



The Force 9 gale
Implications for global aviation
(and airport retail in China)

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Overview - key themes



- 1. A global downturn and its impact on airline behaviour**
- 2. The long-term impact of the Middle East**
- 3. What is likely to happen in China?**
 - the effect of global slowdown
 - Domestic slowing

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AirAsia X to receive first high capacity A330 in Oct-08; will further reduce unit costs

24-Oct-08 2:10 PM PREMIUM

AirAsia X, which is currently operating with one leased aircraft, confirmed it is scheduled to take delivery of its first of 25 high capacity A330-300s on 31-Oct-08, with a second aircraft to be delivered in Dec-08, at which time the airline's single leased A330 will be reconfigured with more seating. Three more aircraft will be delivered in 2009, with the airline expecting to operate a fleet of three aircraft by Feb-09, with "two or three" additional aircraft to be received in 2H09.

AirAsia X CEO, Azran Osman-Rani

Qantas traffic deteriorates in August, Virgin Blue loads slip in September

24-Oct-08 12:17 PM

Qantas stated the positive impact of the downward movement in oil prices had been offset by a "deterioration in booking intakes over the past four weeks, particularly in international markets". Qantas noted this was due to lower consumer confidence and the impact of exchange rate movements on demand. Earlier in the week, outgoing CEO Geoff Dixon stated that international travel bookings had "fallen in all classes".

Allegiant Air strongly profitable in tough third quarter

23-Oct-08 4:30 PM PREMIUM

A sound strategy and a little bit of good fortune have helped Las Vegas-based LCC, Allegiant Air, to rise above the pack. Allegiant Air is the only US mainline carrier to have posted profits in every quarter so far in 2008, with the consistently profitable LCC likely to be one of a handful of US carriers to have booked a net profit in the third quarter (three months ended 30-Sep-08). It is also set to report record profits in the final quarter. In this Perspective, we review the keys to its success.

GOL reports losses on currency and fuel hedge reductions

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Airline publications	Airport publications
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Regional aviation publications	Special aviation publications
<ul style="list-style-type: none">Airport & Airline Asia PacificMonthly Essential ChinaMonthly Essential IndiaMonthly Essential Middle East	<ul style="list-style-type: none">CAPA DataAir Traffic Management MonthlyRegulatory Affairs ReviewAviation Outlook 2008Aviation Executive MonthlyFree Resources

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Traffic

Kuwait Airport reports traffic increases for Aug-08

21-Oct-08: Kuwait International Airport (KIA) has recorded increases in passenger traffic, aircraft movements and cargo volume year-on-year for Aug-08, the final month of its Summer peak season.

Fleets

Bahrain Air confident of profit in 2009

21-Oct-08: With global financial uncertainty and a resurgent Gulf Air as its major competitor, Bahrain's new LCC, Bahrain Air, could be excused for feeling a little nervous. However, its Managing Director, Ibrahim Al Hamer, is full of confidence for the carrier's future, announcing in mid-Oct-08 that Bahrain Air is hitting its performance targets and is on track for break-even and profitability in 2009, only its second year of operations. Bahrain Air's goal is to become the "most efficient and competitive airline in the region."

Do you want some really good news?
Stay tuned...
10 NOVEMBER 08
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Introduction



The Force 9 gale arrives

- A380/B787 delivery delays
- US sub-prime, banking sector turmoil
- Oil spike to USD149 per barrel
- **Global Financial Crisis**
- **Global Recession?**

Cost shock replaced with potentially far worse extended **DEMAND SHOCK!**

The Force 9 gale arrives



Winter 2008/09 schedules (OAG) show:

- 5.2 % decline in capacity and 6.1% decline in flight worldwide:
- Asia worse than the global figure: 6.5% fall in capacity and 7.1% drop in flights

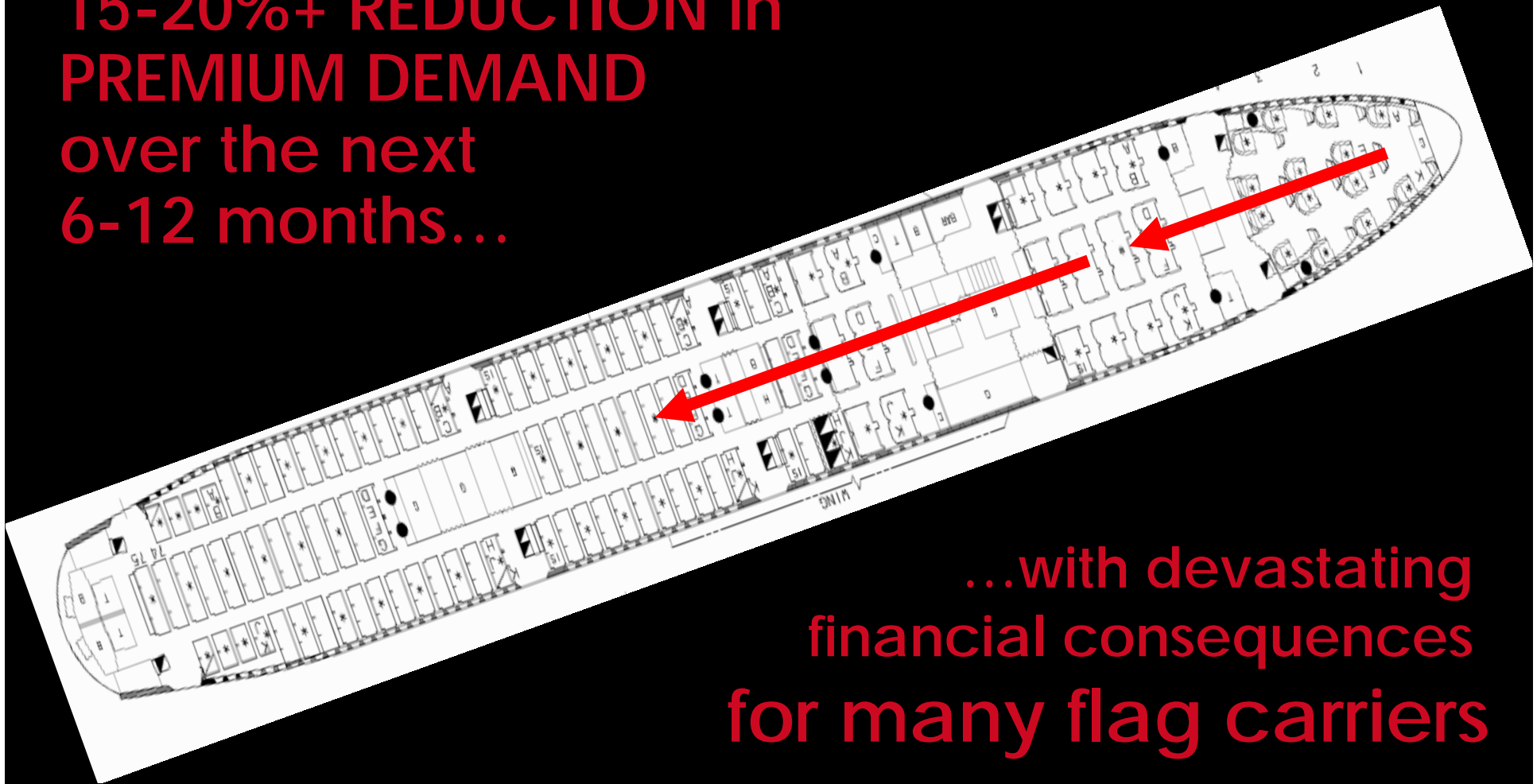
219 AIRPORTS ARE LOSING ALL SERVICES THIS WINTER!

- Asia Pacific: 94 (43% of the global total);
- Europe: 45 (21%);
- US: 33 (15%).

