

## Limited recovery continues to be driven by domestic markets

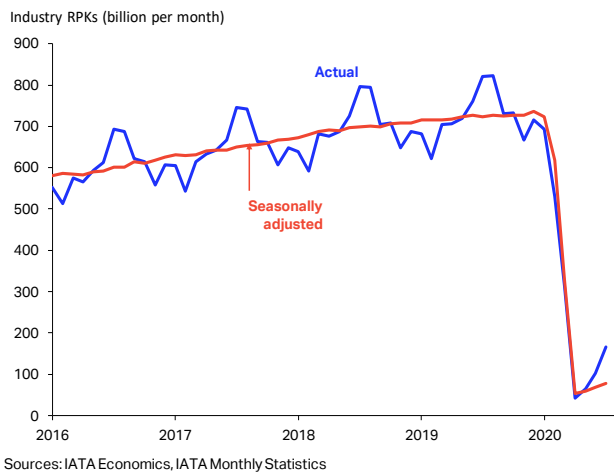
- Industry-wide revenue passenger-kilometres (RPKs) contracted by 79.8% year-on-year in July vs. 86.6% fall in June. Seasonally adjusted RPKs also continued to gradually improve, rising by 14% versus the previous month.
- As was the case in June, the rise in demand remains driven by domestic markets, notably China and more recently also Russia. International RPKs continued to contract by close to 100% year-on-year, although there have been some green shoots of demand on Within Europe routes resulting from opening of the Schengen Area.
- The fall in passenger volumes continues to outpace capacity. As a result, the industry-wide load factor fell to a record low for July, at 57.9%.

### Gradual RPK improvement continued into July...

Air passenger demand continues in gradual recovery from the low-point in April. Industry-wide revenue passenger-kilometres (RPKs) fell by 79.8% year-on-year in July vs. 86.6% fall in the previous month. In seasonally adjusted terms, RPKs increased by 14% month-on-month – a broadly similar pace of improvement as in June (Chart 1).

Consistent with the industry-wide result, all regions recorded slower annual declines. Asia Pacific, North America and Europe were the strongest, benefitting from relatively swift recoveries in some of their domestic markets. That said, passenger volumes in these markets were still 70-80% lower compared with a year ago.

**Chart 1 – Air passenger volumes**

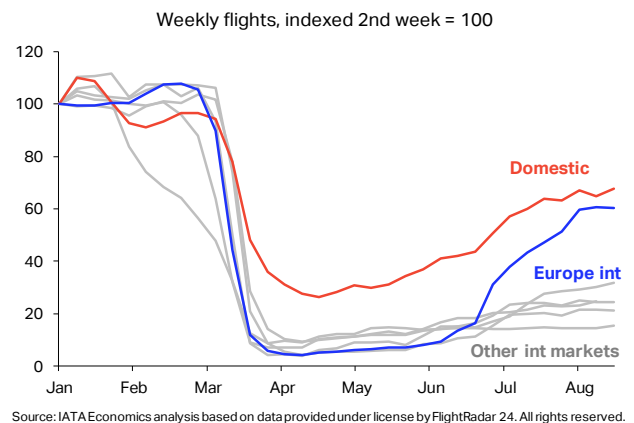


### ...and was largely driven by domestic markets

As in the previous two months, the overall demand recovery has been dominated by domestic markets. RPKs on domestic routes fell by 57.5% year-on-year in July, up almost 30ppts from April when passenger traffic hit the bottom.

In contrast to domestic RPKs, international demand did not show any significant improvement as new epicenters of COVID-19 emerged in several countries, leading to a re-imposition of travel restrictions (Chart 2). The only exception was the Europe international market where the contraction eased by 9.5ppts to -87.1%yoy due to reopening of the Schengen Area that came into effect in mid-June. Looking forward, weekly flight data indicate that domestic and Europe's int'l volumes stabilized in August while recovery in the other international markets was absent.

