

A focus on domestic India air passenger traffic

42nd month of double-digit RPK growth, as load factor rises >90%

Introduction

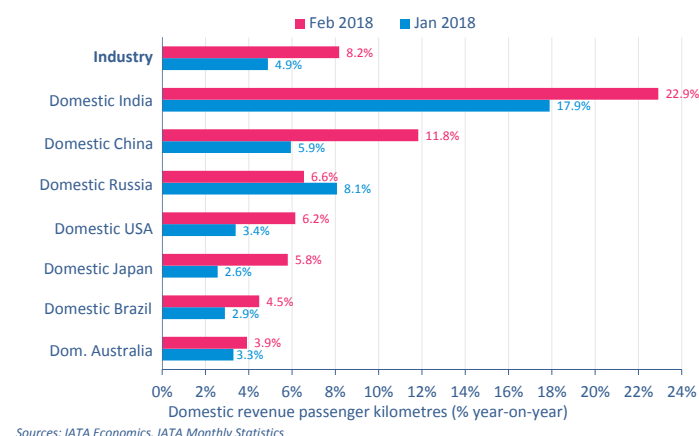
The domestic India passenger load factor exceeded 90% for the first time on record in February 2018. This was an all-time high for the seven domestic markets that we track on a monthly basis and follows a sustained period of rapid growth in air passenger demand in the country.

With this milestone in mind, we have prepared a brief note of the latest developments in domestic India traffic.

India posts the fastest domestic RPK growth again

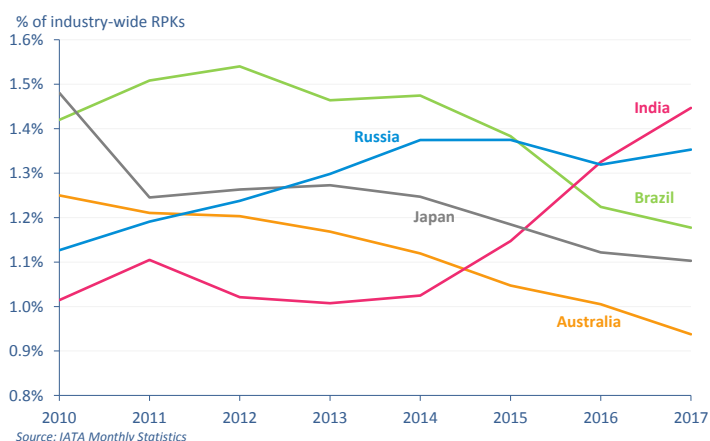
The domestic India passenger market posted double-digit year-on-year RPK growth for the 42nd month in a row in February 2018 (22.9%). (See Chart 1.) This was nearly twice the pace of the next fastest growing market (China; 11.8%) and well above its five-year average (15.6%).

Chart 1 – Domestic RPK growth by market



Recall that domestic India also posted the fastest RPK growth for the third calendar year in a row in 2017 (17.5%). Such sustained rapid growth has seen the market overtake Australia, Japan, Brazil, and Russia in terms of RPKs flown in recent years. (See Chart 2.)

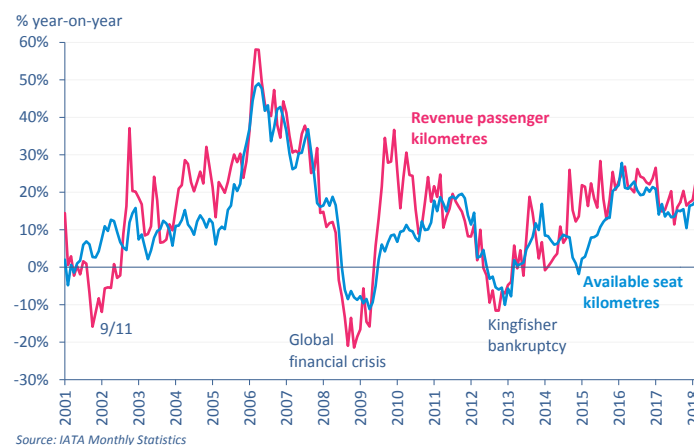
Chart 2 – Domestic passenger market comparison



Passenger demand is continuing to outpace supply...

