

# AIR TRANSPORT MARKET ANALYSIS

## OCTOBER 2010

### KEY POINTS

- The growth rate for international passenger traffic in October was similar to that of September with RPKs (revenue passenger kilometers) some 10.1% higher than the corresponding month in 2009, compared with a 10.7% increase for September. At just over 10% this is similar to the trend rate of growth since the low point of mid 2009. The year to date increase of 8.5% is slightly above that of the period to September reflecting a further dilution of the effects of the volcanic eruption in April.
- In absolute terms RPKs in October rose 0.8% over September levels which is a still strong annualized growth rate of 10%. So far the pace of the post-recession rebound in air travel has yet to slow.
- The rate of increase in international freight was also similar to that of September; FTKs (Freight tonne kilometers) increased by 14.4% compared with 15.5% in September; in absolute terms freight rose strongly for the first time since hitting a peak in April when the business inventory cycle ended.
- Load factors for passenger and freight traffic were both higher than a year ago reflecting the effects of capacity growing at a slower rate than traffic; the current schedules for the winter season, which began at the end of October, suggest this behaviour will continue in most markets. However freight load factors appear to have peaked as capacity expands faster than traffic, month to month.
- A set of figures in isolation may be interesting but it always a trend that is more important; indeed whether the “trend is your friend” or not. It is also important to be able to isolate the recovery and what are best described as the underlying growth elements.
- Given the very pronounced seasonal patterns for passenger and freight traffic, comparing the trends over a period is perhaps a more meaningful way to look at the current position of the industry. If we look at the trend of the maximum and minimum values for both passengers and cargo since 2003 it appears that the former growth trends for the industry have been re-established and that the peaks and trough values lie within a corridor.
- Looking ahead the fourth quarter has started at a more robust pace than expected. Traffic and passenger load factors were up significantly. Economic data have been supportive for the coming months. This should generate further gains in traffic volumes and supply-demand conditions for passenger yields also appear to have improved significantly.

Year on Year Comparison	October 2010 vs. October 2009						YTD 2010 vs. YTD 2009					
	RPK	ASK	PLF	FTK	AFTK	FLF	RPK	ASK	PLF	FTK	AFTK	FLF
Africa	13.3%	8.9%	71.8%	9.3%	6.1%	29.6%	13.1%	9.1%	69.2%	31.2%	12.1%	27.4%
Asia/Pacific	7.3%	5.3%	77.8%	14.9%	13.5%	66.5%	10.1%	3.2%	77.9%	28.3%	16.1%	65.8%
Europe	9.6%	8.3%	81.5%	12.1%	7.6%	53.4%	5.0%	2.1%	80.0%	12.1%	-0.5%	51.9%
Latin America	4.9%	-0.7%	80.6%	12.7%	-0.9%	47.7%	9.9%	4.1%	76.5%	35.3%	17.0%	43.2%
Middle East	18.0%	13.7%	76.2%	22.7%	17.1%	49.2%	18.6%	13.2%	76.1%	29.7%	15.8%	46.6%
North America	12.4%	11.9%	82.5%	12.2%	10.4%	45.3%	7.2%	3.0%	82.7%	26.0%	5.4%	43.4%
<b>Industry</b>	<b>10.1%</b>	<b>8.2%</b>	<b>79.6%</b>	<b>14.4%</b>	<b>11.1%</b>	<b>55.5%</b>	<b>8.5%</b>	<b>4.0%</b>	<b>78.8%</b>	<b>24.0%</b>	<b>9.2%</b>	<b>53.7%</b>

RPK: Revenue-Passenger-Kilometers; ASK: Available-Seat-Kilometers; PLF: Passenger-Load-Factor; FTK: Freight-Tonne-Kilometers; AFTK: Available Freight Tonne Kilometers; FLF: Freight Load Factor;  
 All Figures are expressed in % change Year on Year except PLF and FLF which are the load factors for the specific month.

