



AIR PASSENGER MARKET ANALYSIS

April 2017

April air passenger demand grows at the fastest pace in six years

- Global revenue passenger kilometres (RPKs) grew by 10.7% year-on-year in April – the fastest pace in 6 years.
- Industry-wide passenger demand continues to be supported by a pick-up in economic activity and lower airfares, although the ban on personal electronic devices looks to have weighed on Mid East-N.America traffic.
- Every region saw double-digit annual int'l RPK growth in April; Russia posted the fastest domestic growth.
- The seasonally adjusted (SA) load factor posted a fresh all-time high.

Further evidence of a robust start to 2017

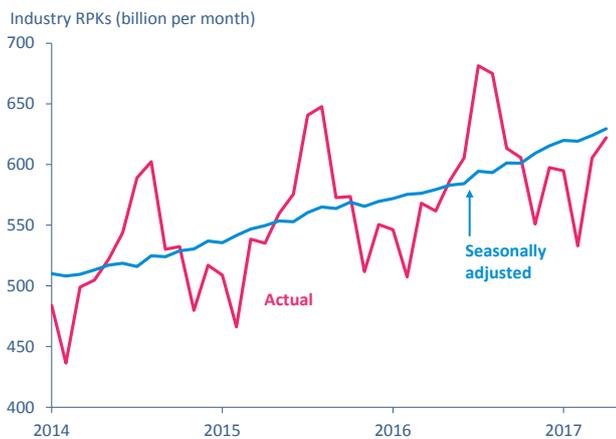
Global revenue passenger kilometres (RPKs) grew by 10.7% year-on-year in April, up from 6.5% in March and the fastest pace since April 2011.

The latest data provide further evidence of a strong start to 2017 for passenger demand growth: industry-wide RPKs grew by 7.9% year-on-year so far this year to date compared to the same period in 2016. This is equivalent to growth of around 8.7% adjusting for the extra day in 2016 owing to the leap year, and is well ahead of the long-run average RPK growth rate of around 5.5%.

Favorable annual comparison is aiding growth...

The robust start to 2017 for passenger growth has been boosted in part by the moderate slowdown in the SA traffic trend seen in early-2016. We estimate that this factor accounts for around 0.7 percentage points of the year-on-year growth rate in April.

Chart 1 – Air passenger volumes



Sources: IATA Economics, IATA Monthly Statistics

...but the upward trend in RPKs is strong

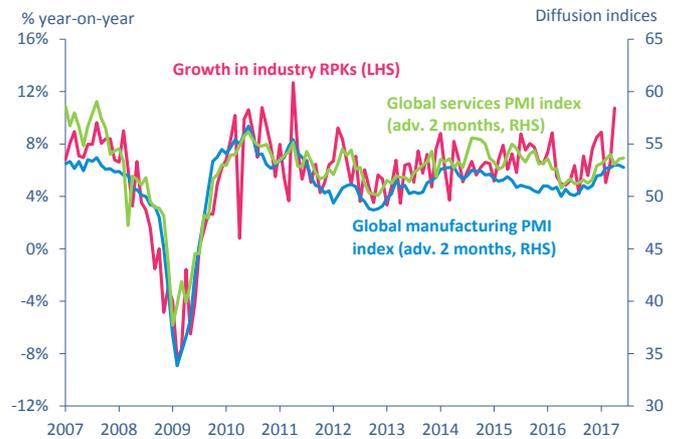
Nonetheless, there is no denying the strength of the current demand trend. Indeed, RPKs in SA terms have risen at an annualized pace of nearly 10% over the past six months or so, compared to around 6% over the same period in 2016. (See Chart 1.)

This strong trend has been driven by a combination of a broad-based pick-up in global economic conditions, as well as lower airfares. (See Chart 2.) Both factors have helped to underpin and to stimulate passenger demand. After adjusting for inflation, the price of air travel in the first quarter of 2017 was around 10% lower than a year ago. We estimate that this alone can explain around half the annual growth seen in April.

Strong support for peak season, but to weaken?

