



AIR PASSENGER MARKET ANALYSIS February 2016

Passenger traffic makes its strongest start to the year since 2008

- The strong start to the year for global air passenger market continued in February (helped by the leap year).
- The upward trend in seasonally-adjusted passenger traffic remains robust.
- The industry load factor fell in year-on-year terms for first time since mid-2015. To be monitored.
- Further stimulus from lower oil prices is likely to offset modest underlying demand momentum.

The strong start to 2016 has continued...

The global air passenger market continued its strong start to 2016 in February, with annual growth in traffic accelerating to 8.6%. Annual growth accelerated for all regions except Asia Pacific, where the timing of the Chinese New Year can affect year-on-year comparisons at this time of year. All told, industry-wide year-to-date growth was 7.8% compared to the same period in 2015 – the strongest start to a calendar year since 2008 (which was also a leap year). More generally, the upward trend in seasonally-adjusted traffic remains robust. (See Chart 1.)

...although tentative signs of easing in load factors

In general, airlines have reacted to robust travel demand over the recent past by adding capacity cautiously. At

78.4%, the passenger load factor across January and February was 0.3 percentage points higher than it was during the same period of 2015. However, February was the first month since the middle of last year in which annual capacity growth exceeded that of passenger traffic.

The biggest divergence was for Middle Eastern carriers, where capacity growth continues to outstrip even double-digit annual growth in traffic. But capacity outstripped strong demand growth in North America too, which is perhaps notable given the region's key role in driving the improvement in industry financial performance over recent years. It is too soon to know if these tentative signs are the start of a downward trend

Chart 1 – Air passenger volumes

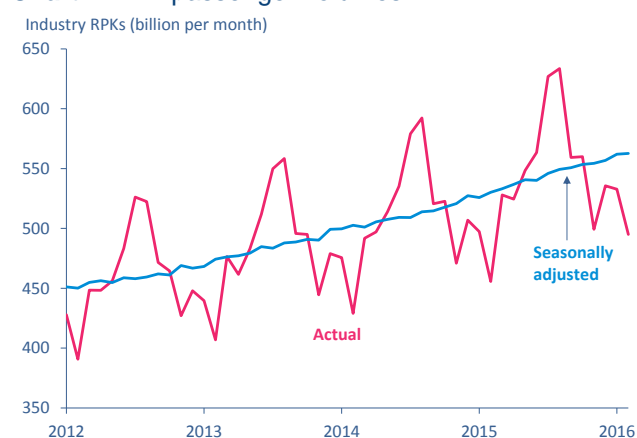
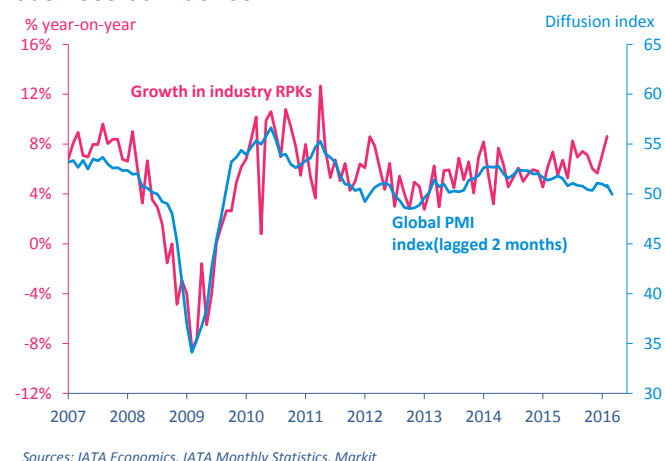


Chart 2 – Air passenger volume growth and global business confidence



Air passenger market overview - February 2016

	World share ¹	February 2016 (% year-on-year)				February 2016 (% year-to-date)			
		RPK	ASK	PLF (%-pt) ²	PLF (level) ³	RPK	ASK	PLF (%-pt) ²	PLF (level) ³
TOTAL MARKET	100.0%	8.6%	9.6%	-0.7%	77.8%	7.8%	7.5%	0.3%	78.4%
International	63.6%	9.1%	9.9%	-0.6%	76.6%	8.1%	7.7%	0.3%	77.8%
Domestic	36.4%	7.9%	9.0%	-0.8%	79.7%	7.4%	7.0%	0.3%	79.3%

¹% of industry RPKs in 2015

²Year-on-year change in load factor

³Load factor level

in load factors, but it is something that we will be monitoring closely in the coming months.

