AIR PASSENGER MARKET ANALYSIS October 2018

Recovery in annual growth in Oct, but upward trend has slowed

- Annual growth in industry-wide revenue passenger kilometres (RPKs) recovered to 6.3% in October, having slowed to an eight-month low of 5.5% in September. However, the upward traffic trend has slowed over the past six months.
- The industry-wide load factor was broadly unchanged in annual terms in October, at a record high for the month (81.1%). Nonetheless, passenger capacity is now currently trending upwards slightly faster than demand.
- Domestic India RPKs posted their 50th month in a row of double-digit year-on-year growth, while European airlines posted the fastest international RPK growth rate for the first time since June 2017.

Pick-up in annual passenger growth in October…

Annual growth in industry-wide revenue passenger kilometres (RPKs) accelerated to 6.3% in October, up from an eight-month low of 5.5% in September.

We had expected some recovery in the annual RPK growth rate in October following the temporary weather-related disruption that affected the September data. (This included Typhoon Jebi in Japan, which caused the complete closure of Kansai airport for a number of days.) We have estimated that such disruption reduced annual global RPK growth by around 0.1-0.2 percentage point in September (link).

…but the upward traffic trend has moderated

While the bounceback in year-on-year growth in October was bigger than can be explained just by the weather impacts alone, the bigger picture is that the rate has only recovered to where it stood in August.

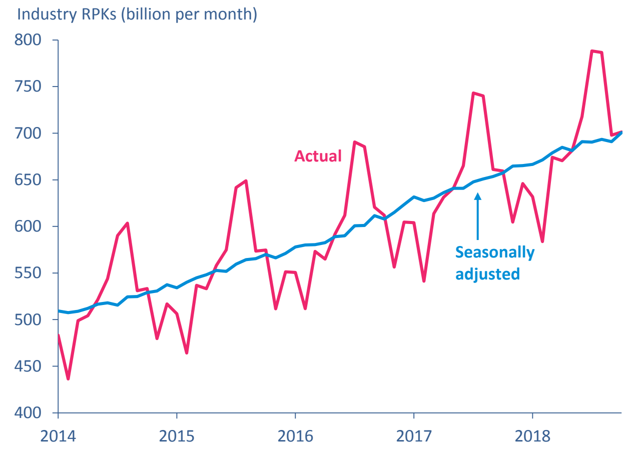
In any case, and as we have noted before, the key point is that the seasonally adjusted (SA) upward trend in RPKs has moderated in recent months. Passenger volumes have risen at around a 6% annualized pace over the past six months – down from closer to 9% earlier in the year. (See Chart 1.)

Slowdown driven by more mixed economic picture

The slowdown in industry-wide RPK growth ties in with the more mixed picture that has emerged on the economic front since early-2018.

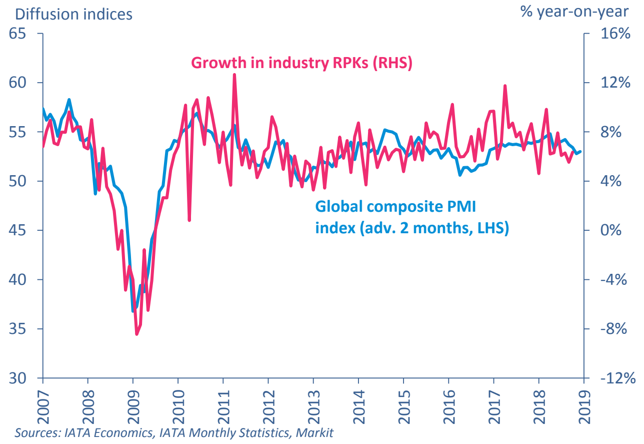
To be clear, the global composite Purchasing Managers' Index (PMI) – a business survey that has proven to be a very good leading indicator for RPK growth in the past – is still pointing to industry-wide RPK growth remaining at solid rates over the coming

Chart 1 – Air passenger volumes



Sources: IATA Economics, IATA Monthly Statistics

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



Sources: IATA Economics, IATA Monthly Statistics, Markit

Air passenger market overview - October 2018

	World share[1]	October 2018 (% year-on-year) RPK	ASK	PLF (%-pt)[2]	PLF (level)[3]	% year-to-date RPK	ASK	PLF (%-pt)[2]	PLF (level)[3]
TOTAL MARKET	**100.0%**	**6.3%**	**6.3%**	**0.0%**	**81.1%**	**6.7%**	**6.0%**	**0.5%**	**82.2%**
International	64.1%	6.3%	6.1%	0.1%	79.8%	6.3%	5.6%	0.6%	81.7%
Domestic	35.9%	6.4%	6.7%	-0.2%	83.3%	7.2%	6.7%	0.4%	83.2%

[1]% of industry RPKs in 2017 [2]Year-on-year change in load factor [3]Load factor level

months, in the region of 6-6.5%. (See Chart 2, previous page.) However, this is a big turnaround from the 7.5-8% RPK growth that the indicator was pointing to earlier in the year.

