connecting the
world of travel

AUSTRALIA

A SERIES OF BLOGS

AUSTRALIA

As the summer heats up Australia, we take a look at some of the hottest topics in the aviation market with a series of short topical stories, including a look at the success of an open skies agreement, the ongoing low-cost long-haul revolution and a trend of following the leader. Using our comprehensive analytics tools, we've looked at how some routes just demand almost wing-tip scheduling, how capacity has flourished in markets and how the historic linkages between economic activity and capacity growth remain true today.

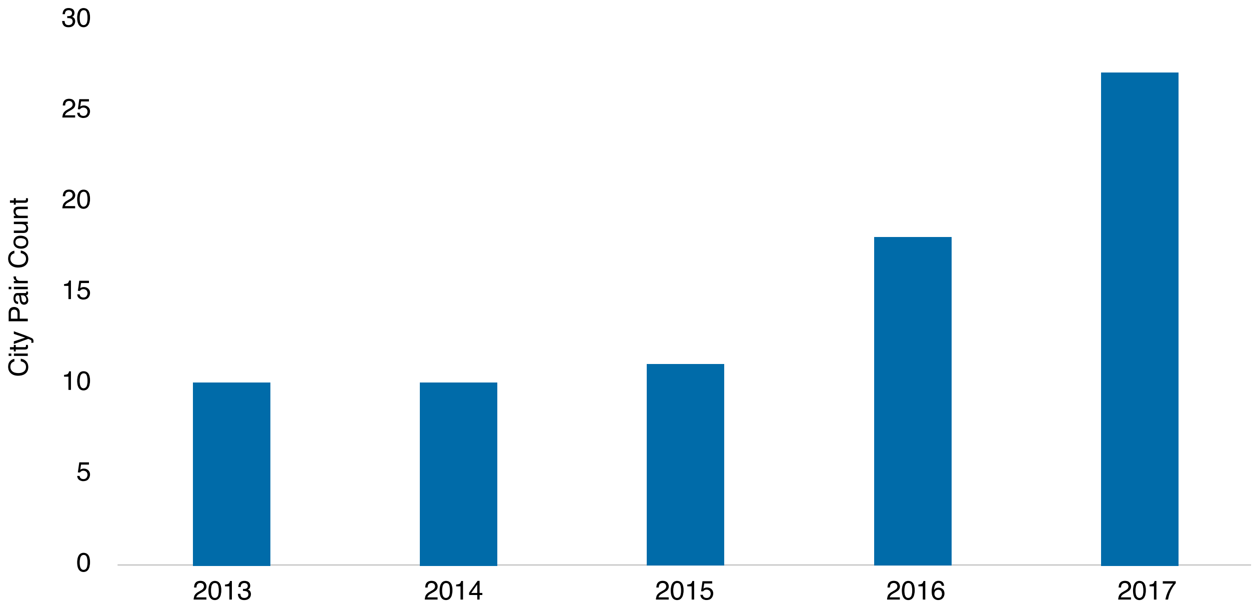
Contents

CHINA–AUSTRALIA
THE SKIES JUST KEEP ON OPENING…

It's quite rare for two countries to completely liberalise their air service agreement and then one of those countries to have no immediate interest in expanding services. But Australia did and has been rewarded handsomely.

The formal announcement of an "open aviation market" between China and Australia in December 2016 formalised a period of growth that saw the number of frequencies increase by over 45% from 2013 to 2016, and capacity grow by an even stronger 50%. In 2017, nine new city pairs have been launched between the two countries as the chart below highlights.

Chart 1 – Number of City Pairs Operated China – Australia 2013- 2017



Source: OAG schedules analyser

We frequently hear about the 'perfect storm' of events conspiring against a situation but in this case, it's the complete opposite - a 'perfect summer'. Three key factors appear to have been all working in perfect harmony; the expansion of international services from Chinese carriers, the increased connectivity of secondary Chinese cities and the continued weakness of the Australian dollar.

