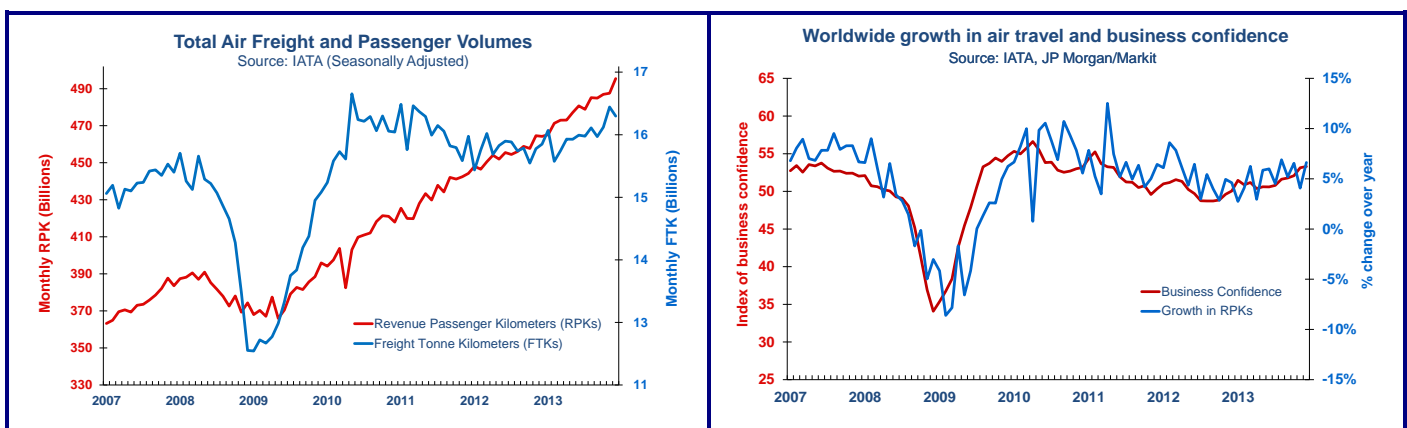


# AIR PASSENGER MARKET ANALYSIS

## DECEMBER 2013

### KEY POINTS

- Air travel markets expanded at the average growth rate for the past 30 years in 2013, gaining 5.2% compared to 2012, despite high fuel costs and relatively slow global economic growth. Growth in air travel was driven by solid economic expansion in emerging regions, where less mature air travel markets continue to increase strongly.
- International air travel results show that airlines in mature markets of Europe and North America experienced the slowest rates of expansion in 2013, rising 3.8% and 3.0% respectively. While economic performance in both regions picked-up in 2013, supporting some recovery in air travel growth, the pace of expansion was far slower than in emerging market regions. Carriers in the Middle East recorded the strongest increase in 2013, gaining 12.1% compared to 2012, reflecting strength of regional economies and solid growth in business-related premium travel. Airlines in Latin America saw growth of 8.1% in 2013, also reflecting strong performance of several local economies and continued expansion of trade activity, which has supported business-related international air travel.
- Domestic air travel increased by a strong 4.9% in 2013, with China and Russia recording the strongest rates of increase. Air travel in China expanded 11.7% in 2013, and although this is a slowdown on 2012, it is the strongest performing domestic market, buoyed by robust domestic demand. Air travel in Russia has been supported by the government's policy to sustain employment and incomes, with domestic RPKs expanding 9.6% in 2013. By contrast, other BRIC states – Brazil and India – have seen considerably slower rates of growth in domestic travel, 0.8% and 4.0% respectively. Both countries have been plagued by continued economic weakness, which has placed considerable downward pressure on air travel demand growth.
- Load factors were broadly stable overall in 2013 compared to levels in 2012, remaining high at close to 80%. Domestic and international load factors both showed weakness mid-year, but that weakness appears to have reversed in Q4, supported by the solid increases in volumes.
- The demand environment for air travel remains broadly positive, supported by recent improvements in the global economy, including in advanced markets like the US and Eurozone. Business confidence is rising and acceleration in world trade should continue to support growth in international air travel as well as business-related premium travel, which bodes well for airline profitability.



