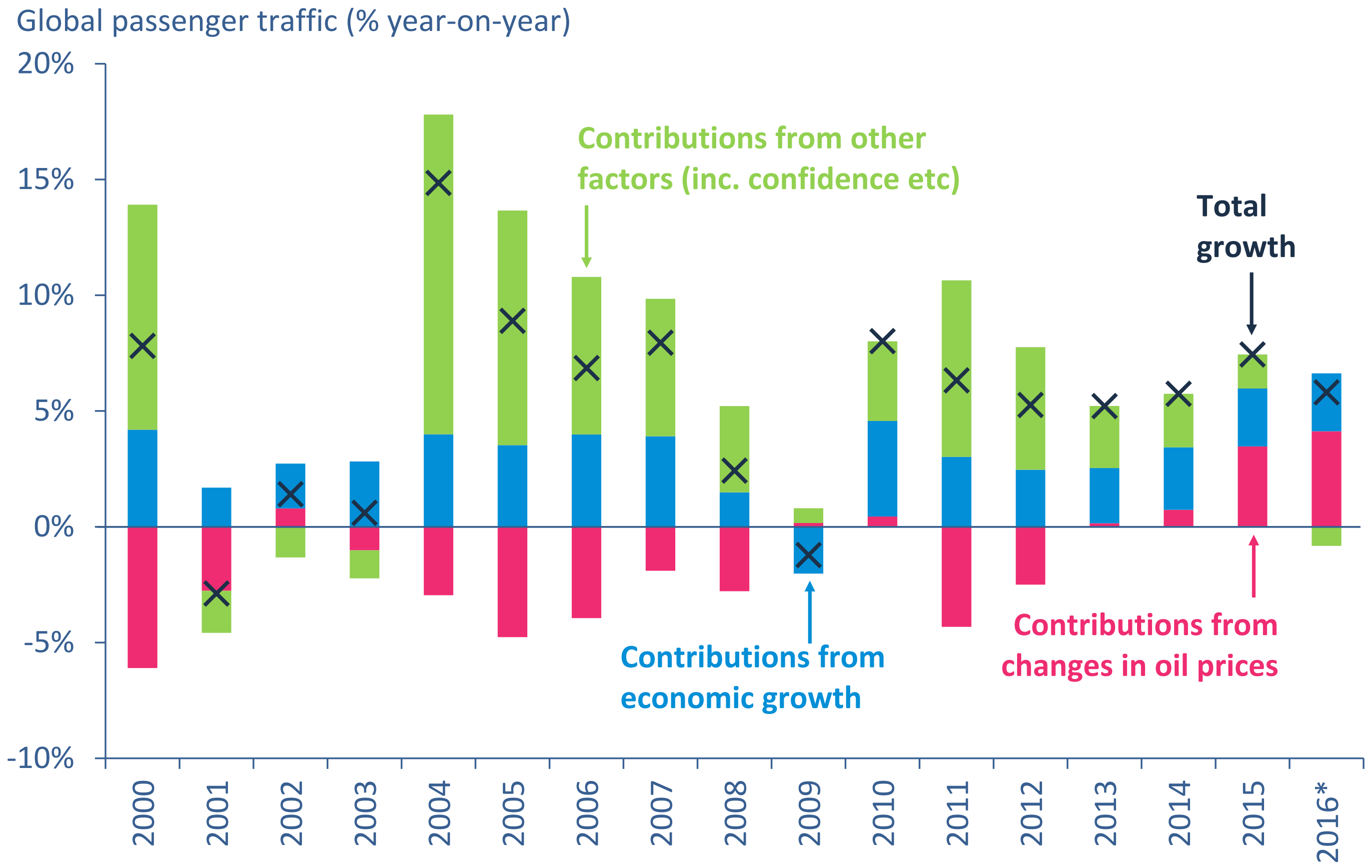
# IATA ECONOMICS' CHART OF THE WEEK

**25 NOVEMBER 2016**

## A GROWTH-ACCOUNTING FRAMEWORK FOR AIR PASSENGER DEMAND




*Sources: IATA, IMF, Thomson Reuters Datastream* **Estimates for 2016*

- This week's chart presents a growth-accounting framework that disaggregates total growth in passenger traffic into three main components. Based on this framework, we estimate that lower oil prices have accounted for more than half the growth seen in global passenger volumes during 2015 and 2016 so far. This boost has helped to overcome the ongoing subdued economic backdrop, which we estimate to have driven around 2.5 percentage points of growth in both years, as well as disruption from a range of headwinds such as terrorist attacks and political instability in parts of the world.
- To be clear, there is no mechanistic link between oil prices, airfares and demand: the speed and extent to which changes in oil prices feed through into the fares that customers pay depends on a variety of factors, including differing hedging practices between airlines, changes in exchange rates against the US dollar, and developments in non-fuel costs. Moreover, just how responsive customers are to changes in price also differs by region, route and purpose of trip (the so-called price elasticity of demand).
- But with oil prices having risen by around 50% since their low-point early in 2016, the biggest stimulus to demand on this front may now be behind us. Going into 2017, global economic growth is expected to make another moderate contribution to passenger growth, while the confidence component could be expected to rebound, making a positive contribution after a tumultuous year. All told, despite weaker tailwinds from oil prices, we expect global passenger growth to remain solid next year.

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