

Recession and Network Quality

(Demand and Supply)

Jan Veldhuis
Airneth
j.veldhuis@airneth.nl

Airneth Seminar: Recession and Network Quality
The Hague: 22 September 2009

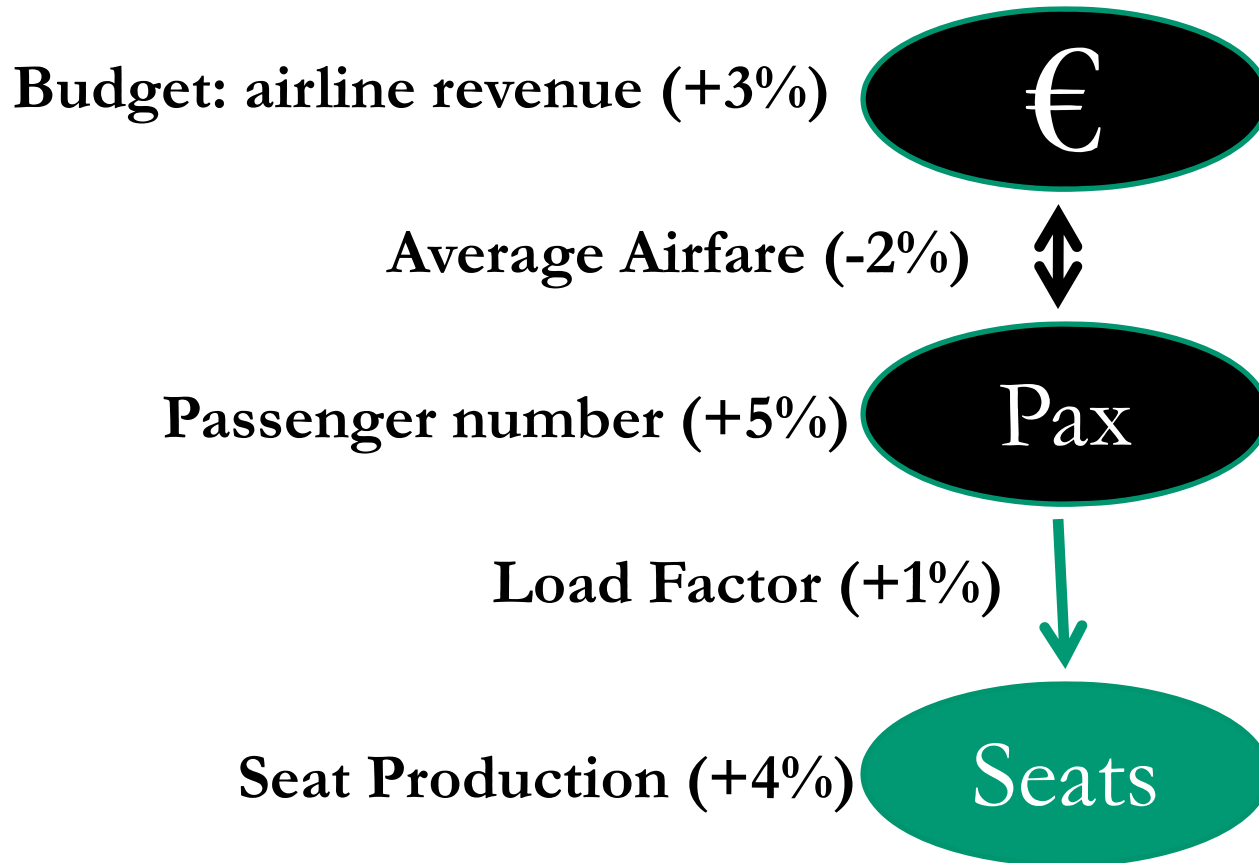
Recession and Network Quality: the agenda

- **Recession: stagnating (or declining) demand**
- **Network quality: stagnating (declining) supply**
- **Impact of stagnating demand to supply ?**
- **Measures of supply (network quality)**
 - worldwide
 - specific world regions
 - specific (categories of) airlines
 - specific (categories of) airports

