



AIR PASSENGER MARKET ANALYSIS

June 2017

Annual passenger growth posts a 12-year high in first half of 2017

- Global revenue passenger kilometres grew by 7.9% year-on-year in H1 2017 – the fastest first half since 2005.
- The strong start to the year has been driven by a brighter global economic backdrop and stimulus from lower airfares. However, the exceptionally supportive demand conditions have softened somewhat.
- The industry-wide passenger load factor posted an all-time high for the first six months of a year (80.7%).
- The Middle East was the only region to see a deceleration in annual int'l RPK growth in H1 2017 vs a year ago.

A strong first half of 2017 for passenger demand...

Industry-wide revenue passenger kilometres (RPKs) grew by 7.8% year-on-year in June, and by a similar rate (7.9%) in the first half of the year (H1 2017) as a whole. Nearly three-quarters of the year-on-year increase in global RPKs in H1 2017 was accounted for by airlines based in Asia Pacific and Europe. (See Chart 1.)

...in part reflecting a stronger economic backdrop

The strong start to the year for passenger demand has been set against a markedly brighter economic backdrop relative to the first half of 2016, as well as a period of demand stimulation from lower airfares.

The robust finish to 2016 for seasonally-adjusted (SA) traffic has also provided a favorable starting point for RPK growth rates in 2017. In fact, even if SA traffic had not risen at all in H1 2017 (ie, had it remained steady at its December 2016 level), year-on-year RPK growth

in the first half of the year as a whole would still have been in the region of 6%.

Further signs of an easing in the SA trend...

That said, the latest data provide further evidence that the upward trend in SA passenger traffic has slowed from that seen in the final months of 2016. (See Chart 2.) Industry-wide RPKs were growing at an annualized rate of more than 12% coming into 2017, but this has slowed to around 7% since February.

It is worth putting this slowing trend in perspective; despite the slowing, the annualized pace of growth remains ahead of the average growth rate of both the past five and ten years (6.4% and 5.5%, respectively).

However, as we have noted before, the slowing SA trend is consistent with a softening in the exceptionally supportive conditions for passenger demand that were in place in H2 2016. This relates to two key factors, the first of which is developments in business confidence;

Chart 1 – Contributions to annual RPK growth in the first half of each year by airline region of registration

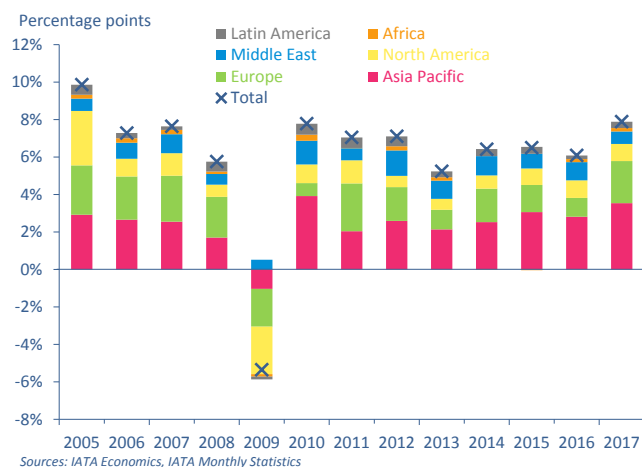
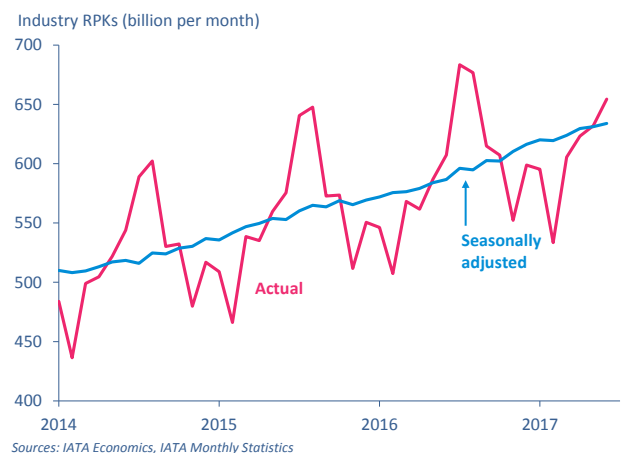


