

The State of the Airline Industry

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seo economic research



The State of the Airline Industry

- **Summary of “Economic Storm”**
- **Implications for World Air Transport**
- **Short Term Outlook for Schiphol Airport**

The Economic Storm: world trade

- **Worst recession since WO II**
- **Implication for Aviation ?**
- **2009: Decline in trade much stronger than in GDP**
- **World Trade: -9.75 %, world GDP only slightly negative**
- **Netherlands: similar trends**
 - **GDP: -3.5 %**
 - **Export: -10.75 %**
 - **Private consumption: -0,25 %**
- **GDP affects (leisure) passenger traffic**
- **International trade affects (business) passenger traffic**
- **International trade (in industrial goods) affects air cargo traffic**

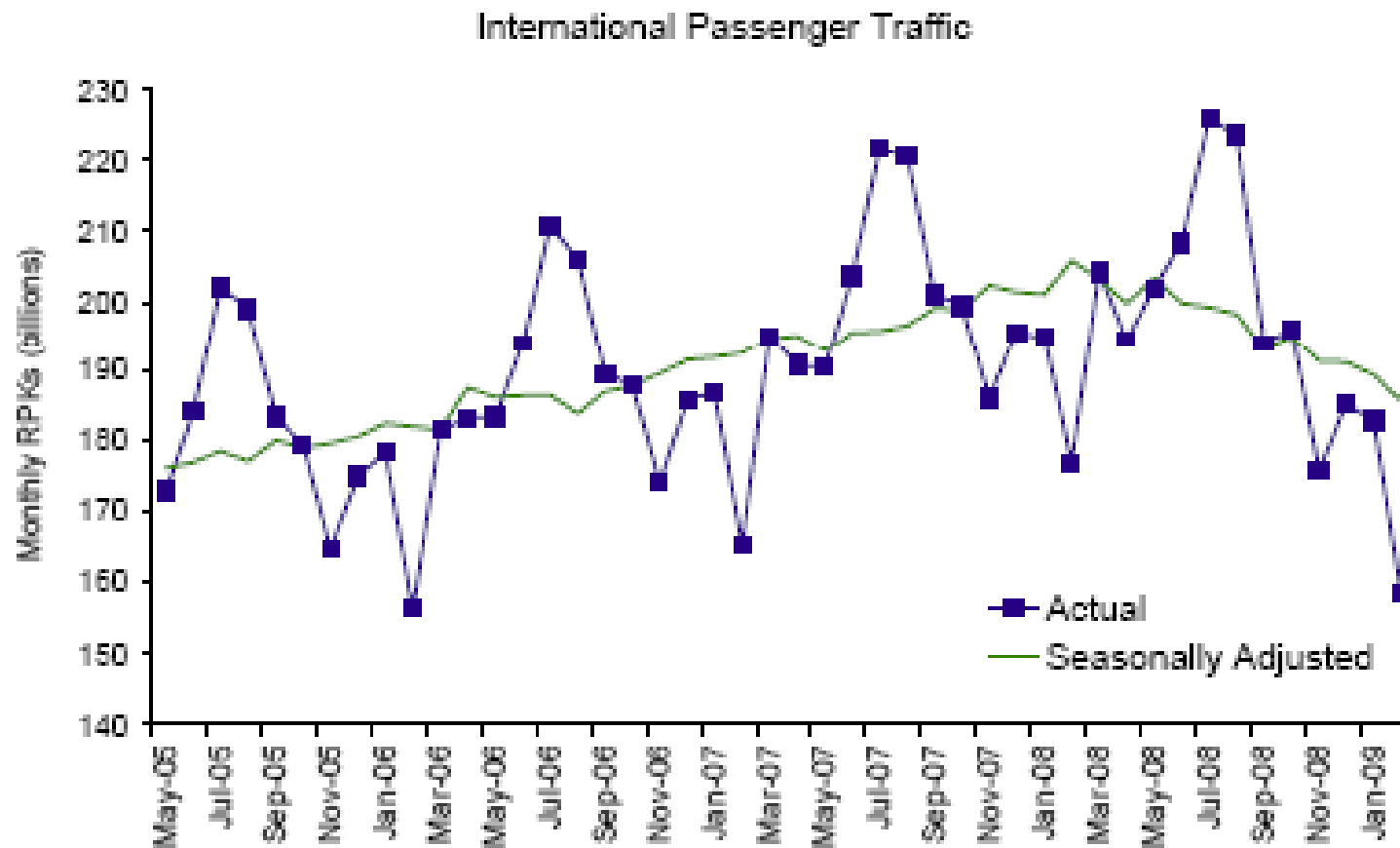
The Economic Storm: industrial production

- Industrial Production of exporting Asian countries has large impact on their GDP (and on incoming passenger flows)
- Industrial Production in particular relevant for incoming air cargo to Europe