#### Year on Year Comparison

##### Dec 2013 vs. Dec 2012

##### 2013 vs. 2012

	RPK	ASK	PLF	RPK	ASK	PLF
<b>International</b>	6.2%	5.9%	78.2%	5.4%	4.9%	79.3%
<b>Domestic</b>	7.4%	6.2%	79.4%	4.9%	4.6%	79.9%
<b>Total Market</b>	6.6%	6.0%	78.7%	5.2%	4.8%	79.5%

#### Month on Month Comparison

##### Dec 2013 vs. Nov 2013

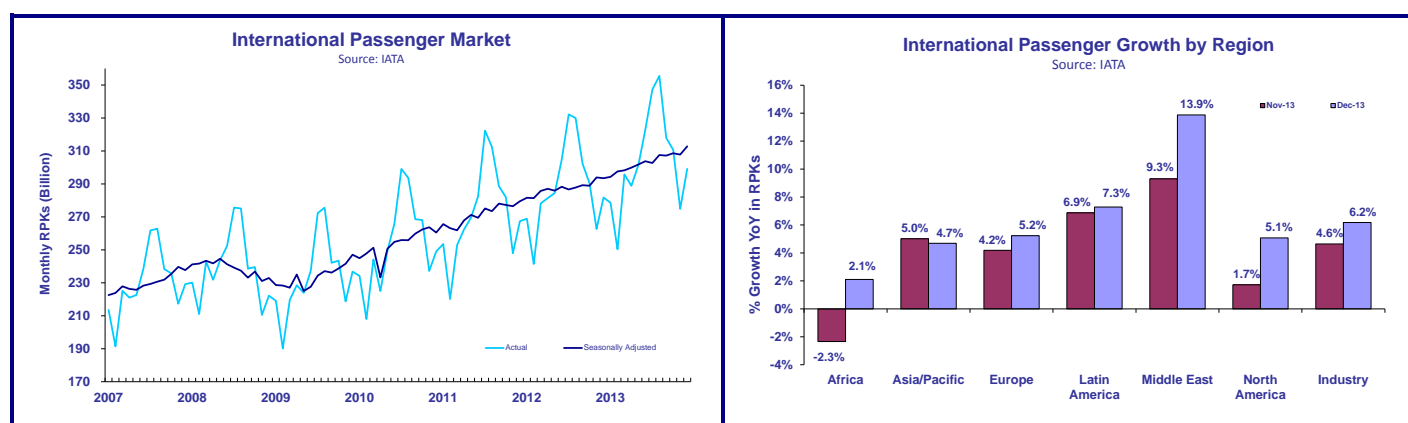
	RPK	ASK	PLFpt
<b>International</b>	1.6%	0.6%	0.8%
<b>Domestic</b>	1.6%	0.6%	1.0%
<b>Total Market</b>	1.6%	0.6%	0.8%

FTK: Freight-Tonne-Kilometers; AFTK: Available Freight Tonne Kilometers; FLF: Freight Load Factor. All Figures are expressed in % change Year on Year except FLF which are the load factors for the specific month.

Data are seasonally adjusted. All figures are expressed in % change MoM except, FLFpt which are the percentage point difference between LF of two months.

