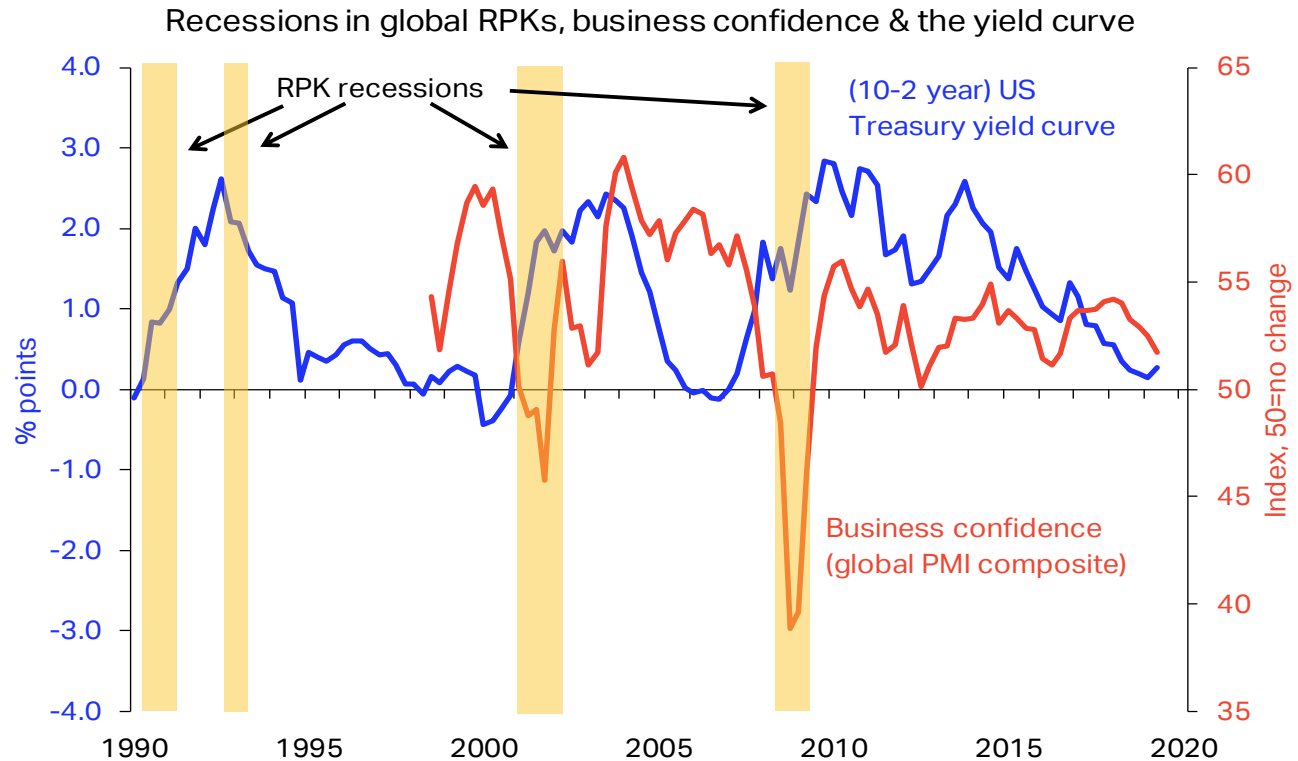


How close is global air travel to recession?



Source: IATA Economics using data from IATA Statistics, Markit and Thompson Reuters Datastream

- Next week we [publish data on global air travel](#) (measured here by Revenue Passenger Kilometers or RPKs) for May. During the year to April global RPKs were up 4.6% on the same period a year ago. That's still not far below the 20-year average of 5.5%, but it is a sharp slowdown from growth in 2018. Moreover, the intensification of the trade dispute between the US and various trading partners in recent months has led to fears of recession. It has been more than 10 years since the last recession in global RPKs (defined as two consecutive quarter-on-quarter declines). How close are we to the next recession in global air travel?
- Two important leading indicators of recession are shown in the chart above: global business confidence and the US Treasury yield curve. Recessions in global RPKs are shown by the shaded columns (The 2003 downturn due to the SARS pandemic has not been shown to aid clarity). The yield curve (the difference between the yield on 10-year and 2-year government bonds) has always turned negative 6-12 months ahead of a recession in global RPKs, except for the 1993 recession – because this downturn did not include the US economy. Business confidence, as measured by the Purchasing Managers composite Index (PMI), has always fallen below 50 just as a recession began.
- Neither of those trigger points have been reached. Business confidence has fallen, for the reasons mentioned above, though not below 50. We have seen similar falls in the PMI twice before in the last 10 years, without a subsequent recession. The yield curve has been declining over the past decade but has not turned negative. There is reason to think that 10-year bond yields are artificially low – the US Federal Reserve has bought \$3.5 trillion of financial assets since the GFC to support the economy. This would weaken the ability of the yield curve to predict recession. In later editions of COTW we will look at other recession indicators. The business environment has certainly become more difficult, but these two recession leading indicators are not signaling recession for global RPKs.

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