



AIR PASSENGER MARKET ANALYSIS

July 2016

Passenger growth shows resilience into the peak summer period

- Industry-wide passenger traffic increased by 5.9% year-on-year in July (the first month of the summer peak).
- Market developments reflect a range of influences, with a subdued economic backdrop but lower fares.
- European carriers' international traffic trend has eased, but domestic India remains in a league of its own.
- The seasonally-adjusted passenger load factor has remained in a narrow band at a historically-high level.

Annual growth accelerated in July

Annual growth in industry-wide revenue passenger kilometres (RPKs) accelerated to 5.9% year-on-year in July – its fastest pace in five months. Middle Eastern carriers regained their position at the top of the growth chart, followed by airlines in Asia Pacific.

Industry developments shaped by a range of drivers

Recent developments in industry-wide traffic growth reflect the net impact of a range of competing drivers. On the one hand, growth continues to face a number of headwinds, including lingering impacts from high-profile terrorist attacks and political instability in parts of Europe, as well as the ongoing fragile economic backdrop. Typically, the impact of terror-related shock events is just temporary, but the repeated nature of recent events

suggests that the impact this time may be longer-lasting than we might otherwise expect. Meanwhile, although global business confidence has edged up in recent months, the economic backdrop remains highly uncertain, with policy at a crossroads (See Chart 2.) Heightened uncertainty following the 'Brexit' vote in the UK exemplifies the downside risks in this regard.

On the other hand, air passenger demand is being supported by lower fares, which are a function of lower oil prices continuing to feed through, as well as wider competitive pressures in the market. Further stimulus to demand is likely to arrive during the rest of 2016.

The negative influences on demand growth have tended to dominate throughout much of 2016 so far, and industry-

Chart 1 – Air passenger volumes

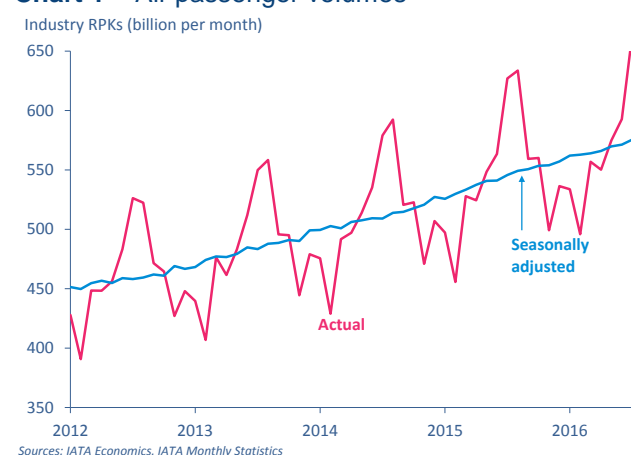
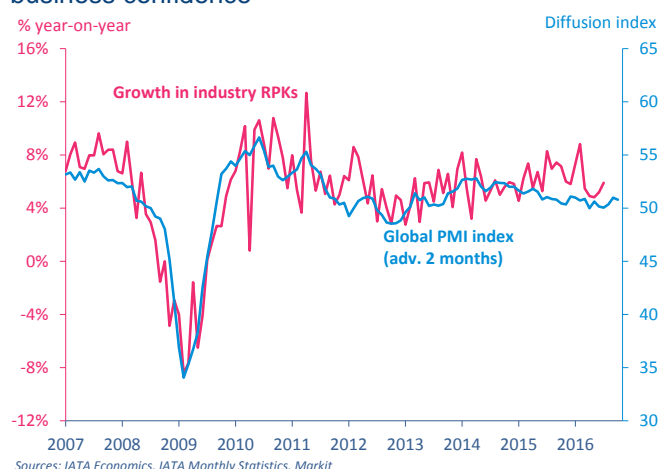


Chart 2 – Air passenger volume growth and global business confidence



Air passenger market overview - July 2016

	World	July 2016 (% year-on-year)				% year-to-date			
	share ¹	RPK	ASK	PLF (%-pt) ²	PLF (level) ³	RPK	ASK	PLF (%-pt) ²	PLF (level) ³
TOTAL MARKET	100.0%	5.9%	6.0%	-0.1%	83.7%	6.0%	6.2%	-0.1%	79.9%
International	63.6%	7.1%	7.3%	-0.2%	83.5%	6.4%	6.9%	-0.4%	79.0%
Domestic	36.4%	3.8%	3.7%	0.1%	84.0%	5.3%	4.8%	0.3%	81.6%

¹% of industry RPKs in 2015

²Year-on-year change in load factor

³Load factor level

wide growth momentum has eased somewhat; correcting for the fact that February 2016 was a leap year, we estimate that industry-wide RPKs have grown by 5.5% year-on-year so far this year, compared to 6.3% in the same period of 2015. However, the bigger picture is that passenger traffic this year has still grown broadly in line with the average pace seen over the past decade or so. Moreover, the modest tick-up in seasonally-adjusted traffic in July shows that demand was resilient coming into the peak summer season. All told, passenger traffic is set for another year of solid growth.

