

A soft start to the peak season, but a new record load factor

- Annual growth in industry-wide revenue passenger kilometers (RPKs) slowed to 3.6% in July. This is a continuation of the weaker trend seen in recent months, on a backdrop of disparate business confidence and mounting global risks.
- The trend of moderate capacity growth at the industry level has been maintained in July (3.2% year-on-year), leading to new record load factors. The load factor of 85.7% is a new all-time high for any month of the year. All regions recorded modest capacity growth and high load factors.
- Domestic passenger volumes grew faster than international RPKs, carried by strong numbers in China (11.7%) and India (8.9%). The softness in international RPK growth was broad-based across all regions.

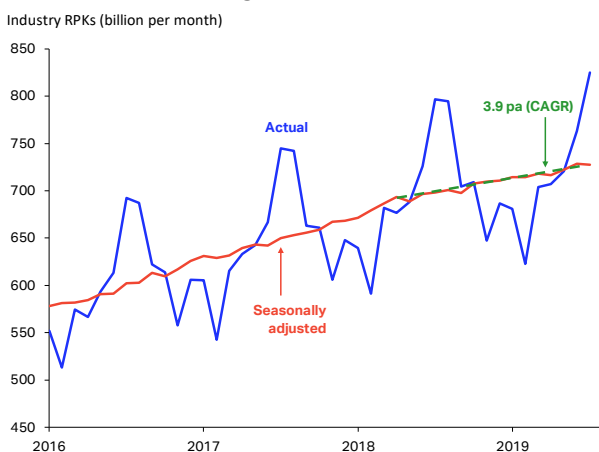
Soft start to the peak season for RPK growth...

Year-on-year growth in industry-wide revenue passenger kilometers (RPKs) eased to 3.6% in July, down from the 5.1% growth observed in June.

While this is better than the recent low in March 2019 (3.2%), the latest outcome is significantly below the long-term average (~5.5%) and our forecast for the year 2019 (5%). This marks a soft start to the peak passenger demand season.

The early signs of a modest lift in the upward trend in the seasonally-adjusted (SA) data in recent months have been unwound in July and the longer-term trend is still one of softening RPK growth. This slowing trend has been in place since Q2 2018, with SA RPKs growing at around 3.9% in annualized terms over that period. The July outcome is consistent with this slower trend, which looks set to continue (see Chart 1).

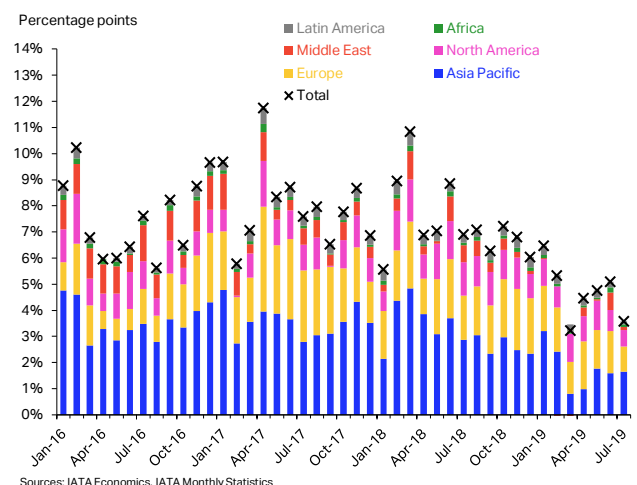
Chart 1 – Air passenger volumes and latest trend



Sources: IATA Economics, IATA Monthly Statistics

We noted [last month](#) that Asia Pacific was a major contributor to the slowdown in RPK growth in H1 2019 versus H1 2018. However this month, the soft outcome has been driven more by Europe and the Middle East, with contributions falling by 0.6pp for each of the two regions. In contrast, the contribution of airlines based in Asia Pacific ticked up slightly in July (see Chart 2).