Chart 2 – Air passenger volumes

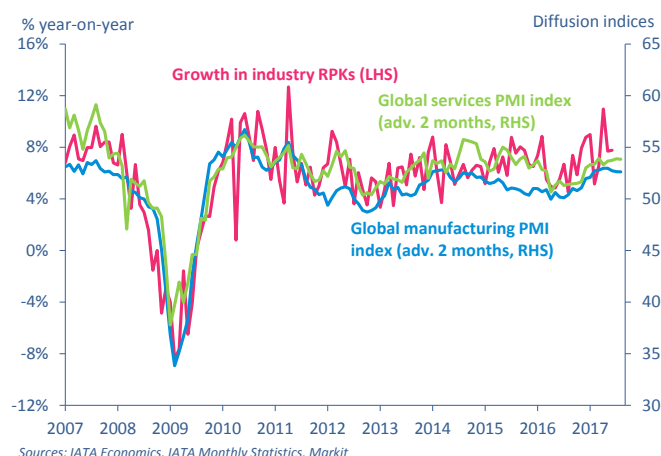


Air passenger market overview - June 2017

	World share ¹	June 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%	7.8%	6.5%	1.0%	81.9%	7.9%	6.1%	1.3%	80.7%
International	63.7%	7.5%	6.2%	1.0%	80.6%	8.1%	6.1%	1.5%	79.7%
Domestic	36.3%	8.2%	7.0%	0.9%	84.3%	7.4%	6.2%	0.9%	82.4%

having risen for five consecutive months between September 2016 and January 2017, the global services purchasing managers' index – which is strongly correlated with industry-wide passenger growth – has now tracked sideways over the first six months of 2017. (See Chart 3.) The second factor relates to less stimulus to demand from lower airfares; now that airline yields look to have bottomed out, the degree of demand stimulation is currently around half that seen in H2 2016, and is likely to fade further during H2 2017.

Chart 3 – Air passenger volume growth and global business confidence measures



...but 2017 is set to be another strong year

Despite the moderation in underlying demand momentum, conditions are likely to remain supportive of demand during the upcoming peak travel months of July and August. In turn, this looks set to underpin another above-trend year of RPK growth in 2017.

Load factor posts a record high for H1

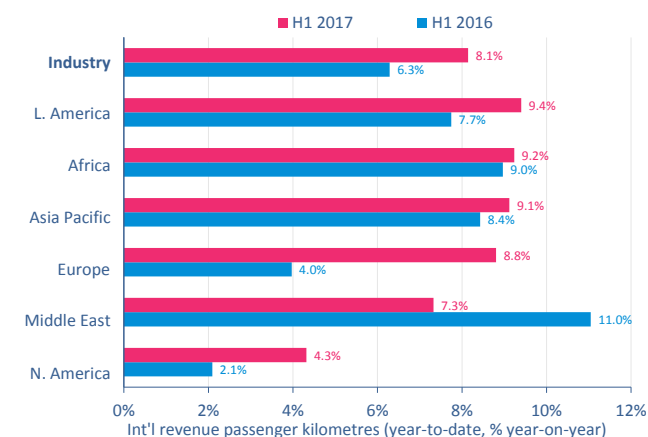
Industry-wide available seat kilometres (ASKs) increased by 6.5% year-on-year in June, and by 6.1% in H1 2017 as a whole. ASKs and RPKs have trended upwards at similar annualized growth rates over the past three months or so, which has resulted in the SA industry-wide load factor remaining close to its record high.

The global passenger load factor in H1 2017 rose by 1.3 percentage points compared to the same period a year ago, taking it to a record high for the period (80.7%). All regions except the Middle East registered year-on-year increases in load factors in H1.

Acceleration in int'l RPK growth in most regions

International RPKs grew by 7.5% year-on-year in June, and by 8.1% in H1 2017 as a whole. (See Chart 4.) The two smallest and the two largest regions all posted very similar annual RPK growth rates in H1.

Chart 4 – International passenger traffic growth by airline region of registration



African and South American airlines top the chart

Latin American carriers posted the fastest international RPK growth rate in H1 2017 (9.4%), and SA volumes have continued their strong upward trend. International volumes within South America have grown by nearly 13% in annual terms so far in 2017. By contrast, passenger volumes on the North-South America market segment have fallen slightly (-0.2%).

African airlines posted a similar headline growth to their Latin American counterparts (9.2%), broadly similar to the pace seen in H1 2016. Having trended upwards strongly since mid-2015, the latest data show a small fall in SA traffic over the past few months. This is within the range of normal volatility in the series, but we will monitor developments closely. Conditions in the region's two largest economies have continued to diverge; business confidence in Nigeria has risen sharply in recent months, but South Africa's economy fell into recession in Q1 2017.