	Latest figures	GDP growth 2009
▪ Japan:	- 38 % (Feb'09)	- 6.5 %
▪ China:	+ 4 % (Jan-Feb'09)	+ 6.0 %
▪ Hong Kong	- 10 % (Q4 '08)	- 5.9 %
▪ Malaysia	- 20 % (Jan'09)	- 0.3 %
▪ Singapore	- 22 % (Feb'09)	- 7.5 %
▪ Korea	- 10 % (Feb'09)	- 5.9 %
▪ Taiwan	- 27 % (Feb'09)	- 6.5 %
▪ Euro Area	- 17 % (Jan'09)	- 3.4 %

Source: The Economist, 11 April 2009

Recent Trends in Passenger Traffic

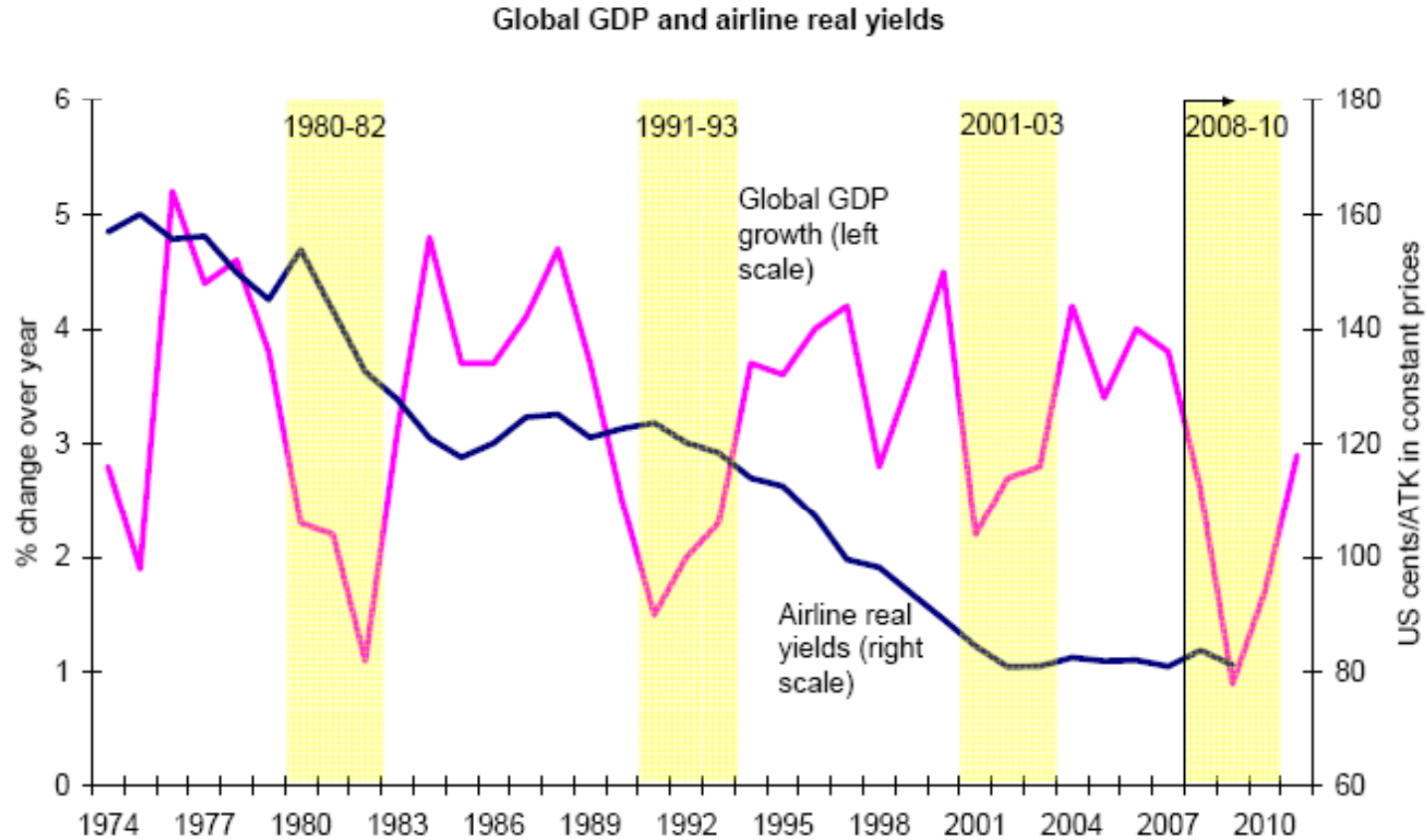


Source: IATA Monthly Traffic Analysis, February 2009

From Cost - to Revenue Management

