2009: Worst Demand Decline in History

Encouraging Year-end Improvements

From Geneva IATA has reported December and full-year 2009 demand statistics for international scheduled air traffic that showed the industry ending the year with the largest ever post-war decline. Passenger demand for the full year was down 3.5% with an average load factor of 75.6%. Freight showed a full-year decline of 10.1% with an average load factor of 49.1%.

“In terms of demand, 2009 goes into the history books as the worst year the industry has ever seen. We have permanently lost 2.5 years of growth in passenger markets and 3.5 years of growth in the freight business,” said Giovanni Bisignani, IATA’s Director General and CEO.

International passenger capacity fell 0.7% in December 2009 while freight capacity grew 0.6% above December 2008 levels. Yields have started to improve with tighter supply-demand conditions in recent months, but they remained 5% to 10% down on 2008 levels. “Revenue improvements will be at a much slower pace than the demand growth that we are starting to see. Profitability will be even slower to recover and airlines will lose an expected US$5.6 billion in 2010,” added Bisignani.

Seasonally adjusted demand figures for December compared to November 2009 indicate a 1.6% rise in passenger traffic while freight remained basically flat with a 0.2% decline.

International Passenger Demand

December 2009 passenger demand recorded a 4.5% improvement compared to December 2008, with a load factor of 77.6%. While this is an 8.4% demand improvement from the February 2009 low point, it is still 3.4% below the early 2008 peak.

- **Carriers in Asia-Pacific, Europe and North America** recorded year-on-year declines in passenger demand of 5.6%, 5.0% and 5.6% respectively in 2009. Asia-Pacific carriers stand out as benefitting most from the year-end upturn with an 8.0% year-on-year improvement in December. This reflects their 35% contribution to the year-end rise boosted by the significant
economic upturn in the region. By contrast, European carriers saw a 1.2% decline and North American carriers declined by 0.4%. While both North American and European carriers saw demand improvements in the first half of the year, the second half was basically flat.

- **Middle Eastern carriers** generated the fastest growth in passenger traffic at the end of the year with a 19.1% increase in December (and 11.2% growth for the entire year). These gains result from Middle Eastern carriers taking a larger share of long-haul connecting traffic over their hubs.
- **Latin American carriers** recorded 7.1% growth in December. Full-year traffic growth was constrained to 0.3% due to the impact of Influenza A(H1N1) fears during the second and third quarters.
- **Africa’s carriers** experienced a sharp decline of 6.8% in 2009 primarily on an exceptionally weak first half. Their year ended with December demand at 3.1% above previous year levels.

**International Freight Demand**

December 2009 freight demand showed a 24.4% improvement on December 2008 with a load factor of 54.1%. This improvement is exaggerated by the exceptionally weak performance in December 2008 which was the low point on the cycle. Freight demand is still 9% lower than the peak in early 2008. Optimism is returning to the industry as purchasing managers survey indicators reached a 44-month high in December pointing towards increased freight volumes in the coming months.

- **Asia-Pacific carriers** accounted for over 60% of the increase in international air freight markets over the past 12 months—outperforming their 45% market share. Despite this improvement, Asia-Pacific carriers’ freight volumes remain 8% below peak levels.
- **European carriers** remain 20% below 2008 peak levels reflecting the glacial pace of economic recovery in Europe compared to Asia-Pacific.
- **Middle East carriers** and **Latin American carriers** are smaller market participants, but ended the year better than peak levels by 7% and 21% respectively.

“The industry starts 2010 with some enormous challenges. The worst is behind us, but it is not time to celebrate. Adjusting to 2.5 to 3.5 years of lost growth means that airlines face another spartan year focused on matching capacity carefully to demand and controlling costs,” said Bisignani. He added, “We also face a renewed challenge on security as a result of the events of 25th December 2009. The approach of the Obama administration is encouraging with Department of Homeland Security Secretary Janet Napolitano visiting IATA’s offices in Geneva.
to engage industry to find solutions. We agreed that governments and industry must cooperate and we are preparing for a meeting in the coming weeks to follow-up on our recommendations which focused on finding more efficient ways to implement intelligence-driven and risk-based security measures. Governments and industry are aligned in the priority that we place on security. But the cost of security is also an issue. Globally, airlines spend US$5.9 billion a year on what are essentially measures concerned with national security. This is the responsibility of governments, and they should be picking up the bill.”

Asia Pacific: Challenges and Opportunities

Intra-Asia Market Eclipses North America as World’s Largest

Earlier this month (February) IATA announced from Singapore that in 2009 intra-Asia-Pacific travel had eclipsed the number of travellers in North America as the world’s largest aviation market. Asia-Pacific’s travellers numbered 647 million compared the 638 million who travelled within North America (including domestic markets). By 2013 an additional 217 million travellers are expected to take to the skies within the Asia–Pacific region.

