AIR PASSENGER MARKET ANALYSIS November 2016

RPK growth reaches a nine-month high in November

- Industry-wide passenger traffic growth accelerated to a nine-month high of 7.6% year-on-year in November.
- The seasonally-adjusted (SA) trend has strengthened of late, alongside a pick-up in the economic cycle.
- Robust international RPK growth in most regions, although domestic passenger markets remain mixed.
- Industry-wide passenger load factor posts a record November-high of 78.9%.

A pick-up in passenger traffic growth in November…

Annual growth in industry-wide revenue passenger kilometres (RPKs) climbed to a nine-month high of 7.6% year-on-year in November, up from 5.6% in October. Once again, carriers from the Middle East and Asia Pacific regions posted the fastest traffic growth (11.0% and 9.9% respectively), while those from North America posted the slowest growth rate (3.1%).

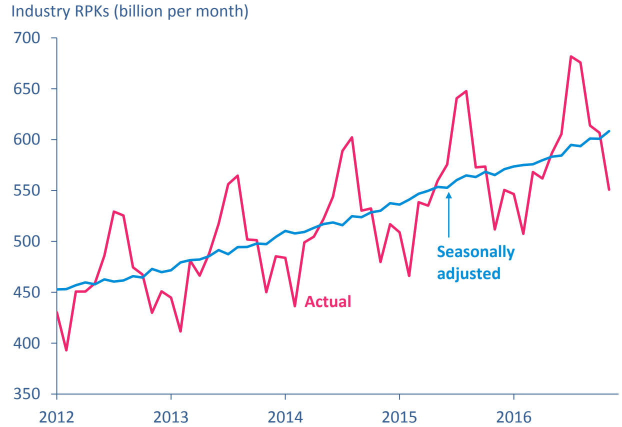
…alongside an increase in the SA passenger trend

Adjusting for the fact that 2016 was a leap year, we estimate that industry-wide RPKs grew by around 5.8% year-on-year in January-November – a slowdown from the (oil price-assisted) 7.1% in the same period of 2015. Nonetheless, such growth was still ahead of its 10-year average pace (5.5%). Moreover, having moderated during H1 2016, the upward trend in seasonally-adjusted traffic has strengthened in recent months' data too. (See Chart 1.) This relates to two factors.

The first is an easing in the headwinds stemming from high-profile terrorist attacks and political instability that weighted on the traffic trend during H1 2016. To be clear, such headwinds have not disappeared, as attested by ongoing tragic events. But encouragingly the upward trend in European international traffic has resumed, while the trend on the Asia to Europe market, which tends to be highly sensitive to such shock events, has increased too.

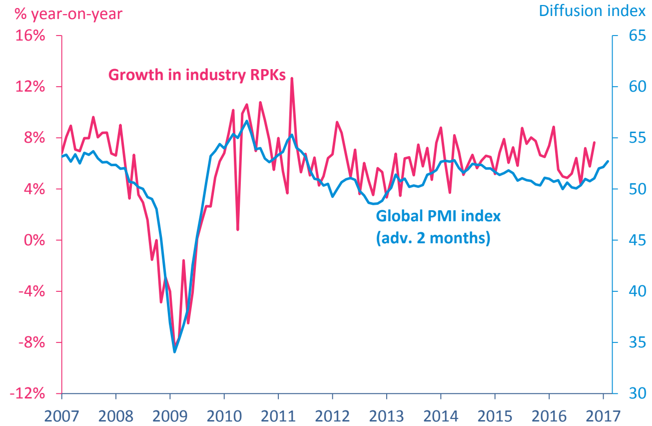
The second factor behind the stronger passenger trend is a pick-up in the global economic cycle. While sizeable risks remain, the global purchasing managers' index reached a fresh 34-month high in December, driven in large part by advanced economies (See Chart 2.)

Chart 1 – Air passenger volumes



Sources: IATA Economics, IATA Monthly Statistics

Chart 2 – Air passenger volume growth and global business confidence



Sources: IATA Economics, IATA Monthly Statistics, Markit

Air passenger market overview - November 2016

	World share[1]	November 2016 (% 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%***	**7.6%**	**6.5%**	**0.8%**	**78.9%**	**6.1%**	**6.2%**	**-0.1%**	**80.5%**
International	*63.5%*	8.0%	6.8%	0.9%	77.1%	6.4%	6.9%	-0.4%	79.5%
Domestic	*36.5%*	7.1%	6.1%	0.8%	82.2%	5.6%	5.0%	0.4%	82.3%

[1]% of industry RPKs in 2015 [2]Year-on-year change in load factor [3]Load factor level

With the biggest stimulus to demand from lower oil prices and airfares seemingly behind us, the strength of the economic cycle will play a key role in determining the pace of passenger traffic growth in 2017. Indeed, if sustained, stronger economic conditions will help to at least partly offset any reduction in stimulus from lower oil prices.

