

# MONTHLY TRAFFIC ANALYSIS

## FEBRUARY 2009

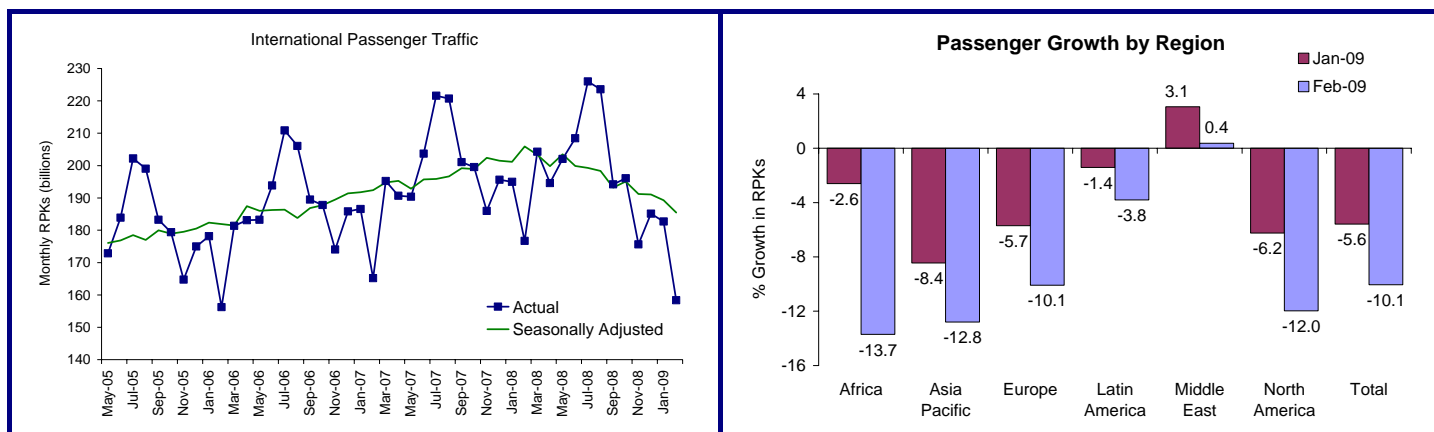
### KEY POINTS

- There was an accelerated decline in passenger travel during February leaving revenue passenger kilometers 10.1% below levels a year earlier, compared to the 5.6% decline seen in January. By contrast there are tentative signs of a floor having been reached in the air freight market. Freight tonne kilometers were 22.1% down on the previous year, after the 23.2% decline in January. The level of freight volumes has moved sideways since December.
- Freight may have reached bottom as manufacturers end their aggressive inventory cuts. However, there are no signs yet of a recovery in shipments beyond the ending of destocking and there is no guarantee that a further round of destocking will not take place. The decline in passenger travel is being driven by the impact on consumer confidence of the loss of jobs in many economies, and that process has further to go before a floor is reached.
- The fall in February air travel was spread equally across the major three markets. The 12.8% decline in traffic carried by Asia Pacific airlines was exaggerated by the timing of the Chinese new year, which fell in January this year rather than February. However, the 10.1% decline in traffic carried by European airlines and 12% fall for North American airlines is more clearly reflective of the depth of the recession. Only airlines in the Middle East are seeing any growth and that was barely positive at 0.4% in February.
- The industry is shrinking fast in response to this slump in demand for travel and air freight. Passenger capacity was cut 5.9% in February compared to the 2% cut in January. In all three major regions there were cuts in excess of 7%. Only the Middle Eastern airlines are adding capacity. However, there is no region where airlines have been able to resize their industry quickly enough to make lower demand. Load factors were down 3.2% points on average in the year to February, with the largest decline of 4.7% points in the Middle East. Lower utilisation across international markets will increase downward pressure on yields and on profitability during the first quarter.

|                 | Feb 2009 vs. Feb 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          | -13.7%                | -11.8%       | 69.8        | -30.7        | -13.6       | -9.2%                 | -6.9%        | 68.8        | -25.8%        | -8.5%        |
| Asia/Pacific    | -12.8%                | -7.8%        | 72.1        | -24.7        | -11.6       | -10.8%                | -5.6%        | 71.4        | -26.7%        | -10.9%       |
| Europe          | -10.1%                | -7.6%        | 70.2        | -23.1        | -8.5        | -7.7%                 | -5.5%        | 70.9        | -23.1%        | -6.7%        |
| Latin America   | -3.8%                 | -2.4%        | 66.9        | -22.8        | -4.0        | -2.5%                 | -0.9%        | 73.6        | -20.0%        | -2.0%        |
| Middle East     | 0.4%                  | 7.3%         | 68.1        | -4.8         | 5.4         | 1.7%                  | 9.1%         | 70.0        | -5.3%         | 6.4%         |
| North America   | -12.0%                | -7.1%        | 70.2        | -21.8        | -7.1        | -8.9%                 | -4.7%        | 72.2        | -21.6%        | -4.9%        |
| <b>Industry</b> | <b>-10.1%</b>         | <b>-5.9%</b> | <b>69.9</b> | <b>-22.1</b> | <b>-7.9</b> | <b>-7.8%</b>          | <b>-3.8%</b> | <b>71.3</b> | <b>-23.0%</b> | <b>-6.4%</b> |

