

Passenger growth starts the year on a positive note

- Annual growth in industry-wide revenue passenger kilometres (RPKs) rose to 6.5% in January, its fastest pace in 6 months. We caution that traffic data at this time of year can be impacted by the timing of Lunar New Year.
- Capacity continues to grow broadly in-line with demand, with the load factor at 79.6% this month.
- China was the fastest growing domestic market this month, with India & Russia also posting double-digit RPK growth.

Pick-up in annual passenger growth in January...

Industry-wide revenue passenger kilometers (RPKs) started the year on a positive note, increasing by 6.5% year-on-year, the fastest pace since mid-2018. The result is just ahead of the average RPK growth rate seen over the past decade (6.1%) but lies some way below its five-year average (7.1%).

All told, the seasonally adjusted (SA) upward trend in RPKs accelerated slightly in January, following the moderation seen over the second half of 2018 (see Chart 1). RPKs have risen at 4.6% annualized pace since mid-2018, down from closer to 9% seen earlier in the year. For now, it is too soon to think that this month's pick-up represents a shift in trend.

Economic backdrop remains less supportive

The slowdown in industry-wide RPK growth in 2H18 corresponds to ongoing concerns about the future of the global economic expansion, with the most recent

data suggesting that Q4 GDP growth softened across a number of the world's key economies.

On top of that, the global composite Purchasing Managers' Index – a useful leading indicator of air passenger demand growth in the past – has been trending downwards recently (see Chart 2) and is currently at its lowest levels since September 2016.

Recent developments in the index point to RPK growth at a pace of around 6%, consistent with our current forecast for 2019, but down a little from 6.5% in 2018.

As shown in Chart 3 (over), while the weakening in business confidence remains broadbased across the developed markets, the emerging countries show a more mixed picture; the PMI currently indicates ongoing strong growth for India, Brazil and Russia while the economic backdrop seems to be less

Chart 1 – Air passenger volumes

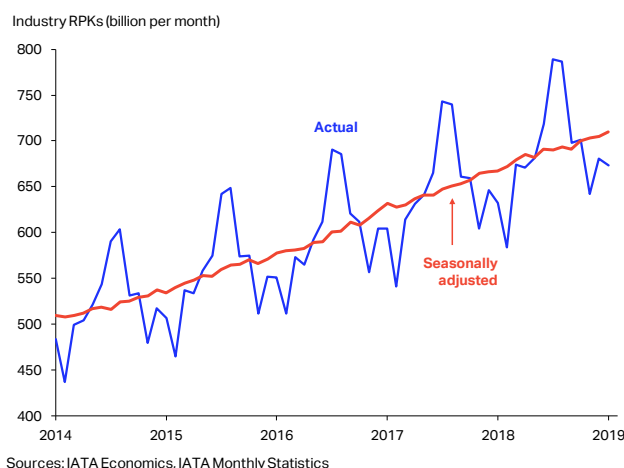
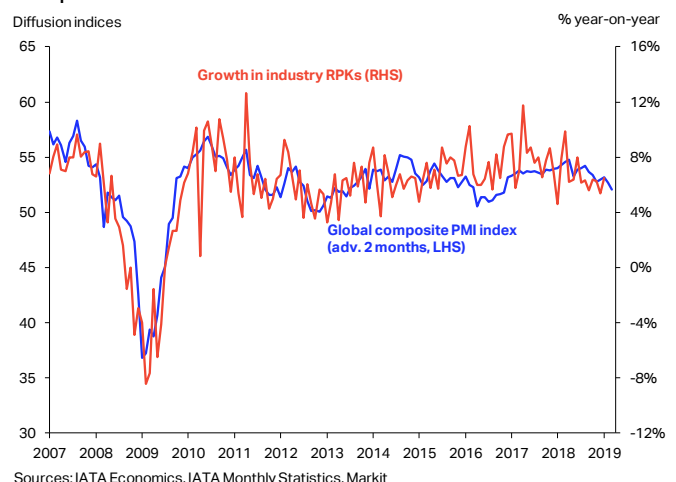


Chart 2 – Air passenger volume growth and global composite business confidence measure



