



# AIR PASSENGER MARKET ANALYSIS

May 2016

## Robust growth in 2016 so far, but ongoing signs of moderation

- The global passenger market has made a robust start to 2016, growing in line with its 10-year average...
- ...but there are ongoing signs that passenger growth is shifting down a gear.
- The domestic India market remains the star performer, with volumes up more than 23% this year to date.
- The industry appears to have stabilized the recent easing in the (seasonally adjusted) load factor.

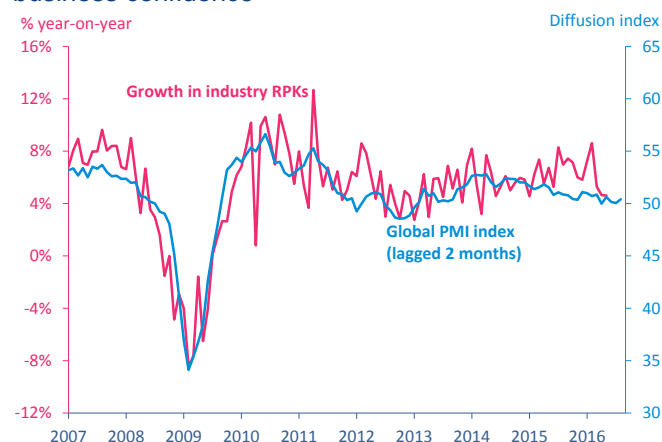
### A robust start to 2016 as a whole...

The global air passenger market has made a robust start to 2016 so far. Admittedly, the 6.0% year-on-year increase in industry-wide revenue passenger kilometres (RPKs) in the first five months of 2016 has been flattered by the leap year. But even after correcting for the extra day in February, we estimate that traffic still grew by 5.3% this year to date – in line with the average pace seen over the past decade.

### ...but growth momentum has weakened

Nonetheless, following a bumper year in 2015, there are ongoing signs that passenger growth has shifted down a gear. Annual growth in RPKs remained unchanged at 4.6% in May – its slowest pace since January 2015.

**Chart 1 – Air passenger volume growth and global business confidence**



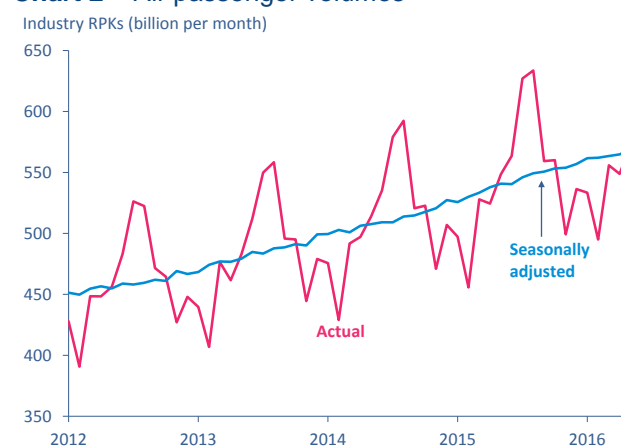
Sources: IATA Economics, IATA Monthly Statistics, Markit

This can be attributed partly to the Brussels terrorist attacks, which affected the large international European market in April and May, but whose impact is expected to be only transitory in nature.

More significantly, the recent moderation in passenger growth reflects the ongoing fragile global economic backdrop. (See Chart 1.) Heightened uncertainty post-‘Brexite’ only increases the downside risks from the latter. All told, while seasonally-adjusted passenger volumes picked up in May, the upward trend in RPKs has eased since January; the market has grown at annualized rate of around 4% since the start of 2016 (See Chart 2.)

Looking ahead, further stimulus is likely to come through in the form of lower fares from prior falls in oil prices. But this impact is likely to wane over the course of the year.