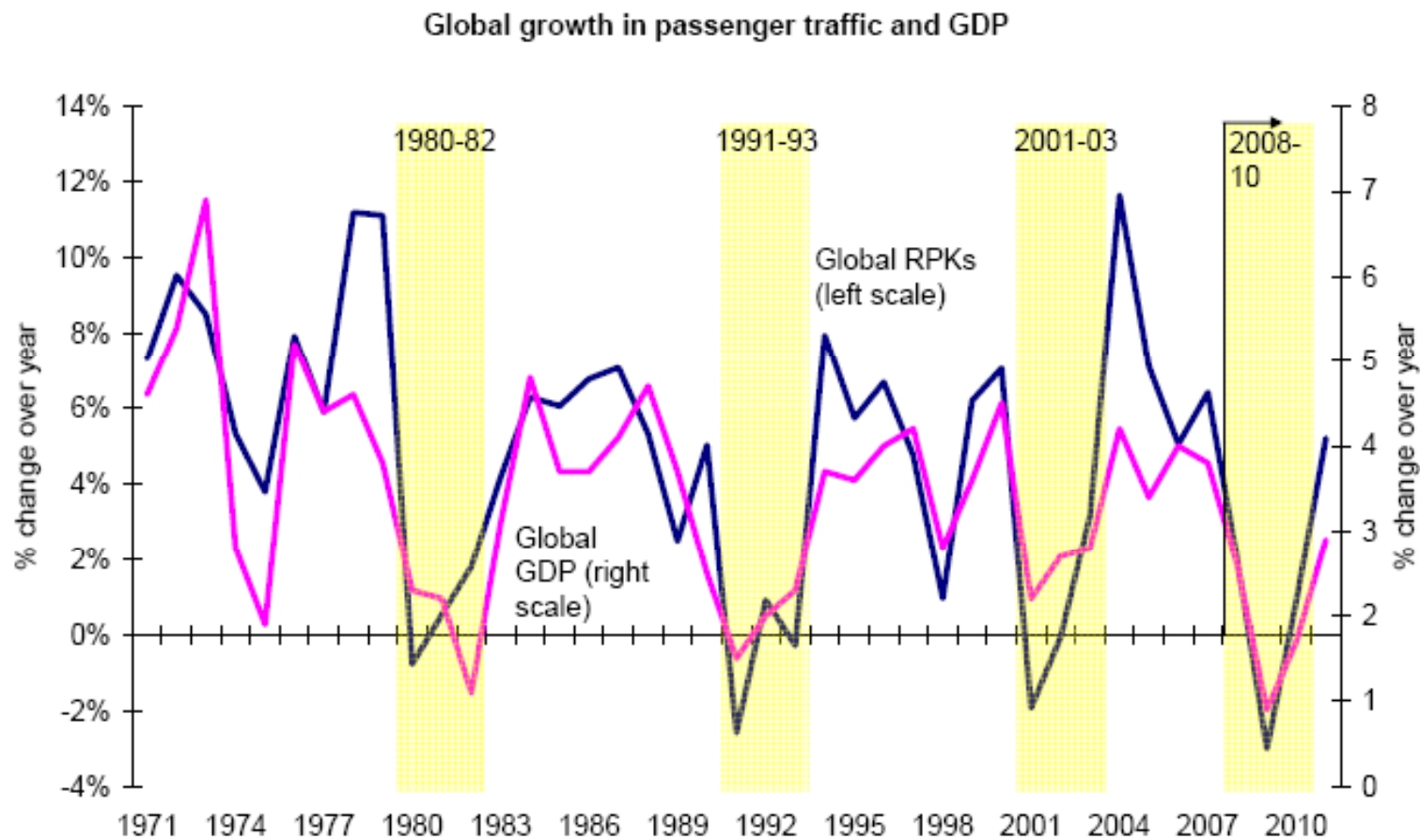
- **Downturn from early 2008**
- **Until mid-2008:**
 - **Still no recession**
 - **Demand reduction by high oil price and fuel costs**
 - **Emphasis on Cost Management: hedging against further rising oil prices**
- **Challenges late-2008 / early 2009:**
 - **Lower oil price, however in some cases still high fuel costs by hedging strategies**
 - **Deepening recession: additional demand reduction**
 - **Emphasis on Revenue and Capacity Management**