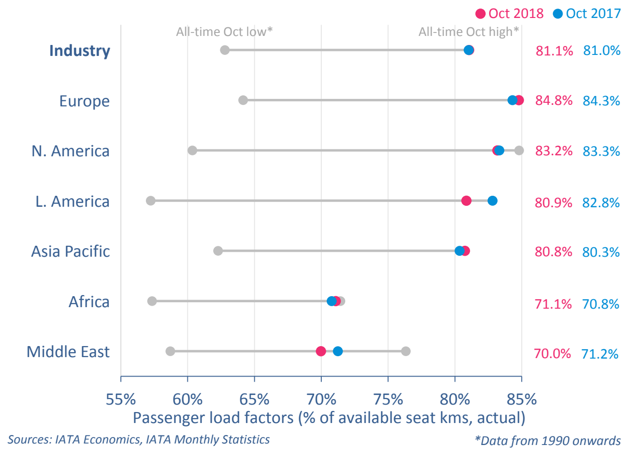
Meanwhile, the slowing in the passenger volume growth trend also reflects a reduced boost to demand from lower airfares compared to what we have seen in recent years. The manner in which these two factors combine in 2019 will be the key determinant of how fast passenger volumes will grow next year.

Load factor broadly unchanged from October 2017

Industry-wide available seat kilometres (ASKs) also grew by 6.3% year-on-year in October. As a result, the industry-wide passenger load factor remained broadly unchanged from the record-October high load factor that was recorded last year. (See Chart 3.)

That said, following the recent moderation in the SA RPK trend, capacity is currently trending higher at a faster rate than demand.

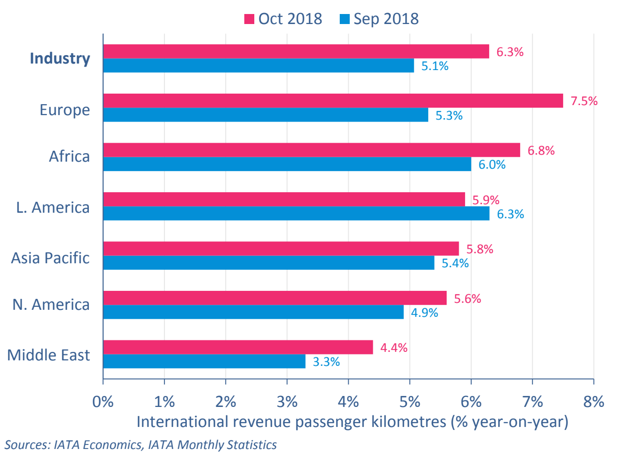
Chart 3 – Passenger load factors by region



International RPK growth rises in most regions

Year-on-year growth in industry-wide international RPKs increased to 6.3% in October. (See Chart 4.)

Chart 4 – International passenger traffic growth by airline region of registration



Sharp pick-up in European RPKs in October…

Nearly three-quarters of the increase in industry-wide RPK growth between September and October was driven by European airlines. Airlines based in the region flew 7.5% more international RPKs in October relative to the same month a year ago (up from 5.3% in September). The SA passenger trend had slowed sharply in the middle of 2018, but RPKs posted their strongest month-on-month gain in October in almost two years. Given mixed signs on the economic backdrop in the region it is unclear if this can be sustained.

…lifted them ahead of African carriers

Annual international RPK growth for airlines based in Africa accelerated to 6.8% in October – well ahead of the five-year average (4.7%) and enough to keep the region in the top two for the fifth month in a row. Despite ongoing challenges in the economic backdrop of the continent's largest economies, the upward trend in passenger demand remains strong.

