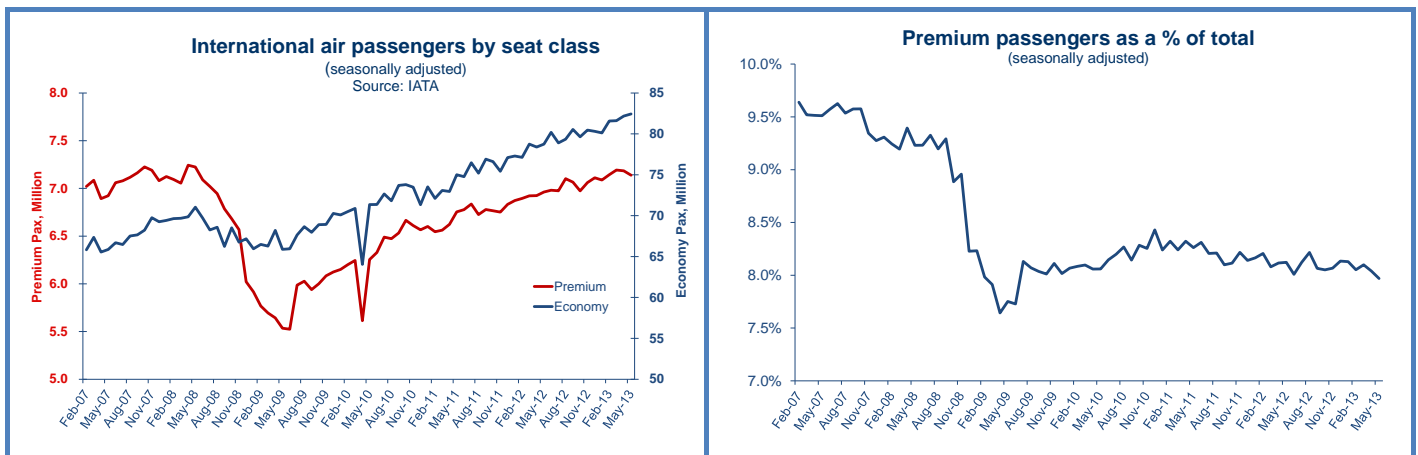


PREMIUM TRAFFIC MONITOR

MAY 2013

KEY POINTS

- Air travel markets showed signs of deterioration in May. The number of passengers traveling in premium seats on international markets was 2.0% higher in May compared to a year ago, a slowdown on the April result of 3.8%. Economy class passenger travel rose at a faster pace, up 3.9% in May year-on-year, close to the 4-5% growth in April after adjusting for the timing of Easter.
- The size of the international premium passenger market contracted in May and April, as presented in the first chart below. This has led to a slip in the share of premium passengers from total international travel, as seen in the second chart below, which could undermine yields if the trend continues.
- Growth in international passenger numbers is expanding at a slower rate so far this year than growth in international air travel, taking distance into account (revenue passenger kilometers). In 2012, international passenger numbers and international RPKs increased at 5.8% and 6.0%, respectively. In May international passenger numbers were up 3.7% on a year ago, while international RPKs were 5.7% higher. The reason for this difference is that the mix of short haul and long haul traffic has changed. Medium and long haul routes are contributing more to total growth in international air travel so far this year than they did in 2012. This is partly because some medium and long haul routes are growing at a faster pace this year, but also because growth on major short haul markets has slowed over recent months. Air travel on the major long haul North Atlantic route has remained weak throughout 2013, but strong growth on other medium to long haul routes have been driving an increasing share of overall growth in air travel, including Europe – Middle East, Europe – Far East and North America – South America. At the same time, air travel growth within Europe and within Far East has slowed.
- More specifically, travel on medium to long haul routes that are connected to emerging markets continue to contribute most to growth in air travel. Long-haul passengers connecting through Middle East hubs help support strong growth on markets like Europe-Middle East, which was up 8.5% and 17.2% in premium and economy travel in May. Strength in South American economies is supporting business and leisure travel on the North America – South America market, which recorded growth of 10.7% and 11.5% in premium and economy travel. Performance on short haul travel within the Far East was weak again in May, with premium and economy travel up just 2.7% and 0.8%, likely reflecting sluggishness in the Chinese economy, which continues to impact regional performance.
- Over recent months, indicators have started to suggest that drivers of business and other air travel are weakening. While business confidence still indicates modest growth, levels have been flat since early 2013. Moreover, export orders have declined, signaling slow growth in world trade. Air travel growth is unlikely to accelerate in the near-term; growth is expected to trend at current rates.



