

PREMIUM TRAFFIC MONITOR

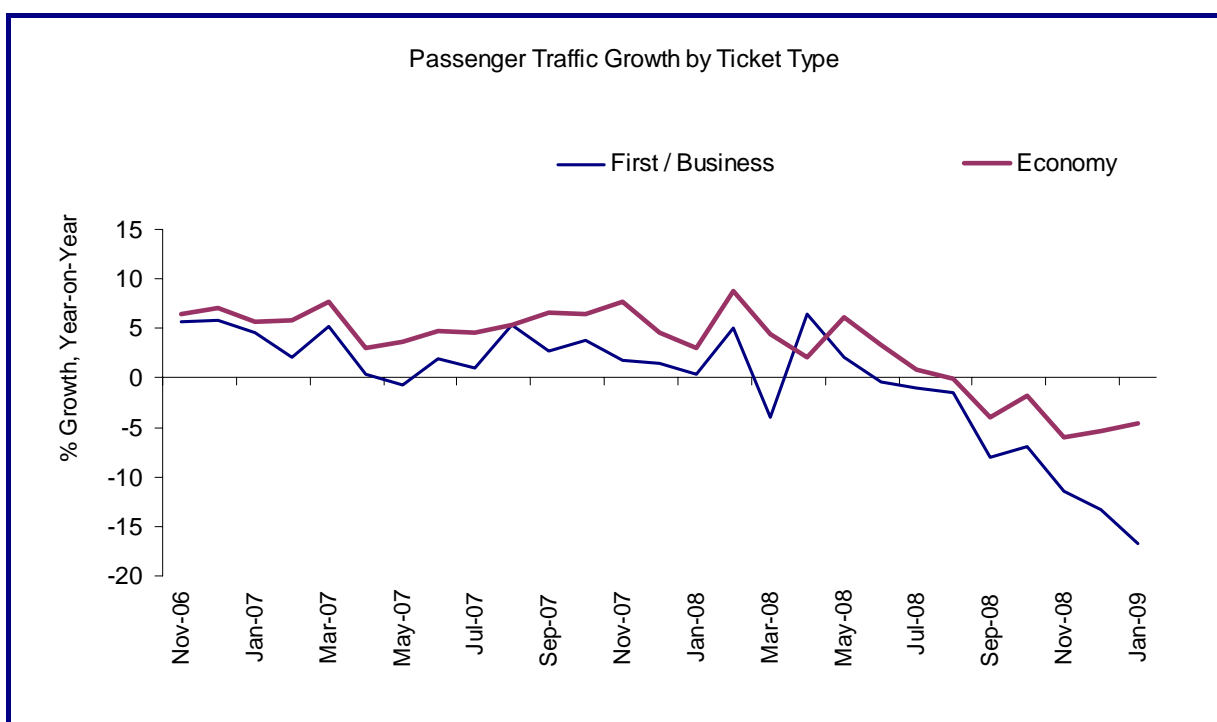
JANUARY 2009

KEY POINTS

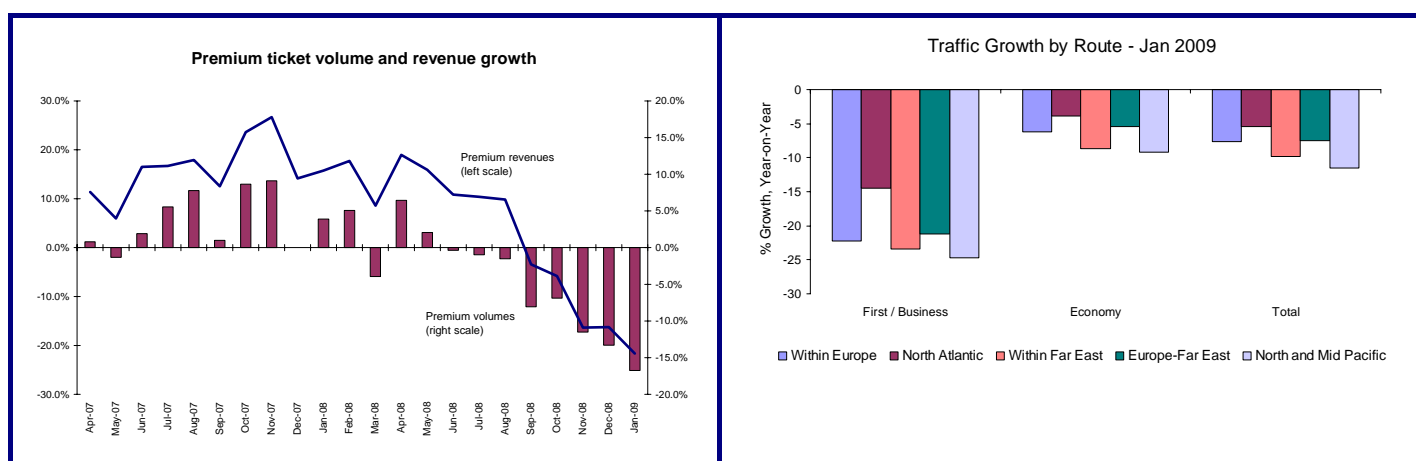
- The number of passengers travelling on first or business class tickets fell by 16.7% in January, a further substantial fall from December levels which were 13.3% down on the year.
- With average fares and fuel surcharges now falling significantly we estimate that revenues from premium passengers were down by at least a quarter in January, wreaking significant damage to network airline yields and profitability.
- There is some evidence of passengers trading down from premium to economy seats, particularly in Europe. However, the slightly slower decline of total passenger numbers of 5.9% in January compared with December's 6.1% drop was a temporary reprieve due to the boost to economy travel given by the Chinese New Year falling in January rather than February. A correspondingly larger decline is to be expected in February.
- What started as a financial crisis in the West has now become a crisis in manufacturing which has caused an unprecedented economic decline in Asian export-led economies. As a result premium travel was weakest in this region with a 23.4% decline in premium travel within Asia and a 24.7% fall in passenger numbers across the Pacific. European markets were also extremely weak with a 22.2% decline during January.

PREMIUM TRAFFIC GROWTH

- The number of passengers travelling on first or business class tickets fell by 16.7% in January, a further substantial fall from December levels which were 13.3% down on the year. Having started 2008 growing at rates close to 5% premium travel fell sharply from September, as the Lehman Brothers bankruptcy marked the start of the collapse in the banking sector – a key sector for business travel – and the onset of a major recession.



