



AIR PASSENGER MARKET ANALYSIS

March 2016

Strong start to the year, but signs that growth will slow

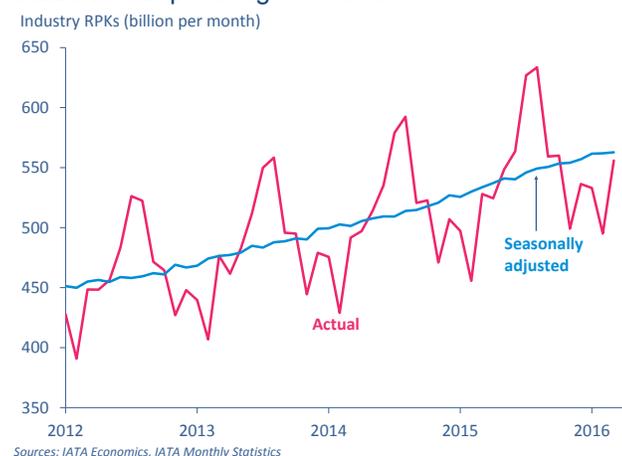
- The global passenger market made a strong start to 2016, even allowing for the leap year.
- Ongoing stimulus from lower fares is likely to support passenger demand over the coming months...
- ...but RPK growth will not be able to defy the pull of economic gravity indefinitely.
- The industry-wide seasonally-adjusted load factor has slipped in recent months.

A strong first quarter of 2016 for passenger traffic...

The global air passenger market expanded by 7.0% year-on-year in the first quarter of 2016 – its strongest start to a year since 2012. The result was helped somewhat by the leap year; we estimate that passenger volumes grew by around 6.0% year-on-year once you adjust for the extra day in February 2016 – a respectable rate broadly in line with the pace seen in Q1 2015.

That said, annual growth in revenue passenger kilometres (RPKs) fell to 5.3% in March – its slowest pace since June 2015 – and the upward trend in seasonally-adjusted passenger volumes has moderated substantially over the past two months. (See Chart 1.) It is too soon to say whether this marks the end of the recent golden period of industry growth. Indeed, we expect further stimulus to traffic to come through in the

Chart 1 – Air passenger volumes

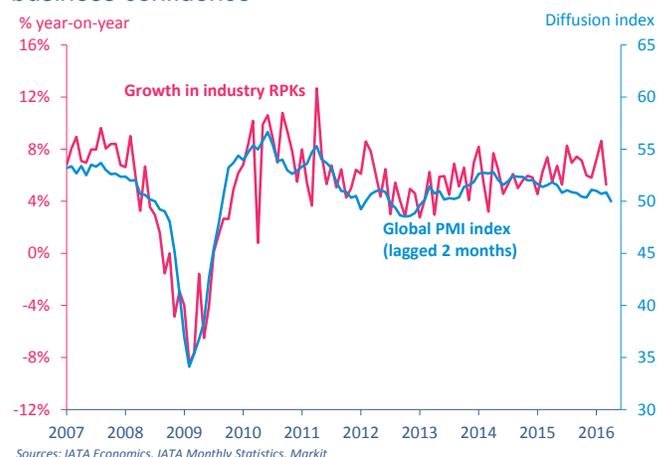


form of ongoing network expansion and from declines in travel costs during the rest of this year. Moreover, the latest results from IATA's quarterly survey of airline CFOs show a vast majority of respondents expect further improvement in passenger volumes over the year ahead. Nonetheless, we are perhaps coming towards the end of the biggest stimulus to traffic from lower oil prices, and the bigger picture is that the wider economic backdrop remains subdued. Having 'decoupled' from economic sentiment during 2015, global passenger growth will not be able to defy the pull of economic gravity indefinitely. (See Chart 2.)