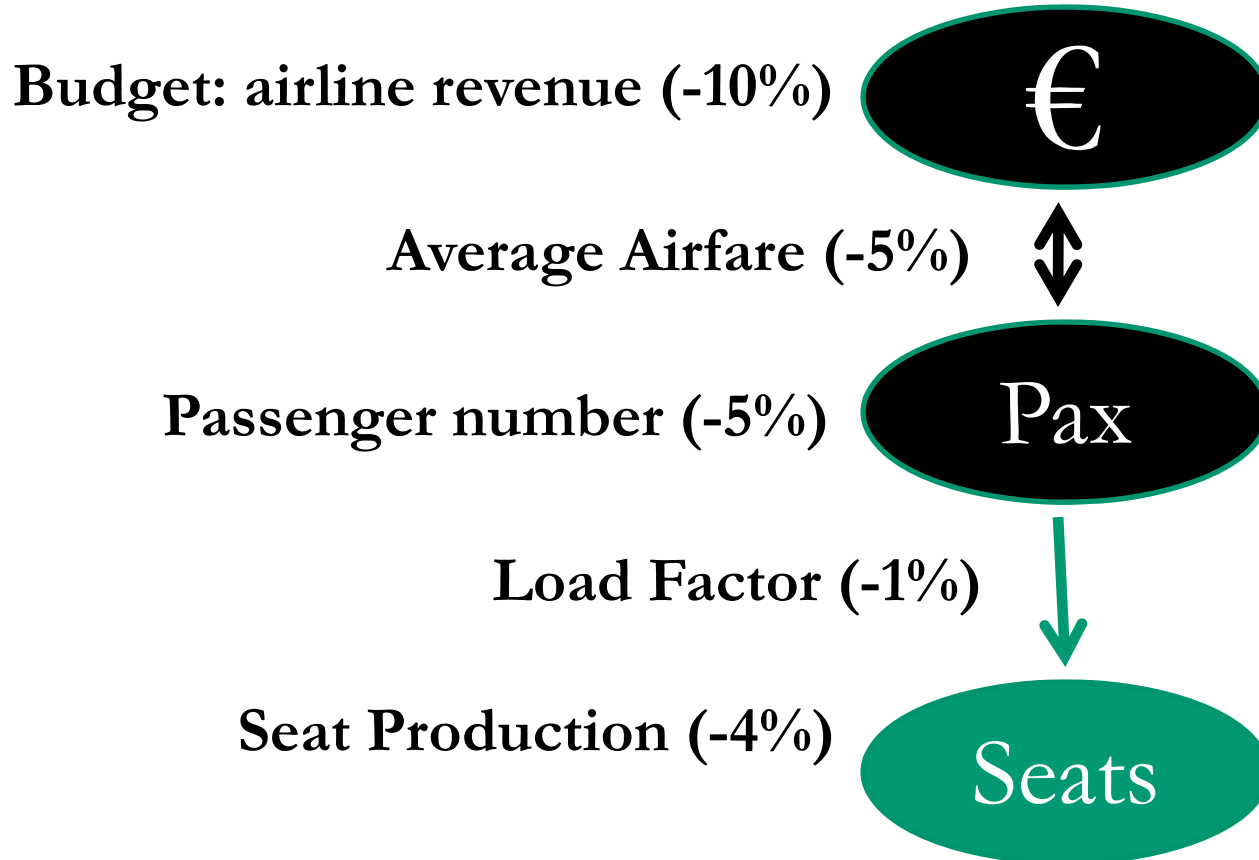
Recession: typical characteristics

- **Recession:** stagnating (or declining) consumer spending and hence airline revenues
- **More than proportional impact** on aviation
- **Business segment:** lower budgets for travel
- **Generally:** lower budgets for aviation and hence less revenues for airlines
- **Does this necessarily impact network quality?**
- **Do specific developments in network quality say anything about the deepness of recession ?**

Relation between Airline Revenues and Seat Production (typical LT growth rates, illustrative only)



