

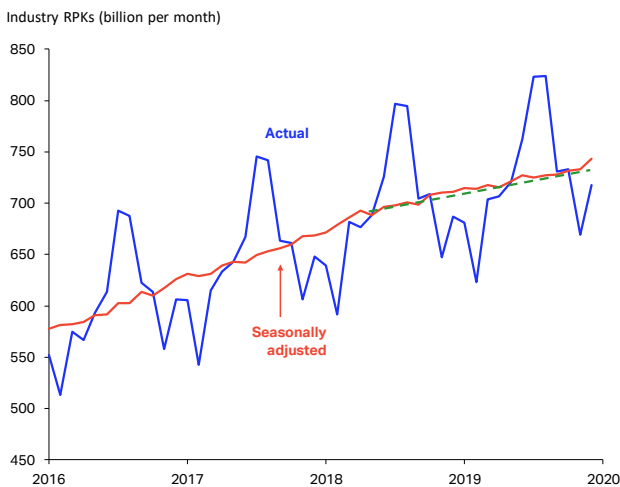
Below-trend but still solid air passenger growth in 2019

- Industry-wide revenue passenger kilometres (RPKs) expanded by 4.2% in 2019. This marks the first year since the Global Financial Crisis with passenger demand below long-term trend (~5.5%).
- The 2019 air travel demand outcome was impacted by a softer (but still supportive) global economic backdrop and weaker business confidence amidst international trade tensions.
- Capacity expanded by 3.4% in 2019 as a whole, a slower pace compared to that of demand. As a result, the industry-wide passenger load factor reached a new record high of 82.6%.

Passenger demand below trend in 2019

Industry-wide revenue passenger kilometres (RPKs) ended the year on a positive note, rising by 4.5% year-on-year, up from 3.3% in November, primarily on the back of a solid performance from the North American carriers. The underlying seasonally adjusted (SA) traffic data also ticked up (Chart 1) – disrupting more moderate upward trend that emerged since Q2 2018.

Chart 1 – Air passenger volumes and latest trend



Sources: IATA Economics, IATA Monthly Statistics

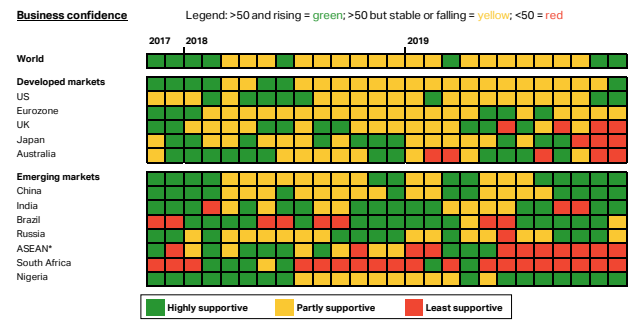
Despite the improvement this month, the bigger picture remains that air passenger demand growth softened in 2019. Indeed, RPKs increased by 4.2% - down from 7.3% annual growth observed in 2018, and below the long-term growth trend (~5.5%) for the first year since the Global Financial Crisis.

Key drivers less supportive of RPK growth in 2019

The moderation came against a backdrop of slowing momentum in the global economy, declining world

trade activity and various political and geopolitical tensions across the regions. In addition, business confidence also weakened across a number of key developed and emerging markets (Chart 2).

Chart 2 – Economic conditions (monthly data from composite PMIs, selected regions and countries)



All regions contributed to the industry-wide slowdown in growth, as a result, regional RPK shares remained broadly unchanged in 2019 versus 2018 (see table on p. 4). Airlines based in Asia Pacific and Europe (regions with the largest RPK share) were the main drivers behind the softer industry-wide outcome with their contribution to growth falling by 1.5ppts and 0.9ppts, respectively in 2019 (Chart 3, p. 2).

Looking ahead, our December forecast points to stabilization, with RPKs increasing by 4.1% in 2020. This is based on the assumption of a slightly more supportive global economic activity and also an uptick in world trade growth. The recent outbreak of Coronavirus in China poses downside risk to this forecast. Although at this stage it is too early to estimate the exact impact, historical evidence shows that the disruption of passenger demand from health

Air passenger market overview - December 2019

	World share ¹	December 2019 (% year-on-year)				% 2019			
		RPK	ASK	PLF (%-pt) ²	PLF (level) ³	RPK	ASK	PLF (%-pt) ²	PLF (level) ³
TOTAL MARKET	100.0%	4.5%	2.1%	1.9%	82.3%	4.2%	3.4%	0.7%	82.6%
International	63.8%	3.8%	1.0%	2.2%	81.8%	4.1%	3.0%	0.8%	82.0%
Domestic	36.2%	5.8%	3.9%	1.5%	83.1%	4.5%	4.1%	0.4%	83.7%