Chart 2 – Contribution to annual RPK growth (airline region of registration)



Sources: IATA Economics, IATA Monthly Statistics

... amidst disparate confidence indicators

The slowdown observed in the passenger traffic data for July comes amidst weaker growth in several large economies, and a pick-up in global risk.

The global Purchasing Managers Index (PMI) – a survey measuring general business confidence, and which has historically been a useful leading indicator

Air passenger market overview - July 2019

	World share ¹	July 2019 (% 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%	3.6%	3.2%	0.3%	85.7%	4.7%	4.1%	0.5%	82.6%
International	63.9%	2.7%	2.4%	0.2%	85.3%	4.6%	4.0%	0.5%	81.9%
Domestic	36.1%	5.2%	4.7%	0.4%	86.5%	4.8%	4.2%	0.4%	83.8%

¹% of industry RPKs in 2018

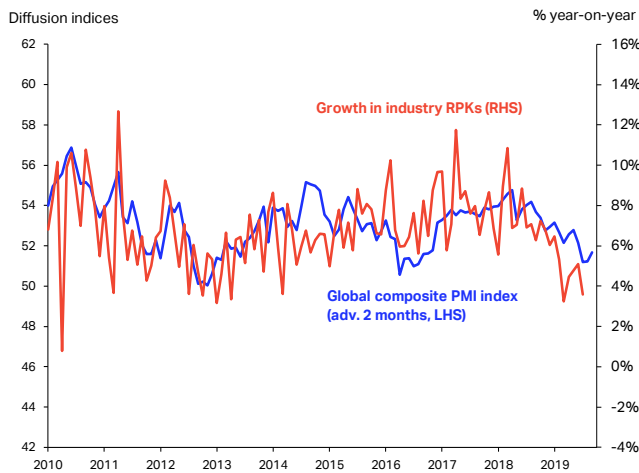
²Year-on-year change in load factor

³Load factor level

for global RPK volumes – is still pointing to an improving business climate. Despite falling in year-on-year terms for each of the past twelve months, the level of the global composite PMI lifted slightly in July, building upon the improvement recorded in June.

Last month, we indicated that if the historical relationship between FTKs and the PMI were to hold, the PMI data pointed to an improved FTK outcome over coming months. This month's PMI reaffirms that position (see Chart 3).

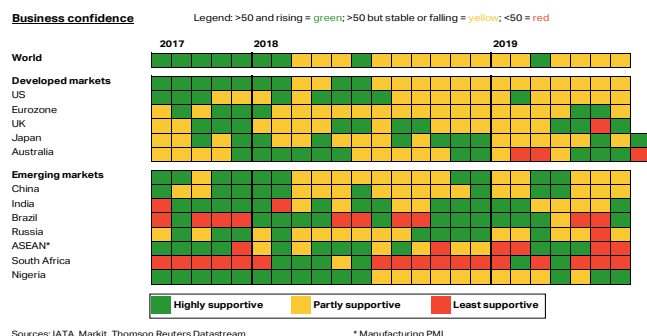
Chart 3 – RPK growth and global business confidence



Sources: IATA Economics, IATA Monthly Statistics, Markit

The regional and individual business confidence indicators were disparate in July. Although confidence improved in the UK, it dipped again in the Eurozone, amidst a disappointing economic performance in Germany, where GDP contracted in Q2. Optimism returned in India and Brazil, but negative sentiment was maintained in South Africa and in the ASEAN group of countries (see Chart 4).

Chart 4 – Economic conditions (monthly data from composite PMIs, selected regions and countries)