Robust growth for Asia-Pac airlines continues

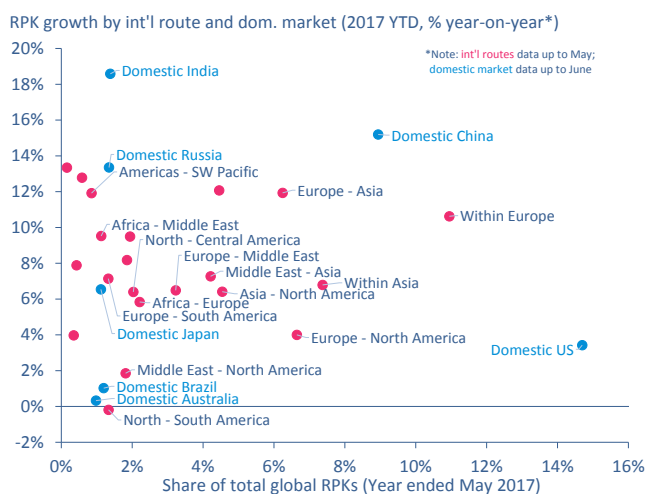
International RPKs flown by airlines based in Asia Pacific grew by 9.1% year-on-year in H1 2017, up from 8.4% in the same period of 2016. The overall upward trend in SA traffic remains strong but as in the case for African airlines, volumes have slipped in recent months. Having been affected by terrorism-related disruption in early-2016, traffic on the Asia-Europe route has continued to trend upwards strongly on a SA basis; it has grown by nearly 12% in annual terms in the first five months of the year. (See Chart 5, overleaf.) However, the strong upward SA trend on international routes within Asia has paused.

European RPK trend has slowed

Year-on-year growth in international RPKs flown by European airlines accelerated to 8.8% in H1 2017, up from 4.0% in H1 2016. The stronger growth relates to a combination of the favorable comparison with the

weaker traffic trend seen during H1 2016 and increased momentum in the regional economic backdrop. (Consumer confidence in the eurozone recently reached a 16 year-high, for example.)

Chart 5 – RPK growth by route and market (YTD)



That said, the upward trend in SA RPKs has moderated over the past four months, which ties in with a pause in the recovery in international traffic within the region; the latter has grown by 10.6% year-on-year so far in 2017, but SA volumes have trended sideways since December.

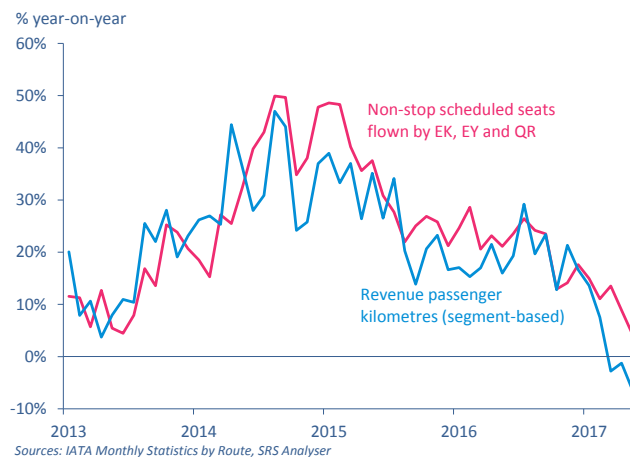
Middle East pax traffic remains under pressure

International RPKs flown by Middle Eastern airlines grew by 7.3% in H1 2017 compared to the same period a year ago. This was the slowest H1 growth rate since 2003, and it was the only region to see growth decelerate relative to the same period a year ago. Moreover, the solid growth rate largely reflects carry-over effects from 2016; international RPKs flown by the region's carriers have trended *down* at a 6% annualized rate since the start of 2017.

The weakness is now visible in the traffic trends on the biggest routes to and from the region (to Asia and Europe), but is most acute on the Middle East to North America market. This market has been affected by a combination of factors including the (recently-lifted) ban on personal electronic devices, as well as a wider impact from the proposed travel bans to the US.

Passenger traffic growth on the segment between the Middle East and North America was already slowing in early-2017, in line with a moderation in the pace of growth of non-stop services flown by the 'big-three' Middle Eastern airlines. (See Chart 6.) However, RPKs fell in year-on-year terms in May for the third month in a row (-6.7%), and the load factor on the segment plunged by more than 9 percentage points compared to May 2016.