➤ Premium travel markets are driven largely by demand for business travel. World trade is a good proxy for business travel not only because of the link to manufacturing activity, but also because it is associated with international industries like banking and consultancy. The first chart below shows the close movement in premium travel growth and world trade growth. Over the last year, however, world trade growth has been expanding more slowly than premium travel growth. The weakness in developed markets, particularly in Europe, has caused international trade of advanced economies to decline overall. By contrast, international trade in emerging economies has been increasing at a stronger rate, helping sustain the growth we are seeing in business-related premium travel, particularly on routes connected to emerging markets.

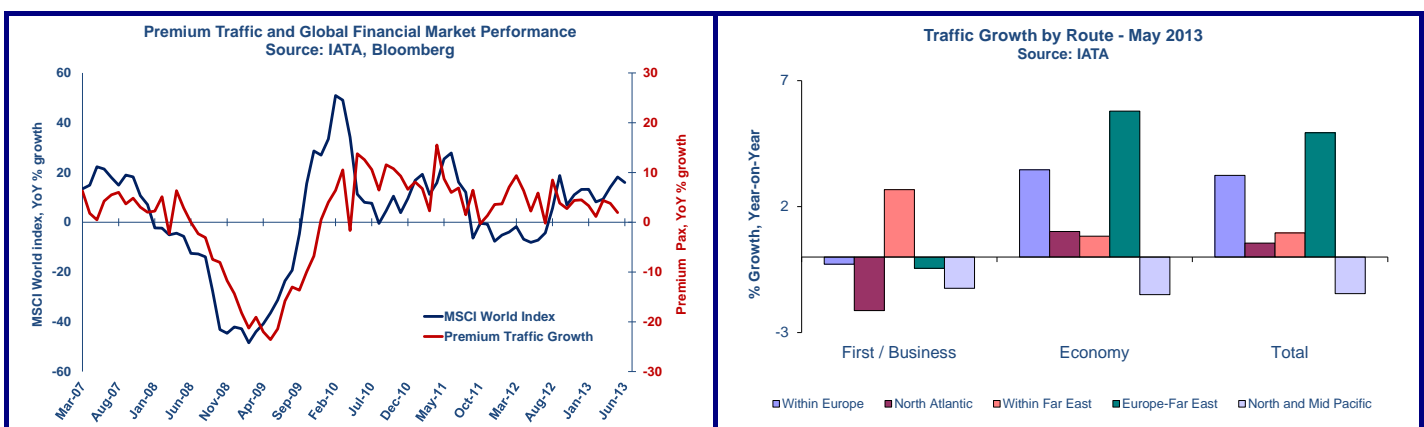
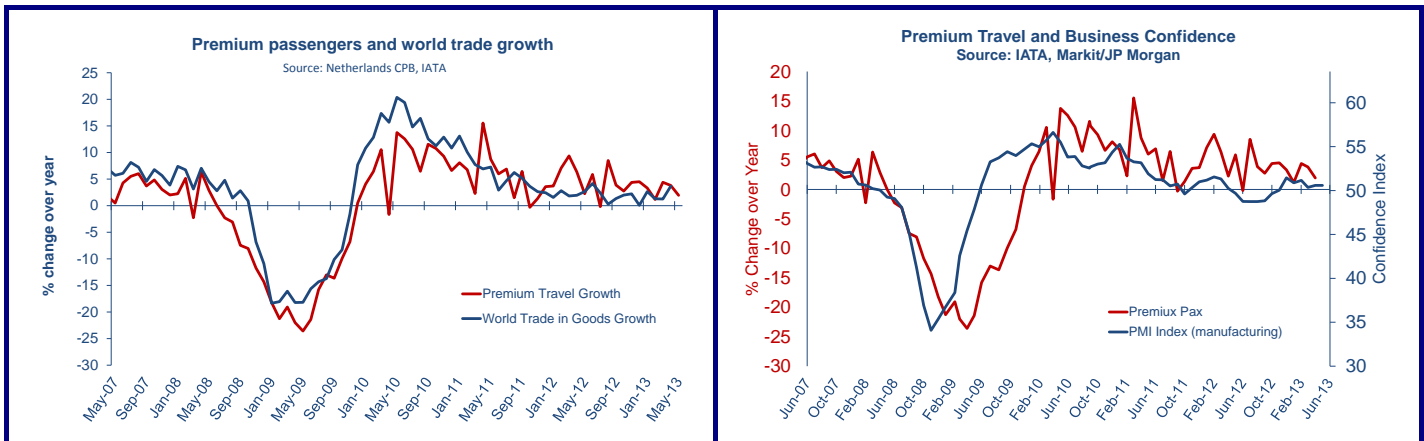
➤ Business confidence is a good leading indicator of premium travel growth. The second chart below shows business confidence (measured here by the JP Morgan/Markit purchasing managers' index). After solid improvement in the second half of 2012, business confidence has been largely flat in 2013, and in June remained at the same near-stagnation level seen in May. However, it is important to note that Eurozone business-confidence recorded a 16-month high in June, and although the level of business confidence still indicates economic weakness, the improvements should contain further downward pressure on global demand.

