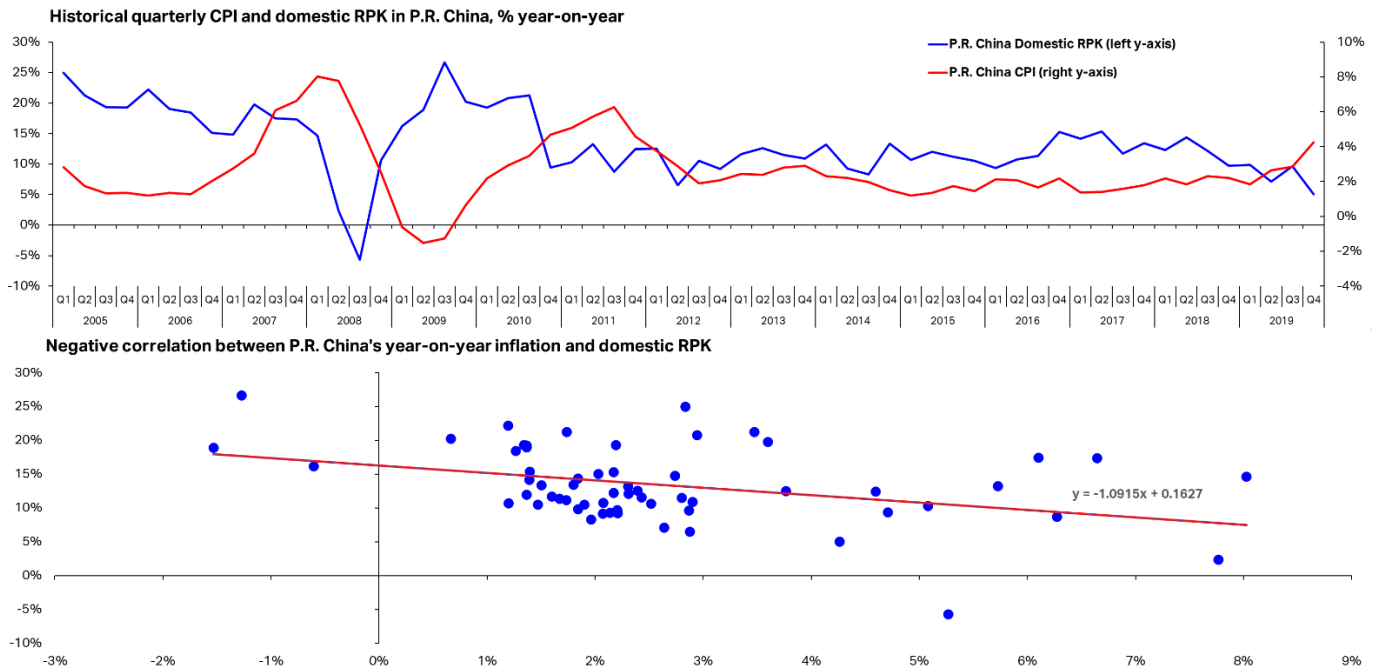




IATA Economics' Chart of the Week 23 September 2022

High inflation rates negatively affect RPKs in P.R. China



Source: IATA Economics, Oxford Economics.

- Historical data in P.R. China shows a negative correlation between the year-on-year (YoY) changes in the quarterly Consumer Price Index (CPI) and domestic RPKs over the period of 2005 to 2019. The years 2003-04 and 2020-22 when P.R. China experienced the outbreak of SARS and Covid-19 were excluded due to their unusual impacts on domestic air traffic.
- A negative correlation implies that air travel in the domestic Chinese market tends to be dampened by rising inflation rates. This is particularly manifest during the period of the global financial crisis. During the crisis, the YoY increase in China's CPI from 2.7% in the first quarter of 2007 to 8% in the first quarter of 2008 was followed by a significant drop in the YoY domestic RPKs by 20.1 percentage points (ppts) from 14.4% to -5.7% over the second and the third quarters of 2008, compared to the same period in the previous year. When the YoY inflation rate decreased between the second quarter in 2008 (7.8%) and the same quarter in 2009 (-1.3%), domestic RPKs bounced back.
- More recently, similar patterns can be seen between the first quarter of 2017 and the fourth quarter of 2019, before the Covid-19 pandemic outbreak in P.R. China. During this period, the YoY inflation rate showed an upward trend from 1.4% to 4.3%, whilst the YoY domestic RPKs dropped from 14.2% to 5.4%.
- This historical negative correlation between inflation and domestic RPKs in P.R. China implies additional headwinds to the air travel demand recovery in this country which is still encumbered by Covid-related travel restrictions.

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