

RPK growth remains solid with new record high load factors

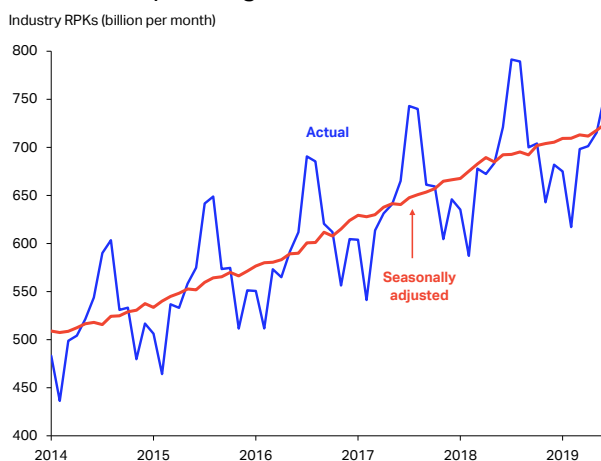
- Industry-wide revenue passenger kilometres (RPKs) grew by an even 5.0% over the 12 months to June, up slightly from the 4.7% pace observed last month.
- Industry-wide load factors continued to rise to new highs as capacity growth remained moderate, with ASKs increasing by 3.3% over the past year. The load factor of 84.4% was the highest recorded level for a June month.
- At a regional level, Africa and the Middle East had the strongest annual growth this month, with RPKs up 11.7% and 7.8% year-on-year, respectively. Apart from the Middle East, all regions set new record high monthly load factors.
- Russia has the strongest domestic market, with double-digit RPK growth for the 11th consecutive month. India's domestic market has rebounded strongly following the disruption from the demise of Jet Airways earlier in the year.

Growth in global passenger volumes remains solid

Industry-wide revenue passenger kilometres (RPKs) increased by an even 5.0% over the year to June, up modestly from last month's 4.7% year-on-year outcome. The current pace means that passenger volumes are growing a little slower than what we typically think of as the long-run average rate of growth (in the order of 5¼-5½%).

In seasonally-adjusted (SA) terms, the growth trend has shown tentative indications of an acceleration in the past two months (Chart 1).

Chart 1 – Air passenger volumes



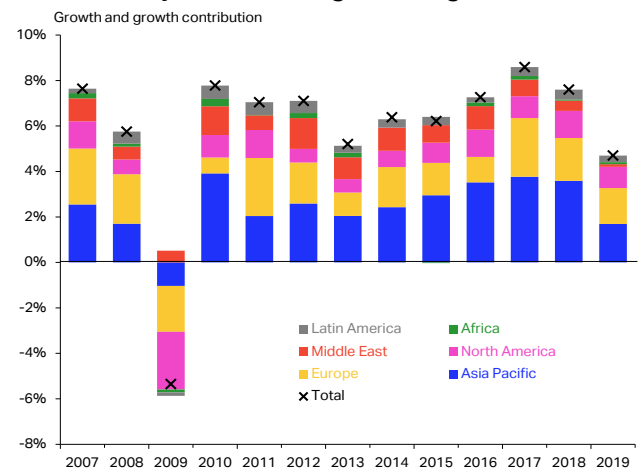
Sources: IATA

Although this is a positive development, given the volatility in the monthly data and the downside risks to the global outlook, we would caution against placing

too much reliance upon these early signs.

For the first half of the year in aggregate, RPKs are 4.7% higher than over the same period in 2018. A year ago the equivalent growth rate was 7.6% (Chart 2), highlighting the moderation in the growth trend that we have noted over recent months.

Chart 2 – Contribution to annual RPK growth in the first half of each year (airline region of registration)



Source: IATA

All regions contributed positively to the 1H19 growth rate, most notably Asia Pacific, Europe and to a lesser extent, North America. Having said that, the much-reduced contribution from the Asia Pacific region in 1H19 compared with 1H18 (around half that of last year) is striking.