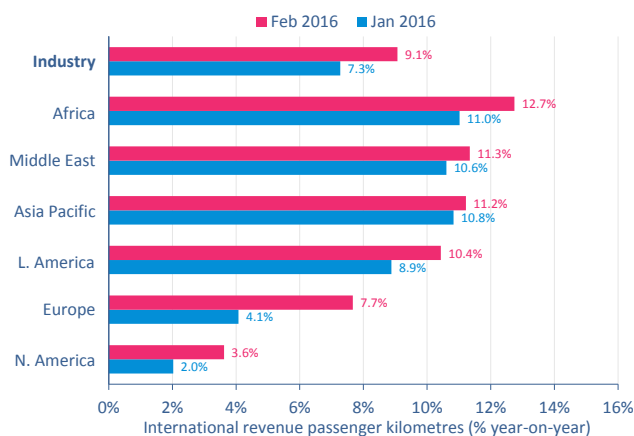
Demand is well supported ahead of the peak season

February marks the seasonal low-point for the global passenger market, but underlying demand conditions remain supportive going into the peak period during the Northern Hemisphere summer. The outlook reflects a number of diverging forces, with ongoing growth in direct airport-pair connections and frequencies for passengers helping to offset subdued underlying demand conditions. (See Chart 2.) Crucially, this looks set to continue in the near term, with the number of direct airport connections on track to increase by 2% in 2016, the same pace as last year. Moreover, while the downward trend in global air fares eased towards the end of 2015, the additional decline in oil prices seen during the final months of last year and into January is likely to provide further stimulus for air travel growth during the course of 2016.

Strong growth in international traffic...

International passenger traffic growth jumped to 9.1%

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



Sources: IATA Economics, IATA Monthly Statistics

year-on-year in February – its fastest pace since March 2012 and up from 7.3% in January. (See Chart 3.) Annual growth accelerated for all the regions.

African airlines carry just 3% of industry-wide international traffic but posted the strongest annual growth rate for the second consecutive month. The turnaround in fortunes from a number of difficult years indicates that African carriers are regaining market share in travel to and from the continent, reflecting efforts on the part of carriers to rationalize networks and enhance revenue management systems. The pick-up also ties in with a jump in exports from the region over

the same period, which tends to be a key driver of business-related travel.

...driven by robust growth in the two largest regions

International revenue passenger kilometres (RPKs) flown by European carriers – the largest region in terms of international traffic – have recovered in recent months following disruption in the final quarter of 2015 due to airline strikes and the shutdown of Transaero in Russia. The economic backdrop remains fragile and average flight frequencies on each route are scheduled to increase by around 5% in 2016.

Shifts in the timing of Chinese New Year can complicate matters in Asia Pacific – the second largest region in terms of international traffic – at this time of year, but the overall picture remains strong. International traffic carried by the region’s carriers increased by 11.0% year-on-year across January and February combined, and traffic continues to trend upwards on a seasonally-adjusted basis. 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.

Having overtaken North American carriers in terms of international traffic during 2015, Middle Eastern RPKs increased by 11.3% year-on-year in February, helped by ongoing network and fleet expansion. That said, annual traffic growth has now lagged behind capacity growth for six consecutive months, and load factors have trended downwards in seasonally-adjusted terms since mid-2014. At 73.0% in February, loads were some 2.7 percentage points below their February 2015 level.

Divergence in North and South America continues

The strong upward trend in international traffic flown by Latin American carriers continues to show little sign of slowing. By contrast, domestic traffic flown by the region’s carriers remains under pressure from economic difficulties in the region’s biggest economies – notably Brazil (as discussed in further detail later on).

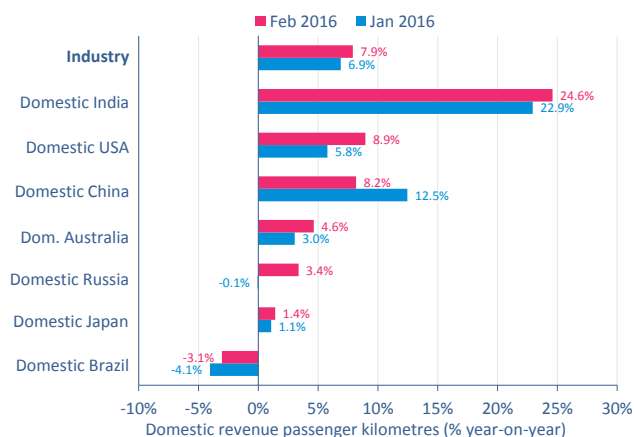
It remains the opposite case for North American carriers, whose international traffic has trended downwards in seasonally adjusted terms since July as the region’s airlines have focused on the more robust, and much larger, domestic market. North American international RPKs once again registered the slowest growth in international traffic of all carriers (3.6%), just one-third the pace clocked by Latin American airlines. That said,

it's worth noting that the strong upward trend in North American domestic traffic – mainly the domestic US market – has paused in recent months.

China results complicated by timing of New Year

Total domestic air travel growth accelerated to 7.9% year-on-year in February, from 6.9% in January. (See Chart 4.)

Chart 4 – Domestic passenger growth by country



The domestic China market was the only one to see annual growth slow in February, although shifts in the timing of Chinese New Year can complicate analysis at this time of year. The bigger picture is that domestic China passenger traffic grew at a double-digit annual pace over the first two months of the year combined, and the upward trend remains strong. The slowing in headline economic growth in China continues to grab the headlines, but business confidence indicators from the services side of the economy are holding up. Moreover, the latest schedules indicate a stronger focus on increases in flight frequencies this year, which will serve to save passenger time and ultimately provide additional stimulus to demand.