The drivers of demand look likely to remain supportive of passenger growth during the upcoming peak travel season in the middle months of the year. This is likely

Chart 2 – Air passenger volume growth and global business confidence



Sources: IATA Economics, IATA Monthly Statistics, Markit

Air passenger market overview - April 2017

	World share ¹	April 2017 (% year-on-year)				% year-to-date			
		RPK	ASK	PLF (%-pt) ²	PLF (level) ³	RPK	ASK	PLF (%-pt) ²	PLF (level) ³
TOTAL MARKET	100.0%	10.7%	7.1%	2.7%	82.0%	7.9%	5.9%	1.5%	80.5%
International	63.7%	12.5%	7.7%	3.5%	81.5%	8.4%	6.1%	1.7%	79.8%
Domestic	36.3%	7.7%	6.2%	1.2%	83.0%	6.9%	5.6%	1.0%	81.8%

to underpin another above-trend year of RPK growth in 2017 overall.

However, there are some mixed signs emerging. This partly relates to further indications that passenger yields are bottoming out; as we noted in a recent *Chart of the Week*, this reflects upward pressure on fuel and non-fuel costs, as well as the stronger demand backdrop itself. (See [link.](#)) Meanwhile, although business confidence indicators remain at levels consistent with solid economic growth, the upward trend in confidence looks to have paused, particularly for the services sector. (Again, see Chart 2.) All told, with the biggest stimulus to demand from lower oil prices looking to now be behind us, the strength of the economic backdrop is likely to be the key driver of passenger demand in H2 2017 and into 2018.

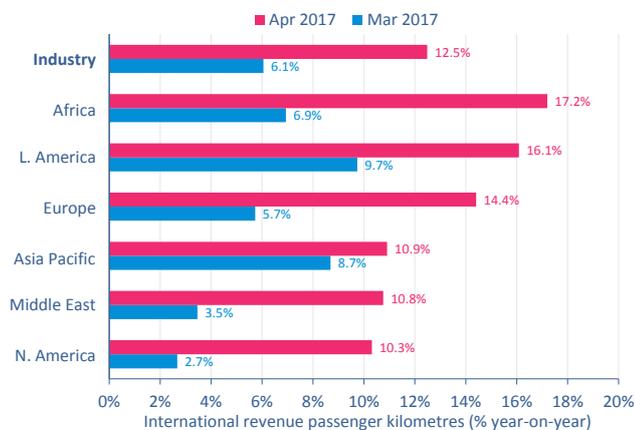
SA load factor rises to a record high

Airlines have slowed the pace of capacity growth since late-2016: ASKs have trended upwards at an annualized rate of 6.9% over the past six months, compared to nearly 10% for demand. Industry-wide available seat kilometres (ASKs) increased by 7.1% year-on-year in April. All told, the SA load factor rose to a record high in April, while the industry-wide load factor (82.0%) was also a record high for the month. All regions, with the exception of the Middle East, posted record-high April load factors.

Wide range in international RPK performance

International RPKs grew by 12.5% year-on-year in April, up from 6.1% in March. (See Chart 3.) For the first time in 12 years, all regions posted double-digit annual growth rates.

Chart 3 – International passenger traffic growth by airline region of registration

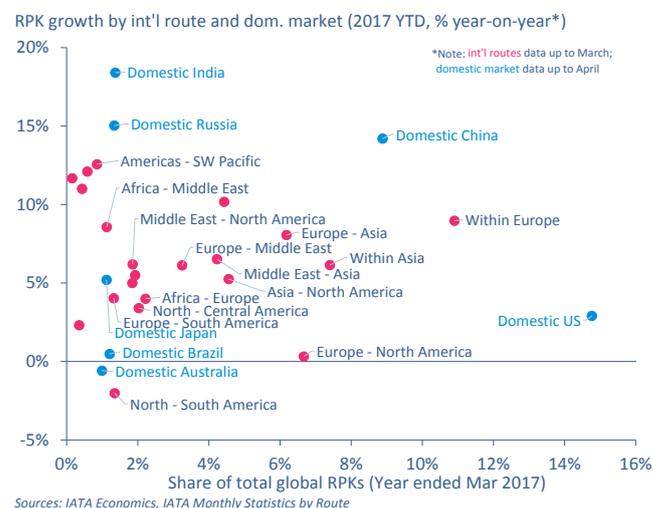


The two smallest regions – Africa and Latin America – posted the fastest international growth rates in April. There is little sign of any slowdown in the strong upward trends in SA traffic in both cases.

