

MONTHLY TRAFFIC ANALYSIS

APRIL 2009

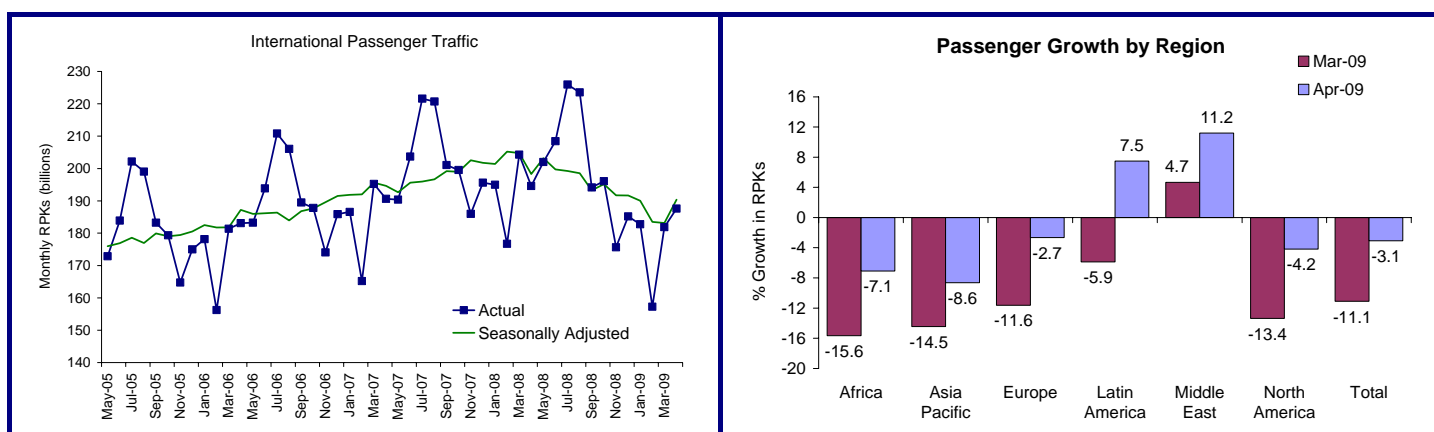
KEY POINTS

- Passenger traffic improved sharply in April, though it may be too soon to conclude that this marks a solid floor to the recent steep decline in air travel volumes. The decline in revenue passenger kilometers (RPK) flown on international markets slowed to a fall of 3.1% in April, following the large deterioration to -11.1% in March. The timing of Easter has distorted these figures with more leisure passengers flying in April this year, but even after adjusting for this there was still a significant improvement in air travel during April.
- There are two reasons for caution in interpreting this improvement. The first is that traffic gains were at the expense of yields in some, if not all, regions. Data on US airlines shows an improvement in traffic volumes but revenues on international markets continued to decline at a 20% rate in April, as yields fell faster. Second, early data on the first half of May suggests a renewed decline in traffic at a double figure rate, at least for European airlines.
- Air freight volumes do seem to have found a reasonably solid floor. In April freight tonne kilometers (FTK) flown on international markets were down 21.7% on a year earlier. This was a slightly larger fall than the 21.4% seen in March, but this was entirely due to the timing of Easter. The level of FTKs has been virtually unchanged throughout this year since reaching a low point in December 2008.
- Passenger capacity cutbacks also slowed in April to a reduction of 2.5%, following a 4.4% cut in March. In fact the load factor of 74.4% achieved in April was not far below the level seen a year ago, but that favourable view is due to low utilisation last year. Adjusting for distortions, load factors still seem to be declining at an underlying rate of around 3% points a year on average across international markets.
- Airlines in Asia-Pacific continue to suffer the largest declines in passenger traffic, though the air freight they carry declined at a slightly less severe rate in April. Airlines in Europe and North America are not far behind this region in passenger travel and have seen a very similar development in air freight so far this year. The exceptions have been for airlines in the Middle East and Latin America which have increased the passenger traffic they carry, but in the most part at the expense of substantially lower load factors and yields.
- Looking ahead there are encouraging signs of improving business and consumer confidence, and air freight does seem to have found a floor. However, high business inventories and household debt represent severe headwinds to any recovery in traffic volumes. Even if the April improvement in passenger travel does prove more durable than we expect this is not the case for yields and revenues which were still just as weak as previous months. We have still not reached the point where a significant recovery in traffic volumes, let alone revenues, can be seen ahead.