Worldwide premium travel:
Exit stage left



**15-20%+ REDUCTION in
PREMIUM DEMAND
over the next
6-12 months...**



**...with devastating
financial consequences
for many flag carriers**

Exit Stage Left



Two options:

1. Codeshare, or rationalise frequency
= less seats and less competition

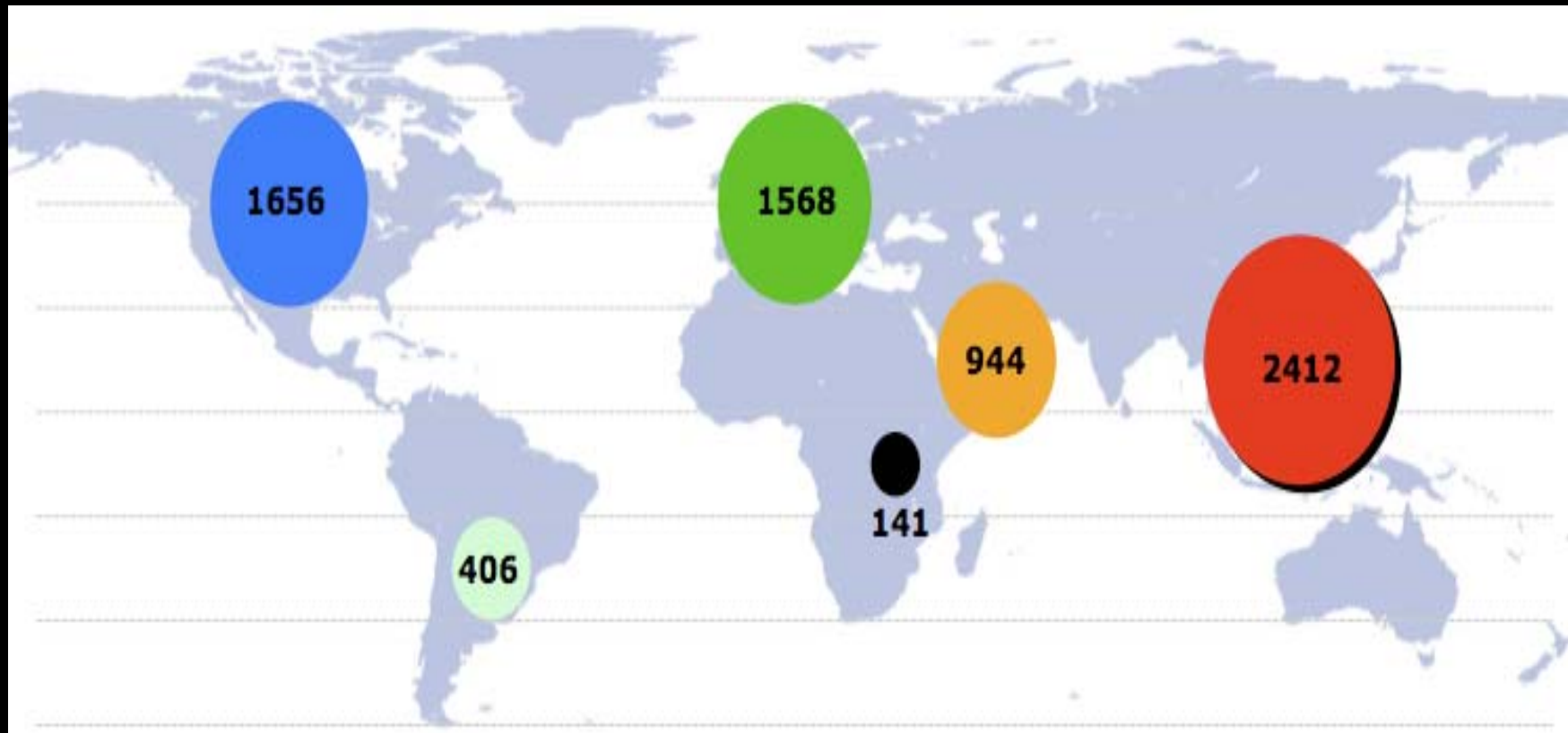
2. Cut back on routes, focusing more on hubs,
where there is guaranteed business traffic
= less seats + marginalisation of smaller ports

Flag carrier = Risk of government = Fewer
pressure protectionism seats

Aircraft orders by region



Total worldwide aircraft orders by region



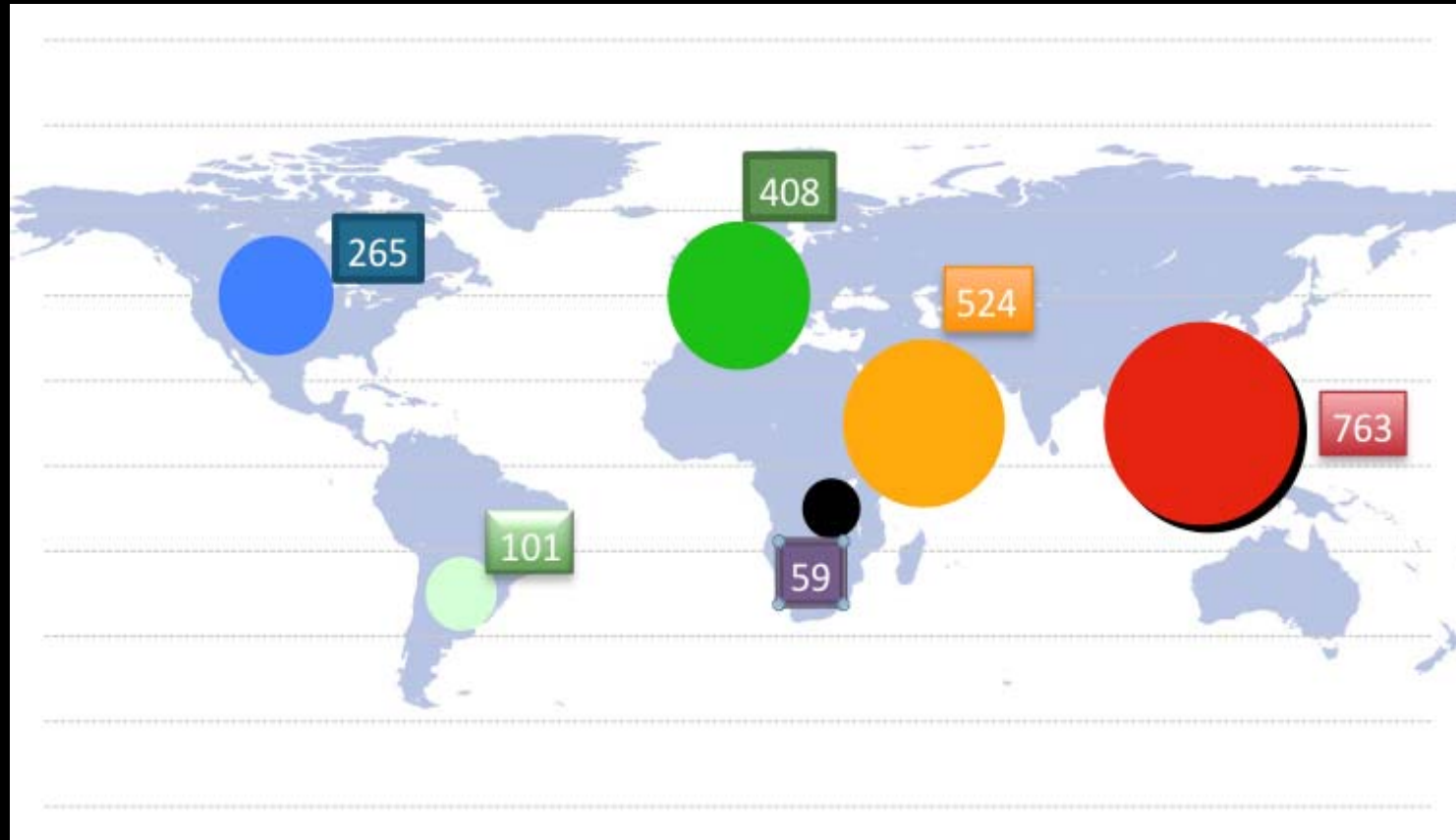
Source: Centre for Asia Pacific Aviation & Ascend

