

## Latest Passenger Forecasts - 15 July 2008

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### **LATEST FORECAST, A SLIGHT IMPROVEMENT OR THE SUCKER BOUNCE**

As pre-booked summer holiday traffic hits the airport traffic stats the forecast is climbing a little from the bottom it reached last month. However, the cautious will want to avoid being convinced by a seasonal sucker bounce. The fundamentals remain poor and could very probably deteriorate further. The regional and global overview for total passengers comprises:

### **FORECASTS FOR AUGUST TRAVEL DEMAND**

The August forecast for total passenger traffic is for an increase of just over 3%, at the same point last month the projection was a little lower at 2.9%. Internationals next month are expected to be some 4.3% higher than in 2007 representing a fifth of a point deterioration on the last projection.

The data coming directly from the airports confirms, for now, the strength of international travel demand. For the month of May, 219 airports have revealed their total pax results showing a 2.9% increase on last year. Just under a hundred have their internationals published and these show a year on year increase of 5.5%. Returns for June are now available for 135 airports, most of them European, and they indicate a 5.4% point improvement on 2007 against the June expectation for those 135 of 4.4%. This is the sucker bounce.

### **FORECASTS FOR QUARTER 4 TRAVEL DEMAND**

The Q4 forecast presently stands at 2.9% for total traffic and at 3.8% for internationals. The difference, comparing this forecast with the forecast produced a month ago, is in domestics which are better. The international travel demand projection remains unchanged.

At this level the forecasts could hardly be described as rosy and they are likely to deteriorate further as travel demand responds to consumer expectations and airlines reduce capacity.

### **EUROPEAN DOWNSIDES, POPULUS POLL POINTS THE WAY**

The Populus July poll in the UK reveals that one third of consumers are switching from a holiday abroad to a holiday in Britain. Generally, over 50% of respondents were cutting back on their holiday plans in response to macro economic factors. Repeating this experience across the region will necessarily impact on August numbers and carry over into the fourth Quarter. Domestic travel in Europe is suffering already and will show no growth in the final quarter of this year. Air France has now attached its livery to high speed trains.

The August European forecast looks likely to deliver a 3.8% increase for international traffic and no growth in domestic demand. In the fourth Quarter the expectation is that domestic passenger numbers will decline and internationals will rise by no more than 2.7%

### **ASIA/PACIFIC DOWNSIDES, JAPANESE ASSOCIATION OF TRAVEL AGENTS**

Expect a busy summer season but report dismal results from the second Quarter. International travel demand in the region is expected to be up by just 3.4% in August and by 3.3% in the last Quarter of the year. The August breakdown by country emphasizes the fragility and disparity of the state of trade: China internationals will be down on last year before any Olympic adjustments, Japan internationals will be flat, India will beat the 10% point mark, South Korea and Thailand will both grow strongly, Taiwan will be down.

### **USA DOWNSIDES, MOODY'S SLAMS THE US AIRLINES**

The credit rating company has recently described the business model of US airlines as 'unsustainable'. A particular problem for the US business is the high proportion of old and gasoline guzzling aircraft which use 40% more fuel and Moody's points to fuel costs as the main determinant of commercial viability. The difficulties have hardly escaped the attention of airline managements. They have already switched capacity from domestic to international and in the Fall they will cut seats. They will attempt to reduce overheads by merger and are already loading ticket prices with extras. The inescapable truth is that ticket prices have to rise and nobody can guess at the price elasticity of demand.

August international demand should be up some 2.3% on 2007, domestic passenger numbers will not grow, a forecast based on May actuals which show international passengers up 4.5% but domestic demand creating a 0.7% negative year on year change for total traffic. For June, 18 airlines with half of the traffic have published their data: travel numbers are down by 1.7% compared with a forecast indication for the month of 0.2%.

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