Slowing trend for Asia Pacific carriers

Airlines based in Asia Pacific flew 5.8% more international RPKs in October than they did in the same month of 2017. Underlying passenger demand is continuing to be supported by structural changes, including ongoing rises in living standards in the region, as well as network changes that ultimately stimulate demand. Nonetheless, the upward trend in traffic has slowed to an annualized pace of around 4% since the middle of the year – less than half the five-year average RPK growth rate in the region (9.0%). We will continue to monitor developments in the trend closely over the coming months.

Robust upward trend in N.America continues…

Strong momentum in the US economy has helped to drive robust international passenger demand for North American airlines in recent years. Carriers based in the region flew 5.6% more international FTKs in October compared with October 2017 – well above the five-year average pace (3.9%).

…but has slowed in Latin America

Meanwhile, although carriers based in Latin America posted faster year-on-year growth than their Northern counterparts in October (5.9%), the key point is that much of this growth took place on Q1 2018. Indeed, a soft patch in demand during the middle of the year, which coincided with the general strikes seen in Brazil, has contributed to RPKs growing at a modest annualized 2% pace over the past six months.

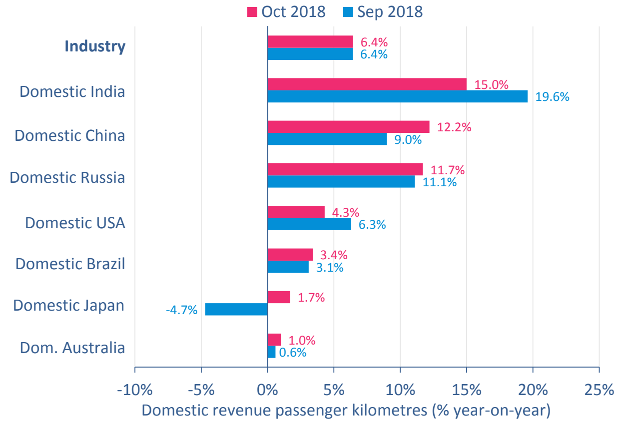
Middle Eastern carriers post slowest growth again

Middle Eastern airlines posted the slowest annual international RPK growth rate for the seventh time in 12 months (4.4%). The region's airlines have been impacted by a number of policy measures and geopolitical tensions in recent years, including the ban on portable electronic devices and travel restrictions. However, while volatile, passenger volumes are once again trending up solidly in SA terms.

Domestic RPK growth unchanged in October

Annual growth in domestic RPKs remained unchanged in October from that seen in the previous month (6.4%). (See Chart 5.)

Chart 5 – Domestic RPK growth by market



Sources: IATA Economics, IATA Monthly Statistics

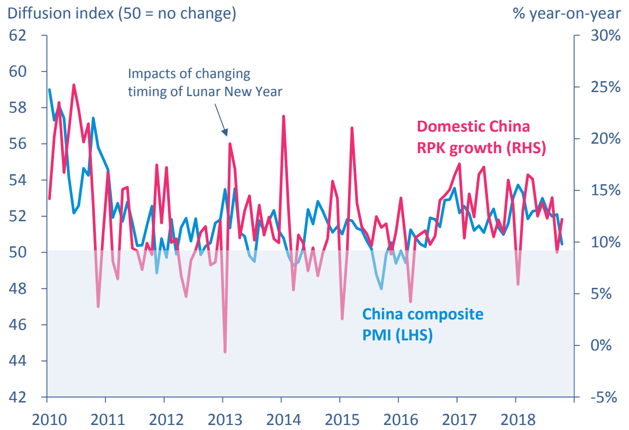
India tops the growth chart once again…

India posted its 50th consecutive month of double-digit growth (15.0%). While this was a slowdown from 19.6% in September, the strong upward trend in traffic remains in place. This is being supported by structural changes, including ongoing rises in living standards, as well as large increases in the number of airport connections within the country. The latter translates into time savings and has a similar stimulatory impact on demand as reductions in fares

…followed by domestic China

The upward trend in SA domestic China RPKs has slowed over the past six months, with passenger volumes currently trending upwards at a 9% annualized rate. While this is still very respectable by the standards of many other markets, it is some way below the five-year average growth rate (12.0%). This appears to relate to signs that trade tensions are starting to weigh on economic activity in the country. (See Chart 6.)

Chart 6 – Domestic China RPKs and composite PMI



Sources: IATA Economics, Markit

Strong upward RPK trend in Russia…

Meanwhile, year-on-year growth in domestic Russia RPKs remained in double-digit territory in October for the third month in a row (11.7%). The traffic trend has accelerated over the past four months, with RPKs currently surging upwards at a 20% annualized pace.

