

Passenger demand remains sound, but the trend has eased

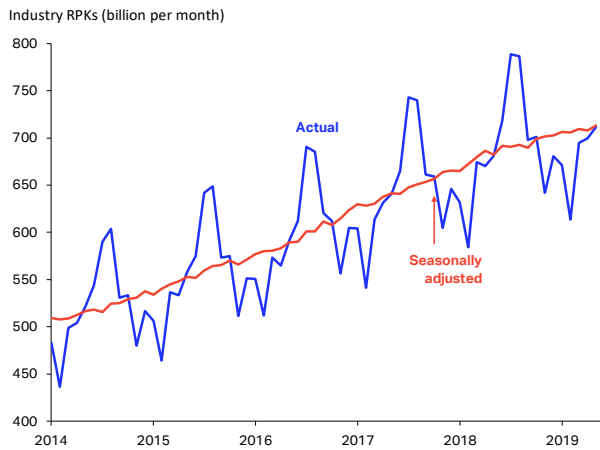
- Industry-wide revenue passenger kilometres (RPKs) continued to show solid growth in May, increasing by 4.5% in year-on-year terms. However, the trend rate of growth has clearly slowed over recent months.
- With capacity increasing by a moderate 2.7% over the past year, the industry-wide load factor posted a new record high for May. All regions with the exception of the Middle East set new record levels.
- International RPK growth moderated slightly this month, driven by slower growth in the developed markets of Europe and North America. Middle East airlines have reduced international capacity by 6% over the past year.

The RPK growth trend has moderated...

Industry-wide revenue passenger kilometres (RPKs) ticked marginally higher in May, up 4.5% in year-on-year terms. This is a solid outcome, following the short-lived dip in activity in March – where RPK growth eased to 3.1% yoy, in part due to the changed timing of Easter – but it remains below the long-term (20-year) average rate of around 5.5%.

Looking through the regular seasonal volatility, the upwards trend in the level of RPKs continued this month (Chart 1). However, the trend has clearly moderated since around mid-2018.

Chart 1 – Air passenger volumes



Sources: IATA Economics, IATA Monthly Statistics

The seasonally-adjusted (SA) data are consistent with an annualized RPK growth rate of around 4% currently, compared with a pace of around 7% in the early part of 2018.

...as global headwinds dampen demand

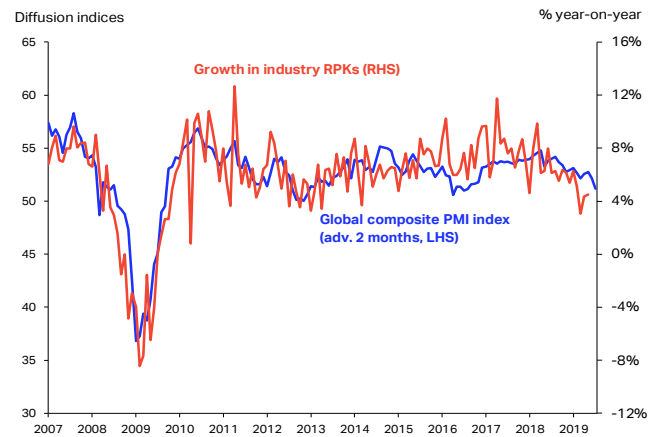
The slowing in the RPK growth trend in recent months comes as little surprise given the developments in a number of key indicators.

The global Composite Purchasing Managers Index (PMI) has proven to be a reliable leading indicator of air passenger demand (Chart 2). The PMI eased further this month, continuing the downward trend observed over the past year or so and is now at a level not seen since 2016.

This downward trend is consistent with the modest slowdown observed in global economic activity over a similar period.

At its current level, the PMI suggests that RPK growth may moderate further over the near-term.