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➤ Financial market sentiment can also provide an indication of the state of the global economy, and demand for business related travel. The third chart below shows the MSCI World share price index and its movement relative to premium travel growth. The share price index tends to lead changes in premium travel demand by 2-3 months, as fluctuations in companies' financial performance take time to affect business travel plans. Current financial market performance, as indicated by the MSCI World share price index, suggests demand for business-related premium air travel should receive support in the months ahead.



- The number of passengers traveling in premium seats on international markets was 2.0% higher in May compared to a year ago, a slowdown on the April result of 3.8%. Growth year-to-date was also sluggish in May, showing expansion of 2.9%. Economy class passenger travel rose at a faster pace, up 3.9% in May year-on-year, close to the 4-5% growth in April after seasonal adjustment for the timing of the Easter holiday. Economy class international travel has also been expanding at a fast pace year-to-date relative to premium travel, with growth of 3.7% in May.
- Growth in international passenger numbers is expanding at a slower rate so far this year than growth in international air travel taking distance into account (revenue passenger kilometers). Total international passenger numbers were up 3.7% in May year-on-year, while international RPKs were 5.7% higher in May compared to a year ago. The reason for this difference is that the mix of short haul and long haul traffic has changed. Medium and long haul routes are contributing more to total growth in international air travel so far this year than they did in 2012. This is partly because some medium and long haul routes are growing at a faster pace this year, but also because growth on major short haul markets has slowed over recent months.
- For example, total growth on the short haul intra-European market is just 1.9% in May year-to-date, while in 2012 that market expanded 4.3%. Air travel within the Far East is following a similar trend, with expansion of 9.5% in 2012 compared to 3.9% so far this year. While air travel on the major long haul North Atlantic route has remained weak throughout 2013, strong growth on other medium to long haul routes have been driving an increasing share of overall growth in air travel. For example, Europe – Middle East, Europe – Far East, Middle East – Far East and North America – South America are all routes which are taking a larger share of the growth in air travel in 2013 than they did in 2012.
- Travel on medium to long haul routes that are connected to emerging markets also posted some of the strongest growth rates in May. Long-haul passengers connecting through Middle East hubs help support strong growth on markets like Europe-Middle East, which was up 8.5% and 17.2% in premium and economy travel, respectively, in May. Continued growth in Middle East trade also helps support business-related travel to/from the region.
- Strength in South American economies and high trade momentum for the region is supporting business and leisure travel on the North America – South America market, which recorded growth of 10.7% and 11.5% in premium and economy travel, respectively, in May compared to a year ago. Although the US has been experiencing some declines in business confidence, it still showed one of the highest readings, globally, for manufacturing activity in June.
- Performance on short haul travel within the Far East was weak again in May, with premium and economy travel up just 2.7% and 0.8%, respectively in May. This is the second month of slower traffic growth in the region, likely reflecting sluggishness in the Chinese economy and Asian exports. Although domestic air travel remains strong in China, the nation's slower than expected growth appears to having a relatively bigger impact on neighboring economies, with further falls in exports seeing regional trade momentum slow from stronger growth in late 2012.