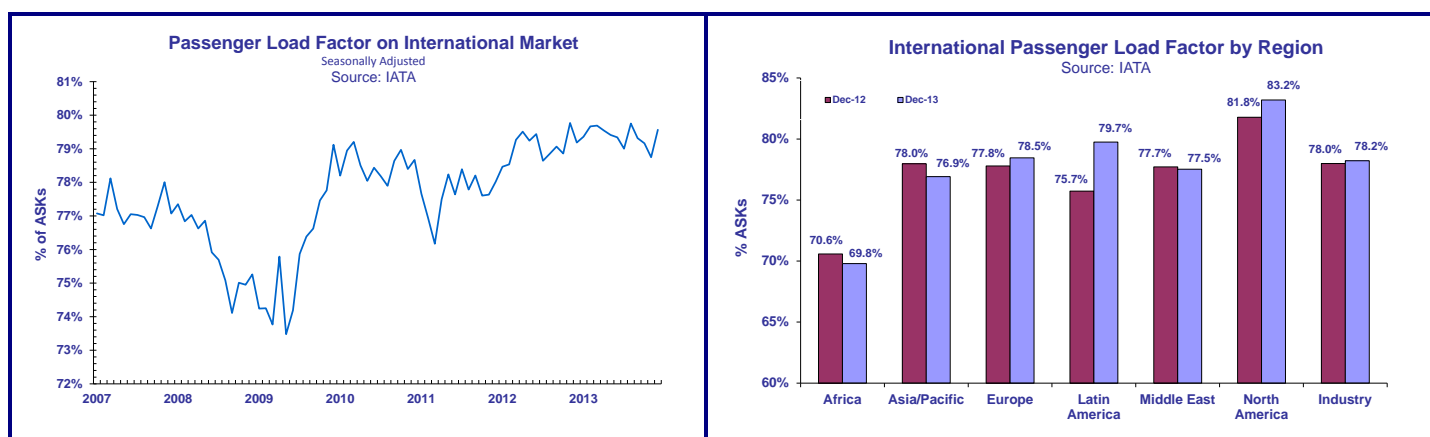
## PASSENGER MARKET

## International Markets

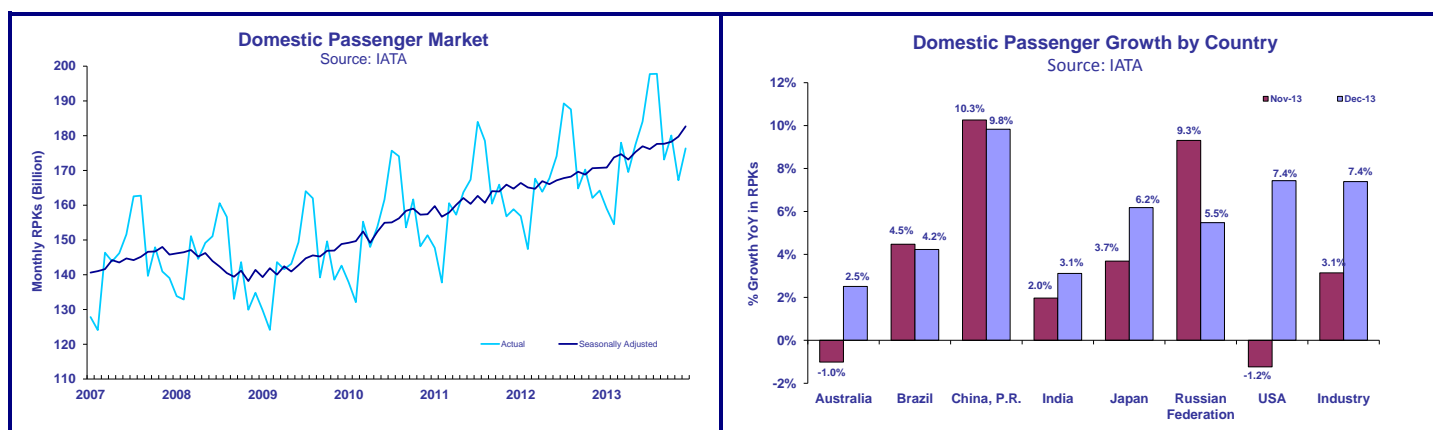


- International air travel recorded robust growth in 2013, rising 5.4% compared to 2012. December was a particularly strong month, with a 6.2% increase year-on-year and a 1.6% expansion in volumes month-on-month. In fact the significant rise in international RPKs in December compared to November helped load factors rebound, gaining 0.8% pts. over the month. This result has reversed the weakening in international load factors seen during recent past months.
- International air travel results show that airlines in mature markets of Europe and North America experienced the slowest rates of expansion in 2013, rising 3.8% and 3.0% respectively. While economic performance in both regions picked-up in 2013, supporting some recovery in air travel growth, the pace of expansion was far slower than in emerging market regions.
- Modest economic improvements in the Eurozone since Q2 and rising consumer and business confidence have been providing a stronger demand base for international air travel. The services sector signaled expansion for a fifth month in December, according to JPMorgan/Markit, and after weakness in previous months, job losses in the Eurozone stabilized in December. If business activity continues to grow, employment and consumer demand could see some improvement in the New Year, providing sustained support to air travel demand.
- In the US, recent economic indicators have shown a solid fourth quarter, with manufacturing and services sector activity expanding at a rate only marginally slower than Q3, despite the disruption caused by the government shutdown in October. Moreover, employment growth has picked-up as has growth in consumer spending, both of which are critical to air travel demand.
- Carriers in the Middle East recorded the strongest increase in 2013, gaining 12.1% compared to 2012, supported by continued strength of regional economies and solid growth in business-related premium travel, particularly to developing markets like Africa. Internationally trading industries will likely continue to see sustained growth as export orders suggest further gains in trade ahead. Solid performance of key economies like Saudi Arabia and the United Arab Emirates has also supported strong expansion in both business and leisure travel to regions such as Europe.
