



# AIR PASSENGER MARKET ANALYSIS February 2017

## Leap year effects distort headline data, but a robust start to 2017

- Annual passenger growth fell to 4.8% in February, but was distorted by the fact that 2016 was a leap year.
- The passenger market has made a strong start to 2017, reflecting a combination of ongoing stimulus from lower airfares, stronger economic conditions, and a favorable annual comparison after disruption a year ago.
- Middle East airlines posted the fastest int'l growth, as India topped the domestic chart for the 23<sup>rd</sup> month in a row.
- Airlines have moderated capacity growth in recent months, with the load factor posting an all-time Feb high.

### 2016 leap year is affecting annual comparisons

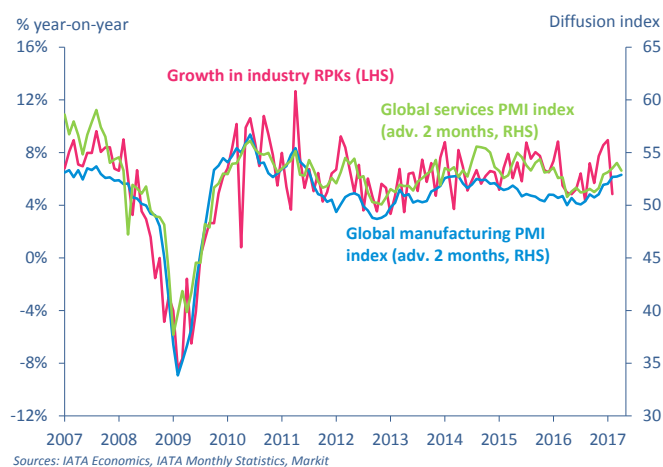
Year-on-year growth in global revenue passenger kilometres (RPKs) fell to 4.8% in February from January's five-year high (8.9%). However, the data are distorted by the fact that 2016 was a leap year. Adjusting for the one fewer day in February this year, we estimate that the 'underlying' RPK growth rate was closer to 8.6% – not far off January's pace.

The extra day in 2016 is also distorting data for January and February combined, albeit to a lesser extent. Industry-wide RPKs have grown by 7.0% in annual terms so far this year to date, but by 8.8% allowing for the leap year effect – well above the long-run average of around 5.5%.

### A very strong, but explainable, start to 2017

The strong start to the year for passenger traffic has been underpinned by a combination of lower yields and airfares, and a stronger economic backdrop.

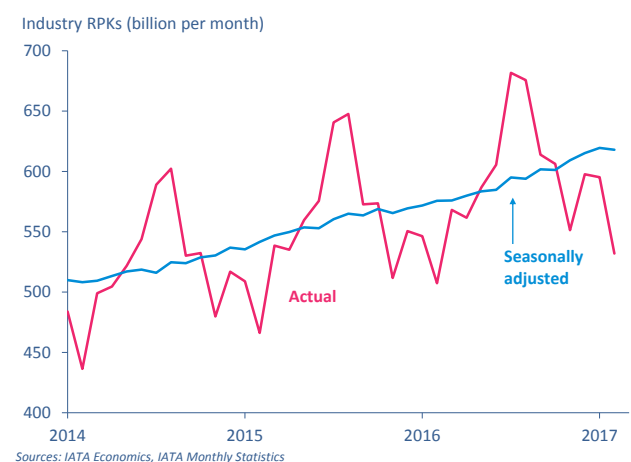
**Chart 1 – Air passenger volume growth and global business confidence**



The seasonally-adjusted (SA) downward trend in global yields has showed tentative signs of turning around in recent months. However, yields remain around 8% lower in annual terms and, allowing for inflation, the price of air travel has fallen by more than 10% in real terms over the past year. We estimate that the stimulus to demand from lower airfares can explain more than half the growth in RPKs in early 2017.

Meanwhile, business surveys continue to point to a broad-based cyclical pick-up in global economic conditions, which is helping to support air passenger demand too. Admittedly, the global services PMI dipped in February for the first time in six months. (See Chart 1.) As noted recently, this indicator provides a useful leading indicator for the global passenger market. (See [link.](#)) But the indicator remains elevated, and the relatively healthy economic backdrop on its own can explain around two-fifths of the growth in passenger traffic seen this year.