Chart 6 – Scheduled services and passenger traffic between the Middle East and North America



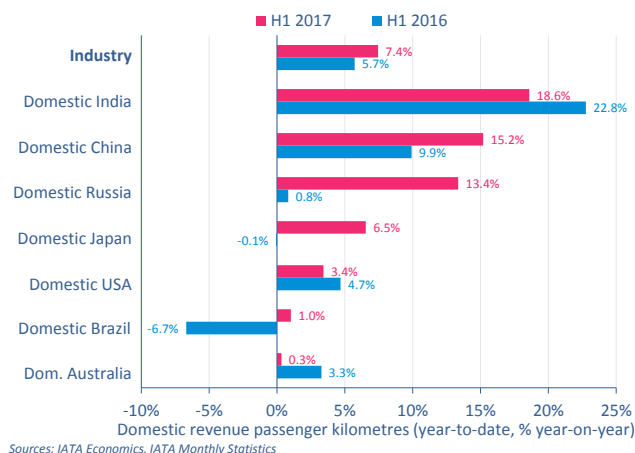
Solid RPK trend for North American airlines

North American airlines' international RPKs grew by 4.3% in H1 2017, up from 2.1% a year ago. The upward SA trend has paused, although the comparatively robust economic backdrop in North America is expected to continue to support outbound passenger demand in the near-term. However, anecdotal evidence has continued to suggest that tourists are being deterred by the additional security measures now involved with travelling to the US.

Wide variation in domestic market performance

Year-on-year growth in domestic RPKs rose to 7.4% in H1 2017, from 5.7% in H1 2016. (See Chart 7.)

Chart 7 – Domestic RPK growth by market



India tops the growth chart in H1 2017

Domestic India RPKs grew by 18.6% in year-on-year terms in H1 2017, with annual RPK posting its 34th consecutive month of double-digit growth in June. That said, growth in H1 2017 was slightly slower than that a year ago, and the bigger picture is that the very strong upward SA traffic trend has slowed since the unexpected 'demonetization' in November 2016. RPKs are still currently trending upwards, albeit at a slower annualized rate of around 7%. All told,

domestic India's impressive run of double-digit year-on-year growth looks likely to have ended in July.

Strong upward trend in Chinese traffic continues

The domestic China market grew by 15.2% year-on-year in H1 2017, up from 9.9% last year. There continues to be little sign of any slowdown in the SA traffic trend. The latest GDP figures from Q2 2017 were stronger than expected, although growth in consumer spending per head and in wider consumer-driven industries slowed. Air travel demand is continuing to be stimulated by supply factors, including ongoing growth in the number of unique airport-pair routes served, which ultimately translates into time savings for passengers.

Pick-up in economic activity helping Russia RPKs

Domestic Russia RPKs in H1 2017 grew at their fastest annual pace in the first half of a year since 2014 (13.4%). This performance has been helped by the broader recovery in economic conditions since oil prices reached a multi-year low in early-2016. Business confidence is well above its five-year average, but has trended down slightly in recent months alongside a similar decline in SA RPKs. Moreover, of the key domestic markets we regularly monitor, Russia is the only market to have seen a year-on-year decline in its load factor in H1 2017.

Ongoing recovery in the domestic Japan market

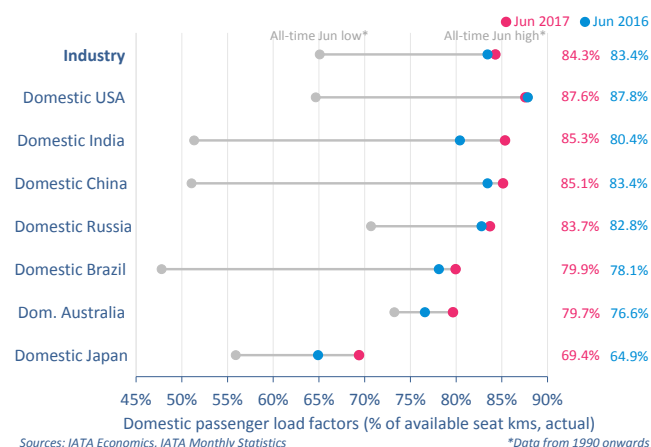
Domestic Japan RPKs made their second strongest start to a year on record in H1 2017 (+6.5%), second only to the rebound in traffic in the year following 2011's Great Tohoku earthquake. SA traffic is continuing the upward trend that has been in place since May 2016, helped by a comparatively robust economic backdrop. The pick-up in demand has far outpaced that of supply: although still the lowest of all the domestic markets that we track, Japan's domestic load factor in June surged by 4.5 percentage points compared to the same month a year ago, lifting it to a record high for the month (69.4%). (See Chart 8.)