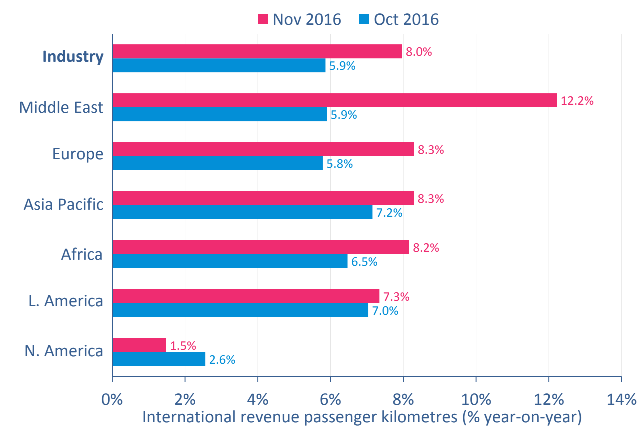
Load factor posts a record November-high

Industry-wide available seat kilometres increased by 6.5% year-on-year in November, and the passenger load factor registered a record November-high of 78.9%. The passenger load factor increased in year-on-year terms in all regions except the Middle East, with four regions posting record November highs.

Middle Eastern carriers post the fastest int'l growth

Annual growth in international RPKs accelerated to 8.0% in November, from 5.9% in October. (See Chart 3.) Year-on-year growth accelerated in all regions between October and November except North America.

Chart 3 – International passenger traffic growth by carrier region of registration



Sources: IATA Economics, IATA Monthly Statistics

Middle Eastern airlines posted the fastest growth rate (12.2%), up from 5.9% in October (the latter appears to have been affected by the timing of regional celebrations). But the upward trend in the region's seasonally adjusted traffic has paused, with November's level coming in unchanged from that in July. Moreover, while the Middle East international passenger load factor increased slightly compared to November 2015, passenger loads on the key routes to and from the region (those between Asia and Europe) haven fallen substantially during 2016.

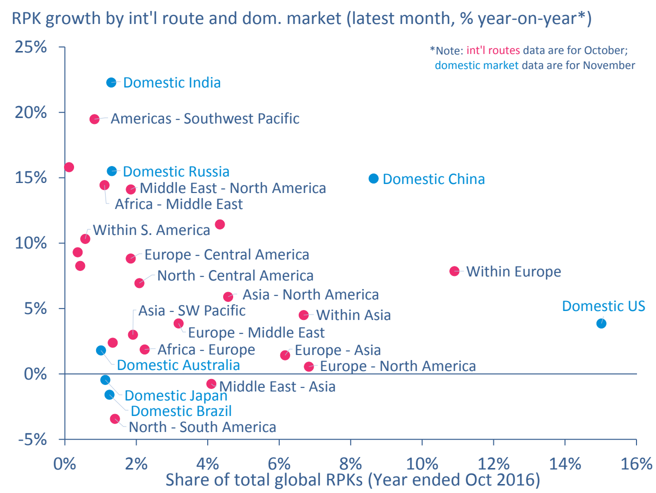
Robust growth in the two-largest int'l regions…

The two largest regions in terms of international RPKs flown – Europe and Asia-Pacific – posted identical growth in November (8.3% year-on-year), up from 5.8% and 7.2% in October respectively.

The seasonally-adjusted trend for European carriers has picked up in the second half of 2016, with traffic growing at an annualized pace of around 12% over the past five months or so. This is clear evidence that conditions for European carriers have adjusted to the disruption caused by terrorism and political instability in early-2016, and is set against a backdrop of a growing Eurozone economy; business confidence in the region climbed to a five-and-a-half year high in December 2016.

By contrast, the strong upward trend in Asia Pacific airlines' seasonally-adjusted traffic has slowed, although it remains too soon to say whether this is a true weakening or just a brief pause. Traffic on international routes within the region grew by 4.5% year-on-year in October (the latest data available). (See Chart 4.)