Characteristics of current recession



Pressure on Airfares



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Voorwaarden: **Boek** tot 30 september 2009 **Reizen** tot 31 maart 2010 (laatste vertrekdatum) **Verblijf** Minimum: 7 dagen - Maximum: 1 maand

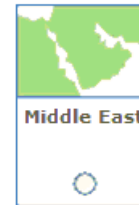
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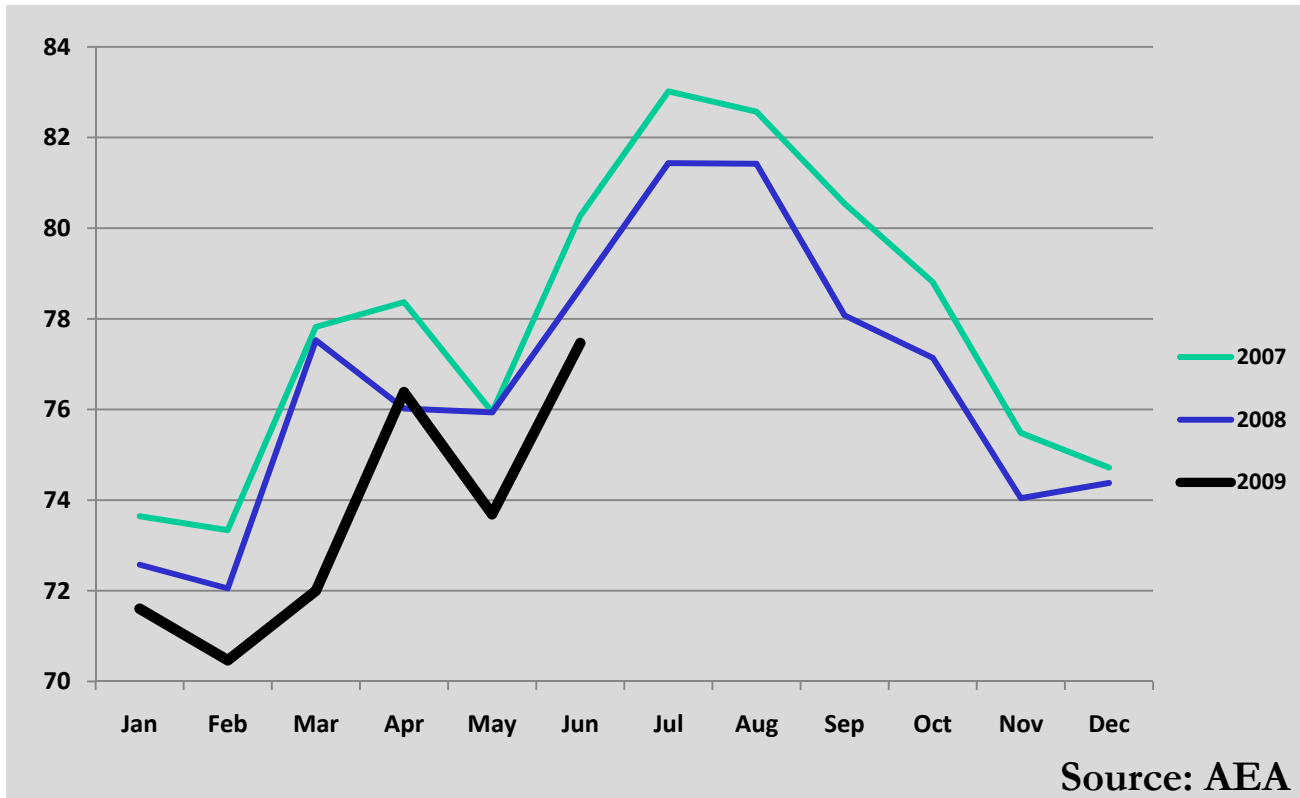
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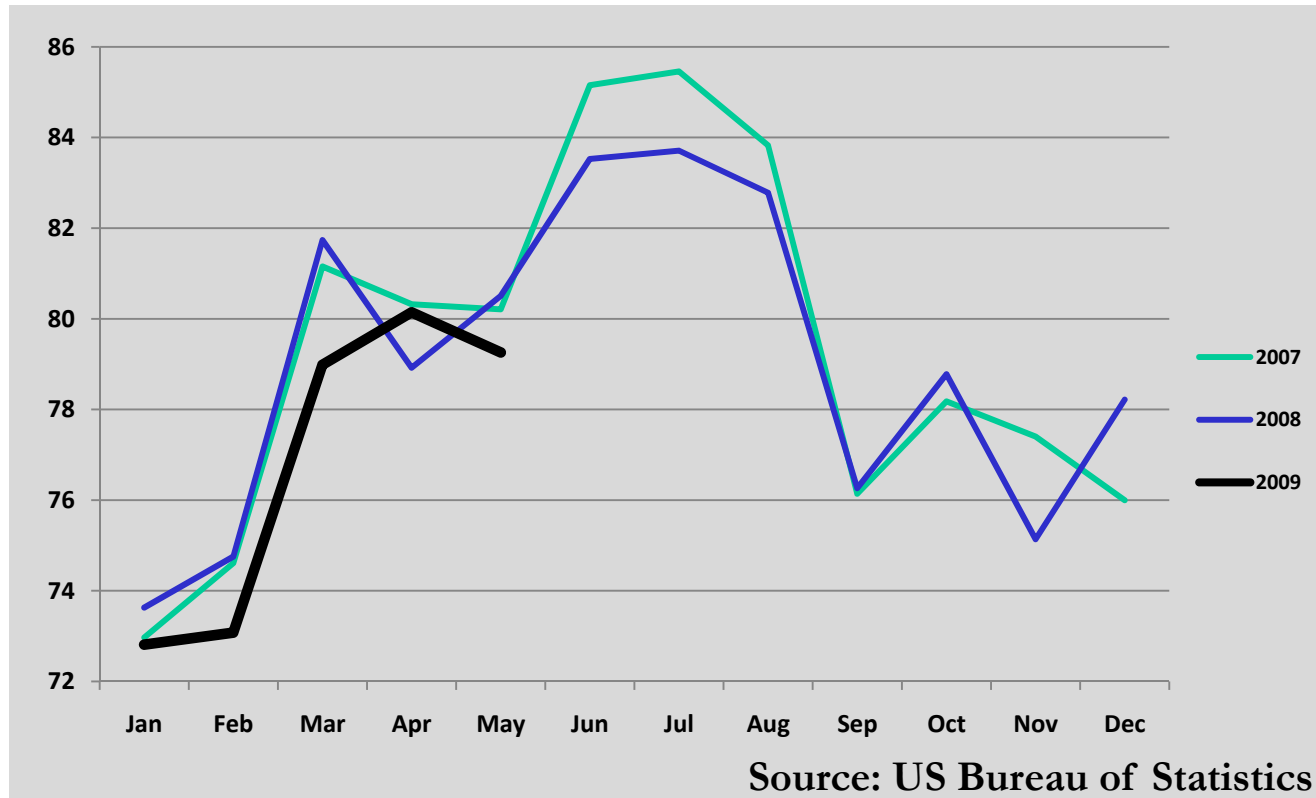
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Milan-Malpensa, Italy, IT (MXP)	\$279
Nice, France, FR (NCE)	\$289