- There is evidence that business passengers are trading down to cheaper tickets. Economy travel has been falling at a slower rate than premium travel, and in fact has appeared to improve a little in the past two months. However, the slower decline of economy travel in January – which led to the decline in total passenger numbers easing a little from a fall of 6.1% in December to a fall of 5.9% in January – is almost certainly a temporary result due to economy travel generated by the Chinese New Year, which was in January this year rather than February. The trend in travel overall is still downwards with, as yet, no bottom to the decline in sight.
- Fares are also now falling sharply, as well as passenger numbers. By December average premium fares were down 6%, having risen strongly earlier in 2008 when fuel costs were surging higher. There is a lot of variation in fare changes by route, with declines of 16% and 11% within Europe and across the North Atlantic respectively, but some increase in average fares across the Pacific. These figures exclude fuel surcharges, where they are not included in underlying fares, so industry revenues from premium paying passengers were down in January by at least a quarter. For network airlines, focussed on serving this passenger segment, the decline in premium revenues is particularly damaging for yields and profitability.
- Business travel is highly sensitive to economic growth and developments in international trade and investment. In the past this passenger segment has been less sensitive to fare levels. The fact that average premium fares are falling faster than discounted economy fares on some markets, e.g. within Europe, is a measure of how severe the downturn in business travel has become. With GDP falling at extraordinary rates in Q4 of -20% in Korea, -12% in Japan and -6% in the US it is not surprising that business travel has fallen so far in January. With economic conditions still deteriorating, despite bank bailouts and fiscal packages, the bottom for the decline in premium travel numbers is not yet in sight.