Main Drivers in Passenger Traffic: GDP and Yields



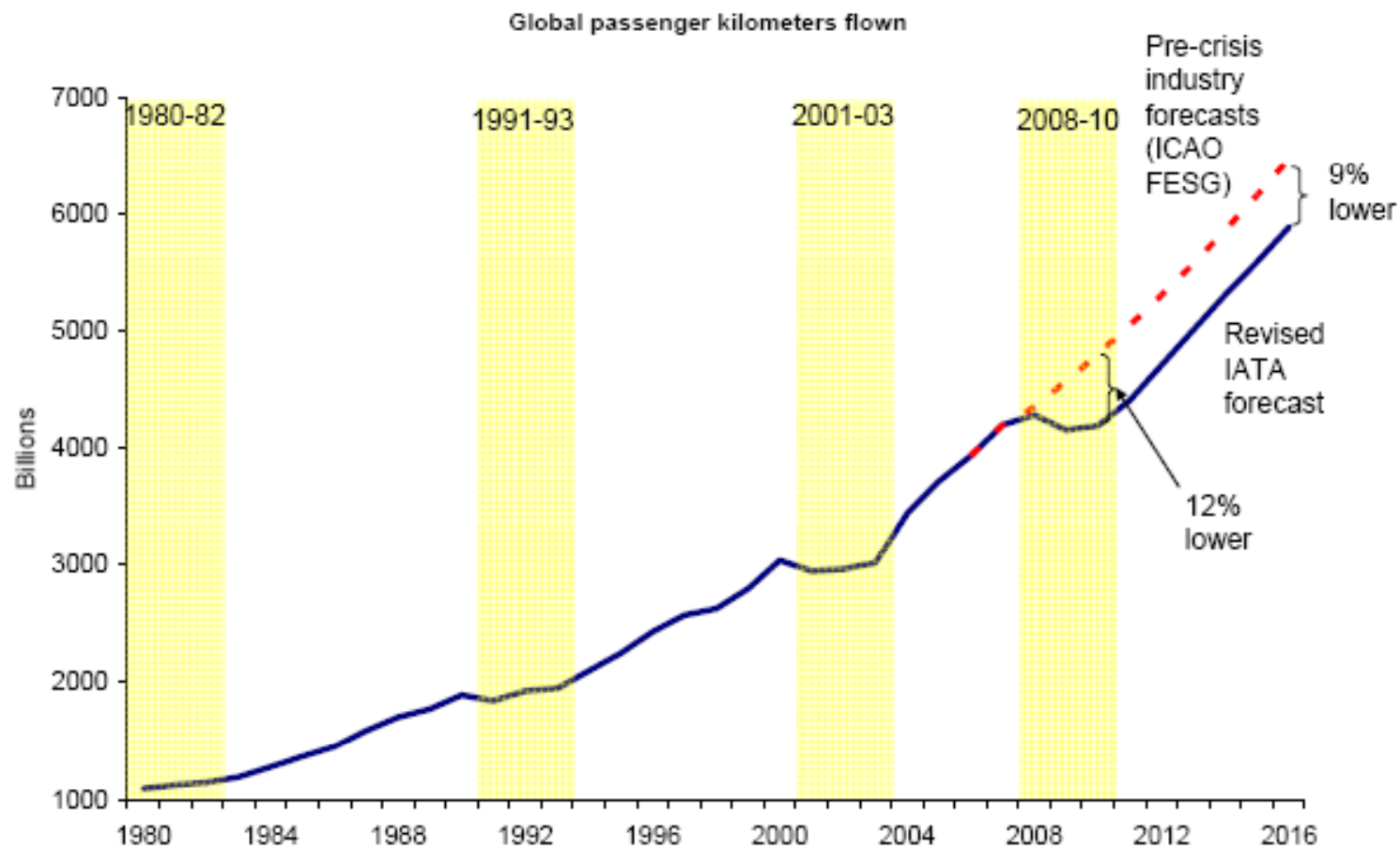
Source:
ICAO, EIU,
IATA

Main Driver in Passenger Traffic Fluctuations: GDP



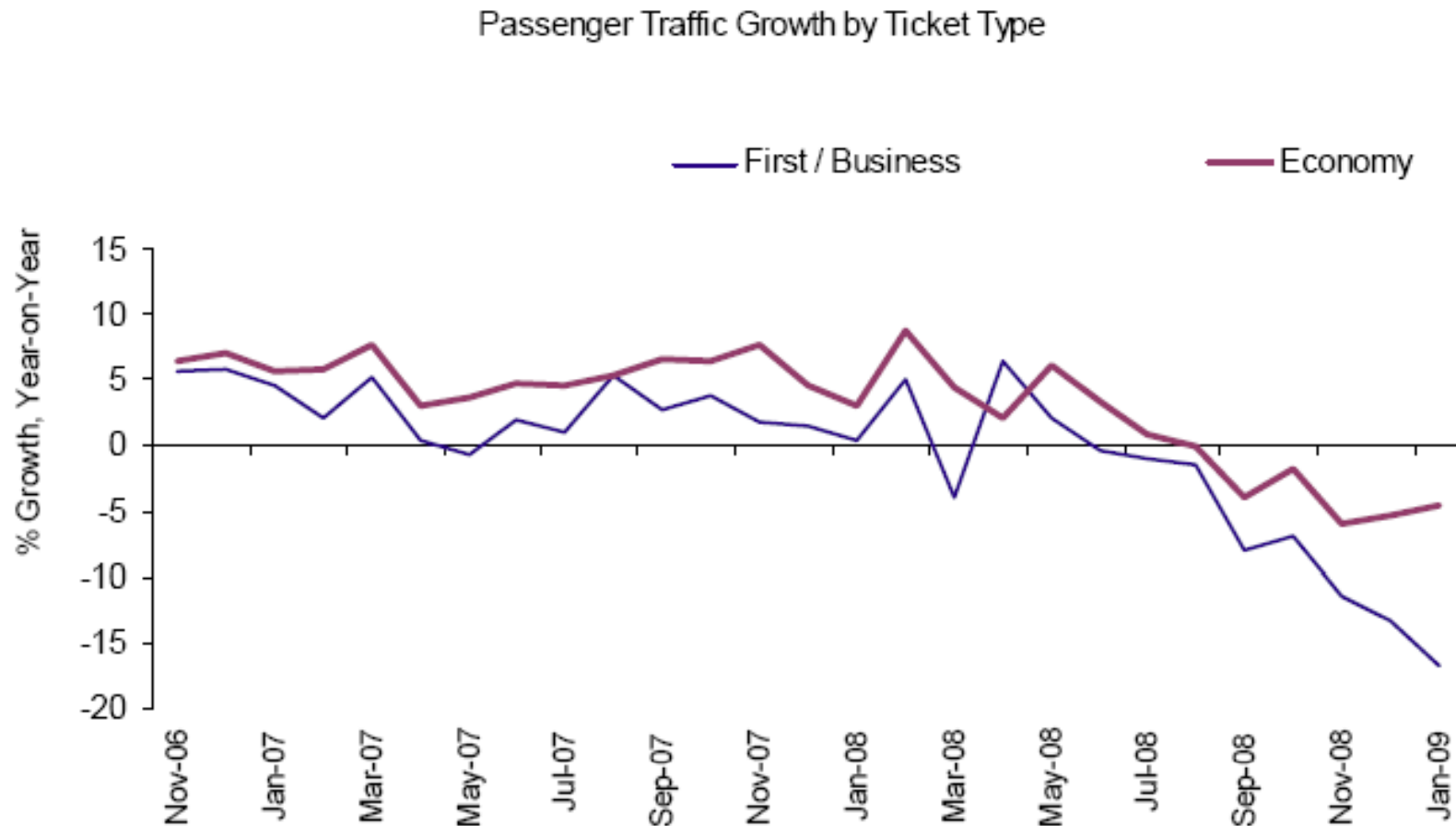
Source:
ICAO, EIU
IATA

IATA Passenger Forecast to 2016



Source:
ICAO,
IATA

Business Traffic declines more

