

PREMIUM TRAFFIC MONITOR

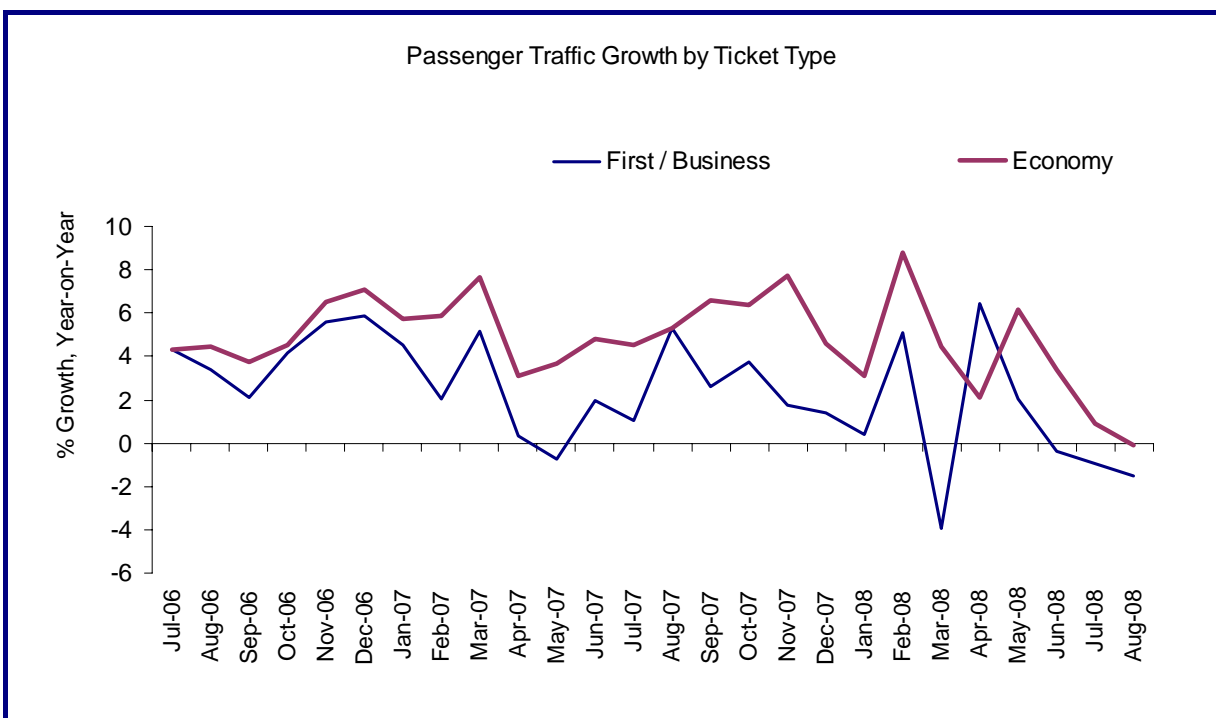
AUGUST 2008

KEY POINTS

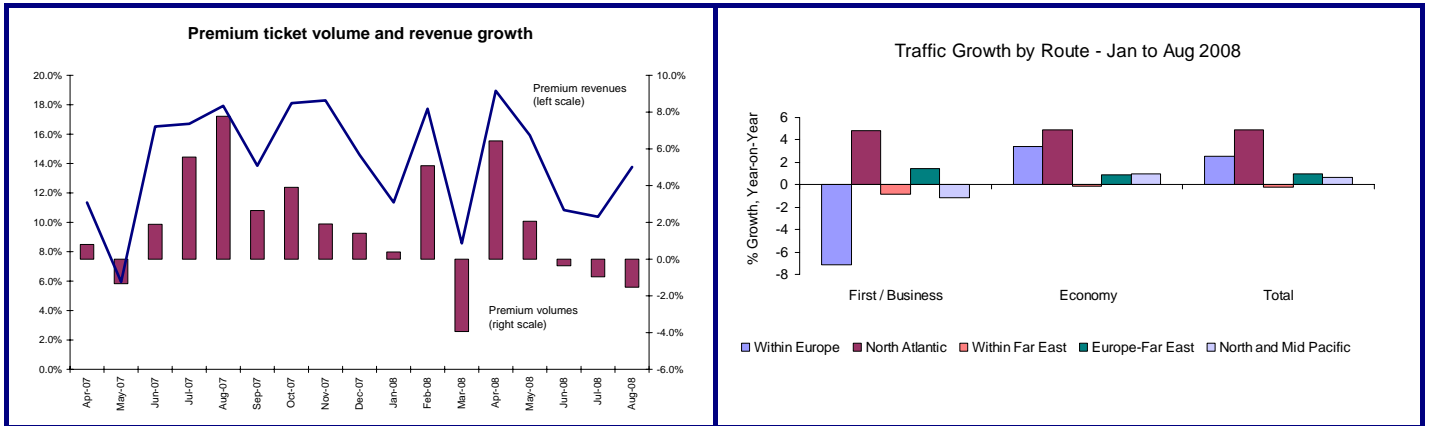
- In August, for the first time since SARS in 2003, there was a decline in the number of passengers travelling on both premium and economy tickets. Data released earlier had shown a 1.3% rise in international RPKs in August; growth of which now appears to have been purely due to increasing average distances. Premium passenger numbers were down -1.5% in August, while economy travel fell -0.1%.
- Some markets were still showing growth of premium travel in August. Surprisingly, given financial markets, North Atlantic premium travel was up 4.3% but the recent financial sector crisis is likely to weaken this market in future months. Travel within Africa, the Middle East and South America also showed further strength, reflecting still robust economic growth and business travel. However, all markets linked to the Far East weakened sharply.
- Prospects for premium travel, business travel in particular, look very depressed. The financial sector crisis will surely see a very large shrinkage in business travel from this sector. Moreover, the increased likelihood of recession in major economies next year will further weaken both business and leisure travel.