Chart 2 – RPK growth and global business confidence



Sources: IATA Economics, IATA Monthly Statistics, Markit

Air passenger market overview - May 2019

	World share ¹	May 2019 (% 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%	4.5%	2.7%	1.4%	81.5%	4.6%	4.3%	0.3%	81.3%
International	64.0%	4.3%	2.1%	1.7%	80.4%	4.5%	4.1%	0.3%	80.7%
Domestic	36.0%	4.8%	3.8%	0.8%	83.4%	4.9%	4.7%	0.2%	82.4%

¹ of industry RPKs in 2018

²Year-on-year change in load factor

³Load factor level

At the individual country level, the story is more mixed. Economic conditions are most positive in the Eurozone, UK (Brexit uncertainty notwithstanding), Australia and the ASEAN region (Chart 3). Unsurprisingly given recent outcomes, Brazil and South Africa are the two countries with the most challenging economic backdrop currently.

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



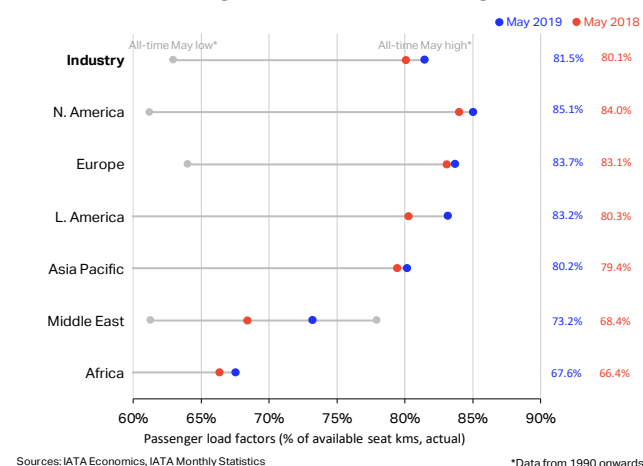
Industry load factor at record high for May

The growth rate of industry-wide available seat kilometres (ASKs) slowed further in May, increasing by a moderate 2.7% year-on-year. This represents the slowest rate of capacity growth in more than six years (since early 2013), as airlines respond to the moderation observed in air passenger demand.

With capacity increasing more slowly than demand, the industry-wide load factor has increased by 1.4 percentage points over the past year. At 81.5% currently, this represents a record high outcome for any month of May.

This strong load factor performance was broad-based across the regions (Chart 4). All regions, with the exception of the Middle East, delivered record highs on this occasion.

Chart 4 – Passenger load factors by region



Most notable was the 85.1% load factor recorded by the North American carriers, with Europe and Latin America not far behind, at 83.7% and 83.2%, respectively.

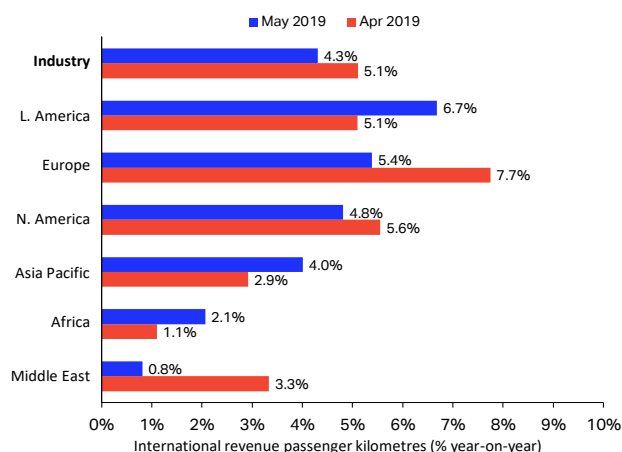
Although the Middle East was the only region not to post a record-high passenger load factor, it is the only region to have reduced capacity over the past 12 months, with ASKs down a sizeable 5.9% year-on-year. In turn, this has increased the region's passenger load factor by 4.8 percentage points compared with a year ago.

Broad-based growth in international RPKs

Industry-wide international RPKs (64% of total traffic) grew by 4.3% year-on-year in May, slightly slower than the global aggregate outcome and down from a 5.1% pace last month.

All regions registered positive yoy growth on this occasion, yet only Latin America, Asia Pacific and Africa saw an increase in the rate of growth compared to April (Chart 5).

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



Latin America is the strongest performer...

International RPKs for the Latin America carriers grew at a brisk 6.7% year-on-year pace in May, the strongest performance in the region since early-2018, and the second time it tops the growth chart since the start of the year.

Overall passenger demand is currently holding up well, despite a difficult economic climate in a number of countries in the region.

...followed by Europe

European airlines posted a 5.4% increase in international RPKs over the year to May, down from 7.7% last month.

