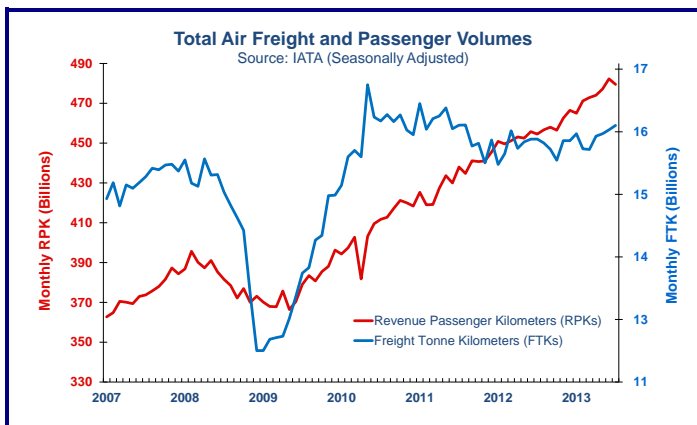


AIR PASSENGER MARKET ANALYSIS

JULY 2013

KEY POINTS

- Air travel markets recorded another month of solid growth in July. Global revenue passenger kilometers were up 5.0% in July compared to a year ago, slightly down on June growth of 6.1%.
- Air travel volumes, presented in the first chart below, showed some contraction in July compared to June. This is most likely an adjustment to the growth trend seen in recent months, which was indicating acceleration in air travel at double-digit annualized rates, a pace not supported by current conditions.
- Present levels of business confidence are more consistent with growth in air travel at the rate seen so far this year (~5%). Solid trade growth in several emerging markets has supported international travel for airlines in those regions, and downward pressure on demand has been easing as conditions improve in advanced economies.
- Performance across all regions on international markets was positive in July. Middle Eastern carriers continue to experience the strongest rates of increase, in July international RPKs were up 7.8% compared to a year ago. While this is slower than the June growth (12.1%), part of the decline is due to the timing of Ramadan. Asia Pacific traffic also rose in July, up 6.3% on a year ago, but the strong month-on-month expansion seen in June reversed in July, with volumes returning to levels more consistent with softer regional economic performance.
- European airlines recorded a 3.7% rise in international RPKs in July year-on-year, in line with growth year-to-date. There was a significant contraction month-on-month (0.9%) which has stabilized the pickup in growth during past months. Demand for international air travel for European airlines will depend on the region's ability to sustain economic expansion in H2. North American airlines experienced a 3.6% rise in July year-on-year, above the trend year-to-date (2.3%), with business confidence rebounding in July.
- Domestic air travel was up in most major markets in July. However, China's market may be showing first signs of weakness, after months of slower economic growth and business activity. Growth in July was up 10.7% year-on-year, but down on the same comparison in June (14.5%) and also down month-on-month (0.9%). Air travel within Brazil is the only market to show a decline year-to-date, as domestic demand remains sluggish.
- Passenger load factors slipped in July compared to June as capacity continued to expand despite the correction in demand growth. But levels remain high and close to those a year ago.
- Business confidence improved slightly in July as the Eurozone emerged from an 18-month-long recession. But the region's growth prospects for H2 are uncertain, and weakness in emerging Asia continues to be a concern. On balance, air travel should receive enough support to expand at current rates during H2 2013.



Year on Year Comparison

	Jul 2013 vs. Jul 2012			YTD 2013 vs. YTD 2012		
	RPK	ASK	PLF	RPK	ASK	PLF
International	5.1%	5.4%	82.7%	4.9%	4.2%	79.2%
Domestic	4.8%	5.8%	82.0%	4.6%	4.0%	80.1%
Total Market	5.0%	5.5%	82.4%	4.8%	4.2%	79.5%

