

MONTHLY TRAFFIC ANALYSIS

JANUARY 2008

KEY POINTS

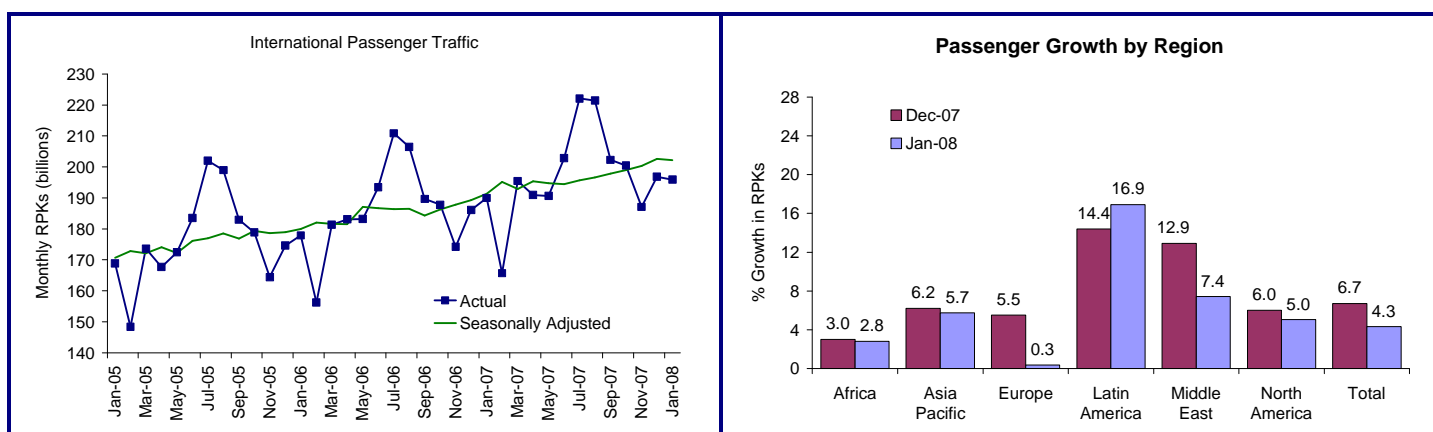
- International passenger traffic slowed to 4.3% in January, its slowest rate of growth since October 2003 when the SARS outbreak was still affecting air travel. This follows a robust end to last year with passenger traffic rising 6.7% in December and a solid 7.4% for 2007 as a whole. It looks as though recent economic weakness, increasingly evident in the US and to a lesser extent Europe, is starting to damage air travel.
- Although it is the US economy that may already be in recession, airlines in North America expanded their passenger volumes on international markets at a fairly robust rate of 5% and kept their load factors high at 77.2%. Capacity is being switched from weak US domestic markets to more robust long-haul international markets such as the N Atlantic, helped by the weakness of the US dollar and its boost to US exporters.
- The weakness in passenger traffic in January was largely concentrated with the European airlines, whose growth slipped from 5.5% in December to just 0.3% in January. Load factors also slipped to 72.5%. Traffic weakness seems to have been on long-haul markets rather than within Europe travel. European economic growth has slowed but is still quite robust. Part of the reason for the weakness of long-haul traffic carried by the European airlines appears to be the strength of the Euro and its impact on competitiveness.
- In other markets Asia-Pacific airlines expanded at a solid rate of 5.7%, as the continuing economic expansion in China and India more than offset the slowdown in Japan. The weakest passenger traffic growth was in Africa where disruptions in several economies slowed growth to less than 3%. Strong economies and airline restructuring continued to boost growth in Latin America, which at 16.9% was the fastest growing region.
- Freight traffic held up surprisingly well in January, growing by 4.5% after 4.7% in December. Leading indicators such as semi-conductor shipments and global business confidence point to a weaker outlook. However, air freight may be regaining some market share previous lost to container shipping.

