



Air Passenger Market Analysis

February 2020

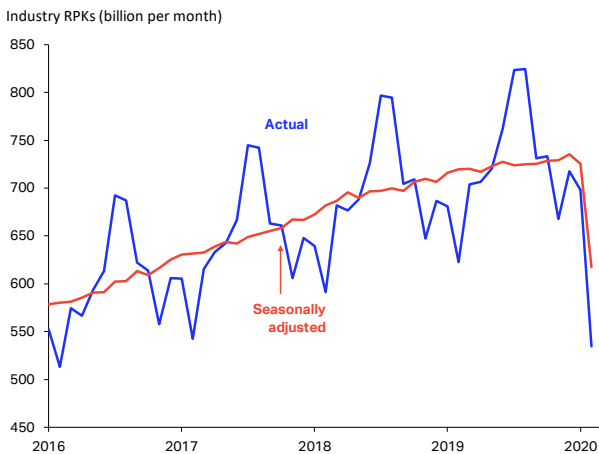
Air travel shows the first dramatic impact from COVID-19

- Industry-wide revenue passenger kilometres (RPKs) contracted by 14.1% year-on-year in February, the worst performance since the 9/11 attacks. Industry-wide capacity (ASKs) also declined sharply, down 8.7% year-on-year.
- This month's outcome was driven by the COVID-19 outbreak which weighed significantly on the China domestic and Asia-Pacific international markets.
- RPKs are expected to decline further in March amidst the rise in restrictive measures, heightened traveler anxiety and a new wave of travel bans that have led to de facto closure of international aviation.

Industry-wide decline driven by Asia-Pacific

Industry-wide revenue passenger kilometres (RPKs) contracted by 14.1% year-on-year in February – the worst outcome since 2001 when air traffic plunged in the aftermath of the 9/11 attacks. This outcome was despite the extra (leap year) day this year. In month-on-month terms, RPKs collapsed by 15%, erasing their gain from the past three years (Chart 1).

Chart 1 – Air passenger volumes and latest trend



Sources: IATA Economics, IATA Monthly Statistics

The sharp deterioration was driven by COVID-19 related demand falls in the Chinese domestic and Asia-Pacific international markets. That said, most of the other regions also recorded a weaker growth rate (albeit to a much smaller extent) due to a drop on their international routes connected to Asia.

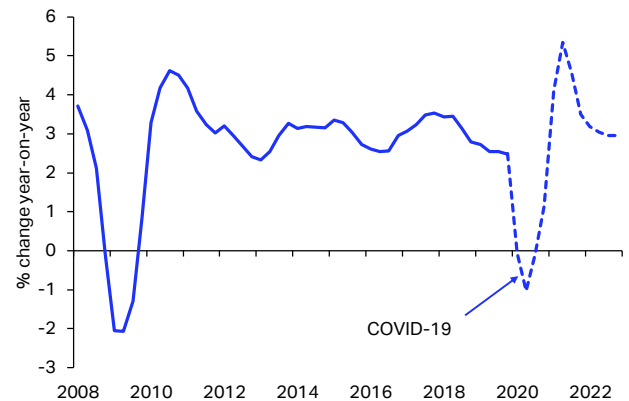
Looking ahead, passenger volumes for March are also expected to show further decline. Due to a sharp increase in the number of confirmed cases beyond the

Asia-Pacific region, most of the countries around the world sealed their borders to limit COVID-19's further spread. This has led to a de facto shutdown of international aviation (~66% of global RPKs in February). In addition, rising traveler anxiety and stricter quarantine measures have also dampened air travel demand.

Gloomy demand outlook for 2020 ...

The rebound in air travel after COVID-19 is expected to take longer than the recovery seen after pandemics in the past. The key differences compared with historical episodes are the unprecedented travel restrictions around the world and the global recession which has been triggered as businesses and borders are closed (Chart 2, for example). The latter will lead to higher unemployment, lower business confidence and a fall in consumer spending – all factors which will contribute to a delayed recovery in air travel demand.

Chart 2 – OE global GDP growth forecast



Source: Oxford Economics March 2020 forecast

Air passenger market overview - February 2020

	World share ¹	February 2020 (% year-on-year)				% 2019			
		RPK	ASK	PLF (%-pt) ²	PLF (level) ³	RPK	ASK	PLF (%-pt) ²	PLF (level) ³
TOTAL MARKET	100.0%	-14.1%	-8.7%	-4.8%	75.9%	-5.4%	-3.3%	-1.8%	78.4%
International	63.8%	-10.1%	-5.0%	-4.2%	75.3%	-3.4%	-1.9%	-1.2%	78.5%
Domestic	36.2%	-20.9%	-15.1%	-5.6%	77.0%	-9.0%	-5.7%	-2.8%	78.2%

¹% of industry RPKs in 2019

²Year-on-year change in load factor

³Load factor level

Based on current developments, and notwithstanding the high level of ongoing uncertainty regarding the pandemic, we estimate that industry-wide RPKs will contract by almost 40% in 2020, with the decline broad-based across all regions.