- Growth in international travel on Latin American carriers was also strong in 2013, gaining 8.1% compared to 2012. Airlines in this region have also experienced robust growth in business related travel throughout 2013, driven by strong performance of economies like Colombia, Peru and Chile. Markets including North America – Latin American have recording robust growth this year, for both business and leisure travel.
- Asia Pacific airlines experienced a rise of 5.3% for the year as a whole, in line with performance in 2012. Carriers in the region saw a pick-up in demand in Q3, supported by stronger performance of major economies like China and Japan. Economic growth in China picked up toward the end of H1, benefitting other major Asian economies and providing a boost to regional trade volumes, which had incurred significant declines mid-year. In Japan, continued increases in business activity have supported economic performance and helped employment grow for 5 consecutive months. These developments in turn have helped support business-related air travel within the region and to connecting markets. During Q4, however, there was little further expansion in Asia Pacific airlines' international FTKs, which could dampen growth momentum in the New Year.
- African airlines international air travel expanded by 5.5% in 2013, a solid result but slower than growth in 2012 (7.5%). Overall, the demand backdrop for carriers in the region is strong, with robust economic growth of local

economies and continued development of internationally trading industries. But some parts of the continent have shown weakness, including the South African economy which has recently experienced a slowdown. There has also been some slowdown in regional trade growth. These developments have placed downward pressure on growth in demand for international air travel, which slowed in H2 2013 compared to earlier in the year.

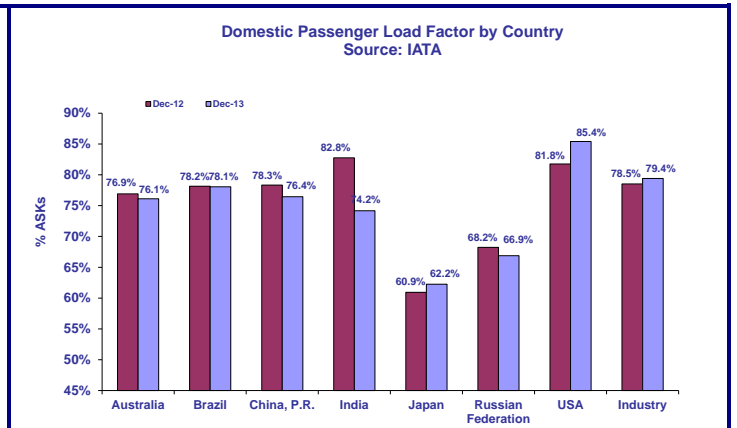
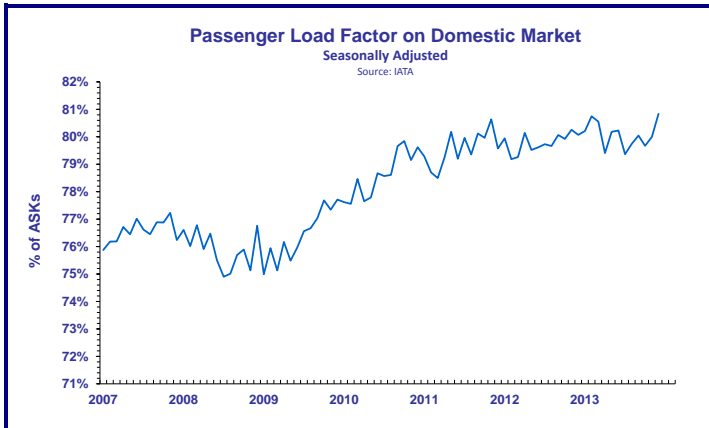