### INTERNATIONAL PASSENGER TRAFFIC SHRINKING AT FASTER RATE

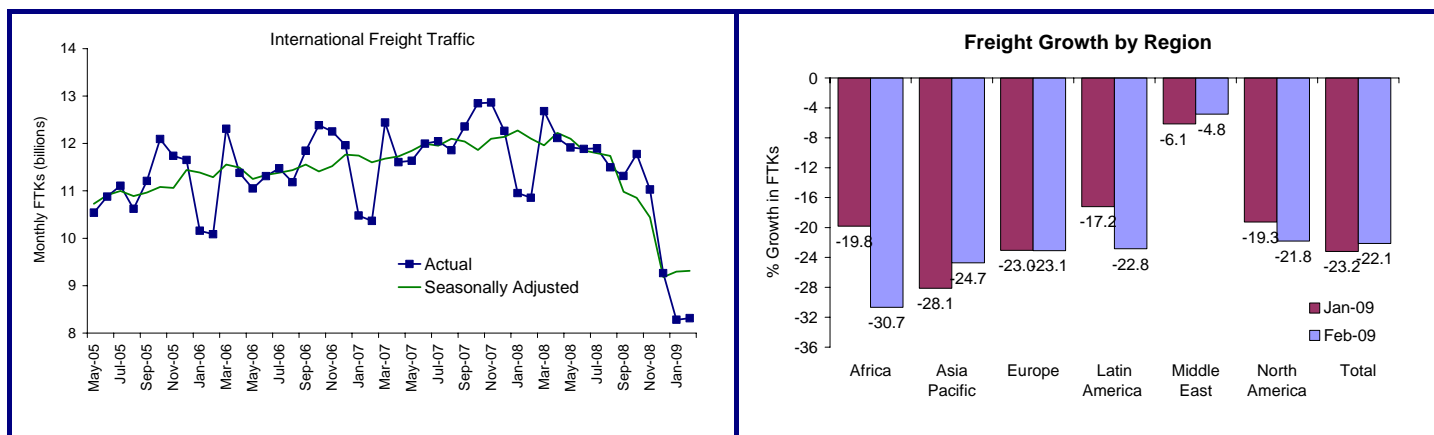
- There was an accelerated decline in passenger travel during February leaving revenue passenger kilometers 10.1% below levels a year earlier, compared to the 5.6% decline seen in January. We have seen 20%+ declines in particular months after the shocks of the 9-11 terrorist attacks and SARS but recovery on international markets was quite rapid after these events. The largest annual average decline in international traffic seen in both 1991 and 2001 were 3-4%, which highlights the severity of the decline we are currently experiencing.
- After removing the very large seasonal fluctuations in passenger demand, the chart below shows that there was an accelerated decline during February. Passenger traffic was down 1% during January from December but was down 2% during February over January, an annualised rate of over 20%.



- This accelerated decline was widespread across the three largest markets. Asia-Pacific markets were distorted downwards in February by the comparison with February 2008, when Chinese travel was boosted by the Chinese New Year falling in February whereas this holiday travel took place in January this year. Nonetheless, the European airlines saw their passenger volumes fall 10.1% and North American airlines saw a 12% decline. Clearly there was a significant underlying deterioration in air travel in February.
- This accelerated fall in travel matched the further decline in consumer confidence in February, which reached all time lows in the US and fell further in Europe and elsewhere. Job losses in the US eased slightly in February, though only to 651,000, but it may be the rate (and risk) of unemployment that is having a larger impact on consumer confidence, and that rose further to 8.1% in February.
- In the smaller markets there was substantial divergence of performance. The Middle Eastern airlines stand out as the one region where capacity and services are still expanding and where passenger travel is still growing, though at 0.4% in February passenger growth has virtually ground to a halt there. At the other extreme African airlines suffered the largest decline with a 13.7% fall in RPKs, a marked deterioration from January. It is not clear at present where this reflects a further loss of market share by the African airlines or a sharp fall in air travel. In January the continent was still generating reasonable growth in passenger travel within Africa and on some intercontinental markets. Latin American markets have been less severely affected but are now suffering from recession in their main trading partners and traffic slipped 3.8% in February.

