



AIR PASSENGER MARKET ANALYSIS

August 2016

Passenger growth slowed in August, amid broader easing in trend

- Industry-wide passenger traffic slowed to 4.6% year-on-year in August, part of a wider easing in momentum.
- Traffic is being shaped by a range of drivers, including fragile economic growth and lower airfares.
- Upward trend in int'l traffic is strong in most regions, but a three-speed domestic market has emerged.
- The seasonally-adjusted passenger load factor has remained stable at around 80% for the past six months.

Annual growth slowed in August

Annual growth in industry-wide revenue passenger kilometres (RPKs) slowed to 4.6% year-on-year in August, from an upwardly-revised 6.4% in July. Airlines from the Middle East and Asia Pacific regions posted the fastest traffic growth for the third month in a row, but African airlines found themselves at the bottom of the growth chart for the second time in three months.

Industry developments reflect a range of drivers

Developments in industry-wide traffic growth continue to reflect the net impact of a range of competing drivers. On the one hand, growth has faced a number of headwinds, not least from high-profile terrorist attacks and political instability in parts of the world. Encouragingly, the trend in European international traffic picked up in August, which

suggests that conditions are getting back to normal after the disruption in the region this year. (Asian passengers still look to be being put off by terrorism in Europe, though, and it appears that they are substituting leisure travel to destinations closer to home.) Meanwhile, although global business confidence has picked up in recent months, the global economy remains fragile and uncertain, with economic policy at a crossroads (See Chart 1.)

On the other hand, air passenger demand has continued to be supported by lower airfares, which reflect lagged effects of lower oil prices, as well as wider competitive pressures in the market. Downward pressure on underlying yields actually intensified during the first five months of 2016, but there are tentative signs that this eased in the most recent data.

Chart 1 – Air passenger volume growth and global business confidence

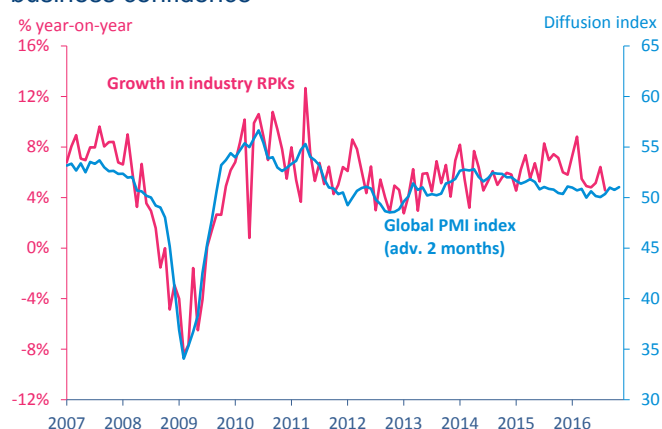
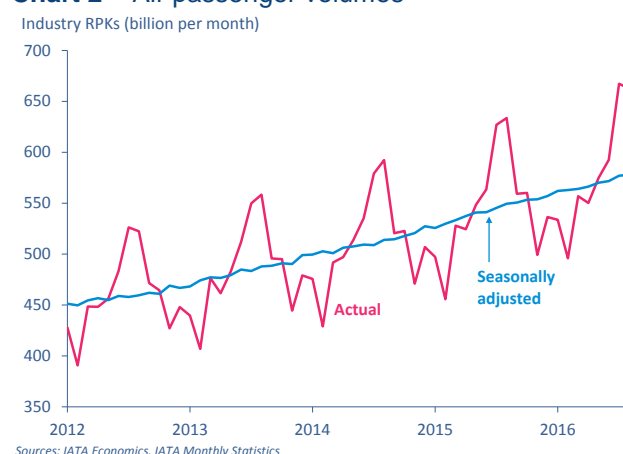


Chart 2 – Air passenger volumes



Air passenger market overview - August 2016

	World share ¹	August 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%	5.8%	-0.9%	83.8%	5.8%	6.1%	-0.2%	80.5%
International	63.6%	4.7%	6.5%	-1.4%	83.9%	6.2%	6.9%	-0.5%	79.8%
Domestic	36.4%	4.3%	4.4%	-0.1%	83.6%	5.2%	4.8%	0.3%	81.9%

¹% of industry RPKs in 2015

²Year-on-year change in load factor

³Load factor level

As we have noted before, the negative influences on demand growth have tended to dominate throughout 2016 so far, and momentum in the wider market has eased. (See Chart 2.) Adjusting for the fact that 2016 was a leap year, we estimate that industry-wide RPKs grew by 5.4% this year to date, compared to 6.4% in the same period of 2015. But the bigger picture remains that passenger traffic this year has still grown broadly in line with the average pace seen over the past decade or so, and is set for another year of solid growth in the year as a whole.

