



AIR PASSENGER MARKET ANALYSIS **September 2016**

Pick-up in RPK growth in September, amid fragile economic outlook

- Industry-wide passenger traffic grew by 7.0% year-on-year in September – its fastest pace in seven months.
- Developments are being shaped by a range of factors, including fragile economic growth and lower airfares.
- International growth accelerated in all regions compared to August, but domestic performance was mixed.
- The seasonally-adjusted passenger load factor increased to its highest level since January.

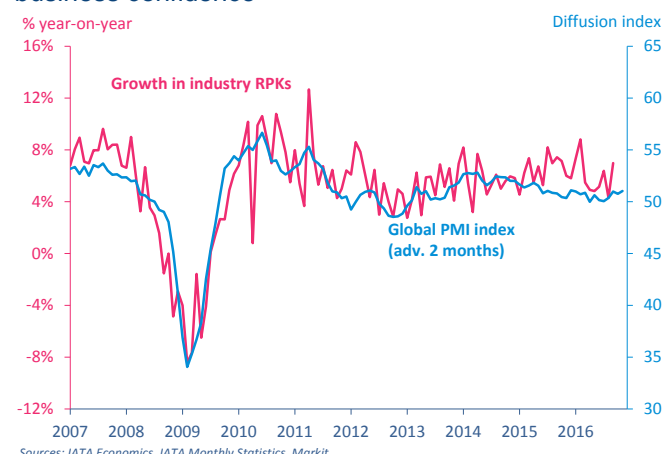
Annual growth accelerated in September

Annual growth in industry-wide revenue passenger kilometres (RPKs) accelerated to 7.0% year-on-year in September – a seven-month high. Airlines from the Middle East and Asia Pacific posted the fastest traffic growth for the fourth consecutive month, with double-digit annual increases in both cases. However, every region posted solid year-on-year growth, in excess of 4%.

Industry developments reflect a range of factors

Developments in industry-wide traffic growth continue to reflect the net impact of a range of competing drivers. On the one hand, growth has been subject to a number of headwinds in 2016, not least from high-profile terrorist attacks and political instability in parts of the world. Encouragingly, there were further signs of European

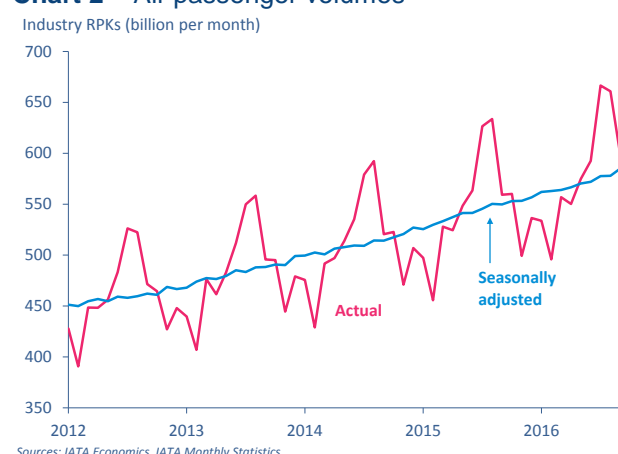
Chart 1 – Air passenger volume growth and global business confidence



international traffic getting back to normal after the disruption in the region earlier this year. (That said, passenger traffic between Asia and Europe fell in year-on-year terms in August, with Asian passengers still being put off travelling to Europe.) Meanwhile, although global business confidence has edged up in recent months, the economic outlook is still fragile and highly uncertain, with policy at a crossroads. (See Chart 1.)

On the other hand, air passenger demand has been stimulated by lower airfares, reflecting the lagged effects of lower oil prices and broader competitive pressures in the market. The biggest stimulus from this factor may now be behind us. Certainly, the steep downward trend in yields that was a feature of early 2016 has paused in recent months, and the majority of respondents to our latest quarterly Business Confidence survey reported that

Chart 2 – Air passenger volumes



Air passenger market overview - September 2016

	World share ¹	September 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%	7.0%	6.6%	0.3%	81.1%	5.9%	6.1%	-0.2%	80.6%
International	63.6%	6.9%	7.2%	-0.2%	80.4%	6.3%	6.9%	-0.5%	79.8%
Domestic	36.4%	7.2%	5.5%	1.3%	82.6%	5.4%	4.8%	0.4%	82.0%

¹% of industry RPKs in 2015

²Year-on-year change in load factor

³Load factor level

they expect passenger yields to remain unchanged in the year ahead. (This contrasts with the results from the previous survey, when the majority of respondents expected further falls in yields over the year ahead.) In any case, with input prices expected to rise over the year ahead, our respondents expected profit margins to come under pressure going into 2017.