As the table below highlights, Australia is the fourth-fastest international growth market for Chinese airlines this year and has consistently been among the top five markets for the last five years. In 2013, four Chinese-based carriers operated to Australia. This year that has doubled to eight scheduled airlines with carriers such as Xiamen Airlines and Hainan Airlines building their presence.

Table 1 – Number of new scheduled services operated by Chinese Airlines year on year.

Country	2014	2015	2016	2017
Viet Nam	-22	736	2,318	3,258
Malaysia	-395	588	1,464	2,032
Cambodia	616	188	152	1,534
Australia	52	429	1,272	1,502
USA	1,305	1,623	2,073	1,313

Source: OAG schedules analyser

During the last five years, the number of originating markets from China has more than doubled from the original six cities as markets such as Chengdu, Xian and Wuhan have been added. There has also been a notable focus on Eastern coastal destinations in Australia. Indeed, Perth on the West Coast has seen no new service despite the rapid increases in activity. Furthermore, on many of these new market pairs, the traffic has predominantly originated from China reflecting the increasing levels of tourism-related travel from China to Australia.

In 2016, 1.2 million Chinese visitors travelled to Australia, an increase of 17% on the previous year, which was itself up by 22% on the year before. In the last two years, visitor numbers have increased by 43%. All of this places China as the second largest source market, after New Zealand; with a significantly above-average spend per traveller, the economic value of these travellers cannot be underestimated.

Part of the attraction in Australia for the Chinese market in recent times has been the strength of the Yuan versus the Australian dollar. At its peak in September 2015, the Yuan had appreciated by 48% in value compared to August 2012; today that currency benefit equates to 27% extra spending power.

Perhaps the most interesting aspect to all of the development over the last five years is that all of the new capacity has been introduced by legacy airlines; there remains no low-cost airline presence in the market. And yet, low-cost long-haul has in many cases been pioneered from Australia. Very soon it is likely that a low-cost airline will enter the market; additional capacity in Beijing will open with the new Daxing Airport, secondary Chinese city development continues to accelerate and supported by very large outbound demand from China, low-cost services are inevitable. At that point, whilst the number of city pairs may not grow as rapidly as in 2017; traffic volumes certainly will continue at the double-digit levels we have seen in recent years.

FOLLOWING THE LEADER: LOS ANGELES–SYDNEY

It is a long way from Los Angeles to Sydney - 6,510 nautical miles to be precise - and around 14 hours depending on which airline you select. Five airlines, Qantas, American, Delta, United operate the route but none publish the same elapsed time for the journey. The five are a mix of legacy and low cost, include all three global alliances, and yet the schedule choice is limited, if indeed there is any!

In scheduling terms, there is clearly a “window of opportunity” for departures from Los Angeles as all five services depart between 22:30 and 23:10 local time, with corresponding arrival times in Sydney between 06:20 and 07:15. Heading northbound the schedules are also similar, departing between 09:30 and 11:15. While this provides efficient utilisation for the US carriers, with turnaround times of between two and three hours, what’s the fascination with departing at such similar times?

Connectivity is clearly the key driver from Los Angeles. Two of the three peak arrival hours at the airport are between 18:00 and 21:00, providing optimal connectivity to the Sydney services. A deeper analysis of the route highlights just how important that connecting traffic is to these services. In the latest 12 months’ data covering June 2016 to May 2017 some 259,000 bookings were connecting to/from Sydney via LAX with New York, Las Vegas and San Francisco the major connecting markets.

As you would expect, connectivity at Sydney is much more restricted with some 82,000 bookings reported for the same period and Melbourne, Adelaide and Perth the three key connecting markets, accounting for nearly 40% of the connecting flows.

Ultimately, the current scheduling may be more a matter of time travel! Late evening departures from Los Angeles offer the classic “red-eye” long-haul flight with an early morning arrival at the destination. Whilst an early morning departure from Sydney provides one of the few opportunities to arrive before you leave and still do a complete days’ work if you wish! And that, in a nutshell, is why everyone follows the leader from LAX to SYD!