**Chart 2 – Air passenger volumes**



Sources: IATA Economics, IATA Monthly Statistics

### Air passenger market overview - May 2016

	World	May 2016 (% year-on-year)				% year-to-date			
	share <sup>1</sup>	RPK	ASK	PLF (%-pt) <sup>2</sup>	PLF (level) <sup>3</sup>	RPK	ASK	PLF (%-pt) <sup>2</sup>	PLF (level) <sup>3</sup>
<b>TOTAL MARKET</b>	<b>100.0%</b>	<b>4.6%</b>	<b>5.5%</b>	<b>-0.7%</b>	<b>78.7%</b>	<b>6.0%</b>	<b>6.2%</b>	<b>-0.1%</b>	<b>78.9%</b>
International	63.6%	4.3%	6.1%	-1.3%	77.1%	6.3%	6.8%	-0.3%	77.9%
Domestic	36.4%	5.1%	4.4%	0.5%	81.7%	5.4%	5.1%	0.2%	80.7%

<sup>1</sup>% of industry RPKs in 2015

<sup>2</sup>Year-on-year change in load factor

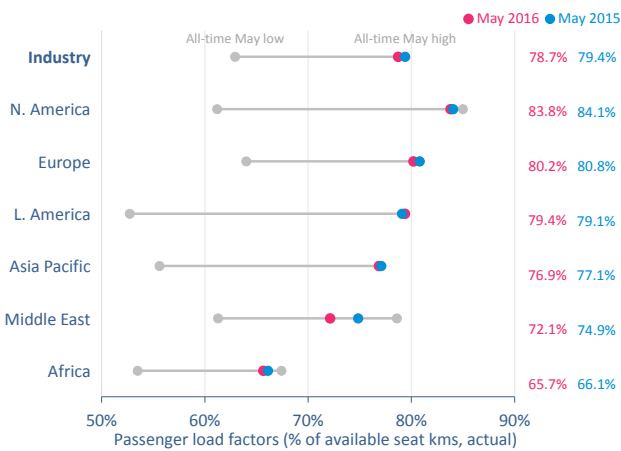
<sup>3</sup>Load factor level

### Load factor has stabilized in seas-adj. terms

The industry-wide load factor was 78.9% in the first five months of 2016 as a whole – 0.1 percentage point lower than in the same period of 2015. April was the fourth consecutive month in which annual growth in available seat kilometres (ASKs) exceeded that of RPKs, mainly reflecting the easing in the latter.

Accordingly, while the seasonally-adjusted industry-wide load factor has stabilized at around 80% in recent months, it has dropped back by 1.2 percentage points since reaching an all-time high in November 2015. As shown in Chart 3, Latin America was the only region to see the load factor increase in May 2016 compared to the same period a year ago. By contrast, the load factor in the Middle East has fallen the most.

**Chart 3 – Passenger load factors by carrier region of registration**

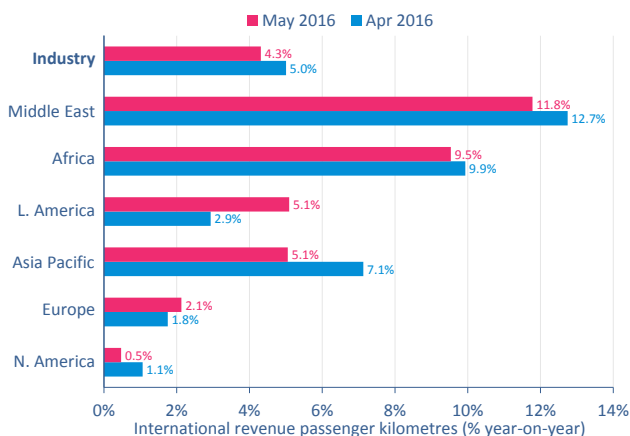


Sources: IATA Economics, IATA Monthly Statistics

### International passenger traffic growth slows again

Annual growth in international RPKs slowed for the third consecutive month in May, to 4.3% from 5.0% in April. (See Chart 4.)