Month on Month Comparison

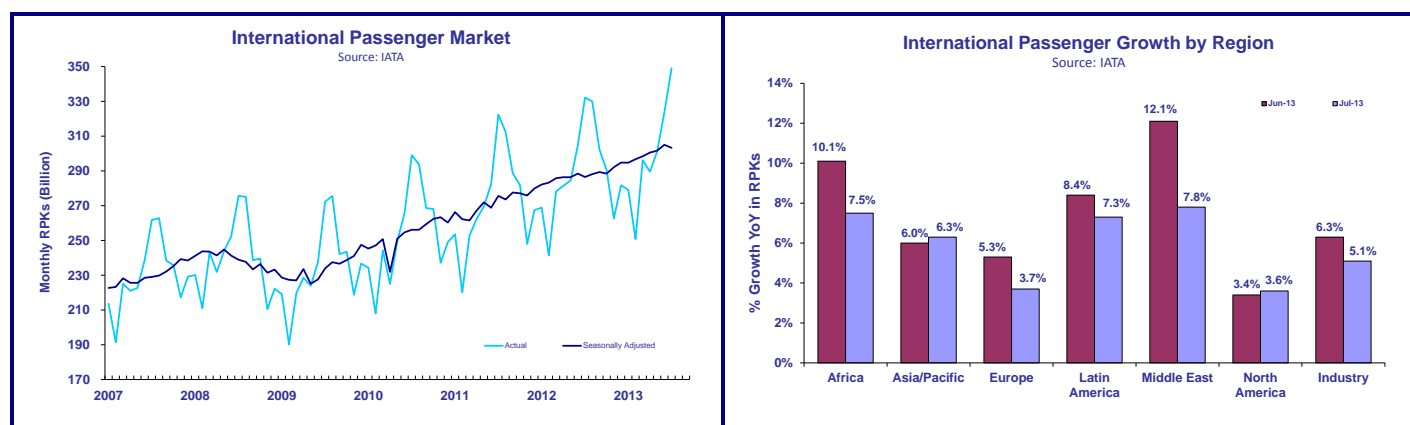
Jul 2013 vs. Jun 2013		
RPK	ASK	PLFpt
-1.1%	0.2%	-1.3%
0.1%	0.6%	-0.4%
-0.6%	0.4%	-0.8%

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

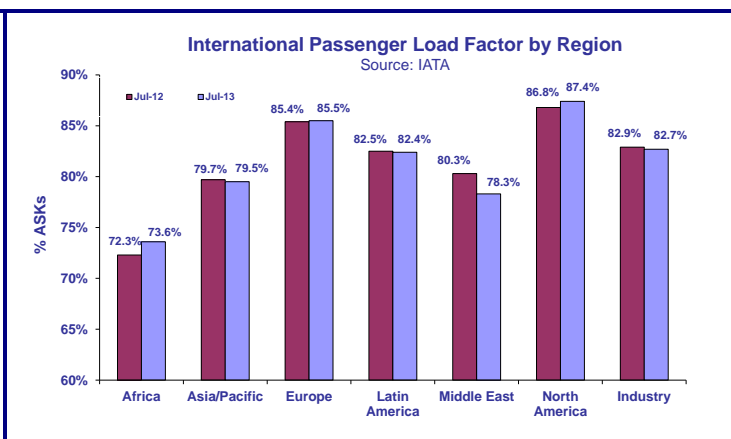
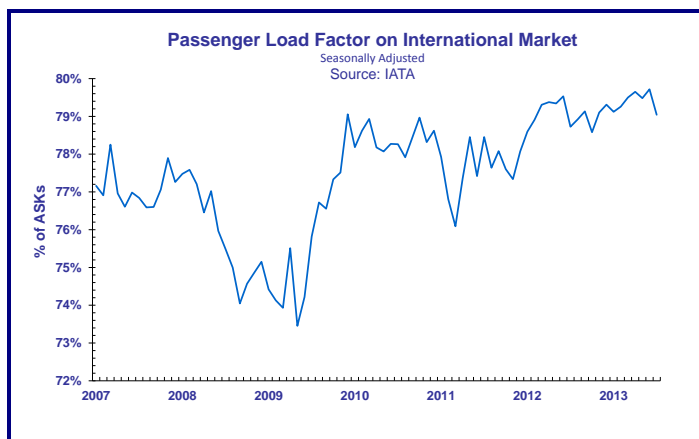
Data are seasonally adjusted. All figures are expressed in % change MoM except, FLFpt which are the percentage point difference between LF of two months.