WESTERN AUSTRALIA:
A MINEFIELD OF TRENDS AND A GLIMMER OF HOPE

The two largest airports in Western Australia, Perth and Broome, have seen scheduled aviation capacity decline this year. At Perth, capacity is down by 2.1% for the year-to-date, and the same figure for Broome is 2.4%. If the year continues like this, 2017 will see capacity somewhere between what it was in 2012 and 2013. That's a lot of years with effectively no growth and bucks the trend in most major developed countries.

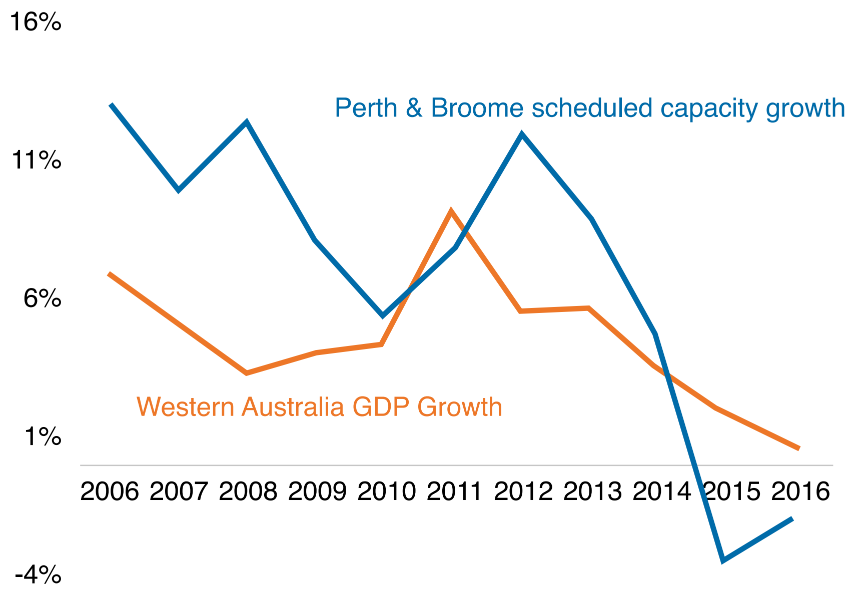
With Qantas planning to operate a headline-grabbing, non-stop, 14,498km Kangaroo route between Perth and London from March 2018, it would be right to ask if the timing is right. But the capacity trend is just one trend among many. Unpicking what those trends are and what they mean for air service development reveals an opportunity.

The primary cause for the stagnant capacity growth is the ailing Western Australia economy. While the State rode the boom that came with mining and mineral extraction investment, capacity grew. Now that the boom has ended, Western Australia's economy has slowed, now lagging other Australian states. No doubt this has affected outbound travel, both for leisure and business, as well as inbound business traffic with an impact on scheduled capacity.

What Perth and Broome face is not new - or impossible. Cities such as Houston, Edmonton and Dubai have all had to find new drivers of growth when the good times associated with oil and gas began to fade. Western Australia already has a tourism industry and so it makes sense that aviation will play a part in growing that.

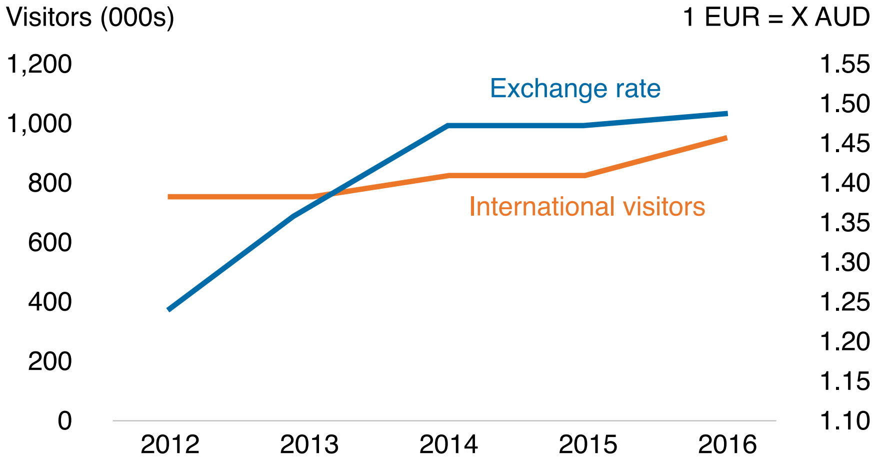
The good news is that international tourism to Western Australia has been growing. According to the International Visitor Survey produced by Tourism Research Australia, international visitors to Western Australia grew by 27.4% between 2012 and 2016. The top four international markets for airline capacity to and from Perth are Singapore, which accounts for a quarter (24%) of all international seats, then