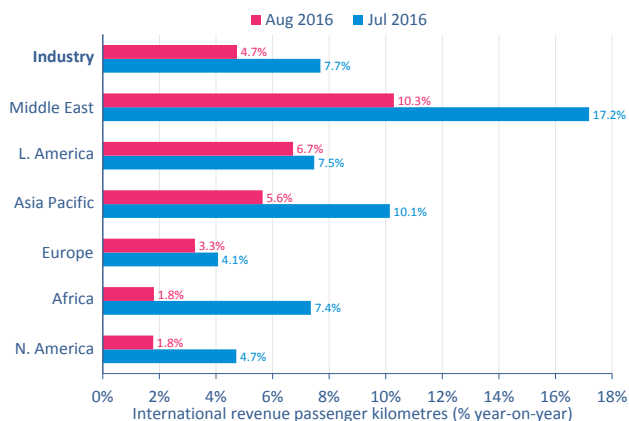
Load factor remains in narrow corridor around 80%

The industry-wide load factor edged down by 0.1 percentage point in seasonally-adjusted terms in August. However, the main point is that the seasonally-adjusted load factor has been remarkably stable in a narrow corridor around 80% over the past six months, as airlines have slowed capacity growth in line with the wider easing in growth momentum, and lower fares have helped to stimulate demand.

Welcome upturn in European int'l traffic...

Annual growth in international RPKs slowed to 4.7% in August, from 7.7% in July. (See Chart 3.)

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



Sources: IATA Economics, IATA Monthly Statistics

International demand for European carriers – the largest region in terms of international RPKs – has been affected by recent tragic terrorist attacks and political instability in parts of the region. Year-on-year growth slowed to 3.3% in August, but encouragingly, the seasonally-adjusted series picked up, having eased markedly in recent months. We will keep a close eye on data in the coming months to assess whether this means that markets are getting back to normal after the disruption earlier this year.

There was no such luck for African international traffic, though. Year-on-year growth slowed to 1.8% in August, but even this related mainly to the strong upward trend in

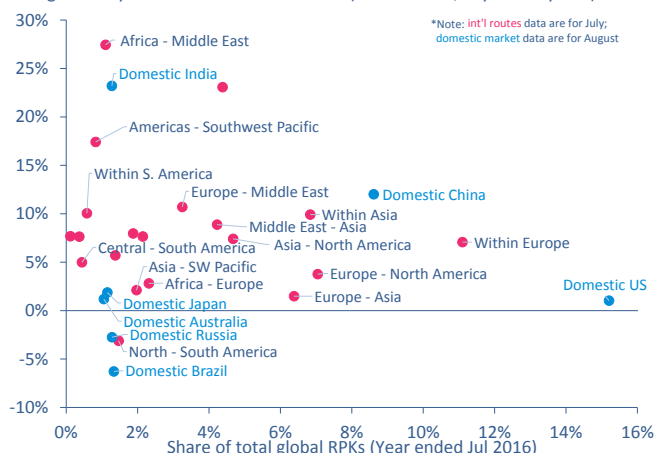
seasonally adjusted traffic seen during the second half of 2015. International traffic has tracked sideways since the start of 2016, and economic conditions in much of the continent remain challenging, particularly in the biggest economies of Nigeria and South Africa.

...with robust trends in other regions

International traffic flown by Asia Pacific airlines – the second largest international region – rose by a solid 5.6% year-on-year in August. There are ongoing signs of Asian passengers being put off by terrorism in Europe: traffic on the Europe-Asia route grew by just 1.5% year-on-year in July (latest data available), and it remains the slowest-growing of the ‘big-four’ international routes so far this year. It appears that Asian leisure travelers are substituting to destinations closer to home: international traffic growth Within Asia accelerated to a six month-high of 9.9% year-on-year in July.

