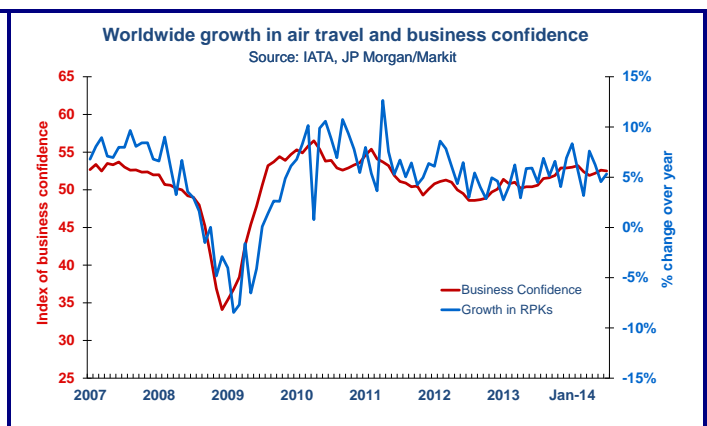
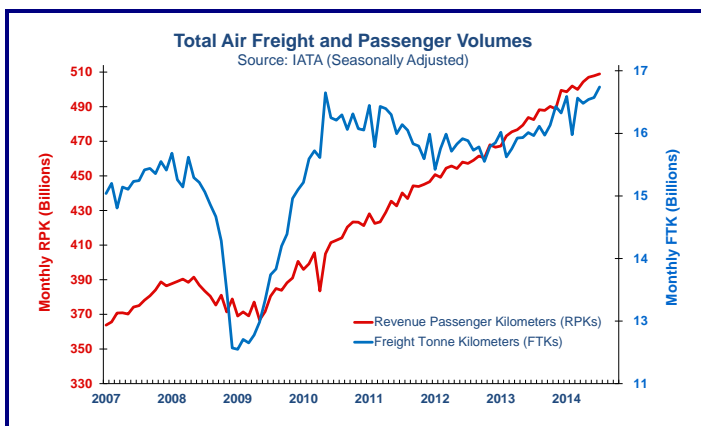


# AIR PASSENGER MARKET ANALYSIS

## JULY 2014

### KEY POINTS

- ➔ Air travel volumes rose by a solid 5.3% in July year-on-year, a slight pick-up on June when revenue passenger kilometers were up 4.6% on a year ago.
- ➔ The first chart below shows that expansion in air traffic volumes started to accelerate in Q2 after a slowdown in the growth at the start of the year. Toward the end of 2013 there was a solid upturn in the global economic cycle, but that momentum paused during the early months of 2014 with trade and business activity showing some decline. Recent data, however, shows that measures of economic activity have started to improve again, but there is some regional variation which could influence demand conditions for air travel going forward.
- ➔ International revenue passenger kilometers were up 5.5% in July compared to a year ago, but there was no change in volumes compared to June. European airlines recorded growth of 5.3% in July compared to a year ago. This result is consistent with steady and continued economic recovery. However, latest indicators show a weakening in key economies including Germany due to the Russia-Ukraine crisis and related EU sanctions, which could place downward pressure on economic recovery and air travel demand in the months ahead. By contrast, conditions in Asia Pacific have been improving. After a slow start to the year, the Chinese economy has been stabilizing over recent months, supported by government fiscal stimulus. Airlines in the region recorded a solid 5.6% rise in international RPKs in July year-on-year.
- ➔ Domestic RPKs rose 4.9% in July year-on-year. Despite the Russia-Ukraine crisis, domestic RPKs in Russia have increased by a strong 9.9% in July, supported by a reduction in fares. India's domestic air travel market increased by a solid 6.0% in July; perhaps an early sign of improvement as a result of the new business-supportive government regime.
- ➔ Industry load factors declined in July compared to June as a result of a solid expansion in capacity and no change in international traffic volumes. Although load factors remain at high levels, the trend throughout 2014 has been slightly negative as a result of growth in capacity outstripping expansion in demand.
- ➔ The outlook for air travel remains broadly positive, despite recent adverse developments in some regions. Business activity at the start of Q3 is in line with the 4-month high reached in June. In addition, demand conditions are picking up in emerging markets like China, which could help offset some of the recent weakness in the Eurozone recovery. Current growth in air travel volumes should be at least sustained in the months ahead.