**Chart 2 – Domestic and international weekly flights**



## Air passenger market overview - July 2020

	World share <sup>1</sup>	July 2020 (% year-on-year)				% year-to-date			
		RPK	ASK	PLF (%-pt) <sup>2</sup>	PLF (level) <sup>3</sup>	RPK	ASK	PLF (%-pt) <sup>2</sup>	PLF (level) <sup>3</sup>
<b>TOTAL MARKET</b>	<b>100.0%</b>	<b>-79.8%</b>	<b>-70.1%</b>	<b>-27.7%</b>	<b>57.9%</b>	<b>-61.9%</b>	<b>-54.1%</b>	<b>-14.1%</b>	<b>68.4%</b>
International	63.8%	-91.9%	-85.2%	-38.9%	46.4%	-67.2%	-61.9%	-11.4%	70.5%
Domestic	36.2%	-57.5%	-42.2%	-22.9%	63.3%	-52.6%	-39.9%	-17.7%	66.1%

<sup>1</sup>% of industry RPKs in 2019

<sup>2</sup>Year-on-year change in load factor

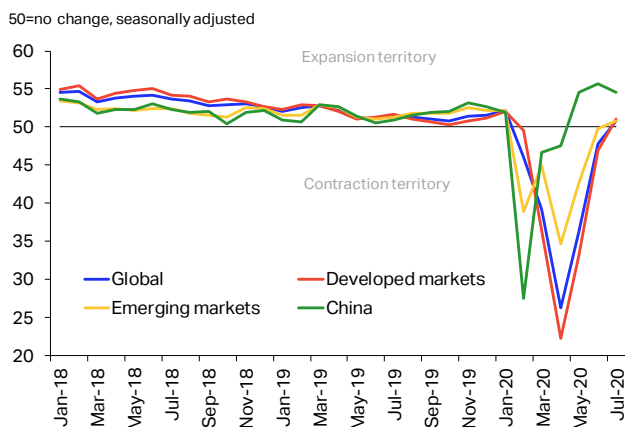
<sup>3</sup>Load factor level

### Key demand indicators showed mixed results

Demand drivers continued to show mixed results in July. Based on the latest available data, monthly retail sales exceeded last year's levels in Eurozone and the US, and declined by the slowest pace this year in China. However, unemployment rates remain high.

Business confidence measured by the composite PMI (Purchaser Manager Index) moved into expansion territory across developed and developing markets as economies relaxed their lockdowns and people returned to work. This indicates that economic activity continues to recover from the virus. As noted in the last month's note, such developments would typically mean good news for air travel since GDP growth and RPKs had strong correlation in the past.

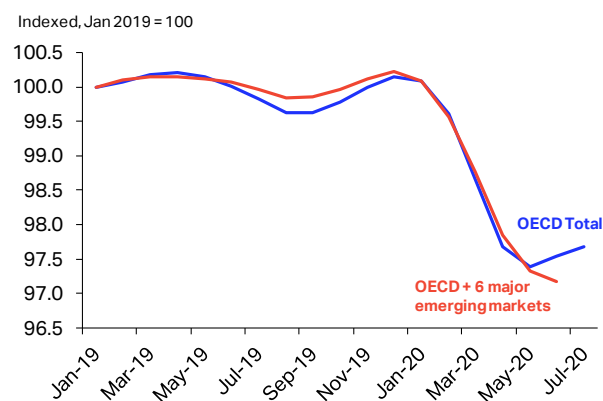
**Chart 3:** Economic conditions (monthly data from composite PMIs, selected markets)



Source: Markit

However, the unprecedented health crisis has brought some differences this time. Corporate travel, which would usually increase along with the business confidence, has been hampered by limited travel budgets and online conferencing. As a result, it might not follow the recovery in the economic backdrop. Moreover, passenger surveys show that travelers' behavior have changed and could remain distorted by the crisis for the next couple of years at least.

**Chart 4:** Consumer confidence



Source: Thomson Reuters Datastream

Apart from that, consumer confidence remains weak across most countries (Chart 4), lagging the swift recovery in business sentiment. This weakness highlights that consumers remain cautious about their personal finances and future spending amidst generally uncertain economic outlook in H2 2020.