On the whole, domestic India RPKs have grown faster than the corresponding rate of capacity growth in recent years. While the degree of outperformance has moderated from that seen in late-2014 and early-2015, annual RPK growth has still exceeded that of ASK growth by 2.5 percentage points on average each month over the past two years. (See Chart 3.)

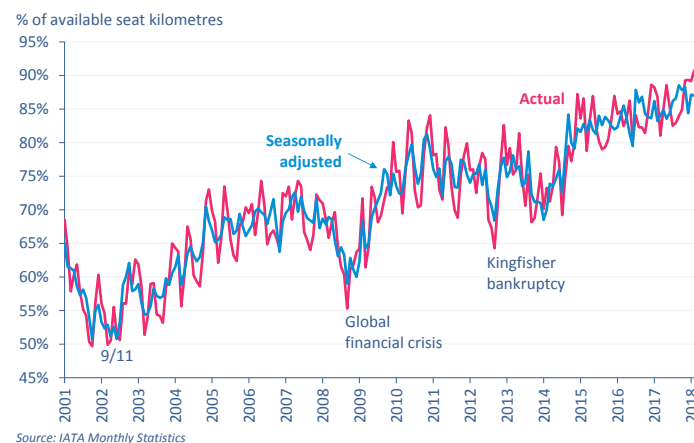
Chart 3 – Domestic India passenger demand and capacity



...with load factor hitting a record high >90% in Feb

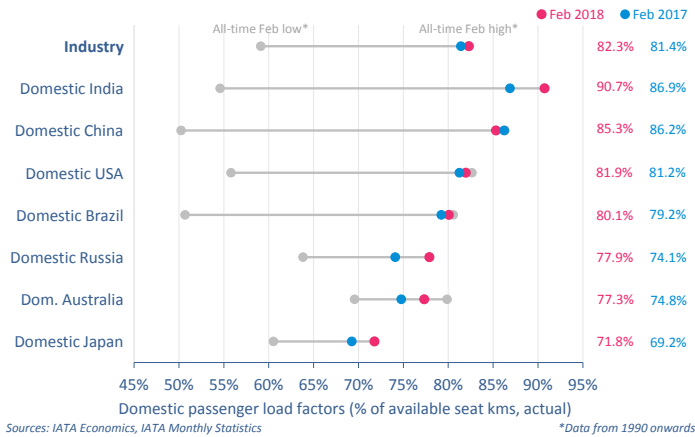
As a result, the domestic India passenger load factor has continued to trend upwards. In fact, February 2018 was notable as being the first month on record in which the domestic India load factor exceeded 90% of available seat kilometres. (See Chart 4.)

Chart 4 – Domestic India passenger load factor



As shown in Chart 5 (overleaf), the domestic India load factor in February was more than five percentage points higher than the next nearest market (China; 85.3%) and even further ahead of the average for all domestic passenger traffic (82.3%).

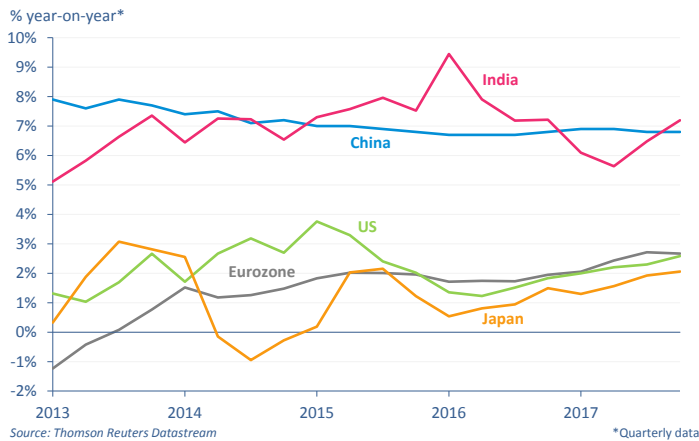
Chart 5 – Domestic load factors by market



Passenger demand is being driven by robust economic growth...