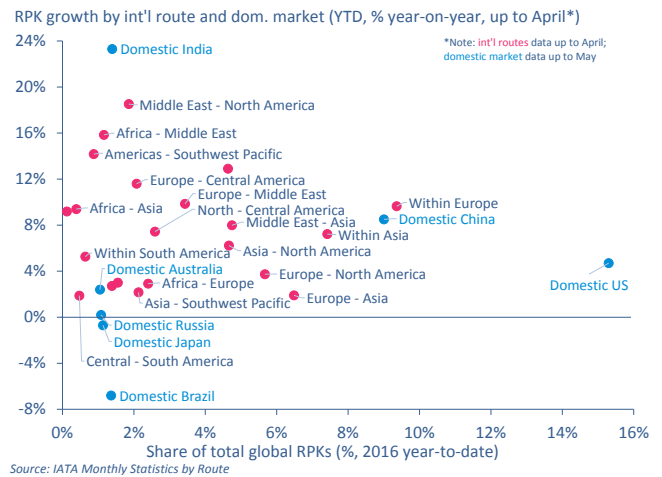
**Chart 4 – International passenger traffic growth by carrier region of registration**



Sources: IATA Economics, IATA Monthly Statistics

Once again, Middle Eastern airlines saw the fastest annual growth in international RPKs (+11.8% year-on-year), with all segment-based passenger routes to and from the Middle East seeing solid gains during the first five months of 2016. (See Chart 5.) However, there remains little sign of any easing in the upward trend in passenger capacity; annual growth in Middle Eastern international RPKs has now lagged behind that of capacity for 18 of the past 20 months.

**Chart 5 – International RPK growth by route**



Source: IATA Monthly Statistics by Route

Despite flying less than 2% of industry-wide international traffic, African airlines posted strong annual growth again (+9.5% year-on-year in May). The turnaround in fortunes from a number of difficult years coincides with expansion of long-haul networks by the region’s carriers – particularly Ethiopian Airlines.

### A pause in the upward trend for AsiaPac and Lat.Am

International traffic carried by Asia Pacific and Latin American airlines increased by the same annual pace in May (+5.1%). In both cases, the strong upward momentum has stalled in recent months, with seasonally-adjusted RPKs both having tracked sideways since the start of the year.

European carriers’ international traffic – the largest region in such terms – still shows signs of being affected by the Brussels terrorist attacks in mid-March (traffic grew by just 2.1% year-on-year in May). As is usually the pattern following such shock events, we expect traffic to recover somewhat over the coming months. That said, uncertainty in the post-‘Brexit’ world is likely to hit this region the hardest in the coming months.

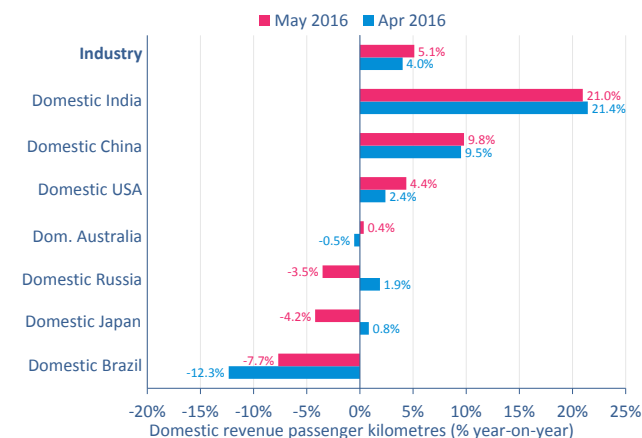
North American carriers have focused their efforts on the larger domestic market over the past year or so. The downward trend in seasonally-adjusted international traffic that has been a feature since July 2015 has eased

But international RPKs registered growth of just 0.5% year-on-year in May 2016, and the seasonally-adjusted level remains 0.2% below its mid-2015 peak.

### Domestic markets remain a mixed bag

Total domestic air travel growth increased to 5.1% year-on-year in May, up from 4.0% in April. (See Chart 6.)