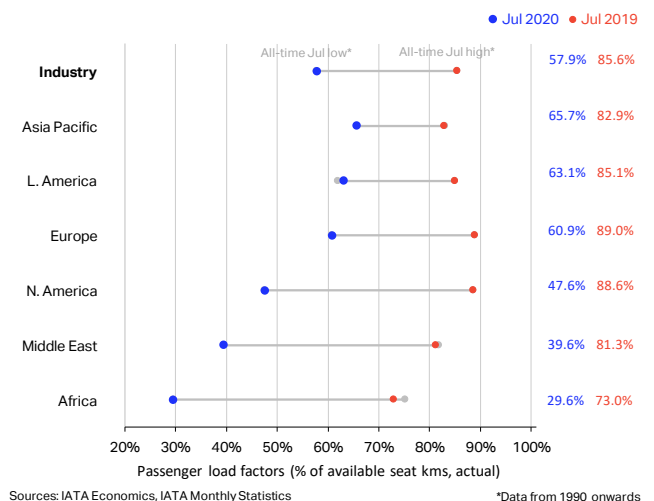
High infection rates along with new quarantines and travel restrictions in several markets add extra uncertainty to would-be travelers and might result in postponement of their travel plans Globally, the number of new daily confirmed cases per million people hovered around 32 in late-August, little improvement compared with the same period in July (33 cases) and up from 23 in late-June.

### Load factors remain at record lows

The annual contraction in capacity eased for another month as more airlines restarted their operations in July. Industry-wide available seat-kilometres (ASKs) declined by 70.1% year-on-year, up ~10ppts vs. June. All regions recorded slower year-on-year falls in ASKs this month. Unsurprisingly, Europe posted the most significant improvement (up 16.6ppts at -72.7%yoy) as countries in the region loosened their border restrictions in June.

Since recovery in demand remained slower than rebound in capacity, passenger load factors (PLF) stayed at or close to record lows across all regions (Chart 5). Consistent with the regional outcomes, the industry-wide PLF was down 27.7ppts vs. a year ago, at a record low of 57.9% for the month of July.

**Chart 5 – Passenger load factors by region**



### International demand remains generally weak

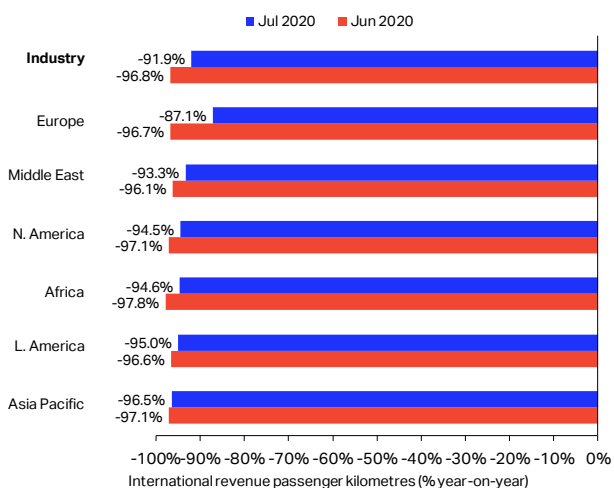
International air travel did not show a significant improvement from June as most international routes remained closed or had reduced flight frequency. International RPKs contracted by 91.9%yoy, vs. 96.8%yoy fall in June (Chart 6).

PLF on international routes was by c. 17ppts lower than in domestic markets (46.4% vs. 63.3%). This

weaker performance might partly reflect passengers' preference to travel within their country as there is still high uncertainty about developments in cross border travel.

Europe international was the only market that posted a notable improvement from June (+9.6ppts, at -87.1%yoy) reflecting mainly relaxation of travel restrictions in the Schengen Area. Indeed, the Within Europe routes contracted by 79.2%yoy in July compared with c. 90% annual declines seen on Europe's other key international routes.