Chart 4 – RPK growth by route and market



Sources: IATA Economics, IATA Monthly Statistics by Route

…as well as Africa and Latin America too

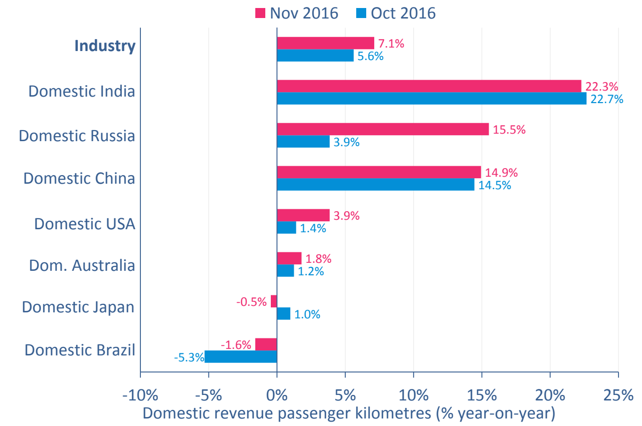
African and Latin American airlines account for a relatively small proportion of international RPKs flown (around 7% combined). Nonetheless, both regions posted robust annual growth in November too (8.2% and 7.3% respectively). Economic conditions in much of Africa remain challenging, particularly in the biggest economies of Nigeria and South Africa, but the upward trend in seasonally-adjusted passenger traffic has reasserted itself in recent months, supported by strong demand on routes to/from Asia and the Middle East. Meanwhile, the upward trend in Latin American carriers' international traffic has remained strong, helped by healthy demand in international traffic within the South America region (+10.3% year-on-year in October), and despite difficult conditions on the North-South America route.

The upward trend in North American carriers' international traffic has flattened in recent months, with growth of just 1.5% year-on-year in November. Traffic across the Pacific is growing solidly, but growth on the North Atlantic market has moderated.

India and China growth supported on multiple fronts

Domestic RPKs increased by 7.1% year-on-year in November, up from 5.6% in the previous month. (See Chart 5.)

Chart 5 – Domestic RPK growth by market



Sources: IATA Economics, IATA Monthly Statistics

Domestic India topped the growth chart for the 20th consecutive month. While there was little sign in the latest passenger data of any immediate negative impact following the demonetization of banknotes enacted on November 8, the seasonally-adjusted traffic trend has paused in recent months. Nonetheless, the annual growth rate remained above 20% for the 13th month in a row. Meanwhile, domestic China RPKs increased by 14.9% year-on-year – the fastest pace since March 2015.

Robust growth is being supported in both cases on multiple fronts, including sizeable increases in real consumer spending and growing options for passengers. Both Indian and Chinese airlines have increased the number of airport-pairs served in 2016 (although average flight frequencies in China have fallen compared to last year). Adding airport-pairs and flight frequencies reduces journey times for passengers and stimulates demand in a similar way to a cut in fares.

Russia growth rate distorted by Transaero collapse

With November marking the one-year anniversary of the collapse of Transaero, year-on-year growth in domestic Russia RPKs also jumped into double-digit territory (15.5%). The annual growth rate is likely to moderate in the coming months as the annual comparison becomes less favorable. But the recovery in seasonally-adjusted domestic traffic is continuing, alongside ongoing signs that the country's economic recession is easing. (Business confidence climbed again in December, keeping it at its highest level since April 2011.)

The domestic US market – the world's largest in terms of RPKs flown – expanded by 3.9% year-on-year in November. Having trended sideways in seasonally-adjusted terms since late-2015, the seasonally-adjusted trend in passenger traffic has picked up since September, in keeping with strong readings from consumer confidence surveys.

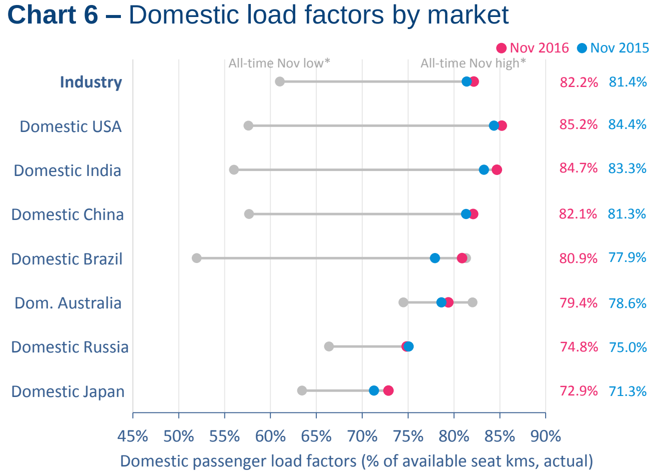
Meanwhile, domestic traffic in Australia edged up to 1.8% year-on-year in November. Seasonally-adjusted traffic broadly tracked sideways throughout 2016, and has trended upwards at an average pace of just 1% over the past four years or so.