**Chart 6 – Domestic RPK growth by market**



Sources: IATA Economics, IATA Monthly Statistics

Having gone through a soft patch over the previous six months, in line with a softening in business confidence indicators, domestic US RPKs look to have resumed their upward trend. Annual growth increased to 4.4% in May, up from 2.4% in April.

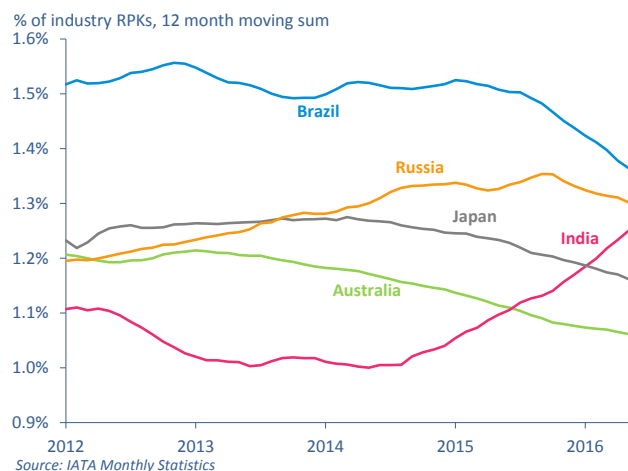
Annual growth in the domestic China market remained robust in May, edging up to 9.8% year-on-year, from 9.5% previously. The worst fears about slowing economic growth in China have eased in recent months, with indicators from the services side of the economy still suggesting that it is still expanding strongly. All told, the strong upward trend in passenger traffic remains in place, helped by increased flight frequencies, which afford more options for passengers and helps to stimulate demand.

### Yet another month of 20%+ growth for India

The domestic India market has now topped the domestic growth chart for each of the past 13 months, propelled by the comparatively strong economic backdrop as well as sizeable increases in services (average flight frequencies within India are scheduled to increase by 11.5% year-on-year in 2016). Annual growth in RPKs eased to 21.0% in May, but the bigger picture is that domestic India RPKs have now registered double-digit annual growth for 21 consecutive months, and the market has increased by more than 23% this year so far. (Again, see Chart 5.) The combination of rapid growth in India and slower (even negative) growth in other

similarly-sized domestic markets has seen India overtake Australia and Japan in terms of global share during 2015. At current trends, it is on course to overtake Russia and Brazil by the end of the year. (See Chart 7.)

**Chart 7 – Selected domestic passenger markets**



Source: IATA Monthly Statistics

Capacity in the mature domestic Japan market has trended down since the start of 2015, as operators have shifted to smaller aircraft. As a result, while RPKs have fallen by 0.7% in annual terms so far this year to date, the domestic load factor has actually *increased* by 1.8 percentage points. Capacity in Australia has also been cut over the past few months, reflecting a combination of fewer frequencies and smaller aircraft. RPKs grew by just 0.4% year-on-year in May, but the load factor improved by 2.5 percentage points from May 2015.

### Recessions continue to bite in Brazil and Russia

Passenger traffic in the highly energy-dependent economies of Brazil and Russia continues to contract. Russian business confidence unexpectedly jumped to a 19-month high in June, which suggests that the economic recession may be easing at last. Domestic traffic in Russia fell by 3.5% year-on-year in May, although capacity plunged by 8.0%. Accordingly, the domestic Russia load factor in May 2016 was 3.5 percentage points higher than a year ago.

The domestic Brazil market contracted by 7.7% year-on-year in May, and has fallen by more than 10% in seasonally-adjusted terms since early 2015. As we have argued before, the highly uncertain economic and political outlook is likely to pose further challenges for the air transport market in the near term.