...although further signs of slippage in load factors

The industry-wide load factor came in at 78.7% in Q1 as a whole, the same as in Q1 2015. However, the

Chart 2 – Air passenger volume growth and global business confidence



Air passenger market overview - March 2016

	World share ¹	March 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%	5.3%	5.9%	-0.5%	79.6%	7.0%	7.0%	0.0%	78.7%
International	63.6%	6.2%	6.9%	-0.5%	78.5%	7.5%	7.6%	0.0%	78.0%
Domestic	36.4%	3.7%	4.3%	-0.4%	81.6%	6.0%	6.0%	0.0%	80.1%

¹% of industry RPKs in 2015

²Year-on-year change in load factor

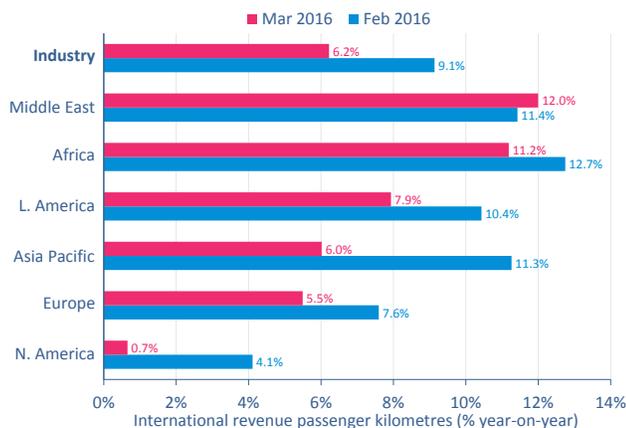
³Load factor level

seasonally adjusted load factor has slipped in recent months, reflecting a combination of a slight acceleration in capacity growth and a weaker trend in traffic. March was the second consecutive month in which annual growth in available seat kilometres exceeded that of RPKs. The seasonally-adjusted industry-wide load factor has fallen by 1.4 percentage points from its November 2015 peak.

Robust growth in international passenger traffic

International RPKs grew by 6.2% year-on-year in March and by 7.5% in Q1 as a whole. (See Chart 3.)

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



Sources: IATA Economics, IATA Monthly Statistics

International RPKs flown by European carriers – the largest region in such terms – have continued to recover from the disruption in the final quarter of 2015 caused by airline strikes and the shutdown of Transaero in Russia. Knock-on impacts from the Brussels terrorist attacks will have detracted at the margin, but there has been strong growth in markets within Europe during the start of 2016. (See Chart 4). The largest routes including those between the UK and Germany to and from Spain have seen strong growth so far this year. Overall, annual growth in international RPKs for the region’s carriers grew broadly in line with its five-year average rate during March and Q1 2016.

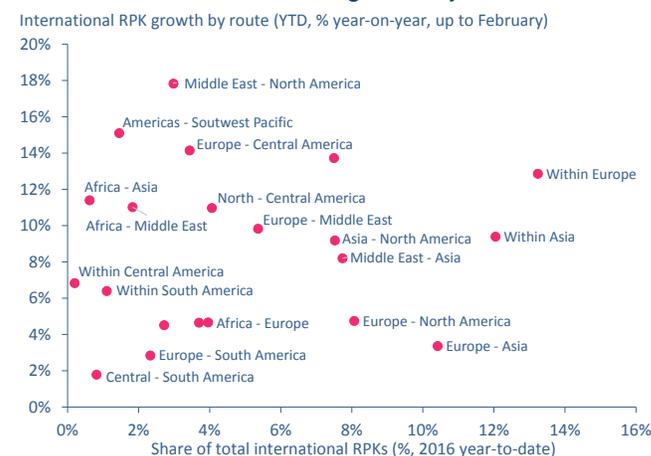
International traffic carried by Asia Pacific airlines (the other major international region) increased by 9.5% year-on-year in Q1 – the strongest start to the year since 2010. Slower economic growth in many of the region’s economies has been at least partly offset by the 7.3% increase in the number 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 strongly in the opening months

of 2016, although the Asia to Europe route lagged behind. (See Chart 4.)

Middle East regains position at top of growth chart

At 12.0% year-on-year, Middle Eastern airlines saw the fastest annual growth in international RPKs in March, helped by ongoing network and fleet expansion. Flight segments on routes to and from the Middle East all grew strongly at the start of 2016. (Again, see Chart 4.) That said, annual growth in Middle Eastern international RPKs eased during 2015 and it has now lagged behind that of capacity for sixteen of the past eighteen months. As a result, the region’s international load factor has fallen by more than five percentage points in seasonally-adjusted terms since its peak in May 2014.

