

MONTHLY TRAFFIC ANALYSIS

JUNE 2009

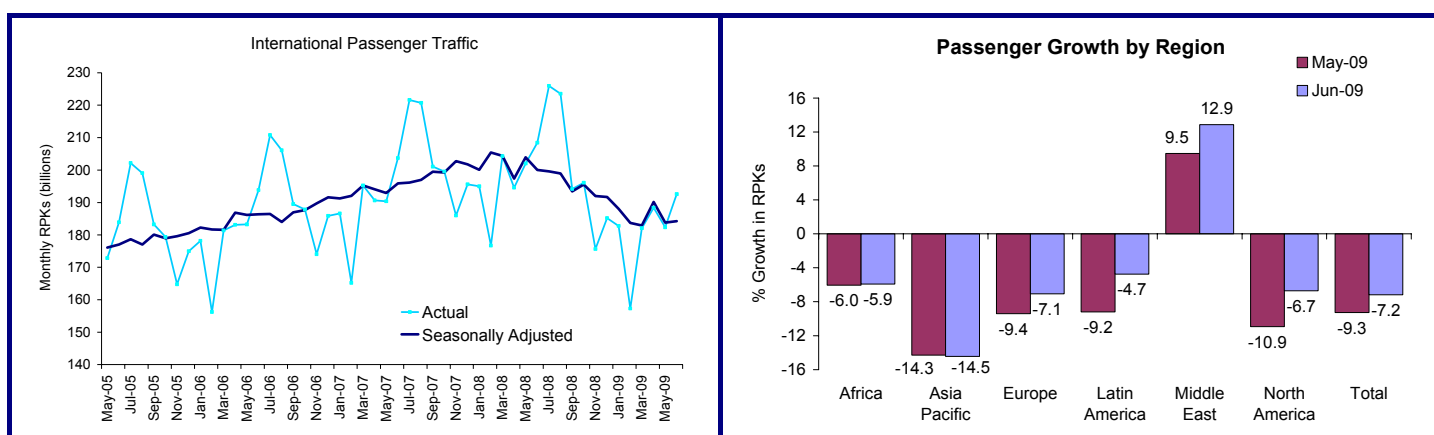
KEY POINTS

- Due to the uncertainties over the impact of Influenza A(H1N1) it was still not clear whether a floor to the decline in air travel had been reached in June. Moreover, the data suggests that sharp falls in average fares have been largely responsible for the signs of stabilisation in some passenger markets, rather than any impact from stabilising economic conditions. The passenger kilometers flown on international markets during June was down 7.2% on the same month last year, but that was an improvement from the 9.3% fall seen in May.
- The regional picture was mixed. Airlines in the Asia-Pacific region experienced a further deterioration in June with RPKs flown down 14.5% compared to a 14.3% fall in May, as flu fears more than offset the start of an economic recovery in a number of emerging Asian economies. By contrast airlines in Europe and in North America saw a small improvement in volumes, with a move from -9.4% to -7.1% in the former region and -10.9% to -6.7% in the latter, despite little significant improvement in economic conditions.
- Air freight is probably the best indicator of underlying economic conditions. Overall freight tonne kilometers flown on international markets improved further in June, albeit from extremely weak levels, to a fall of 16.5% compared to a 17.4% decline in May.
- As with passenger markets the regional picture for freight was mixed. European airlines saw air freight deteriorate in June, while North American airlines experienced little change on May with volumes down 18.6% in June. Whereas Asia-Pacific airlines saw air freight improve in line with the start of economic recovery in that part of the world. In Europe and North America economic recovery is being held back by high levels of debt. The implication is that the improvement seen in passenger demand for European and North American airlines is being driven more by fare discounting than economic recovery.
- Certainly fares and freight rates were likely to be under further downward pressure in June as excess capacity in almost all international markets grew last month. Passenger load factors fell over 2% points to average 75.3% in June, while the freight load factor was down over 3% points to just 47.3%.
- At the moment more rapid declines in fares and airline yields seem to be offsetting the moderate improvement in volumes seen in June; as a result we estimate that airline revenues on international markets were still falling by 25-30% in June. The economy does seem to be stabilising and this is reflected in the modest improvement in air freight volumes. However, passenger markets always lag recoveries in freight and, so far, stabilisation in passenger markets appears to be driven by fare discounting. Influenza A (H1N1) remains a downside risk.