Moderate growth trend in US traffic and capacity

The US domestic market – the world's largest – grew by 3.4% year-on-year in H1 2017. This was slower than that registered in H1 2016, but the bigger picture

is that the modest upward trend in SA volumes remains in place and consumer confidence surveys remain strong. The domestic US load factor remains the highest of all the markets we track, but following a strong month-on-month pick-up in capacity in June, it was the only market not to post an all-time high for the month. (Again, see Chart 8.)

Chart 8 – Domestic passenger load factors



Domestic Brazil struggling for momentum...

Domestic Brazil RPKs grew by a modest 1.0% in H1 2017 from the same period in 2016. Given the fragile political and economic backdrop, volumes are struggling for any momentum in SA terms; tellingly, passenger volumes are still 8% lower than their peak reached in late 2010. However, airlines in the country have managed to limit the impact on passenger loads; at 79.9% in June, the load factor set a record-high for the month.

...but Australia RPKs have ground to a standstill

With passenger volumes in SA terms continuing to track sideways, the domestic Australia market barely grew in H1 2017. However, capacity has *fallen* at an annualized rate of around 3% since the start of the year, which resulted in the load factor also posting a record high for the month of June, 3.1 percentage points higher than the same month last year. (Once again, see Chart 8.)

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 3rd August 2017

Air passenger market detail - June 2017

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		RPK	ASK	PLF (%-pt) ²	PLF (level) ³	RPK	ASK	PLF (%-pt) ²	PLF (level) ³
TOTAL MARKET	100.0%	7.8%	6.5%	1.0%	81.9%	7.9%	6.1%	1.3%	80.7%
Africa	2.2%	9.2%	6.6%	1.6%	64.8%	8.1%	4.2%	2.5%	68.6%
Asia Pacific	32.8%	11.6%	9.4%	1.6%	80.9%	10.6%	7.9%	2.0%	80.8%
Europe	26.5%	8.8%	6.7%	1.7%	85.4%	8.8%	6.3%	1.9%	82.4%
Latin America	5.2%	6.7%	5.2%	1.2%	81.6%	6.6%	4.2%	1.8%	81.4%
Middle East	9.6%	2.1%	3.3%	-0.8%	68.8%	6.9%	7.5%	-0.4%	73.4%
North America	23.7%	4.0%	4.1%	0.0%	86.3%	3.8%	3.4%	0.3%	83.1%
International	63.7%	7.5%	6.2%	1.0%	80.6%	8.1%	6.1%	1.5%	79.7%
Africa	1.9%	9.9%	7.1%	1.7%	64.3%	9.2%	4.8%	2.7%	67.8%
Asia Pacific	18.1%	9.1%	7.9%	0.9%	79.3%	9.1%	6.7%	1.7%	79.6%
Europe	23.7%	8.8%	6.5%	1.8%	85.9%	8.8%	6.0%	2.2%	83.1%
Latin America	2.7%	9.7%	9.1%	0.4%	82.1%	9.4%	6.2%	2.4%	82.1%
Middle East	9.3%	2.5%	3.1%	-0.4%	68.9%	7.3%	7.4%	-0.1%	73.6%
North America	8.0%	4.4%	4.1%	0.3%	84.5%	4.3%	3.6%	0.6%	80.6%
Domestic	36.3%	8.2%	7.0%	0.9%	84.3%	7.4%	6.2%	0.9%	82.4%
Dom. Australia ⁴	1.0%	2.2%	-1.7%	3.1%	79.7%	0.3%	-2.3%	2.0%	77.6%
Domestic Brazil ⁴	1.2%	1.6%	-0.7%	1.8%	79.9%	1.0%	-0.1%	0.9%	80.2%
Dom. China P.R. ⁴	8.7%	17.6%	15.3%	1.7%	85.1%	15.2%	12.5%	2.0%	84.4%
Domestic India ⁴	1.3%	20.3%	13.3%	4.9%	85.3%	18.6%	15.5%	2.2%	85.9%
Domestic Japan ⁴	1.1%	7.9%	0.9%	4.5%	69.4%	6.5%	1.6%	3.2%	68.9%
Dom. Russian Fed. ⁴	1.3%	9.7%	8.4%	0.9%	83.7%	13.4%	13.8%	-0.3%	77.2%
Domestic US ⁴	15.0%	3.7%	4.0%	-0.3%	87.6%	3.4%	3.3%	0.1%	84.5%

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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