Chart 4 – RPK growth by route and market

RPK growth by int'l route and dom. market (latest month, % year-on-year*)



Sources: IATA Economics, IATA Monthly Statistics by Route

Annual growth in international RPKs flown by Middle Eastern airlines dropped in August but stayed in double digits (10.3%). The strong upward trend in traffic remains in place. However, passenger capacity growth has continued to outstrip that of demand; indeed, load factors on the largest routes to and from the Middle East, those between Asia and Europe, fell by 2.3 and 3.0 percentage points respectively in the first seven months of 2016, compared to the same period in 2015, and both registered period-lows (the data start in 2010).

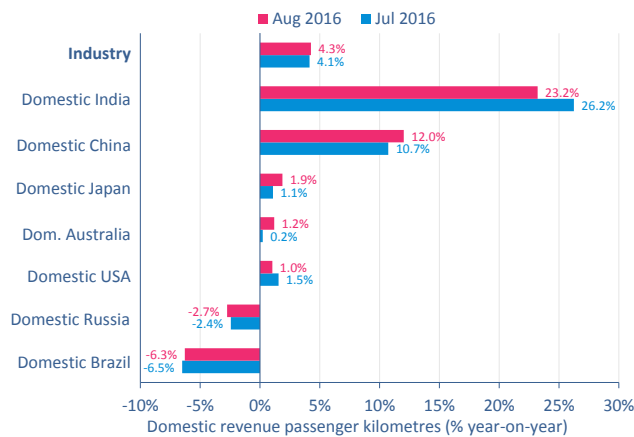
North American carriers' international traffic has also continued to trend upwards in recent months. While growth was a subdued 1.8% year-on-year, seasonally-adjusted volumes have risen at an annualized rate of around 7% since March, helped mainly by stronger growth across the Pacific, as well as on tourist routes to Central America and the Caribbean. Given the shape of

developments last year, annual growth is likely to pick up further in the coming months. Meanwhile, the strong upward trend in Latin American carriers' international traffic has also continued in recent months, helped by strong demand on international routes within the region.

India and China are in cruising in top gear...

Domestic air travel grew by 4.3% year-on-year in August, with the three-speed market still evident. (See Chart 5.)

Chart 5 – Domestic RPK growth by market



The domestic India and China markets remain in top gear, having posted double-digit annual growth of 23.2% and 12.0% respectively in August. This ties in with sizeable increases in real consumer spending in both countries, although the outperformance in India is well ahead of the usual elasticities that we would expect to see. This is partly because airlines are adding airport-pairs and flight frequencies, which cuts journey times for passengers and has the same stimulatory effect on demand as a large cut in fares. Both Indian and Chinese airlines are scheduled to increase the number of airport-pairs served in 2016, but average flight frequencies in China are set to fall slightly compared to 2015.

...but more mature markets are fumbling for neutral

By contrast the other domestic passenger markets are still fumbling for neutral: all posted year-on-year growth below 2% in August for the second consecutive month. The domestic US market – the largest in the world – grew by just 1.0% year-on-year in August, and passenger traffic has trended sideways in seasonally-adjusted terms since late-2015. Unless the trend picks up, annual growth is likely to fall into negative territory in the months ahead. Although it is still the highest of all domestic markets so far this year, the domestic US load factor has trended downwards in seasonally-adjusted terms since late-2015.

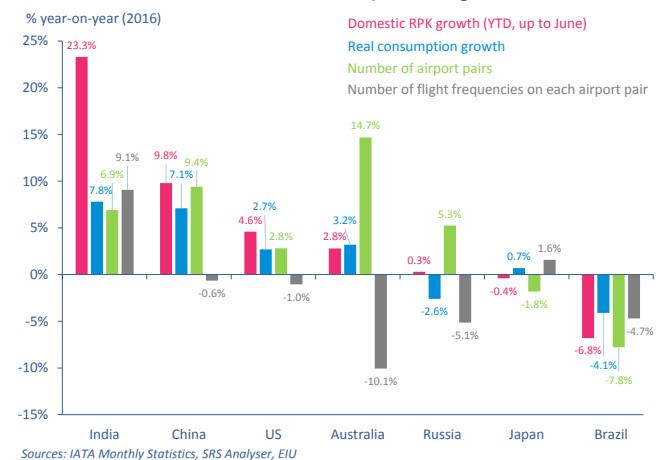
Passenger traffic in the mature domestic Japan and Australian markets was just slightly faster, at 1.9% and 1.2% year-on-year respectively. Traffic in Japan has also trended sideways for the past 18 months, alongside underlying weak momentum in consumer spending. However, air capacity in Japan has fallen since the start of 2015, as operators have cut airport-pairs and moved to smaller aircraft, and the domestic load factor jumped by 3.4 percentage points compared to August 2015.

