



AIR PASSENGER MARKET ANALYSIS

April 2016

Solid year-to-date growth, but economic gravity is reasserting itself

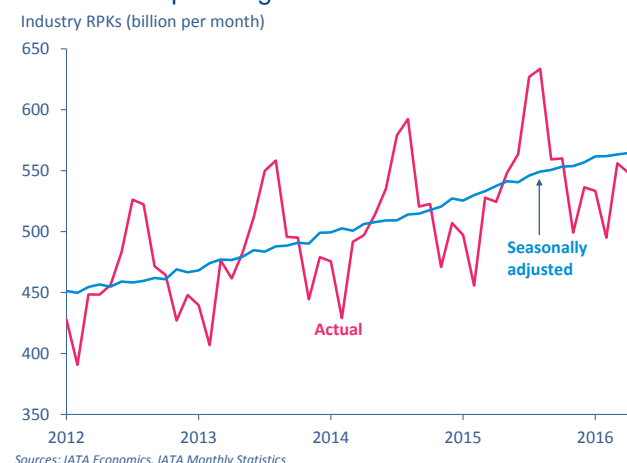
- Disruption to traffic following the terrorist attacks in Brussels weighed on traffic growth in April.
- In year-on-year growth terms, the global passenger market has made a robust start to 2016...
- ...but the upward trend in traffic has weakened, and the pull of economic gravity is reasserting itself.
- The industry-wide seasonally-adjusted load factor has eased back in recent months.

Post-Brussels disruption weighed on April growth...

Annual growth in revenue passenger kilometres (RPKs) dropped to 4.6% in April – its slowest pace since January 2015. The decline was partly attributable to disruption following the Brussels terrorist attacks in March. Abstracting from this, we estimate that passenger volumes grew by around 5% year-on-year in April.

More generally, the global air passenger market has made a robust start to 2016 in year-on-year growth terms. The 6.4% year-on-year increase in industry-wide RPKs in the first four months 2016 was flattered somewhat by the fact that 2016 is a leap year. Adjusting for the extra day in February, we estimate that traffic grew by 5.5% in the first four months of 2016 – slightly ahead of its average growth rate over the past decade.

Chart 1 – Air passenger volumes



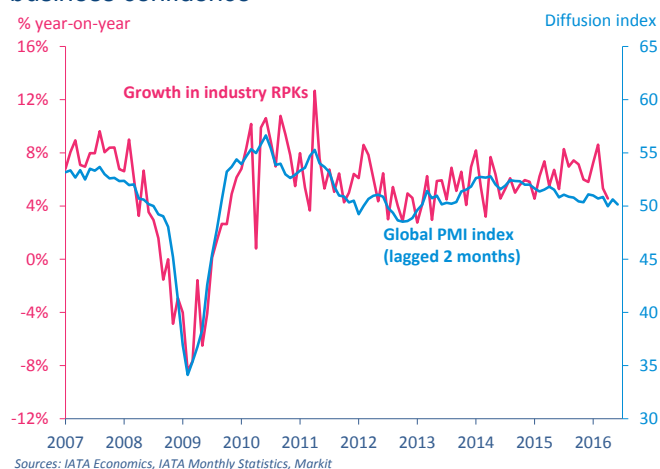
...but signs of economic gravity reasserting itself

That said, the upward trend in seasonally-adjusted passenger volumes has moderated markedly since January; the market has grown at annualized rate of just below 2% since the start of 2016. (See Chart 1.) All told, this adds to the notion that we are coming towards the end of the biggest stimulus to traffic demand from lower oil prices. Moreover, with the wider global economic backdrop remaining subdued, it appears that economic gravity is starting to reassert itself. (See Chart 2.)