Declining Load Factors: Europe



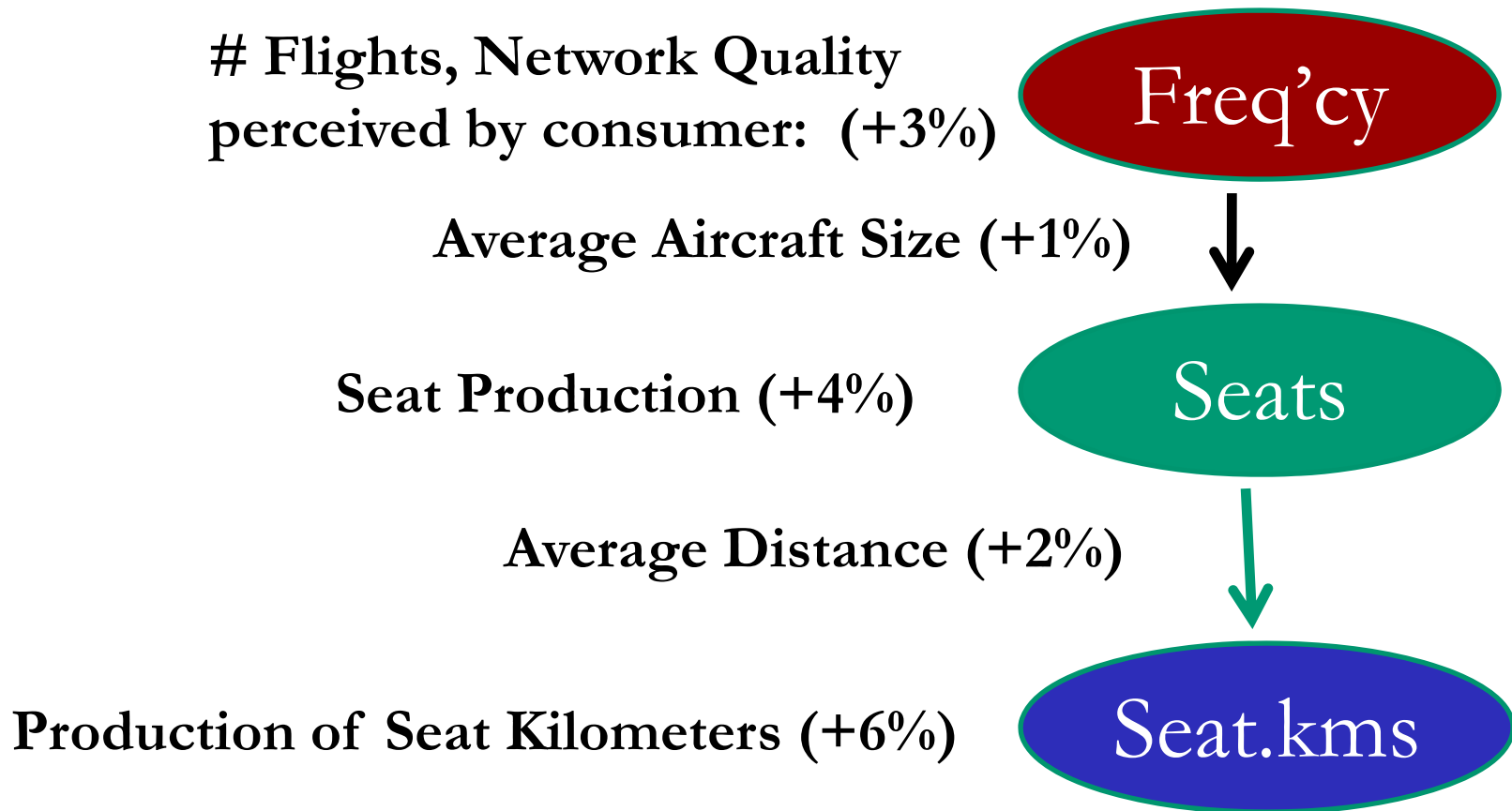
Declining Load Factors: USA



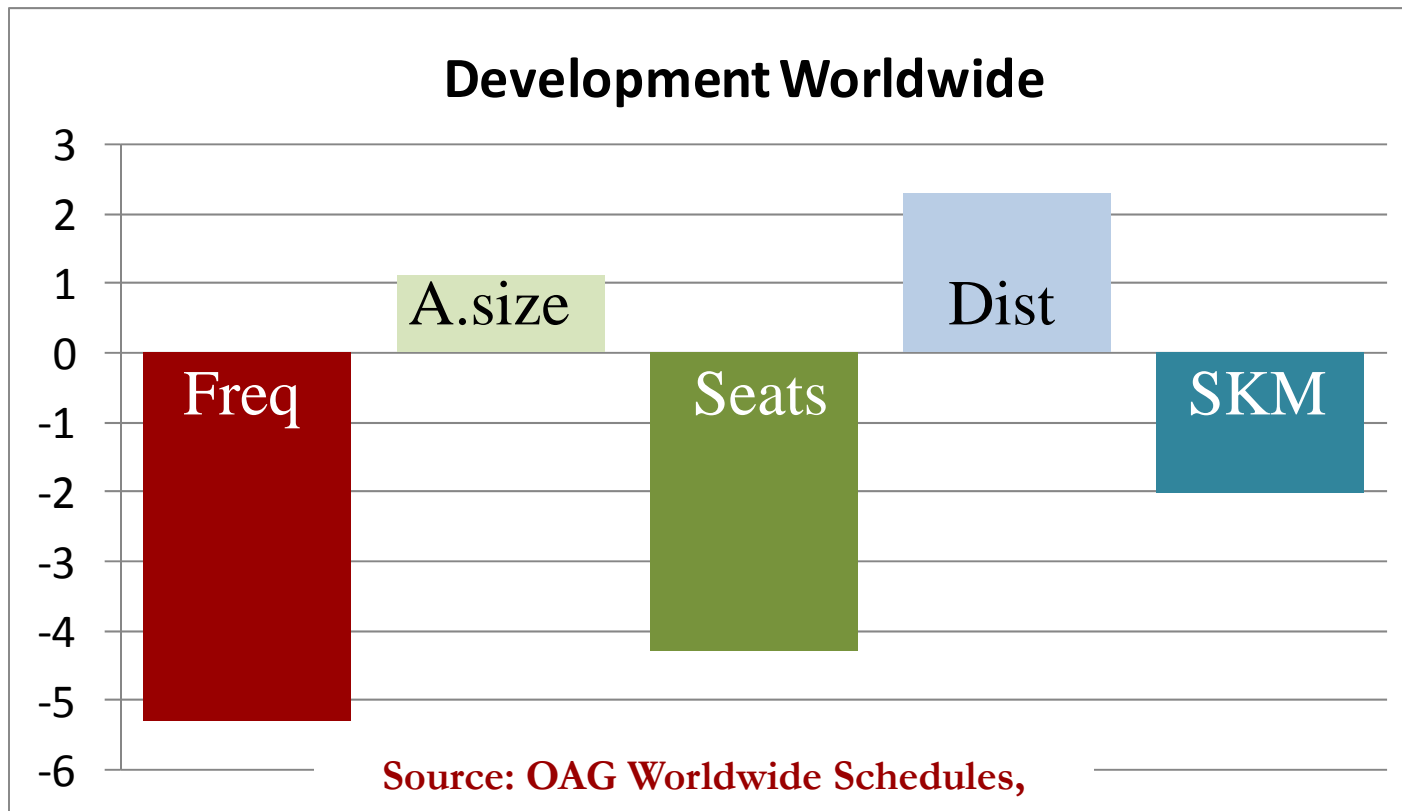
Relation between Airline Revenues and Seat Production

- In recession: airlines pay part of the costs, if possible
(revenues -10%, seat production -4%)
- At least if the environment is competitive
- Strong pressure on airfares
- Lower load factors accepted
- Keen on keeping seat production “at acceptable level”
- By observing supply indicators (and even passenger numbers) only, the deepness of recession in aviation is not completely reflected

Supply: Relation between Frequency and Seat Production (typical LT growth rates, illustrative only)