Air passenger market overview - June 2019

| | World share ¹ | June 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% | 5.0% | 3.3% | 1.4% | 84.4% | 4.7% | 4.1% | 0.5% | 81.9% |
| International | 64.0% | 5.4% | 3.4% | 1.6% | 83.8% | 4.8% | 4.1% | 0.5% | 81.2% |
| Domestic | 36.0% | 4.4% | 3.1% | 1.1% | 85.5% | 4.6% | 4.0% | 0.4% | 83.1% |

¹% of industry RPKs in 2018

²Year-on-year change in load factor

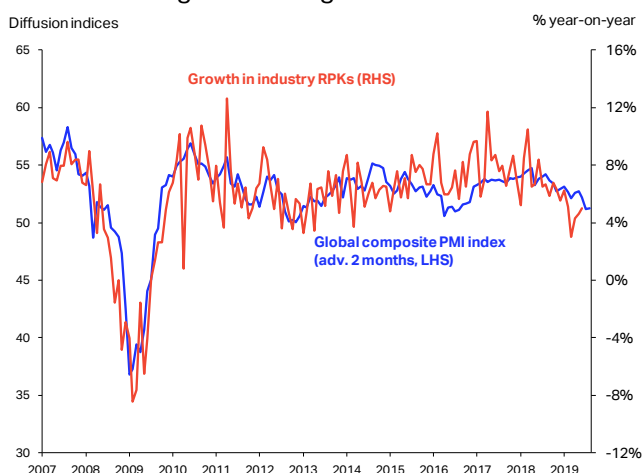
³Load factor level

Leading indicators remain firm overall...

Despite easing over the past 12 months or so, the global Purchasing Managers Index (PMI) remains in the region associated with expansion of output. The PMI has proven to be an enduring leading indicator of air passenger demand (Chart 3).

After falling below the level of growth suggested by the PMI, the improvement in RPK growth in recent months has broadly restored the relationship between the two variables, pointing to a similar pace of RPK growth in the near-term.

Chart 3 – RPK growth and global business confidence

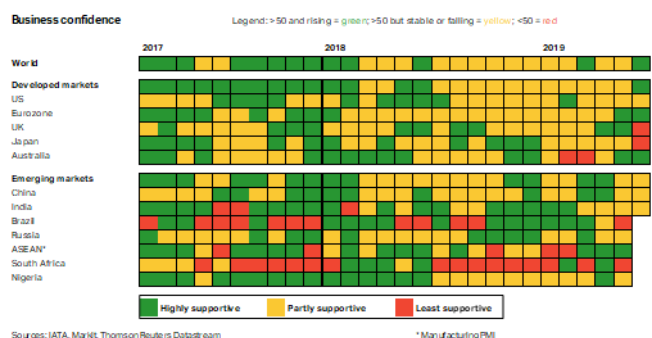


Sources: IATA Economics, IATA Monthly Statistics, Markit

At the country-level, business conditions are more mixed (Chart 4), and generally more positive amongst the developed markets, with the main exceptions of the UK and Japan. In the former, ongoing Brexit uncertainty continues to dampen business sentiment.

The IMF's latest global economic forecasts suggest the pace of GDP growth may have stabilised, although the risks to the outlook remain to the downside. Global trade and geopolitical tensions remain key watchpoints. In turn such factors could also have implications for air passenger demand going forward.