Load factor has eased back from its all-time high

The industry-wide load factor came in at 78.9% in the first four months of 2016 as a whole, unchanged from the same period in 2015. However, after reaching an all-

Chart 2 – Air passenger volume growth and global business confidence



Air passenger market overview - April 2016

	World share ¹	April 2016 (% 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%	4.6%	4.9%	-0.3%	79.1%	6.4%	6.4%	0.0%	78.9%
International	63.6%	4.8%	5.6%	-0.6%	77.8%	6.9%	7.0%	-0.1%	78.0%
Domestic	36.4%	4.1%	3.8%	0.3%	81.4%	5.5%	5.3%	0.1%	80.5%

¹% of industry RPKs in 2015

²Year-on-year change in load factor

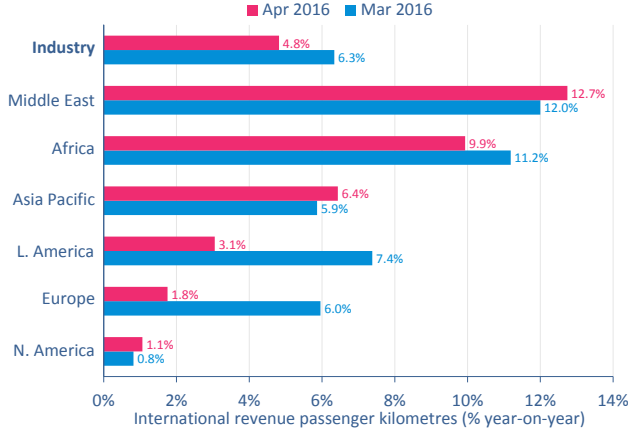
³Load factor level

time high in November, the seasonally adjusted load factor has eased back in recent months, reflecting a combination of a slight acceleration in capacity growth and a weaker trend in traffic. April was the third consecutive month in which annual growth in available seat kilometres exceeded that of RPKs. The seasonally-adjusted industry-wide load factor edged up between April and March 2016, but has dropped by 1.0 percentage point from its November 2015 peak.

Slowing in international passenger traffic growth

Annual growth in international RPKs slowed to 4.8% in April, from 6.3% in March – its slowest pace in two years. (See Chart 3.)

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



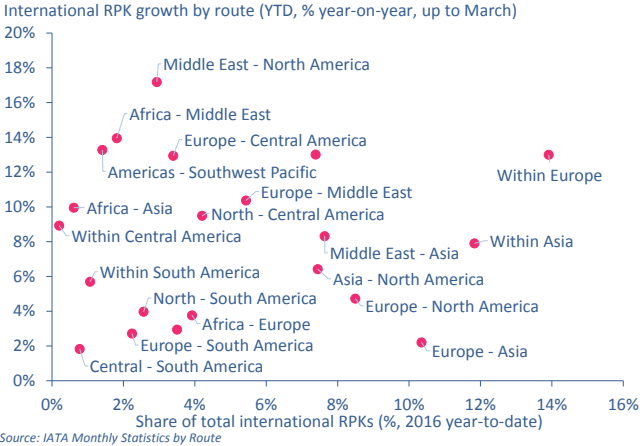
Sources: IATA Economics, IATA Monthly Statistics

The bulk of the slowdown in the total international growth rate relates to European carriers – the largest region in such terms – following the Brussels terrorist attacks in mid-March. As is usually the pattern following such shock events, we expect traffic to recover somewhat over the coming months and for the solid upward trend in traffic to reestablish itself. The ‘Within Europe’ market expanded by over 12% in the first quarter of 2016, helped by surprisingly robust economic growth in the region during the start of the year.

International traffic carried by Asia Pacific airlines (the other major international region) rose to 6.4% year-on-year in April (but increased by 8.8% this year-to-date). Slower economic growth in many of the region’s economies has been at least partly offset by the 7.3% increase in the number of direct airport connections within the region, which has helped to stimulate demand by affording time savings for passengers. Key international routes within Asia, across the Pacific and to the Middle East grew robustly in annual terms during Q1 2016, but the Asia to Europe route has lagged

behind. The strong upward trend in seasonally adjusted traffic remains evident, although traffic has slipped in recent months and we will monitor closely whether this turns out to mark the start of a downward trend. (See Chart 4.)

Chart 4 – International RPK growth by route



Source: IATA Monthly Statistics by Route

Middle East carriers top the int’l growth chart again

At 12.7% year-on-year, Middle Eastern airlines in April once again saw the fastest annual growth in international RPKs. Segment-based passenger routes to and from the Middle East all grew strongly during the first quarter of 2016. (Again, see Chart 4.) However, annual growth in Middle Eastern international RPKs eased during 2015 and it has now lagged behind that of capacity for seventeen of the past nineteen months. The region’s international load factor has fallen by more than five percentage points in seasonally-adjusted terms since its peak in May 2014.