…alongside solid momentum in the US too

The robust economic backdrop in the US has helped to support domestic passenger growth in recent years. While year-on-year growth in domestic RPKs slowed to 4.3% in October, from 6.3% in September, this was still ahead of the five-year average (4.2%).

Domestic Brazil RPKs continuing to recover

Annual growth in domestic Brazil RPKs rose to 3.4% in October, from 3.1% in September. While the economic backdrop remains challenging, domestic passenger traffic is continuing to recover from the low-point reached in early-2016.

Japan growth jumps back into positive territory

Annual growth in domestic Japan RPKs bounced back into positive territory (1.7%) following the significant disruption caused by Typhoon Jebi in Japan last month – most notably at Kansai airport.

Another month of moderate growth in Australia

Domestic Australia RPKs grew by 1.0% in October, up from 0.6% in the previous month. Nonetheless, RPKs are continuing to trend sideways in SA terms.

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Air passenger market detail - October 2018

	World share [1]	October 2018 (% 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%***	**6.3%**	**6.3%**	**0.0%**	**81.1%**	**6.7%**	**6.0%**	**0.5%**	**82.2%**
Africa	*2.2%*	1.7%	1.3%	0.3%	71.1%	2.5%	0.9%	1.1%	71.5%
Asia Pacific	*33.8%*	7.6%	7.0%	0.4%	80.8%	9.0%	8.0%	0.7%	81.7%
Europe	*26.7%*	7.4%	6.8%	0.5%	84.8%	6.3%	5.2%	0.9%	85.1%
Latin America	*5.1%*	6.5%	9.1%	-2.0%	80.9%	6.1%	6.6%	-0.4%	81.5%
Middle East	*9.4%*	3.9%	5.8%	-1.3%	70.0%	4.7%	4.9%	-0.2%	75.5%
North America	*22.8%*	4.6%	4.8%	-0.1%	83.2%	5.1%	4.7%	0.3%	83.9%
International	***64.1%***	**6.3%**	**6.1%**	**0.1%**	**79.8%**	**6.3%**	**5.6%**	**0.6%**	**81.7%**
Africa	*1.9%*	6.8%	5.5%	0.9%	70.3%	6.8%	4.5%	1.5%	71.1%
Asia Pacific	*18.8%*	5.8%	5.4%	0.3%	78.9%	7.5%	6.6%	0.7%	80.7%
Europe	*23.9%*	7.5%	7.0%	0.4%	85.2%	6.3%	5.4%	0.8%	85.6%
Latin America	*2.7%*	5.9%	9.1%	-2.4%	80.4%	6.8%	7.7%	-0.6%	82.1%
Middle East	*9.1%*	4.4%	6.4%	-1.3%	69.8%	4.9%	5.3%	-0.3%	75.4%
North America	*7.8%*	5.6%	3.7%	1.4%	80.4%	5.0%	3.8%	1.0%	82.8%
Domestic	***35.9%***	**6.4%**	**6.7%**	**-0.2%**	**83.3%**	**7.2%**	**6.7%**	**0.4%**	**83.2%**
Dom. Australia [4]	*0.9%*	1.0%	0.0%	0.8%	82.4%	2.0%	0.2%	1.3%	79.8%
Domestic Brazil [4]	*1.2%*	3.4%	5.8%	-1.9%	81.4%	4.9%	5.5%	-0.4%	80.7%
Dom. China P.R. [4]	*9.1%*	12.2%	11.1%	0.8%	85.2%	12.6%	12.3%	0.2%	84.6%
Domestic India [4]	*1.4%*	15.0%	17.4%	-1.7%	83.1%	19.9%	17.4%	1.8%	87.1%
Domestic Japan [4]	*1.1%*	1.7%	2.2%	-0.4%	75.1%	1.7%	0.5%	0.9%	71.7%
Dom. Russian Fed. [4]	*1.4%*	11.7%	8.8%	2.2%	83.8%	8.3%	5.8%	2.0%	83.9%
Domestic US [4]	*14.3%*	4.3%	5.6%	-1.1%	84.8%	5.2%	5.4%	-0.1%	84.7%

[1]% of industry RPKs in 2017 [2]Year-on-year change in load factor [3]Load 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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