Adjusting for the fact that 2016 is a leap year, we estimate that industry-wide RPKs have grown by around 5.5% this year to date, compared to 6.5% in the same period of 2015. While growth has slowed from last year, it was still broadly in line with the average pace seen over the past decade or so.

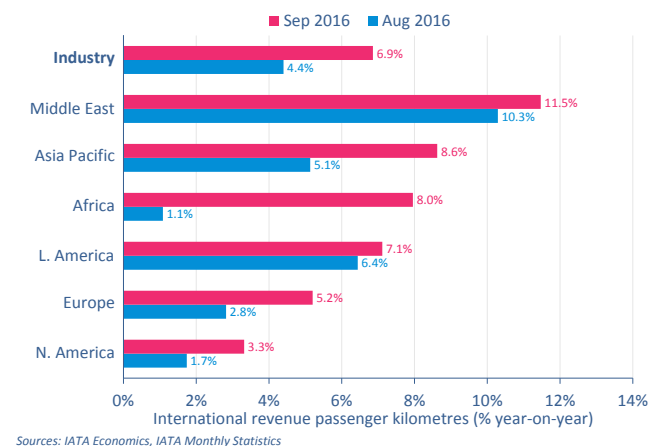
Load factor increases to an eight-month high

The industry-wide load factor rose by 0.6 percentage points in seasonally-adjusted terms in September, taking it to its highest level since January. Airlines have moderated capacity growth this year in line with the slightly softer demand conditions, but the September increase in the load factor was driven by the pick-up on the demand side. The September load factor was at or very close to a record high in all regions with the exception of the Middle East.

Further welcome signs for European int'l traffic...

Annual growth in international RPKs rose to 6.9% in September, from 4.4% in August. (See Chart 3.) Year-on-year growth accelerated in all regions.

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



International demand for European carriers – the largest region in terms of international RPKs – appears to be getting back to normal after the disruption caused by terrorism and political instability earlier this year. The seasonally-adjusted trend picked up in Q3, and year-on-year growth accelerated to 5.2% in September. This is set against a backdrop of a subdued but recovering Eurozone

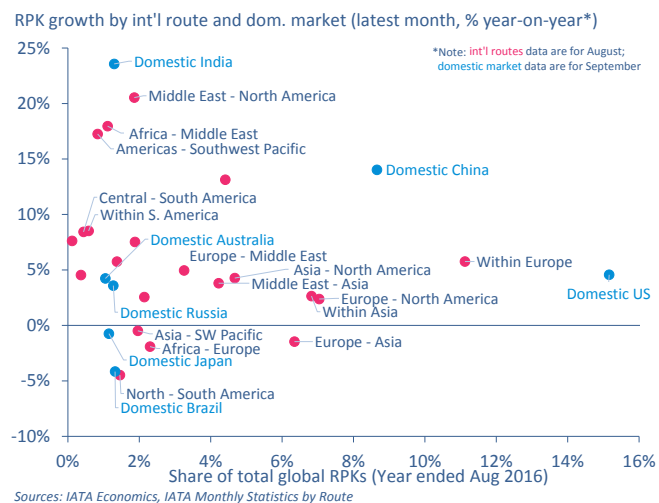
economy; the latest data show that eurozone GDP grew by 0.3% in Q3 compared with the previous quarter.

...with robust trends in most other regions

Year-on-year growth in international traffic flown by African carriers jumped to 8.0% in September, although the annual growth rate was flattered by the annual comparison. Economic conditions in much of the continent remain challenging, particularly in the biggest economies of Nigeria and South Africa.

International traffic flown by Asia Pacific airlines – the second largest international region – rose by a robust 8.6% year-on-year in September. There are still signs of Asian passengers being put off by terrorism in Europe: traffic on the Europe-Asia route fell by 1.5% year-on-year in August (the latest data available), and it remains the slowest-growing of the 'big-four' international routes so far this year. But overall traffic has risen at an annualized rate of 6.3% since March, helped by robust growth in ASEAN.