	Jan 2008 vs. Jan 2007					2007 vs. 2006				
	RPK Growth	ASK Growth	PLF	FTK Growth	ATK Growth	RPK Growth	ASK Growth	PLF	FTK Growth	ATK Growth
Africa	2.8%	3.6%	69.0	13.8%	3.7%	8.0%	7.0%	69.2	-6.0%	5.6%
Asia/Pacific	5.7%	4.4%	77.0	6.5%	-1.1%	7.3%	5.7%	76.0	6.5%	6.2%
Europe	0.3%	1.2%	72.5	0.4%	1.5%	6.0%	5.2%	77.5	2.7%	3.9%
Latin America	16.9%	17.3%	74.0	3.9%	17.5%	8.4%	9.1%	72.9	-5.4%	7.8%
Middle East	7.4%	7.6%	76.6	11.6%	8.4%	18.1%	14.5%	75.9	10.1%	13.9%
North America	5.0%	4.9%	77.2	2.4%	-2.0%	5.5%	4.6%	80.9	0.7%	2.1%
Industry	4.3%	4.2%	75.1%	4.5%	1.1%	7.4%	6.2%	77.0	4.3%	5.3%

PASSENGER GROWTH WEAKEST SINCE OCTOBER 2003

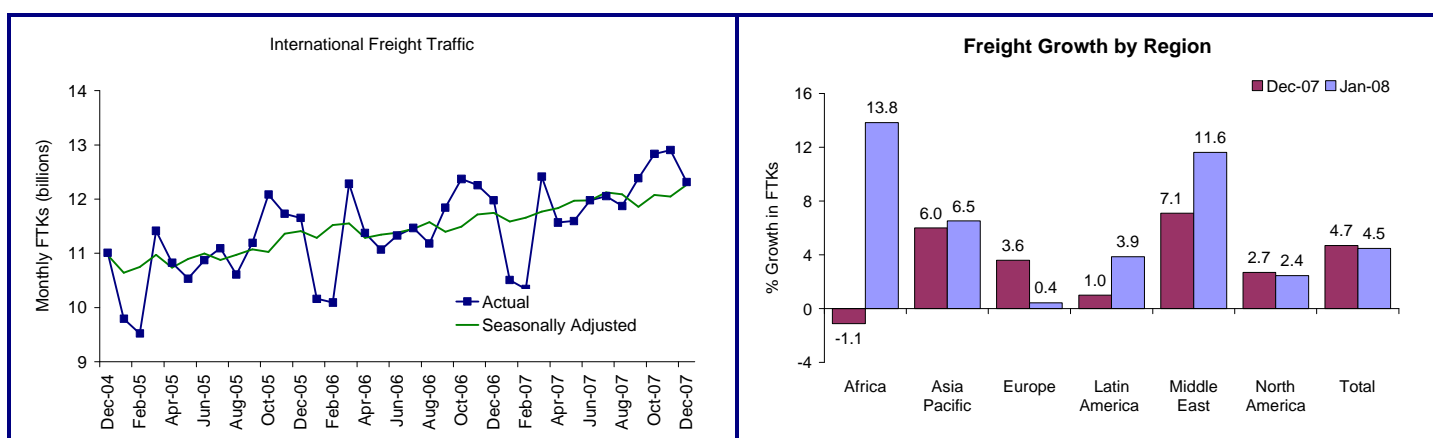
- Passenger growth slowed to 4.3% in January, its weakest rate of expansion since SARS-affected 2003. Adjusting for seasonal fluctuations, passenger traffic fell slightly in January, for the second month running, starting to reverse the strong growth seen in the second half of 2007. It looks as though the economic weakness, increasingly evident in the US and to a lesser degree Europe, is starting to damage air travel.
- However, perhaps surprisingly this travel weakness was concentrated with European airlines on international markets rather than N American airlines whose international business held up solidly in January.