Economic and capacity trends in Western Australia



Source: OAG Schedules Analyser, Government of Western Australia (Department of Jobs, Tourism, Science and Innovation)

International visitors to Western Australia and exchange rate trends



Source: Tourism Research Australia; OFX

Indonesia (21%), Malaysia (16%) and United Arab Emirates (15%). Each of these markets has seen capacity rise over the past 12 months – up 2.4%, 6.1%, 10.5% and 6.5% respectively.

With both Singapore and Dubai major hubs for Europe-to-Australia traffic, it is clear that growth in the market is precisely where the new Qantas service will be targeting.

A daily B787 service, as proposed, will add over 85,000 seats each way in a market where, according to OAG traffic Analyser, 98,136 people travelled via one or more intermediary hub airports from London to Perth in the past year, and as many travelled the other way.

21% of journeys were via Singapore, while 57% flew via one of the big three Middle East hub airports of Dubai, Abu Dhabi or Doha.

With the end of the mining boom, the Australian dollar has fallen from its high point and the money that European tourists have to spend is going that much further in Australia. It looks like maybe Qantas have its timing right after all.

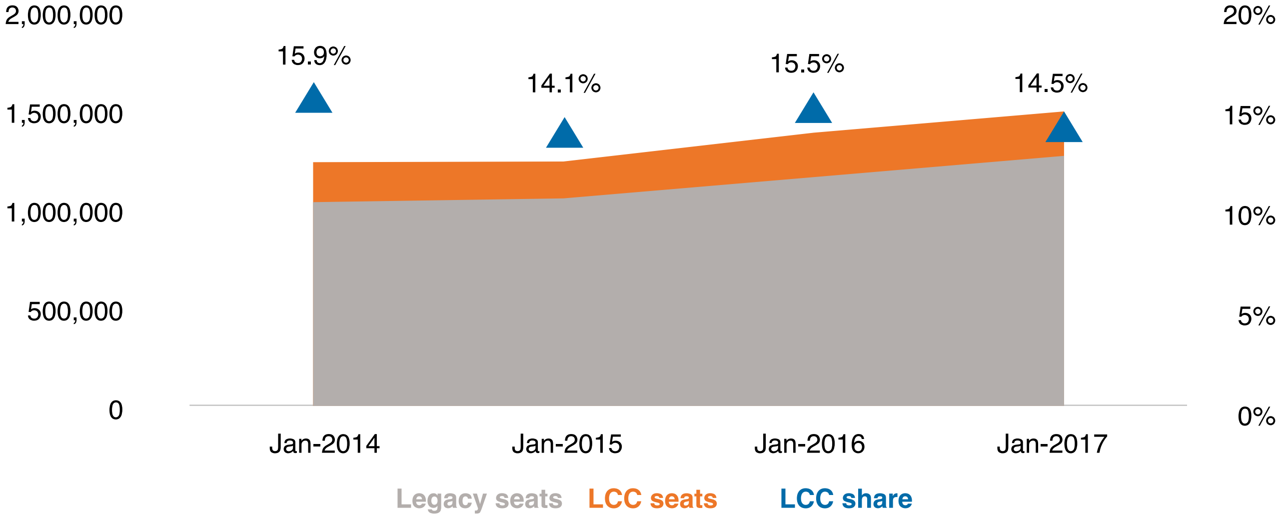
Source: OAG traffic analyser

AUSSIE LONG-HAUL: LOW-COST AND LESSONS FOR NORTH ATLANTIC

While legacy airline competitors are keeping an eye on how Norwegian Airlines fares with its long-haul low-cost flights on the Atlantic, long-haul low-cost options have been a regular feature of Australian international air services for some years. Are there lessons to be learned, and can we use the experience with Australia to predict the likely low-cost market share in long-haul markets?