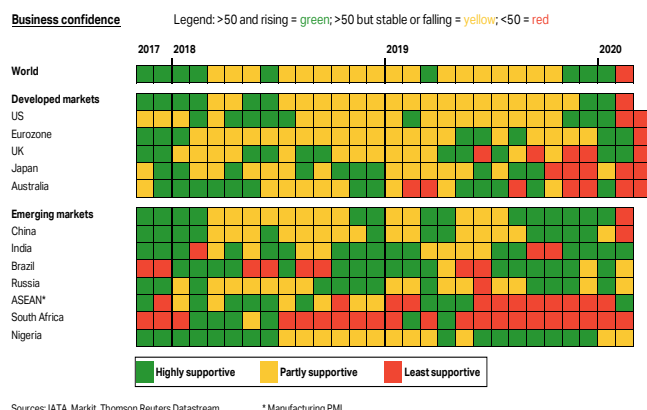
Confidence indicators at record lows

Unsurprisingly, the global economic environment is highly unsupportive of air travel. For example, the global composite Purchasing Managers' Index – a useful leading indicator of air passenger demand – fell to its lowest level since the Global Financial Crisis in February.

The regional and most of the individual country-level business confidence indicators also deteriorated in February, particularly in China (Chart 3).

Similar outcomes are likely to be seen in additional countries in March as the virus has continued to spread around the world, taking its toll on business activity.

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



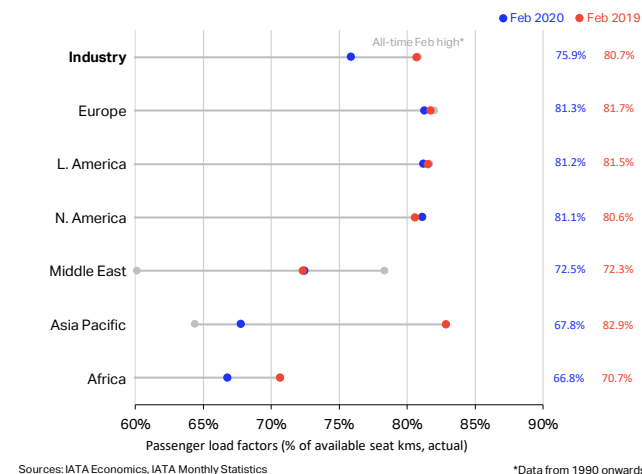
Capacity contracts sharply amidst flight cancellations

Industry-wide available seat kilometres (ASKs) contracted by almost 9% year-on-year in February. This outcome was driven by developments in the Asia-Pacific market – cancelled flights (both domestic and international) and fleet grounding saw the region's ASKs fall by almost 30% year-on-year. Despite a decline in February, annual capacity growth remained positive in the other regions this month, ranging between 1.2%yoy for Europe and a robust 5.1%yoy for Africa.

With air passenger demand collapsing at almost twice the rate of capacity, the industry-wide passenger load factor fell by a sizeable 4.8ppts versus a year ago, to 75.9% (Chart 4).

The largest load factor declines were observed in Asia-Pacific (down a massive 15.1ppts compared with a year ago) and Africa (down 3.9ppts). Load factors were broadly maintained elsewhere.

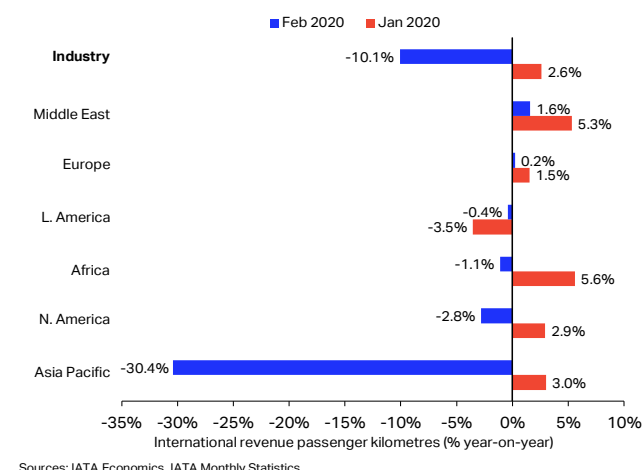
Chart 4 – Passenger load factors by region



International RPK growth plummeted...