#### Year on Year Comparison

|                      | Jul 2014 vs. Jul 2013 |      |       | YTD 2014 vs. YTD 2013 |      |       |
|----------------------|-----------------------|------|-------|-----------------------|------|-------|
|                      | RPK                   | ASK  | PLF   | RPK                   | ASK  | PLF   |
| <b>International</b> | 5.5%                  | 6.2% | 81.9% | 6.4%                  | 6.4% | 78.7% |
| <b>Domestic</b>      | 4.9%                  | 3.5% | 83.0% | 5.1%                  | 4.3% | 80.3% |
| <b>Total Market</b>  | 5.3%                  | 5.3% | 82.3% | 5.9%                  | 5.6% | 79.3% |

#### Month on Month Comparison

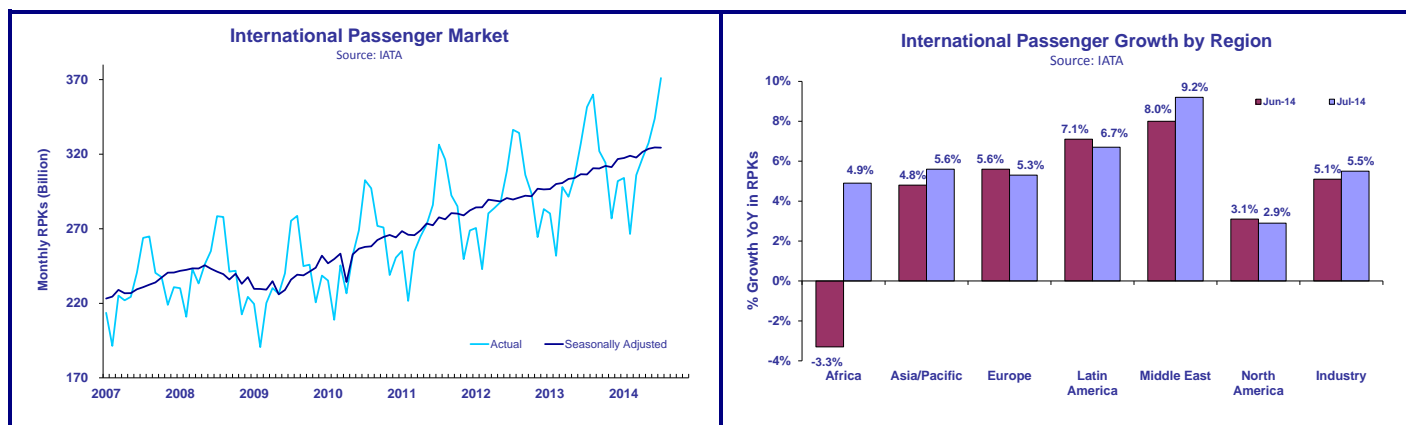
|                      | Jul 2014 vs. Jun 2014 |      |       |
|----------------------|-----------------------|------|-------|
|                      | RPK                   | ASK  | PLFpt |
| <b>International</b> | 0.0%                  | 0.3% | -0.3% |
| <b>Domestic</b>      | 0.6%                  | 0.3% | 0.4%  |
| <b>Total Market</b>  | 0.2%                  | 0.3% | -0.1% |

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.

