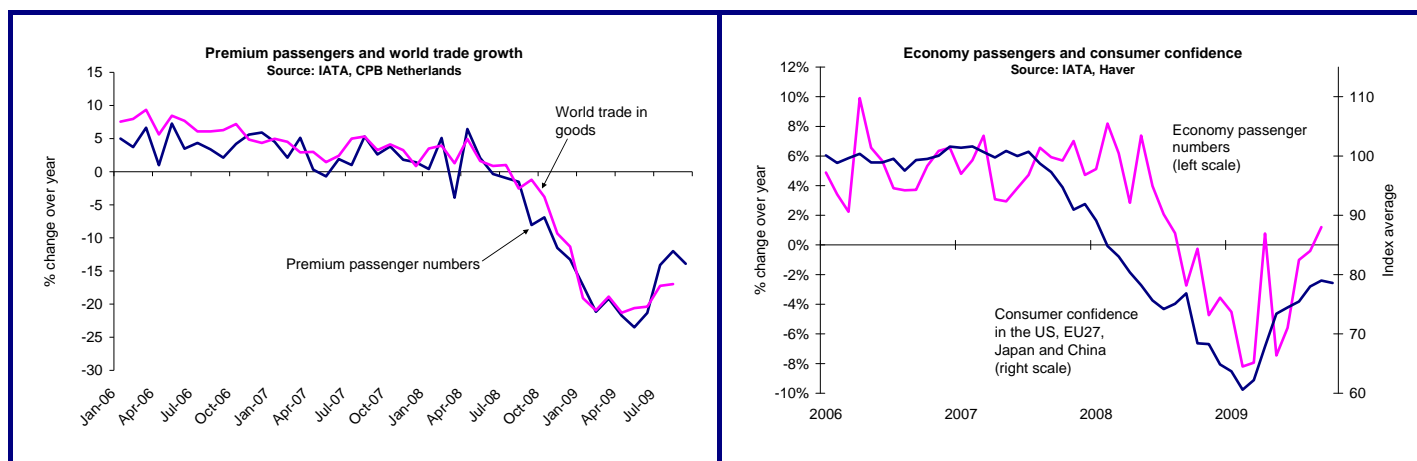
KEY POINTS

- Passenger numbers fell a couple of percentage points during September, as the recent upturn in both major economies and air travel encountered an area of turbulence. Premium travel numbers were 13.9% down on the previous year in September, a deterioration from the 12% August fall. Economy numbers were 1.2% up, compared to a 0.4% decline in August, but that rise was entirely due to the steep decline last September; the seasonally adjusted level of economy passengers was more than 2% down on the previous month.
- The question is whether this setback is just the usual volatility – upturns are never smooth – or a change in the previously improving trend. It was notable that both world trade and consumer confidence in the US dipped in recent months, which may well have driven the fall in passenger numbers seen in September. Most analysis of these wider economic developments suggest they are temporary setbacks in an improving economic recovery. Nonetheless, it is important to note that further improvement in the wider economy will have to materialise to sustain the improvement in air travel numbers.
- The differences in the geographical spread of economic recovery is reflected in travel markets. Economies have been improving most rapidly in emerging Asian countries. The same was true with both premium and economy travel; within Far East passenger numbers were up 6.7% in September and there were significant improvements in Pacific and Europe-Far East markets. Markets in the Americas and in the Middle East also improved. By contrast there were deteriorations in the large within-Europe and North Atlantic markets, where economies are still relatively weak, which dominated the overall results.
- Load factors are now back to pre-recession levels which is slowly improving fares and yields. However, the fall in passenger numbers almost entirely offset this benefit for revenues. We estimate that revenues from premium passengers was down some 27% on the previous year in September.