	Apr 2009 vs. Apr 2008					YTD 2009 vs. YTD 2008				
	RPK Growth	ASK Growth	PLF	FTK Growth	ATK Growth	RPK Growth	ASK Growth	PLF	FTK Growth	ATK Growth
Africa	-7.1%	-5.0%	73.4	-18.8%	-4.8%	-9.7%	-7.2%	70.4	-23.3%	-7.7%
Asia/Pacific	-8.6%	-7.4%	71.6	-22.3%	-12.6%	-11.2%	-7.2%	71.6	-24.7%	-12.2%
Europe	-2.7%	-2.6%	75.9	-23.3%	-5.5%	-7.4%	-4.5%	72.4	-22.3%	-6.1%
Latin America	7.5%	6.0%	71.2	-24.2%	1.5%	-1.1%	1.6%	72.0	-20.6%	-0.9%
Middle East	11.2%	12.3%	73.8	-11.1%	8.2%	4.9%	11.0%	70.9	-7.5%	7.1%
North America	-4.2%	-4.0%	78.1	-22.4%	-7.4%	-9.0%	-4.9%	74.7	-22.9%	-7.2%
Industry	-3.1%	-2.5%	74.4	-21.7%	-6.8%	-7.5%	-3.7%	72.3	-22.2%	-7.0%

INTERNATIONAL PASSENGER TRAFFIC IMPROVES BUT IS IT THE BOTTOM?

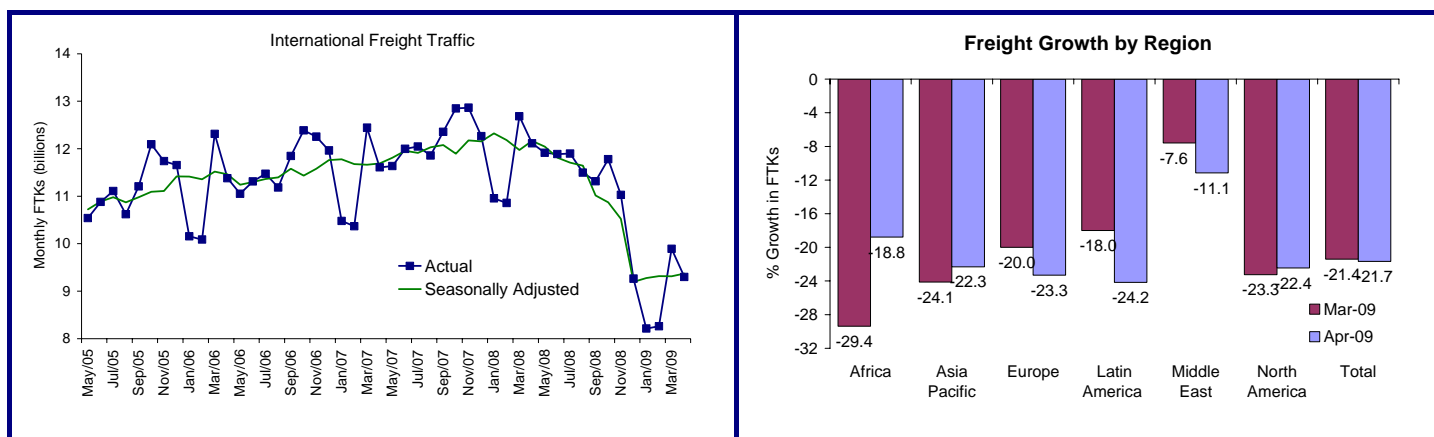
- There was a sharp change in the headline figures for revenue passenger kilometers flown on international markets in April; the large decline of 11.1% in March slowing to a much more moderate fall of 3.1% in April. These comparisons are distorted by the late Easter this year which gave a boost of at least 2% points to April year-on-year growth rates. Of course this does not come near to explaining the 8% point improvement in the growth rates from March to April but early data for the first half of May suggests a renewed decline at much higher rates, at least in some regions. It is too soon to be confident that a bottom has been reached to the decline in passenger travel.
- Nonetheless, the April data were much better than expected and represent a significant improvement on air travel compared with March. Adjusted for seasonal fluctuations international air travel RPKs improved by more than 3% in April over the previous month, having fallen by around 4% during February and March (see chart below).