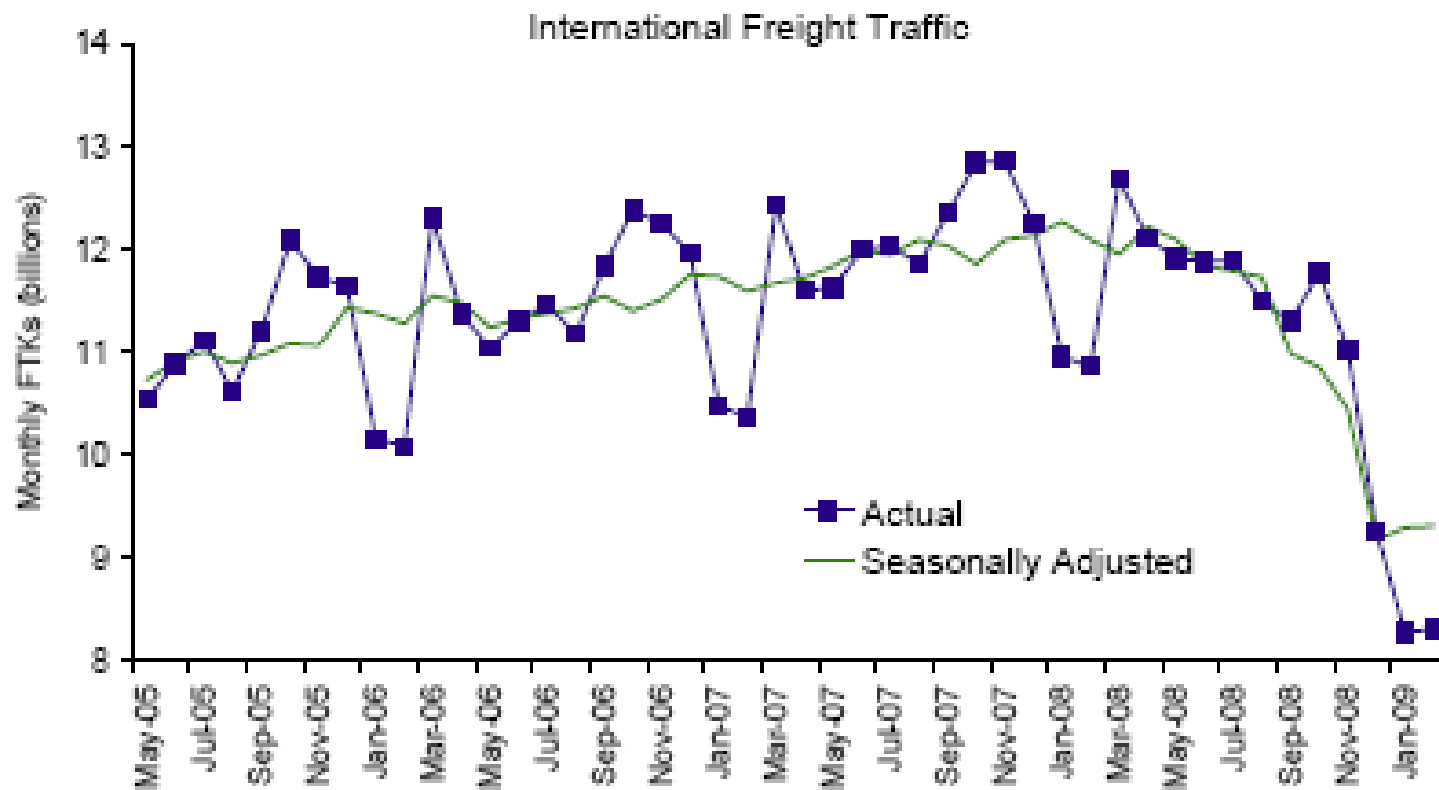


Source: IATA Premium Traffic Monitor, January 2009

Impact on Airlines more than on Airports

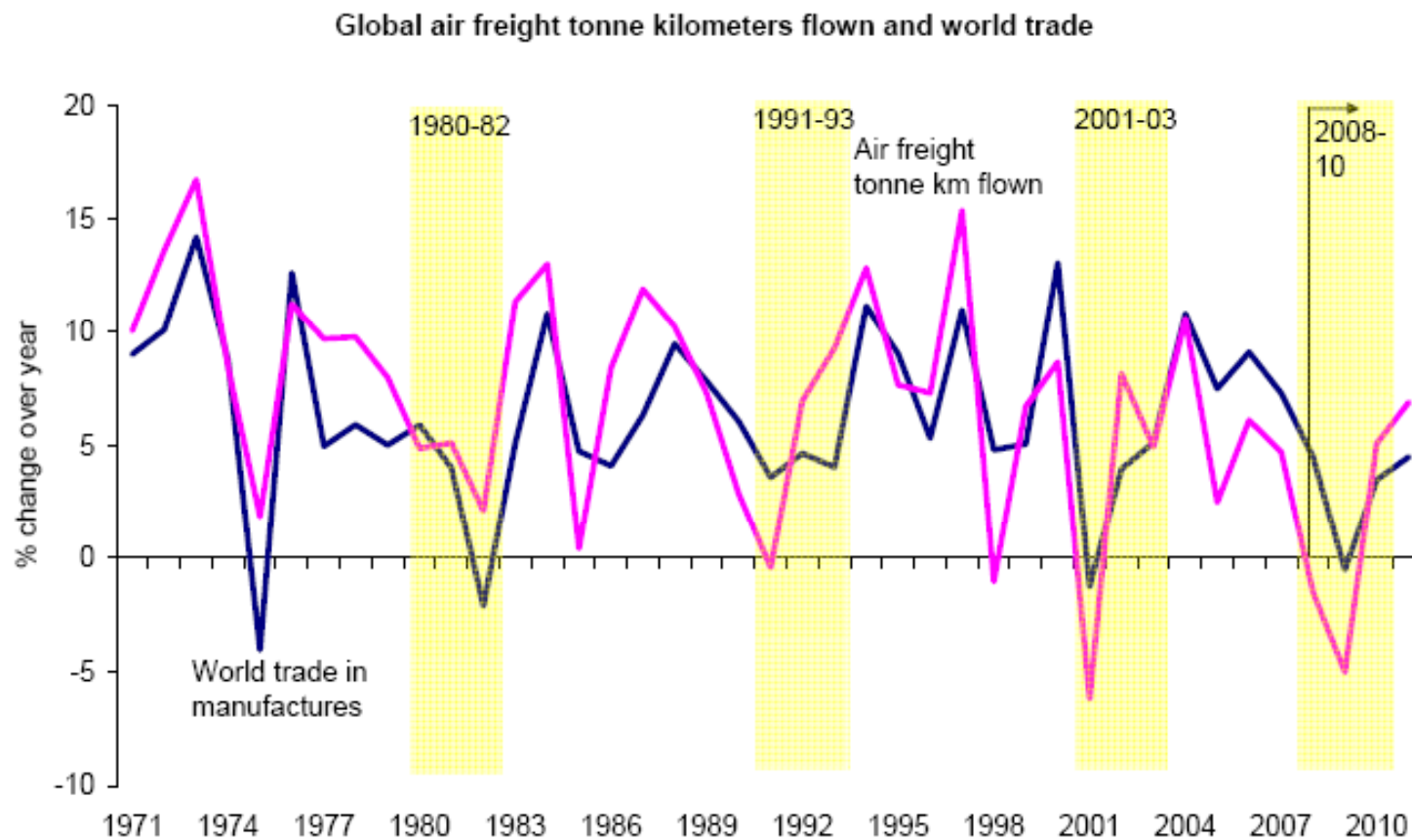
- **Particular decline in business traffic:**
 - **(Negative) market growth effect:**
 - Trade (business segment) declines more than GDP (leisure segment)
 - **Market substitution effect:**
 - From first/business class to economy class
 - From legacy carriers to low cost carriers
- **For airlines: additional yield erosion on top of general decline in traffic volume**
- **Legacy carriers suffer most... , LCC's and airports less.**

