

# MONTHLY TRAFFIC ANALYSIS

## MARCH 2009

### KEY POINTS

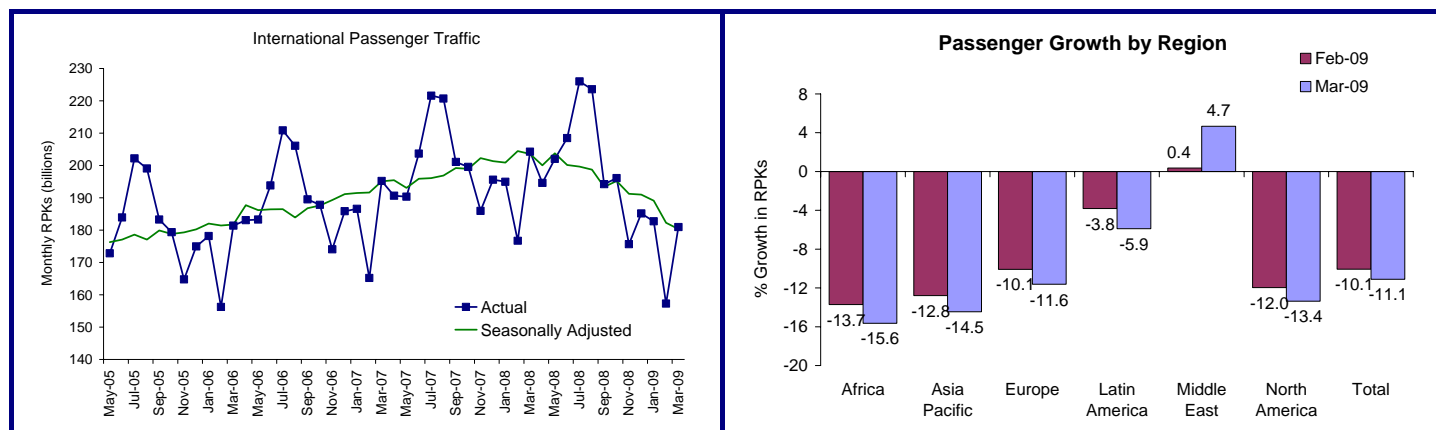
- Passenger travel on international markets fell further during March to a level 11.1% lower than a year earlier, following the 10.1% decline during February. On average passenger kilometres flown on international markets during the first quarter of this year were down 9.1%, which is a very steep decline from a fall of 3.5% in the fourth quarter and growth of 5.4% during the first half of last year.
- The timing of Easter cut around 2% points from the year-on-year comparison in March but, even so, there was a clear further deterioration in passenger travel in all major international markets.
- In the smaller regions there remain some pockets of growth in traffic but the performance of the regional airlines varied dramatically from a 15.6% decline for African airlines to growth of 4.7% for airlines in the Middle East.
- Capacity cuts continue to lag far behind the slump in demand and so, with some distortion due to the timing of Easter, load factors fell very sharply by an average of 5.4% points in March. This growing excess capacity in most markets is putting increasing downward pressure on fares and yields, which fell at a faster rate in March. We estimate that airline revenues on international markets were falling at a rate of around 20% in March.
- The only light at the end of the tunnel is shown by air freight which, although 21.4% down by comparison with a year ago, has, in terms of tonne kilometers flown, moved sideways since the low point was reached in December. Three successive months of stability in air freight markets does not make the end of the recession but it is encouraging. Having said that inventory levels in manufacturing remain high and final demand weak. A floor to air freight may, possibly, have been reached but a recovery to higher levels is not yet in sight.

	Mar 2009 vs. Mar 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	-15.6%	-15.1%	72.7	-29.4%	-15.8%	-11.2%	-9.8%	70.3	-27.4%	-10.8%
Asia/Pacific	-14.5%	-9.3%	71.2	-24.1%	-14.4%	-12.4%	-7.6%	71.5	-25.9%	-12.7%
Europe	-11.6%	-4.4%	72.1	-20.0%	-5.8%	-9.1%	-5.1%	71.3	-22.0%	-6.4%
Latin America	-5.9%	2.2%	69.5	-18.0%	-0.1%	-3.7%	0.1%	72.2	-19.3%	-1.4%
Middle East	4.7%	13.1%	69.7	-7.6%	7.8%	2.7%	10.5%	69.9	-6.2%	6.7%
North America	-13.4%	-5.7%	76.2	-23.3%	-7.3%	-10.6%	-5.1%	73.5	-24.4%	-6.8%
<b>Industry</b>	<b>-11.1%</b>	<b>-4.4%</b>	<b>72.1</b>	<b>-21.4%</b>	<b>-7.8%</b>	<b>-9.1%</b>	<b>-4.3%</b>	<b>71.6</b>	<b>-22.8%</b>	<b>-7.3%</b>

### INTERNATIONAL PASSENGER TRAFFIC CONTINUING TO DECLINE

- Passenger travel on international markets fell further during March to a level 11.1% lower than a year earlier, following the 10.1% decline during February. On average passenger kilometres flown on international markets during the first quarter of this year were down 9.1%, which is a very steep decline from a fall of 3.5% in the fourth quarter and growth of 5.4% during the first half of last year.
- There were factors making the March and first quarter decline look worse than it was. An extra day in February 2008, due to the Leap Year, contributed around 3% points to the decline in February this year. Easter fell in March last year, boosting leisure travel, and so the unfavourable comparison cut around 2% points from this year's growth rate. Even so, after adjusting for these distortions, the underlying rate of year-on-year growth during Q1 was still minus 7-8% and a decline of around 9% in March.