PREMIUM TRAFFIC GROWTH

- The number of passengers travelling on premium tickets shrank at an accelerating rate for the third month in a row, as the deterioration in economic conditions caused a slump in business travel. In August premium travel numbers fell -1.5%, after a -1% fall in July and average growth of 1.5% during the first half of the year.
- Business travel, which forms the bulk of those travelling on premium tickets, is highly sensitive to the economic cycle and to activity in key industries such as financial services. The sharp decline in premium travel seen in recent months is a reflection of the sharp falls in industrial production seen in major economies during July and August and the falls in both consumer and business confidence.



- Business travel is a key driver of long-haul and network airline profitability, so the fall in volumes is a major concern for financial performance. Our estimates of premium revenue growth shows a significant slowdown from the increases seen in 2007 and early this year. However, due to earlier fare increases – reflecting the rise in fuel costs to July – premium revenues are still increases so far, despite the fall in volumes.



PREMIUM TRAFFIC BY MAJOR ROUTE

- There is a clear deterioration in passenger traffic, reflecting the economic downturn. However, there is a puzzle with both premium and economy traffic in that transatlantic and some other markets are still experiencing reasonable growth. The weakness of the past few months is concentrated in Asia or with markets linked to Asia, where both economic and travel growth had been expected to remain relatively robust.
- North Atlantic premium and economy passenger numbers both grew 4-4.5% in August, only a fraction below the growth experienced throughout the earlier part of this year and not that far below the 5.5- 6% growth of 2007. This is a key market for business travel from the financial services, which will certainly fall in the future but should already have been weak. US airlines have driven growth on this market, adding capacity at a rate of around 10% a year, whereas European airlines have seen virtually no growth this year. Premium fares have been rising at a much lower pace than last year, and compared with other markets. This and the stimulus to demand of the new service offerings following Open Skies appears to have more than offset economic weakness to date. However, given the financial services collapse of the past few weeks it is difficult to see premium traffic growth being sustained on this market over the next twelve months.
- There are other markets still showing strength in premium travel. The largest of these include Europe-Middle East, which is still growing in double figures and showing no sign of any slowdown, within Africa, within South America and the market between North and South America. These are regions where economic growth is still fairly robust and so still generating business travel.
- However, economic growth is still reportedly robust in Asia yet this has been the weakest region for business travel in recent months. Within Far East premium travel fell -7.8% in August, Pacific markets shrank a further -6.4%, Europe-Far East was down -3.4%, while even Middle East-Far East was down -0.7%. Japan is weak with a -4% fall in consumer spending in August, and Chinese industry has not yet bounced back from Olympic restraints on polluting industries. Yet underlying economic conditions in the region remain strong, according to the Asian Development Bank. Since we have seen a similar weakness in economy travel on these markets it may be that both consumers and businesses are making discretionary cuts in travel for precautionary reasons, to a greater extent than passengers in other regions.
- Even if recent Asian weakness should prove due to temporary factors the impact of the financial crisis of recent weak points to mild recession at best in many major economies. Air travel, and premium traffic in particular, will weaken further in this environment. Our September financial forecast projecting 2.5% growth in total passenger numbers in 2009 now looks optimistic. A decline is now a plausible scenario for next year.

PREMIUM TRAFFIC GROWTH BY ROUTE

	Share of Total Premium:		Premium Traffic Growth	
	Traffic	Revenues	Aug 08 vs Aug 07	YTD 2008 vs YTD 2007
Africa – Middle East	1.0%	0.6%	3.7%	13.7%
Africa – SW Pacific	0.0%	0.1%	-7.4%	9.7%
C America – S America	0.4%	0.2%	12.8%	14.3%
Europe – Far East	8.5%	14.3%	-3.4%	1.4%
Europe – Middle East	4.6%	5.5%	10.7%	10.7%
Europe – SW Pacific	0.1%	0.3%	10.4%	-5.8%
Africa – Far East	0.2%	0.3%	0.8%	3.2%
Within Africa	0.6%	0.2%	13.2%	21.6%
Within Central America	0.2%	0.0%	-8.4%	-6.4%
Within Far East	10.5%	2.9%	-7.8%	-0.9%
Within Middle East	1.7%	0.4%	20.3%	15.9%
Within N America	1.7%	0.7%	-1.9%	-1.8%
Within SW Pacific	0.3%	0.2%	-6.3%	0.4%
Within South America	1.0%	0.2%	10.1%	12.1%
Mid Atlantic	1.1%	2.2%	0.8%	5.3%
Middle East – Far East	2.5%	1.5%	-0.7%	12.4%
Middle East – SW Pacific	0.4%	0.8%	-11.0%	-4.2%
North Atlantic	18.5%	31.6%	4.3%	4.8%
N America – C America	5.6%	1.6%	2.1%	2.4%
Europe – Africa	4.0%	5.3%	3.9%	5.0%
N America – S America	2.4%	3.1%	5.2%	6.8%
Far East – SW Pacific	1.8%	2.1%	-7.2%	0.3%
North & Mid Pacific	7.1%	13.7%	-6.4%	-1.1%
South Pacific	0.4%	1.4%	-8.7%	-6.7%
South Atlantic	2.5%	4.2%	18.7%	13.6%
Within Europe	22.8%	6.7%	-8.5%	-7.1%
Total International	100.0%	100.0%	-1.5%	0.8%