Recent Trends in Cargo Traffic



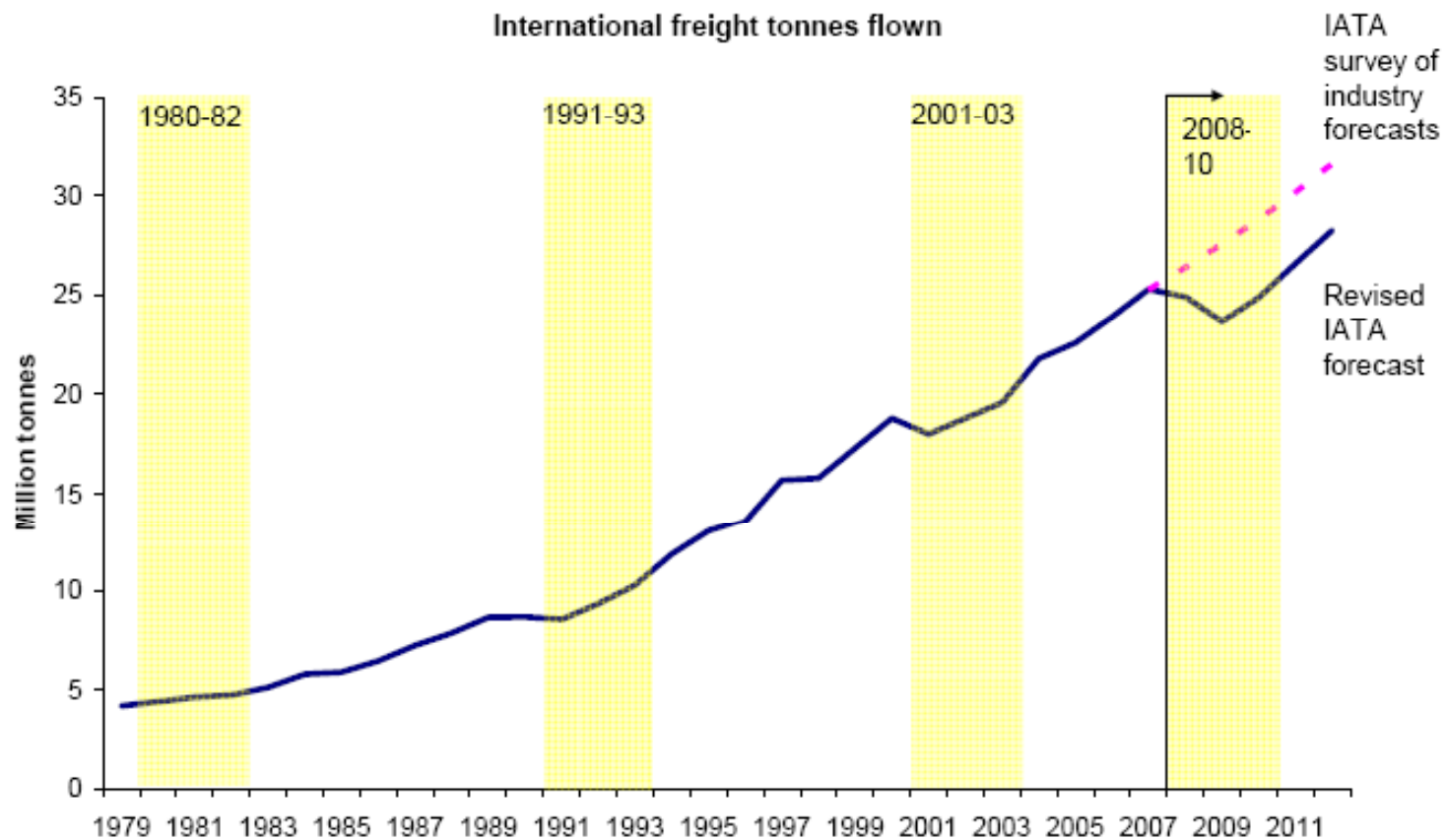
Source: IATA Monthly Traffic Analysis, February 2009