International RPKs flown by African carriers grew by 17.2% year-on-year in April – the fastest pace in more than five years. This follows a recovery in the trend on the key market to and from Europe. Conditions in the region’s two largest economies are diverging. Business confidence in Nigeria has risen since late-2016, but political uncertainty remains heightened in South Africa.

Meanwhile, the 16.1% year-on-year increase in international RPKs flown by Latin American airlines in April was the fastest rate since December 2011. Demand conditions within South America remain robust, although RPKs on the larger North-South America route have trended downwards in SA terms since mid-2015; in fact, it is the only market not to have grown in year-on-year terms in Q1. (See Chart 4, latest data available up to March.)

Chart 4 – RPK growth by route and market (YTD)



Stronger economic backdrop boosting Europe

International RPKs flown by European airlines – the largest region on this measure – grew by 14.4% year-on-year in April. This was the fastest pace since April 2011, when comparison with disruption caused by the Icelandic ashcloud a year earlier boosted the annual growth rate. Excluding this one-off event, April’s growth rate was the fastest in nearly 13 years.

Year-on-year growth is distorted partly by the disruption following the series of terrorist attacks last year. However, the robust upward trend in SA RPKs is being supported by growing momentum in the region’s economy (int’l RPKs have grown at an annualized rate around 7% since year-start). Passenger traffic flown on the market to and from Asia is growing robustly (8.1% year-on-year in Q1), but passenger demand to and from North America has trended down since mid-2016; RPKs have barely grown in annual terms so far this year to date. (Again, see Chart 4.)

Airlines based in Asia Pacific posted year-on-year growth of 10.9% in April – a 14-month high – and the upward trend in SA traffic remains strong. Traffic on the Asia-Europe route has continued to recover strongly, having been affected by terrorism-related disruption in early-2016. Meanwhile, despite being volatile from month to month, the SA trend on international routes within the Asia region is solid.

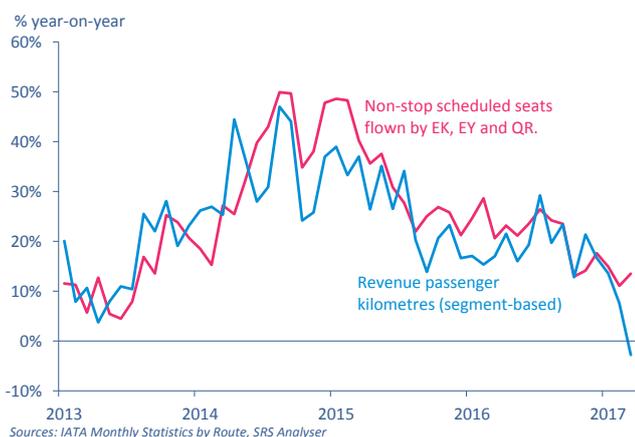
Laptop ban impact on Mid East-N.America market

Middle Eastern airlines’ international passenger volumes grew by a solid 10.8% year-on-year in April. However, by contrast to all the other regions, the April rate was slower than the five-year average growth pace. Moreover, in SA terms, international traffic has tracked sideways since January.

The route-level data from March provide the first signs of the impact that the ban on personal electronic devices (PED), enacted on the 21st March, may be having on traffic. Of course, one should be cautious about reading too much into a single data point, particularly because of the normal volatility from month to month. However, recent developments on the Middle East to North America market are consistent with some disruption from a combination of factors. These include the recent ban on PED, as well as a wider impact on inbound travel to the US from President Trump’s proposed travel bans.

Passenger traffic growth on the market segment was already slowing in early-2017, in line with a moderation in the pace of growth of non-stop services. (See Chart 5.) But RPKs fell in year-on-year terms in March (-2.8%) for the first time on record (this series begins in 2010). It is difficult to reconcile all data sources at this early stage: for example, annual origin-destination traffic growth between the regions also looks to have slowed in March but not fallen. In any case, the picture will become clearer as additional data are released.