International RPKs contracted by more than 10% year-on-year in February – the worst outcome since 2003 at the time of the SARS outbreak. As with the global RPK decline, this was mainly down to developments in Asia-Pacific (Chart 5).

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



Asia-Pacific most significantly affected initially

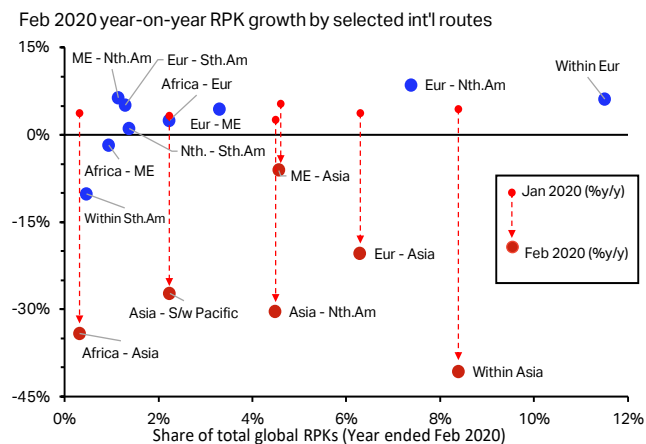
Unsurprisingly, Asia-Pacific international RPKs bore the brunt of this month's impact as flights to/from China were cancelled and demand for travel to/from and within the region plummeted.

The market contracted by more than 30% year-on-year with annual growth falling by between 25-45ppts on five of the six key AsiaPac markets between January and February (Chart 6).

The Middle East ends its solid growth sequence

After four months of solid outcomes (average 6%yoy), international RPK growth for ME carriers fell to 1.3%yoy in February. This result was largely due to a decline on ME-Asia routes (-6.1%yoy in Feb vs +5.2% in Jan) as flight cancellations and travel restrictions took effect.

Chart 6 – RPK growth in international segment based RPKs, selected routes



Testing times ahead for European carriers...

European carriers posted almost zero year-on-year growth in February – the worst outcome in a decade. As was the case for the Middle East, the slowdown was driven by routes to/from Asia, where the growth rate slowed by 25pts in February vs January.

The Within Europe market maintained its solid performance in February (+6.2%yoy) despite some initial flight suspensions on the routes to/from Italy. However, this will soon be impacted by the spread of the virus and the related disruptions to travel and movement witnessed in March. Indeed, our latest [impact assessment](#) suggests that RPKs flown by European carriers could fall by 46% in 2020.

Patchy developments for Latin America carriers in Feb

Latin American carriers have seen recent modest gains on Nth.Am-Sth.Am and Eur-Sth.Am routes, but the Within Sth America market has been weak. Overall, international RPKs flown by Latin American carriers declined by 0.4% year-on-year in February. Given the spread of the virus and related travel restrictions, we expect the pressure on RPKs to intensify in March.

Growth turns negative in Africa and Nth.Am markets

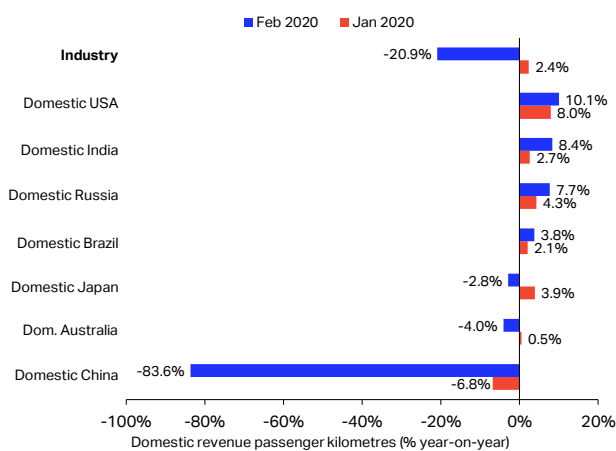
International RPKs flown by African carriers contracted by 1.1% year-on-year in February, the weakest outcome since 2015. The decline was driven by a ~35% year-on-year fall in the Africa-Asia market; a market which had previously been one of the main contributors to the region's growth.

International RPK growth also returned to negative territory for the Nth.Am carriers, at -2.8% year-on-year. The Asia-Nth.Am market was one of the main drivers of the decline, with volumes down 30%. The situation will deteriorate further in March amidst additional travel restrictions including a 30-day US-Europe travel ban which will impact the Eur-Nth.Am market, which has a ~7.5% global RPK share.