North American carriers have focused their efforts on the larger domestic market over the past year or so, and international traffic has trended downwards since July 2015. The downward slide paused in April, although international RPKs still only grew by 1.1% year-on-year in April 2016 and the seasonally-adjusted level remains 0.5% below that seen in July 2015.

Upward trend for Lat.Am carriers has paused

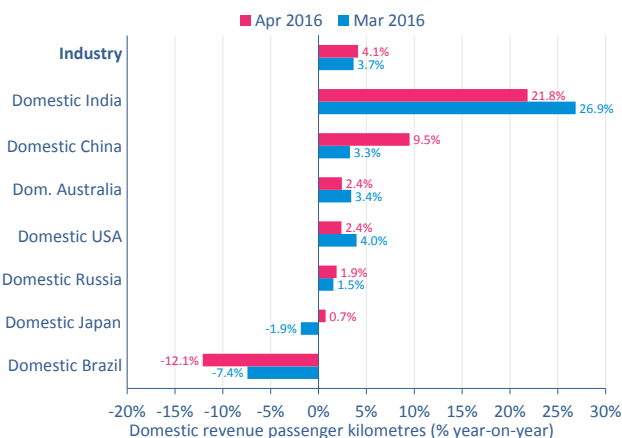
The strong upward trend in international traffic flow by Latin American carriers that was a feature of 2015 has paused. Seasonally-adjusted RPKs have tracked sideways since the start of the year, and annual growth slowed to 3.1% in April. Meanwhile, the downward trend in domestic traffic flow by the region’s carriers has accelerated in recent months reflecting ongoing economic and political difficulties in the region’s biggest economies – notably Brazil.

African airlines carry less than 2% of industry-wide international traffic but once again posted strong annual growth (+9.9% year-on-year in April). 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.

Wide variation in performance of domestic markets

Total domestic air travel growth edged up to 4.1% year-on-year in April, but has slowed markedly over the past two months. (See Chart 5.)

Chart 5 – Domestic RPK growth by market



Sources: IATA Economics, IATA Monthly Statistics

The recent slowdown in the headline domestic growth rate has been driven mainly by the US market (which is by far the largest in the world). Domestic US RPKs increased by 2.4% year-on-year in April. However, the strong upward trend in seasonally-adjusted RPKs that was a feature of the domestic US market during much of 2015 has paused over the past six months, in line with a softening in business confidence indicators.

As expected, annual growth in the domestic China market recovered in April, jumping to 9.5% year-on-year having slipped to 3.3% in March. The worst fears about slowing economic growth in China have eased in recent months, with indicators from the services side of the economy indicating that it is still expanding strongly. The upward trend in passenger traffic remains strong, helped by strong frequency growth, which affords more options for passengers and helps to stimulate demand.

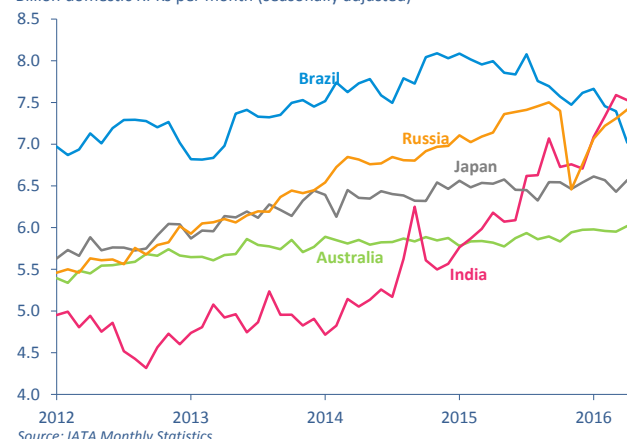
Another month of 20%+ growth for India

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 21.8% in April, but the bigger picture is that domestic India RPKs have now registered double-digit annual growth for 20 consecutive months. The combination of such rapid growth in India and slower (even negative) growth in other similarly-sized domestic markets has seen India overtake its peers in seasonally-adjusted RPK-terms over the past year or so, most

Chart 6 – Selected domestic passenger markets

Billion domestic RPKs per month (seasonally adjusted)



recently Brazil in March. (See Chart 6.)