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

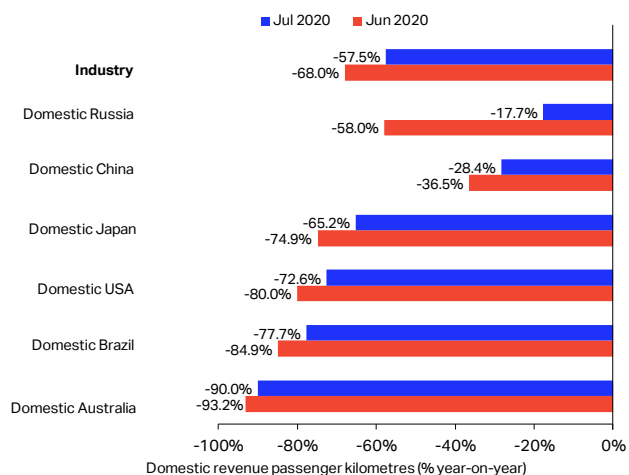


Sources: IATA Economics, IATA Monthly Statistics

**Domestic markets show improvement again**

As expected, domestic markets continue to lead the recovery in air travel demand. RPKs on domestic routes contracted by 57.5%yoy in July, vs. 68.0% annual fall in June (Chart 7). All key domestic markets recorded a lower contraction vs. the previous month although the pace of improvement was in some instances slowed by new virus outbreaks.

**Chart 7 – Domestic RPK growth by market**



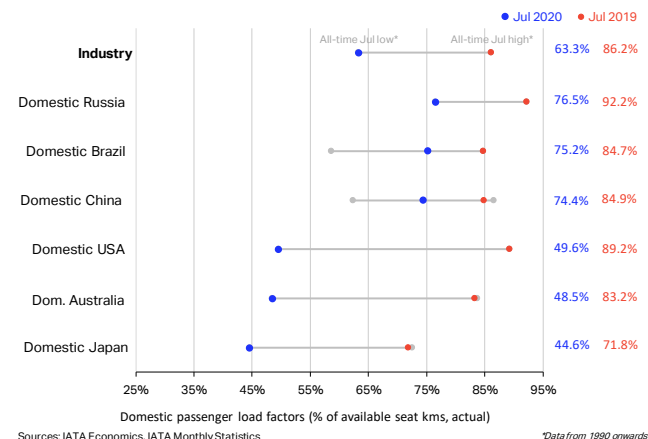
Sources: IATA Economics, IATA Monthly Statistics

Domestic **Russia** recorded the lowest contraction of all key domestic markets with RPKs down 17.7%yoy –

a significant improvement on 58% decline in June. The demand in the market has been underpinned by falling domestic fares and boom in domestic tourism as options for vacations abroad were relatively restricted. However, despite the uptick in demand, country's PLF remained at record-lows for the month of July (Chart 8).

Domestic **China** passenger volumes fell by 28.4%yoy. The recovery of the market has slowed modestly in June amidst new virus outbreaks that led to flight cancellations to/from the country's capital. However, aircraft movements indicate return to upwards trend since mid-July. China is one of the few domestic markets where LF recovered from record lows, showing the appetite of travelers to fly again.

**Chart 8: Domestic passenger load factor by key domestic market**



Sources: IATA Economics, IATA Monthly Statistics

\*Data from 1990 onwards

The recovery in the remaining key domestic markets has been hampered by high number of the COVID-19 cases in June and July. Domestic **Japan** RPKs contracted by 65.2%yoy this month while passenger volumes on the **US** domestic routes fell by 72.6% annually.

In **Brazil**, domestic RPKs were 77.7% lower compared with a year ago – a slight uptick from 84.9% fall in June. Country's higher PLF relative to the other markets reflects more slowly recovering capacity amidst airline bankruptcies in the region rather than improving passenger demand.

**Australia** remained the key underperformer for the fourth consecutive month due to travel restrictions between states and territories. Both passenger volumes and capacity on domestic routes stayed close to historical lows; RPKs in the country fell by 90%yoy in July - just 3.2ppts slower decline than in June while ASKs contracted by 82.8%yoy.