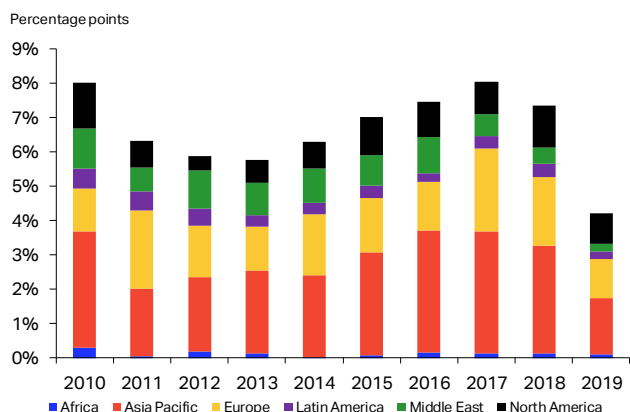
¹% of industry RPKs in 2019

²Year-on-year change in load factor

³Load factor level

shocks is typically relatively short-lived (see our [Chart of the Week](#)).

Chart 3 – Contribution to annual RPK growth (airline region of registration)

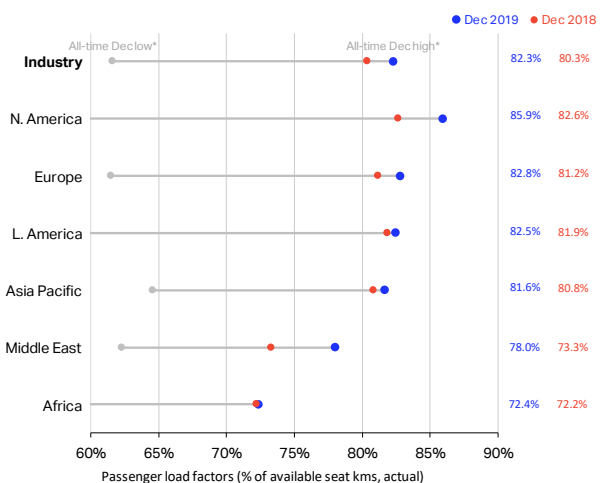


Source: IATA Economics, IATA Monthly Statistics

Load factor reached a record high in 2019

Annual growth in industry-wide available seat kilometres (ASKs) stabilized at 2.1% in Dec. As a result, the industry passenger load factor reached a record-high level for the month, at 82.3% (Chart 4).

Chart 4 – Passenger load factors by region



Sources: IATA Economics, IATA Monthly Statistics

*Data from 1990 onwards

Overall, 2019 was supportive for PLFs; nine consecutive months posted record-high outcomes for the industry, underpinned by solid results across all regions. Consequently, the LF for the year reached a record high 82.6%, up 0.7ppts from 2018. While part of the robust performance can be explained by the Max grounding, it also shows that airlines have become more disciplined and adjusted their capacity supply to the softer RPK growth.

Looking ahead, a high level of scheduled aircraft deliveries in 2020 could lead to a sizeable increase in capacity, with possible implications for load factors, passenger yields and airlines financial performance.

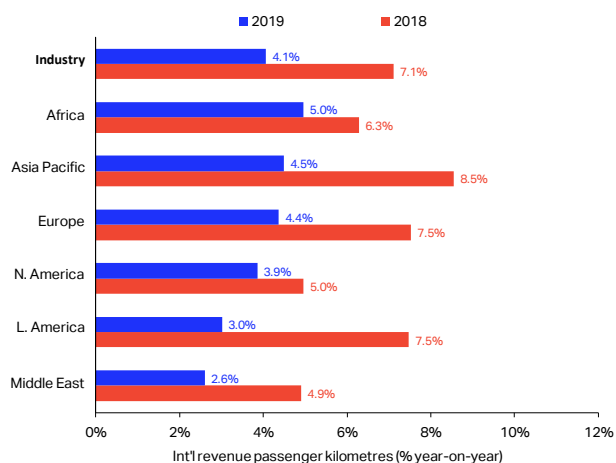
Softer int'l RPK growth across all regions in 2019

International RPK growth picked up to a six month-high (3.8%) in the year to December, driven by the North American market. Despite that, for 2019 as a whole, RPK growth eased to 4.1%, amidst a softer performance from all regions, in particular Asia Pacific, Europe and Latin America.