## COMPARING OCTOBER TO SEPTEMBER

### October 2010 vs. September 2010

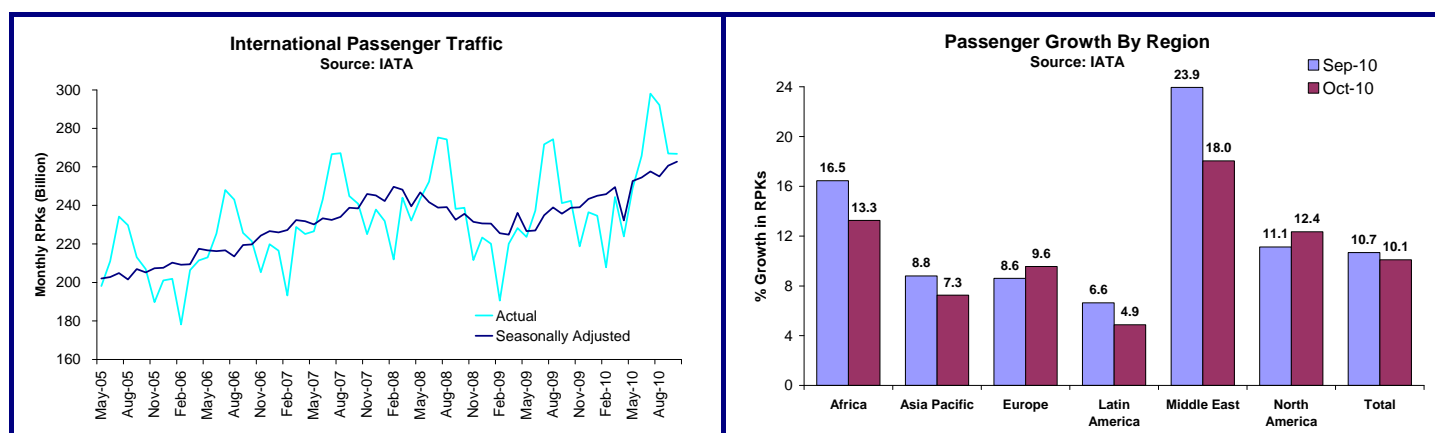
Month on Month Comparison	RPK	ASK	PLF pt	FTK	AFTK	FLF pt
Africa	-0.1%	0.3%	-0.3%	0.1%	-3.6%	1.0%
Asia/Pacific	0.3%	-0.4%	0.6%	1.7%	-0.7%	1.5%
Europe	1.5%	0.9%	0.5%	1.0%	0.5%	0.3%
Latin America	1.1%	-0.5%	1.3%	-3.6%	0.4%	-1.8%
Middle East	-1.0%	0.2%	-0.9%	2.7%	1.6%	0.5%
North America	1.2%	2.1%	-0.8%	0.2%	0.8%	-0.3%
<b>Industry</b>	<b>0.8%</b>	<b>0.6%</b>	<b>0.2%</b>	<b>1.2%</b>	<b>0.1%</b>	<b>0.6%</b>

Data are seasonally adjusted.

All figures are expressed in % change month on month except, PLF pt and FLF pt which are the percentage point difference between load factors of two consecutive months.

- ↗ Adjusted for the seasonal variation and focusing on the underlying growth rate passenger traffic grew by 0.8% in October compared with September;
- ↗ There were however some one-offs not least the timing of Ramadan which increased traffic in the Middle East in September by 6.5% and clearly distorts the comparison with October
- ↗ Latin American comparisons continue to be affected by the collapse of Mexicana and although there are plans for the airline to start flying again, the impact of the collapse will also be evident in at least November if not December too.
- ↗ On an unadjusted basis freight was at an all time high – taking into account seasonal adjustments in only 4 months in 2010 have there been higher volumes.