| | June 09 vs. June 08 | | | | | | YTD 2009 vs. YTD 2008 | | | | | |
|-----------------|---------------------|--------------|-------------|---------------|--------------|-------------|-----------------------|--------------|--------------|---------------|--------------|-------------|
| | RPK Growth | ASK Growth | PLF | FTK Growth | AFTK Growth | FLF | RPK Growth | ASK Growth | PLF | FTK Growth | AFTK Growth | FLF |
| Africa | -5.9% | -1.6% | 68.5 | -20.2% | -13.6% | 26.6 | -9.2% | -5.6% | 69.0 | -22.5% | -19.8% | 25.3 |
| Asia/Pacific | -14.5% | -9.2% | 70.1 | -15.8% | -14.7% | 61.4 | -12.0% | -7.7% | 70.6 | -22.3% | -16.4% | 56.8 |
| Europe | -7.1% | -5.3% | 77.3 | -20.3% | -10.9% | 45.6 | -7.6% | -4.8% | 73.5 | -21.6% | -9.4% | 44.5 |
| Latin America | -4.7% | -0.9% | 70.3 | -14.2% | -8.0% | 31.6 | -3.2% | 1.0% | 70.4 | -19.6% | -8.6% | 30.1 |
| Middle East | 12.9% | 15.2% | 73.9 | -4.2% | 14.0% | 40.2 | 7.1% | 12.5% | 71.1 | -5.5% | 11.5% | 40.2 |
| North America | -6.7% | -5.5% | 82.6 | -18.6% | -10.3% | 35.0 | -8.9% | -5.3% | 76.6 | -22.2% | -9.9% | 33.9 |
| Industry | -7.2% | -4.3% | 75.3 | -16.5% | -9.8% | 47.3 | -7.6% | -3.9% | 72.6% | -20.6% | -10.4 | 45.3 |

INTERNATIONAL PASSENGER TRAFFIC STABILISING IN SOME REGIONS

- The decline in passenger kilometers flown on international markets slowed in June to a fall of 7.2% relative to the same month a year earlier, compared to a reduction of 9.3% in May. The chart below shows that, once adjusted for seasonal fluctuations, the level of RPKs in June was slightly higher than in May.
- However, this stabilisation was not seen across all regions with airlines in the Asia-Pacific region seeing a further deterioration, partly due to influenza A(H1N1) concerns. The overall stabilisation in RPKs in June was generated by relatively larger improvements for North American and European airlines. The impact of the recession on air travel may now be stabilising but the uncertainties remaining over H1N1 mean that it is still too soon to conclude that a floor to the decline in air travel has been reached.