**Chart 2 – Air passenger volumes**



### Air passenger market overview - February 2017

	World share <sup>1</sup>	February 2017 (% 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>4.8%</b>	<b>2.7%</b>	<b>1.6%</b>	<b>79.5%</b>	<b>7.0%</b>	<b>5.1%</b>	<b>1.4%</b>	<b>79.9%</b>
International	63.7%	5.8%	3.4%	1.8%	78.4%	7.5%	5.4%	1.6%	79.4%
Domestic	36.3%	3.3%	1.6%	1.3%	81.4%	6.0%	4.6%	1.1%	80.7%

## A favorable comparison with levels a year ago

The year-on-year growth rate is also currently being supported by the comparatively weak start and strong finish to last year. This is helping to boost the annual comparison and can fully account for the ‘unexplained’ portion of growth. Indeed, global passenger traffic growth slowed to an annualized rate of just 3.6% between October 2015 and February 2016 following disruption from terrorist events, but growth accelerated to an annualized rate of more than 8% between October 2016 and February 2017. The SA series fell slightly in February but the drop was within the ‘normal’ range of monthly variation. (See Chart 2, overleaf.)

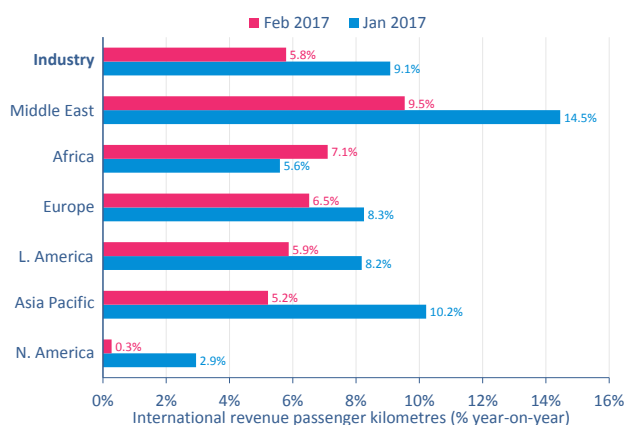
## Load factor post an all-time February high

Industry-wide available seat kilometres (ASKs) increased by 2.7% year-on-year in January (6.4% adjusting for leap year effects). Airlines have moderated the pace of capacity growth in recent months: ASKs have trended upwards at an annualized rate of 4.2% over the past six months or so, compared to 6.5% for demand. This combination has helped to keep the SA load factor close to a record high; indeed, February’s load factor (79.5%) was the highest ever recorded for the month.

## Robust trends in int’l RPKs in most regions...

Annual growth in international RPKs fell to 5.8% year-on-year in February from 9.1% in January. (See Chart 3.) However, adjusting for the leap year, growth actually *accelerated* slightly from the previous month.

**Chart 3 – International passenger traffic growth by airline region of registration**



Sources: IATA Economics, IATA Monthly Statistics

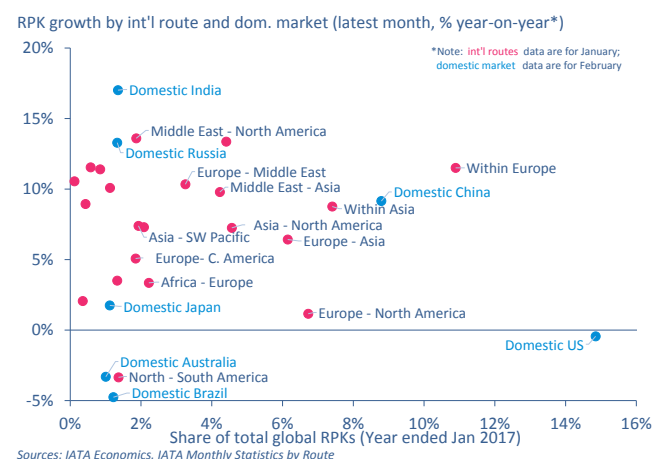
Middle Eastern airlines topped the growth chart for the fourth month in a row, and the SA trend in demand remains strong. The region’s airlines have moderated the upward trend in SA capacity recently, with year-on-year growth in capacity now having lagged behind that of demand for four consecutive months.

International RPKs flown by European airlines – the largest region on this measure – have resumed their

strong upward trend, supported in part by ongoing momentum in the regional economy (business confidence in the region remains close to a six-year high). International RPKs grew by 6.9% year-on-year in February (which we estimate is consistent with growth of around 9% after adjusting for the leap year).

Meanwhile, the upward trend in traffic in Asia Pacific has also remained strong over the past three months, helped by a robust trend on international routes within Asia (8.8% year-on-year in January – the latest data available). (See Chart 4.) Conditions on the Asia-Europe route have also continued to recover from terrorism-related disruption a year ago. Traffic on the route grew by 6.4% year-on-year in January, and on the current trend will exceed 10% during Q2.