India remains at the top of the growth chart

The domestic India market remains the fastest-expanding market, with growth edging up to 24.6% year-on-year in February. Growth in the India domestic market is being propelled by the comparatively strong economic backdrop – India overtook China as the fastest growing major economy in the world in 2015 – as well as sizeable increases in services (average flight

frequencies within India are scheduled to increase by 11.5% year-on-year in 2016). The Indian market overtook both Australia and Japan in terms of seasonally-adjusted international RPKs during the course of 2015, and currently remains broadly level with Russia.

Japanese domestic RPKs increased by a modest 1.4% year-on-year in February, a slight pick-up from January's pace. Economic growth in Japan remains fitful and a sustained surge in traffic demand anytime soon looks unlikely. Domestic Australian RPKs have also picked up in seasonally-adjusted terms in recent months, and were 4.6% higher than in February 2015.

Recessions are biting in Brazil and Russia

Domestic passenger market conditions remain under more pressure in Brazil and Russia, whose energy-dependent economies remain mired in recession. (Both economies contracted by just under 4% in 2015.)

Domestic traffic in Russia has bounced back in seasonally-adjusted terms from the November low-point following the shutdown of Transaero, and growth accelerated to 3.4% year-on-year in February 2016 (although such growth was just one third of the average pace seen over the past five years). Notably, traffic has not fallen as much as capacity in recent months, indicating that the remaining carriers in the market have absorbed that affected by the closure of Transaero. The Russian domestic load factor is still the lowest of all the domestic markets that we have detailed data for, but at 72.6% in February 2016, it was 2.9 percentage points higher than in February 2015.

Meanwhile, there are tentative signs that the downward trend in seasonally-adjusted traffic in Brazil may have bottomed out. But the domestic Brazil market was the only one to have registered negative annual growth in traffic in February (-3.1% year-on-year) and the highly uncertain economic and political outlook looks likely to pose further challenges for the air transport market in the near term.

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 7th April 2016

Air passenger market detail - February 2016

	World share ¹	February 2016 (% year-on-year)				February 2016 (% year-to-date)			
		RPK	ASK	PLF (%-pt) ²	PLF (level) ³	RPK	ASK	PLF (%-pt) ²	PLF (level) ³
TOTAL MARKET	100.0%	8.6%	9.6%	-0.7%	77.8%	7.8%	7.5%	0.3%	78.4%
Africa	2.2%	11.6%	11.9%	-0.1%	65.7%	10.7%	9.3%	0.8%	68.2%
Asia Pacific	31.5%	9.8%	9.6%	0.1%	79.0%	10.2%	8.7%	1.1%	78.8%
Europe	26.7%	7.5%	7.3%	0.2%	77.7%	5.6%	4.5%	0.9%	77.9%
Latin America	5.4%	7.2%	7.3%	-0.1%	79.5%	6.0%	5.8%	0.2%	81.3%
Middle East	9.4%	11.0%	16.7%	-3.8%	73.3%	10.6%	14.7%	-2.8%	75.6%
North America	24.7%	7.1%	9.0%	-1.4%	79.1%	5.7%	5.8%	-0.1%	79.9%
International	63.6%	9.1%	9.9%	-0.6%	76.6%	8.1%	7.7%	0.3%	77.8%
Africa	1.9%	12.7%	13.4%	-0.4%	63.7%	11.8%	10.7%	0.7%	67.3%
Asia Pacific	17.4%	11.2%	10.3%	0.7%	78.3%	11.0%	8.8%	1.6%	79.0%
Europe	23.8%	7.7%	7.8%	-0.1%	78.3%	5.8%	4.9%	0.6%	78.6%
Latin America	2.9%	10.4%	10.1%	0.2%	79.8%	9.6%	8.8%	0.6%	81.3%
Middle East	9.1%	11.3%	16.9%	-3.7%	73.0%	11.0%	14.9%	-2.7%	75.3%
North America	8.5%	3.6%	4.8%	-0.9%	75.9%	2.8%	2.8%	0.0%	78.2%
Domestic	36.4%	7.9%	9.0%	-0.8%	79.7%	7.4%	7.0%	0.3%	79.3%
Dom. Australia ⁴	1.1%	4.6%	5.2%	-0.4%	74.3%	3.8%	3.2%	0.4%	75.8%
Domestic Brazil ⁴	1.4%	-3.1%	-1.0%	-1.6%	78.5%	-3.6%	-1.8%	-1.5%	81.1%
Dom. China P.R. ⁴	8.4%	8.2%	9.5%	-1.0%	82.0%	10.2%	10.4%	-0.1%	80.5%
Domestic India ⁴	1.2%	24.6%	27.4%	-1.9%	85.2%	23.7%	24.5%	-0.5%	84.9%
Domestic Japan ⁴	1.2%	1.4%	-0.6%	1.3%	66.8%	1.2%	-3.0%	2.8%	65.9%
Dom. Russian Fed. ⁴	1.3%	3.4%	-0.8%	2.9%	72.6%	1.6%	-2.9%	3.2%	71.0%
Domestic US ⁴	15.4%	8.9%	11.5%	-1.9%	80.7%	7.3%	7.5%	-0.1%	80.9%

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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