Lower demand in Japan and Brazil, but higher loads

Domestic RPKs in Japan fell by 0.5% compared to November 2015. The bigger picture is that traffic has trended sideways in seasonally-adjusted terms for the best part of two years, alongside a backdrop of weak momentum in consumer spending. However, Japanese carriers have reduced capacity since the start of 2015, as operators have cut airport-pairs and moved to smaller aircraft. While still the lowest of all the domestic markets that we track, Japan's load factor posted an all-time November high in 2016.

The economic backdrop in Brazil remains challenging, and domestic RPKs fell by 1.6% year-on-year in November. But similar to the case in Japan, domestic capacity shrank by more than demand (-5.2% year-on-year) in November. As a result, November's domestic load factor came in above 80% for only the second time on record. (See Chart 6.)

Chart 6 – Domestic load factors by market



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

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Air passenger market detail - November 2016

	World share[1]	November 2016 (% year-on-year) RPK	ASK	PLF (%-pt)[2]	PLF (level)[3]	% year-to-date RPK	ASK	PLF (%-pt)[2]	PLF (level)[3]
TOTAL MARKET	***100.0%***	**7.6%**	**6.5%**	**0.8%**	**78.9%**	**6.1%**	**6.2%**	**-0.1%**	**80.5%**
Africa	*2.2%*	7.4%	4.5%	1.8%	67.8%	6.7%	6.4%	0.2%	68.4%
Asia Pacific	*32.1%*	9.9%	8.6%	0.9%	79.1%	9.0%	8.1%	0.6%	79.6%
Europe	*26.9%*	8.4%	7.1%	1.0%	80.1%	4.2%	4.3%	0.0%	82.6%
Latin America	*5.3%*	4.8%	1.1%	2.9%	81.8%	3.5%	1.8%	1.3%	80.8%
Middle East	*9.2%*	11.0%	11.3%	-0.1%	68.8%	10.9%	13.7%	-1.9%	74.3%
North America	*24.4%*	3.1%	2.3%	0.6%	83.0%	3.2%	3.7%	-0.4%	83.5%
International	***63.5%***	**8.0%**	**6.8%**	**0.9%**	**77.1%**	**6.4%**	**6.9%**	**-0.4%**	**79.5%**
Africa	*1.9%*	8.2%	5.1%	1.9%	66.3%	7.6%	7.5%	0.1%	67.5%
Asia Pacific	*17.9%*	8.3%	7.1%	0.8%	77.4%	8.2%	7.8%	0.3%	78.4%
Europe	*24.0%*	8.3%	6.8%	1.1%	80.8%	4.5%	4.9%	-0.3%	83.0%
Latin America	*2.7%*	7.3%	2.9%	3.4%	82.2%	7.3%	4.8%	1.9%	81.4%
Middle East	*8.8%*	12.2%	11.6%	0.3%	68.7%	11.5%	13.9%	-1.6%	74.3%
North America	*8.3%*	1.5%	1.2%	0.2%	78.7%	2.5%	3.2%	-0.6%	81.3%
Domestic	***36.5%***	**7.1%**	**6.1%**	**0.8%**	**82.2%**	**5.6%**	**5.0%**	**0.4%**	**82.3%**
Dom. Australia[4]	*1.0%*	1.8%	0.8%	0.8%	79.4%	1.7%	0.2%	1.1%	76.8%
Domestic Brazil[4]	*1.4%*	-1.6%	-5.2%	2.9%	80.9%	-5.8%	-6.0%	0.1%	80.0%
Dom. China P.R.[4]	*8.3%*	14.9%	13.9%	0.8%	82.1%	11.2%	10.5%	0.5%	83.2%
Domestic India[4]	*1.1%*	22.3%	20.2%	1.4%	84.7%	23.2%	21.5%	1.2%	83.3%
Domestic Japan[4]	*1.2%*	-0.5%	-2.6%	1.6%	72.9%	0.3%	-2.2%	1.7%	68.7%
Dom. Russian Fed.[4]	*1.4%*	15.5%	15.8%	-0.2%	74.8%	1.7%	-2.8%	3.5%	80.8%
Domestic US[4]	*15.3%*	3.9%	2.8%	0.8%	85.2%	3.5%	4.0%	-0.4%	84.9%

[1]% of industry RPKs in 2015 [2]Year-on-year change in load factor [3]Load factor level

[4] Note: 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.

Further details about the statistics in this publication can be found here.

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