## AIR TRAVEL VOLUME GROWTH REMAINS ABOVE TREND FOR NOW

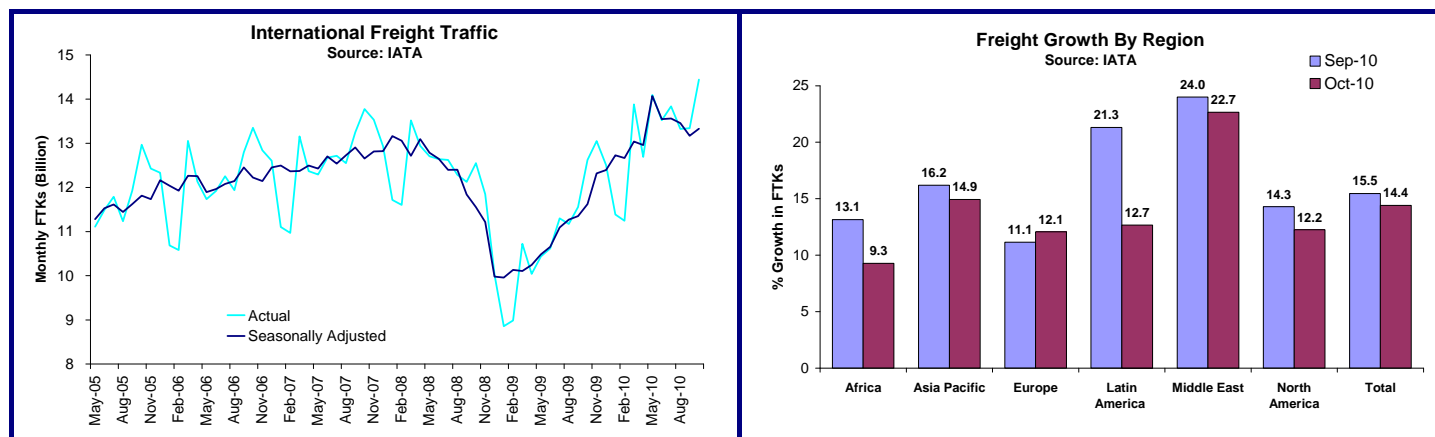


- ↗ International passenger traffic (RPKs) in October grew by 10.1% and although this was a slightly slower rate than the 10.7% increase reported for September, in both months traffic grew faster than in August. Whilst these outcomes may be of interest in isolation it is the trend that is perhaps of more importance. In this respect extrapolating the trend line for the peaks between 2003 and 2008 and the troughs between 2003 and 2007, gives both a dramatic view of the extent of dislocation between the end of 2008 and 2009 as well as showing, very clearly, how the industry has now moved back towards longer term “trend growth”; indeed the latest figures suggest that growth remains above trend growth of some 6%.
- ↗ Inevitably there are a number of regional variations not least through the timing of Ramadan (August-September) which has impacted the comparisons between September and October for the Middle East in particular; Elsewhere the rate of growth of North American airlines’ international traffic growth has continued to be strong and indeed October represented the fastest growth rate for the year so far, following on from September which at the time was also a new high; load factors for the North American airlines remain above 80% and here the re-introduction of capacity may be a fine balancing act.
- ↗ October was the third month where international passenger traffic volumes exceeded the total for the corresponding month before the downturn for airlines in the Asia Pacific. However on a seasonally adjusted basis volumes in this market have yet to recover to previous levels. Elsewhere growth for the African airlines

remains strong with RPKs up by some 13.3% in the month and with capacity up by 8.9%. As a result there was a further improvement in the load factor in this region.

- Looking ahead there remain some mixed economic messages and although the latest business confidence indicators are more positive, this has not fed through into consumer confidence. There is an inevitability that growth rates will slow even just from a statistical perspective – however if we look at the absolute traffic levels to be accommodated by the airlines, these are moving to new and higher levels.

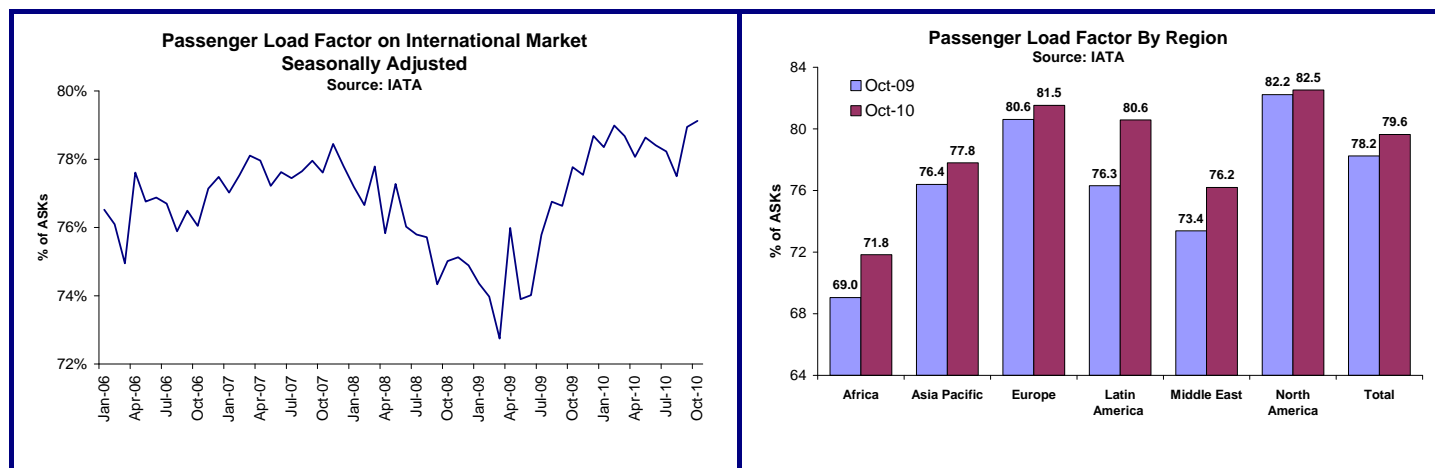
## AIR FREIGHT VOLUMES STABILIZING?