....but many of these orders are for domestic markets

Spheres of Influence



Total worldwide LONG-HAUL aircraft orders by region



Source: Centre for Asia Pacific Aviation & Ascend

Middle East airlines to serve the world

The rise and rise of the Middle East



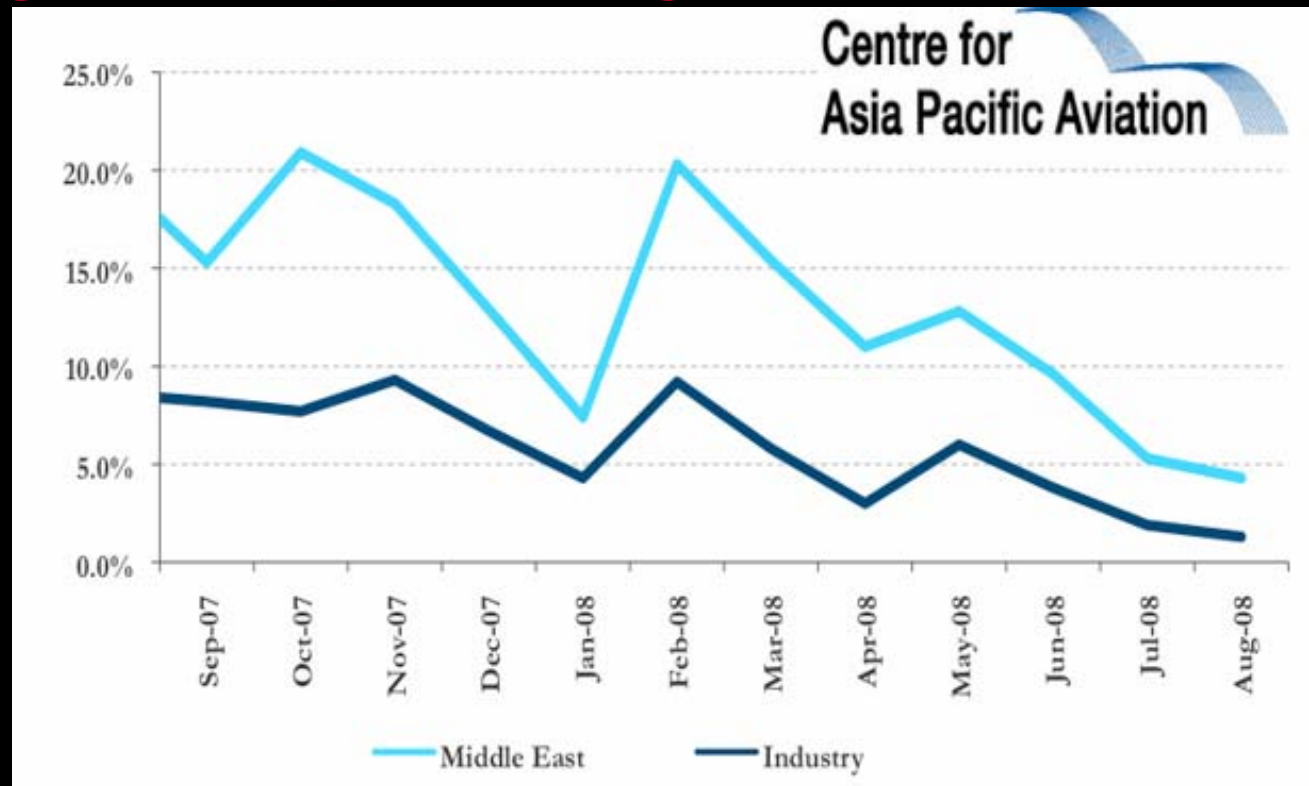
“Next-Gen aviation - the future model”

1. Geographic centrality
2. Long-haul aircraft that can fly non-stop to any point in the world
3. Freedom of airline access as markets liberalise
4. Massive surface infrastructure - airports, tourism
5. Comprehensive government strategy backed by sovereign wealth funds