## AIR FREIGHT VOLUMES SHOW TENTATIVE SIGNS OF REACHING A FLOOR

- The chart below shows that, once seasonal weakness is stripped from the data, there are tentative signs that a floor has been reached in the past three months, following the precipitous decline in air freight volumes at the end of last year. Air freight was down 22.1% in February following the 23.2% decline in January. However, month to month there has been a very minor rise since December.



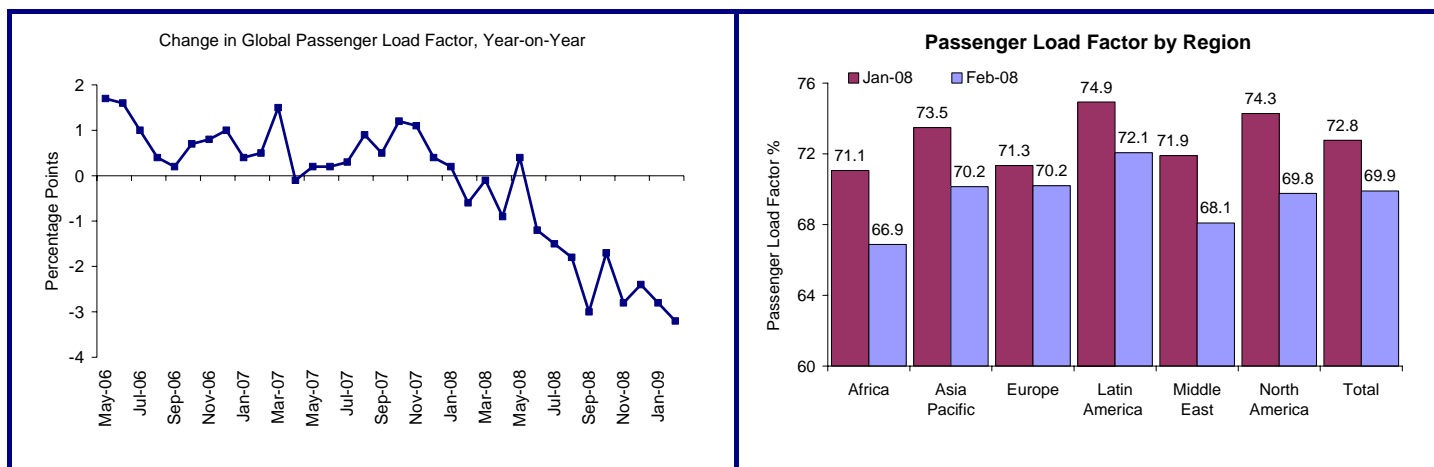
- The precipitous decline of air freight in November and December was due to the deepening of the recession, but more specifically the emergence of a very large inventory overhang in manufacturing. The shipment of

components, such as semi-conductors and car parts, slumped as a result. Surveys of purchasing managers in manufacturing have shown a modest improvement in orders and output in the past three months. This may indicate that the inventory correction has run its course. This would be consistent with the flattening out of air freight volumes seen in the past couple of months. However, we cannot be sure that another bout of destocking will not take place in the absence of further measures to stimulate a sustained economic recovery.

- What had been a crisis of the banking sector has now spread into a manufacturing crisis, causing a major contraction in world trade, hitting air freight but also those economies reliant on exports for growth. As a result the recession has spread worldwide and all regions, except for the Middle East, saw air freight down by more than 20% in February.

## LOAD FACTORS DOWN AS FALLING DEMAND OUTPACES CAPACITY CUTS

- The airline industry is shrinking as airlines attempt to resize their businesses to match the slump in demand for both air travel and freight. On US domestic markets the US airlines started cutting early and substantially, and they have shrunk their industry in line with the recession-reduced demand. However, on international markets this has not been possible. Consolidation through merger is not possible cross-border because of regulatory restrictions on ownership and control, while slots regulation in crowded airports hampers the reduction of services. As a result the 5.9% cut in passenger capacity on international markets, even though it was a much greater reduction than the 2% cut in January, lagged significantly behind the 10.1% slump in demand. Load factors fell 3.2% points as a result.
- As the chart shows there has been a trend decline in load factors through 2008 and into 2009, as traffic growth first slowed and then fell sharply ahead of moves in capacity. Although capacity shrinkage has accelerated there is no sign as yet that the fall in load factors, and resulting downward pressure on yields, has come to an end.



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