**Chart 4 – RPK growth by route and market**



## ...including African and L.American airlines

Latin American and African airlines both saw robust growth in demand in February. (Note, however, that the regions fly just a relatively small proportion of international RPKs – around 7% combined.)

There remains little sign of any slowdown in the SA trend for Latin American carriers. This is underpinned in part by robust international demand within the South America region (11.5% year-on-year in January). However, RPKs on the larger North-South America route have trended downwards since mid-2015 and fell by 3.4% year-on-year in January.

The upward trend in African airlines’ SA passenger traffic has reasserted itself in recent months (RPKs have grown at an annualized pace of nearly 13% over the past six months or so). This pick-up mainly reflects a recovery on the key route to/from Europe, and comes despite ongoing weakness in the region’s biggest economies of Nigeria and South Africa.

## Moderation in N.American capacity and demand

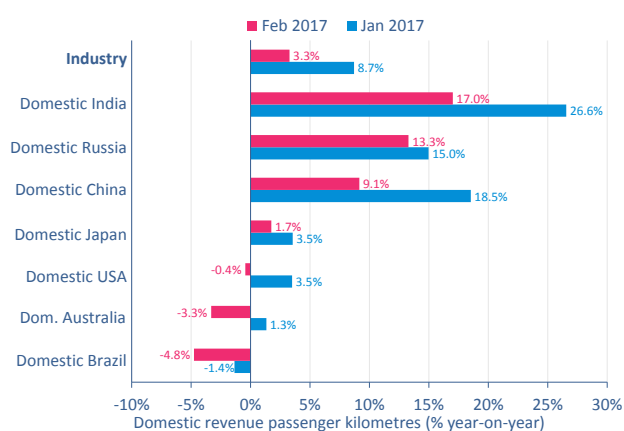
By contrast to the other regions, the SA trend in both traffic and capacity for North American carriers has

weakened since the middle of 2016. International RPKs and ASKs flown by North American carriers grew by 0.3% and 0.1% respectively in year-on-year terms in February (3.4% and 3.0% adjusting for the leap year), and this has kept the load factor broadly unchanged. Traffic on the large market to/from Asia has continued to trend upwards, but the SA trend in passenger traffic across the Atlantic has tracked sideways since the middle of 2016.

### Wide range in domestic market performance

Year-on-year growth in domestic RPKs fell to 3.3% in February, from 8.7% in January, but the slowdown was more modest allowing for the leap year (we estimate a rate closer to 7.0%). (See Chart 5.)

**Chart 5 – Domestic RPK growth by market**



Sources: IATA Economics, IATA Monthly Statistics

### Upward trend in the US has ground to a standstill

Despite ongoing strong readings from consumer confidence surveys, upward momentum in the US domestic market has slowed to a standstill over the past six months or so. Capacity growth has also started to slow, however, and the domestic US load factor increased by 0.5 percentage points in February compared to the same month a year ago.

### India and China see strong growth in demand and big increases in load factors in February

India topped the domestic growth chart for the 23rd month in a row in February. Adjusting for the leap year effect, February was the 16th consecutive month in which the annual RPK growth rate exceeded 20%. There is little sign that the surprise withdrawal of certain denomination bank notes in late-2016 has unduly affected air passenger demand, and the SA trend is still very strong. Airlines are scheduling a 5% increase in domestic routes in 2017, along with a similar-sized increase in average flight frequencies on each route. Both factors will translate into time savings for passengers and will have the same stimulatory impact on demand as a cut in fares.

The timing of Chinese New Year can complicate annual comparisons at this time of year, but the bigger picture is that domestic China RPKs have grown by around 15% year-on-year so far in 2017, underpinned by ongoing robust growth in the country's services sector. As is the case in India, average flight frequencies in China are scheduled to rise by more than 7% in 2017 compared to the previous year. The domestic India and China markets saw substantial year-on-year increases in their load factors in February, with both coming in above 86%.

Russia has joined India and China in the top-3 fastest growing markets in the past six months. The double-digit year-on-year growth in domestic Russia RPKs reflects a sustained strong rise in SA domestic traffic over the past year, and traffic is now back on its trend before the collapse of Transaero in late-2015. This is set against a backdrop of a steady recovery in the economy and the rouble over the past year as oil prices have firmed.