In September 2017, there were 1.5 million international airline seats available to and from Australia on routes over 4,000km. Of these, 14.5% were with low-cost airlines. While the long-haul market from Australia has grown by 21% between September 2014 and September 2017, the low-cost share has remained fairly static – 15.9% in September 2014, 14.1% in September 2015 and 15.5% a year ago. This is much lower than the typical low-cost share in short-haul and regional markets.

Long-haul low-cost growth and market to/from Australia

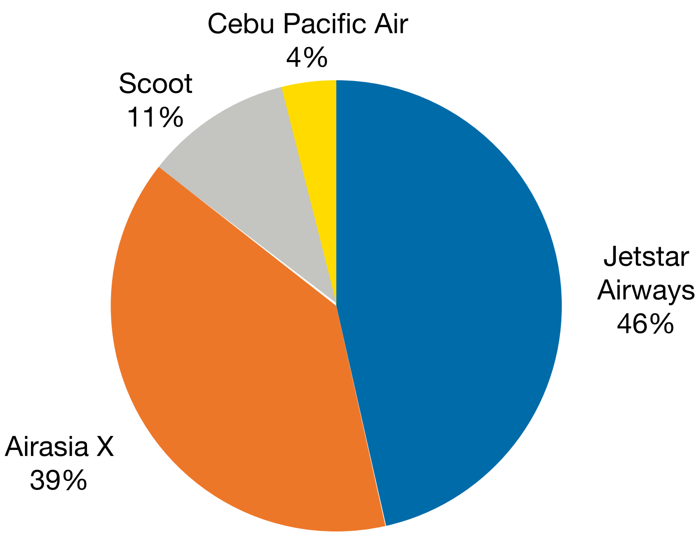


Through this period, two low-cost carriers have dominated
the market, Australia-based Jetstar Airways with 47% of long-haul low-cost capacity, and Kuala Lumpur-based AirAsia X with 39%. Scoot operates a further 11% of capacity and Cebu Pacific the final 4%. While Jetstar has gradually added to its capacity, the other carriers have seen capacity grow and shrink in different years.

How does this compare to the evolution of low-cost airline capacity share more generally?

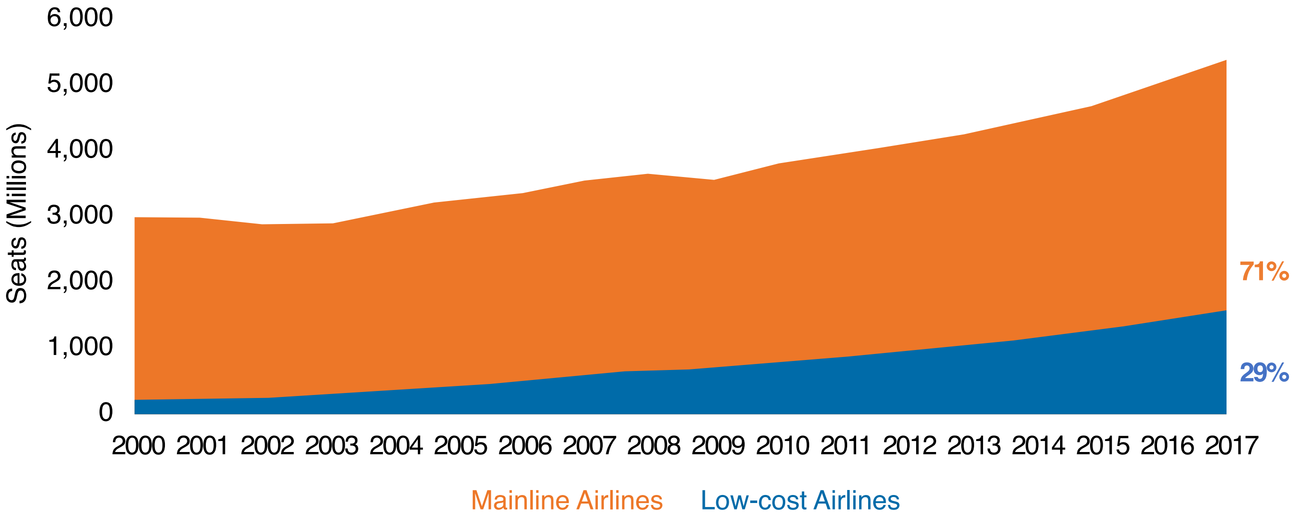
Low-cost airline capacity has been growing for decades, not just in absolute terms but also as a share of the total market. Back in 2000, low-cost carriers operated just 6% of airline seats. This had doubled to 12% by 2005 and was 20% by 2010.

