

The evolution of low-cost carriers' market share: January-June 2004

Summary:

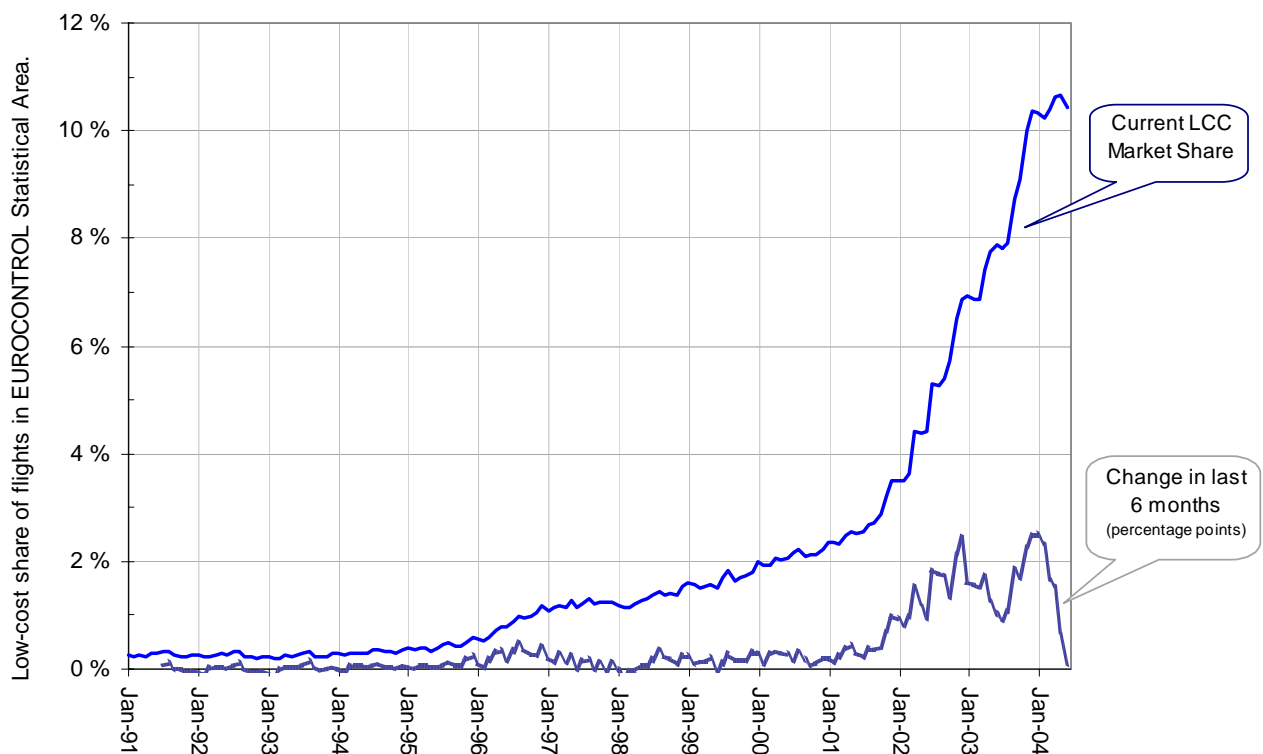
Low-cost flights now account for about 10.5% of all flights in the EUROCONTROL Statistical Reference Area (ESRA), having grown by 39% in 12 months and been responsible for two-thirds of flight growth.

As growth has returned in other sectors of the industry, the pace of low-cost growth has slackened, leaving low-cost market share little changed in the last 6 months. This is true for the whole region and also generally for individual countries: only 3 countries have seen LCC market share grow by more than 2% in the last 6 months.

Evidence from the US experience of LCCs provides some support to the idea that LCC market share will start to rise again when the current strong growth in total European traffic returns to more normal, lower levels.

There is no single best definition of a low-cost flight – and the boundary between low-cost and others is increasingly blurred. By other definitions, slightly different results will be obtained.

Figure 1. Low-cost carriers as a group are now growing at the same rate as the rest of the market.



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Earlier years are estimated from data for a smaller geographical region.

1. INTRODUCTION

This short note shows the recent evolution of the low-cost market in Europe in terms of numbers of flights. It replaces STATFOR Document 43, last published in October 2003.

