

IATA ECONOMIC BRIEFING

PASSENGER AND FREIGHT FORECASTS

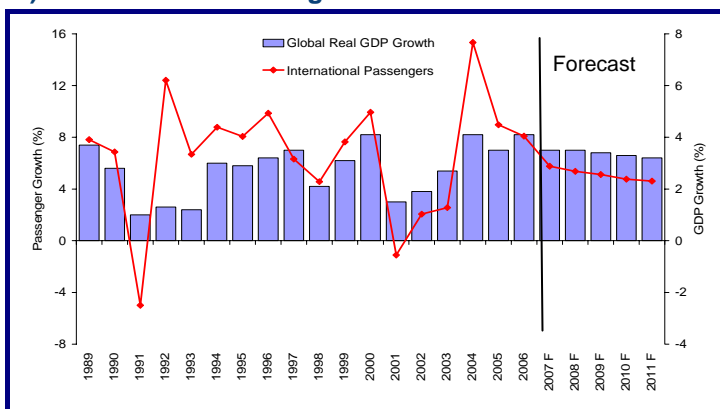
2007 TO 2011

OCTOBER 2007

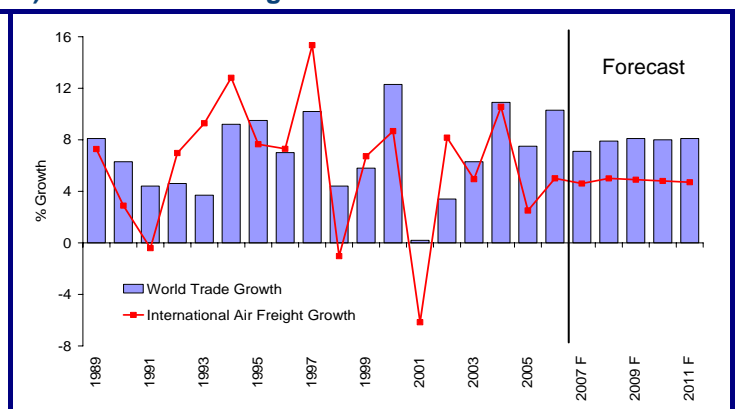
KEY POINTS

- IATA's latest forecast, based upon a comprehensive survey of the airline industry, shows that passenger and freight demand growth will continue to provide a positive boost to airline revenues over the five years to 2011. However, the profile of growth will differ. Compared to 2006 growth levels, international passenger growth is expected to slow slightly, domestic passenger growth to improve slightly and international freight growth to remain at a similar level.
- International passenger volume growth has passed its peak level for the current cycle, but will remain strong. International air passenger numbers are expected to grow at an average annual growth rate (AAGR) of **5.1%** between 2007 and 2011, lower than the average rate of 7.4% seen between 2002 and 2006. Demand growth will be weakened by slightly slower global economic growth, but will also be boosted by the liberalisation of markets and the emergence of new routes and services. Domestic passenger growth is expected to pick-up slightly, led by strong growth in the Chinese and Indian domestic markets. Domestic passenger numbers are forecast to grow at an AAGR of **5.3%** between 2007 and 2011, higher than the average rate of 4.4% seen between 2002 and 2006.
- On the freight side, international air freight traffic is forecast to increase at an AAGR of **4.8%**, lower than the average growth of 6.2% seen between 2002 and 2006, but similar to its 2006 growth level of 5.0%. Freight demand is driven by economic growth, globalisation and trade, but also faces increased competition from other modes such as shipping. The most dynamic freight markets are those associated with economies that are both fast-growing and rapidly integrating into the global economy.
- Airlines are in a better financial position than they were five years ago. But the challenges of the last five years have left the industry with little or no financial safety-net. The next five years offer significant demand growth opportunities for airlines, but competition for that growth will be strong as new capacity increases at an increased rate. Further cost efficiencies, rational capacity management and greater operational flexibility are necessary to translate the improvements already achieved into a stable and profitable industry over the next five years.
- The airline industry, and these forecasts, remain exposed to several risks, ranging from temporary negative impacts (e.g. security scares) to high fuel prices and slower than expected growth in the global economy. These risks, several of which are beyond the industry's direct control, mean that further volatility cannot be discounted. However, the fundamental factors driving growth for both passengers and freight remain reasonably positive.