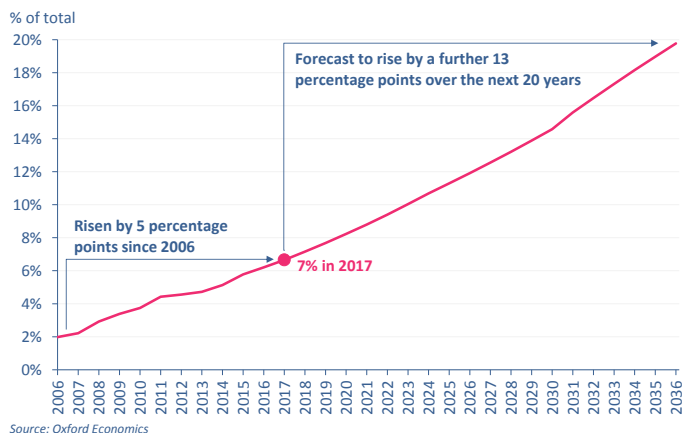
Buoyant passenger demand in India is continuing to be supported by robust growth in economic activity in the country. Indeed, having seen economic output increase by 7.2% year-on-year in Q4 2017, India recently regained its position as the fastest growing major economy in the world. (See Chart 6.)

Chart 6 – Real GDP growth (selected countries)



Most analysts forecast economic growth to accelerate slightly over the coming years, to within 7.5-8% in 2018/19. All told, the number of middle-class households in India is expected to continue to increase over the coming decades, to around 20% by 2036. (See Chart 7.)

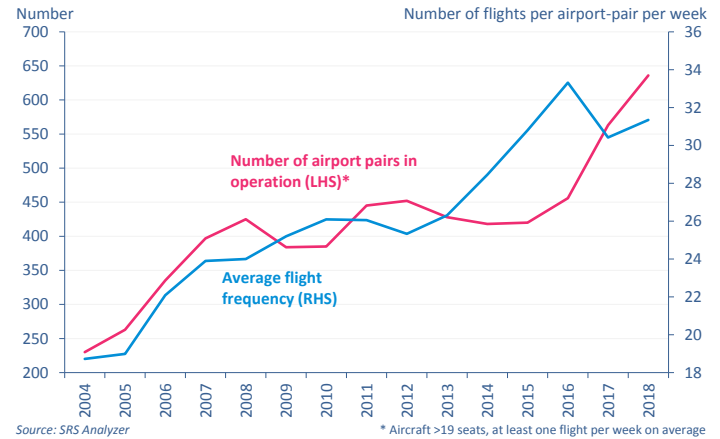
Chart 7 – Middle-class households in India



...and network changes that save time for travellers

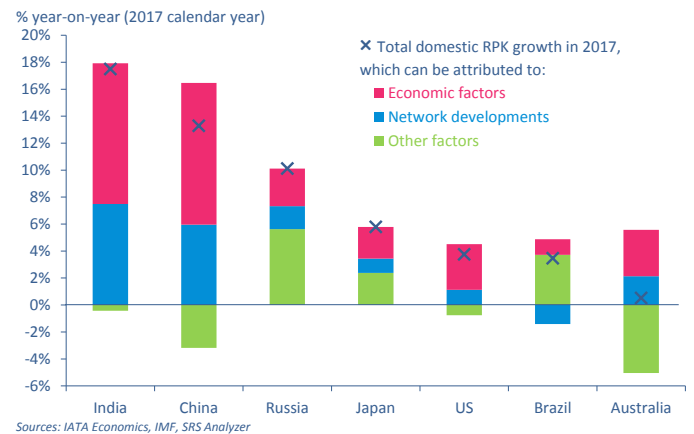
Domestic India passenger demand is also being driven in part by expansion in the domestic air network. This is evident both in terms of a strong rise in the number of airport pairs in operation within India – these have risen by more than 50% since 2015 – as well as increases in the average frequency of flights on each route. (See Chart 8.) Both of these factors ultimately translate into time savings for passengers and therefore have similar stimulatory impacts on demand as reductions in air fares.

Chart 8 – Domestic India network developments



As shown in Chart 9, we estimate that the combination of economic growth and domestic network developments can fully explain the 17.5% increase in domestic India RPKs seen during 2017 as a whole.

Chart 9 – Estimated drivers of domestic RPK growth



Outlook

The near-term outlook for domestic India passenger demand remains bright, with the market on track to make it 50 consecutive months of double-digit annual RPK growth in October 2018. Moreover, ongoing potential for further catch-up growth in living standards is expected to continue to propel passenger demand growth well into the future. Indeed, we continue to expect India to surpass the UK as the world's third largest origin-destination market by the mid-2020s.

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