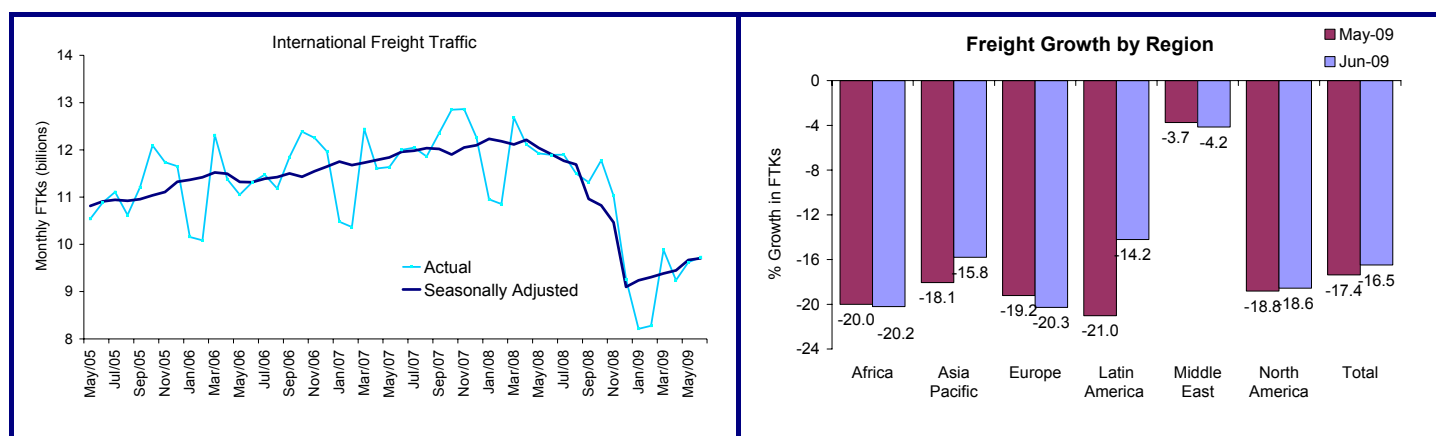
- The regional pattern of air travel was very mixed in June. There was a further fall in the passenger kilometers flown by Asia-Pacific airlines from -14.3% in May to -14.5% in June. This was despite signs of an early economic revival in the emerging Asian economies with, for example, faster economic growth in China during the second quarter. Partly this may reflect the domestic focus of fiscal and credit stimulus packages but a large part is also due to the impact of influenza A(H1N1), not so much the illness itself but the concern of both authorities and travellers. The extent of the flu impact is hard to assess but initial analysis suggests it has taken at least 3-4% points off growth rates for Asia-Pacific airlines in May and June.
- The largest direct impact of H1N1 has been among the airlines of central America and in particular the Mexican carriers, where traffic carried fell almost 40% in May. In June there was some improvement – in the sense that traffic did not fall so far. For the Latin American airlines as a whole passenger kilometers flown on international markets was down 4.7% in June compared to the 9.2% fall in May. For Mexican airlines the decline slowed to around -25% in June. A similar pattern was seen with SARS in 2003 for the Asia-Pacific airlines, who experienced a sharp 50% decline in traffic after 3 months followed by a rapid rebound. The uncertainty with H1N1 is whether the virus becomes more virulent as it spreads to other countries, in which case a further downward leg in traffic associated with flu impacts and concerns is possible.
- Elsewhere there was an improvement in June reflecting the apparent stabilisation in broader economic conditions and very significant cuts in average fares. European airlines flew passenger kilometers some 7.1% lower than last year, but that was an improvement on May's 9.4% decline. Moreover, weekly data from the AEA suggests the improvement has continued into July with the decline for European airlines slowing significantly to -2.5% during the first three weeks. North American airlines also saw a significant improvement during June, with RPKs flown down 6.7% compared to the 10.9% decline during May, when there was a significant impact from H1N1. However, data from the ATA show that the improvement in passenger numbers has been largely due to a sharp fall in fares. US airline revenues on international markets barely changed from a 29.8% decline in May to a fall of 28.7% in June.
- Middle Eastern airlines continued to see counter-cyclical gains in traffic volumes, with accelerated growth of 12.9% in June compared with a rise of 9.5% in May. During the first half of the year airlines in this region have expanded their RPKs flown by 7.1%, whereas international markets as a whole have shrunk by 7.6% over the same period. Origin-destination data for May showed strong growth in the segments between Europe-Middle

East and Middle East-Asia but a sharp fall in direct travel between Europe and Asia, suggesting the success of the Middle Eastern airlines reflects growth in market share rather than a revival of travel demand.

- African airlines continued to struggle during June with a fall of 5.9% in RPKs flown on international markets, compared with a 6% decline in May. Since many African economies are growing, despite the global recession, this represents a further loss of market share.