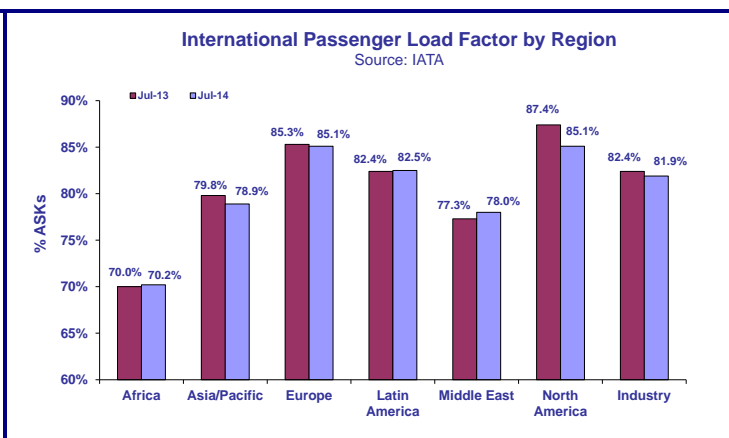
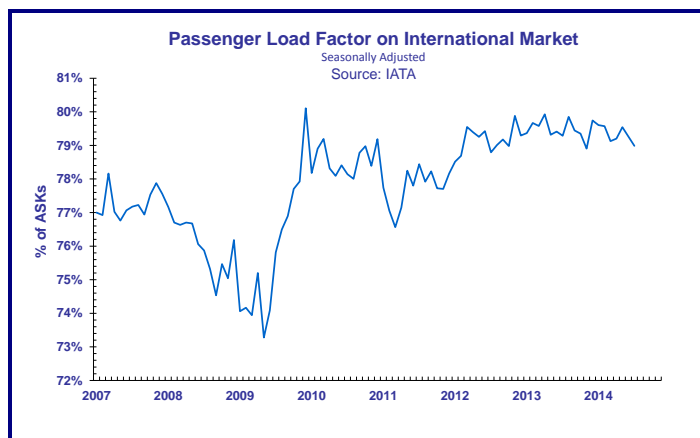
Data are seasonally adjusted. All figures are expressed in % change MoM except, FLFpt which are the percentage point difference between LF of two months.

## PASSENGER MARKET

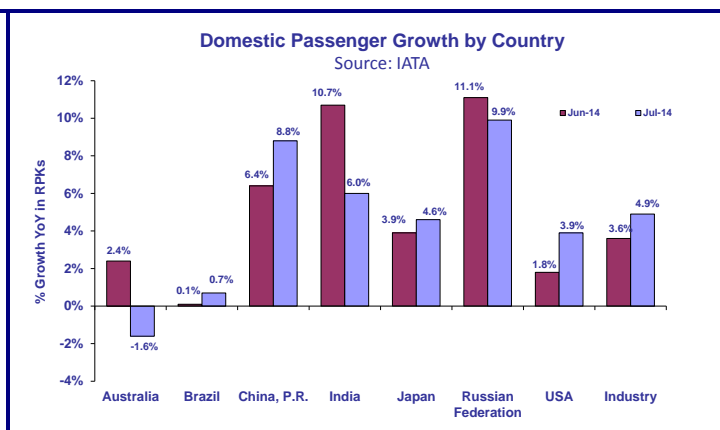
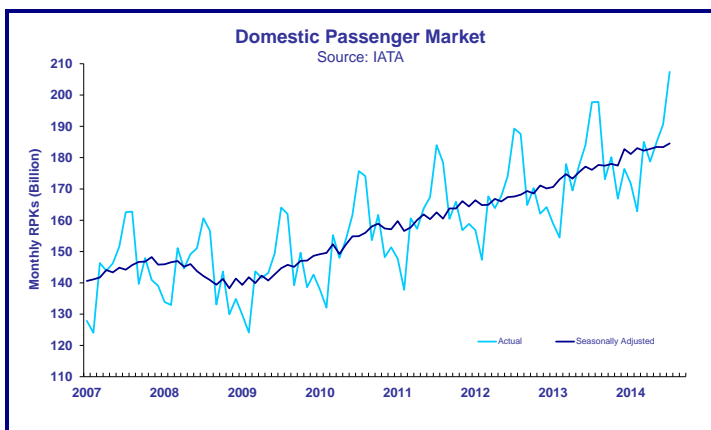
## International Markets