### Signs of life in the domestic Japan market

The SA trend in domestic RPKs in Japan has picked up in recent months, and year-on-year traffic growth exceeded 5% in February (adjusting for the leap year). The pick-up is set against a backdrop of increased momentum in consumer spending, and an increase in the number of domestic routes offered (albeit with lower average flight frequencies). While still the lowest of all the domestic markets that we track, Japan's domestic load factor posted another record month-high in February (69.1%).

Meanwhile, domestic Australia RPKs barely grew in year-on-year terms once you adjust for the leap year effect, and traffic is trending sideways in SA terms. That said, capacity growth has remained constrained too, which has helped to support loads.

### Weak upward trend in Brazilian passenger traffic

The challenging economic backdrop in Brazil has weighed heavily on the passenger market in recent years: domestic RPKs fell in year-on-year terms for the 19th consecutive month in February (even adjusting for the leap year). While the country's economic recovery and outlook remains fragile, passenger traffic is at least trending upwards, albeit weakly: the annual growth rate looks set to move into positive territory in March. Moreover, carriers have been able to offset the downturn in demand by adjusting capacity, partly by reducing the number of domestic routes operated, to limit the impact on the load factor.

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 6th April 2017

## Air passenger market detail - February 2017

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Africa	2.2%	5.6%	1.4%	2.7%	67.6%	5.4%	2.7%	1.7%	68.9%
Asia Pacific	32.9%	6.3%	3.4%	2.2%	81.4%	9.5%	6.5%	2.2%	81.4%
Europe	26.4%	6.3%	3.6%	2.0%	80.2%	7.3%	5.3%	1.5%	79.8%
Latin America	5.2%	2.4%	0.5%	1.5%	80.8%	3.9%	2.2%	1.3%	82.1%
Middle East	9.6%	9.1%	6.9%	1.5%	74.1%	11.4%	9.1%	1.6%	76.9%
North America	23.7%	-0.1%	-0.5%	0.3%	79.4%	1.7%	1.8%	-0.1%	79.7%
<b>International</b>	<b>63.7%</b>	<b>5.8%</b>	<b>3.4%</b>	<b>1.8%</b>	<b>78.4%</b>	<b>7.5%</b>	<b>5.4%</b>	<b>1.6%</b>	<b>79.4%</b>
Africa	1.9%	7.1%	2.3%	2.9%	66.0%	6.3%	3.5%	1.8%	68.1%
Asia Pacific	18.2%	5.2%	2.9%	1.7%	79.8%	7.8%	5.6%	1.7%	80.7%
Europe	23.6%	6.5%	3.4%	2.4%	81.1%	7.4%	5.0%	1.8%	80.7%
Latin America	2.7%	5.9%	2.8%	2.3%	81.4%	7.1%	4.3%	2.1%	82.6%
Middle East	9.3%	9.5%	7.0%	1.8%	74.3%	12.2%	9.2%	2.0%	77.2%
North America	8.0%	0.3%	0.1%	0.1%	75.9%	1.7%	1.7%	0.0%	78.2%
<b>Domestic</b>	<b>36.3%</b>	<b>3.3%</b>	<b>1.6%</b>	<b>1.3%</b>	<b>81.4%</b>	<b>6.0%</b>	<b>4.6%</b>	<b>1.1%</b>	<b>80.7%</b>
Dom. Australia <sup>4</sup>	1.0%	-3.3%	-3.9%	0.5%	73.8%	-0.8%	-1.6%	0.6%	75.4%
Domestic Brazil <sup>4</sup>	1.2%	-4.8%	-5.8%	0.9%	79.4%	-2.8%	-4.1%	1.1%	82.1%
Dom. China P.R. <sup>4</sup>	8.7%	9.1%	5.3%	3.0%	86.1%	13.7%	9.6%	3.1%	84.6%
Domestic India <sup>4</sup>	1.3%	17.0%	14.0%	2.2%	86.9%	21.9%	17.5%	3.1%	87.6%
Domestic Japan <sup>4</sup>	1.1%	1.7%	-1.7%	2.4%	69.1%	2.7%	-0.1%	1.8%	67.0%
Dom. Russian Fed. <sup>4</sup>	1.3%	13.3%	13.8%	-0.3%	73.9%	14.1%	15.1%	-0.6%	72.6%
Domestic US <sup>4</sup>	14.9%	-0.4%	-1.0%	0.5%	81.2%	1.6%	1.9%	-0.3%	80.5%

<sup>1</sup>% of industry RPKs in 2016      <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.

Further details about the statistics in this publication can be found [here](#).

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