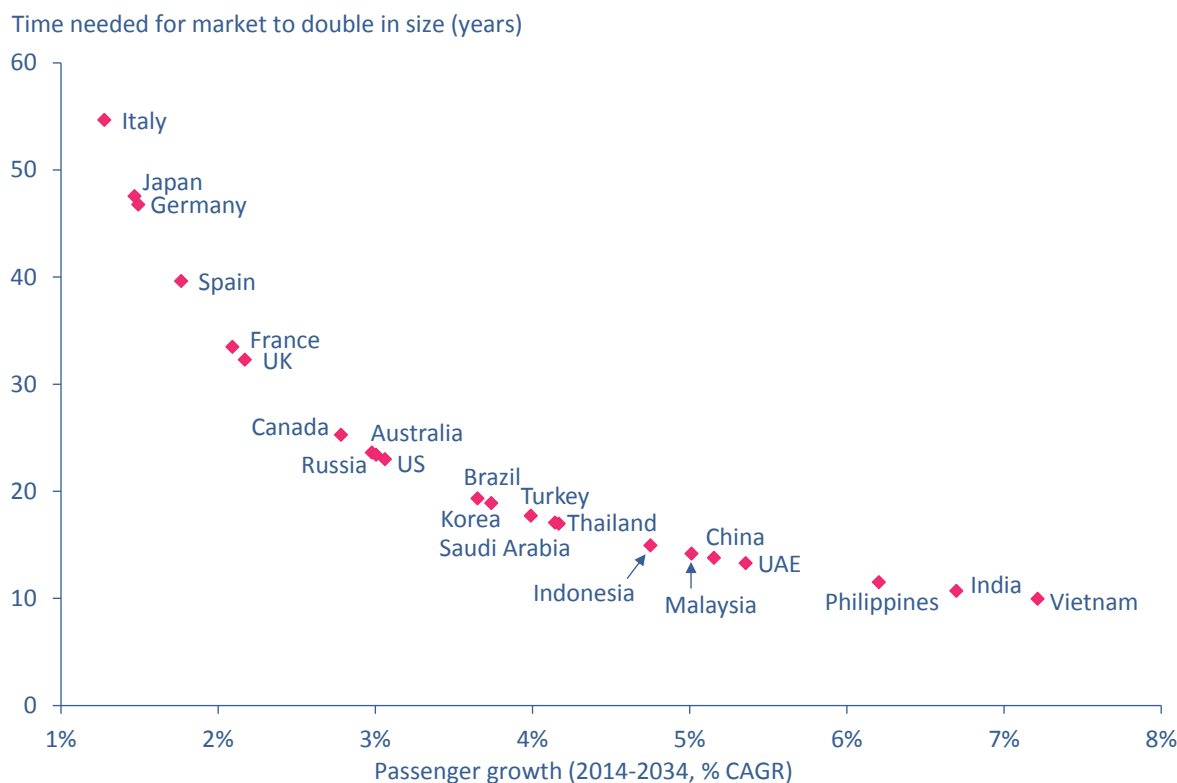




IATA ECONOMICS' CHART OF THE WEEK

13 NOVEMBER 2015

AIR PASSENGER MARKETS AND THE RULE OF 72



Source: IATA/Tourism Economics air passenger forecasts

- The 'rule of 72' is a well-known method for estimating the time required for an investment – or, more pertinently in our case, an air passenger market – to double in value or size.
- To exploit the rule of thumb, one simply divides the number 72 by the expected annual growth rate of the given investment or market to obtain the approximate number of years required for it to double in size. For example, a market growing at 7% a year will double in size approximately every 10 years ($72/7=10.3$)¹.
- Applying the rule to IATA's long-run air passenger forecasts uncovers a large variance in the doubling times for global air passenger markets. The more mature air passenger markets towards the far-left of this week's chart are forecast to expand by just 1-2% on average each year over the next 20 years. As a result, such markets will take at least 40 years to double in size.
- By contrast, a host of faster-growing markets, mainly in the emerging world, towards the right of the chart are expected to at least double in size during our 20 forecast horizon (an annual growth rate of at least 3.5% a year is needed for this to occur). In fact, the Philippine, Indian, and Vietnamese air markets are all expected to double in size within the next 10-12 years.

¹ For those of you who are really keen, the exact time required for an investment, or in our case an air passenger market, to double in size is given by the following formula: $T = \ln(2)/\ln(1 + g)$ where g is the annual growth rate and T is the number of years required. It follows that the exact annual growth rate needed for a market to double in size every 10 years is 7.2% (ie, $10 = \ln(2)/\ln(1.072)$).

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David Oxley
oxleyd@iata.org