Chart 4 – International RPK growth by route



Sources: IATA Monthly Statistics by Route

North American carriers’ international traffic has trended downwards at an annualized pace of 2% since last July. The slide has coincided with a reduction in international capacity as carriers have concentrated their efforts on the larger and stronger domestic market. International RPKs carried by North American airlines grew by just 0.7% year-on-year in March 2016 – the slowest pace since April 2013 – but the load factor has remained elevated.

Upward trend slows for Latin American carriers

The strong upward trend in international traffic flow by Latin American carriers finally looks to have weakened, although traffic still grew by 9.1% year-on-year in Q1. By contrast, domestic traffic flow by the region’s carriers remains under pressure from economic difficulties in the region’s biggest economies – notably Brazil.

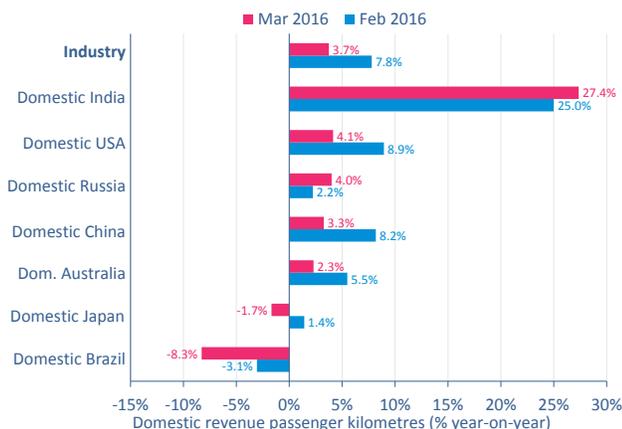
African airlines carry less than 2% of industry-wide international traffic but once again posted strong annual growth. (Again, see Chart 3.) The turnaround in fortunes

from a number of difficult years coincides with expansion of long-haul networks by the region's carriers.

Domestic traffic markets are a mixed bag

Total domestic air travel growth fell to 3.7% year-on-year in March, but remained solid at 6.0% in Q1 as a whole. (See Chart 5.)

Chart 5 – Domestic RPK growth by market



Sources: IATA Economics, IATA Monthly Statistics

The drop in the headline domestic growth rate in March was driven overwhelmingly by the largest domestic markets (the US, which accounted for more than two-fifths of all domestic RPKs flown last year, and China). 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, and ongoing network growth.

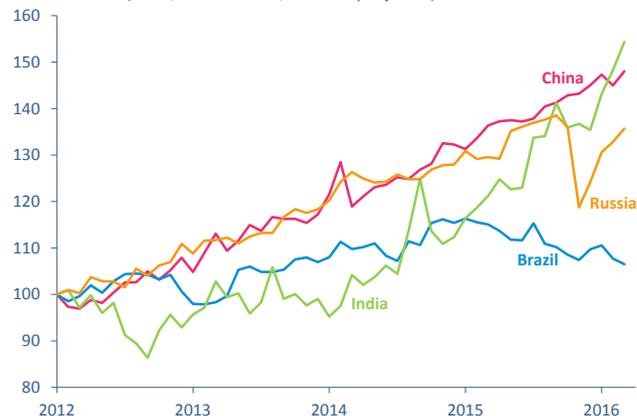
The decline in year-on-year domestic China growth rate to 3.3% year-on-year in March relates more to developments in early-2015 than to a pronounced slowdown in the near-term trend. If the robust upward trend continues, annual growth should rebound to around 8% over the coming months. (See Chart 6.) 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.

India moves ahead of the rest of the pack

The domestic India market remains the fastest-expanding market, with growth edging up to 27.4% year-on-year in March. Growth in the India domestic market is being propelled by the comparatively strong economic backdrop as well as sizeable increases in services (average flight frequencies within India are scheduled to

Chart 6 – Domestic RPKs in the 'BRIC's

Domestic RPKs (Index, Jan 2012=100, seasonally adjusted)



Source: IATA Monthly Statistics

increase by 11.5% year-on-year in 2016). India's annual domestic RPK growth rate has now been in double digits for nineteen 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 the others in terms of seasonally-adjusted domestic RPKs over the past year or so, most recently Brazil, which it surpassed in March.