While this remains above the industry-wide outcome, most of the region's growth occurred in the first half of 2018, with RPKs moving broadly sideways since then. Combined with the ongoing uncertainty surrounding Brexit, this could well result in slower growth outcomes in the period ahead.

Growth in North America remains robust

With 4.8% growth in international RPKs versus a year ago, the North America market remains robust, growing in line with the average over the past year, and well above its long-term average of 3.3%. A sound domestic economy (see more below) has supported growth in the international market, notwithstanding the adverse impact of the ongoing trade tensions.

Asia Pacific and Africa growth lifts a little in May

International RPK growth accelerated from 2.9% year-on-year to 4.0% between April and May in Asia Pacific. This is the second consecutive increase, but it still represents a relatively soft outcome compared with the performance of recent years. The China-US trade tensions continue to weigh upon international RPK growth in the region.

In Africa, international RPK volumes also grew slightly faster this month than they did in April – at a modest 2.1% year-on-year vs 1.1%. The region has barely increased capacity over the past year which has led to a 1.3 percentage point increase in the passenger load factor. Even so, at 67.0%, the region lags its counterparts on this measure.

Middle East RPKs continue to slow in May

After a short-lived recovery in April, international RPK growth for the Middle East eased again this month, to be just 0.8% higher than in May 2018.

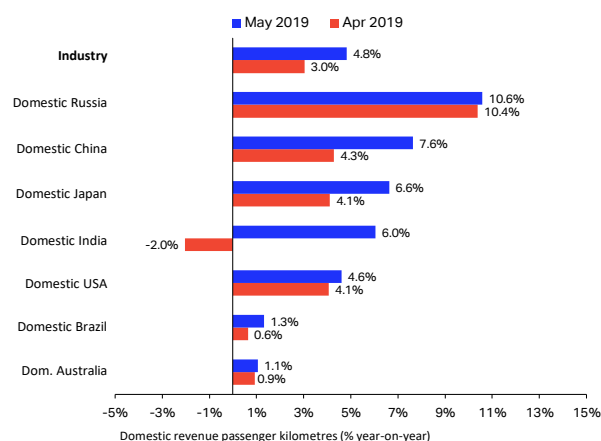
Taking a step back, the year-on-year RPK growth rate has clearly slowed since around mid-2018, with a slight downward trend in SA levels evident over the period since then.

This partly reflects the impact of the structural changes that are underway in the industry in the region. At the same time, airlines have reduced international capacity by 6.1% over the past year.

Domestic RPK growth rebounds...

Year-on-year growth in industry-wide domestic RPKs recovered from a downwardly revised 3.0% in April to a brisk 4.8% in May. This rebound comes after four consecutive months of slowing growth, and is broad-based across all the key domestic markets we consistently follow (Chart 6).

Chart 6 – Domestic RPK growth by market



Sources: IATA Economics, IATA Monthly Statistics

Domestic Russia is the strongest performer again...

Airlines based in Russia reported a 10.6% increase in domestic RPKs compared to the same period last year. This is roughly in line with the growth rates seen since mid-2018, but the upward trend in SA levels has moderated slightly in the past couple of months.

The domestic Russia market continues to benefit from broadly favorable economic conditions, along with lower airfares both of which are supporting demand.

...with China recovering well

Following two modest year-on-year growth outturns in March and April, passenger volumes in the China domestic market rebounded solidly, with annual growth lifting to 7.6% this month.

Despite trade tensions and slower economic activity – particularly through the course of 2018 – both weighing upon RPK growth, demand appears to be in good shape, supported by lower airfares.

Fastest growth in two years in Japan...

Domestic RPK volumes in Japan lifted by a strong 6.6% year-on-year, the strongest outcome since summer 2017. A solid upward trend has become apparent in the domestic Japan market over the last few months. A combination of lower airfares and robust economic growth have contributed to the positive developments.

...while India returns into positive territory.

After a fall in domestic RPKs in April (down 2.0%yoy), following the demise of Jet Airways, growth in the India market rebounded sharply in May, with RPKs now an even 6.0% higher than a year ago. While it will take some time for the market to adjust to the recent shock, the longer-term outlook for domestic India traffic remains positive.