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 7<sup>th</sup> July 2016

## Air passenger market detail - May 2016

	World share <sup>1</sup>	May 2016 (% year-on-year)				% year-to-date			
		RPK	ASK	PLF (%-pt) <sup>2</sup>	PLF (level) <sup>3</sup>	RPK	ASK	PLF (%-pt) <sup>2</sup>	PLF (level) <sup>3</sup>
<b>TOTAL MARKET</b>	<b>100.0%</b>	<b>4.6%</b>	<b>5.5%</b>	<b>-0.7%</b>	<b>78.7%</b>	<b>6.0%</b>	<b>6.2%</b>	<b>-0.1%</b>	<b>78.9%</b>
Africa	2.2%	8.6%	9.4%	-0.5%	65.7%	9.7%	9.1%	0.3%	67.6%
Asia Pacific	31.5%	6.6%	6.9%	-0.2%	76.9%	8.1%	7.6%	0.3%	78.4%
Europe	26.7%	2.0%	2.8%	-0.6%	80.2%	3.9%	3.5%	0.3%	79.3%
Latin America	5.4%	1.7%	1.3%	0.3%	79.4%	3.3%	3.0%	0.3%	79.8%
Middle East	9.4%	11.2%	15.4%	-2.7%	72.1%	11.2%	14.6%	-2.3%	75.1%
North America	24.7%	3.0%	3.4%	-0.3%	83.8%	3.6%	4.0%	-0.3%	82.0%
<b>International</b>	<b>63.6%</b>	<b>4.3%</b>	<b>6.1%</b>	<b>-1.3%</b>	<b>77.1%</b>	<b>6.3%</b>	<b>6.8%</b>	<b>-0.3%</b>	<b>77.9%</b>
Africa	1.9%	9.5%	10.4%	-0.5%	64.5%	10.9%	10.5%	0.2%	66.4%
Asia Pacific	17.4%	5.1%	6.4%	-1.0%	75.1%	8.2%	7.8%	0.3%	77.7%
Europe	23.8%	2.1%	3.5%	-1.1%	80.6%	4.1%	4.1%	-0.1%	79.9%
Latin America	2.9%	5.1%	5.2%	0.0%	80.2%	7.0%	6.2%	0.5%	79.9%
Middle East	9.1%	11.8%	15.6%	-2.4%	71.9%	11.7%	14.8%	-2.0%	74.9%
North America	8.5%	0.5%	1.9%	-1.1%	80.1%	1.5%	1.9%	-0.3%	79.0%
<b>Domestic</b>	<b>36.4%</b>	<b>5.1%</b>	<b>4.4%</b>	<b>0.5%</b>	<b>81.7%</b>	<b>5.4%</b>	<b>5.1%</b>	<b>0.2%</b>	<b>80.7%</b>
Dom. Australia <sup>4</sup>	1.1%	0.4%	-2.9%	2.5%	75.0%	2.4%	1.2%	0.8%	75.9%
Domestic Brazil <sup>4</sup>	1.4%	-7.7%	-8.1%	0.4%	78.5%	-6.8%	-5.9%	-0.8%	79.6%
Dom. China P.R. <sup>4</sup>	8.4%	9.8%	9.8%	0.0%	80.3%	8.5%	9.2%	-0.5%	80.9%
Domestic India <sup>4</sup>	1.2%	21.0%	21.9%	-0.7%	86.7%	23.3%	22.6%	0.5%	84.8%
Domestic Japan <sup>4</sup>	1.2%	-4.2%	-3.5%	-0.5%	65.4%	-0.7%	-3.3%	1.8%	67.2%
Dom. Russian Fed. <sup>4</sup>	1.3%	-3.5%	-8.0%	3.5%	74.8%	0.2%	-6.4%	4.9%	73.6%
Domestic US <sup>4</sup>	15.4%	4.4%	4.3%	0.1%	85.9%	4.7%	5.2%	-0.3%	83.7%

<sup>1</sup>% of industry RPKs in 2015

<sup>2</sup>Year-on-year change in load factor

<sup>3</sup>Load factor level

<sup>4</sup>Note: 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

**Note:** the total industry and regional growth rates are based on a constant sample of airlines combining reported data and estimates for missing observations. Airline traffic is allocated according to the region in which the carrier is registered; it should not be considered as regional traffic.

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