- In absolute terms reported FTKs (freight tonne kilometers) were at an all time record of 14.4bn in October. Looking on a seasonally adjusted basis, although higher than the pre-downturn peak (January 2008) the picture is one where October may represent a turning point after declines since the May high point; On a seasonally adjusted basis October was some 6% below the May 2010 peak.
- There has been further improvement in freight load factors from 52.5% in September to 55.5% in October (compared with 53.8% in October 2009).
- From a comparative perspective, October 2009 represented the first month since the onset of the downturn in June 2008 where the change over the corresponding month in the previous year was positive (0.6%) rather than one where there was a slower rate of decline; to this end the comparisons from now on, in terms of growth rates, will become more challenging as in November 2009 FTKs increased by over 10% compared with the previous year and in December they were up by almost a quarter; all of which perhaps underlines a need to look at absolute levels rather than just reported rates of change.
- In terms of reported traffic the pattern in 2010 to date has been quite different from that of previous years; there are traditionally two peak months of March and October; November generally experiences a small decline from October. Clearly there has been a significant dislocation to the traditional relationships since the start of the downturn nonetheless it is of interest to look at the freight pattern this year. After a dip between March and April FTKs increased again in May and then were effectively flat until July before trending down over the period to September and then growing again in October. In previous years traffic has picked up in August and peaked in October; this time around the pickup has been between September and October and we wait to see whether this reflects a slippage and there is a further increase in November or that the normal seasonality returns with November, in terms of the level of actual FTKs, falling back from what would be the traditional October peak.
- If we extrapolate trends based on the reported peak and trough volumes for FTKs before the downturn, it shows, based on a 2003 starting point, that the 2010 peak and trough lie within the floor and ceiling of the corridor suggesting that previous growth trends have been re-established.

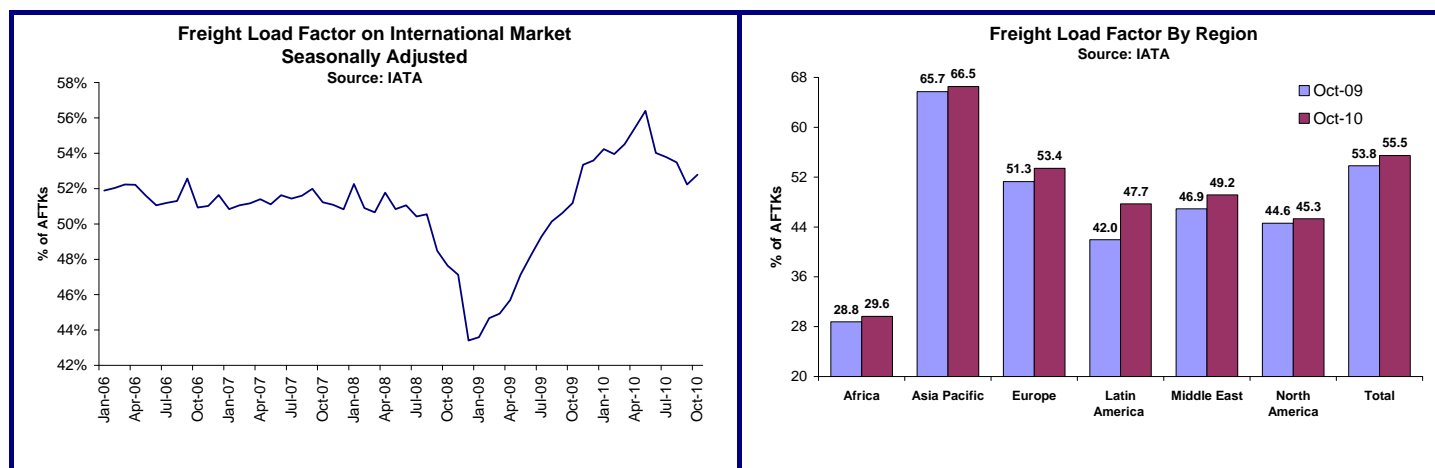
## PASSENGER LOAD FACTORS SPIKE HIGHER

- On a seasonally adjusted basis October's passenger load factor (79.2%) is slightly ahead of the previous peak value reached in February this year (79.0%); on a non-adjusted basis October at 79.6% the load factor is slightly lower than that of September (80.1%), but up 1.4% points from the 78.2% reported in October 2009. The main difference is the dramatic improvement in profitability associated with the load factors which in many cases is a reflection of better mix more than volume effects.
- Whilst the winter schedules suggest relatively modest increases in capacity in most of the main markets over the next few months, the significant increases in capacity planned by some carriers may put downward pressure on yields in some markets.



## FREIGHT LOAD FACTORS STILL TRENDING DOWN

- Given that capacity cannot be adjusted seamlessly at any time, let alone in a market of rapid change, the decline in the load factor from May's unexpected peak in volumes is no surprise; in reality it has drifted down from 56% in May to 52% in September before ticking up to 53%; this is against a background where both unadjusted and also seasonally adjusted volumes of freight traffic are significantly up on the corresponding months a year earlier.



### FURTHER ANALYSIS AND DATA

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