Solid performance in the US in May

With domestic RPK volumes growing by 4.6% versus May last year, the large internal US market (which accounts for around 14% of total global RPKs) maintains a robust trend, despite a slight slowdown in the past two months. The US economy is currently experiencing its longest economic expansion in history, driven by strong jobs growth and consumer spending. Both of these have also supported the strong air passenger demand outcomes.

Growth in Brazil remains weak...

While growth in domestic RPK volumes in Brazil picked up slightly in May, to 1.3% year-on-year versus 0.6% in April, it remains weak. With demand having clearly softened, capacity has been reduced by a sizeable 4.4% in the market over the past year, resulting in a 4.6 percentage point increase in the

domestic load factor. In SA terms, the upward trend in RPKs which began in 2017 has visibly flattened in the last six months.

...just ahead of Australia

With annual domestic RPKs increasing by a soft 1.1% this month (up from 0.9% in April), the period of weakness in Australia's passenger market continues. Nonetheless, airlines continue to increase capacity equally modestly, at a similar rate to demand. This has kept the load factor broadly steady over the past year. In SA terms, RPKs have trended slightly lower since their most recent peak in December 2017.

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 4th July 2019

Air passenger market detail - May 2019

	World share ¹	May 2019 (% 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%	4.5%	2.7%	1.4%	81.5%	4.6%	4.3%	0.3%	81.3%
Africa	2.1%	2.2%	0.3%	1.2%	67.6%	2.4%	1.2%	0.9%	70.8%
Asia Pacific	34.4%	4.5%	3.5%	0.8%	80.2%	4.7%	4.7%	0.0%	81.4%
Europe	26.7%	5.4%	4.6%	0.6%	83.7%	6.4%	6.3%	0.1%	82.9%
Latin America	5.1%	6.5%	2.8%	2.9%	83.2%	5.6%	4.8%	0.6%	82.2%
Middle East	9.2%	0.7%	-5.9%	4.8%	73.2%	0.0%	0.0%	-0.1%	75.1%
North America	22.5%	4.5%	3.2%	1.1%	85.1%	4.4%	3.6%	0.6%	83.1%
International	64.0%	4.3%	2.1%	1.7%	80.4%	4.5%	4.1%	0.3%	80.7%
Africa	1.8%	2.1%	0.1%	1.3%	67.0%	2.4%	0.8%	1.1%	70.3%
Asia Pacific	18.9%	4.0%	3.0%	0.8%	78.6%	4.1%	4.0%	0.1%	80.5%
Europe	23.9%	5.4%	4.6%	0.7%	84.2%	6.5%	6.4%	0.1%	83.5%
Latin America	2.7%	6.7%	4.0%	2.1%	84.0%	5.3%	5.1%	0.2%	82.6%
Middle East	8.9%	0.8%	-6.1%	5.0%	73.0%	0.2%	0.1%	0.0%	75.0%
North America	7.6%	4.8%	2.7%	1.7%	83.6%	4.7%	3.2%	1.1%	81.9%
Domestic	36.0%	4.8%	3.8%	0.8%	83.4%	4.9%	4.7%	0.2%	82.4%
Dom. Australia ⁴	0.9%	1.1%	0.8%	0.2%	77.0%	-0.2%	-0.3%	0.1%	78.9%
Domestic Brazil ⁴	1.1%	1.3%	-4.4%	4.6%	81.4%	2.7%	0.7%	1.6%	82.2%
Dom. China P.R. ⁴	9.5%	7.6%	7.1%	0.4%	83.2%	8.2%	8.4%	-0.2%	83.9%
Domestic India ⁴	1.6%	6.0%	3.3%	2.3%	90.1%	5.5%	6.9%	-1.2%	87.8%
Domestic Japan ⁴	1.0%	6.6%	2.0%	3.1%	71.6%	4.0%	2.4%	1.0%	70.2%
Dom. Russian Fed. ⁴	1.4%	10.6%	9.6%	0.7%	80.1%	11.2%	10.6%	0.4%	78.9%
Domestic US ⁴	14.1%	4.6%	3.9%	0.6%	86.0%	4.5%	4.2%	0.2%	83.7%

¹% of industry RPKs in 2018

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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