

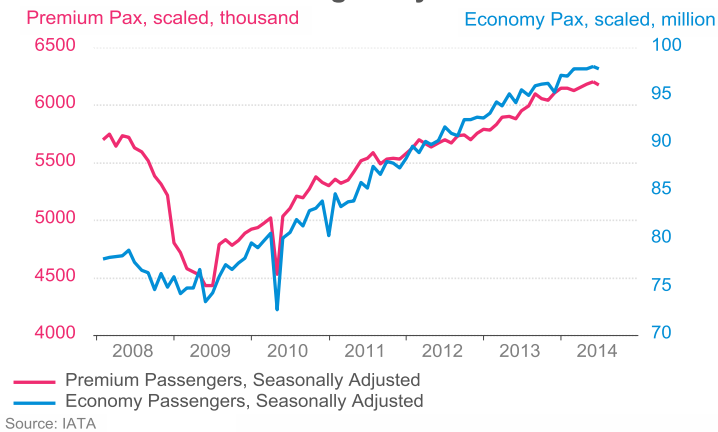
# PREMIUM TRAFFIC MONITOR

## JUNE 2014

### KEY POINTS

- ➔ Growth in the number of international air passengers slowed in June to 2.4%, with first half growth of 3.7%, compared to the same period last year;
- ➔ Most of this 'year-on-year' growth took place last year - since December, travel has expanded by just 0.7%;
- ➔ The travel slowdown has been caused by slower world trade growth and a dip in business confidence;
- ➔ However, business confidence has been rising in recent months, pointing to a stronger second half for travel;
- ➔ Travel on premium seats grew more slowly in June, at 1.8%, than economy travel, at 2.5%;
- ➔ However, the rising trend in the share of premium since late-2012 remains intact;
- ➔ Moreover, premium yields have been more robust so the premium revenue share has risen faster, to almost 29%;
- ➔ Premium yields have been supported by the relative strength of longer-haul markets, with the strongest growth of larger markets seen on the North Atlantic, Pacific and Europe-Far East;
- ➔ By contrast markets connected with emerging markets have generally been weak and some are getting weaker;
- ➔ Faster long-haul growth has meant that international RPKs are growing much faster than passenger numbers, at 5.5% versus 2.4% in June.

**International Air Passengers by Seat Class**



**Premium Passengers as % of Total**



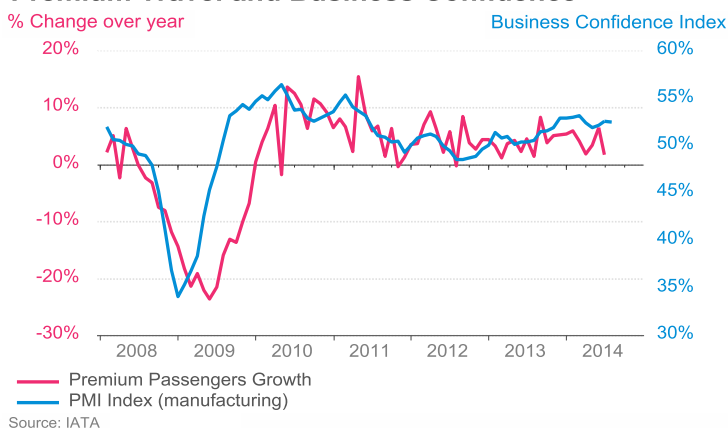
- ➔ The expansion in the number of international air passengers slowed in June to growth of 2.4%, compared to the same month last year. In fact, this slowdown has been developing for a number of months. Although international air travel was 3.7% higher in the first half of this year compared to the first half of 2013, passenger numbers rose by only 0.7% between December and June. Most of the growth in the past year took place in the second half of 2013, when business confidence and economic activity grew relatively strongly. The recent slowdown has been partly hidden in the year-on-year growth rates during January to May by the carry-over effect from the strong end to 2013.