Middle East not immune to storms



Middle East vs worldwide industry international RPK growth: Sep-07 to Aug-08

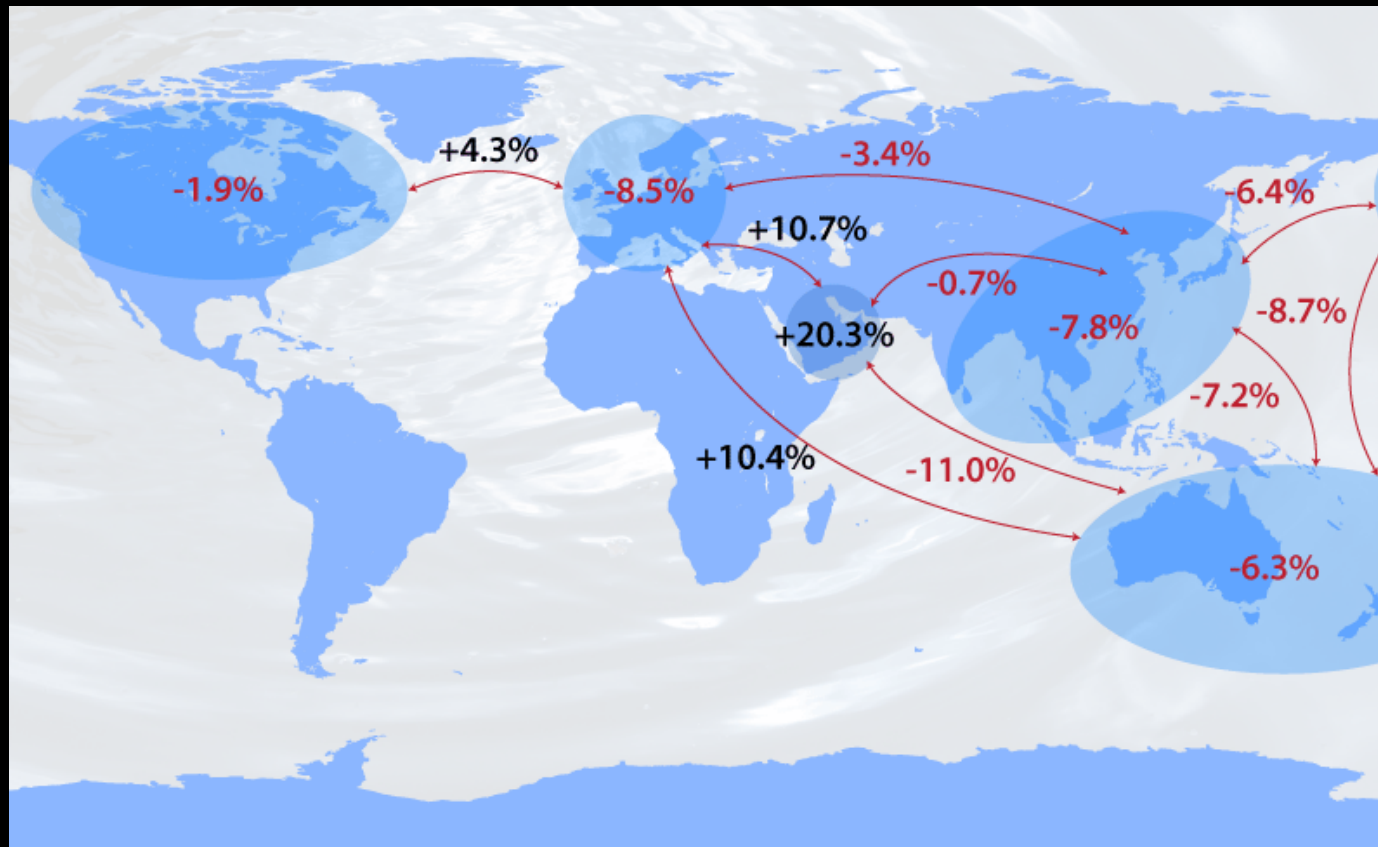


Source: Centre for Asia Pacific Aviation & IATA

More routes, more discounting = more pressure

Premium demand holds up in M/E

IATA premium demand growth by region (% change year-on-year): Aug-08



Source: Centre for Asia Pacific Aviation & IATA

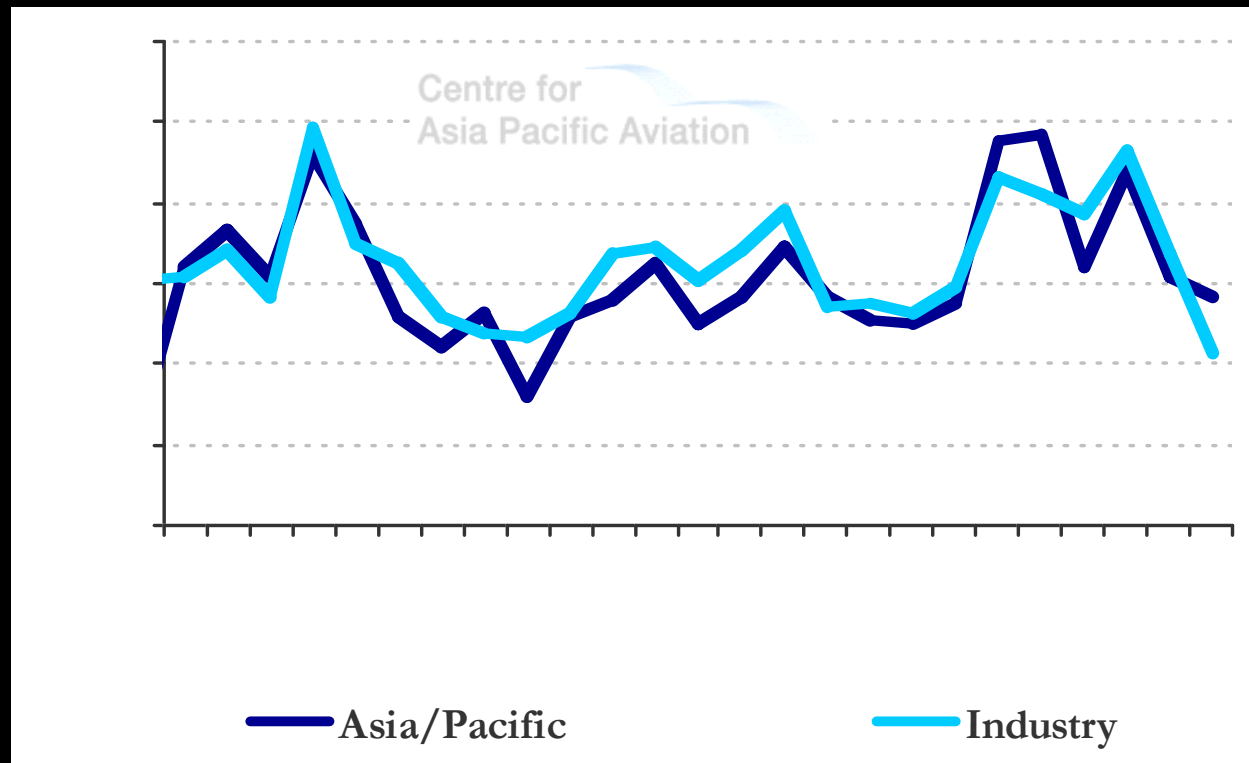
Middle East carriers stealing market share

How did we get here?



Asian growth trajectory to 2007 - good growth

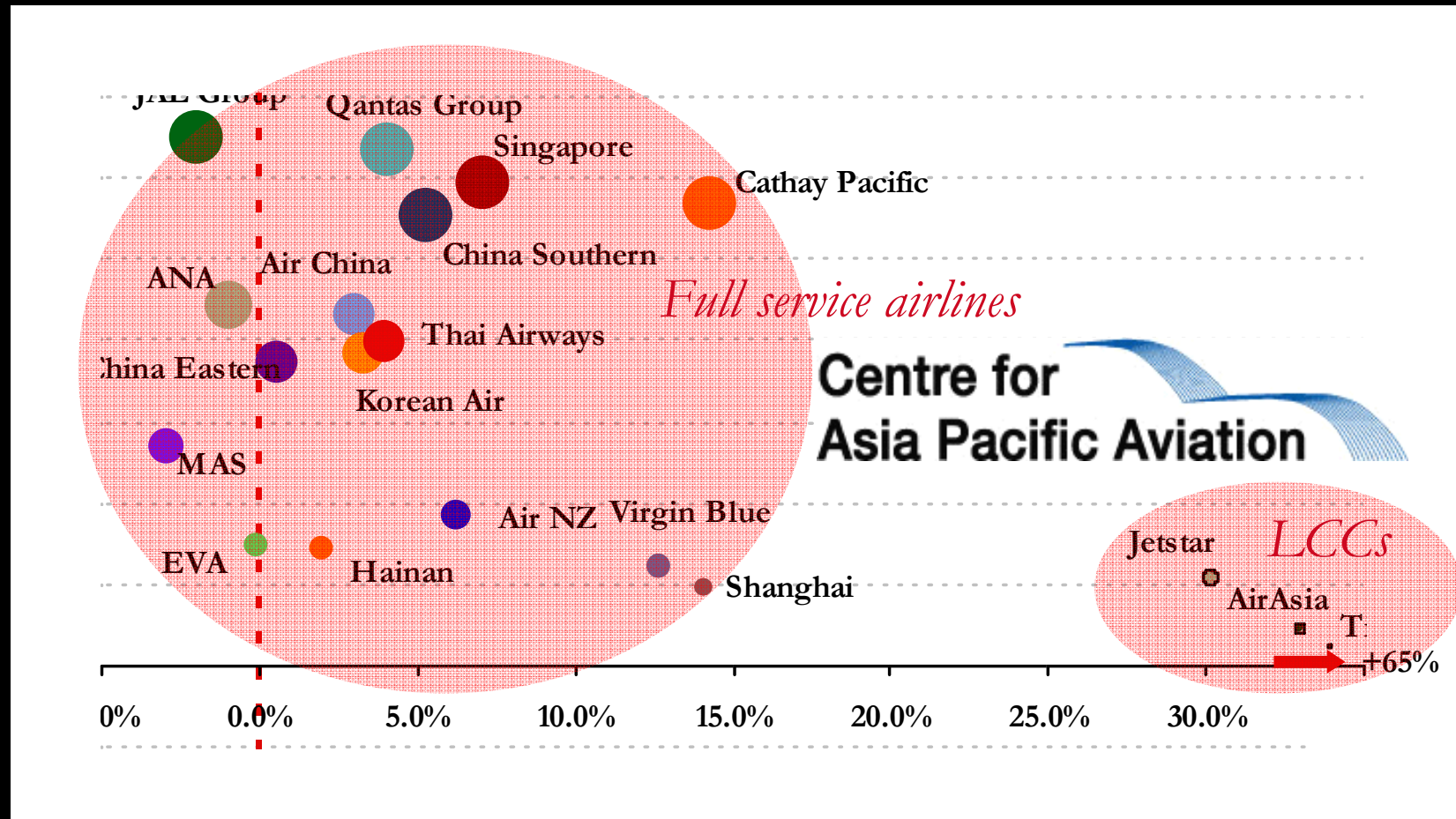
IATA Industry vs Asia Pacific passenger growth (RPKs):
Jan-06 to Jan-08



Source: Centre for Asia Pacific Aviation & IATA

Growth divide: LCCs vs Full service

Asia Pacific carriers' passenger numbers (size of bubble) and passenger numbers growth for the six months ended 30-Jun-08



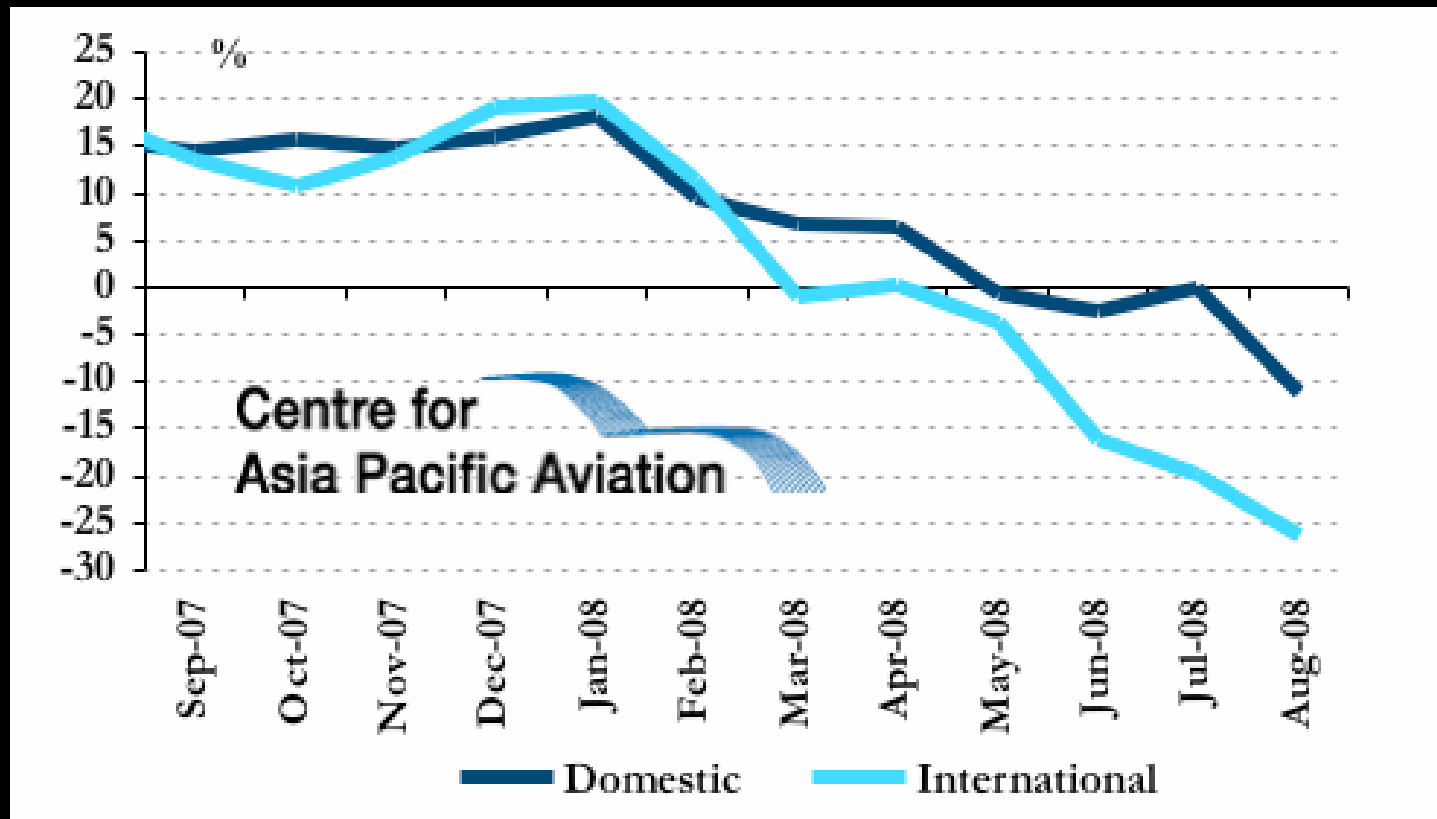
Note: Tiger and AirAsia figure is for three months ended 30-Jun-08 Source: Centre for Asia Pacific Aviation & Company reports