- Improvements in air travel were experienced by airlines in all regions, to a broadly similar degree. All saw a 2-7% monthly rise in seasonally adjusted RPKs. The weakest region was Asia-Pacific where passenger travel volumes were 8.6% lower than a year ago in April. The strongest was the Middle East, where airlines boosted the traffic they carried by 11.2%. Latin American airlines also saw a significant increase with RPKs on international markets up 7.5%. The comparisons for N American and European airlines from this April to April 2008 are complicated not just by the impact of the timing of Easter but also by the 10% addition to transatlantic capacity last April as a result of the EU-US Open Skies deregulation. But even adjusting for all of this suggests April was better than March for air travel volumes.
- The economic data in April was mixed. Leisure travellers will have been faced with labour markets that were still deteriorating. Non-farm payrolls in the US fell a further half a million in April and unemployment continued to rise in Europe and Asia. However, surveys suggest that consumer confidence in both the US and Europe reached a low point in February, moved sideways in March and then improved during April. Business confidence has been improving for several months but business travel volumes were still falling in March. Usually leisure travel would also lag at least several months behind any improvement in consumer confidence before picking up.
- An acceleration in fare discounting during April may explain at least part of the improvement in travel volumes. The ATA report that US airlines saw their passenger yields plummet in April by 21% on N. Atlantic markets (vs. a 10% Q1 decline) and by 17% across the Pacific (vs. a 3% Q1 decline). Of course yields will have been weakened during April this year relative to April 2008 by the late Easter causing a much greater proportion of lower yielding leisure passengers in the mix. Nonetheless, coupled with falling fuel surcharges, there does seem to have been a faster fall in the cost of travel which may have attracted some additional traffic.
- The ATA data on US airlines show that stronger April traffic came at the expense of lower yields. In fact revenues on international markets for US airlines continued to fall at a rate of 20% in April. The decline was slightly more in March but that can be entirely accounted for by the timing of Easter.
- One reason for being cautious about thinking April has marked the bottom of the air travel decline is that, despite improving consumer confidence and falling fares, the AEA report that European airlines have experienced a renewed decline at double figure rates in the first half of May on all their major markets.