The period covered is the first 6 months of 2004 compared with its 2003 equivalent and the present document also outlines a longer term trend (from January 1991).

2. METHOD

The method used is similar to that in previous low-cost carrier (LCC) reports: monthly flight-by-flight data from the EUROCONTROL/Central Route Charges Offices are the main source, so the numbers of flights are based on chargeable (IFR and VFR) flights, and the 'states' referred to correspond to charging areas. Flights counted are domestics, international arrivals and departures, and overflights.

The distinction between "low-cost", "traditional" and "charter" airlines is not clear cut and this report does not debate what make an airline "low-cost" or not. The main test used has been "does the operator portray itself as low cost?". We have distinguished between low-cost and other products from a single carrier, but it is impractical to include cases such as Snowflake selling seats on regular SAS flights.

This test yielded 47 active carriers for which at least some of the flights were low cost. These are listed in the companion document (STATFOR Doc80 v2). Some of these carriers have started operations very recently, so contribute little to the totals reported here. Twelve other carriers have ceased independent operations, but continue to be included so as to avoid over-estimating recent growth. A further three carriers have been identified for possible inclusion in the future but do not contribute to the statistics reported here.

STATFOR does not aim to study individual airlines, so only totals are reported.

In June 2004, the airlines in the recently-formed European Low-Fare Airlines Association (ELFAA) accounted for about 43% of the low-cost flights reported here.

The total number of flights by the 59 airlines was counted and compared to total traffic for the EUROCONTROL Statistical Reference Area (ESRA)¹. To explore the regional variation in growth, the flights by these airlines in² each state or region were also counted and compared to the total traffic in each country. These totals, including here VFR chargeable flights, may slightly differ from those reported in the 'DAIO'³ tables of the monthly statistics (see <http://www.eurocontrol.int/statfor/>).

3. MARKET SHARE IN EUROPE

Figure 1 on the front page shows the evolution of LCCs' market share since 1991 for the ESRA. The current market share is shown as a solid line, the change in market share (in percentage points of difference) in the last 6 months is shown as a dotted line.

Comparing the first half of 2004 with the same period in 2003, the progress of the LCCs is very strong. See Figure 2. Although they grew at only half the rate of a year earlier the LCCs still grew by 39% on average (versus 75% a year ago, see STATFOR Document 43) and were responsible for two thirds of all growth in the ESRA.

¹ ESRA includes CRCO 88 plus: Greece, Turkey, Malta, Cyprus, Hungary, Norway, Denmark, Czech Republic, Slovenia, Slovakia, Sweden, Italy, Romania, Croatia, Bulgaria, FYROM, Moldova, Finland.
That area as a whole is used for comparative purposes between years 2002 and 2003.

² A flight is counted as intersecting a state if its chargeable distance is greater than 0 for that state, or if the arrival or departure point is in that state.

³ DAIO = 'Departures, Arrivals, Internals and Overflights'.

Figure 2. Growth of Low-Cost Carriers in 12 months in the ESRA.

	Flights (Thousands)		Total	LCC Market Share
	LCC	Other		
Jan-Jun 2003	312	3,661	3,973	7.9%
Jan-Jun 2004	434	3,721	4,155	10.5%
Flights Added	122 (+39%)	60 (+1.6%)	182 (+4.6%)	

Not all of these new LCC flights are new flights. Other studies by STATFOR suggest that in 2003 around 30% of low-cost growth was due to 're-labelling' of existing flights or replacement flights by other carriers. (STATFOR Document 65)

As Figure 1 suggests, however, the rate of growth of the LCCs has slowed in recent months. Figure 3 shows that market share in June 2004 was the same as in December 2003, ie that both market segments were growing at the same rate.

Figure 3. Growth of Low-Cost Carriers in 6 months in the ESRA.

	Flights (Thousands)		Total	LCC Market Share
	LCC	Other		
Dec 2003	64	550	613	10.4%
Jun 2004	81	694	775	10.4%

4. NATIONAL MARKET SHARES

Figure 4 gives the market share by country (for those countries that are available in this particular data source), both in terms of total flights in the airspace, and excluding overflights (so just showing locally-generated traffic). These are illustrated in maps in Figure 5 and Figure 6, respectively. Overall, LCCs continue to have the largest market share in the North and West and of these countries it is noticeable that France has significantly more low-cost overflights than locally-generated flights.