Long-haul low-cost capacity to/from Australia



Source: OAG schedules analyser

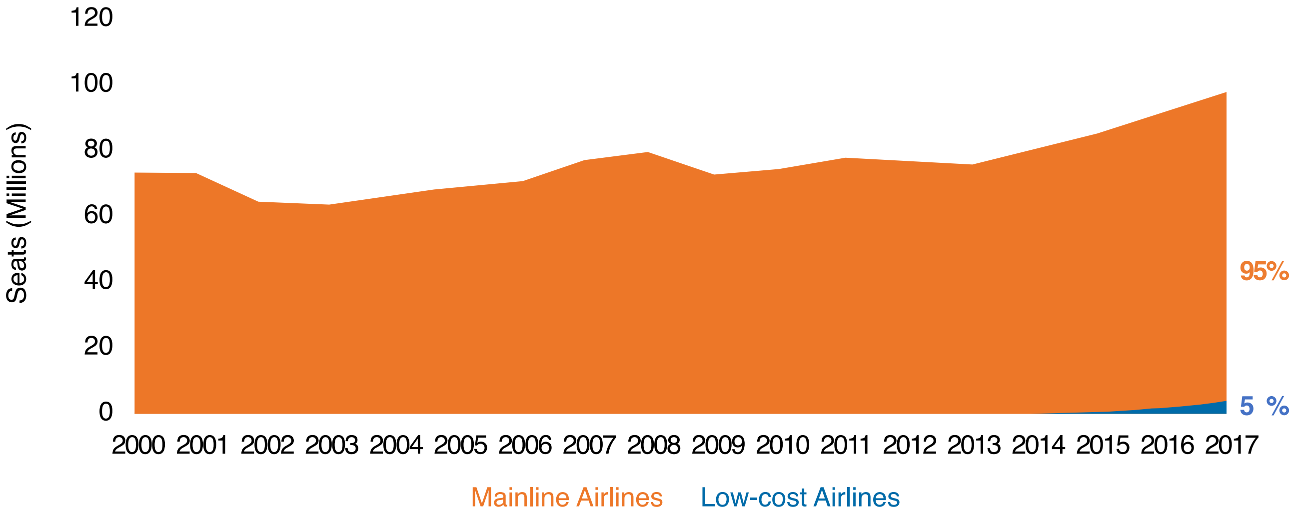
Evolution of Low-cost Capcity Share



Today low-cost carriers make up 29% of scheduled airline capacity globally and the share appears to still be rising.

On transatlantic routes, where long-haul low-cost airlines are a more recent phenomena, low-cost capacity only makes up 5% of capacity.

Low-cost capcity share on Transatlantic



Is the lesson from the established long-haul low-cost Australian market that expectations should be set at a maximum share of around 15% of the market for low-cost capacity? Maybe. Maybe not. Norwegian's competitors on the North Atlantic will be watching and waiting.

OAG®

connecting the
world of travel

Let us advise you

For more information, visit **www.oag.com**
or email us on **contactus@oag.com**

oag.com

oag.cn

oag.com/jp