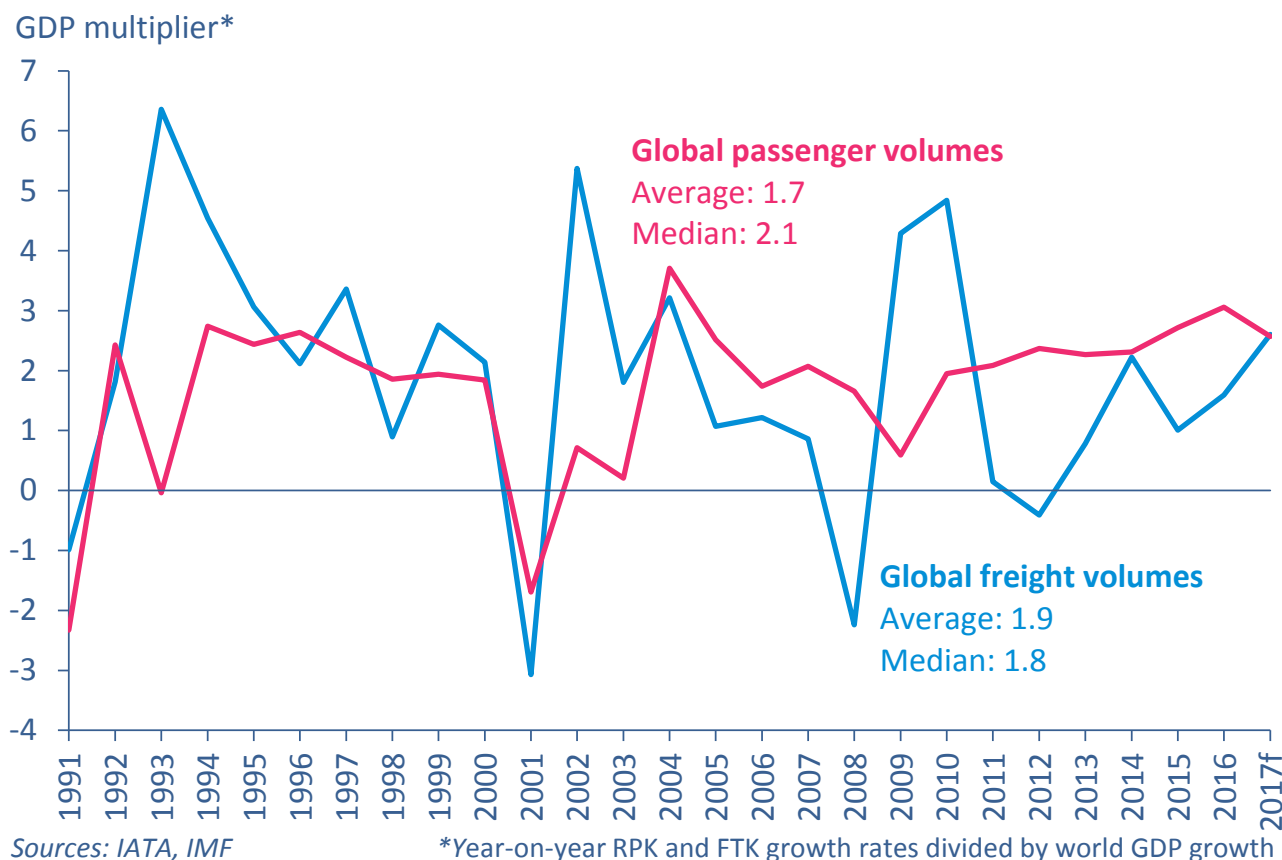




IATA ECONOMICS' CHART OF THE WEEK

21 JULY 2017

HOW USEFUL ARE SIMPLE RULES OF THUMB FOR PREDICTING GROWTH?



- Simple rules of thumb linking growth in global air traffic to that in global GDP are popular in the industry. But how do such rules compare for passenger and freight, and how reliable are they for gauging near and long-term traffic trends?
- The passenger multiplier has clearly been more stable, and consistently stronger, than its freight counterpart over the past 25 years or so. Admittedly, the average passenger multiplier between 1991 and 2016 was slightly *lower* than the corresponding figure for freight (1.7 vs. 1.9). However, the passenger average is skewed downwards by the periods of weakness in the early 1990s and in the years following 9/11. The bigger picture is that the passenger multiplier has come in between 1.5 and 2.5 in more than half the years since 1991, and the *median* is higher than the average (2.1).
- It is the opposite case for freight; the average freight multiplier is skewed upwards by the strong performance of freight volumes seen at the start of global upturns. This largely reflects the key role that air freight plays in allowing firms to restock quickly at the start of economic cycles. Notably, global freight volumes have grown by more than three times the pace of global GDP in eight of the past 26 years, compared to just two times in the case of passenger volumes.
- All told, the simplicity of such rules of thumb is both a strength and a weakness. The freight to GDP multiplier helps to visualize the cyclical periods of air cargo outperformance, but the volatility of the relationship limits its usefulness as a near-term guide. The passenger multiplier has been a more consistent benchmark over time, although it is not guaranteed to stay as strong in the future. Indeed, as the scenario analysis in IATA and Tourism Economics' [passenger forecast service](#) underlines, future developments in passenger traffic will be driven by the underlying economic and policy backdrop rather than being set by a simple rule of thumb.

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