The changes in market share are illustrated in Figure 7. In terms of all flights, the smallest growths were all in countries with small market shares anyway. The biggest changes were:

- Ireland: +5.7% (percentage points) after a long period with about 10% market share. This is largely due to the fact that Aer Arann is now classified as a LCC for the purposes of these statistics.
- Spain & Italy (+4.1% and +4.5%). These countries remain popular as low-cost destinations, and have a growing population of low-cost carriers themselves.
- Switzerland (+4%) in part because growth was strong relative to weak growth by other carriers.

Excluding overflights, the noticeable differences from this are:

- Belgium/Luxembourg (-1%), a fall in market share following reductions in flights by several LCCs.
- Slovakia (+11%) strong growth of LCCs in a small market (less than 80 flights/day).
- Ireland (+12%). This is due to the fact that Aer Arann is now classified as a LCC.

In fact, much of the growth in market share of the last 12 months was in 2003. As growth has returned more generally in the Industry, only in part because of the bounce-back from Iraq, LCCs have continued to grow, but at a rate similar to other carriers. This is illustrated in Figure 8, which shows the change in market share just in the last 6 months (June 2004 v December 2003)⁴. The most common category is countries where LCCs have added less than 1% in market share. Only 3 countries (Spain, Slovenia and FYROM) have added more than 2% market share in the last months.

Following accession to the EU, the Baltic States and Poland have been growing very quickly. Unfortunately they are not included in the data source used for the present study.

⁴ It is possible that market share growth is lower in the Summer than Winter, so this half-year comparison is subject to seasonality effects independent of LCC growth (see Figure 1). However, the effect this year is very strong, so cannot reasonably *all* be attributed to seasonality in non-LCC traffic.

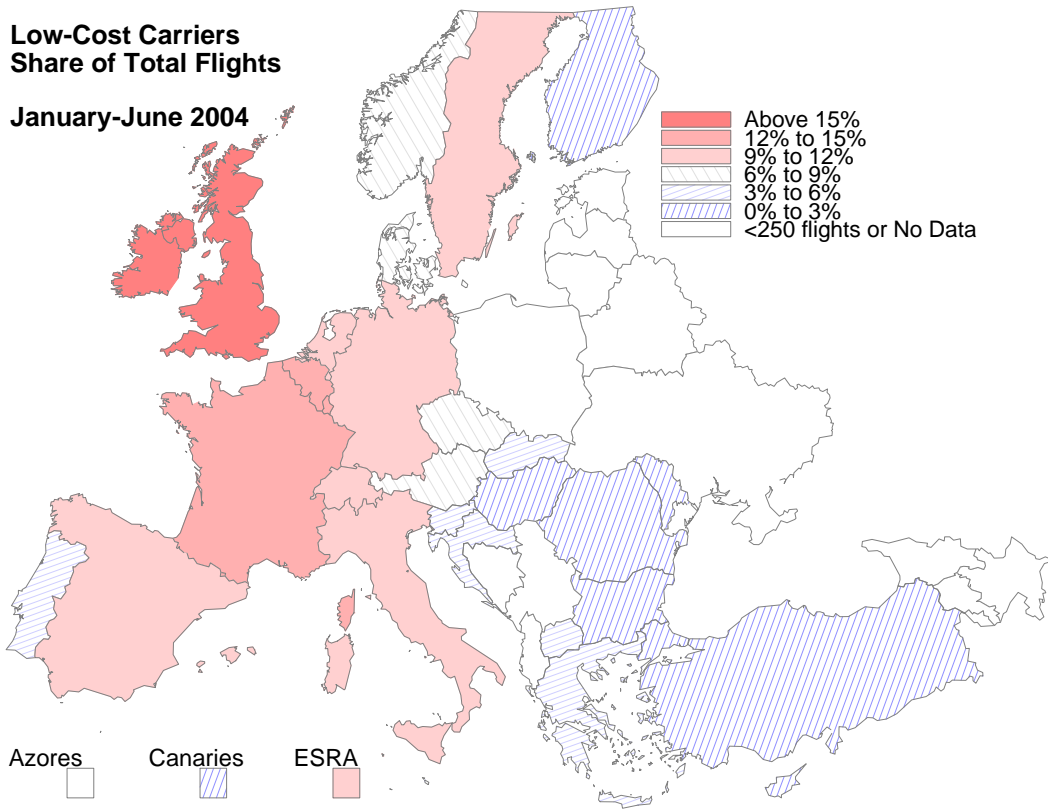
Figure 4. LCC market share by country or region.