Chart 4 – RPK growth by route and market



Annual growth in international RPKs flown by Middle Eastern airlines climbed to 11.5% in September, and traffic continues to trend upwards strongly. But as has been the case for the past two years or so, increases in capacity have continued to outpace that of demand. In fact, load factors on the largest routes to and from the Middle East, those between Asia and Europe, fell by 3.5 and 4.5 percentage points respectively in August 2016, compared to the same period in 2015.

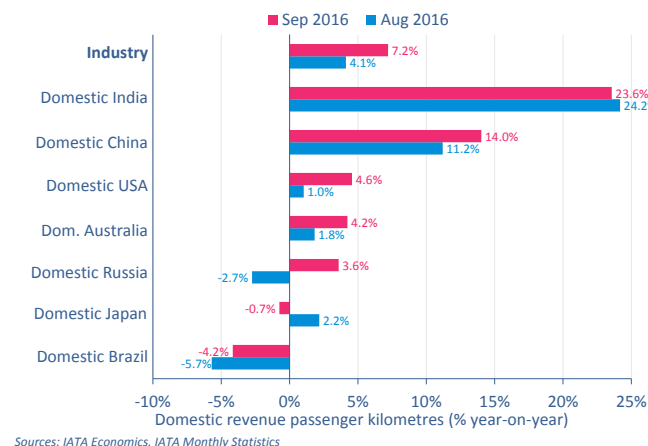
The upward trend in North American carriers' international traffic has eased of late, but seasonally-adjusted passenger volumes have still risen at an annualized rate of around 6% since March. Given the shape of developments last year, annual growth is likely to pick up further in the coming months. Demand on the

Transpacific market is solid, with volumes rising by 4.3% year-on-year in August. Meanwhile, the upward trend in Latin American carriers' international traffic also eased slightly during Q3, but traffic still grew by a robust 7.1% year-on-year. The upward trend has been helped by strong demand on international routes within the region.

India and China continue to top the domestic chart...

Domestic air travel accelerated to 7.2% year-on-year in September, up from 4.1% in August. (See Chart 5.)

Chart 5 – Domestic RPK growth by market



There continues to be little sign of any slowdown in growth in the domestic India and China markets; domestic traffic surged by 23.6% and 14.0% year-on-year respectively in September. Such strong growth rates relate to sizeable increases in real consumer spending in both countries, although growth in India is well ahead of what the usual elasticities would imply. This is partly because airlines are adding airport-pairs and flight frequencies, which reduce journey times for passengers and has the same stimulatory effect on demand as a cut in fares. Both Indian and Chinese airlines have increased the number of airport-pairs served in 2016, but average flight frequencies in China have fallen compared to last year.

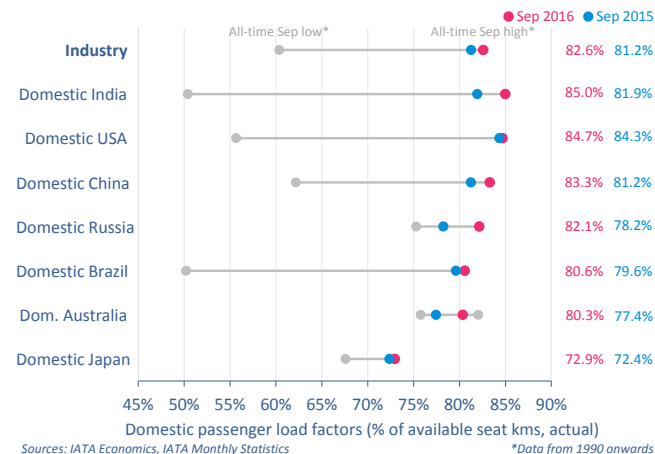
...with most other markets posting robust growth

The domestic US market – the world's largest in terms of RPKs flown – expanded by 4.6% year-on-year in September. Having trended sideways in seasonally-adjusted terms since late-2015, passenger traffic picked up in September, alongside strong momentum in consumer retail spending.

Domestic traffic growth in Australia rose to 4.2% year-on-year in September, although any upward trend in RPKs remains very modest (traffic has increased at an annualized pace of just 1.1% over the past three years or so). Capacity has been more or less flat over the same

period, and the domestic Australia load factor increased by 2.9 percentage points in September compared to the same month in 2015. However, as shown in Chart 6, the Australia market was the only one in which the load factor did not register an all-time September high.