Australia domestic RPKs rose by 3.5% year-on-year in Q1, although the latest seasonally adjusted trend has weakened in recent months. Meanwhile, domestic Japan RPKs Q1 were broadly unchanged from those in 2015 Q1. Economic growth in Japan remains fitful and a sustained surge in traffic demand anytime soon looks unlikely.

Recessions are biting in Brazil and Russia

The domestic Brazil market plunged by 8.3% year-on-year in March – the biggest contraction in more than 12 years. The highly uncertain economic and political outlook appears likely to pose further challenges for the air transport market in the near term.

Domestic traffic in Russia has bounced back in seasonally-adjusted terms from the November low-point following the shutdown of Transaero (as shown in Chart 6). Annual RPK growth accelerated to 4.0% in March 2016, even as capacity fell by 4.8%. Accordingly, at 75.0% in March 2016, the Russian load factor was 6.3 percentage points higher than in March 2015.

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 5th May 2016

Air passenger market detail - March 2016

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		RPK	ASK	PLF (%-pt) ²	PLF (level) ³	RPK	ASK	PLF (%-pt) ²	PLF (level) ³
TOTAL MARKET	100.0%	5.3%	5.9%	-0.5%	79.6%	7.0%	7.0%	0.0%	78.7%
Africa	2.2%	9.7%	8.2%	1.0%	68.2%	10.4%	9.0%	0.9%	68.2%
Asia Pacific	31.5%	5.1%	6.7%	-1.2%	78.3%	8.6%	8.3%	0.2%	78.6%
Europe	26.7%	5.3%	4.6%	0.5%	80.2%	5.4%	4.5%	0.7%	78.7%
Latin America	5.4%	3.8%	2.8%	0.7%	78.3%	5.3%	4.8%	0.4%	80.3%
Middle East	9.4%	11.5%	13.4%	-1.3%	76.7%	10.8%	14.3%	-2.4%	75.9%
North America	24.7%	3.0%	3.5%	-0.4%	83.6%	4.7%	5.0%	-0.2%	81.3%
International	63.6%	6.2%	6.9%	-0.5%	78.5%	7.5%	7.6%	0.0%	78.0%
Africa	1.9%	11.2%	9.7%	0.9%	66.6%	11.6%	10.4%	0.7%	67.0%
Asia Pacific	17.4%	6.0%	7.8%	-1.3%	77.4%	9.5%	8.9%	0.4%	78.3%
Europe	23.8%	5.5%	5.4%	0.1%	80.8%	5.6%	5.0%	0.4%	79.4%
Latin America	2.9%	7.9%	6.3%	1.2%	78.5%	9.1%	8.0%	0.8%	80.4%
Middle East	9.1%	12.0%	13.6%	-1.1%	76.5%	11.3%	14.5%	-2.1%	75.7%
North America	8.5%	0.7%	0.6%	0.0%	80.5%	2.1%	2.2%	0.0%	79.0%
Domestic	36.4%	3.7%	4.3%	-0.4%	81.6%	6.0%	6.0%	0.0%	80.1%
Dom. Australia ⁴	1.1%	2.3%	2.4%	-0.1%	75.7%	3.5%	3.1%	0.3%	75.8%
Domestic Brazil ⁴	1.4%	-8.3%	-7.9%	-0.3%	77.1%	-5.1%	-3.8%	-1.1%	79.8%
Dom. China P.R. ⁴	8.4%	3.3%	6.3%	-2.4%	81.2%	7.8%	9.0%	-0.9%	80.7%
Domestic India ⁴	1.2%	27.4%	21.7%	3.7%	83.1%	25.1%	23.7%	0.9%	84.3%
Domestic Japan ⁴	1.2%	-1.7%	-3.8%	1.6%	72.3%	0.1%	-3.3%	2.3%	68.2%
Dom. Russian Fed. ⁴	1.3%	4.0%	-4.8%	6.3%	75.0%	2.1%	-3.6%	4.1%	72.2%
Domestic US ⁴	15.4%	4.1%	4.9%	-0.7%	85.4%	6.0%	6.4%	-0.3%	82.6%

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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