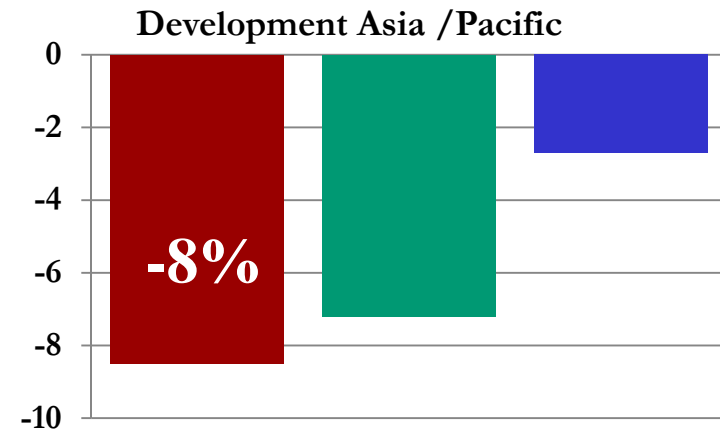
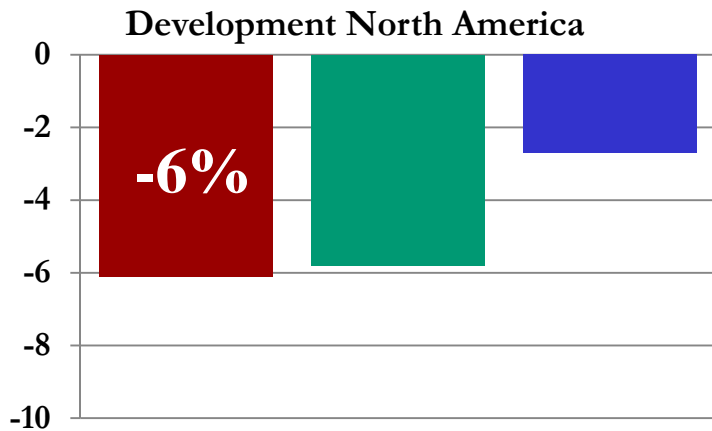
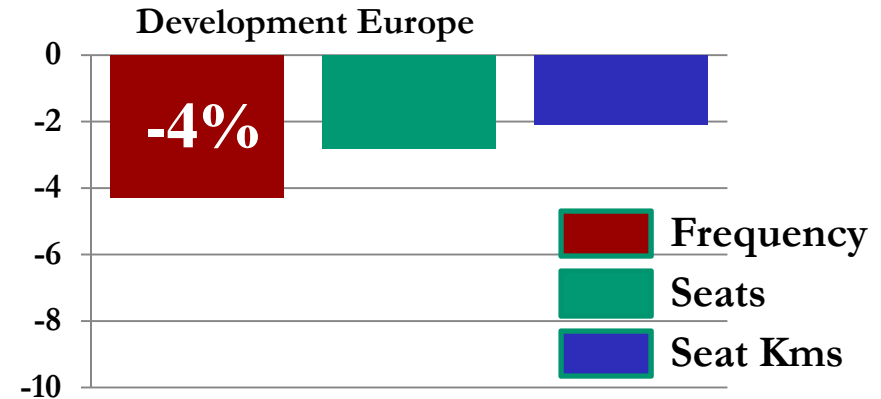
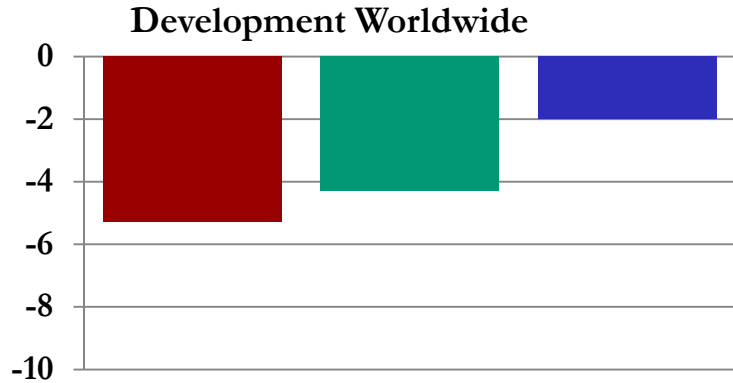


Development of Network Quality worldwide: (annual % growth 2007-'09)

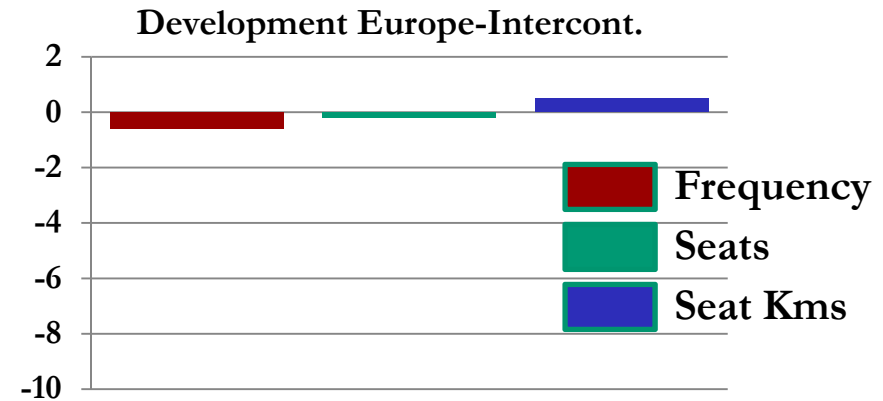
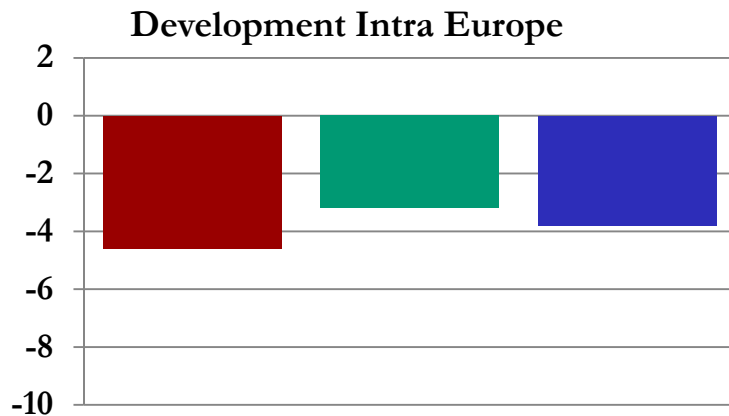


Development of Network Quality

selected regions: (annual % growth 2007-'09)