Main Driver in Cargo Traffic Fluctuations: Trade



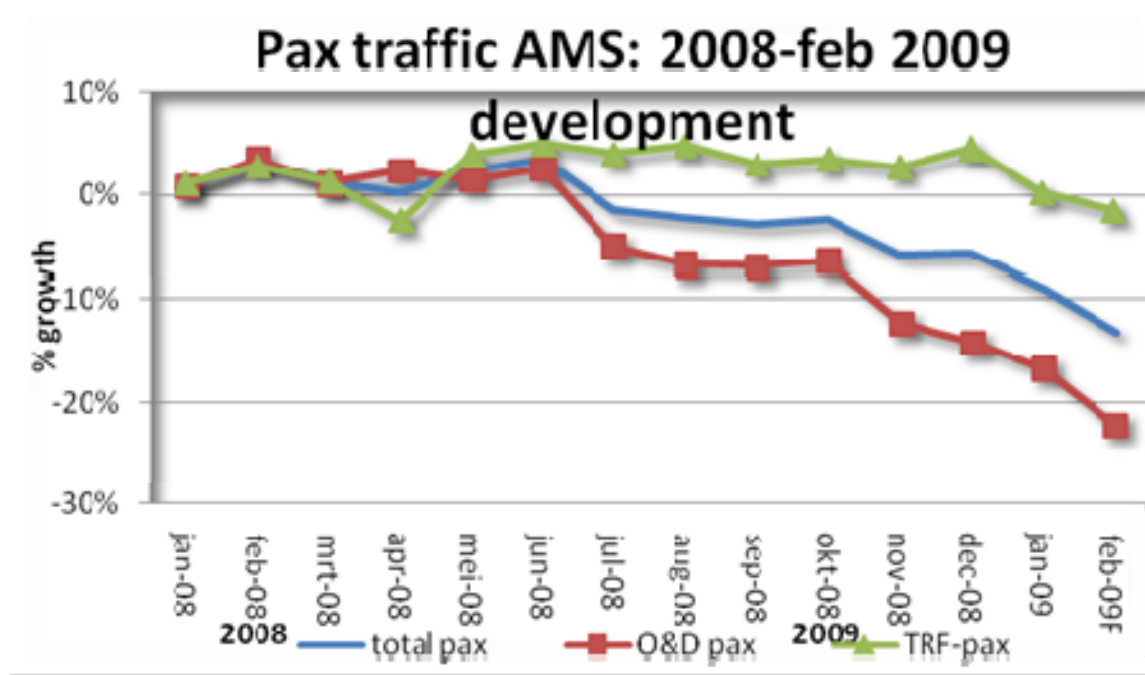
Source:
ICAO, EIU,
IATA

IATA Cargo Forecast to 2012



Source:
ICAO,
IATA

Recent Trends of Passenger Traffic Schiphol



Source: Schiphol Group

- Particular decline in OD- traffic, followed by decline in transfer segment
- **Ticket-tax by 1 July 2008** (€ 11.25 on short haul and € 45 on long haul trips) has major effect here

Forecast Amsterdam Schiphol 2008 - 2010

	2008	incl. ticket-tax % p.a.	2010
PASSENGERS (* mln)	47,4	-4,4	43,3
OD-passengers	27,1	-6,4	23,8
Transfer passengers	20,3	-1,8	19,6
Share transfer (%)	43%	2,7	45%
CARGO (*mln tons)	1,568	-7,8	1,334
AIRCRAFT MOVEMENTS (*000)	428,3	-4,3	392,0
Passenger Aircraft Movements	412,9	-4,2	379,2
Cargo Aircraft Movements	15,4	-8,8	12,8

Source: SEO Economic Research: March 2009

Forecast Amsterdam Schiphol 2008 - 2010

	2008	incl. ticket-tax % p.a.	2010	after abolishment ticket-tax % p.a.	2010
PASSENGERS (* mln)	47,4	-4,4	43,3	-1,2	46,3
OD-passengers	27,1	-6,4	23,8	-0,7	26,7
Transfer passengers	20,3	-1,8	19,6	-1,8	19,6
Share transfer (%)	43%	2,7	45%	-0,6	42%
CARGO (*mln tons)	1,568	-7,8	1,334	-7,8	1,334
AIRCRAFT MOVEMENTS (*000)	428,3	-4,3	392,0	-1,0	420,2
Passenger Aircraft Movements	412,9	-4,2	379,2	-0,7	407,4
Cargo Aircraft Movements	15,4	-8,8	12,8	-9,1	12,8

Source: SEO Economic Research: April 2009

Preliminary Conclusions

- **Strong downturn in aviation between 2008 and 2010**
 - **Cargo and Business Traffic affected in particular**
 - **Airlines more affected than airports**
- **Recovery expected if economy picks up**
- **However, new challenges expected after 2011.....**

New Challenges

- **Fuel Costs may rise again if demand picks up...**
 - **Limited investments in oil production capacity**
 - **Limited contribution of innovation in fuel efficiency**
 - **Innovation may nevertheless be driven by ETS in 2012**
 - **Additional negative demand effects from ETS**
- **Significant overcapacity expected in passenger seat capacity**
 - **More than 100 new aircraft for low cost carriers in Europe in years to come**
 - **Pressure on airfares, also in 'legacy carrier' segment**
 - **Continuing process of consolidations....?**