The more mature passenger markets of Japan and Australia saw modest growth in domestic RPKs in April, at 0.7% and 2.4% respectively. But notably, such modest growth in demand occurred against a backdrop of declining capacity. Subsequently, domestic load factors in each market increased by 2.1 and 2.8 percentage points compared to April 2015.

Recessions are biting in Brazil and Russia

It was a similar, albeit more stark, case in Russia. Domestic traffic in Russia has recovered in seasonally-adjusted terms following the shutdown of Transaero and surpassed its October 2015 level in April (as shown in Chart 6). While RPKs grew by only 1.9% year-on-year in April, capacity plunged by 9.6%. Accordingly, the domestic Russia load factor in April 2016 was a whopping 8.6 percentage points higher than a year ago.

Brazil remains the laggard. Domestic Brazil RPKs plunged by 12.1% year-on-year in April – the biggest contraction since June 2003. The highly uncertain economic and political outlook appears likely to pose further challenges for the air transport market in the near term.

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 30th May 2016

Air passenger market detail - April 2016

	World share ¹	April 2016 (% 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%	4.6%	4.9%	-0.3%	79.1%	6.4%	6.4%	0.0%	78.9%
Africa	2.2%	8.6%	9.5%	-0.5%	67.7%	9.9%	9.1%	0.5%	68.1%
Asia Pacific	31.5%	7.3%	7.0%	0.2%	78.4%	8.4%	7.8%	0.4%	78.7%
Europe	26.7%	1.9%	1.8%	0.1%	79.8%	4.5%	3.7%	0.6%	79.0%
Latin America	5.4%	-1.2%	-0.7%	-0.4%	78.3%	3.7%	3.4%	0.3%	79.9%
Middle East	9.4%	12.2%	14.7%	-1.7%	75.7%	11.1%	14.4%	-2.2%	75.8%
North America	24.7%	1.9%	2.4%	-0.4%	82.3%	3.8%	4.2%	-0.3%	81.5%
International	63.6%	4.8%	5.6%	-0.6%	77.8%	6.9%	7.0%	-0.1%	78.0%
Africa	1.9%	9.9%	11.1%	-0.7%	66.3%	11.2%	10.6%	0.4%	66.8%
Asia Pacific	17.4%	6.4%	6.8%	-0.3%	77.3%	8.8%	8.2%	0.5%	78.3%
Europe	23.8%	1.8%	2.4%	-0.5%	80.2%	4.7%	4.4%	0.2%	79.7%
Latin America	2.9%	3.1%	2.9%	0.1%	77.7%	7.5%	6.5%	0.7%	79.8%
Middle East	9.1%	12.7%	14.8%	-1.4%	75.6%	11.7%	14.6%	-2.0%	75.6%
North America	8.5%	1.1%	0.9%	0.1%	78.3%	1.8%	1.9%	-0.1%	78.7%
Domestic	36.4%	4.1%	3.8%	0.3%	81.4%	5.5%	5.3%	0.1%	80.5%
Dom. Australia ⁴	1.1%	2.4%	-1.1%	2.8%	78.9%	3.6%	2.2%	1.0%	76.7%
Domestic Brazil ⁴	1.4%	-12.1%	-10.4%	-1.5%	79.6%	-6.5%	-5.3%	-1.0%	79.9%
Dom. China P.R. ⁴	8.4%	9.5%	9.4%	0.1%	81.8%	8.2%	9.1%	-0.6%	81.0%
Domestic India ⁴	1.2%	21.8%	21.3%	0.4%	84.3%	24.1%	22.9%	0.8%	84.3%
Domestic Japan ⁴	1.2%	0.7%	-2.4%	2.1%	65.8%	0.2%	-3.1%	2.3%	67.6%
Dom. Russian Fed. ⁴	1.3%	1.9%	-9.6%	8.6%	75.9%	1.4%	-6.0%	5.3%	73.2%
Domestic US ⁴	15.4%	2.4%	3.3%	-0.7%	84.5%	4.9%	5.4%	-0.4%	83.1%

¹% of industry RPKs in 2015

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

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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