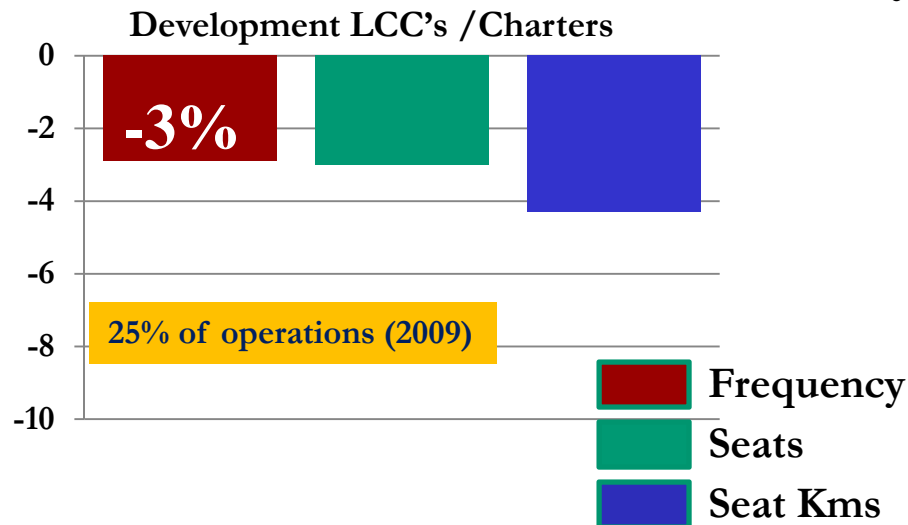
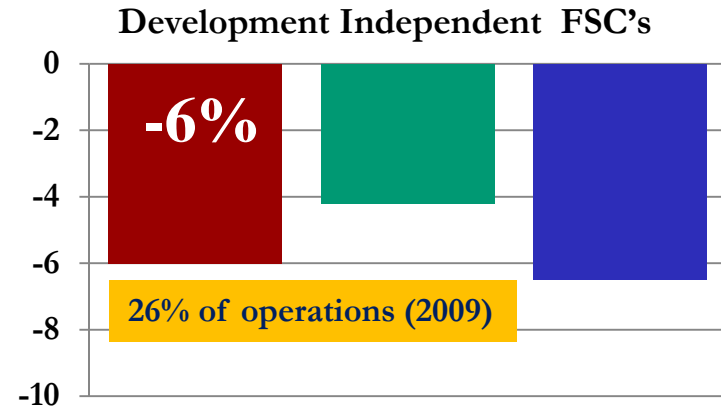
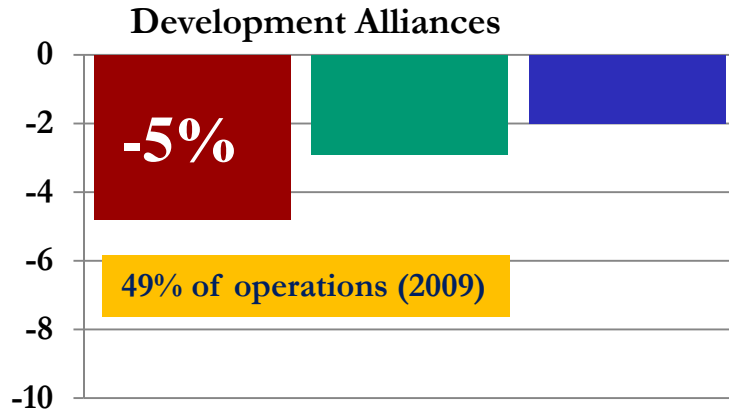
Development of European Network Quality selected regions: (annual % growth 2007-'09)



- Declining European Network Quality mainly within Europe
- Intercontinental Network Quality practically stable
- Have airlines operating long haul flights paid a part the price of recession?

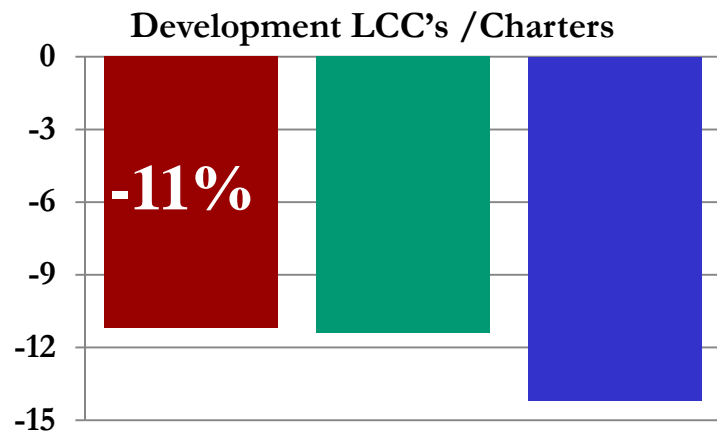
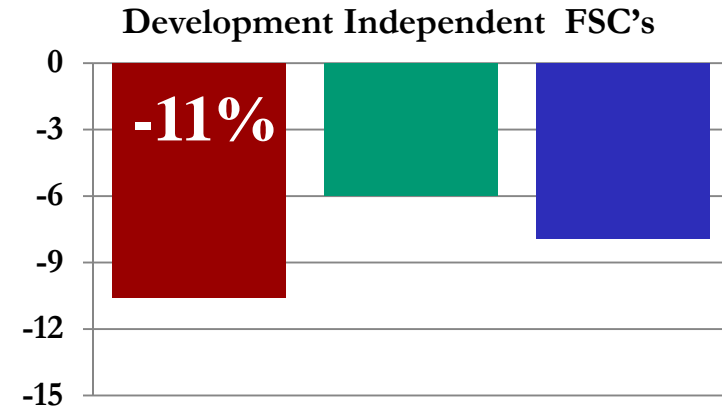
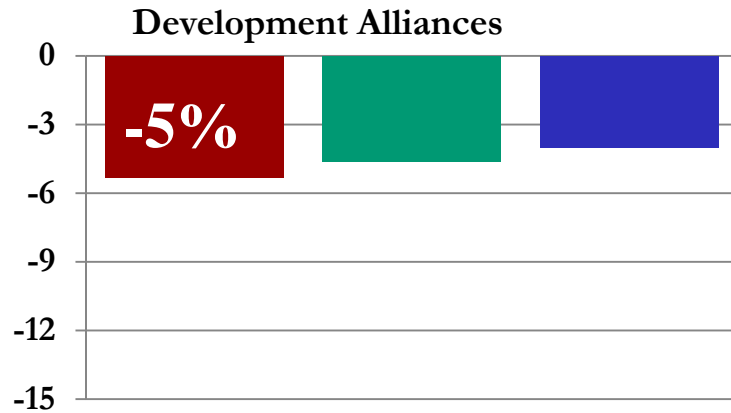
Development of Network Quality

Intra-Europe: (annual % growth 2007-'09)



- LCC/Charters still relatively immune for recession on average over two years, but.....