PASSENGER MARKET

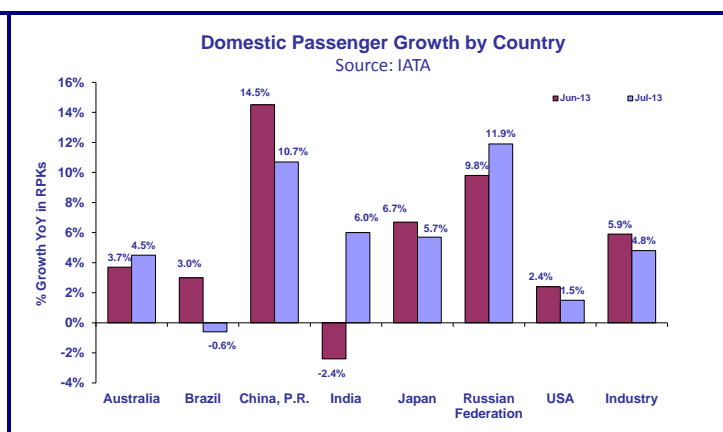
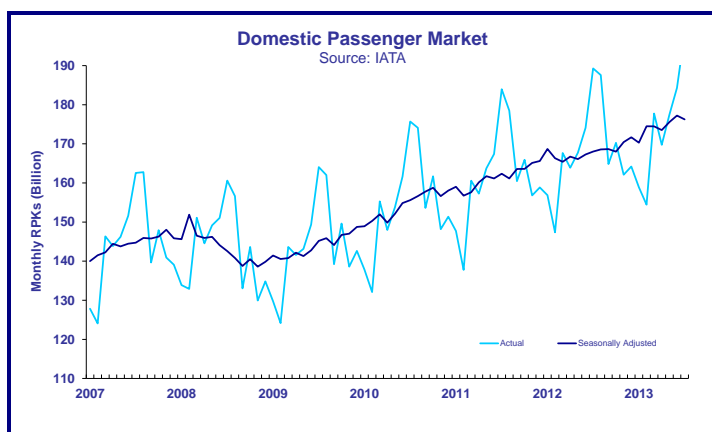
International Markets



- International air travel recorded a solid rise in July compared to a year ago, with growth of 5.1%. This result is down on June growth of 6.3%, but is slightly above year-to-date growth of 4.9%. There was an adjustment in the monthly growth trend in July with a decline in volumes of 1.1% compared to June, but this not surprising given the strong acceleration in volumes seen over recent months which is not supported by the current demand environment.
- Performance across all regions on international markets was positive in July. Middle Eastern carriers continue to experience the strongest rates of increase. In July international RPKs were up 7.8% compared to a year ago. While this is a fall from June growth (12.1%), part of the decline is due to the timing of Ramadan. The month-long holiday spanned most of July in 2013, during which air travel demand was reduced, while in 2012 a majority of Ramadan was observed in August. Although the region has seen strong growth in international air travel so far this year (11.9% year-to-date), capacity has been increasing at a faster pace (12.6% year-to-date). As a result, international load factors for Middle Eastern carriers have averaged 77.8% so far this, below the industry level of 79.2%.
- Other emerging market regions also saw strong growth, including Latin America and Africa. Latin American airlines saw international traffic rise 7.3% in July compared to a year ago. Although the region's largest economy, Brazil, continues to see inflation rising and domestic demand weakening, other economies like Chile and Colombia are expanding strongly. The region also continues to record solid growth in travel volumes, particularly exports, above the global trend. Since world trade is associated with international trading industries which rely on air travel to facilitate their business development, air travel demand stands to benefit when trade expands. And the same goes for Africa, where international air travel rose 7.5% in July compared to a year ago.
- Asia Pacific traffic also rose in July, up 6.3% on a year ago, but the strong month-on-month expansion seen in June reversed in July, with volumes returning to levels more consistent with softer regional economic performance. China's economy continued to decelerate in Q2 and the outlook for the second half of the year could easily see more of the same. But the weakness is actually more widespread within the region, with India's growth prospects looking bleak in the near term, and emerging Asia trade declining in July to levels almost 5% below those at the start of the year.
- European airlines recorded a 3.7% rise in international RPKs in July year-on-year, in line with growth year-to-date. There was a significant contraction month-on-month (0.9%) which has stabilized the rebound in traffic during past months. If recent positive developments in the Eurozone economy continue into H2, improvements in air travel demand will likely be sustained. But the outlook for the region remains only cautiously optimistic. There is significant variation in economic performance within the region, and major economies like France are showing business and consumer confidence levels that raise doubts over continued acceleration in growth in H2
- North American airlines experienced a 3.6% rise in July year-on-year, above the trend (2.3%) year-to-date, as business confidence in that region signals a pickup in economic activity. Latest indicators show July business confidence reaching levels not seen since March, with consumer confidence also showing improvement at the end of Q2. The solid growth result in July supported a rise in load factors compared to a year ago. North American airlines continue to post the highest load factors on international markets, above the industry average.