	LCC Market Share: All Flights			LCC Market Share: Excluding Overflights		
	2003H1	2004H1	Change	2003H1	2004H1	Change
Austria	5%	9%	3.3%	3%	7%	3.8%
Belgium/Luxembourg	11%	13%	1.1%	10%	10%	-1.0%
Bulgaria	1%	1%	0.6%		(< 250 flights)	
Canary Islands	1%	1%	0.7%	1%	1%	0.8%
Croatia	1%	4%	2.6%	1%	1%	0.7%
Cyprus	0%	0%	0.2%		(< 250 flights)	
Czech Republic	6%	8%	2.7%	5%	11%	5.2%
Denmark	6%	9%	3.0%	5%	7%	2.2%
ESRA	8%	10%	2.6%	8%	11%	2.6%
Finland	1%	3%	1.5%	0%	1%	1.1%
France	9%	12%	3.3%	5%	7%	1.9%
FYROM	0%	4%	3.7%		(< 250 flights)	
Germany	8%	10%	2.7%	7%	10%	2.7%
Greece	1%	3%	2.0%	2%	4%	2.6%
Hungary	1%	2%	1.3%	1%	3%	2.6%
Ireland	13%	18%	5.7%	26%	38%	11.7%
Italy	7%	11%	4.5%	7%	12%	4.6%
Lisbon FIR ⁵	3%	5%	2.7%	4%	8%	3.8%
Malta	0%	1%	1.2%	0%	2%	2.1%
Moldova	0%	0%	0.2%		(< 250 flights)	
Netherlands	10%	12%	1.6%	8%	10%	2.1%
Norway	6%	8%	2.0%	6%	8%	1.9%
Romania	1%	1%	0.6%	0%	1%	1.3%
Slovakia	3%	6%	2.7%	22%	34%	11.1%
Slovenia	1%	4%	2.8%		(< 250 flights)	
Spain ⁶	7%	11%	4.1%	9%	13%	4.3%
Sweden	7%	11%	3.9%	9%	14%	5.2%
Switzerland	8%	12%	4.0%	7%	10%	3.5%
Turkey	0%	1%	0.2%	0%	1%	0.3%
United Kingdom	20%	22%	2.8%	22%	25%	3.2%

⁵ Portugal with Madeira but without Azores.

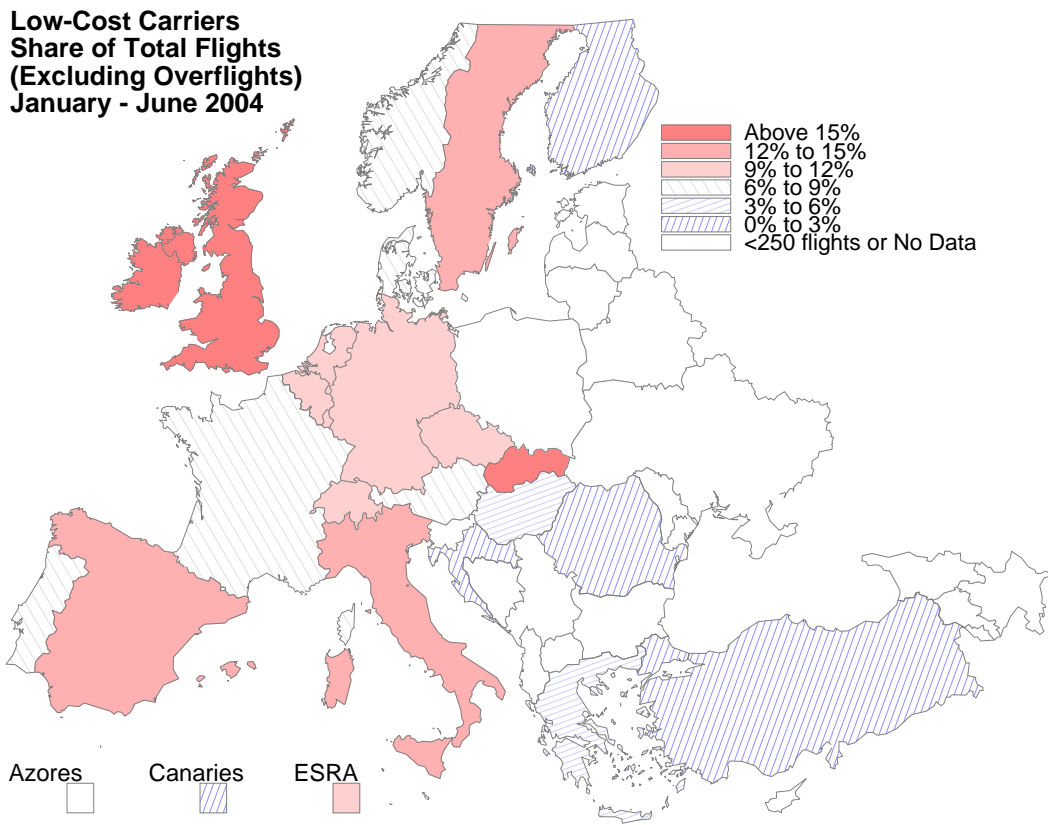
⁶ Spain with Palma but without Canary Islands.