LCCs stealing market share

China's year of discontent



Chinese airlines domestic vs international traffic

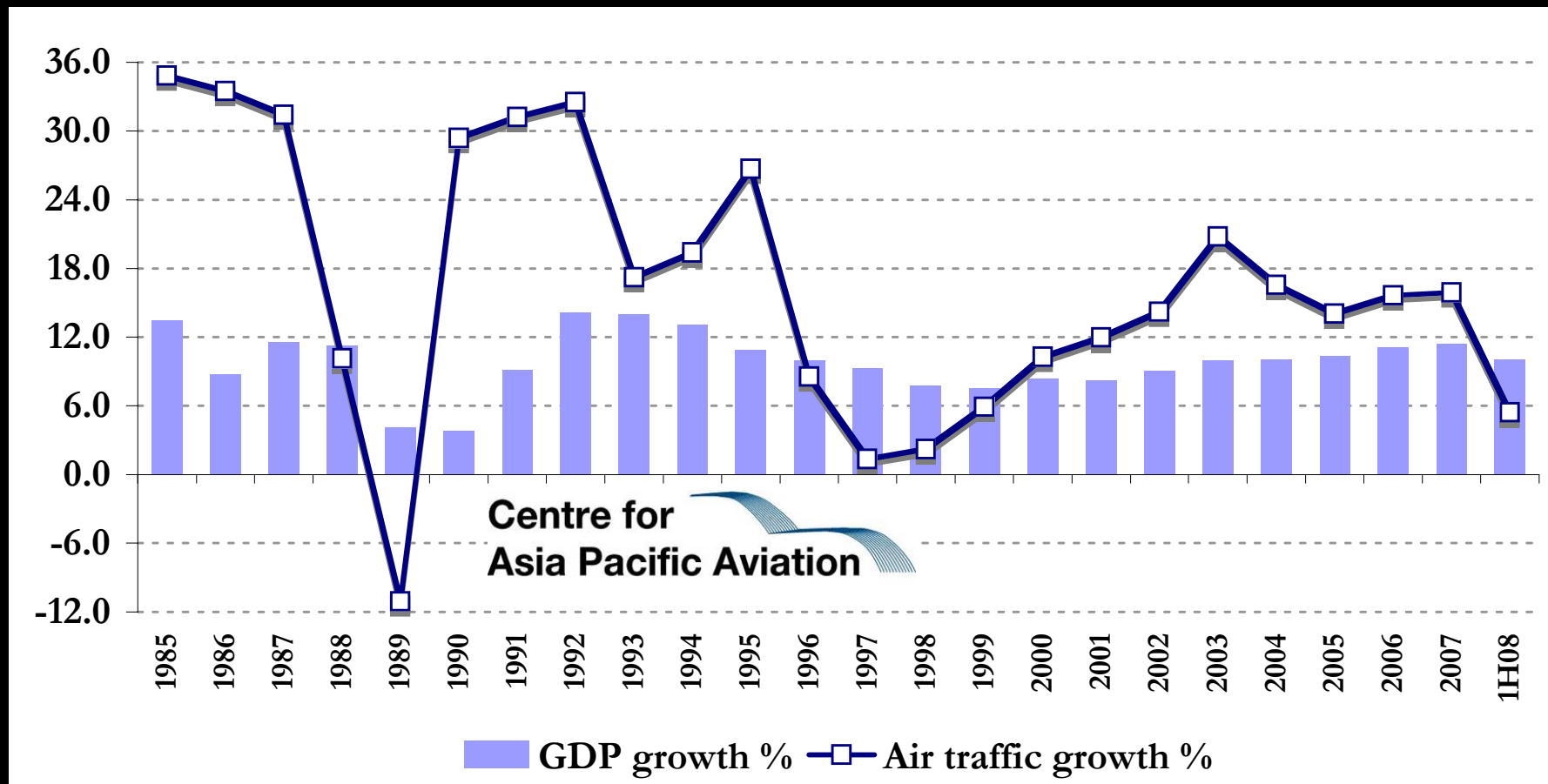


Source: Centre for Asia Pacific Aviation & CAAC

International traffic down by a quarter in Aug-08!

China's aviation industry in recession

China's GDP vs total international and domestic air passenger numbers: % change year-on-year: 1985 to 1H08

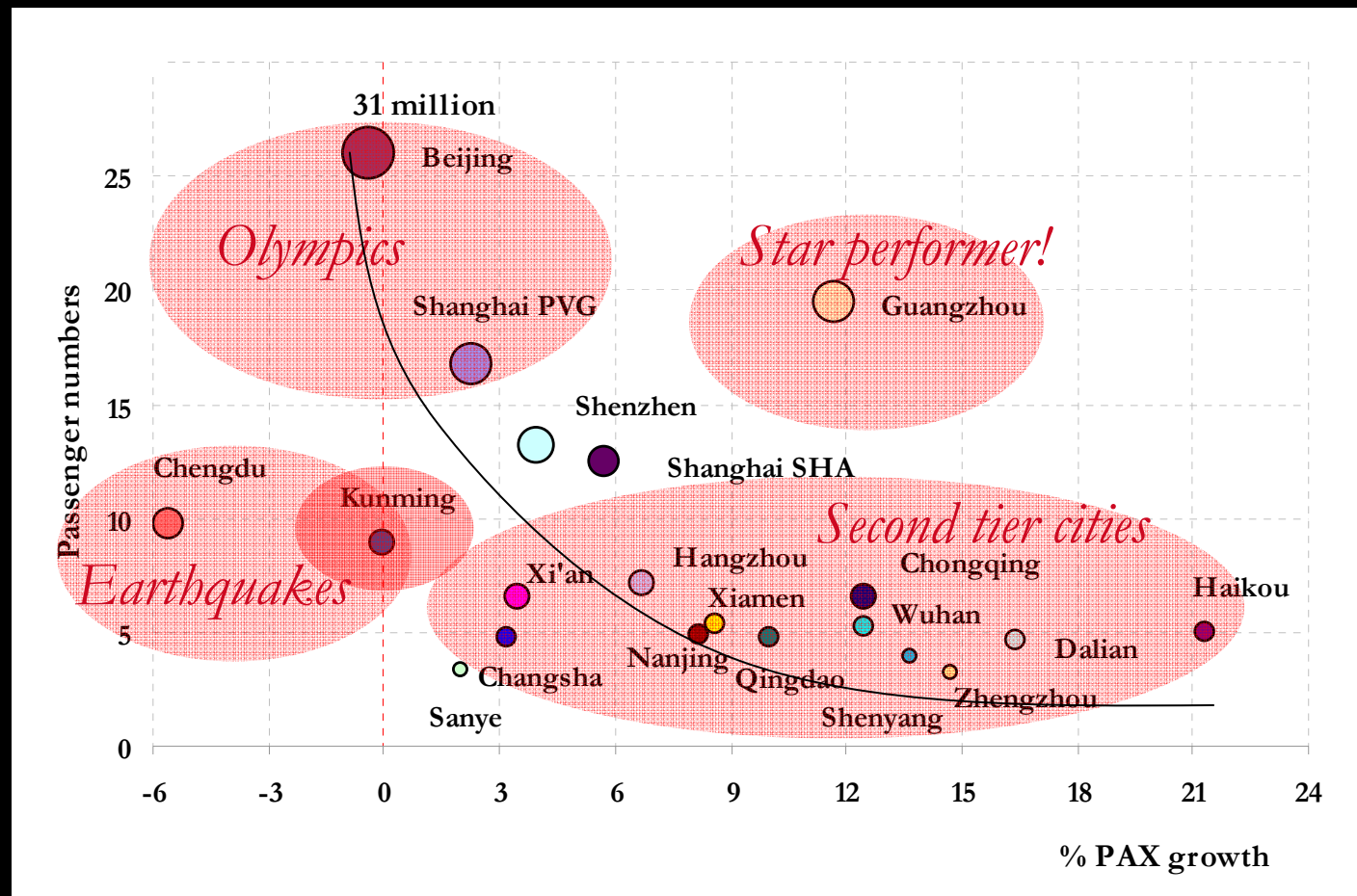


Source: Centre for Asia Pacific Aviation, CAAC & IMF

China: where is the growth?