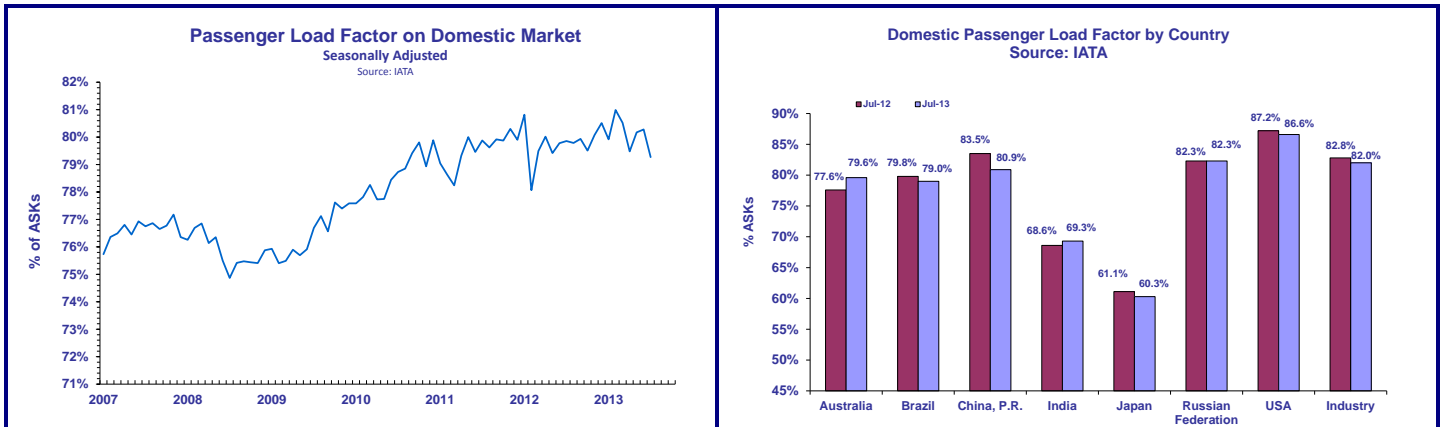


Domestic Market

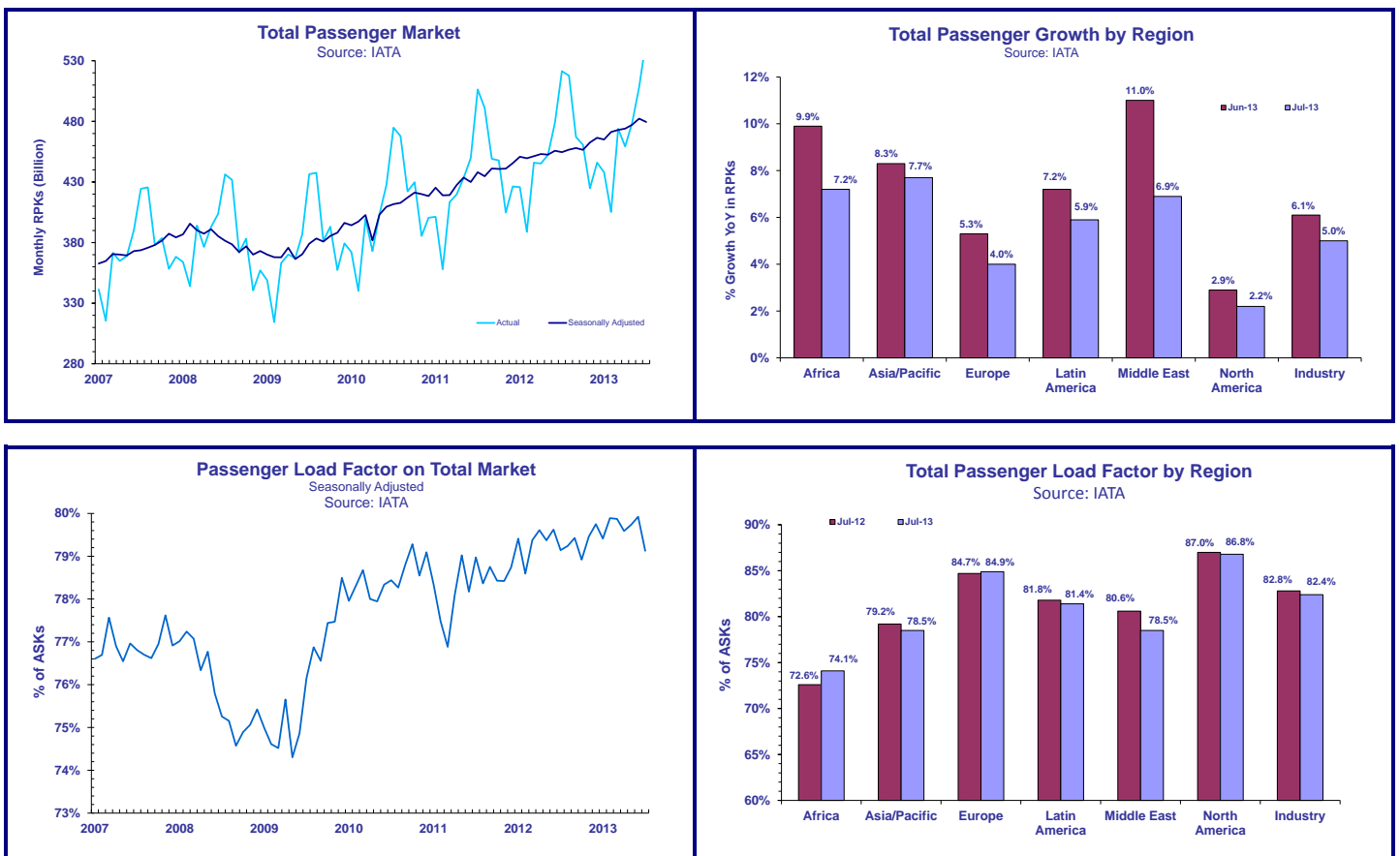


- Domestic air travel was up in most major markets in July, but there is significant variation in rates of growth between markets.
- China's market may be showing first signs of weakness, after months of slower economic growth and business activity. Growth in July was up 10.7% year-on-year, but down on the same comparison in June (14.5%) and also down month-on-month (0.9%).
- Domestic air travel in Russia recorded the strongest growth rate in July, with a rise of 11.9% on a year ago. This is an improvement on June growth of 9.8% year-on-year. Despite economic growth in Q2 being below expectation, there was a pickup in the pace compared to Q1. The next months will be critical for the trajectory of the Russian economy and consequently domestic air travel as well, with July business activity indicators showing a decline compared to June in both the manufacturing and services sectors.
- Air travel within Brazil is the only market to show a decline year-to-date, as domestic demand remains sluggish. Growth in travel so far this year has been weak – in fact there has been a 0.6% contraction year-to-date. Moreover, the outlook for consumer demand is fragile, as inflation pressures continue to mount.
- Japan's domestic market recorded another solid rise in air travel growth, up 5.7% in July year-on-year. Improvements in domestic air travel demand have reflected stronger economic performance this year, but recent data shows that while Q2 saw GDP expand, the pace was down on Q1. The current demand environment should support continued growth in air travel, but the pace will depend on how the economy performs in H2.
- Indian domestic traffic was up 6.0% in July year-on-year, a notable improvement on June contraction of 2.4%. There has been substantial volatility in growth rates over recent months which has made it difficult to establish a clear growth trend. While slowing economic growth has dampened growth in air travel during periods of 2012, over recent months reductions in domestic fares have resulted in evidence of stronger demand.
- Australian domestic air travel increased 4.5% in July compared to a year ago, slightly up on growth of 3.7% in June. While July performance is up on the trend so far this year (3.6% year-to-date), there has been a slowdown this year compared to 2012, when growth was above 5%. The slower pace of growth is likely to continue, with recent downward revisions to GDP growth resulting from lackluster performance of major trade partners China and India.
- The US domestic market was up 1.5% in July compared to a year ago, a slight decline on the 2.4% growth in June. Growth so far this year has been weak, with expansion of 1.9% year-to-date. The growth trend in the US

domestic market had accelerated toward the start of 2013, but government spending cuts weakened growth momentum and there has been little progress in the growth trend recently. The outlook, however, is showing some positive signs, with business confidence rising in July to levels not seen since Q1.