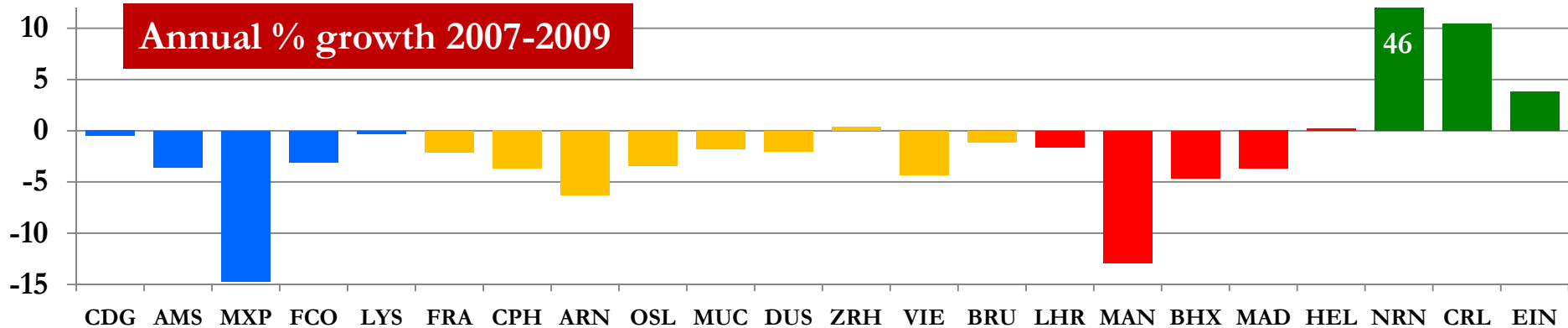
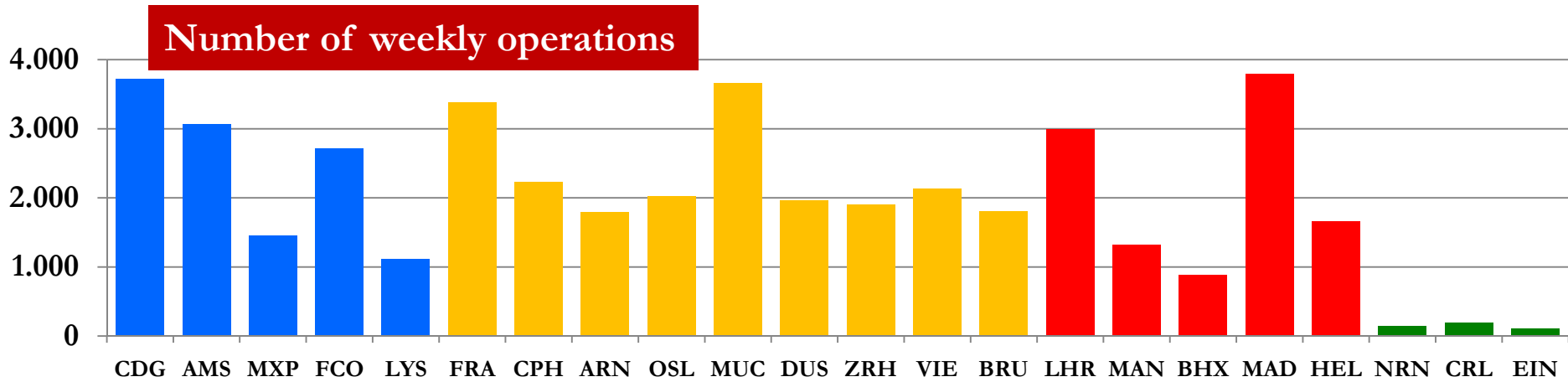
Development of Network Quality Intra-Europe: (growth 2008-'09)



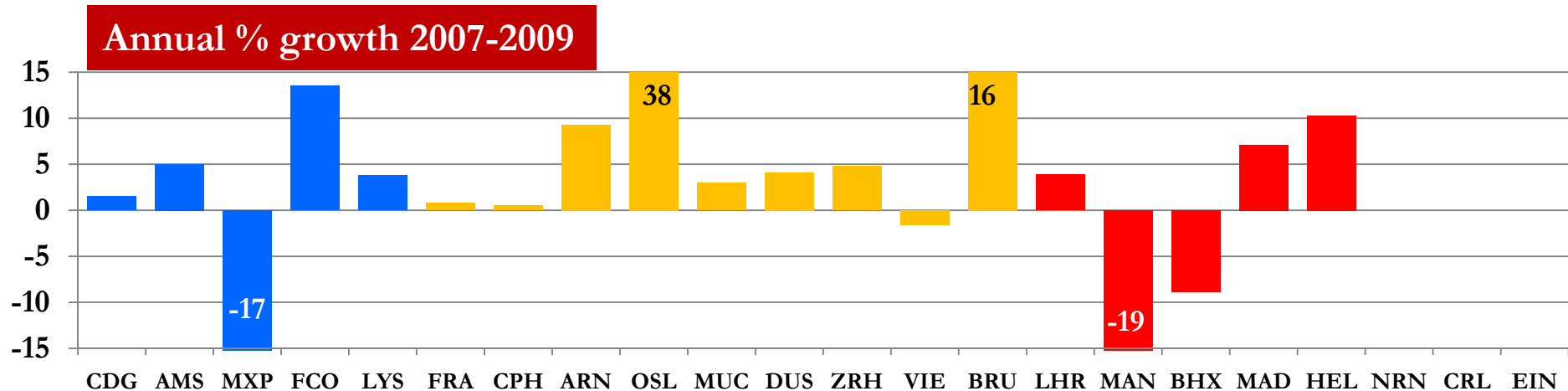
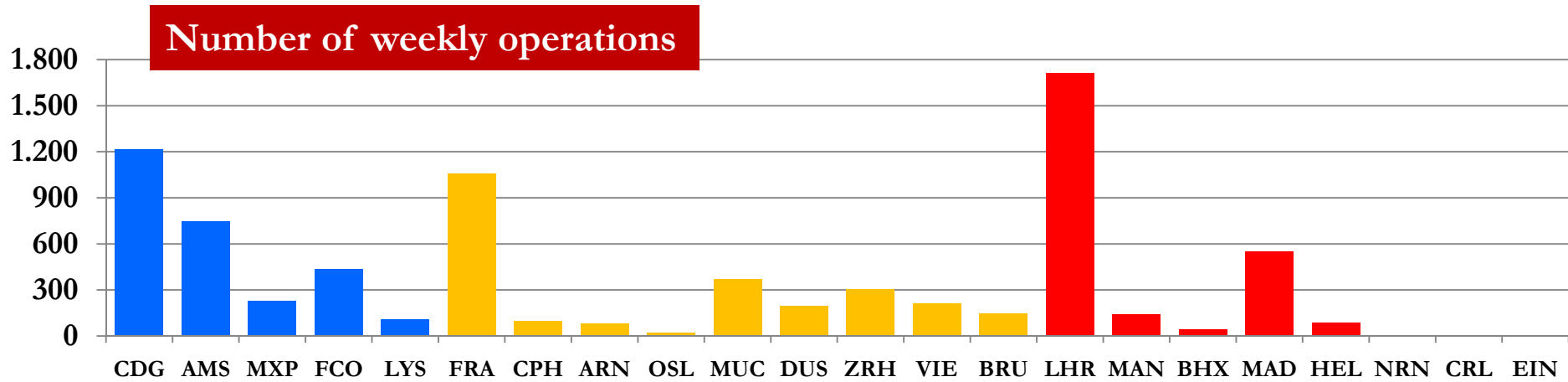
- LCC/Charters had to reduce # of operations in 2009 by 11%
- Little ability to pay part of the costs by accepting lower load factors or charging lower fares?
- Alliance airlines were best able to maintain network quality

