

PREMIUM TRAFFIC MONITOR

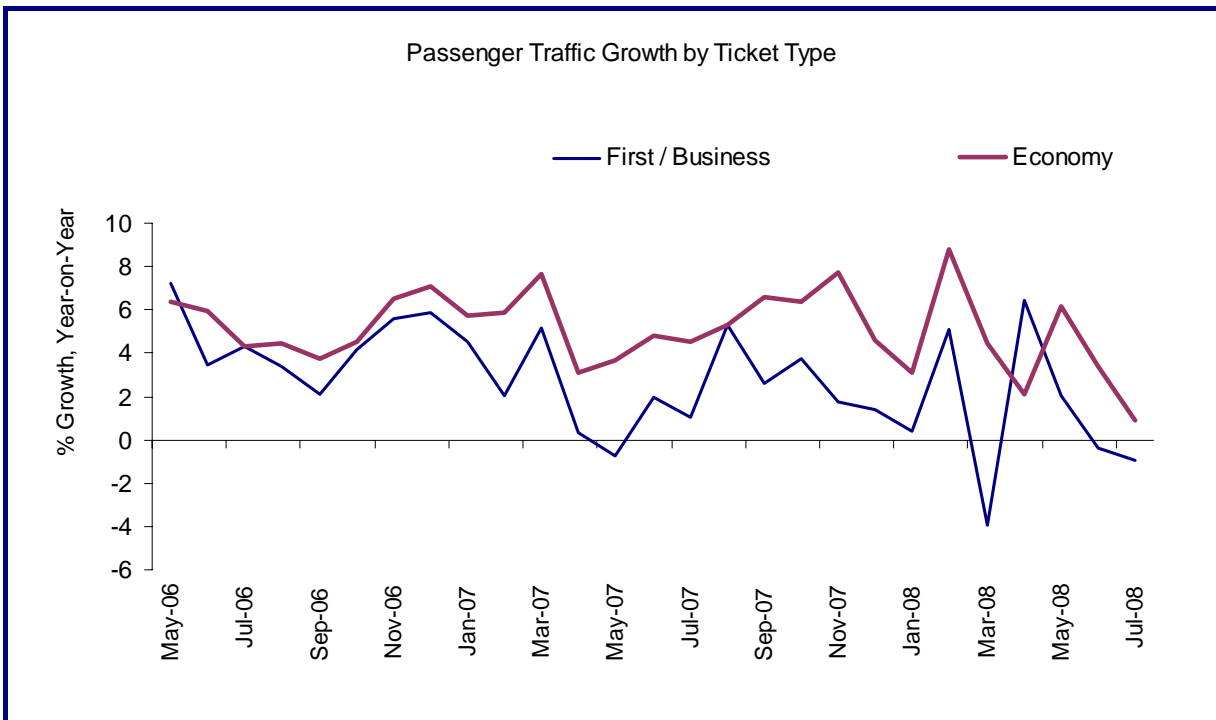
JULY 2008

KEY POINTS

- July marked a sharp slowdown in the growth of international air passenger numbers, to just 0.7%, after growth of 4.2% during the first half of the year and growth of over 8% during 2007.
- The main reason for the slowdown was a sharp deceleration in travel on economy tickets, likely reflecting the sharp rise in fuel prices and the cost of air travel in July as well as deteriorating economic conditions. However, the key premium travel sector shrank further, by -1% in the 12 months to July, reflecting the downturn in the financial sector and in major economies across the world.
- However, the concentration of weakness in markets linked to Asia – where economic growth remains relatively strong – suggests that the traffic slowdown has been exaggerated by the travel restrictions associated with the Olympics in China. Some rebound may occur in the next few months but that does not change the picture of a significant downward trend in travel growth, as the economic environment worsens.

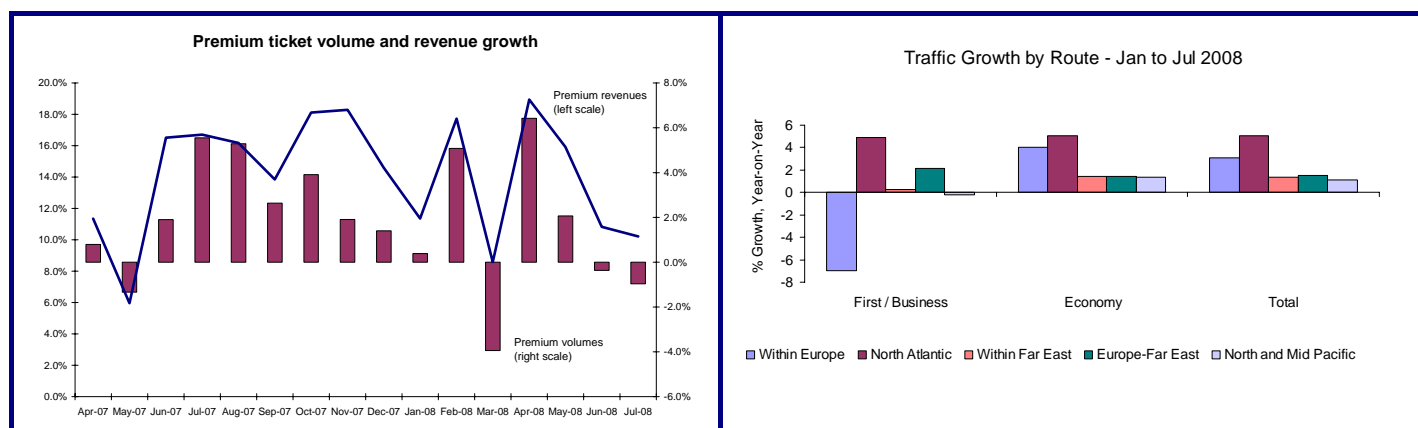
PREMIUM TRAFFIC GROWTH

- Premium travel numbers were particularly weak with an absolute decline in July of 1%, following a -0.4% fall in June and average growth of 1.5% during the first half of the year. Passengers travelling on economy tickets also slowed sharply, to growth of 0.9% in July, following 3.4% growth in June and 4.6% growth in the first half of 2008.