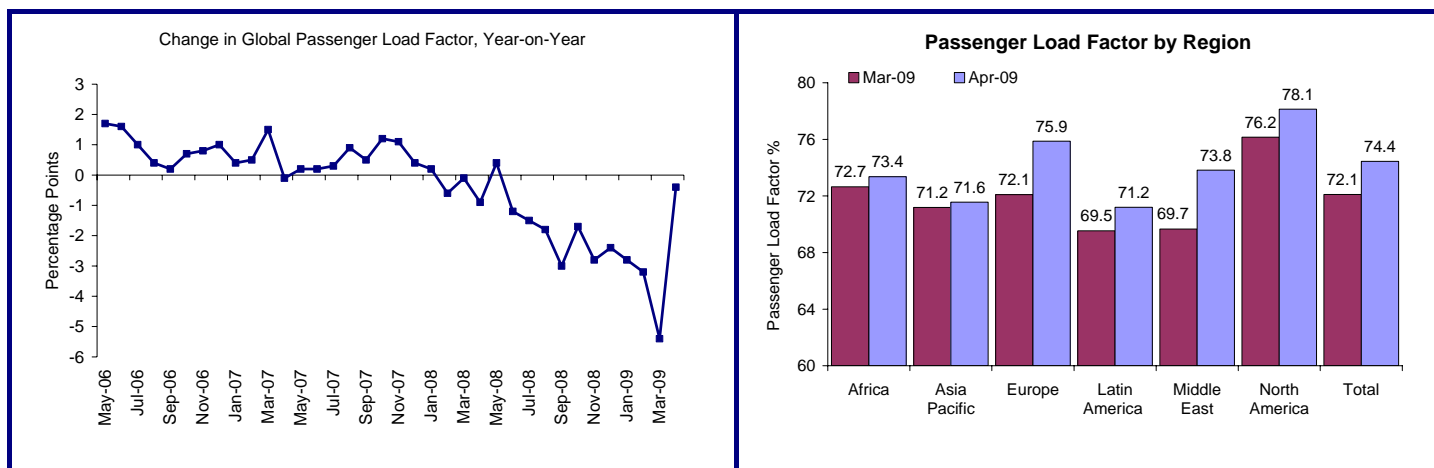
AIR FREIGHT VOLUMES SEEM TO HAVE FOUND A WELL DEFINED FLOOR

- Air freight volumes have always been a very timely indicator of turning points in world trade and broader economic activity. Freight tonne kilometres flown on international markets hit their lowest point in December and in the four subsequent months have moved sideways once adjusted for seasonal fluctuations. In April air freight volumes were 21.7% lower than a year earlier, following the 21.4% decline in March. The slightly larger decline in April was entirely explained by the late Easter this year. As the chart below shows air freight does seem to have established a well defined floor so far this year.
- This does point to a turning point for world trade and the widespread economic recession. The worst of the economic downturn may now have occurred. However, as the chart shows we are bouncing along the bottom of the economic downturn, at very low levels of air transport activity.
- An upturn is not yet seen in the data. But surveys of purchasing managers in manufacturing industries in the major industrial economies show that confidence has been edging up from the low point it reached in November last year. Because around half of air freighted products are components or capital goods this survey is usually a good lead indicator, suggesting we may see a moderate improvement in air freight volumes in the months ahead.



LOAD FACTORS BOUNCE UP BUT UNDERLYING 3% POINT FALL REMAINS

- Load factors improved sharply during April to 74.4% as airlines found their resized capacity better matched to lower air travel demand. This marks a sharp reversal of the downward trend in load factors seen since early last year. In particular it is a sharp rebound from the very low levels seen in March. A portion of this load factor swing is due to the distortion caused by the timing of Easter, with extra leisure traffic in April this year filling up the available capacity to a greater extent than last year, when Easter was in March.
- However, it may be too early to conclude that the capacity resizing cuts by airlines in many regions have finally caught up with the slump in air travel demand. Better loads in April were due to the apparent rebound in air travel volumes, rather than a larger cut in capacity. In fact, adjusted for seasonality, capacity (ASKs) was increased in April. The global fleet increased by over 100 aircraft. However the seasonally-adjusted rise from March to April of 0.7% was much less than the 3%+ estimated rise in air travel volumes.
- Projecting traffic and capacity forward into next month points to a resumption of the 3% point year-over-year decline in load factors once more from May. In fact the published schedules data suggests that by late summer capacity globally will be coming back in line with levels available at the same time during the previous year. April traffic was encouraging but, given the headwinds of household debt and continued labour market uncertainty, it is highly unlikely that passenger traffic will be back to year ago levels by late summer. As a result low utilisation rates – and poor profitability - are likely to continue for some time.



IATA Economics
27th May 2009
E-Mail: economics@iata.org