Sources: IATA, Markit, Thomson Reuters Datastream

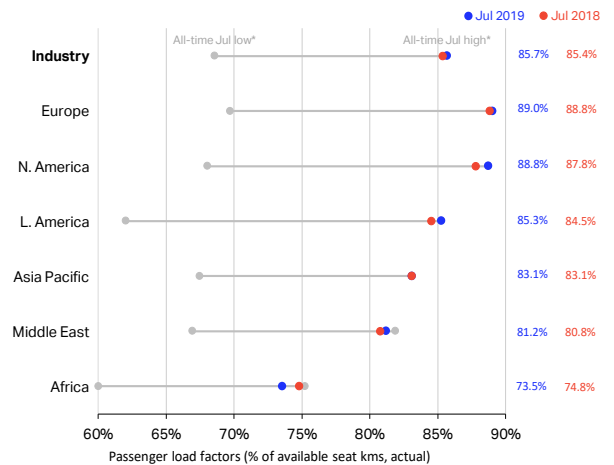
* Manufacturing PMI

Airlines continue to adapt capacity

The year-on-year growth rate in industry-wide available seat kilometers (ASKs) eased slightly in July, to 3.2% compared to 3.4% in June. This is the third consecutive month where capacity has grown slower than demand, as airlines continue to adapt to the softer business environment.

Consequently, the industry-wide load factor posted another record-high outcome, at 85.7% in July, a moderate increase over the 85.4% load factor recorded one year ago. All regions except for Africa and the Middle East saw all-time high load factors for a month of July (see Chart 5).

Chart 5 – Passenger load factors by region



Sources: IATA Economics, IATA Monthly Statistics

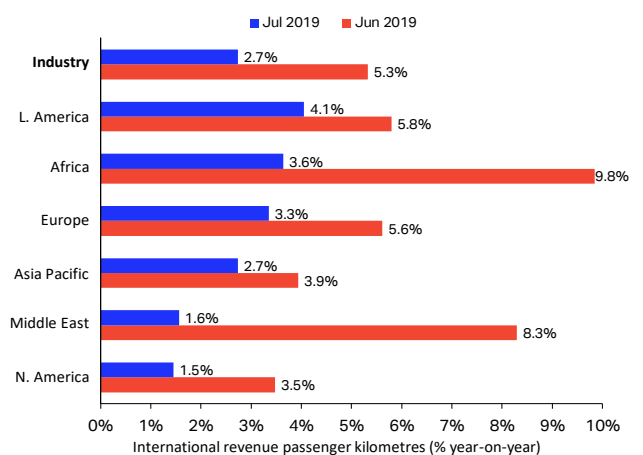
*Data from 1990 onwards

Industry-wide load factors tend to be highest during the July-August peak demand season. As such, the industry-wide load factor recorded this month is the highest ever recorded for any given month in our series. Load factors in Europe (89.0%) and Latin America (85.3%) also achieved the same feat.

International RPK growth softens in all regions

Annual growth in industry-wide international RPKs slowed to 2.7% in July, down from 5.3% last month. This slowdown was broad-based across all regions (see Chart 6).

Chart 6 – International RPK growth (airline region of registration basis)



Sources: IATA Economics, IATA Monthly Statistics

Latin America and Africa the strongest performers

Airlines based in Latin America and Africa – the two smallest regions in terms of international RPK volumes – posted the fastest growth rates in July.

International volumes in Latin America eased to 4.1% year-on-year, amidst continued disruption following the demise of Avianca Brazil and the increasingly challenging business conditions in some key regional economies.

Meanwhile, growth for the African carriers also slowed significantly, to 3.6% in July, from a revised 9.8% in June. Deteriorating business confidence in Sth Africa partly countered generally solid economic conditions in many other key markets in the region.

Significant slowdown in Europe and Asia Pacific

European airlines registered a modest 3.3% annual growth rate in July for the international market, down from 5.6% in June. This is the slowest rate of growth since mid-2016.

The ongoing Brexit uncertainty, and slowing German exports and manufacturing activity, have all contributed to a weakening in business and consumer confidence. With further trade war escalation and rising concerns about the health of the European economy, the business environment is becoming less supportive for air transport.

Airlines in the Asia Pacific region saw international RPK volumes grow by 2.7% year-on-year in July, down from 3.9% in June. This represents the slowest growth outcome since early 2013. Trade tensions – including the dispute between Japan and South Korea, as well as that between the US and China – and political tensions in Hong Kong have all weighed on business confidence.