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



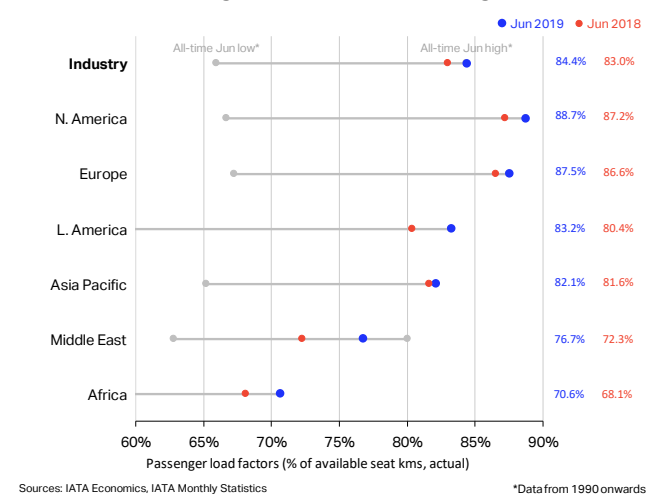
Industry load factor sets another all-time monthly high

Industry-wide available seat kilometres (ASKs) increased by a moderate 3.3% in year-on-year terms

in June. In 2Q19, annual growth in capacity has averaged 3.1%, less than half the 6.6% pace of growth seen in 2Q18.

The current rate of capacity growth is also well below the increase in demand, which has resulted in the passenger load factor increasing by a solid 1.4 percentage points compared with the June 2018 outcome. In doing so, the current 84.4% is a new record high for the month of June (Chart 5).

Chart 5 – Passenger load factors by region



Sources: IATA Economics, IATA Monthly Statistics *Data from 1990 onwards

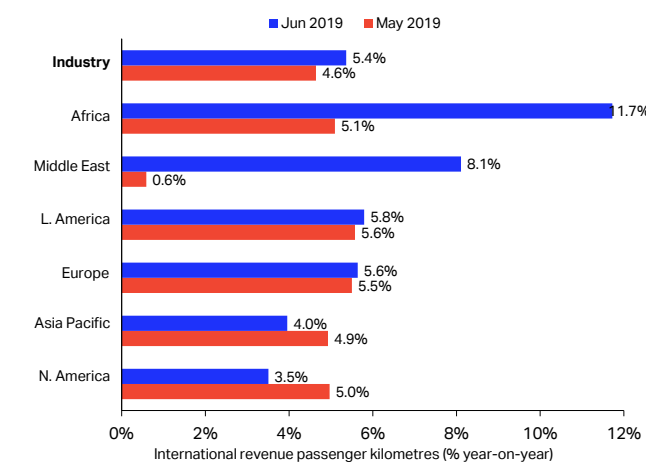
Record June highs were also set across all regions, except for the Middle East. But even for the ME, the load factor outcome is a significant 4.4 percentage points higher than the outcome of a year ago.

North America has set the benchmark across regions, with a load factor of almost 89% in the month of June, partly due to an increase in ASKs of just 1.4% over the past year. European airlines weren't far behind with a load factor performance of 87.5% this month.

Broad-based growth in international RPKs

Industry-wide international RPKs (which account for almost 2/3 of the global total) grew by 5.4% year-on-year in June, up from 4.6% last month (Chart 6).

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



Sources: IATA Economics, IATA Monthly Statistics

Growth surges in both Africa and the Middle East

International RPK growth bounced back sharply this month for carriers in both Africa and the Middle East.

For Africa, the year-on-year growth rate more than doubled this month, to a very strong 11.7%, the only region to achieve a double-digit rate of growth. The continent continues to benefit from a generally supportive economic backdrop – including improved stability in a number of countries – as well as increases in air transport connectivity.

For the Middle East carriers, growth surged from just 0.6% last month to 8.1% year-on-year in June. A change in the timing of Ramadan which fell almost exclusively in May this year, has likely contributed to the contrasting monthly outcomes in May and June.

Growth largely unchanged in Latin America & Europe

For the Latin American airlines, international RPKs grew by 5.8% year-on-year in June, up slightly on the May outcome of 5.6%. In Europe, air passenger volumes ticked up marginally from 5.5% growth last month to 5.6% year-on-year in June.