- ➔ International revenue passenger kilometers were up 5.5% in July compared to a year ago, but there was no change in volumes compared to June. There was, however, an expansion in capacity in July compared to June, which caused international load factors to fall 0.3%pts over the month.
- ➔ European airlines recorded growth of 5.3% in July compared to a year ago. This result is consistent with steady and continued economic recovery. However, latest indicators show a weakening in key economies including Germany due to the Russia-Ukraine crisis and related EU sanctions, which could place downward pressure on the recovery and air travel demand in the months ahead, particularly with respect to business-related air travel. Performance of other major economies like France and Italy has not been able to offset these developments in Germany.
- ➔ By contrast, conditions in Asia Pacific have been improving. After a slow start to the year, the Chinese economy has been stabilizing over recent months.. GDP growth reached 7.5% year-on-year in Q2, picking up from 7.4% in Q1, suggesting that modest loosening of fiscal and monetary policy is having positive impacts. In addition, airlines in the region recorded a solid 5.6% rise in international RPKs in July year-on-year.
- ➔ North American airlines experienced a 2.9% increase in international RPKs in July compared to a year ago. In the US, recent data reveal that underlying growth trends in business activity are positive and the unemployment rate continue to ease. According to JP Morgan/Markit, overall business conditions in the US are the strongest they have been since May 2010. These developments bode well for growth in air travel on regional carriers, at least at current rates.
- ➔ Carriers in the Middle East continue to record the strongest increases in international air travel, with a rise of 9.2% in July year-on-year. Airlines in the Middle East continue to benefit from the strength of regional economies and solid growth in business-related premium travel. The July year-on-year does not appear to have any significant impacts due to the timing of Ramadan. That is because the holiday spanned most of the month of July in both 2014 and 2013.
- ➔ Carriers in Latin America experienced strong growth of 6.7% in July year-on-year. Although economies like Colombia, Peru and Chile continue to expand robustly, regional trade volumes have made no progress this year compared to the highs reached at the end of 2013 and growth in the Brazilian economy remains fundamentally weak. These demand-side developments help to explain why international air travel on Latin American airlines from reaching rates of expansion seen 2013 (about 8%).
- ➔ By contrast, airlines in Africa experienced a 4.9% rise in international RPKs in July compared to a year ago, reversing the 3.3% fall in volumes in June. There can be significant volatility in volumes for this region, so the swing in growth rates cannot be immediately interpreted as a trend change. The weakness in international air travel for regional carriers so far this year reflects adverse economic developments in some parts of the continent, with the slowdown of the major economy of South Africa. However, latest trade data show a slight pick-up in volumes. If that trend continues, there could be some added support for business-related international air travel.