Figure 5. Low-cost carriers, market share 1-6/2004.



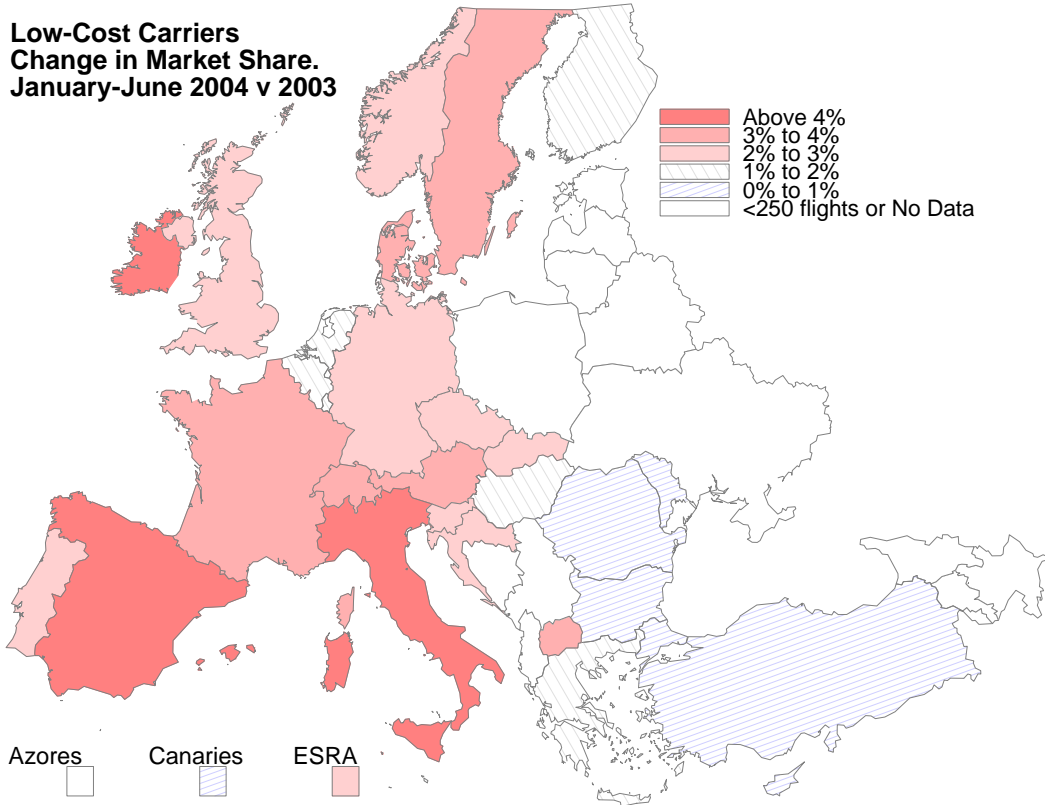
Source: EUROCONTROL/STATFOR Monthly Statistics. © EUROCONTROL 2004

Figure 6. Low-cost carriers, market share 1- 6/2004 excluding overflights.