Top 20 Chinese airports' pax (millions - size of bubble) vs passenger numbers growth: Seven months ended Jul-08

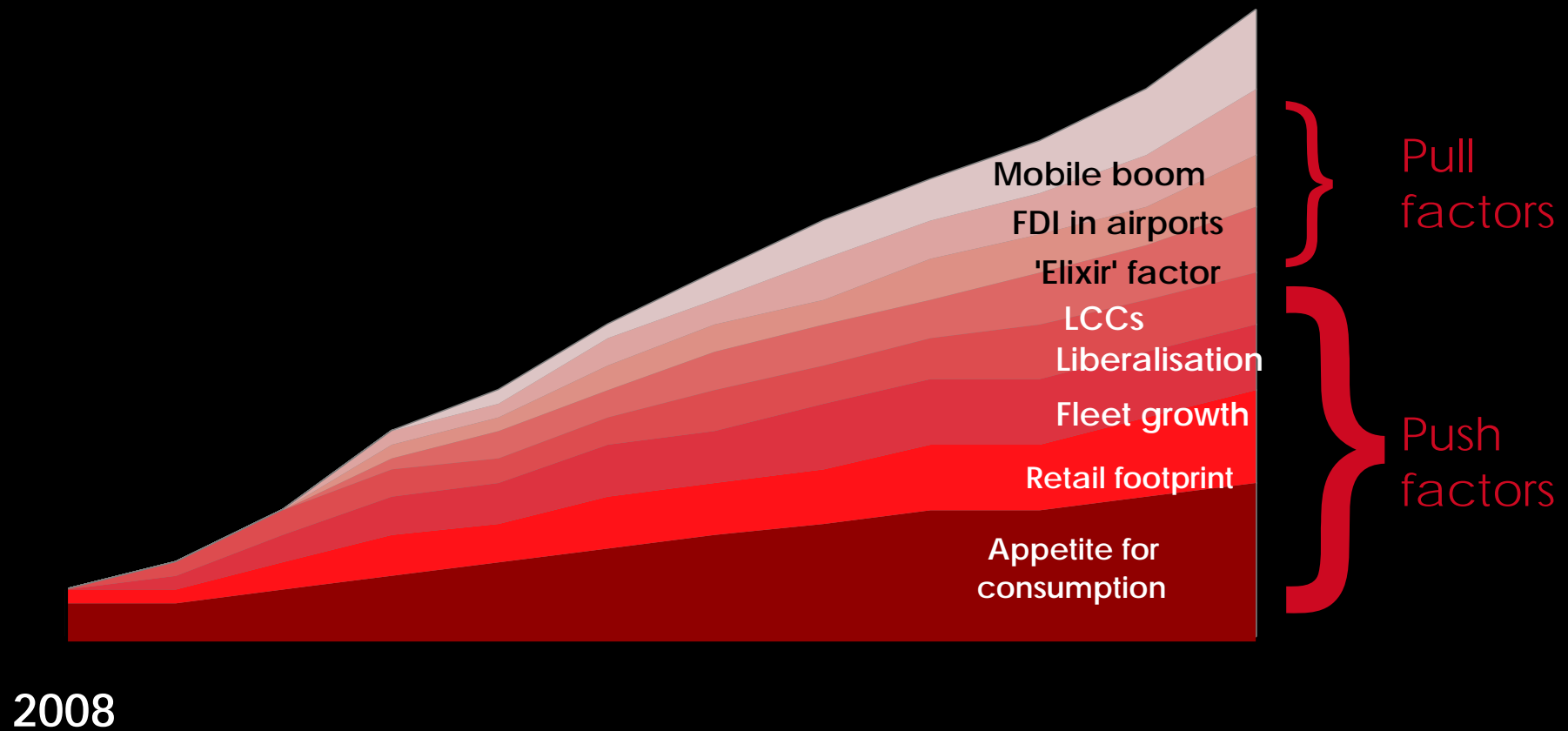


Source: Centre for Asia Pacific Aviation, CAAC & IMF

Airport retailing imperative in China



Strong growth potential, driven by...



Small base in China = big growth



Worldwide airport retail sales are surging



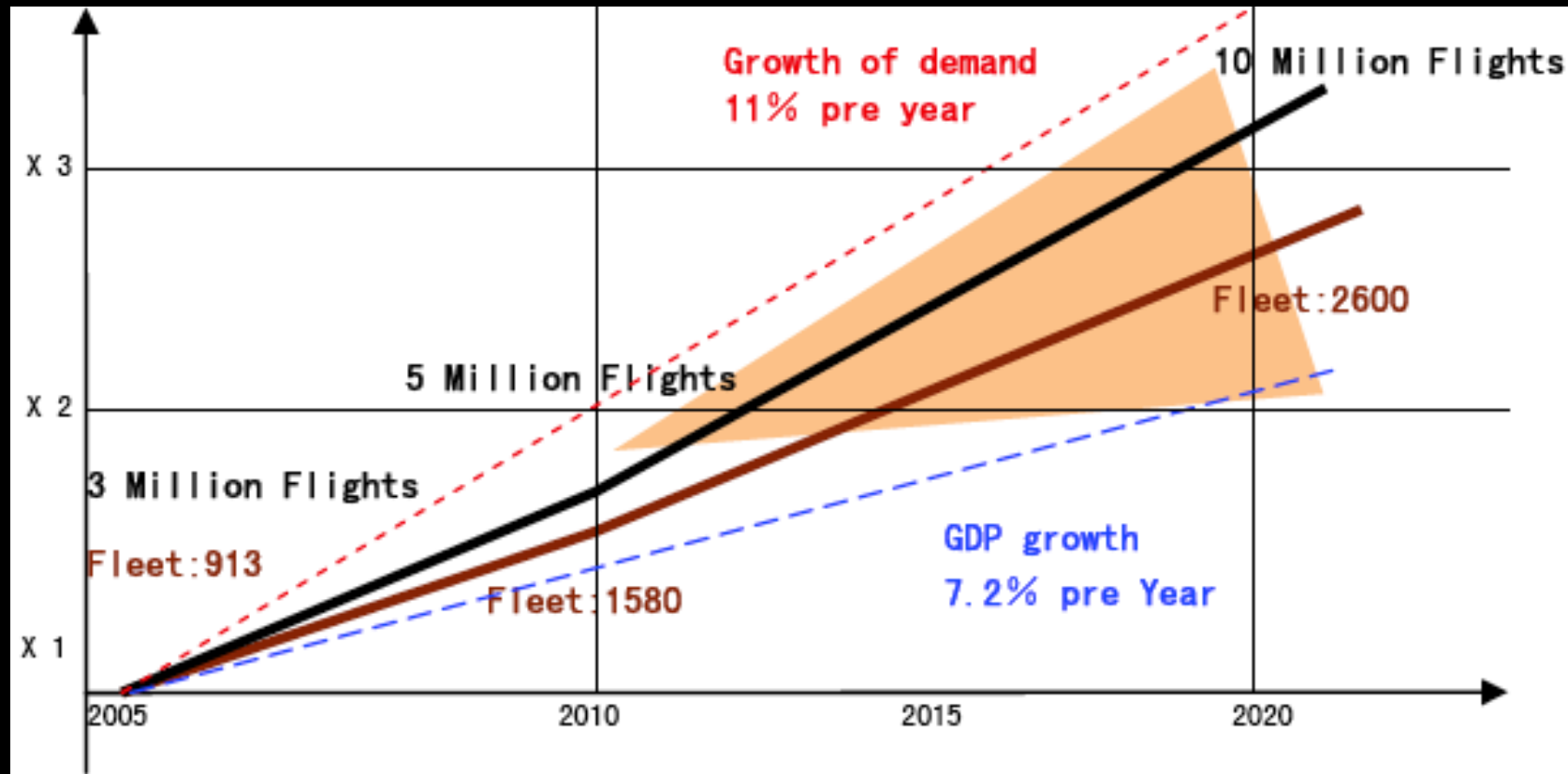
*Data includes duty free and duty paid sales at airports
Source: Centre for Asia Pacific Aviation & Verdict Research