Chart 5 – Scheduled services and passenger traffic between the Middle East and North America



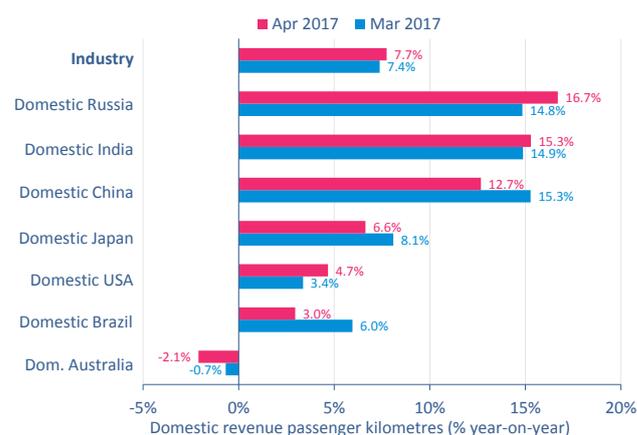
Moderation in N.American capacity and demand

International passenger traffic flown by North American airlines jumped to 10.3% in April, following a strong pick-up in the SA traffic trend over the past couple of months. This appears to reflect a combination of the comparatively robust economic backdrop and the strength of the US dollar supporting outbound passenger demand.

Domestic markets are a mixed bag

Year-on-year growth in domestic RPKs increased to 7.7% in April, up from 7.4% in March. (See Chart 6.)

Chart 6 – Domestic RPK growth by market



Russia posted the fastest domestic year-on-year growth rate (16.7%) for the first time since August 2014. This is set against an improving economic outlook as oil prices have firmed; an economy-wide measure of business confidence is currently well above its five-year average level. In SA terms, domestic traffic has now fully recovered in line with its trend level before the collapse of Transaero in late-2015. However, Russia is the only domestic market that we monitor to have seen an annual decline in the passenger load factor in 2017 to date.

Stellar upward SA trend in India has moderated

India posted the second fastest domestic rate in April: the 15.3% year-on-year increase was the 32nd consecutive month of double-digit growth. That said, the stellar upward SA traffic trend has slowed since the ‘demonetization’ in November 2016, consistent with the wider impact on economic activity. Business confidence surveys indicate a recovery in sentiment in recent months, but the upward trend in domestic RPKs has slowed to an annualized rate of around 7% over the past five months. If this trend continues, the run of double-digit growth rates is set to end in July.

Domestic China RPKs slowed to 12.7% in April, from 15.3% in March (although this was still above the five-year average pace of 11.3%). Surveys show some

signs of slowdown in the services sector since the start of the year. But this is partly offset by supply developments that translate into time savings for passengers and will have the same stimulatory impact on demand as a cut in fares: the number of domestic routes flown within China is now scheduled to increase by more than 9% in 2017 compared to the previous year, alongside a modest increase in average flight frequencies too.

Modest growth in US traffic and capacity

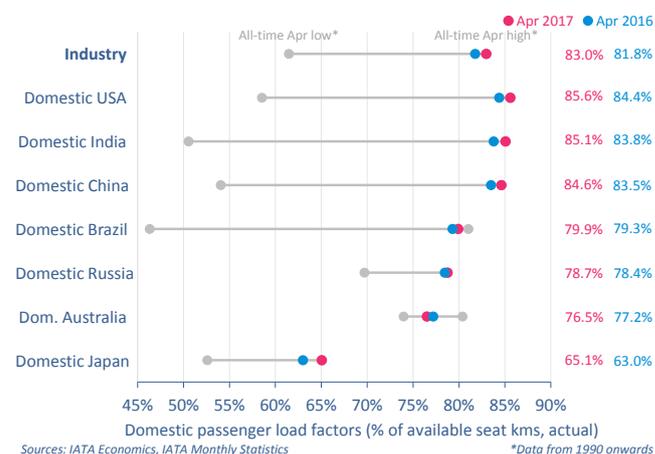
The US domestic market – the largest in the world – grew by 4.7% year-on-year in April. This has been boosted by an up-tick in demand over the past couple of months, alongside ongoing strong readings from consumer confidence surveys. The domestic US load factor posted an all-time high for the month of April of 85.6%. The number of airport-pairs served is scheduled to increase by a modest 1% in 2017 as a whole compared to last year.