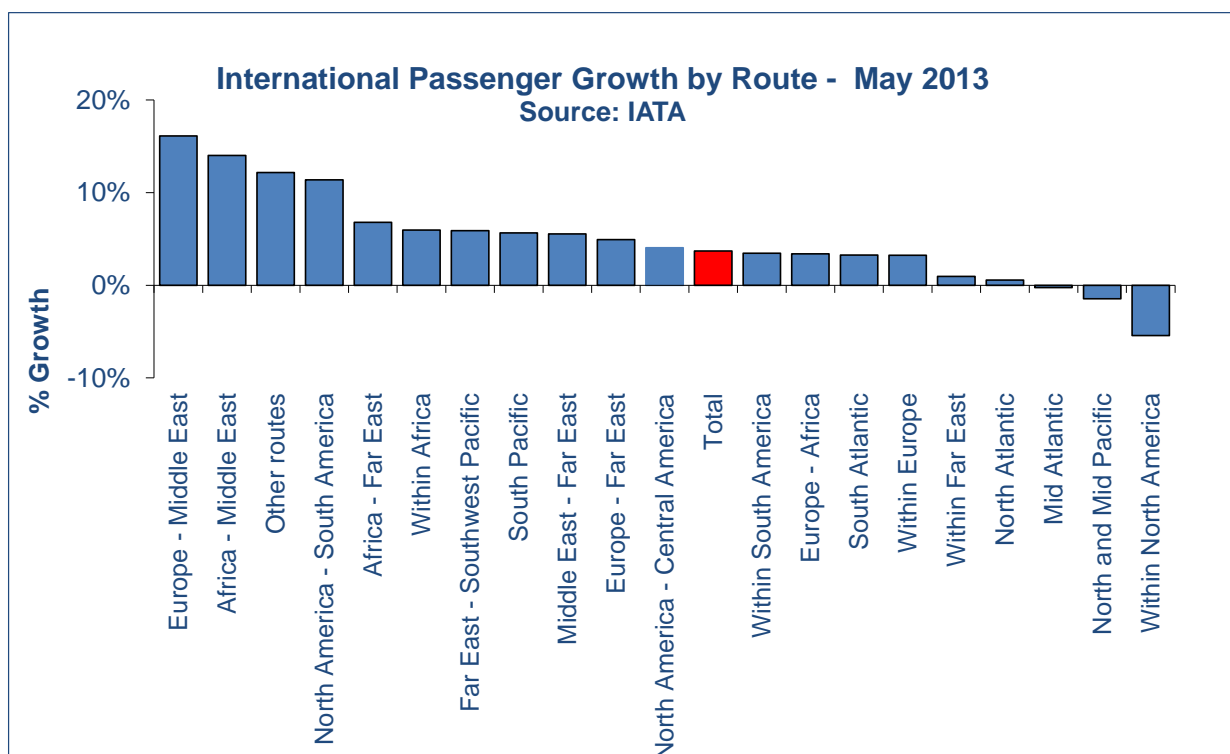
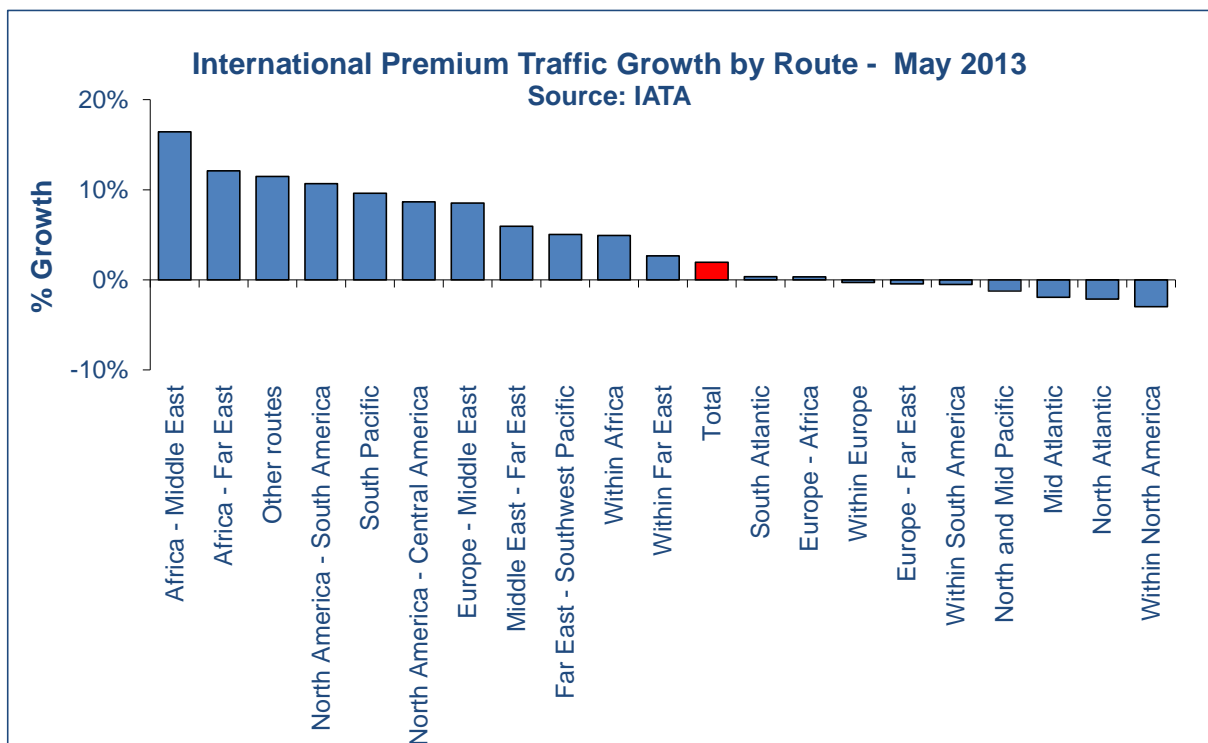
TRAFFIC GROWTH BY ROUTE