Push factors: Fleets

DROP



Chinese airline fleet to double by 2020



Source: CAAC

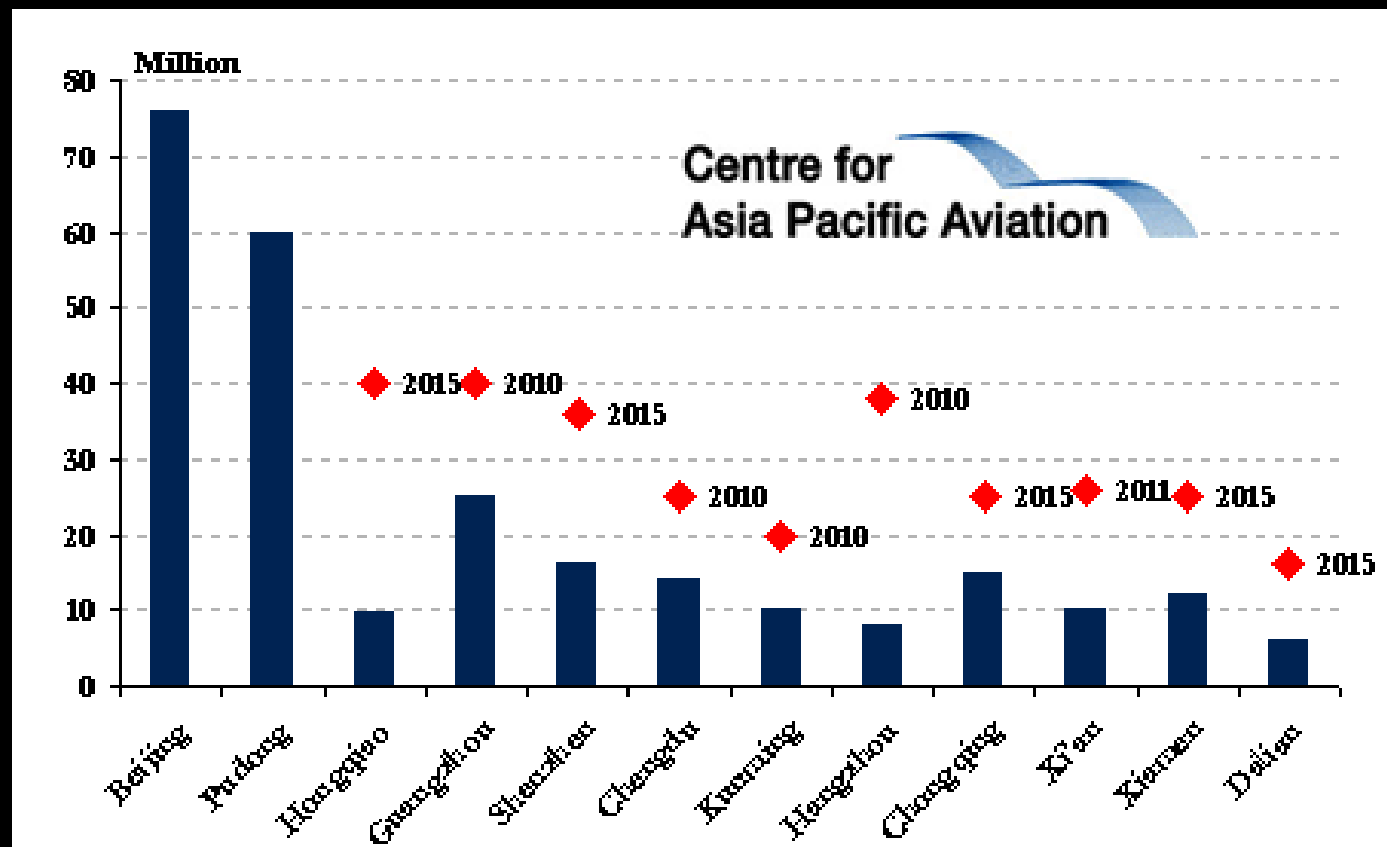
Retail footprint set to soar

New airports being added

- 180 airports by 2010; 250 airports by 2020

- Airports being expanded

Selected Chinese mainland airports current capacity and future capacity

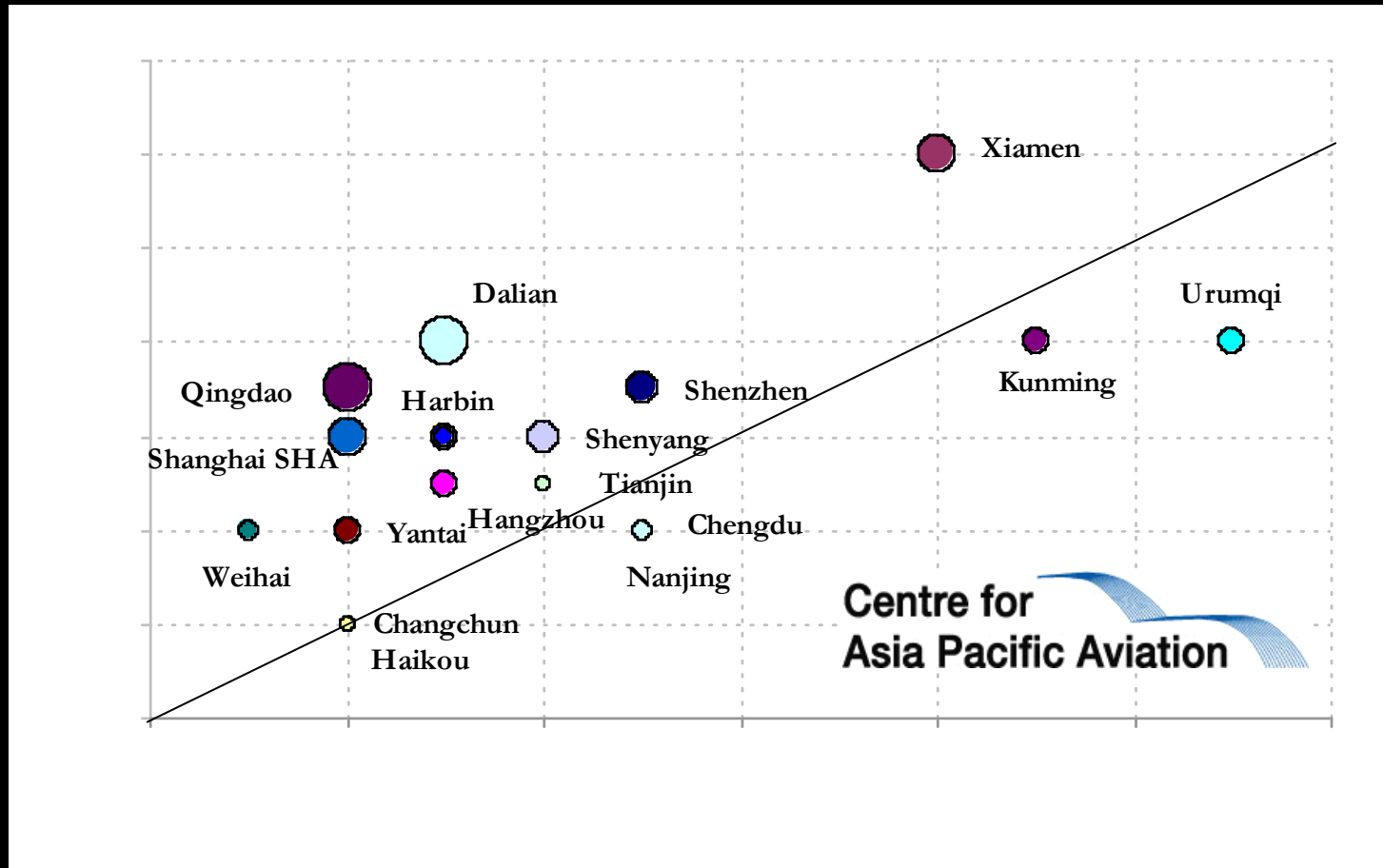


Source: Centre for Asia Pacific Aviation

Push factors: International expansion



Second Tier Chinese airports - Total international scheduled airlines and destinations



Source: Centre for Asia Pacific Aviation & OAG

Pull factors: Retail elixir



QuickTime™ and a TIFF (Uncompressed) decompressor are needed to see this picture.