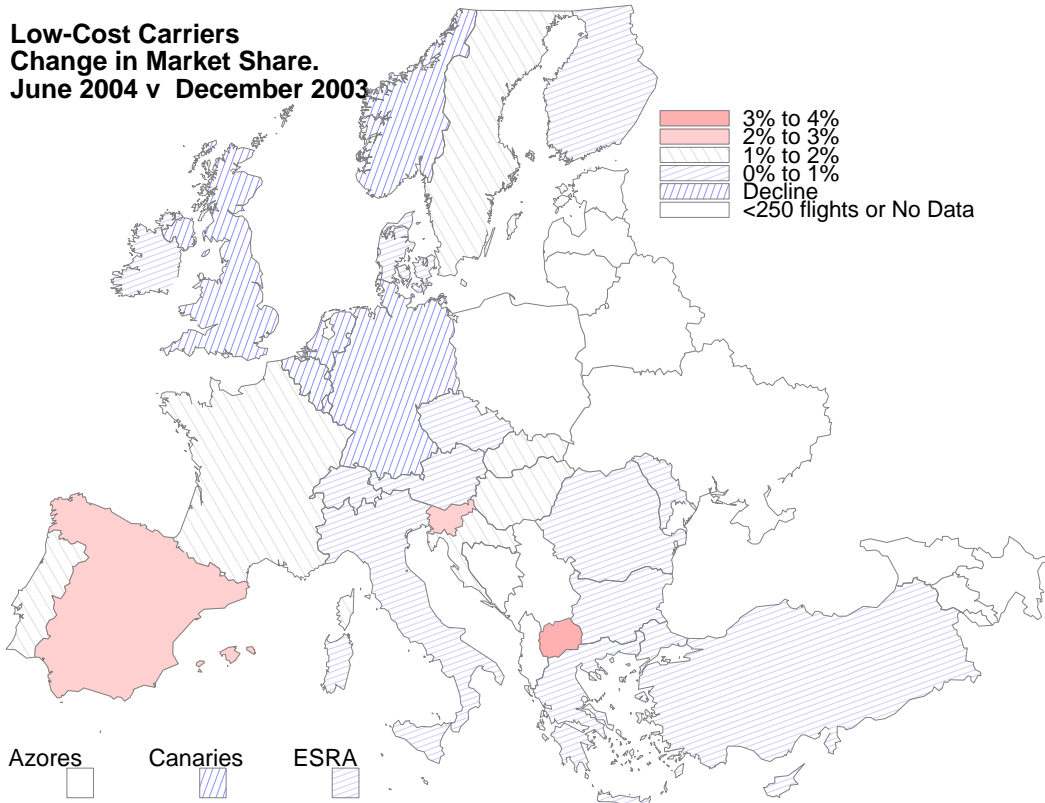
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Figure 7. Low-cost carriers, change in market share 1-6/2004 v 1-6/2003. (Percentage points.)



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Figure 8. Low-cost carriers, change in market share 6/2004 v 12/2003. (Percentage points.)



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5. EVIDENCE FROM THE NORTH AMERICAN MARKET

The question following what has been seen in Europe in recent months is “Has LCC market share peaked?”. Evidence presented in this section from the US gives some support to the idea that European LCC market share is likely to start climbing again when the current overall strong growth in Europe slackens again.