Parallel to the developments in global passenger volumes, the growth trend in the SA regional data has moderated for the Europe & Asia Pacific international markets. For the former, the annualized growth rate was around 8% yoy between Jan 2017 and Nov 2018, and has slowed to roughly 1.2% since then. In the latter, the annualized rate was close to 8% in the Jan 2017 to Q3 2018 period, before slowing to roughly 3% since then.

Middle East and North America close the ranking

International passenger traffic volumes posted by Middle Eastern airlines grew by 1.6% in July, down from a brisk 8.3% in June after the end of Ramadan.

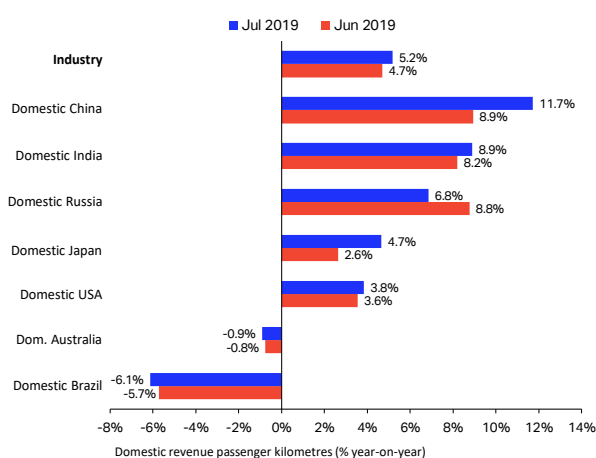
While growth outcomes have been volatile in the region in recent months, the seasonally-adjusted data show a clear levelling off since the first half of 2018. On top of the global impact of the weakness in global trade, volatile oil prices and heightened geopolitical tensions have been negative factors for the region.

In North America, international RPKs grew by a moderate 1.5% year-on-year, after increasing by 3.5% in June. After maintaining a robust trend throughout the early part of 2019, SA growth has eased, reflecting the slowdown of the Canadian and US economies and the impact of the trade disputes.

Domestic RPK growth stronger than international

Total domestic RPKs grew by 5.2% annually in July, a slight pick-up from the 4.7% growth registered in June. This is almost double the growth rate posted by international industry RPKs. Overall growth was close to its long-term average pace (~5.0%), however this masked significant disparities across the key markets we follow (Chart 7).

Chart 7 – Domestic RPK growth by market



Sources: IATA Economics, IATA Monthly Statistics

China and India return to fast growth

Domestic RPK growth in China accelerated for the fourth consecutive month in July, reaching 11.7% year-on-year. Despite recording its lowest GDP growth rate in recent times (6.2% yoy in Q2 2019), the country is using fiscal stimulus, and the domestic aviation market is still benefiting from lower fares and more connections.

The Indian domestic RPK market recorded an 8.9% annual growth rate, up from 8.2% in June. The market has not yet returned to the double-digit growth rates that were the norm in the past 4-5 years. Yet it seems to be adjusting well to the disruption caused by the demise of Jet Airways; capacity is also back on track (7.1% yoy in July vs 3.4% in June). As [argued in a recent note](#), the long-term outlook in domestic India remains very positive.

Growth eases slightly in Russia...

Domestic RPK volumes in Russia grew by 6.8% year-on-year in July, down from a revised 8.9% in June. The more moderate growth trend in SA levels that started in Q4 2018 is ongoing, against a background of softer economic growth in Q1 and Q2 2019.

...but picks up in both Japan and US

Annual growth rebounded this month in Japan, to 4.7% for domestic RPKs, up from 2.6% in June. This is significantly above the long-term average rate of roughly 1-1.5%. Business confidence and economic growth (1.1% yoy in Q2 2019) are relatively positive at the moment compared to long-term trends.

Domestic RPK volumes in the US grew by 3.8% year-on-year in July. Although this is slower than the growth rates observed throughout most of 2018, it is still a robust outcome, above the long-term average of 2-2.5%.