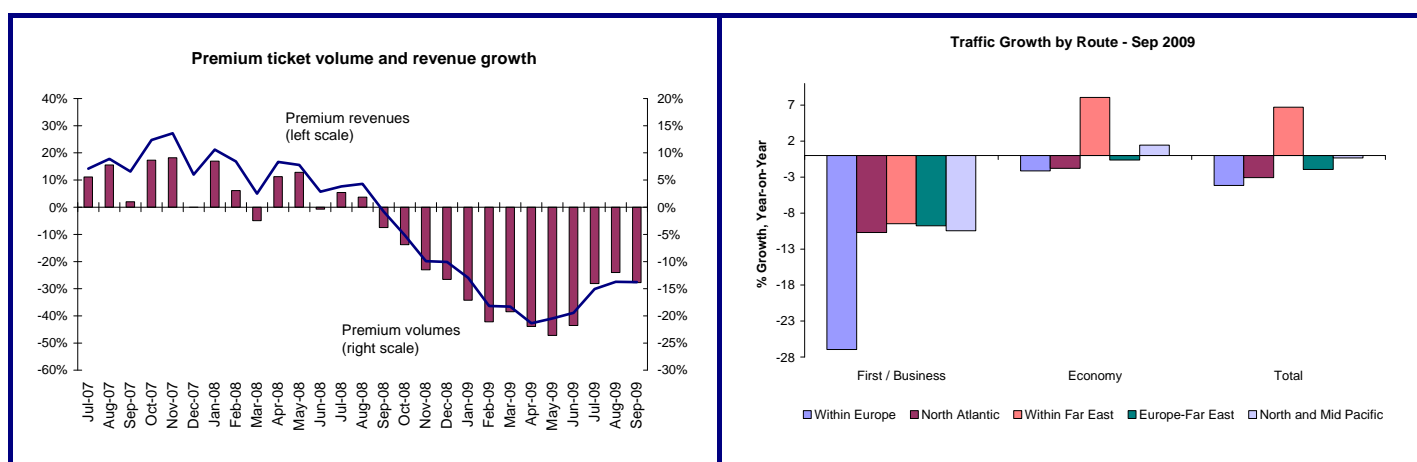
PREMIUM TRAFFIC GROWTH



- September marked an interruption to the improvement in air travel numbers that began in the second quarter. Premium travel numbers, which only began to improve in June, slipped back most noticeably with growth 13.9% down on the previous year, compared with the 12% decline in August. Economy travel was up 1.2% in September, compared with a 0.4% fall in August, but that was entirely due to the severity of the decline last September; the seasonally-adjusted level of economy travel fell around 2% during September.
- So far this year, with a quarter to go, premium travel numbers are 19% down on the same period last year. Economy travel, which represents more than 90% of the total, is 3.8% down. Total travel numbers are 5.3% down on the year. By the end of the year this decline should be a little smaller, so long as growth resumes during the fourth quarter.



- Most people buying premium tickets are travelling on business and a good indicator of business travel demand is world trade. The chart above shows how closely fluctuations in premium travel growth follow the growth in advanced countries export and import growth. Business travel is undertaken by service industries such as finance and consulting as well as goods producing industries, but they broadly move together so world trade in goods is a reasonable coincident indicator. The recovery in world trade faltered in August, which was followed the next month by a dip in premium travel.
- Economy travel is mostly driven by holiday trips, although there has been an increasing shift by business travellers from the front to the back of aircraft during the recession. The key driver of leisure travel can be assessed by the consumer confidence measure shown in the chart above. Economy travel continued to grow at a rate of 5-6% a year during the first half of 2008, despite the decline in consumer confidence – partly we think because of a shift by business travellers away from premium but also because of holiday trips having become less of a discretionary purchase. However, when consumer confidence started to rise at the end of the first quarter, so did economy travel. The improvement in economy travel to August matched better consumer confidence. However, in the past month confidence has dipped in the US economy as unemployment rose past 10%. This appears to have led to a pause in the improvement of leisure and economy travel.



- Airlines responded to the collapse in travel demand (as well as the earlier surge in fuel prices) by cutting capacity. In terms of seat kilometres available on international markets some 5% was taken out late last year. Ever since capacity has been held roughly flat. As a result the improvement in travel demand fed straight through to better load factors. These tighter supply-demand conditions stabilised fares and yields, which were both down 20%+ in the second quarter, and there has been a moderate improvement in the past few months. Premium fares were down over 23% in April. The decline in fares began this time last year so year-on-year growth rates will become less negative even if fare levels are unchanged. Even allowing for this there has been some pick up in average premium fare levels, which were around 16% down on September last year. But this was not sufficient to offset the impact of lower premium passenger numbers on revenues. As a result we estimate that revenues from premium passengers were down 27% in September.