Air passenger market overview - January 2019

	World share ¹	January 2019 (% year-on-year)				2018 calendar year (%year-on-year)			
		RPK	ASK	PLF (%-pt) ²	PLF (level) ³	RPK	ASK	PLF (%-pt) ²	PLF (level) ³
TOTAL MARKET	100.0%	6.5%	6.4%	0.1%	79.6%	6.6%	6.1%	0.3%	81.9%
International	63.9%	6.0%	5.8%	0.2%	79.8%	6.3%	5.7%	0.4%	81.2%
Domestic	36.1%	7.3%	7.5%	-0.1%	79.3%	7.1%	6.8%	0.2%	83.1%

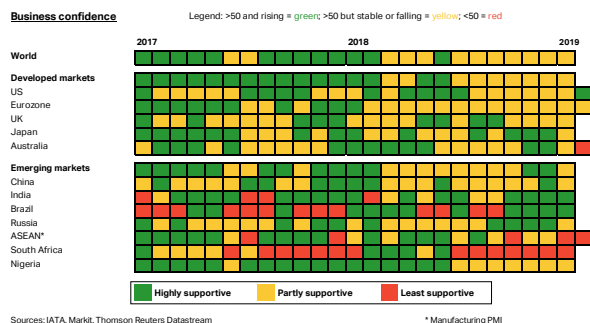
¹% of industry RPKs in 2018

²Year-on-year change in load factor

³Load factor level

supportive for passenger volumes in South Africa and ASEAN.

Chart 3 – Economic conditions (monthly data from composite PMIs, selected regions and countries)

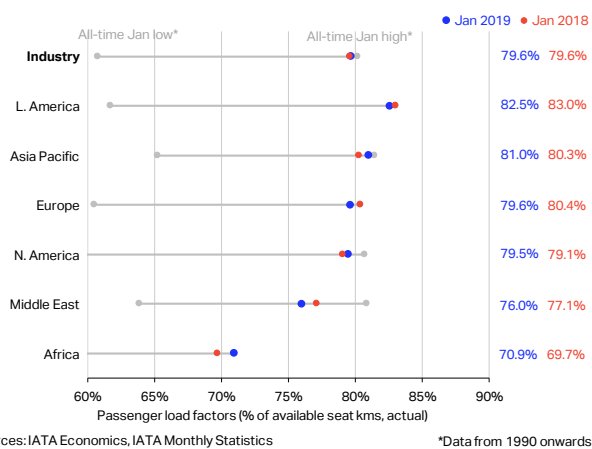


Load factor steady compared with January 2018

Industry-wide available seat kilometres (ASKs) grew by 6.4% year-on-year in January, only slightly slower than the pace of industry-wide RPKs. As a result, the passenger load factor (PLF) was essentially unchanged from a year ago, at 79.6%.

Across the regions (see Chart 4), the performance was mixed this month, with carriers in Latin America recording the highest PLF (82.5%).

Chart 4 – Passenger load factors by region



International RPK growth picked-up...

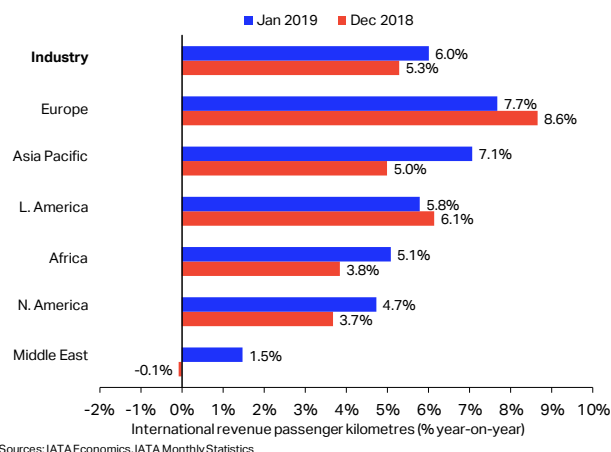
Annual growth in international RPKs lifted slightly to 6.0%yoy in early-2019, from 5.3% in December (see Chart 5). Although seasonally adjusted volumes trended upwards across all the regional markets, the year-on-year growth performance showed mixed results.

European airlines top the growth chart again...

Despite a modest slowdown versus December, European carriers showed the fastest growing international passenger demand of all regions in January (7.7% year-on-year) – topping the growth chart for the fourth consecutive month.

European RPKs continue to trend solidly upwards in seasonally adjusted terms, although at a softer pace than in recent months (notably, October & November). In part, this likely reflects growing uncertainty over the region’s economic backdrop, including the ongoing lack of clarity regarding Brexit.