Weakening economic conditions in a number of key Latin American countries including Argentina and Brazil have resulted in the IMF downgrading the 2019 economic outlook for the region and dampened the demand for air transport.

For Europe, the solid growth performance comes against a backdrop of slowing economic activity and declining business confidence in both the euro area and UK over recent months, presenting downside risks to the RPK outlook.

Asia Pacific & Nth America volumes both ease

International RPKs have increased by 4.0% and 3.5% over the past year for Asia Pacific and North American airlines respectively. For both regions this represents a slowing in the annual pace of growth compared with the May outcome.

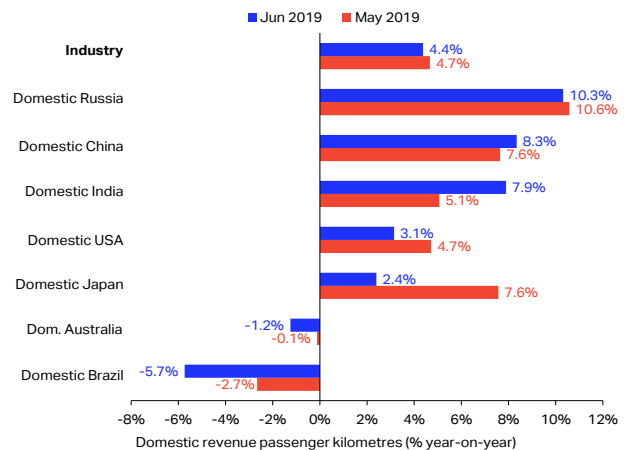
Trade tensions between the US and China have impacted passenger demand for both regions, as well as having adverse (indirect) implications for the broader Within Asia market.

Total domestic RPK growth eases slightly...

Turning to the key domestic markets, year on year growth eased a little, to 4.4% in June, a full percentage point below the rate of growth in the international market.

Across the main domestic markets that we consistently follow, performance varies considerably (Chart 7).

Chart 7 – Domestic RPK growth by market



Sources: IATA Economics, IATA Monthly Statistics

Russia tops the growth charts once again...

Domestic Russia RPKs continue to perform strongly on a year-on-year basis, recording double-digit growth (the only domestic market to do so on this occasion) for the 11th consecutive month.

Notwithstanding a soft Q1 GDP result, the domestic air transport market has been supported by lower airfares as well as an increase in both the number and frequency of city-pair connections.

...followed by China and India

Growth in the domestic Chinese market picked up modestly in June to a brisk 8.3% year-on-year pace. However, with growth previously running at a double-digit rate in the not-so-distant past, the impact of the slowing of the Chinese economy on passenger demand is clear.

The domestic India market has proven resilient in the face of the demise of Jet Airways earlier in the year. Growth in domestic RPKs have recovered strongly, lifting to a 7.9% year-on-year pace in June, as the remaining carriers moved quickly to fill the gap created by the loss of a competitor and to meet the customer demand.

Moderate growth outcomes in both Japan and the US

Annual RPK growth for both Japan and the US slowed this month, to a modest 2.4% and 3.1% pace, respectively. Putting aside the seasonal variation in the data, the steady upwards growth trend in both markets has been maintained, notwithstanding the softer RPK growth outcome this month.

Looking ahead, although business confidence has fallen in both countries in recent months, the stronger economic backdrop in the US (where GDP growth is currently around 3% year-on-year compared with 1% in Japan) points to a more optimistic outlook for air passenger demand over coming months.

Passenger volumes continue to fall in Australia & Brazil

In Australia, domestic RPKs are now 1.2% lower than their level of a year ago, following what was essentially a flat growth outcome last month. Six of the past eight months have seen a small, negative annual RPK growth rate in this market, as air transport demand stagnates amidst rising concerns around the country's economic outlook.