The trend in RPKs remains flat in Australia too (they are barely 2% higher than they were in August 2013). Capacity has bounced back in seasonally-adjusted terms over the past three months, but the load factor in August was still slightly ahead of its August 2015 level.

Brazil and Russia are stuck in reverse

Despite tentative signs that the deep economic recessions that have hit Brazil and Russia may be starting to bottom out, passenger markets in both countries are stuck in reverse. RPKs fell by 6.3% and 2.7% year-on-year respectively in August, and consumer spending is forecast to contract in both cases for the second consecutive year in 2016. (See Chart 6.) The one solace for Russia is that capacity has fallen by more following the bankruptcy of Transaero in November. As a result, the load factor posted a record August high of 86.5%.

Chart 6 – Drivers of domestic passenger markets



In addition to economic woes, travel options for Brazilian travelers are also being curtailed by fewer and less frequent air connections. RPKs have recovered somewhat in seasonally adjusted terms since April, although there was little sign of any boost from the Olympics in the August data. In any case, the bigger picture is that RPKs remain 9% lower than in early 2015.

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 6th October 2016

Air passenger market detail - August 2016

	World share ¹	August 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%	5.8%	-0.9%	83.8%	5.8%	6.1%	-0.2%	80.5%
Africa	2.2%	1.0%	2.4%	-1.0%	75.7%	6.7%	7.0%	-0.2%	68.9%
Asia Pacific	31.5%	7.8%	7.3%	0.3%	82.4%	8.6%	7.8%	0.6%	79.4%
Europe	26.7%	2.7%	4.1%	-1.2%	86.3%	3.5%	3.6%	0.0%	81.9%
Latin America	5.4%	3.2%	1.7%	1.1%	81.7%	3.5%	2.4%	0.9%	80.9%
Middle East	9.4%	9.9%	13.5%	-2.7%	81.1%	11.3%	14.5%	-2.2%	76.1%
North America	24.7%	1.5%	3.7%	-1.9%	85.2%	3.2%	3.9%	-0.5%	83.7%
International	63.6%	4.7%	6.5%	-1.4%	83.9%	6.2%	6.9%	-0.5%	79.8%
Africa	1.9%	1.8%	3.1%	-1.0%	75.6%	7.6%	8.2%	-0.3%	68.0%
Asia Pacific	17.4%	5.6%	6.8%	-0.9%	81.9%	8.2%	7.8%	0.3%	78.9%
Europe	23.8%	3.3%	5.1%	-1.6%	86.6%	3.9%	4.4%	-0.4%	82.4%
Latin America	2.9%	6.7%	4.0%	2.1%	84.0%	7.4%	5.7%	1.3%	81.5%
Middle East	9.1%	10.3%	13.7%	-2.5%	81.2%	11.8%	14.7%	-2.0%	76.0%
North America	8.5%	1.8%	3.8%	-1.7%	85.3%	2.4%	3.1%	-0.5%	81.6%
Domestic	36.4%	4.3%	4.4%	-0.1%	83.6%	5.2%	4.8%	0.3%	81.9%
Dom. Australia ⁴	1.1%	1.2%	0.9%	0.2%	76.9%	2.0%	0.1%	1.4%	77.2%
Domestic Brazil ⁴	1.4%	-6.3%	-5.3%	-0.8%	77.9%	-6.6%	-6.1%	-0.4%	79.9%
Dom. China P.R. ⁴	8.4%	12.0%	10.5%	1.1%	85.1%	10.2%	10.0%	0.2%	81.8%
Domestic India ⁴	1.2%	23.2%	18.4%	3.2%	82.8%	23.3%	21.8%	1.0%	84.0%
Domestic Japan ⁴	1.2%	1.9%	-2.9%	3.4%	73.1%	0.1%	-2.7%	1.9%	67.8%
Dom. Russian Fed. ⁴	1.3%	-2.7%	-6.5%	3.3%	86.5%	-1.0%	-6.6%	4.4%	79.0%
Domestic US ⁴	15.4%	1.0%	3.7%	-2.3%	84.9%	3.6%	4.4%	-0.6%	84.9%

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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