Domestic RPKs were not spared the COVID impact

Domestic RPKs contracted by more than 20% year-on-year in February on a weak performance of key markets in the Asia-Pacific region, particularly China.

Chart 7 – Domestic RPK growth by market



China domestic recorded a historically low outcome

China domestic RPKs contracted by 84% year-on-year – the sharpest decline in the history of this time series which began in 2000. The fall in passenger volumes started in the 4th week of January and accelerated into February amidst an increase in flight suspensions and movement restrictions. Capacity has also fallen sharply in this market, down 70%yoy.

On a more positive note, Chinese domestic demand has recently posted some tentative signs of improvement as the number of confirmed cases falls and some of the restrictive measures are lifted.

The virus also impacted demand in Japan & Australia

COVID-19 also weighed on the domestic demand outcomes for both Japan (-2.8%yoy) and Australia (-4%) – countries popular amongst Chinese tourists.

Positive developments in the US, India, and Russia

But it was not all negative news in February. US domestic RPKs rose by 10%yoy. This marks the 3rd consecutive month of brisk growth amid solid economic activity and rising consumer confidence. RPKs also picked up in India (up 8.4%yoy) as local carriers boosted air travel demand by lowering airfares in the typically weak travel season. Russian domestic RPKs also performed solidly, recording an 8-month high growth rate (7.7%yoy).

Brazil domestic continued to recover

Brazil domestic RPKs expanded by 3.8%yoy in February, up from 2.1% in January. The demand in the region continued to recover from the demise of Avianca Brasil on an improved economic backdrop.

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 2nd April 2020

Air passenger market detail - February 2020

	World share ¹	February 2020 (% 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%	-14.1%	-8.7%	-4.8%	75.9%	-5.4%	-3.3%	-1.8%	78.4%
Africa	2.1%	-0.7%	5.1%	-3.9%	66.8%	2.6%	5.7%	-2.0%	68.7%
Asia Pacific	34.7%	-41.3%	-28.2%	-15.1%	67.8%	-19.6%	-12.3%	-6.9%	75.2%
Europe	26.8%	0.7%	1.2%	-0.5%	81.3%	1.1%	0.3%	0.7%	81.5%
Latin America	5.1%	3.1%	3.5%	-0.3%	81.2%	1.7%	1.7%	0.1%	82.0%
Middle East	9.0%	1.7%	1.5%	0.1%	72.5%	3.9%	1.0%	2.1%	75.6%
North America	22.2%	5.5%	4.7%	0.6%	81.1%	5.7%	4.1%	1.2%	81.3%
International	63.8%	-10.1%	-5.0%	-4.2%	75.3%	-3.4%	-1.9%	-1.2%	78.5%
Africa	1.8%	-1.1%	4.8%	-3.9%	65.7%	2.5%	5.4%	-1.9%	68.4%
Asia Pacific	19.1%	-30.4%	-16.9%	-13.2%	67.9%	-12.7%	-6.3%	-5.6%	76.0%
Europe	24.0%	0.2%	0.7%	-0.4%	82.0%	0.9%	-0.2%	0.9%	82.4%
Latin America	2.7%	-0.4%	-0.4%	0.0%	81.3%	-2.1%	-2.3%	0.2%	82.2%
Middle East	8.7%	1.6%	1.3%	0.2%	72.6%	3.6%	0.8%	2.0%	75.6%
North America	7.5%	-2.8%	-1.5%	-1.0%	77.7%	0.2%	0.1%	0.1%	79.8%
Domestic	36.2%	-20.9%	-15.1%	-5.6%	77.0%	-9.0%	-5.7%	-2.8%	78.2%
Dom. Australia ⁴	0.8%	-4.0%	-1.2%	-2.2%	75.6%	-1.6%	-2.1%	0.5%	78.4%
Domestic Brazil ⁴	1.1%	3.8%	4.3%	-0.4%	82.0%	2.9%	2.0%	0.7%	84.0%
Dom. China P.R. ⁴	9.8%	-83.6%	-70.4%	-39.3%	48.5%	-45.5%	-34.4%	-14.4%	70.5%
Domestic India ⁴	1.6%	8.4%	9.9%	-1.2%	88.1%	5.4%	5.9%	-0.4%	87.1%
Domestic Japan ⁴	1.1%	-2.8%	3.9%	-4.7%	67.1%	0.5%	2.8%	-1.5%	67.7%
Dom. Russian Fed. ⁴	1.5%	7.7%	9.1%	-1.0%	75.7%	6.0%	8.7%	-1.9%	74.1%
Domestic US ⁴	14.0%	10.1%	8.3%	1.3%	82.9%	9.0%	6.5%	1.9%	82.2%

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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