## Domestic Market

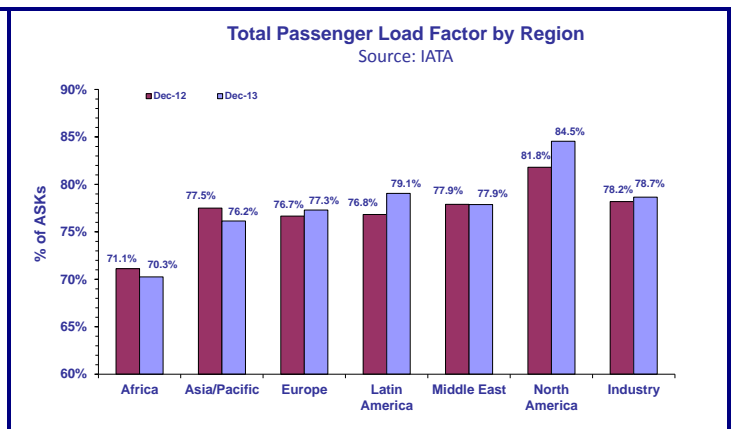
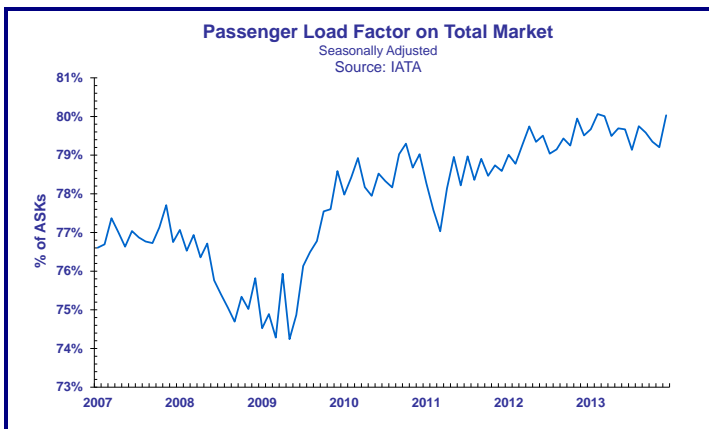
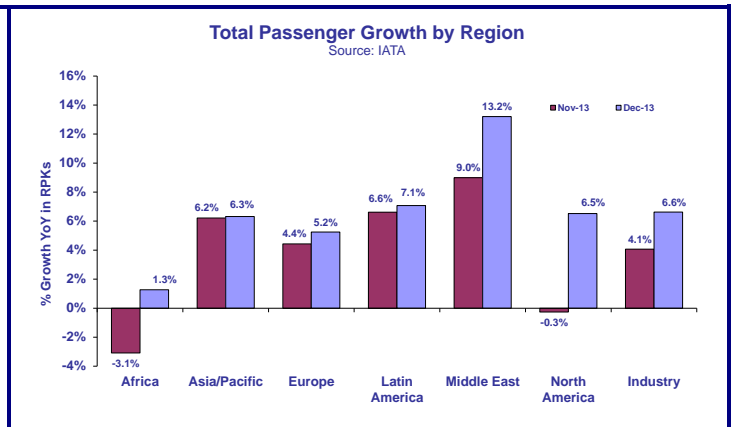
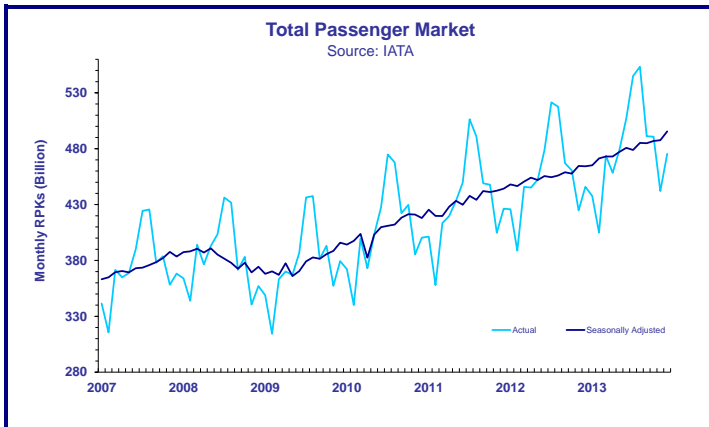