In both markets, SA levels continue to robustly trend upwards, despite trade tensions & rising overall risks.

Negative passenger growth in Australia and Brazil

Domestic RPKs in Australia decreased by 0.9%

compared to a year ago in July, broadly unchanged from the June outcome (-0.8%). The downward trend in SA levels that started in the second-half of 2018 has been maintained in the recent data.

In Brazil, the passenger market is still disrupted by the recent failure of Avianca Brasil. RPK volumes fell for the third consecutive month, by 6.1% year-on-year in July. Capacity was also down 6.9% this month, as competitors have not yet filled the gap in the market.

With the Brazilian government recently halving its growth forecasts to 0.8% for 2019 on the basis of lower trade and investment, the outlook for the country is set to remain challenging.

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 6 September 2019

Air passenger market detail - July 2019

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		RPK	ASK	PLF (%-pt) ²	PLF (level) ³	RPK	ASK	PLF (%-pt) ²	PLF (level) ³
TOTAL MARKET	100.0%	3.6%	3.2%	0.3%	85.7%	4.7%	4.1%	0.5%	82.6%
Africa	2.1%	4.0%	5.8%	-1.3%	73.5%	4.9%	3.8%	0.7%	71.4%
Asia Pacific	34.5%	5.2%	5.1%	0.0%	83.1%	5.1%	4.9%	0.1%	81.9%
Europe	26.8%	3.3%	3.1%	0.2%	89.0%	5.6%	5.3%	0.2%	84.8%
Latin America	5.1%	2.8%	1.8%	0.8%	85.3%	5.2%	3.9%	1.0%	82.8%
Middle East	9.2%	1.3%	0.8%	0.4%	81.2%	1.5%	0.7%	0.7%	76.0%
North America	22.3%	2.7%	1.6%	0.9%	88.8%	4.0%	2.8%	1.0%	85.2%
International	63.9%	2.7%	2.4%	0.2%	85.3%	4.6%	4.0%	0.5%	81.9%
Africa	1.8%	3.6%	6.1%	-1.7%	72.9%	5.0%	3.7%	0.9%	70.8%
Asia Pacific	19.0%	2.7%	2.4%	0.2%	82.6%	4.5%	4.3%	0.2%	81.0%
Europe	23.9%	3.3%	3.2%	0.1%	89.0%	5.9%	5.6%	0.2%	85.2%
Latin America	2.7%	4.1%	2.7%	1.1%	85.6%	4.9%	4.0%	0.7%	83.1%
Middle East	8.9%	1.6%	1.0%	0.4%	81.3%	1.8%	0.8%	0.7%	76.1%
North America	7.6%	1.5%	0.7%	0.7%	87.9%	3.9%	2.6%	1.1%	83.9%
Domestic	36.1%	5.2%	4.7%	0.4%	86.5%	4.8%	4.2%	0.4%	83.8%
Dom. Australia ⁴	0.9%	-0.9%	0.1%	-0.8%	82.1%	-0.7%	-0.3%	-0.3%	78.9%
Domestic Brazil ⁴	1.1%	-6.1%	-6.9%	0.7%	84.7%	-0.4%	-2.6%	1.8%	82.6%
Dom. China P.R. ⁴	9.5%	11.7%	12.3%	-0.4%	84.9%	9.0%	9.3%	-0.2%	84.8%
Domestic India ⁴	1.6%	8.9%	7.1%	1.4%	88.3%	6.2%	6.3%	-0.1%	88.2%
Domestic Japan ⁴	1.1%	4.7%	5.8%	-0.8%	71.7%	4.0%	3.1%	0.6%	71.4%
Dom. Russian Fed. ⁴	1.5%	6.8%	6.3%	0.5%	92.2%	8.7%	8.3%	0.3%	82.3%
Domestic US ⁴	14.0%	3.8%	2.6%	1.1%	89.4%	4.4%	3.3%	0.8%	85.9%

¹% of industry RPKs in 2018

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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