PREMIUM TRAFFIC BY MAJOR ROUTE

- The fall in premium travel numbers in September was driven by declines in the large markets of within-Europe and North Atlantic premium travel, where numbers were down 26.9% and 10.7% respectively compared with declines of 20.5% and 7.8% in August. Economy travel did not deteriorate within-Europe in September so there may have been some further switching of business travel from premium to economy in this short/medium-haul market. However, the decline across the Atlantic is likely to have been associated more with weaker developments in the US and UK economies in recent months.
- Asian economies outside of Japan have been recovering strongly, as a result of large fiscal stimulus measures and the lack of the banking and consumer debt problems that are holding back some of the major developed economies. This has produced benefits for travel. Within Far East travel numbers rose 6.7% in September. Premium travel in the region is still down 9.5% but that is an improvement over the 10.4% decline seen in August. Across the North and Central Pacific travel numbers are almost back to year ago levels, with a 0.3% decline in September which is a marked improvement over the 8.2% August decline.
- Routes connected to the Middle East also showed solid growth which we interpret as a combination of O-D recovery and further market share gains on long-haul markets over Middle Eastern hubs. Note however that September's year-on-year comparisons were given a boost by the timing of the Ramadan holiday. Within Middle East travel was up 10.8%, Middle East to Far East travel was up 21.6%, Middle East to SW Pacific up 20.7%.
- Another notable improvement was in Central America, which had been hit severely by the impact of influenza A (H1N1). Within central America travel numbers were down just 2.3% in September, a dramatic improvement on the 33.9% fall in August. There are concerns however that this flu strain could become more severe during the Northern winter and resume its damaging impact on both health and travel.
- A number of the South American economies have been resistant to the worst of the global recession and have started to grow once more. Travel within the region is reflecting this relative economic improvement. Within South America travel numbers were up 2.1% in September, with premium travel up 1%, compared with declines of over 9% the previous month.
- African travel markets seem to have taken a turn for the worse. Within Africa travel was down 1.4% in September with premium travel down more than 10%. Travel between Europe and Africa was up 2.2% but that compares unfavourable to the 5% growth rate seen in August. One African market that has shown strong growth is the Middle East to Africa market, which was up over 15% in September. Africa and Far East travel was also up, by 3.3%. Both of these markets reflect travel associated with business investment as well as leisure travel.

PREMIUM TRAFFIC GROWTH BY ROUTE

	Share of Total Premium:		Premium Traffic Growth	
	Traffic	Revenues	Sep 09 vs Sep 08	YTD 2009 vs YTD 2008
Africa - Middle East	0.9%	0.5%	0.1%	-8.3%
Africa - SW Pacific	0.0%	0.1%	11.1%	2.8%
C America-S America	0.2%	0.1%	-16.9%	-25.8%
Europe - Far East	9.8%	16.5%	-9.8%	-19.3%
Europe - Middle East	4.4%	4.9%	-3.2%	-8.9%
Europe - SW Pacific	0.2%	0.4%	-2.4%	-7.1%
Africa - Far East	0.1%	0.2%	-19.1%	-27.5%
Within Africa	0.5%	0.2%	-10.5%	-1.4%
Within Central America	0.1%	0.0%	-8.3%	-44.7%
Within Far East	9.3%	5.0%	-9.5%	-25.8%
Within Middle East	1.6%	0.5%	-7.5%	-9.8%
Within North America	1.1%	0.3%	-28.3%	-20.4%
Within SW Pacific	0.4%	0.1%	2.8%	-8.2%
Within South America	1.0%	0.3%	1.0%	-11.9%
Mid Atlantic	0.8%	1.8%	-10.0%	-11.4%
Middle East - Far East	2.3%	1.4%	9.4%	-9.2%
Middle East-SW Pacific	0.5%	1.0%	11.9%	-8.7%
North Atlantic	19.7%	29.4%	-10.7%	-14.5%
N America-C America	3.5%	1.3%	1.5%	-7.7%
Europe - Africa	3.8%	3.9%	-10.1%	-9.2%
N America - S America	2.5%	3.2%	0.3%	-8.5%
Far East - SW Pacific	1.8%	2.3%	-9.4%	-18.9%
North and Mid Pacific	6.2%	11.6%	-10.5%	-23.6%
South Pacific	0.5%	1.5%	-4.3%	-16.8%
South Atlantic	2.9%	4.6%	-5.3%	-11.5%
Within Europe	26.0%	8.7%	-26.9%	-27.6%
Total International	100.0%	100.0%	-13.9%	-19.0%