Premium Traffic Monitor
May 2013

	Premium Traffic Growth		Economy Traffic Growth		Total Traffic Growth	
	May 13 vs. May 12	YTD 2013 vs. YTD 2012	May 13 vs. May 12	YTD 2013 vs. YTD 2012	May 13 vs. May 12	YTD 2013 vs. YTD 2012
Africa - Far East	12.1%	12.5%	6.3%	11.5%	6.8%	11.6%
Africa - Middle East	16.4%	11.5%	13.8%	11.5%	14.0%	11.5%
Europe - Africa	0.3%	-0.8%	3.8%	2.8%	3.4%	2.4%
Europe - Far East	-0.4%	1.8%	5.8%	5.5%	4.9%	5.0%
Europe - Middle East	8.5%	9.1%	17.2%	13.5%	16.1%	13.0%
Far East - Southwest Pacific	5.0%	1.7%	6.0%	-1.6%	5.9%	-1.3%
Mid Atlantic	-1.9%	-1.7%	-0.1%	-1.8%	-0.3%	-1.8%
Middle East - Far East	5.9%	5.8%	5.5%	9.4%	5.5%	9.1%
North America - Central America	8.7%	6.2%	3.6%	0.2%	4.1%	0.8%
North America - South America	10.7%	7.6%	11.5%	12.0%	11.4%	11.4%
North and Mid Pacific	-1.2%	0.5%	-1.5%	0.3%	-1.5%	0.3%
North Atlantic	-2.1%	-0.2%	1.0%	0.2%	0.6%	0.2%
Other routes	11.5%	9.0%	12.3%	12.6%	12.2%	12.3%
South Atlantic	0.4%	-1.4%	3.7%	-0.3%	3.3%	-0.4%
South Pacific	9.6%	5.5%	5.1%	4.3%	5.6%	4.5%
Within Africa	4.9%	4.8%	6.1%	3.9%	6.0%	4.0%
Within Europe	-0.3%	0.5%	3.5%	2.0%	3.2%	1.9%
Within Far East	2.7%	5.7%	0.8%	3.8%	1.0%	3.9%
Within North America	-3.0%	0.9%	-5.6%	0.6%	-5.4%	0.6%
Within South America	-0.5%	2.3%	3.7%	5.0%	3.5%	4.8%
Total	2.0%	2.9%	3.9%	3.7%	3.7%	3.6%

PREMIUM TRAFFIC GROWTH BY ROUTE

	Share of Premium		Share of Total	
	Traffic	Revenues	Traffic	Revenue
Africa - Far East	0.3%	1.0%	9.1%	27%
Africa - Middle East	1.6%	1.1%	9.4%	24%
Europe - Africa	3.5%	5.0%	11.9%	37%
Europe - Far East	8.9%	15.0%	13.0%	38%
Europe - Middle East	5.3%	4.8%	11.7%	42%
Far East - Southwest Pacific	1.7%	3.5%	10.3%	27%
Mid Atlantic	1.0%	1.9%	9.3%	31%
Middle East - Far East	3.1%	2.1%	8.7%	17%
North America - Central America	5.8%	1.7%	10.2%	9%
North America - South America	3.2%	3.7%	12.5%	35%
North and Mid Pacific	6.0%	11.9%	14.8%	35%
North Atlantic	16.4%	21.7%	14.3%	51%
Other routes	3.9%	5.0%	9.1%	27%
South Atlantic	2.7%	3.4%	11.6%	36%
South Pacific	0.4%	2.6%	12.8%	46%
Within Africa	1.1%	0.8%	10.1%	21%
Within Europe	20.9%	4.8%	5.7%	11%
Within Far East	11.6%	9.0%	7.1%	16%
Within North America	1.0%	0.6%	7.9%	7%
Within South America	1.5%	0.4%	6.2%	11%
Total	100.0%	100.0%	9.0%	27.8%



FURTHER ANALYSIS AND DATA

Access data related to this briefing through the Route Tracker publication:

<http://www.iata.org/publications/Pages/carrier-tracker.aspx>

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