Chart 5 – International passenger traffic growth by airline region of registration



...followed closely by Asia Pacific carriers

International RPKs flown by Asia Pacific airlines rose by 7.1% year-on-year in January, a solid improvement compared to 5.0% in December. Although the upward trend weakened briefly during Q3 2018 amidst disruptions caused by natural disasters, demand recovered shortly after, with SA passenger volumes increasing at a 9% annualized pace since then.

The generally strong demand for flying in the region has been underpinned by widespread gains in household incomes over the recent years, along with an increase in the number of airport pairs. Notwithstanding concerns of a growth moderation in China, commentators generally expect this favorable economic backdrop to be sustained in 2019.

Growth generally unchanged in Latin America...

Latin American airlines reported only slightly lower year-on-year growth rate for international RPKs in January compared to the previous month (at 5.8% currently vs 6.1%). Indeed, over the past six months, the year-on-year growth rate has been relatively steady, averaging around 6%.

However, there are tentative signs that, in SA terms, passenger volumes for the Latin America international market have accelerated a little in recent months.

...but rises for airlines based in Africa...

Year-on-year growth in international RPKs flown by airlines based in Africa rose to 5.1%yoy in January.

Although this is an improvement compared to December 2018, the upward trend in SA passenger traffic has generally softened in recent months with businesses remaining concerned about the economic outlook in key countries in the region.

Indeed, business confidence has been falling sharply in Nigeria since November and remains below the 50-mark consistent with contraction for Egypt and South Africa.

...and North America

Annual growth in international RPKs rose to 4.7% year-on-year for carriers based in North America this month, up from 3.7% in December, with SA traffic volumes also lifting. The region's air passenger demand in recent years has been underpinned by comparatively strong economic conditions which have delivered a low unemployment rate and bolstered consumer spending.

However, with the US economy showing signs of a moderate slowing – its GDP grew by 2.6% in Q4, down from 3.4% in Q3, for example – it becomes less clear whether economic conditions will remain as supportive in 2019 as they were last year.

Middle East RPK growth becomes positive again

Carriers based in the Middle East flew 1.5% more international RPKs than they did a year ago – a healthy recovery from a flat growth seen in end-2018. While the SA passenger volumes have also picked up modestly, following two months of sharp decline, it is too early to call a clear improvement in the trend. We will continue to monitor these developments closely.

Domestic RPK growth increases to 5-month high

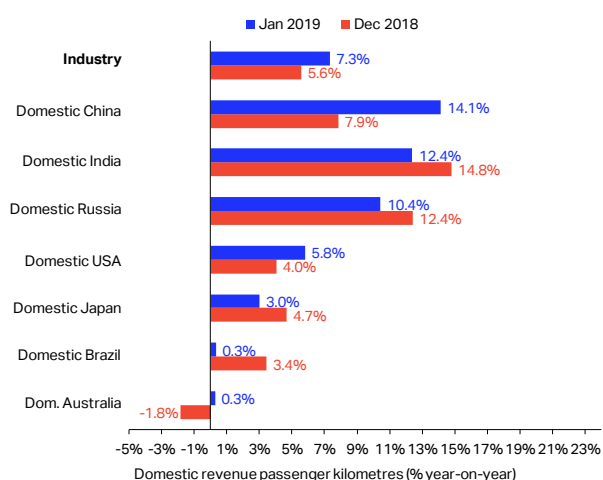
Industry-wide domestic RPK growth increased to 7.3% year-on-year in January, registering its fastest pace since August 2018 (see Chart 6).

Domestic China tops growth chart this month

Amongst the key domestic markets we consistently follow, domestic China topped the RPK growth chart this month for the first time since July 2017 (14.1%yoy). This comes despite ongoing concerns regarding the possible impacts of the China-US trade tensions and slowing economy.

The timing of Lunar New Year celebrations can result in more than the usual degree of data volatility at this time of the year. However, in 2019 the timing of LNY suggests that while the pattern of travel may change, it should be contained within the month of February.

Chart 6 – Domestic RPK growth by market



Sources: IATA Economics, IATA Monthly Statistics

India & Russia also post double-digit growth

Despite being overtaken by China on this occasion, the annual rate of RPK growth for the domestic India market remained in double-digits, at 12.4%yoy with SA volumes trending up this month.