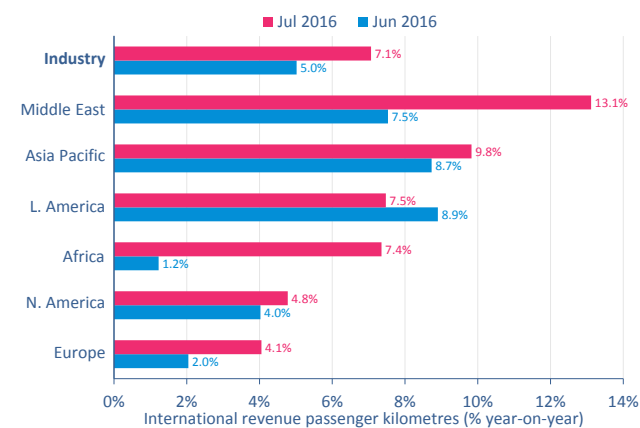
Load factor remains close to historic high

The peak travel months of July and August are when the highest passenger load factors are registered. The industry-wide load factor was 83.7% in July – just 0.1 percentage point lower than the record July high reached last year. In seasonally-adjusted terms, the load factor has slipped 1.3 percentage points from the all-time high reached in November 2015, and edged down by 0.1 percentage point in July. But the key point is that it has remained in a narrow band around 80% since February, as airlines have slowed capacity growth in line with the moderation in growth.

Europe and Africa int'l traffic has lost momentum...

Annual growth in international RPKs rose to 7.1% in July, up from 5.0% in June. (See Chart 3.)

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



Sources: IATA Economics, IATA Monthly Statistics

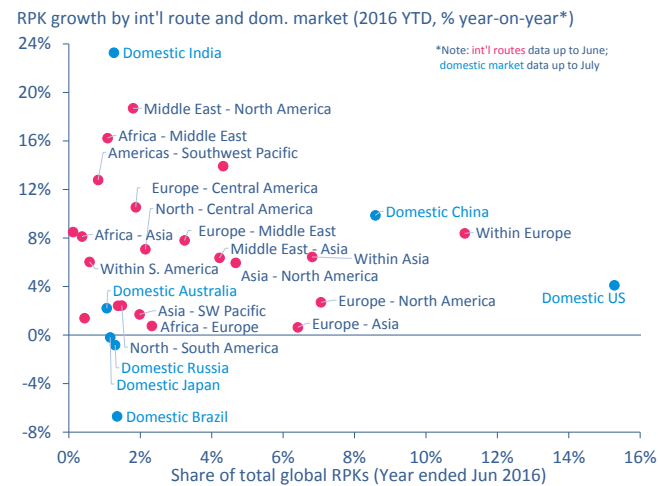
International demand for European carriers – the largest region in terms of international RPKs – has been affected by recent tragic terrorist attacks and political instability in parts of the region. The impact is not yet wholly apparent in the annual growth rate, which increased to 4.1% in July. But the upward trend in seasonally-adjusted traffic has eased markedly in recent months; traffic has grown at an annualized rate of just 1.4% since March.

It is a similar story for African international traffic too. Year-on-year growth jumped to 7.4% in July, but this relates mainly to the strong upward trend in (seasonally adjusted) traffic during the second half of 2015. Alongside challenging economic conditions in much of the continent, particularly in the biggest economies of Nigeria and South Africa, traffic has tracked sideways since the start of 2016.

...but the trend in other regions is robust

International traffic flown by Asia Pacific airlines rose by 9.8% year-on-year in July, with signs that the upward trend in seasonally-adjusted traffic is reasserting itself. Reports suggest that Asian passengers are being put off by terrorism in Europe: traffic on the Europe-Asia route fell by 0.9% year-on-year in June (latest available), and it has been the weakest-performing major route so far in 2016. (See Chart 4.) It appears that Asian travelers may be substituting to destinations closer to home: international traffic growth Within Asia accelerated to a four month-high of 8.1% year-on-year in June.