Development of Network Quality

Intra-Europe



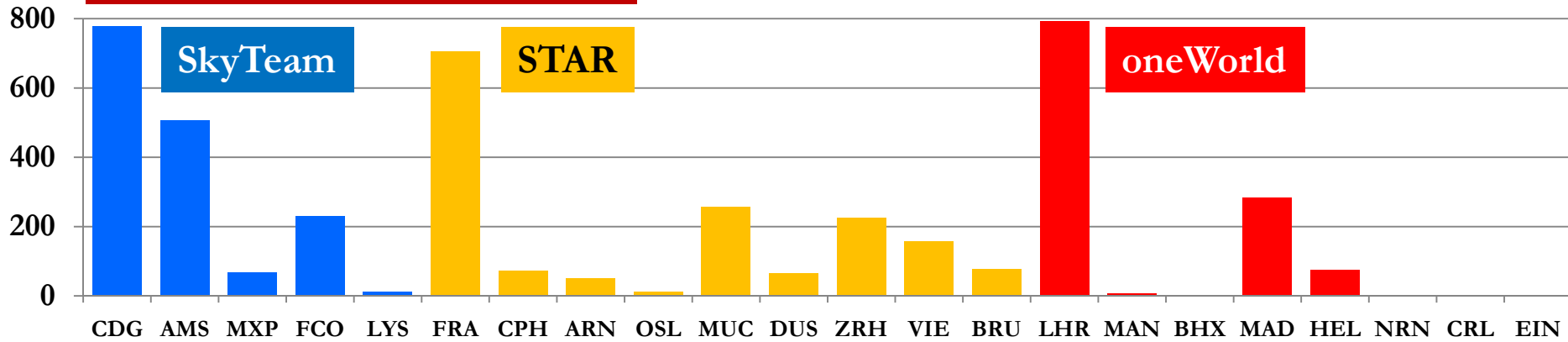
Development of European Network Quality Intercontinental



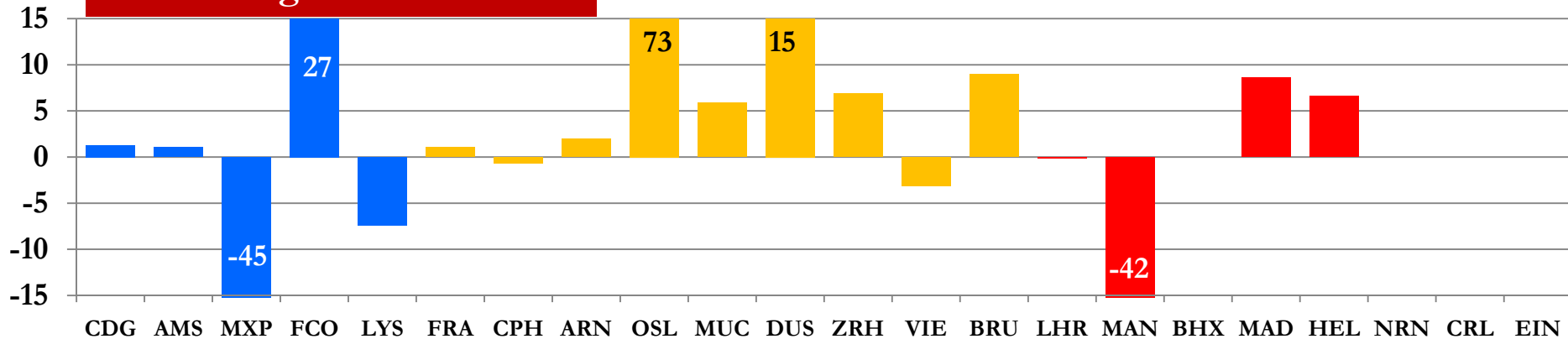
Development of European Network Quality

Intercontinental: alliance specific

Number of weekly operations



Annual % growth 2007-2009



Conclusions

- **Recession and demand reduction not necessarily reflected in reduction in supply**
- **Airlines have buffers (such as lower fares) to keep network quality at acceptable level**
- **Supply indicators only do not always reflect deepness of recession**
- **LCC's / Charters could in 2009 not avoid a severe drop in supply**
- **No significant difference seen (yet) between primary and secondary hubs**