- The weakness of international traffic carried by European airlines, which slowed to just 0.3% in January from 5.5% in December seems to be on long-haul markets across the Atlantic and to Asia, rather than within Europe. This may well be a reflection of both weaker prospects in US markets and the fall in the US dollar. The weak US dollar has improved the competitiveness of US firms and boosted exports. The home advantage of the US airlines, as well as their moving increasing capacity onto these international markets, looks to have produced benefits from outbound business travel from the US. North American airlines saw their traffic slow only marginally to 5% in January, from 6% in December. By contrast business travel to the weak US markets from the increasingly less competitive Europe has weakened, to the disadvantage of European airlines. The slowdown in travel between Europe and Asia is less easy to explain and may be a temporary event. Certainly trade and growth between these regions looks much more robust than the situation in the US.
- Traffic carried by the Asia Pacific airlines also remained robust in January at growth of 5.7%, only slightly down on December's 6.2%. The Japanese economy has weakened, which still accounts for a sizeable air travel market, but other economies in the regions such as China and India continue to boom. The US economy may be in recession, according to the indicators in January, but economic growth in China has exceeded 11% in the last four quarters and is forecast to remain around 10% this year. The strength of the Euro recently against many Asian currencies as well as the US dollar has led to increasingly more passenger traffic being carried by Asian airlines than their European competitors.
- Elsewhere Latin American airlines continue to see a sharp recovery on the back of strong economies, driven partly by Asian commodity demand, and continued restructuring. Middle Eastern growth slowed sharply but this seems due to slower growth in capacity rather than any change in the strong oil-driven upward trend in growth. African airlines saw a second disappointingly slow month of growth, despite good regional economic growth.



FREIGHT GROWTH HOLDS UP IN DECEMBER

- In contrast to passenger growth, air freight expanded at a reasonably robust pace of 4.5% in January, down only a little from 4.7% in December. Performance varied marked across the regions.



- Leading indicators of air freight growth, such as semi-conductor shipments and global manufacturing business confidence levels, continue to point to slower growth. Yet air freight volumes grew by a fairly robust 4.5% in January after 4.7% in December. This growth also contrasts with the slowdown in passenger travel, in particular the slowdown in the growth of business passenger numbers during the second half of last year. Much of the growth in world trade associated with the boom in China is in bulk commodities which will be carried by ship rather than by air. A US recession would damage a significant market for the high value, low volume, products that are moved by air freight. The main offset to this more gloomy outlook for air freight this year is the possibility that market share can be clawed back from other modes, such as ocean shipping. Partly air freight growth has been subdued because of sluggish shipments by key customers such as semi-conductor firms, but there does also seem to have been a loss of share to containerised shipping on some markets. Ships have got faster but also the residual fuel oil on which they are powered rose by just 200% in the four years to early 2007, compared to a 300% rise in jet fuel. This gave shipping a strong cost advantage over air freight in 2006 and early last year. However, from the middle of last year that gap closed and now both residual fuel oil and jet fuel are almost 500% higher than in early 2002. This may have led to some regaining of market share by air freight.
- In the larger freight markets there is continued strength in evidence for Asia Pacific airlines, with the freight carried by them up 6.5%, compared with 6% in December. Strong economic growth, outside Japan, and trade in this region looks set to continue to boost air freight business in this region. Air freight carried by European airlines however slumped to 0.4% in a pattern very similar to passenger traffic. Most of the air freight is carried on long-haul markets where business for the European airlines appears to have been weakened by the strength of the Euro. The apparent surge in freight among African airlines is a reflection of falls this time last year due to the restructuring of capacity at a couple of major airlines.

AVERAGE LOAD FACTORS IMPROVE AGAIN

- Load factors continued to rise in January, despite the slowdown in passenger traffic with an average 75.1% compared with 75% in the same month last year. Loads are seasonally weak at this time of year, particularly in Europe, and utilisation of up to 80% was achieved last year by cautious additions to capacity in the face of strong traffic. High load factors have been key to boosting unit revenues and profitability over the past year. The challenge in 2008 will be to keep them high, given the slowdown in traffic and the acceleration in the delivery of new aircraft.
- Unsurprisingly the sharp slowdown in traffic for European airlines led to a fall in load factors. However, airlines in Asia Pacific and North America continue to raise their utilisation rates, up to 77% and 77.2% respectively. Low load factors, below 70%, for African airlines continue to make it difficult for airlines in the region to generate profits with oil prices hitting \$100 a barrel once more.