- Travel on premium seats slowed a little more than growth in economy travel, with a June year-on-year growth rate of 1.8% compared to 2.5%. However, these year-on-year figures were distorted by the comparison with volatile figures last June. The first half of 2014 shows that premium travel expanded on average at a slightly faster rate than economy travel, at 3.9% compared to 3.7%. The second chart above shows that – if you smooth out the volatile ups and downs – the share of premium travel still seems to be trending upwards from the low point reached at the bottom of the economic cycle in late 2012.
- In fact, the share of premium revenues has risen further to just under 29% in June – a rise of a bit less than 1% point during the past year, as premium yields have held up more than yields on economy seats. This has partly been due to the mix of routes, with the strongest premium travel growth occurring on the longer-haul markets where the share of premium revenues is greatest. This has helped the financial performance of the longer-haul network airlines, compared to shorter-haul mainly leisure travel focused airlines in some, though not all, regions.
- The stronger growth of longer-haul markets has meant that RPKs are growing at a much faster pace than passenger numbers. June's expansion of 2.4% in international passenger numbers compares to a 5.5% growth in international RPKs. Usually the gap in growth is 0.5-1% points, so today's situation is unusual.
- The profile of air travel growth, with a strong second half in 2013 and slower growth during the first half of 2014, has been driven by wider economic developments. World trade also had a strong second half last year, but has expanded by only 0.4% so far this year and industrial production has followed a similar if slightly stronger profile. Business confidence – an excellent leading indicator – similarly rose sharply in mid-2013 before flattening off and then deteriorating early this year, following the emergence of a number of potential threats to the global economy.
- However, in recent months business confidence (as measured by the PMI Index in the second chart below) has started to rise once more, as worries about the impact of geopolitical developments and US Federal Reserve monetary policy appear to have diminished. If this improvement continues, which is the consensus view now, then we would expect international air travel growth to accelerate during the second half of this year.

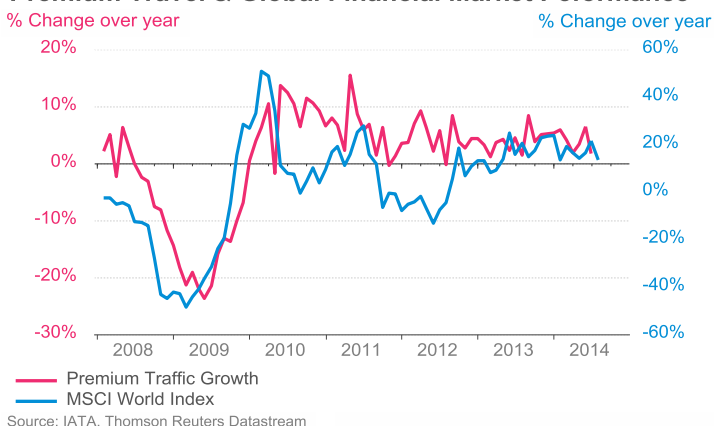
### Premium Passengers and World Trade Growth



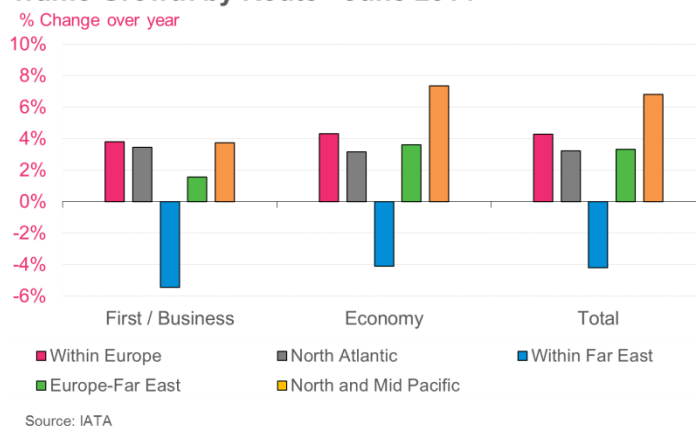
### Premium Travel and Business Confidence



### Premium Travel & Global Financial Market Performance



### Traffic Growth by Route - June 2014



## TRAFFIC GROWTH BY MAJOR ROUTE

- ➔ The major areas of weakness in international air travel are concentrated on markets connected to a number of key emerging economies. The important Within Far East market saw an exceptionally weak month in June, down 4.2% on total traffic compared to last year. Nonetheless, the whole of the first half has been weak for such a potentially dynamic region, with an average of -0.1% year-on-year. The Within South America total market has also been weak, falling 3.8% during the first half of this year. Both of these regions, containing 3 BRIC economies, are expected to see substantial growth in the medium term but are struggling today.
- ➔ The problem at the moment is the relative weakness of some key emerging economies. In Latin America, the Brazilian economy has been weak and is getting weaker, according to the recent business confidence data. The economic crises in Argentina and Venezuela are also not helping. Russia is virtually in recession and travel is additionally being damaged by the geopolitical situation. In the Far East the Indian economy has been weak but, with a new government, is starting to strengthen. The Chinese economy has been managed onto a slower growth path, as the government seeks to move away from the earlier investment-led growth, but recent business confidence data suggests economic activity is starting to strengthen.
- ➔ African markets are also noticeably weak, despite relatively good economic growth in many Sub-Saharan economies. The Ebola outbreak has yet to impact the data on African markets and, at this stage, there is no indication whether it will. However, travel has been discouraged by political unrest in parts of North Africa. The still important Europe-Africa market remains weak because of these reasons and continued economic weakness in continental Europe. The exception for Africa has been the Africa-Middle East market, which is being sustained by flows of workers and business travel stimulated by new South-South trade lanes.
- ➔ The stronger markets, of significant size, have been long haul. North and Mid-Pacific total markets were up over 7% in the first half of this year and the North Atlantic expanded by over 4%. Europe-Far East was up over 5%. These are all markets where the share of premium revenues is over 38% - and is almost 50% across the Atlantic, where there is significant business travel and where leisure travelers are prepared to pay for premium seats due to the longer flight times. On shorter haul markets like Within Europe premium revenues have a share of less than 10%. The mix effect has been an important support to passenger yields for longer-haul network airlines.