Chart 4 – RPK growth by route and market



Annual growth in international RPKs flown by Middle Eastern airlines recovered to 13.1% year-on-year in July, having dipped in June owing in part to the timing of Ramadan. There remains little sign of any slowdown in the strong upward trend in traffic. However, passenger capacity growth has continued to outpace that of demand; in fact, load factors on the largest routes to and from the Middle East, those between Asia and Europe, fell by 2.8 and 3.3 percentage points respectively in the first half of 2016, taking both to record period-lows.

Having trended down since July 2015, North American carriers' international traffic has also picked up in recent months. Strikingly, seasonally-adjusted volumes have risen at an annualized rate of more than 8% since March, helped by an improvement across the Pacific route and

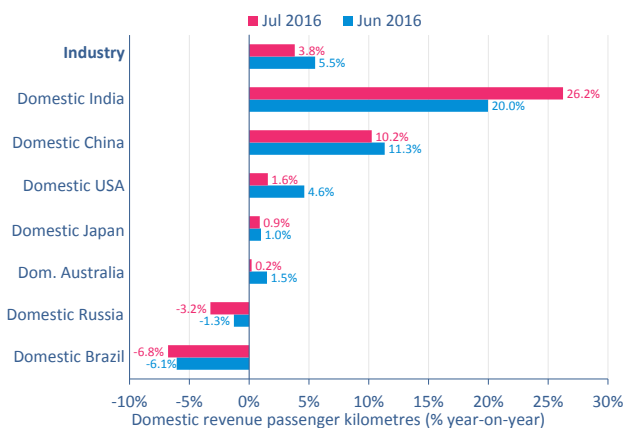
on tourist routes to Central America and the Caribbean. The (even stronger) upward trend in seasonally-adjusted international traffic carried by Latin American carriers has also resumed in recent months, following the soft patch seen in the first quarter of 2016.

A three-speed domestic market

Domestic air travel growth slowed to 3.8% year-on-year in July – its slowest pace in 18 months. (See Chart 5.) We saw a three-speed domestic market develop in July.

The domestic India and China markets are in top gear; they posted double-digit annual growth of 26.2% and 10.2% respectively in July. (See Chart 5.) This has been propelled in both cases by strong growth in real consumer spending, 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 lots of airport-pairs and frequencies, which cuts journey times for passengers and has the same effect on demand as a large cut in fares. Both Indian and Chinese airlines are adding more airport-pairs in 2016 which will stimulate travel, although average frequencies in China are now scheduled to fall slightly.

Chart 5 – Domestic RPK growth by market



Sources: IATA Economics, IATA Monthly Statistics

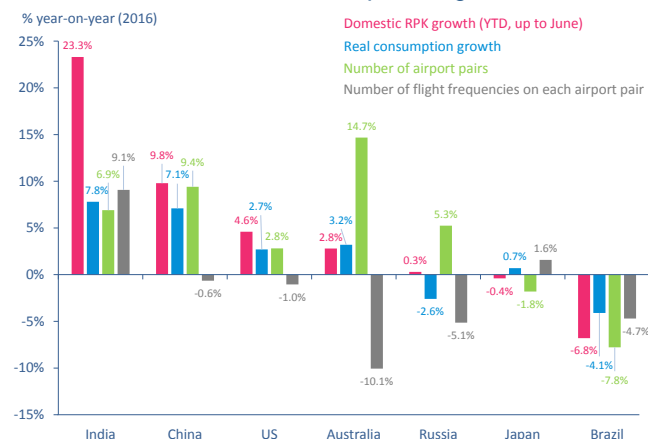
More mature markets are fumbling for neutral...

By contrast the other markets are stuck in neutral at best – all posted year-on-year growth below 2% in July. The domestic US market – the largest in the world – has been fitful in 2016 so far, despite the comparatively robust economic backdrop. Unless the seasonally-adjusted trend picks up, annual growth is likely to fall back below 1% in the months ahead. Moreover, although the load factor remains high, the US was the only domestic market in which loads fell relative to July 2015.

Passenger traffic in the mature domestic Japan and Australian markets grew by just 0.9% and 0.2% year-on-

year respectively in July. Traffic in Japan has trended sideways for the past 18 months, in keeping with underlying weak momentum in consumer spending.