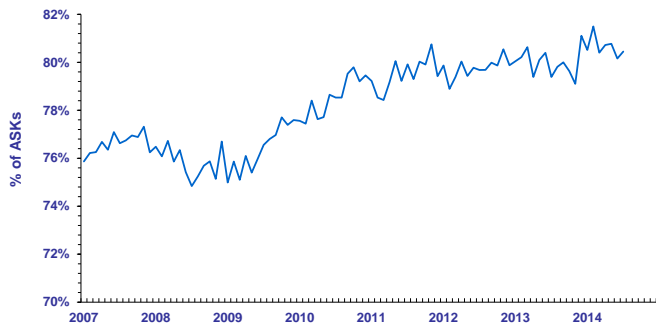


## Domestic Market

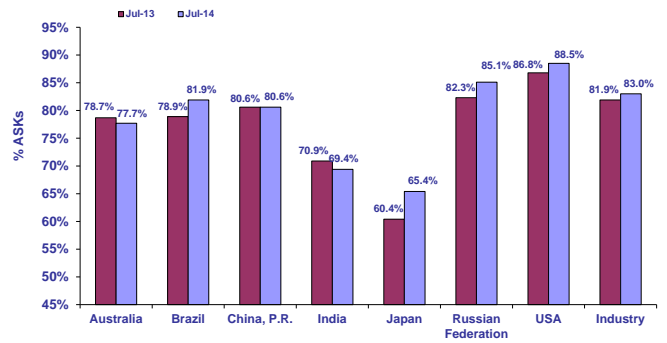


- Despite the Russia-Ukraine crisis, domestic RPKs in Russia have increased at the strongest rate among markets in July, rising 9.9% year-on-year. The crisis has caused a slowdown in economic growth in Russia. Airlines have been able to maintain demand for domestic air travel through significant reductions in fares.
- Chinese RPKs were not too far behind, expanding 8.8% in July year-on-year. Despite the slowdown in the Chinese economy in early 2014, growth remains robust and recent indicators suggest the economy could accelerate slightly, as discussed in the previous sections.
- India's domestic air travel market increased by a solid 6.0% in July; perhaps an early sign of improvement as a result of the new business-supportive government regime. However, the latest (July) budget announcement showed that government stimulus through spending will be limited and economic growth could continue to trend below the pace of other emerging markets for some time yet.
- Domestic air travel in Brazil increased by a weak 0.7% in July year-on-year. So far this year, conditions in the Brazilian economy have done little to boost growth in air travel, with inflation continuing to rise and consumer confidence waning.
- Japan's domestic air travel increased by 4.6% in July compared to a year ago, and 5.2% year-to-date. April's sales tax increase could erode some of the previous progress made by the government to boost growth and domestic demand. Latest results of JP Morgan/ Markit business survey, however, indicate a small rebound in domestic demand since the introduction of the tax. If this trend continues, growth in domestic air travel could be sustained.
- In the US, domestic air travel rose by a solid 3.9% in July year-on-year. Measures continue to show steady increases in consumer confidence as well as rising employment activity. However, with wage growth remaining subdued, the benefits for air travel demand could be limited for the time being.
- Australia was the only domestic market to experience a decline compared to a year ago, with a fall of 1.6%. The demand environment is mixed; there have been recent improvements in the unemployment rate and business sentiment, but the latest data points to further increase in inflation.

Passenger Load Factor on Domestic Market  
Seasonally Adjusted  
Source: IATA

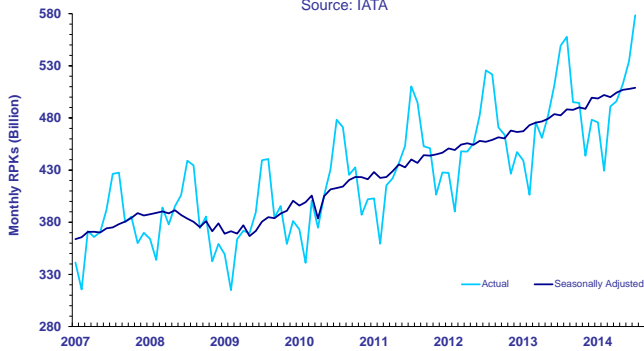


Domestic Passenger Load Factor by Country  
Source: IATA

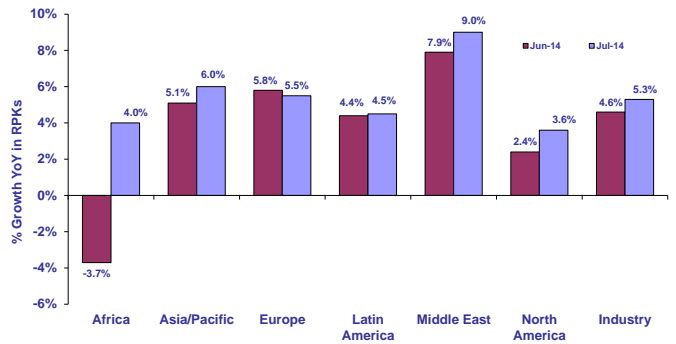


Total Market (Domestic + International)