Beijing Airport's Profit Plunges 90% on New Terminal (Update1)

By Irene Shen

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Beijing Capital International Airport Co:

"We will make full use of the non-aeronautical resources..."

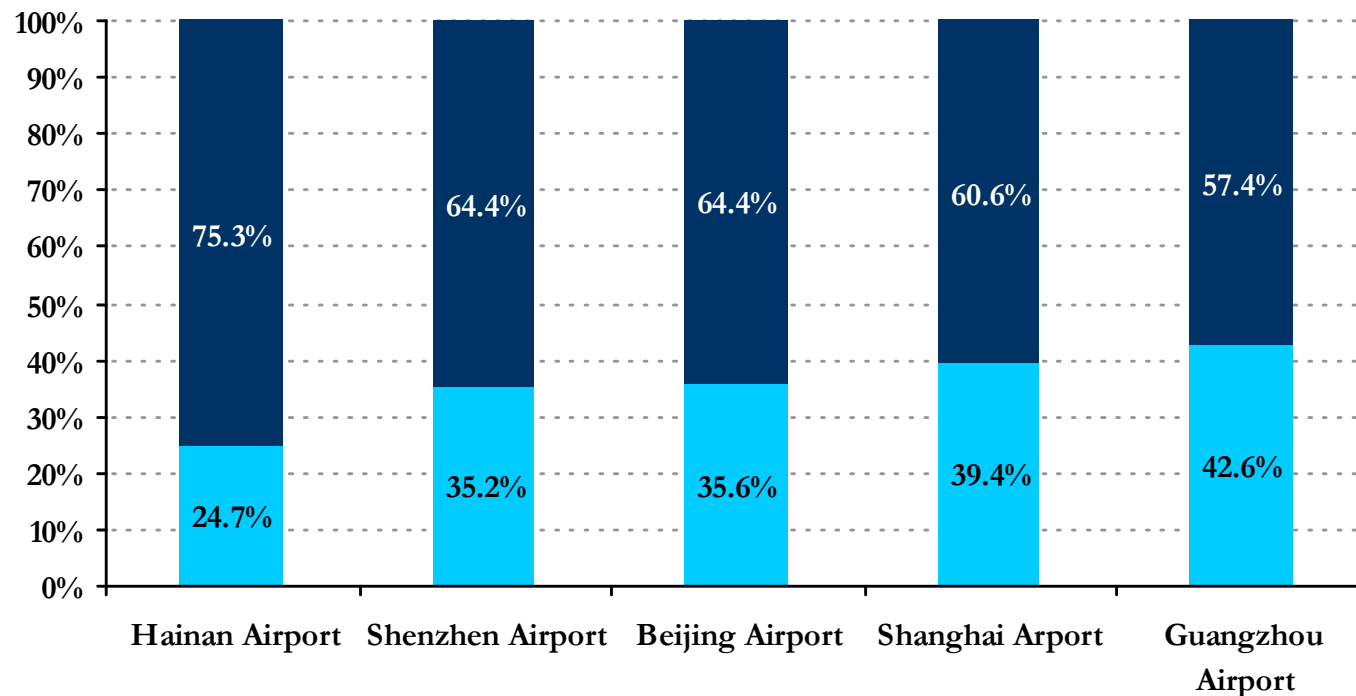
"Optimising the use of commercial resources, introducing more commercial brands and improving the shopping environment"

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Airport financial performance



Chinese airports* aeronautical vs non-aeronautical revenue (% of total): 1H08



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■ non-aeronautical

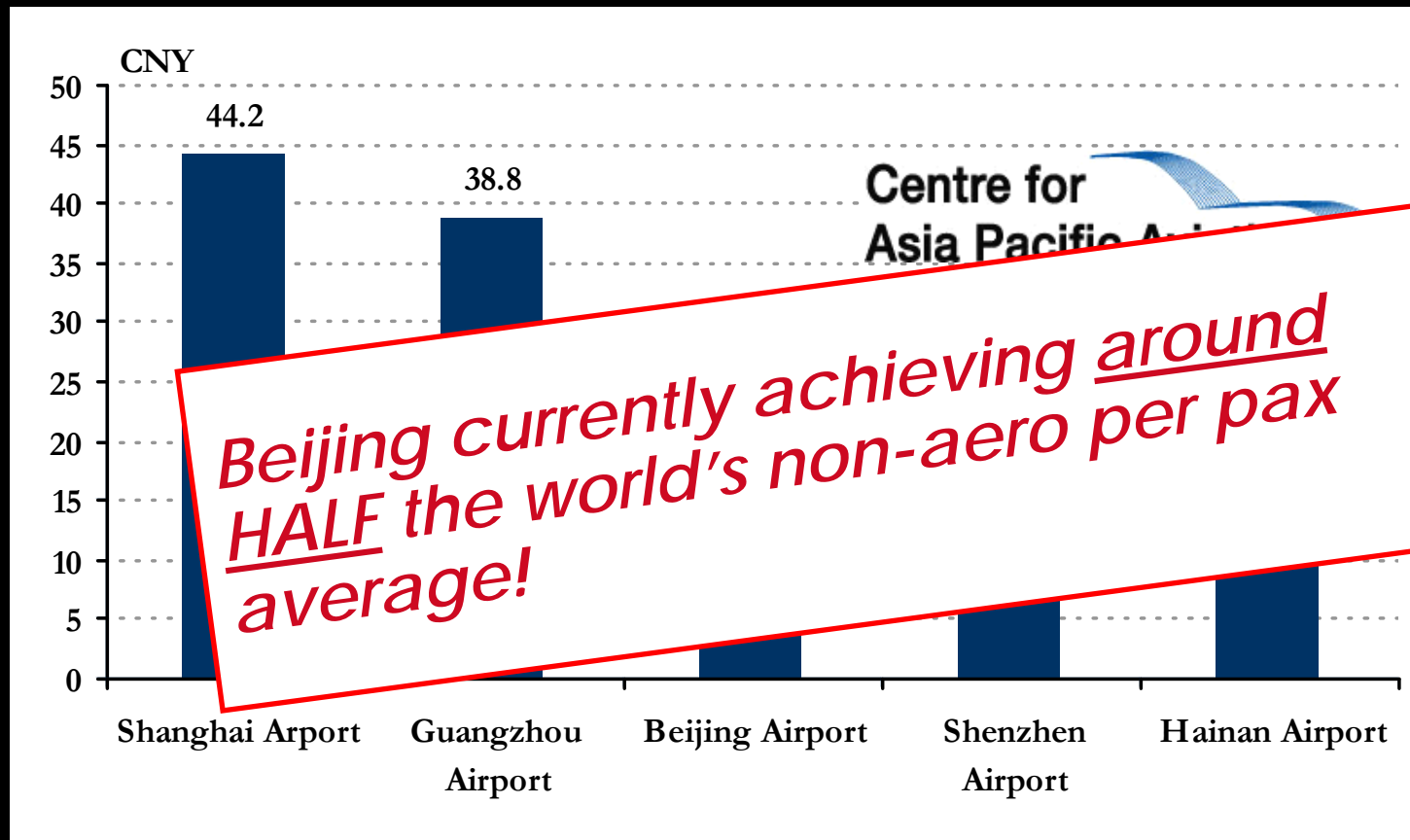
■ aeronautical

* Shanghai, Guangzhou, Shenzhen and Xiamen airport financial reports are based on Chinese accounting standards
Source: Centre for Asia Pacific Aviation & airport reports

Airport financial performance



Chinese airports* non-aeronautical/passenger (CNY):
1H08



* Shanghai, Guangzhou, Shenzhen and Xiamen airport financial reports are based on Chinese accounting standards
Source: Centre for Asia Pacific Aviation & airport reports

Pull factor: Mobile technology



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The Economist print edition, Sep 4th 2008

The meek shall inherit the web

Sep 4th 2008

From *The Economist* print edition

Computing: In future, most new internet users will be in developing countries and will use mobile phones. Expect a wave of innovation in airport retailing

In future, most new internet users will be in developing countries and will use mobile phones

...Expect a wave of innovation in airport retailing



Summary: Main points



- Cutbacks in seats and ports: Bad for smaller, less business-focused destinations
- Increased hub focus
- Middle East airlines/hubs & LCCs to become more influential
- China may revert to more cautious style = slower growth, with emphasis on hubs

Summary: Main points



THANK YOU!

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