The situation is weaker still in Brazil, where passenger volumes are down a sizeable 5.7% year-on-year in June, following a 2.7% decline in May. In addition,

ASKs for the Brazil domestic market are currently 10.1% lower than their level of a year ago. The sharp deterioration in performance in large part reflects the collapse of Avianca Brasil, the fourth largest airline in the country, with a market share of around 14% in 2018. Brazil's civil aviation authority – ANAC – suspended all flight operations of the airline on 24 May.

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 8 August 2019

Air passenger market detail - June 2019

| | World share ¹ | June 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% | 5.0% | 3.3% | 1.4% | 84.4% | 4.7% | 4.1% | 0.5% | 81.9% |
| Africa | 2.1% | 11.7% | 7.7% | 2.5% | 70.6% | 4.4% | 2.7% | 1.2% | 70.8% |
| Asia Pacific | 34.5% | 4.7% | 4.0% | 0.5% | 82.1% | 4.8% | 4.7% | 0.1% | 81.5% |
| Europe | 26.7% | 5.7% | 4.6% | 1.0% | 87.5% | 6.1% | 5.8% | 0.3% | 83.8% |
| Latin America | 5.2% | 4.9% | 1.2% | 2.9% | 83.2% | 5.6% | 4.3% | 1.0% | 82.3% |
| Middle East | 9.2% | 7.8% | 1.5% | 4.4% | 76.7% | 1.2% | 0.3% | 0.7% | 75.3% |
| North America | 22.4% | 3.1% | 1.4% | 1.5% | 88.7% | 4.1% | 3.0% | 1.0% | 84.3% |
| International | 64.0% | 5.4% | 3.4% | 1.6% | 83.8% | 4.8% | 4.1% | 0.5% | 81.2% |
| Africa | 1.8% | 11.7% | 7.7% | 2.6% | 70.5% | 4.4% | 2.4% | 1.4% | 70.4% |
| Asia Pacific | 19.0% | 4.0% | 3.1% | 0.7% | 81.4% | 4.6% | 4.4% | 0.2% | 80.7% |
| Europe | 23.9% | 5.6% | 4.5% | 1.0% | 87.9% | 6.3% | 5.9% | 0.3% | 84.4% |
| Latin America | 2.7% | 5.8% | 2.5% | 2.6% | 84.0% | 5.1% | 4.3% | 0.7% | 82.7% |
| Middle East | 8.9% | 8.1% | 1.7% | 4.5% | 76.6% | 1.4% | 0.4% | 0.8% | 75.3% |
| North America | 7.6% | 3.5% | 2.0% | 1.3% | 87.9% | 4.5% | 3.0% | 1.2% | 83.0% |
| Domestic | 36.0% | 4.4% | 3.1% | 1.1% | 85.5% | 4.6% | 4.0% | 0.4% | 83.1% |
| Dom. Australia ⁴ | 0.9% | -1.2% | -0.5% | -0.6% | 78.0% | -0.6% | -0.4% | -0.2% | 78.6% |
| Domestic Brazil ⁴ | 1.1% | -5.7% | -10.1% | 3.8% | 81.7% | 0.7% | -1.8% | 2.0% | 82.2% |
| Dom. China P.R. ⁴ | 9.5% | 8.3% | 8.9% | -0.4% | 84.0% | 8.2% | 8.5% | -0.2% | 83.9% |
| Domestic India ⁴ | 1.6% | 7.9% | 3.1% | 4.0% | 89.4% | 5.7% | 6.1% | -0.3% | 88.1% |
| Domestic Japan ⁴ | 1.0% | 2.4% | 2.3% | 0.1% | 70.2% | 3.7% | 2.4% | 0.9% | 70.2% |
| Dom. Russian Fed. ⁴ | 1.4% | 10.3% | 9.8% | 0.4% | 85.5% | 11.0% | 10.5% | 0.4% | 80.3% |
| Domestic US ⁴ | 14.0% | 3.1% | 1.4% | 1.5% | 89.4% | 4.2% | 3.3% | 0.8% | 85.0% |

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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