African carriers posted the fastest RPK growth

International RPKs for African carriers rose by 5.1%yoy in December – a pace broadly in line with the expansion in 2019 as a whole. Airlines in the region benefited from a generally supportive economic backdrop in 2019 – including improved stability in a number of countries – as well as increases in air transport connectivity.

Chart 5 – International RPK growth, yearly (airline region of registration basis)



Sources: IATA Economics, IATA Monthly Statistics

Significant slowdown for Asia Pacific and Europe

Asia Pacific carriers saw international RPKs increase by 4.5% in 2019 – almost half the pace seen in 2018. The significant slowdown reflected the impact that the US-China trade war had on weakening business confidence and economic activity.

Carriers registered in Europe also posted a significant slowdown in international RPK growth this year (4.4% vs 7.5% in 2018) amid slowing economic activity, declining business confidence compounded by industrial disputes (strikes), Brexit uncertainty and the collapse of a number of airlines.

North American carriers end the year on a positive note

North American airlines sustained a solid upward trend in SA international RPKs in 2019. Despite that, annual growth eased modestly to 3.9% in 2019 as a whole amid softer US economic activity and weaker business confidence versus 2018. That said, in the year to Dec, RPKs rose sharply (5.2%) as the timing of the Thanksgiving holidays contributed to higher traffic flows in the beginning of the month.

2019 operating environment challenging for Lat.Am

Social unrest and economic difficulties in a number of countries in the region contributed to slowdown in 2019 international RPK growth for Latin America carriers; RPKs expanded by 3% last year, significantly down from 7.5% in 2018. This is in line with the underlying SA trend changing from upwards to sideways in Jan/Feb 2019. Although December is generally supportive period for passenger demand – RPKs contracted by 1.1% year-on-year. This marks the fourth consecutive month of subdued growth and hints challenges awaiting for the region's international RPKs in 2020.

Performance of ME improved in late-2019

Although Middle Eastern carriers saw the slowest pace of int'l RPK expansion of all regions in 2019, their recent monthly year-on-year outcomes were topping the regional growth chart (6.4% for Dec). The recent better outcomes were supported by robust growth in the larger ME-Asia and ME-Europe markets that expanded on average by ~8.5%yoy in Oct and Nov 2019 (latest available) – three times faster pace compared to average growth on the routes between Jan-Sep 2019.

Softer domestic RPK growth in 2019

Domestic RPKs increased by a robust 5.8% year-on-year in December, driven by the outperformance of US domestic market. Although this represented one of the best results this year, it was not enough to offset the overall slowdown in domestic RPK growth for 2019 as a whole.

Challenges await China domestic market in early-2020

Chinese airlines saw domestic passenger traffic expand by 7.8% in 2019 as a whole. Although this represents the slowest pace since the Global Financial Crisis, it was still the fastest growth of all domestic markets that we regularly track. Softer economic activity amid the US-China trade war, compounded by weaker consumer spending (vs 2018) and unrest in Hong Kong all contributed to the slowdown this year. Looking into early-2020, positive impact of the 'phase one' trade agreement between the US and China on air travel demand, will be likely countered by the Coronavirus outbreak in Wuhan province.

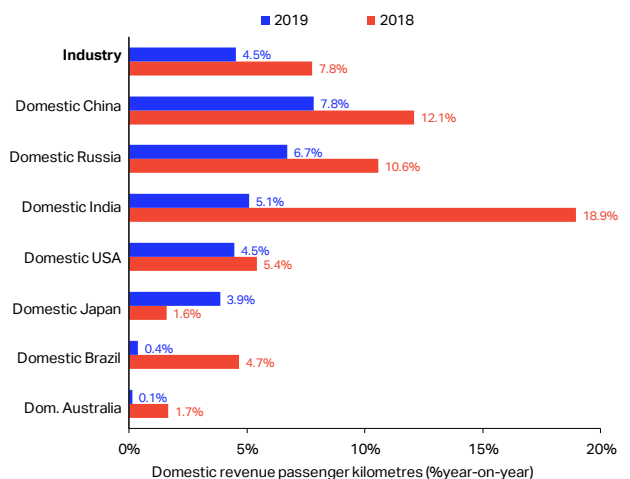
Russia expanded the second fastest in 2019

Although Russian carriers recorded the second-fastest RPK expansion of the key domestic markets that we track this year (6.7%), the pace was still 4ppts slower compared to 2018, partly due to a less supportive economic backdrop vs the previous year.