i) International Passenger Growth and Global GDP



ii) International Freight Growth and Global Trade



Source: IMF, IATA, AF-KLM Cargo

OUTLOOK BY REGION

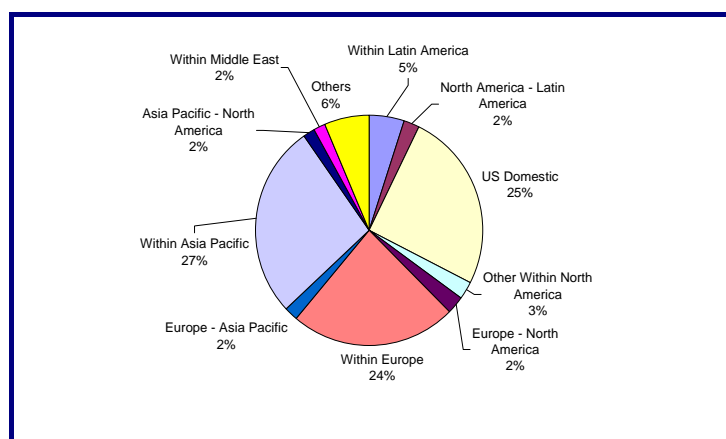
- Regional differences in passenger growth rates will largely reflect differences in regional economic growth and the structure of each regional market. The Middle East, developing economies in Asia and, to a lesser extent, Africa will be boosted by strong GDP growth, along with significant new capacity and new routes. European growth will be close to the average, though Eastern Europe will see a more rapid expansion. Relatively low Latin American growth reflects lower demand growth on key markets to North America and within the region itself. North America is expected to be the slowest growing region, reflecting both mature markets and cyclically slower growth in the US economy.
- The pattern of forecast growth in freight traffic closely follows expected growth in regional economies and trade flows. Routes linked with Asia Pacific, and China and India in particular, are forecast to show particular strength. Middle Eastern air freight is also expected to show strong growth, as the region's carriers take advantage of the current strong purchasing power for the region provided by high oil prices to increase capacity on existing and new routes.

	Average Annual Growth Rate (AAGR) 2007 to 2011	
	Passenger Numbers	Freight Tonnes
TOTAL DOMESTIC	5.3%	-
TOTAL INTERNATIONAL	5.1%	4.8%
Africa	5.6%	4.6%
Asia Pacific	5.9%	5.4%
Europe	5.0%	4.3%
Latin America/Caribbean	4.4%	4.2%
Middle East	6.8%	5.0%
North America	4.2%	3.9%

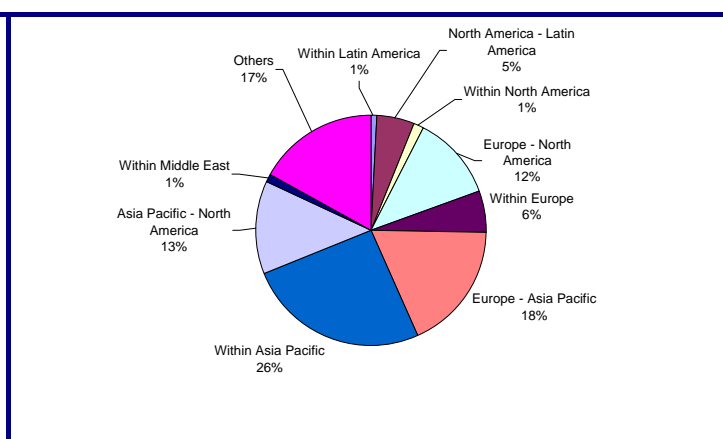
GLOBAL AIR TRAFFIC SHARES IN 2011

- Strong growth in Asia Pacific will see its share of global passenger traffic increase from 23% in 2006 to 27% of the global total of 2.75 billion passengers in 2011. This is equivalent to a 279 million increase in annual passengers within the Asia Pacific region over the five years. It will have a higher share of the global market than the US domestic market, though will still be slightly smaller than the North American market as a whole.
- International air freight volumes will continue to be dominated by Asia Pacific. Freight within Asia Pacific, between Asia Pacific and North America and between Asia Pacific and Europe will account for 57% of the 36 million tonnes of international air freight tonnes in 2011, up from 55% in 2006. However, the majority of this growth is expected to be on the outbound leg from Asia Pacific.