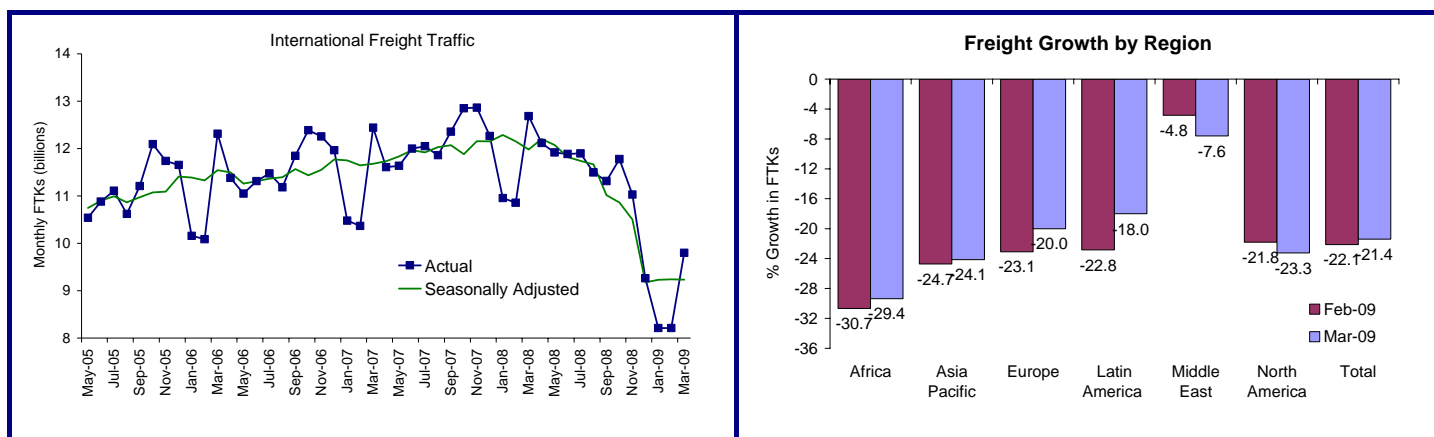
- Adjusting the data for seasonal fluctuations, as shown in the chart below, shows that passenger travel was still declining during March – a fall of around 1% over February or an annualised decline of over 10%. This is not as sharp a decline as in February but is consistent with the decline seen over the past twelve months, and certainly provides no evidence of any levelling off.



- What is driving this underlying decline? We know from origin-destination data that long-haul markets are now falling faster than short-haul, so passenger kilometers are falling faster than passenger numbers. The data also shows that premium travel is falling more than twice as fast as economy travel, and that business passengers are trading down to cheaper seats. But the key drivers of overall travel volumes remain the disposable incomes and confidence of consumers. Disposable incomes are still declining in many major economies as a result of continuing job losses. US job losses have slowed, but at 663,000 in March this is not much of an improvement to the 741,000 jobs lost in January. Moreover, unemployment and therefore job insecurity, continues to rise. In the US this rose from 4.9% early in 2008 to 8.5% in March. The same is true in Europe with March unemployment rates of 8.6% in Germany and 14% in Spain. In February the confidence of consumers fell to all time lows in the US, Europe and elsewhere. It is not surprising that this has driven air travel lower in March, in spite of increasingly large cuts in fares and fuel surcharges.
- Airlines in the three largest regions of Europe, Asia-Pacific and North America all suffered similar low-double digit rates of declines in the passenger kilometers they flew in March. However, there were marked variations across the other regions. Weakest were airlines in Africa, whose RPKs on international markets fell 15.6% in March. Origin-destination data shows that travel, including premium travel, was still growing on cross-border African markets. However, it would seem African airlines are not gaining a large share of this growth. Similarly there was still passenger growth (in February) on Middle East-Asian markets. In this case it seems Middle Eastern airlines were successful in capturing market share, as they continue to add significant capacity. During March the passenger kilometers flown by Middle Eastern airlines on all international markets grew by 4.7%, an improvement from 0.4% growth in February. Within South America there is continuing growth but Central America is falling very sharply and traffic to North America is down. As a result airlines in Latin America saw a 5.9% decline in the RPKs they flew on international markets.
- Looking ahead there is some faint light at the end of the tunnel, but little indication of how long the tunnel might be. In the past couple of months jobs losses have levelled out. After hitting new lows in February consumer confidence has moved sideways or improved in the US, Europe and Japan. Lower energy and debt interest payments are improving the disposable incomes of many consumers. What is not known is how much consumers will want to use any new cash to pay down debt. If US households want to reduce their debt from current levels of 130% of annual income by just 5% that removes \$500 billion from consumer spending (and travel). De-leveraging is likely to be a major headwind even when the banks and labour markets stabilise, which could prolong the period of travel weakness.