India domestic growth slows markedly in 2019

2019 was challenging for air travel in the domestic India market. After more than four years of double-digit expansion, the market's RPK growth slowed sharply (5% in 2019 vs 19% in 2018) amidst the Jet Airways bankruptcy and weakening economic activity. Passenger volumes ended the year on a soft note (up 1.7% year-on-year in Dec), which highlights the challenges for the market in the period ahead.

Chart 6 – Domestic RPK growth by market, yearly



Sources: IATA Economics, IATA Monthly Statistics

Sharp RPK uptick for US carriers in December

US domestic RPKs grew by 4.5% in 2019 – down from 5.4% in 2018 on the back of a cooling economic backdrop in H2 2019, weaker business confidence and disruption from Max 737 groundings. That said, passenger volumes posted robust performance in December, rising by a brisk 10.5% due to the later timing of Thanksgiving this year.

Modest improvement for Japan but slowdown for Brazil and Australia

RPKs recorded by Japanese airlines expanded by 3.9% in 2019, up from 1.6% in 2018. The higher annual growth was however impacted by the disruptions from typhoons Mangkut and Jebi in 2018. Looking through the impact of these events, the underlying trend in SA RPKs remained broadly unchanged over the past two years.

RPK growth in the domestic Brazil and Australia markets slowed below 0.5% in 2019. This reflects less supportive economic backdrop in 2019 vs 2018 in both countries and the bankruptcy of Avianca Brasil in Brazil (4th largest carrier in the country).

IATA Economics
economics@iata.org
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Air passenger market detail - December 2019

	World share ¹	December 2019 (% year-on-year)				2019%			
		RPK	ASK	PLF (%-pt) ²	PLF (level) ³	RPK	ASK	PLF (%-pt) ²	PLF (level) ³
TOTAL MARKET	100.0%	4.5%	2.1%	1.9%	82.3%	4.2%	3.4%	0.7%	82.6%
Africa	2.1%	5.4%	5.1%	0.2%	72.4%	4.9%	4.7%	0.1%	71.7%
Asia Pacific	34.7%	3.5%	2.5%	0.8%	81.6%	4.8%	4.5%	0.2%	81.9%
Europe	26.8%	2.5%	0.5%	1.6%	82.8%	4.2%	3.6%	0.5%	85.2%
Latin America	5.1%	1.5%	0.8%	0.6%	82.5%	4.2%	2.9%	1.0%	82.6%
Middle East	9.0%	5.9%	-0.4%	4.7%	78.0%	2.4%	0.1%	1.7%	76.2%
North America	22.3%	8.6%	4.4%	3.3%	85.9%	4.1%	2.8%	1.0%	84.9%
International	63.8%	3.8%	1.0%	2.2%	81.8%	4.1%	3.0%	0.8%	82.0%
Africa	1.8%	5.1%	4.2%	0.6%	72.1%	5.0%	4.5%	0.3%	71.3%
Asia Pacific	19.1%	3.9%	2.4%	1.2%	81.8%	4.5%	4.1%	0.3%	80.9%
Europe	24.0%	2.6%	0.2%	1.9%	83.5%	4.4%	3.7%	0.6%	85.6%
Latin America	2.7%	-1.1%	-2.8%	1.4%	82.3%	3.0%	1.6%	1.1%	82.9%
Middle East	8.7%	6.4%	-0.3%	4.9%	78.1%	2.6%	0.1%	1.8%	76.3%
North America	7.5%	5.2%	2.0%	2.6%	84.6%	3.9%	2.2%	1.3%	84.0%
Domestic	36.2%	5.8%	3.9%	1.5%	83.1%	4.5%	4.1%	0.4%	83.7%
Dom. Australia ⁴	0.8%	0.8%	1.1%	-0.2%	80.6%	0.1%	0.1%	0.0%	80.1%
Domestic Brazil ⁴	1.1%	1.6%	2.0%	-0.3%	84.0%	0.4%	-1.4%	1.5%	82.7%
Dom. China P.R. ⁴	9.8%	3.7%	3.6%	0.0%	81.8%	7.8%	8.2%	-0.3%	84.6%
Domestic India ⁴	1.6%	1.7%	1.0%	0.6%	88.2%	5.1%	4.2%	0.7%	87.4%
Domestic Japan ⁴	1.1%	1.8%	1.8%	0.0%	69.8%	3.9%	2.8%	0.8%	73.8%
Dom. Russian Fed. ⁴	1.5%	3.0%	5.1%	-1.5%	77.7%	6.7%	7.1%	-0.3%	83.2%
Domestic US ⁴	14.0%	10.5%	5.7%	3.8%	86.7%	4.5%	3.5%	0.8%	85.5%

¹% of industry RPKs in 2019

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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