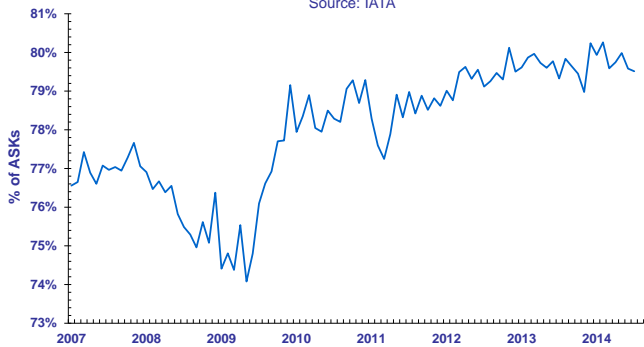
Total Passenger Market  
Source: IATA



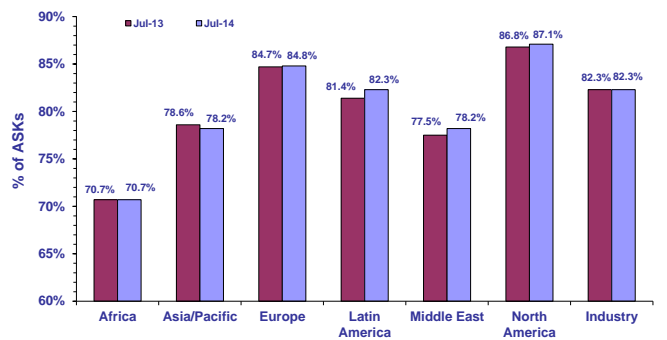
Total Passenger Growth by Region  
Source: IATA