i) Global Air Passenger Shares in 2011



ii) International Air Freight Shares in 2011



KEY DEMAND DRIVERS AND KEY RISKS

- The global economy has and should continue to provide a boost for air passenger and freight demand. Strong growth in developing economies, particularly China and India, will continue to boost the global economy while high energy prices continue to support strong growth in the former Soviet Union and the Middle East. The US economy has slowed, while recent recoveries in Europe and Japan show signs of weaker momentum, but the central case scenario is still for steady and positive global economic growth over the forecast period.
- Over the next five years, developing economies will make a greater contribution towards air traffic growth. The increase in disposable incomes for a large population within China and India will boost the demand for air travel. However, because incomes are growing from relatively low levels, air traffic growth may initially be focused on domestic and short-haul travel with long-haul travel developing over the medium to long-term.
- Liberalisation, greater choice and lower fares will also be key factors influencing an increase in passenger demand over the forecast period. Liberalisation can provide substantial benefits for passengers, businesses and the wider economy. Further liberalisation of operational and ownership restrictions is not an easy process, but it can be a very beneficial one. It can protect and enhance consumer benefits, in terms of greater choice and lower fares, while also allowing airlines to allocate capital more efficiently.
- Record new aircraft orders were placed by the airline industry in 2005 and 2006. The large numbers of new orders represent strong confidence in the future prospects of the global airline industry. However, they also increase the risk of excess capacity in some areas or routes, as the new capacity is delivered over the next few years. Airlines will need to continue to match planned capacity increases to achievable rather than optimistic demand growth projections, helping to support profit as well as volume growth.
- On the freight side, imbalances in global trade patterns feed through into imbalances in demand for air freight with, for example, significantly higher demand on the outbound leg from Asia than on the return leg. Airlines are having to seek new cargo types or to have multiple stops on the return leg in order to improve return load factors.
- Longer-term uncertainties also exist on the supply side, largely relating to airport congestion and increased security requirements. Expansion of traffic could be constrained by congestion at some large airports. At the same time, increased airline and airport security requirements could impact on demand if they translate into higher costs for passengers and longer door-to-door delivery times for freight.
- The industry is aware of the need to deliver future growth in an environmentally responsible way. Airlines have made significant progress in reducing their environmental impact but, as a growing industry, the impact on the environment remains a serious issue. They are determined to be part of the solution. On current plans, airline fuel efficiency is expected to improve by at least a further 25% by 2020. There is a clear vision towards a zero emissions future.
- Even under the forecast growth scenario, the average return on capital invested in the airline industry will still be below its cost of capital, i.e. the competitive and sustainable level of return for investors. Liberalisation, efficiency and greater sharing of risk and reward in the wider aviation industry are required to ensure that long-term investment – and the substantial benefits for customers and the wider economy this brings – is attracted in a sustainable manner.

APPENDIX

International Traffic Growth by Major Route Area.

	Average Annual Growth Rate (AAGR) 2007 to 2011	
	Passenger Numbers	Freight Tonnes
TOTAL INTERNATIONAL	5.1%	4.8%
North Atlantic	4.3%	3.6%
North & Mid Pacific	5.4%	4.2%
Europe – Asia	6.6%	5.3%
Europe – Middle East	6.1%	4.0%
Europe – Africa	5.6%	4.3%
Within Europe	4.8%	3.6%
Within Asia	6.1%	6.3%
Within North America	3.6%	4.9%
Middle East – Asia	7.8%	6.8%
North America – Central America	4.2%	3.6%

Top 10 Countries Ranked by AAGR 2007 to 2011.

International Passenger Numbers ¹		International Freight Tonnes ²	
Country	AAGR 2007 to 2011	Country	AAGR 2007 to 2011
Latvia	12.1%	China	10.8%
Russian Federation	9.3%	India	8.3%
Poland	9.2%	Republic of Korea	8.2%
Ukraine	8.8%	Turkey	7.5%
China	8.8%	Vietnam	7.5%
India	8.6%	Qatar	6.9%
United Arab Emirates	8.4%	Sri Lanka	6.8%
Vietnam	7.7%	Pakistan	6.7%
Serbia	7.6%	Malaysia	6.2%
Romania	7.3%	Saudi Arabia	6.2%

¹ Only includes countries with traffic in excess of 2 million annual passengers in 2006.

² Only includes countries with traffic in excess of 100,000 tonnes in 2006.