- There is likely to have been some switch in business travel from premium to economy but all the evidence suggests this is a relatively price-insensitive sector. The sharp decline in premium travel most likely reflects a fall in business travel driven by the increasing weakness of major economies. Lehman Brothers' bankruptcy underlines the shrinkage of M&A and other financial sector activity, leading of course to a reduced number of

business travellers from financial services. Falling air freight volumes and lower business confidence suggests that world trade and travel from the manufacturing sector is also in decline.



PREMIUM TRAFFIC BY MAJOR ROUTE

- The largest percentage declines were seen in markets connected with Asia. Africa-Far East was down -4.2%, after a 9.7% rise in June. Within Far East shrank -6.8%, following a 0.5% rise in June and growth of 1.3% during the first half. Routes across the Pacific fell -8.8% in July, after falling 2.8% in June and growth of 1.2% during the first half of the year. Europe-Far East was also down -1.9%, after growth of 2.8% during the first half.
- The majority of the slowdown from June to July was due to the decline in these markets. This looks a little odd since, apart from Japan, economies in the region are still booming. GDP growth slowed in the second quarter, but only from 10.6% to 10.1% growth in China, from 5.7% to 4.7% growth in S Korea and 1.3% to 1% growth in Japan. During July industrial production was growing by 14.7% in China and retail sales by 23%. In India industrial production accelerated from 5.4% in June to 7.1% in July. Even in Japan July data on the economy was better than June. Weakness in July seems at least in part due to the temporary reduction in travel to China as a result of tighter visa regulations during the Olympics.
- But the region also contributing to the slowdown in the growth of passenger numbers was Europe. Cross-border premium travel within Europe shrank -7.4% in July, following -6.9% during the first half of the year. Confidence amongst businesses and consumers has fallen sharply in recent months with a number of European economies now close to recession.
- In contrast to developments within Europe and on Asian markets, passenger numbers across the important North Atlantic market accelerated a little to 3.8%, from 1.7% in June and 5.1% during the first half of the year. US Department of Commerce data had been showing that US travellers to Europe had been falling at a pace of 4% a year, while flows from Europe to the US had been rising at double figure rates. Given the fall in travel within Europe, the weakening economic situation and fall in the Euro, it is not obvious that the acceleration across the North Atlantic originated in Europe. Consumer and business confidence in the US remains close to decade lows but has improved in recent months and more services are being provided by US airlines, which may have led to some stabilisation in this market. Unfortunately the increasing deterioration in Europe is likely to weaken travel across the Atlantic in coming months.
- The strongest markets in July were within South America, and in markets connected to the Middle East and Africa. This appears to reflect commodity-driven economic growth. Within South America – where both Brazil and Argentina saw economic growth above 6% in the second quarter - premium growth was 12.1%, compared to 12.5% during the first half. Traffic between Europe and the Middle East continues to grow at double-figure rates, with robust growth in traffic from the Middle to the Far East. Given the 1.9% decline in Europe to Far East traffic this suggests there has been some further gain of share in the Europe to Asia market by Middle Eastern airlines hubbing in the region. African markets also grew strongly. Within Africa passenger growth was 18% in July, and growth of travel between Africa and the Middle East continued strong at 6.9%.

PREMIUM TRAFFIC GROWTH BY ROUTE

	Share of Total Premium:		Premium Traffic Growth	
	Traffic	Revenues	Jul 08 vs Jul 07	YTD 2008 vs YTD 2007
Africa – Middle East	0.8%	0.6%	6.9%	15.3%
Africa – SW Pacific	0.0%	0.1%	9.7%	12.9%
C America – S America	0.3%	0.3%	6.4%	14.5%
Europe – Far East	8.5%	14.6%	-1.9%	2.1%
Europe – Middle East	4.1%	5.4%	14.8%	10.7%
Europe – SW Pacific	0.1%	0.3%	2.6%	-7.4%
Africa – Far East	0.2%	0.2%	-4.2%	3.6%
Within Africa	0.5%	0.3%	18.0%	23.2%
Within Central America	0.1%	0.0%	-12.8%	-6.1%
Within Far East	9.4%	4.0%	-6.8%	0.3%
Within Middle East	1.5%	0.6%	32.4%	15.3%
Within N America	1.4%	0.4%	2.3%	-1.7%
Within SW Pacific	0.3%	0.2%	-14.0%	1.3%
Within South America	0.9%	0.3%	12.1%	12.4%
Mid Atlantic	1.0%	2.5%	0.5%	5.9%
Middle East – Far East	2.1%	1.5%	4.7%	14.7%
Middle East – SW Pacific	0.4%	0.7%	-8.9%	-3.3%
North Atlantic	18.5%	32.1%	3.8%	4.9%
N America – C America	4.8%	2.1%	-2.2%	2.4%
Europe – Africa	3.6%	1.7%	2.8%	5.1%
N America – S America	2.1%	2.9%	1.8%	7.1%
Far East – SW Pacific	1.5%	1.8%	-4.2%	1.6%
North & Mid Pacific	6.3%	11.1%	-8.8%	-0.2%
South Pacific	0.4%	1.5%	-8.5%	-6.4%
South Atlantic	2.3%	3.8%	16.2%	13.0%
Within Europe	28.7%	10.9%	-7.4%	-7.0%
Total International	100.0%	100.0%	-1.0%	1.1%