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## TRAFFIC GROWTH BY ROUTE – JUNE 2014

	Premium Traffic Growth		Economy Traffic Growth		Total Traffic Growth	
	Jun 14 vs. Jun 14	YTD 2014 vs. YTD 2013	Jun 14 vs. Jun 13	YTD 2014 vs. YTD 2013	Jun 14 vs. Jun 13	YTD 2014 vs. YTD 2013
Africa - Far East	0.5%	-2.8%	-6.5%	-3.1%	-5.9%	-3.0%
Africa - Middle East	-4.2%	6.7%	-5.9%	6.0%	-5.7%	6.1%
Europe - Africa	0.5%	0.2%	-0.2%	0.3%	-0.1%	0.3%
Europe - Far East	1.6%	5.0%	3.6%	5.2%	3.3%	5.2%
Europe - Middle East	5.9%	8.2%	4.8%	8.9%	5.0%	8.9%
Far East - Southwest Pacific	6.3%	8.4%	-0.2%	1.6%	0.5%	2.3%
Mid Atlantic	9.0%	10.5%	8.2%	3.5%	8.3%	4.1%
Middle East - Far East	-1.1%	8.8%	4.7%	9.4%	4.1%	9.3%
North America - Central America	9.7%	8.4%	9.3%	8.9%	9.4%	8.8%
North America - South America	-0.3%	5.2%	1.0%	2.2%	0.8%	2.6%
North and Mid Pacific	3.7%	5.6%	7.4%	7.8%	6.8%	7.4%
North Atlantic	3.4%	4.1%	3.2%	4.5%	3.2%	4.4%
Other routes	-3.7%	4.3%	0.7%	5.6%	0.3%	5.5%
South Atlantic	-3.1%	-0.9%	1.3%	0.2%	0.8%	0.0%
South Pacific	-4.2%	3.5%	-2.4%	2.1%	-2.6%	2.2%
Within Africa	-1.4%	-4.4%	-4.2%	-2.1%	-3.9%	-2.3%
Within Europe	3.8%	2.1%	4.3%	3.4%	4.3%	3.3%
Within Far East	-5.4%	1.1%	-4.1%	-0.2%	-4.2%	-0.1%
Within North America	7.1%	3.3%	11.7%	8.2%	11.1%	7.6%
Within South America	-9.0%	-6.2%	-2.6%	-3.6%	-3.0%	-3.8%
<b>Total</b>	<b>1.8%</b>	<b>3.9%</b>	<b>2.5%</b>	<b>3.7%</b>	<b>2.4%</b>	<b>3.7%</b>

## PREMIUM TRAFFIC BY ROUTE – PREVIOUS MONTH

	Share of Premium		Share of Total	
	Traffic	Revenues	Traffic	Revenue
Africa - Far East	0.7%	0.8%	7.9%	25.6%
Africa - Middle East	1.7%	1.0%	6.3%	22.2%
Europe - Africa	3.9%	7.3%	6.7%	36.2%
Europe - Far East	9.6%	13.1%	11.0%	40.1%
Europe - Middle East	4.8%	4.8%	10.2%	42.2%
Far East - Southwest Pacific	2.7%	2.8%	9.0%	31.2%
Mid Atlantic	1.2%	1.5%	8.1%	31.4%
Middle East - Far East	2.9%	1.8%	4.3%	16.0%
North America - Central America	2.9%	1.1%	3.9%	9.1%
North America - South America	2.6%	3.2%	10.6%	29.7%
North and Mid Pacific	6.3%	11.8%	12.6%	38.6%
North Atlantic	17.5%	26.7%	13.6%	49.9%
Other routes	6.1%	4.7%	7.7%	28.1%
South Atlantic	2.4%	3.7%	12.1%	36.5%
South Pacific	0.9%	2.0%	13.4%	44.1%
Within Africa	1.9%	0.7%	7.7%	21.0%
Within Europe	14.3%	5.1%	2.1%	9.3%
Within Far East	15.7%	7.2%	5.3%	15.9%
Within North America	0.9%	0.5%	2.5%	8.4%
Within South America	0.9%	0.4%	5.6%	11.0%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>5.6%</b>	<b>28.6%</b>