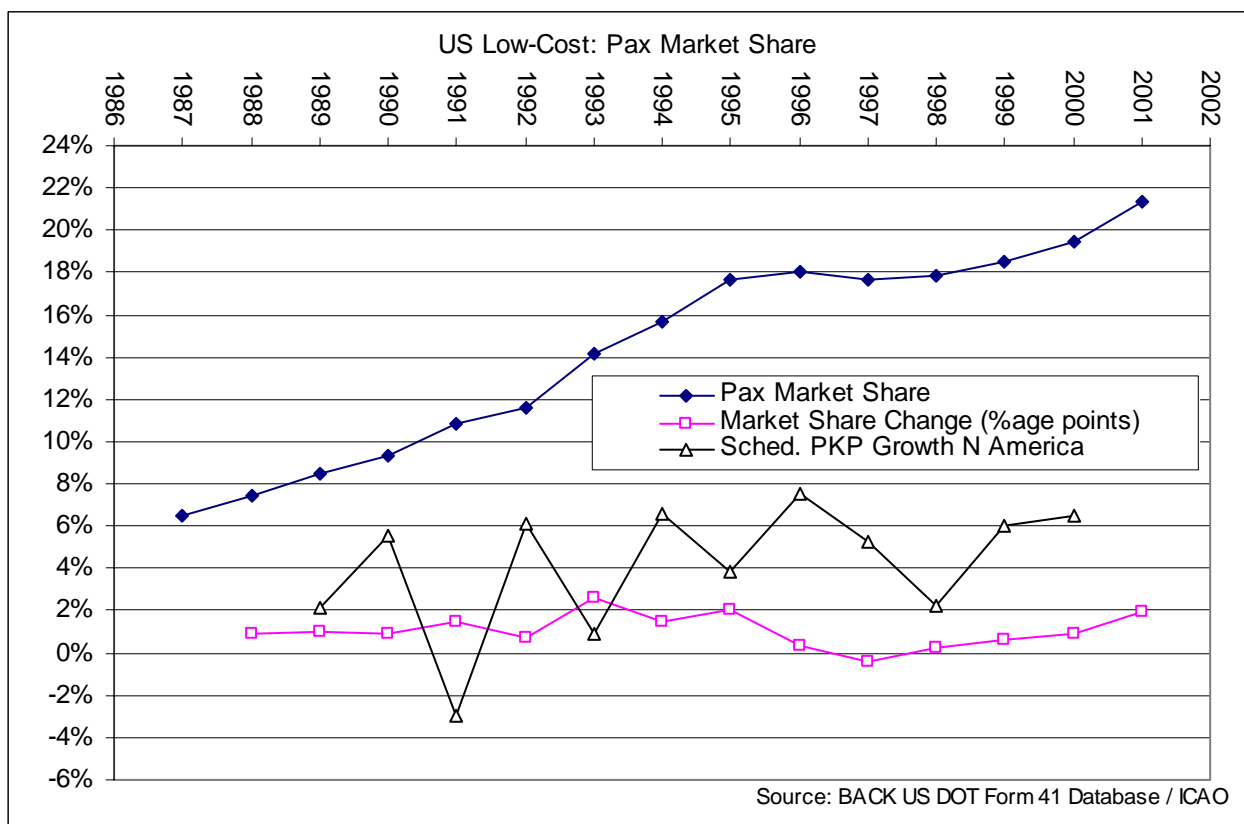
STATFOR used evidence from the US experience of LCC growth to support its medium-term forecasts of growth. Figure 9 illustrates how LCCs in the US have gained a little under 1% market share per year, on average. (These statistics are in terms of passengers, not flights.) Since Europe is starting from a less-mature and more regulated baseline, the expectation was that average annual growth over the medium term is likely to be higher in Europe.

Figure 9 also includes data on growth of passenger-kilometres performed (PKP) by scheduled airlines in North America (domestic and international). This is presented to give some indication of overall growth at the time. There is some indication of an inverse correlation between overall growth and LCC growth:

- in 1991, 1993, 1995, when overall growth declined, LCC market share increased more rapidly;
- in 1996-1997 two years of strong overall growth led to a slowing, or even decline in LCC market share.

This relationship makes sense in that the LCC segment is a “new product” which has yet to reach its full market penetration. Although its growth will slow down, it is less affected by external fluctuations (eg in the size of the economy) than are longer-established carriers. The contrast of the regular growth of LCCs and the fluctuating growth of other carriers automatically produces periods of slower and faster market share growth.

Figure 9. Evidence on LCC Growth in US.



6. CONCLUSIONS - WAY AHEAD

Although the distinction between low-cost carriers and others is becoming increasingly blurred, this note has shown the important contribution to growth that the low-cost carriers have made in the last year.

Spain and Italy stand out with strong LCC growth in the last year.

Since the beginning of 2004, the market share of LCCs has remained roughly constant. There is evidence to support the idea that LCC market share growth will pick up again when current strong growth in all traffic slips back to more usual levels.

STATFOR will continue to monitor this situation.