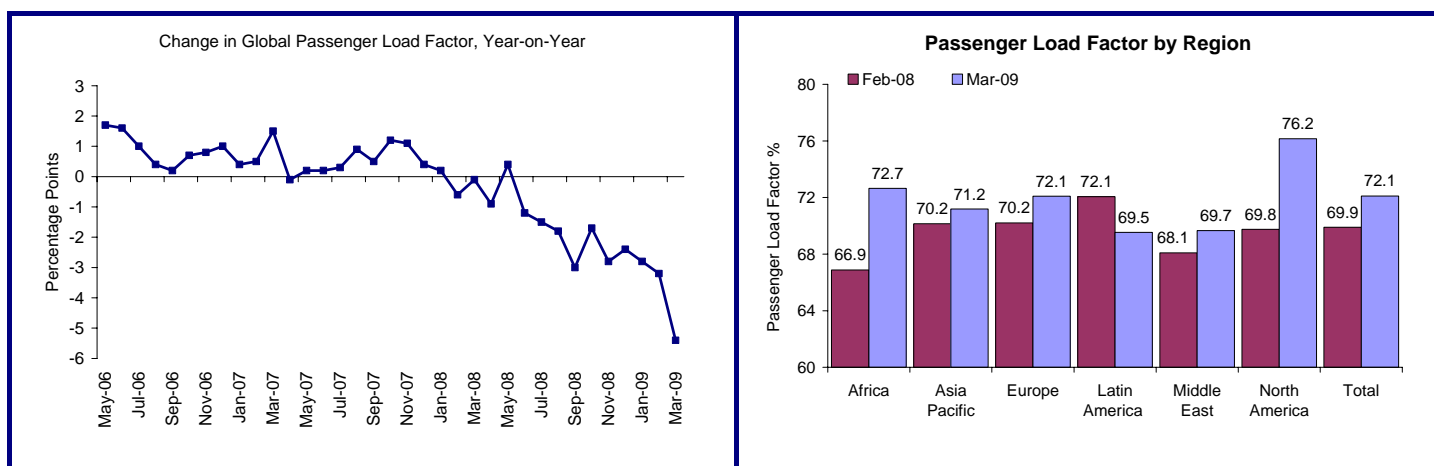
## AIR FREIGHT VOLUMES MOVE SIDWAYS AFTER DECEMBER LOW POINT

- The more positive news is that air freight volumes have got no worse in March. Compared to twelve months earlier freight was down 21.4% in March, compared to a 22.1% fall in February. In fact the level of freight tonne kilometres flown on international markets has moved sideways since reaching a low in December.
- Purchasing managers from manufacturing companies in the major economies have been reporting that their expectations for output and orders improved slightly since the lows of late last year. This is a good lead indicator for air freight growth and this has proved to be the case in recent months. The severity of the slump in air freight at the end of last year seems to have been driven at least in part by the impact of a very large inventory overhang that emerged in manufacturing, leading purchasing managers to sharply cut shipments of components and finished goods. The sharp rise of the inventory-sales ratio ended and started, to a minor degree, to reverse in the past couple of months. This has stabilised air freight. However, until the inventory overhang disappears a significant recovery in air freight should not be expected.
- That is not to say that year-on-year growth rates will not improve. Even if the level of FTKs remains unchanged from March levels from now until year end, the comparison with levels a year earlier will produce significantly less negative declines in the next few months.



## LOAD FACTORS DOWN AS FALLING DEMAND OUTPACES CAPACITY CUTS

- Comparing load factors this March with last year shows the impact of not having the Easter boost to leisure travel this year. That is just an issue of timing and will be reversed in April. Nonetheless, the 5.4% point fall in load factors in March still represents a significant further deterioration in utilisation – and a further increase in excess capacity in most regions.



- ↗ The worsening of excess capacity is now having a large impact on fares and yields. Data released by the ATA on US airlines shows yields falling over 14% on Atlantic markets in March and by 10% in Q1. Average yields on international markets were down on average around 5% in Q1 and 10% by March. Coupled with the fall in volumes this indicates that revenues on international markets were down some 15% in Q1 and falling at a rate of around 20% by March, which is significantly worse than the 12% decline we are currently forecasting for 2008 as a whole.

IATA Economics  
28<sup>th</sup> April 2009  
E-Mail: [economics@iata.org](mailto:economics@iata.org)