## Air passenger market detail - July 2020

	World share <sup>1</sup>	July 2020 (% year-on-year)				% year-to-date			
		RPK	ASK	PLF (%-pt) <sup>2</sup>	PLF (level) <sup>3</sup>	RPK	ASK	PLF (%-pt) <sup>2</sup>	PLF (level) <sup>3</sup>
<b>TOTAL MARKET</b>	<b>100.0%</b>	<b>-79.8%</b>	<b>-70.1%</b>	<b>-27.7%</b>	<b>57.9%</b>	<b>-61.9%</b>	<b>-54.1%</b>	<b>-14.1%</b>	<b>68.4%</b>
Africa	2.1%	-93.7%	-84.3%	-43.4%	29.6%	-63.2%	-57.4%	-9.7%	61.7%
Asia Pacific	34.6%	-72.2%	-64.9%	-17.2%	65.7%	-60.7%	-52.9%	-13.6%	68.3%
Europe	26.8%	-81.3%	-72.7%	-28.1%	60.9%	-65.2%	-59.9%	-11.1%	73.6%
Latin America	5.1%	-87.5%	-83.2%	-22.0%	63.1%	-57.7%	-54.0%	-6.5%	76.2%
Middle East	9.1%	-92.5%	-84.7%	-41.7%	39.6%	-62.0%	-56.7%	-9.3%	66.7%
North America	22.3%	-80.6%	-63.9%	-41.0%	47.6%	-60.8%	-47.5%	-21.5%	63.6%
<b>International</b>	<b>63.8%</b>	<b>-91.9%</b>	<b>-85.2%</b>	<b>-38.9%</b>	<b>46.4%</b>	<b>-67.2%</b>	<b>-61.9%</b>	<b>-11.4%</b>	<b>70.5%</b>
Africa	1.8%	-94.6%	-84.6%	-47.1%	25.4%	-63.7%	-57.7%	-10.0%	60.8%
Asia Pacific	19.1%	-96.5%	-91.7%	-47.3%	35.3%	-69.9%	-64.0%	-13.1%	68.0%
Europe	24.0%	-87.1%	-79.2%	-33.8%	55.1%	-67.5%	-63.1%	-10.2%	75.0%
Latin America	2.7%	-95.0%	-92.6%	-27.1%	58.4%	-62.4%	-59.3%	-6.4%	76.8%
Middle East	8.7%	-93.3%	-85.6%	-43.4%	38.0%	-62.3%	-57.0%	-9.4%	66.7%
North America	7.6%	-94.5%	-86.1%	-53.0%	35.0%	-67.5%	-60.8%	-14.3%	69.6%
<b>Domestic</b>	<b>36.2%</b>	<b>-57.5%</b>	<b>-42.2%</b>	<b>-22.9%</b>	<b>63.3%</b>	<b>-52.6%</b>	<b>-39.9%</b>	<b>-17.7%</b>	<b>66.1%</b>
Dom. Australia <sup>4</sup>	0.8%	-90.0%	-82.8%	-34.7%	48.5%	-60.7%	-55.1%	-9.8%	69.3%
Domestic Brazil <sup>4</sup>	1.1%	-77.7%	-74.9%	-9.5%	75.2%	-50.9%	-49.1%	-2.9%	79.6%
Dom. China P.R. <sup>4</sup>	9.8%	-28.4%	-18.3%	-10.5%	74.4%	-47.7%	-36.2%	-15.3%	69.5%
Domestic Japan <sup>4</sup>	1.1%	-65.2%	-44.0%	-27.2%	44.6%	-54.3%	-35.1%	-21.1%	50.3%
Dom. Russian Fed. <sup>4</sup>	1.5%	-17.7%	-0.8%	-15.7%	76.5%	-37.0%	-21.7%	-16.1%	66.2%
Domestic US <sup>4</sup>	14.0%	-72.6%	-50.7%	-39.7%	49.6%	-57.0%	-39.8%	-24.6%	61.3%

<sup>1</sup>% of industry RPKs in 2019

<sup>2</sup>Year-on-year change in load factor

<sup>3</sup>Load factor level

<sup>4</sup>Note: the six domestic passenger markets for which broken-down data are available accounted for 28% of global total RPKs and approximately 78% of total domestic RPKs in 2019

**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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