Chart 6 – Drivers of domestic passenger markets



Sources: IATA Monthly Statistics, SRS Analyser, EIU

However, air capacity in Japan has fallen since the start of 2015, as operators have reduced airport-pairs and shifted to smaller aircraft. As a result the domestic load factor actually increased by 1.1 percentage points compared to July 2015, to an all-time July high. It is a similar story in Australia too; capacity has been reduced since the start of the year, reflecting wide-scale changes to the domestic network including much fewer frequencies and smaller aircraft.

...while Brazil and Russia are stuck in reverse

Passenger markets in the energy-dependent economies of Brazil and Russia have gone backwards so far in 2016. While there are tentative signs that the deep economic recessions that have hit both countries may have bottomed out, real consumption in both cases is forecast to contract for the second consecutive year in 2016. (Again, see Chart 6.) Traffic contracted by 6.8% and 3.2% respectively in the markets in July in year-on-year terms.

The bigger decline in Brazil reflects the fact that in addition to the squeeze on incomes, options for Brazilian travelers are being curtailed by fewer and less frequent air connections. Traffic has recovered somewhat since April, and we may see a potential boost from the Olympics in August data. But the bigger picture is that it remains more than 8% lower than it was in early 2015. One solace is that airlines in both markets have trimmed capacity in the face of weaker demand, which has lifted loads compared to a year ago, and both posted record July highs.

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 7th September 2016

Air passenger market detail - July 2016

	World share ¹	July 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%	5.9%	6.0%	-0.1%	83.7%	6.0%	6.2%	-0.1%	79.9%
Africa	2.2%	6.8%	5.3%	1.1%	72.7%	7.7%	7.8%	0.0%	67.9%
Asia Pacific	31.5%	9.6%	8.2%	1.0%	81.2%	8.7%	7.9%	0.6%	78.9%
Europe	26.7%	3.4%	3.6%	-0.2%	86.5%	3.7%	3.6%	0.1%	81.1%
Latin America	5.4%	2.9%	0.5%	2.0%	85.1%	3.6%	2.5%	0.8%	80.8%
Middle East	9.4%	12.5%	15.1%	-1.9%	78.6%	10.9%	14.7%	-2.6%	74.9%
North America	24.7%	2.8%	3.8%	-0.9%	86.7%	3.6%	4.0%	-0.3%	83.4%
International	63.6%	7.1%	7.3%	-0.2%	83.5%	6.4%	6.9%	-0.4%	79.0%
Africa	1.9%	7.4%	5.9%	1.0%	72.4%	8.7%	9.0%	-0.2%	66.9%
Asia Pacific	17.4%	9.8%	8.6%	0.9%	81.7%	8.6%	8.0%	0.4%	78.4%
Europe	23.8%	4.1%	4.7%	-0.5%	86.7%	4.0%	4.3%	-0.3%	81.6%
Latin America	2.9%	7.5%	4.2%	2.6%	85.3%	7.5%	6.0%	1.2%	81.1%
Middle East	9.1%	13.1%	15.5%	-1.7%	78.6%	11.4%	14.9%	-2.3%	74.7%
North America	8.5%	4.8%	5.1%	-0.3%	86.1%	2.5%	3.0%	-0.3%	81.0%
Domestic	36.4%	3.8%	3.7%	0.1%	84.0%	5.3%	4.8%	0.3%	81.6%
Dom. Australia ⁴	1.1%	0.2%	-1.6%	1.5%	81.1%	2.2%	0.1%	1.6%	77.3%
Domestic Brazil ⁴	1.4%	-6.8%	-7.8%	1.0%	84.4%	-6.7%	-6.3%	-0.4%	80.2%
Dom. China P.R. ⁴	8.4%	10.2%	9.7%	0.4%	82.1%	9.9%	9.9%	0.0%	81.3%
Domestic India ⁴	1.2%	26.2%	20.5%	3.9%	84.5%	23.3%	22.3%	0.6%	84.2%
Domestic Japan ⁴	1.2%	0.9%	-0.8%	1.1%	66.7%	-0.2%	-2.8%	1.7%	66.9%
Dom. Russian Fed. ⁴	1.3%	-3.2%	-7.5%	3.8%	87.3%	-0.8%	-6.6%	4.5%	77.4%
Domestic US ⁴	15.4%	1.6%	3.1%	-1.3%	87.2%	4.1%	4.6%	-0.4%	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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