PREMIUM TRAFFIC BY MAJOR ROUTE

- The weakest premium travel markets continued to be those connected to Asia in January. Within Asia premium travel fell 23.4% and across the Pacific there was a decline of 24.7%. Premium travel between Europe and Asia was down 21.2%. This has been driven by the collapse in international trade and investment in the region; exports of Japan's semi-conductors and car parts were both down by more than 50% in January. What started as a financial crisis in the Western economies has now become a manufacturing crisis, hitting the export dependant economies of Asia hardest.
- However, economy travel within and to Asia fell by less in January than in December. For instance within Asian economy travel was down 8.6% in January, compared with a 16.9% decline in December. This was large enough to affect total travel numbers for the industry, which fell less severely in January than in December. However, this does not mark the bottom of the decline since economy travel received a temporary boost from the Chinese New Year falling in January this year rather than February. A significantly larger decline in economy travel should be expected in February.
- The second weakest region was Europe, which has for many years seen premium travel falling off as business passengers move to cheaper seats on these shorter-haul markets. Both premium and economy travel numbers were down significantly more in January than December, -22.2% vs -16.3% and -6.2% vs -3.9% respectively.

This shows that the impact of the deepening recession is dominating overall travel numbers. However, there was also evidence of passengers switching to cheaper services in Europe. Whereas network airlines were cutting discounted economy fares by up to 20% at the end of last year, the larger LCCs in the region saw their average fares rise 20-40%. Fares also rose at the smaller LCCs but, unlike the larger LCCs with strong brands, they suffered significant losses of passenger numbers.

- Across the North Atlantic fares came down sharply at the end of last year for both premium and economy seats. Judging by ATA data on yields there was a further and larger fall in January, with the US airlines reporting a 6% decline following a 3.7% reduction in yields in December. As in European markets, both premium passenger and economy passenger numbers were down sharply in January, with falls of 14.5% and 3.9% respectively (compared to -8.8% and -2.1% in December).
- In January the only region to see additions to capacity was the Middle East, where airlines expanded ASKs by 10.8% through the delivery of new aircraft. It remains a severe challenge to fill these seats in this recessionary environment. The important premium travel segment was falling on all major markets served within and without the Middle East. However, economy travel was still growing with Asia (up 11%), with Europe (up 3.3%) and with Africa (up 2.1%).
- Africa was the only region to see any growth in premium passenger travel. Within the continent premium travel was up 18.9% in January and fares also appeared to be holding up.

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PREMIUM TRAFFIC GROWTH BY ROUTE

	Share of Total Premium:		Premium Traffic Growth	
	Traffic	Revenues	Jan 09 vs Jan 08	2008 vs 2007
Africa - Middle East	1.1%	0.8%	-12.2%	8.1%
Africa - SW Pacific	0.1%	0.1%	7.8%	8.7%
C America-S America	0.5%	0.2%	-6.7%	9.7%
Europe - Far East	8.4%	12.4%	-21.2%	-2.8%
Europe - Middle East	4.9%	6.3%	-8.5%	6.9%
Europe - SW Pacific	0.2%	0.5%	-9.5%	-8.0%
Africa - Far East	0.2%	0.3%	-28.2%	-5.0%
Within Africa	0.7%	0.2%	18.9%	16.9%
Within Central America	0.1%	0.0%	-43.1%	-18.2%
Within Far East	9.9%	2.3%	-23.4%	-6.6%
Within Middle East	2.0%	0.8%	-9.4%	9.4%
Within North America	1.2%	0.6%	-17.6%	-5.0%
Within SW Pacific	0.4%	0.1%	-27.8%	-3.7%
Within South America	1.2%	0.2%	-4.5%	6.5%
Mid Atlantic	1.5%	3.7%	-4.4%	2.3%
Middle East - Far East	2.7%	2.0%	-14.3%	6.5%
Middle East-SW Pacific	0.5%	1.1%	-26.1%	-8.5%
North Atlantic	16.2%	24.0%	-14.5%	1.2%
N America-C America	7.1%	5.0%	-7.4%	0.1%
Europe - Africa	4.6%	5.3%	-5.2%	2.0%
N America - S America	3.1%	3.9%	-10.0%	4.2%
Far East - SW Pacific	2.0%	3.3%	-7.9%	-3.4%
North and Mid Pacific	6.7%	16.6%	-24.7%	-5.9%
South Pacific	0.6%	1.3%	-28.5%	-8.9%
South Atlantic	2.9%	4.8%	-5.1%	9.4%
Within Europe	21.2%	4.2%	-22.2%	-9.5%
Total International	100.0%	100.0%	-16.7%	-2.8%