Passenger Load Factor on Total Market  
Seasonally Adjusted  
Source: IATA



Total Passenger Load Factor by Region  
Source: IATA



## ANNEX

| Year on Year Comparison | Jul 2014 vs Jul 2013 |             |              | YTD 2014 vs. YTD 2013 |             |              |
|-------------------------|----------------------|-------------|--------------|-----------------------|-------------|--------------|
|                         | RPK                  | ASK         | PLF          | RPK                   | ASK         | PLF          |
| Africa                  | 4.9%                 | 4.5%        | 70.2%        | 1.1%                  | 4.6%        | 66.5%        |
| Asia/Pacific            | 5.6%                 | 6.8%        | 78.9%        | 6.0%                  | 7.3%        | 76.9%        |
| Europe                  | 5.3%                 | 5.6%        | 85.1%        | 5.7%                  | 5.5%        | 81.0%        |
| Latin America           | 6.7%                 | 6.6%        | 82.5%        | 6.0%                  | 4.3%        | 79.8%        |
| Middle East             | 9.2%                 | 8.2%        | 78.0%        | 12.7%                 | 10.3%       | 79.3%        |
| North America           | 2.9%                 | 5.6%        | 85.1%        | 3.3%                  | 4.6%        | 81.7%        |
| <b>International</b>    | <b>5.5%</b>          | <b>6.2%</b> | <b>81.9%</b> | <b>6.2%</b>           | <b>6.4%</b> | <b>79.1%</b> |
| Australia               | -1.6%                | -0.3%       | 77.7%        | 2.3%                  | 3.0%        | 75.4%        |
| Brazil                  | 0.7%                 | -3.0%       | 81.9%        | 6.2%                  | 0.3%        | 79.8%        |
| China P.R.              | 8.8%                 | 8.9%        | 80.6%        | 10.4%                 | 10.8%       | 80.6%        |
| India                   | 6.0%                 | 8.3%        | 69.4%        | 3.4%                  | 7.3%        | 73.7%        |
| Japan                   | 4.6%                 | -3.3%       | 65.4%        | 5.2%                  | 1.0%        | 64.0%        |
| Russian Federation      | 9.9%                 | 6.3%        | 85.1%        | 11.1%                 | 9.5%        | 75.0%        |
| US                      | 3.9%                 | 1.9%        | 88.5%        | 2.3%                  | 0.8%        | 85.4%        |
| <b>Domestic</b>         | <b>4.9%</b>          | <b>3.5%</b> | <b>83.0%</b> | <b>5.0%</b>           | <b>4.2%</b> | <b>80.8%</b> |
| Africa                  | 4.0%                 | 3.9%        | 70.7%        | 0.0%                  | 3.6%        | 67.4%        |
| Asia/Pacific            | 6.0%                 | 6.4%        | 78.2%        | 6.8%                  | 7.6%        | 77.1%        |
| Europe                  | 5.5%                 | 5.4%        | 84.8%        | 6.0%                  | 5.6%        | 80.3%        |
| Latin America           | 4.5%                 | 3.4%        | 82.3%        | 6.5%                  | 3.5%        | 79.6%        |
| Middle East             | 9.0%                 | 8.1%        | 78.2%        | 12.3%                 | 10.0%       | 79.6%        |
| North America           | 3.6%                 | 3.3%        | 87.1%        | 2.7%                  | 2.2%        | 84.0%        |
| <b>Total Market</b>     | <b>5.3%</b>          | <b>5.3%</b> | <b>82.3%</b> | <b>5.8%</b>           | <b>5.6%</b> | <b>79.7%</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 | Jul 2014 vs. Jun 2014 |             |              | Market Share  |
|---------------------------|-----------------------|-------------|--------------|---------------|
|                           | RPK                   | ASK         | PLFpt        | RPK           |
| Africa                    | 1.9%                  | 0.4%        | 1.0%         | 3.1%          |
| Asia/Pacific              | -0.4%                 | -0.1%       | -0.3%        | 25.1%         |
| Europe                    | -0.1%                 | 0.5%        | -0.5%        | 40.8%         |
| Latin America             | -0.7%                 | 0.1%        | -0.7%        | 4.4%          |
| Middle East               | 0.9%                  | 0.8%        | 0.0%         | 12.3%         |
| North America             | -0.3%                 | 0.0%        | -0.2%        | 14.4%         |
| <b>International</b>      | <b>0.0%</b>           | <b>0.3%</b> | <b>-0.3%</b> | <b>100.0%</b> |
| Australia                 | -2.6%                 | -1.6%       | -0.9%        | 3.0%          |
| Brazil                    | 0.4%                  | 1.8%        | -1.3%        | 3.9%          |
| China P.R.                | 1.1%                  | 0.9%        | 0.2%         | 21.5%         |
| India                     | -0.9%                 | 1.2%        | -1.6%        | 2.4%          |
| Japan                     | -0.2%                 | -0.8%       | 0.5%         | 2.8%          |
| Russian Federation        | -0.1%                 | 0.3%        | -0.3%        | 4.5%          |
| US                        | 0.8%                  | 0.0%        | 0.7%         | 44.4%         |
| <b>Domestic</b>           | <b>0.6%</b>           | <b>0.3%</b> | <b>0.4%</b>  | <b>100.0%</b> |
| Africa                    | 1.7%                  | 0.4%        | 0.9%         | 2.3%          |
| Asia/Pacific              | 0.0%                  | 0.2%        | -0.2%        | 28.7%         |
| Europe                    | 0.0%                  | 0.5%        | -0.4%        | 29.4%         |
| Latin America             | 0.2%                  | 0.6%        | -0.3%        | 5.3%          |
| Middle East               | 0.8%                  | 0.8%        | 0.0%         | 8.2%          |
| North America             | 0.4%                  | -0.1%       | 0.4%         | 26.1%         |
| <b>Total Market</b>       | <b>0.2%</b>           | <b>0.3%</b> | <b>-0.1%</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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3<sup>RD</sup> September 2014

#### FURTHER ANALYSIS AND DATA

Access data related to this briefing through the Monthly Statistics publication:

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