“Achieving Asia-Pacific’s tremendous potential is contingent upon short-term efforts to battle the impacts of the economic downturn with cost reductions and efficiency gains. Longer-term Asia-Pacific must also face global challenges including environment, security and liberalization,” said Bisignani at the start of the Singapore Air Show Aviation Leadership Summit.

The global aviation industry is expected to reduce losses from US$11.0 billion in 2009 to US$5.6 billion in 2010. The loss reduction is being led by Asia-Pacific’s carriers who are expected to see their losses shrink from US$3.4 billion in 2009 to US$700 million in 2010. “Asia-Pacific’s prospects are improving faster than other regions,” he added and noted that the Asia-Pacific region is diverse, dynamic and with great potential:

Diverse: Asia-Pacific is home to two of the world’s top five airlines in terms of profitability. At the same time, the region’s governments provided over US$10 billion in government bailouts to airlines in the first quarter of the year. The region’s two biggest growth markets—India and China—face completely different circumstances. India’s challenge is to reduce costs and improve infrastructure, while China is adjusting to new global trade patterns.

Dynamic: Over the last decade China replaced Japan as Asia-Pacific’s largest player. Today China’s fleet is 1,400 aircraft compared to Japan’s 540. Its domestic market of 5.7 million weekly seats is more than double Japan’s 2.6 million and
China’s 1.4 million weekly international seat market is now slightly larger than Japan’s 1.3 million.

**Potential:** In the US, there are three aircraft seats per year for each of the 300 million people who live there. China’s population of 1.3 billion is served by only 0.3 seats per person and India’s 1.1 billion population has only 0.1 seats available per person. Bisignani continued with, “The global air transport industry will triple in size when Asians travel as much as those in the US. Asia-Pacific’s diversity, dynamism and potential are a great opportunity. Rapidly developing markets are defining aviation’s future. Is Asia-Pacific prepared for the challenges that this will bring?” In his opening address, Bisignani highlighted three global issues for Asia-Pacific leadership:

**Environment:** The global aviation industry presented the UNFCCC Climate Change talks in Copenhagen with three targets shared by airlines, airports, air navigation service providers and manufacturers. These are: improving fuel efficiency by an average of 1.5% per year to 2020, stabilizing emissions with carbon-neutral growth from 2020 and cutting our emissions in half by 2050 compared to 2005. These targets are backed by a clear strategy based on technology investment, effective operations, efficient infrastructure and economic measures.

“Even without a binding agreement in Copenhagen aviation is united and committed to its targets. The ICAO Assembly in September-October is an opportunity to build government consensus leading to COP-16 in Mexico.”

The challenges for Asia include: working through ICAO to accommodate the diverse needs of the region, taking advantage of the tremendous business opportunities in developing sustainable second generation biofuels. Biofuels have the potential to reduce aviation’s carbon footprint by up to 80%. “Five airlines have successfully tested biofuels and we expect certification within 2011 at the latest. Aviation biofuel is a US$100 billion plus business opportunity. And I hope that this region will play a key role in its early development,” said Bisignani.

**Security:** “We live in a global world—global connectivity and global threats. Governments and industry must protect the connectivity and eliminate the threats. That challenge requires industry and governments to work together for effective and efficient security measures… I saw some hope for a new collaborative approach when the Secretary of the US Department of Homeland Security consulted the airline industry in our Geneva offices.” IATA presented recommendations to (1) work together, (2) align requirements with the industry’s capability to implement, (3) make passenger collection more efficient, (4) ensure that governments co-ordinate their requirements across borders and (5) look to
develop a new approach to checkpoint screening that combines technology and intelligence so that we look for bad people, not just bad objects.

Asia-Pacific must define government/industry cooperation on security and find a better way to deal with the cost burden. Currently airlines pay US$5.9 billion a year for security. “These are national security measures. That is a government responsibility, including the bill,” said Bisignani.

**Liberalization:** “Asian aviation will not reach its potential if the airlines are constrained to old ways of doing business. Industry is preparing for regional liberalization of market access with the ASEAN target date of 2015. It is important that the target date is met. This is already well-behind the industry leading developments in the US-EU Open Skies agreement. Second stage talks will conclude this year with ownership being the most important issue. To move liberalization forward, IATA took the extra-ordinary step of calling governments together with IATA’s Agenda for Freedom. After a year of talks, in November 2009, seven governments, including the US, the European Commission, Singapore and Malaysia signed a multilateral statement of policy principles. These principles preserve a level playing field while addressing liberalization of market access, pricing and ownership. The challenge for Asia is to implement these principles in the region’s bilateral arrangement.”