RPKs for the Russia domestic market have trended sharply higher in 2H18, recording a 10.4% year-on-year rate in January. That said, the pace of growth has moderated somewhat from that seen previously, but the healthy upward trend in passenger traffic remains in place.

US domestic growth hits a 4-month high

Annual growth in Domestic US RPKs rose to a four-month high of 5.8% in January, from an even 4.0% in December. Nonetheless, the upward trend in SA traffic in this market has moderated since mid-2018, reflecting concerns about the outlook for the US economy, including trade tensions with China.

Growth in Australia & Brazil was subdued...

The domestic Brazil and Australia passenger markets posted the same growth rate in January; at just 0.3% year-on-year.

For Brazil, such growth was the slowest in about two years, while for Australia, the outcome marked a return to a positive rate of year-on-year growth after two months of declines.

...and eased a little in Japan this month

RPK growth in the domestic Japan market eased somewhat, to a moderate 3.0%yoy in January, maintaining the modest upwards trend that has been in place since around the middle of 2016.

Air passenger market detail - January 2019

	World share ¹	January 2019 (% year-on-year)				2018 calendar year (%year-on-year)			
		RPK	ASK	PLF (%-pt) ²	PLF (level) ³	RPK	ASK	PLF (%-pt) ²	PLF (level) ³
TOTAL MARKET	100.0%	6.5%	6.4%	0.1%	79.6%	6.6%	6.1%	0.3%	81.9%
Africa	2.1%	3.7%	2.0%	1.2%	70.9%	2.3%	1.0%	0.9%	71.4%
Asia Pacific	34.5%	8.5%	7.5%	0.7%	81.0%	8.6%	7.9%	0.5%	81.5%
Europe	26.7%	7.4%	8.5%	-0.8%	79.6%	6.7%	5.9%	0.6%	84.5%
Latin America	5.1%	4.8%	5.4%	-0.4%	82.5%	6.2%	6.6%	-0.3%	81.6%
Middle East	9.2%	1.5%	3.0%	-1.1%	76.0%	4.0%	4.9%	-0.6%	74.8%
North America	22.4%	5.2%	4.7%	0.4%	79.5%	5.0%	4.7%	0.2%	83.8%
International	63.9%	6.0%	5.8%	0.2%	79.8%	6.3%	5.7%	0.4%	81.2%
Africa	1.8%	5.1%	2.9%	1.5%	70.9%	6.4%	4.4%	1.3%	70.9%
Asia Pacific	18.9%	7.1%	5.1%	1.5%	81.7%	7.2%	6.4%	0.6%	80.5%
Europe	23.9%	7.7%	8.8%	-0.9%	80.3%	6.7%	6.0%	0.5%	85.0%
Latin America	2.7%	5.8%	6.7%	-0.7%	82.8%	6.9%	7.7%	-0.6%	81.8%
Middle East	8.9%	1.5%	3.2%	-1.3%	75.6%	4.2%	5.2%	-0.7%	74.7%
North America	7.6%	4.7%	3.5%	1.0%	80.6%	5.1%	3.8%	1.0%	82.5%
Domestic	36.1%	7.3%	7.5%	-0.1%	79.3%	7.1%	6.8%	0.2%	83.1%
Dom. Australia ⁴	0.9%	0.3%	-0.5%	0.6%	78.9%	1.4%	0.0%	1.1%	80.1%
Domestic Brazil ⁴	1.1%	0.3%	0.7%	-0.3%	84.5%	4.8%	5.1%	-0.2%	81.3%
Dom. China P.R. ⁴	9.5%	14.1%	14.7%	-0.4%	81.0%	11.8%	12.0%	-0.2%	84.1%
Domestic India ⁴	1.6%	12.4%	16.1%	-2.8%	86.1%	19.0%	18.3%	0.5%	86.5%
Domestic Japan ⁴	1.0%	3.0%	1.8%	0.8%	66.1%	2.0%	0.8%	0.8%	71.8%
Dom. Russian Fed. ⁴	1.4%	10.4%	10.5%	0.0%	75.4%	10.1%	7.5%	2.0%	83.5%
Domestic US ⁴	14.1%	5.8%	5.7%	0.1%	78.9%	5.1%	5.4%	-0.2%	84.6%

¹% of industry RPKs in 2018

²Year-on-year change in load factor

³Load factor level

⁴ 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.

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