- Domestic RPKs were up 4.9% in 2013 compared to 2012, reflecting steady growth throughout the year, and a solid pick up in volumes toward the end of 2013, including a rise of 1.6% in December compared to November. Domestic market load factors reached 79.9% overall in 2013, a solid result reflecting a strong rebound in Q4, supported by the rise in volumes.
- Domestic air travel in China and Russia recorded the strongest rates of increase. Air travel in China expanded 11.7% in 2013. It is the strongest performing domestic market, buoyed by robust domestic demand.
- Demand for air travel in Russia is being supported by a resilient labor market; with government policy firmly set to maintain high employment and sustained income levels. Russian domestic air travel volumes expanded 9.6% in 2013.
- By contrast, other BRIC states – Brazil and India – have seen considerably slower rates of growth in domestic travel, 0.8% and 4.0% respectively. Tax breaks and investment incentives have done little to boost growth in the Brazilian economy, dampening domestic consumption. But moves by airlines to cut capacity have helped improve load factors, which finished the year at 76.3%, well above 2012 (71.8%). In India, the demand backdrop has been difficult with the economy weakening over the past two years, showing high inflation and slowing manufacturing and mining industries.
- Japan's domestic air travel market improved significantly in 2013, expanding 5.2%. The Japanese economy accelerated in the first half of 2013 on the back of significant government stimulus and that has supported increases in business activity and improving employment rates, all of which have boosted demand for air travel.
- In the US, domestic air travel expanded 1.9% in 2013, which is more than double the pace of growth in 2012. The improvement reflects sustained increases in consumer confidence throughout the year as well as rising employment activity, particularly over recent months. In December, the US domestic market was up 7.4% compared to a year ago, but this result is positively impacted by Thanksgiving traffic moving into December.

➤ Australia domestic market recorded growth of 2.8% in 2013. Despite interest rate cuts, the economy remains broadly sluggish with rising unemployment and fragile business and consumer confidence tainting the performance outlook for the coming year.