Chart 6 – Domestic load factors by market



Domestic RPKs in Russia increased by 3.6% year-on-year in September. This follows further tentative signs that the country's economic recession is easing, although the latest RPK outcome was flattered partly by the annual comparison (which will boost the year-on-year growth rate further in the coming months as well). Traffic growth coincided with a contraction in capacity, which culminated in the load factor increasing by 3.9 percentage points compared to September 2015.

Traffic in Japan has trended sideways for the past 18 months or so, set against a backdrop of underlying weak momentum in consumer spending (retail sales have now declined in year-on-year terms for seven consecutive months). Domestic RPKs fell by 0.7% compared to September 2015. However, air capacity in Japan has trended downwards since the start of 2015, as operators have cut airport-pairs and moved to smaller aircraft, which has helped to lift the domestic load factor this year to date.

Brazilian traffic remains under pressure

While the deep economic recession in Brazil may be starting to bottom out, the recovery in seasonally-adjusted passenger traffic has stalled and RPKs fell by 4.2% in September. In addition to economic challenges, travel options for Brazilian travelers are being constrained by fewer and less frequent air connections. All told, domestic RPKs remain nearly 10% below the seasonally-adjusted peak reached in early 2015.

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 4th November 2016

Air passenger market detail - September 2016

	World share ¹	September 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%	7.0%	6.6%	0.3%	81.1%	5.9%	6.1%	-0.2%	80.6%
Africa	2.2%	7.5%	7.3%	0.1%	72.7%	6.7%	7.1%	-0.2%	69.3%
Asia Pacific	31.5%	10.2%	8.3%	1.4%	79.6%	8.7%	7.9%	0.6%	79.4%
Europe	26.7%	5.0%	5.1%	-0.1%	84.3%	3.7%	3.7%	0.0%	82.2%
Latin America	5.4%	4.3%	1.0%	2.6%	82.2%	3.6%	2.2%	1.1%	81.1%
Middle East	9.4%	11.0%	13.7%	-1.8%	73.9%	11.2%	14.4%	-2.2%	75.9%
North America	24.7%	4.2%	4.1%	0.1%	83.5%	3.3%	3.9%	-0.5%	83.7%
International	63.6%	6.9%	7.2%	-0.2%	80.4%	6.3%	6.9%	-0.5%	79.8%
Africa	1.9%	8.0%	8.0%	-0.1%	72.0%	7.6%	8.2%	-0.4%	68.4%
Asia Pacific	17.4%	8.6%	7.7%	0.7%	77.9%	8.2%	7.8%	0.3%	78.7%
Europe	23.8%	5.2%	5.7%	-0.4%	84.8%	3.9%	4.5%	-0.4%	82.7%
Latin America	2.9%	7.1%	2.4%	3.6%	83.7%	7.3%	5.3%	1.5%	81.7%
Middle East	9.1%	11.5%	13.8%	-1.5%	73.9%	11.7%	14.6%	-1.9%	75.7%
North America	8.5%	3.3%	4.2%	-0.7%	81.5%	2.5%	3.2%	-0.6%	81.6%
Domestic	36.4%	7.2%	5.5%	1.3%	82.6%	5.4%	4.8%	0.4%	82.0%
Dom. Australia ⁴	1.1%	4.2%	0.5%	2.9%	80.3%	2.4%	0.2%	1.7%	77.7%
Domestic Brazil ⁴	1.4%	-4.2%	-5.3%	1.0%	80.6%	-6.3%	-6.1%	-0.1%	80.1%
Dom. China P.R. ⁴	8.4%	14.0%	11.2%	2.1%	83.3%	10.5%	10.0%	0.4%	82.0%
Domestic India ⁴	1.2%	23.6%	19.1%	3.1%	85.0%	23.4%	21.6%	1.2%	84.1%
Domestic Japan ⁴	1.2%	-0.7%	-1.5%	0.6%	72.9%	0.1%	-2.6%	1.8%	68.4%
Dom. Russian Fed. ⁴	1.3%	3.6%	-1.3%	3.9%	82.1%	-0.4%	-5.9%	4.4%	79.4%
Domestic US ⁴	15.4%	4.6%	4.2%	0.3%	84.7%	3.8%	4.4%	-0.5%	84.9%

¹% of industry RPKs in 2015

²Year-on-year change in load factor

³Load 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.

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