Total Market (Domestic + International)



ANNEX

Year on Year Comparison	Jul 2013 vs Jul 2012			YTD 2013 vs. YTD 2012		
	<i>RPK</i>	<i>ASK</i>	<i>PLF</i>	<i>RPK</i>	<i>ASK</i>	<i>PLF</i>
Africa	7.5%	5.6%	73.6%	8.0%	5.3%	69.4%
Asia/Pacific	6.3%	6.6%	79.5%	4.1%	4.1%	77.7%
Europe	3.7%	3.6%	85.5%	3.7%	2.3%	80.6%
Latin America	7.3%	7.4%	82.4%	8.4%	9.7%	78.5%
Middle East	7.8%	10.5%	78.3%	11.9%	12.6%	77.8%
North America	3.6%	2.9%	87.4%	2.3%	0.7%	82.7%
International	5.1%	5.4%	82.7%	4.9%	4.2%	79.2%
Australia	4.5%	1.8%	79.6%	3.6%	4.6%	76.1%
Brazil	-0.6%	0.5%	79.0%	-0.6%	-5.8%	75.4%
China P.R.	10.7%	14.3%	80.9%	12.1%	11.9%	80.9%
India	6.0%	4.9%	69.3%	0.6%	-0.8%	76.3%
Japan	5.7%	7.1%	60.3%	4.6%	5.1%	61.5%
Russian Federation	11.9%	12.0%	82.3%	10.2%	8.4%	73.9%
US	1.5%	2.2%	86.6%	1.9%	1.5%	84.1%
Domestic	4.8%	5.8%	82.0%	4.6%	4.0%	80.1%
Africa	7.2%	4.9%	74.1%	7.8%	4.8%	70.3%
Asia/Pacific	7.7%	8.7%	78.5%	6.4%	6.2%	77.6%
Europe	4.0%	3.7%	84.9%	3.7%	2.1%	79.8%
Latin America	5.9%	6.4%	81.4%	5.9%	4.8%	77.3%
Middle East	6.9%	9.7%	78.5%	10.9%	11.6%	78.1%
North America	2.2%	2.5%	86.8%	2.0%	1.2%	83.6%
Total Market	5.0%	5.5%	82.4%	4.8%	4.2%	79.5%

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

Month on Month Comparison	Jul 2013 vs. Jun 2013			Market Share
	RPK	ASK	PLFpt	RPK
Africa	-0.9%	-0.7%	-0.2%	3.4%
Asia/Pacific	-0.5%	0.3%	-0.7%	25.3%
Europe	-0.9%	0.3%	-1.0%	40.1%
Latin America	0.2%	0.3%	-0.1%	4.3%
Middle East	-0.8%	0.3%	-0.8%	12.1%
North America	0.3%	0.3%	0.0%	14.9%
International	-1.1%	0.2%	-1.3%	100.0%
Australia	0.1%	-0.8%	0.9%	3.2%
Brazil	-0.3%	2.6%	-2.8%	4.1%
China P.R.	-0.9%	1.7%	-2.1%	20.8%
India	1.8%	1.8%	0.0%	2.3%
Japan	-1.3%	-0.8%	-0.3%	2.8%
Russian Federation	0.7%	1.7%	-0.7%	4.3%
US	-0.5%	0.4%	-0.7%	44.8%
Domestic	0.1%	0.6%	-0.4%	100.0%
Africa	-1.1%	-0.9%	-0.2%	2.5%
Asia/Pacific	-0.7%	0.8%	-1.1%	28.7%
Europe	-0.8%	0.4%	-0.9%	28.9%
Latin America	0.2%	1.1%	-0.7%	5.3%
Middle East	-0.8%	0.2%	-0.8%	8.1%
North America	-0.3%	0.1%	-0.3%	26.6%
Total Market	-0.6%	0.4%	-0.8%	100%

Data are seasonally adjusted. All figures are expressed in % change MoM except, PLFpt which are the percentage point difference between load factors of two months.

IATA Economics
E-Mail: economic@iata.org
3TH September 2013

FURTHER ANALYSIS AND DATA

Access data related to this briefing through the Route Tracker publication:
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