## Total Market (Domestic + International)



## ANNEX

Year on Year Comparison	Dec 2013 vs Dec 2012			2013 vs. 2012		
	RPK	ASK	PLF	RPK	ASK	PLF
Africa	2.1%	3.3%	69.8%	5.5%	5.2%	69.0%
Asia/Pacific	4.7%	6.1%	76.9%	5.3%	5.2%	77.7%
Europe	5.2%	4.4%	78.5%	3.8%	2.8%	81.0%
Latin America	7.3%	1.9%	79.7%	8.1%	7.4%	79.2%
Middle East	13.9%	14.2%	77.5%	12.1%	12.8%	77.3%
North America	5.1%	3.3%	83.2%	3.0%	2.2%	82.8%
<b>International</b>	<b>6.2%</b>	<b>5.9%</b>	<b>78.2%</b>	<b>5.4%</b>	<b>4.9%</b>	<b>79.3%</b>
Australia	2.5%	3.6%	76.1%	2.8%	3.8%	76.5%
Brazil	4.2%	4.3%	78.1%	0.8%	-3.3%	76.3%
China P.R.	9.8%	12.6%	76.4%	11.7%	12.2%	80.3%
India	3.1%	15.1%	74.2%	4.0%	3.5%	74.6%
Japan	6.2%	3.9%	62.2%	5.2%	5.1%	64.3%
Russian Federation	5.5%	7.6%	66.9%	9.6%	9.1%	74.0%
US	7.4%	2.9%	85.4%	1.9%	1.9%	83.8%
<b>Domestic</b>	<b>7.4%</b>	<b>6.2%</b>	<b>79.4%</b>	<b>4.9%</b>	<b>4.6%</b>	<b>79.9%</b>
Africa	1.3%	2.5%	70.3%	5.1%	4.5%	69.9%
Asia/Pacific	6.3%	8.2%	76.2%	7.1%	7.1%	77.6%
Europe	5.2%	4.4%	77.3%	3.8%	2.7%	80.2%
Latin America	7.1%	4.1%	79.1%	6.3%	4.5%	78.0%
Middle East	13.2%	13.2%	77.9%	11.4%	12.0%	77.6%
North America	6.5%	3.1%	84.5%	2.3%	2.0%	83.4%
<b>Total Market</b>	<b>6.6%</b>	<b>6.0%</b>	<b>78.7%</b>	<b>5.2%</b>	<b>4.8%</b>	<b>79.5%</b>

RPK: Revenue-Passenger-Kilometers; ASK: Available-Seat-Kilometers; PLF: Passenger-Load-Factor;  
All Figures are expressed in % change Year on Year except PLF which are the load factors for the specific month.

Month on Month Comparison	Dec 2013 vs. Nov 2013			Market Share
	RPK	ASK	PLFpt	RPK
Africa	3.9%	1.9%	1.4%	3.5%
Asia/Pacific	1.4%	0.8%	0.5%	29.3%
Europe	1.2%	0.3%	0.7%	33.8%
Latin America	0.7%	0.4%	0.2%	5.0%
Middle East	1.8%	1.0%	0.5%	14.2%
North America	2.7%	0.0%	2.2%	14.3%
<b>International</b>	<b>1.6%</b>	<b>0.6%</b>	<b>0.8%</b>	<b>100.0%</b>
Australia	1.4%	0.0%	1.4%	3.4%
Brazil	-1.6%	1.7%	-3.2%	4.4%
China P.R.	1.5%	1.1%	0.3%	20.3%
India	-0.5%	1.7%	-1.5%	2.9%
Japan	2.4%	0.4%	1.3%	3.1%
Russian Federation	-0.1%	-0.1%	0.1%	3.1%
US	2.5%	0.1%	2.1%	44.9%
<b>Domestic</b>	<b>1.6%</b>	<b>0.6%</b>	<b>1.0%</b>	<b>100.0%</b>
Africa	3.7%	1.8%	1.3%	2.6%
Asia/Pacific	1.4%	1.0%	0.4%	31.9%
Europe	1.1%	0.2%	0.7%	23.9%
Latin America	0.1%	0.7%	-0.4%	6.0%
Middle East	1.6%	1.0%	0.5%	9.3%
North America	2.5%	0.1%	2.0%	26.4%
<b>Total Market</b>	<b>1.6%</b>	<b>0.6%</b>	<b>0.8%</b>	<b>100%</b>

Data are seasonally adjusted. All figures are expressed in % change MoM except, PLFpt which are the percentage point difference between load factors of two months.

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6<sup>TH</sup> February 2014

#### FURTHER ANALYSIS AND DATA

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