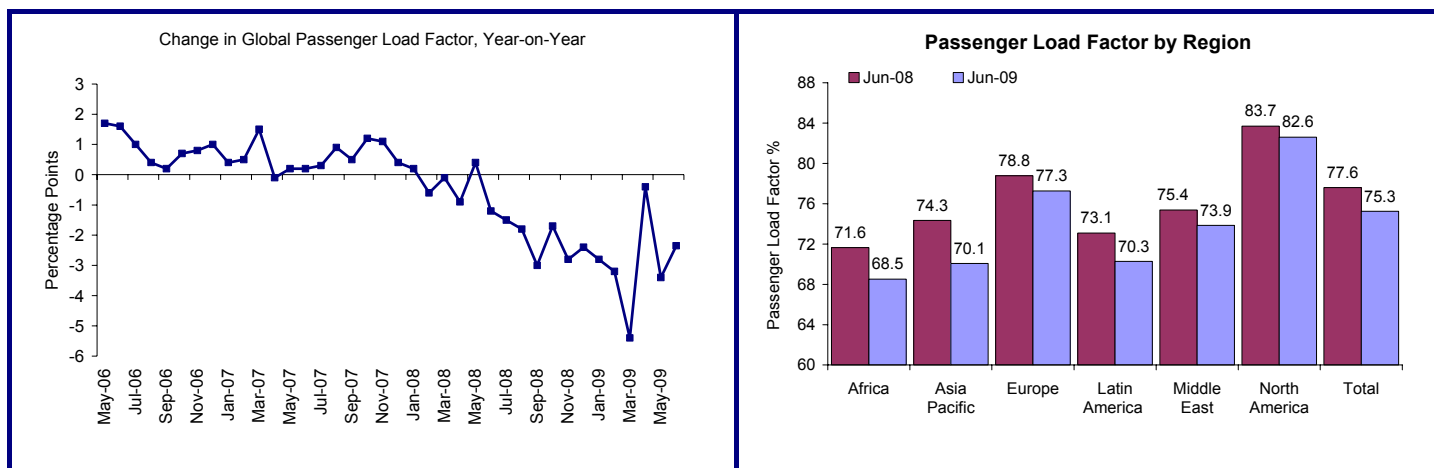
AIR FREIGHT VOLUMES CONTINUE TO IMPROVE ALBEIT AT A SLOW PACE

- Air freight volumes continued to improve during June. At a level 16.5% lower than the same month last year the freight tonne kilometres flown on international markets remains exceptionally weak. However, the chart below shows that, adjusted for seasonal fluctuations, the level of air freight volumes has now risen by 6% above the December 2008 low point. This reflects the bottoming out of the global recession and the slow recovery in world trade. Note that the recovery is slow because business inventories are still high and final demand remains weak. At this pace of recovery it will take another 5 years before early 2008 levels of air freight volumes are regained.
- The regional picture is rather mixed but better reflects the underlying economic situation than passenger markets, which are being affected by H1N1 and other factors. In particular the Asia-Pacific airlines saw an improvement in air freight from an 18.1% decline in May to a 15.8% fall during June. This is still exceptionally weak but at least is now moving in the right direction, and is likely to reflect the improvement in economic conditions during the second quarter in a number of emerging Asian economies, such as China.
- By contrast the European and North American airlines experienced either a worsening or little improvement in the freight tonne kilometres they carried in June. Unlike Asia the economic recovery in North America and many European economies is being held back by the high levels of consumer debts and weak asset prices, which is causing many to repay debt rather than increase spending. Unsurprisingly this balance sheet restructuring is also holding back any improvement in air freight volumes in these regions.



PASSENGER LOAD FACTORS CONTINUE TO FALL

- Capacity was also cut at a rather slower pace in June, to a level 4.3% lower than a year ago compared with the 5% reduction seen in May. This resizing remained behind the shrinkage seen in passenger demand. As a result load factors were down again in June, by just over 2% points. A crumb of comfort may be gleaned from the slower pace of decline in aircraft capacity utilisation. Nonetheless, excess capacity is still growing on all major international markets.
- As a result competition is intensifying and average fares are coming under increasing downward pressure. Yields are falling even faster as demand for premium seats falls at a more rapid pace than economy. The ATA reported that US airline yields declined at an accelerating pace in June, across the Pacific down 25.5% after a 17.8% fall in May and by 25.2% across the Atlantic (24% in May).



FREIGHT LOAD FACTORS STILL FALLING BUT AT SLOWER RATE

- The utilisation of air freight capacity on international markets remained disappointingly weak, at 47.3% in June. There are some structural reasons why this is so much lower than passenger load factors – very unbalanced trade flows with Asia and a loss of share to ocean freight on some markets – but the recession has been the main driver in the past ten months. The low point in freight utilisation was December last year, when air freight demand also hit a low. Since then utilisation has improved – by around 5% points – but it still remains very low compared to where it was at the same time last year.
- With excess capacity in air freight growing and already an excess of the excess capacity seen on passenger markets the downward pressure on freight yields is likely to remain strong, despite the slow recovery in freight demand. We know freight yields fell by 17% in the first quarter, reducing revenues by over 35%. A further decline in yields during the second quarter is likely to have limited to benefits to revenues from the move up in freight demand.