Further signs of life in the domestic Japan market

The SA trend in domestic RPKs in Japan has picked up since May 2016. Although year-on-year traffic growth slowed to 6.6% in April, it remains close to a three-year high. This performance is set against a comparatively robust economic backdrop (the economy expanded in quarterly terms in Q1 2017 for the fifth consecutive quarters – the longest run in more than a decade). While still the lowest of all the domestic markets that we track, Japan's domestic load factor climbed by 2.1 percentage points compared to April 2016 to a record high for the month (65.1%). (See Chart 7.)

Australia was the only domestic market to see a year-on-year decline in RPKs in April (-2.1%). Once you adjust for the extra day in early 2016 owing to the leap year, domestic Australia RPKs have barely grown in year-on-year terms in 2017. Capacity has trended sideways in SA terms over the past three years, however, which has helped to support the passenger load factor.

Chart 7 – Domestic passenger load factors



Recovery continuing in Brazil

The year-on-year domestic RPK growth rate in Brazil remained in positive territory (3.0%) in April for only the second time in 21 months. The political backdrop remains highly fragile, but the economic recovery is continuing. The composite PMI, an economy-wide measure of business confidence where a score above 50 indicates a growing economy, recently rose above the 50-mark for the first time since February 2015.

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 1st June 2017

Air passenger market detail - April 2017

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TOTAL MARKET	100.0%	10.7%	7.1%	2.7%	82.0%	7.9%	5.9%	1.5%	80.5%
Africa	2.2%	15.4%	5.6%	6.2%	73.2%	8.0%	3.5%	2.9%	70.1%
Asia Pacific	32.9%	10.7%	8.1%	1.9%	81.1%	10.1%	7.4%	2.0%	81.1%
Europe	26.5%	14.0%	8.0%	4.4%	84.6%	8.8%	6.1%	2.1%	81.5%
Latin America	5.2%	11.7%	6.4%	3.9%	81.7%	6.6%	3.9%	2.0%	81.6%
Middle East	9.6%	10.8%	9.1%	1.2%	76.3%	9.1%	9.0%	0.0%	75.5%
North America	23.7%	6.7%	4.2%	2.0%	84.2%	3.4%	2.8%	0.5%	82.0%
International	63.7%	12.5%	7.7%	3.5%	81.5%	8.4%	6.1%	1.7%	79.8%
Africa	1.9%	17.2%	6.1%	6.9%	72.5%	9.2%	4.2%	3.2%	69.2%
Asia Pacific	18.2%	10.9%	7.6%	2.4%	80.3%	8.8%	6.3%	1.8%	80.2%
Europe	23.6%	14.4%	7.9%	4.9%	85.4%	8.9%	5.7%	2.4%	82.4%
Latin America	2.7%	16.1%	8.4%	5.5%	82.7%	9.9%	5.8%	3.0%	82.2%
Middle East	9.3%	10.8%	8.9%	1.3%	76.5%	9.5%	9.1%	0.3%	75.8%
North America	8.0%	10.3%	5.8%	3.3%	81.8%	4.2%	3.2%	0.7%	79.6%
Domestic	36.3%	7.7%	6.2%	1.2%	83.0%	6.9%	5.6%	1.0%	81.8%
Dom. Australia ⁴	1.0%	-2.1%	-1.2%	-0.7%	76.5%	-0.6%	-1.1%	0.4%	75.9%
Domestic Brazil ⁴	1.2%	3.0%	2.2%	0.6%	79.9%	0.5%	-0.7%	1.0%	80.8%
Dom. China P.R. ⁴	8.7%	12.7%	11.2%	1.1%	84.6%	14.2%	11.3%	2.1%	84.3%
Domestic India ⁴	1.3%	15.3%	13.5%	1.3%	85.1%	18.4%	16.3%	1.5%	85.3%
Domestic Japan ⁴	1.1%	6.6%	3.3%	2.1%	65.1%	5.2%	1.5%	2.4%	68.6%
Dom. Russian Fed. ⁴	1.3%	16.7%	16.2%	0.3%	78.7%	15.0%	16.2%	-0.7%	75.1%
Domestic US ⁴	14.9%	4.7%	3.2%	1.2%	85.6%	2.9%	2.5%	0.3%	83.3%

¹% of industry RPKs in 2016 ²Year-on-year change in load factor ³Load factor level

⁴Note: the seven domestic passenger markets for which broken-down data are available account for 30% of global total RPKs and approximately 82% of total domestic RPKs

Further details about the statistics in this publication can be found [here](#).

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