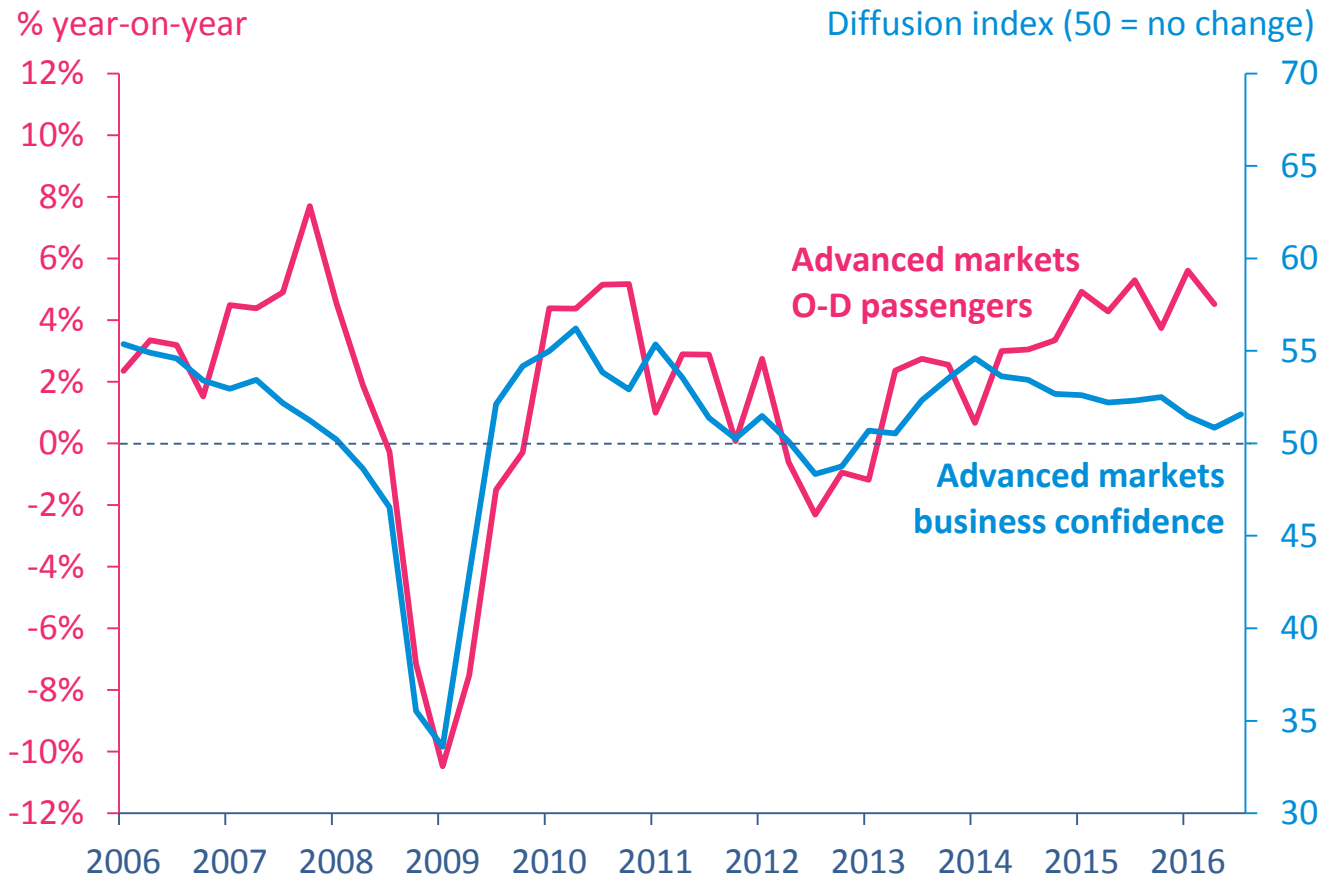




IATA ECONOMICS' CHART OF THE WEEK

23 SEPTEMBER 2016

TAILWINDS ARE FADING, BUT PAX GROWTH IS UNLIKELY TO STALL



Sources: IATA PaxIS+, Markit

Note: quarterly series

- The sharp decline in oil prices since late 2014, and the subsequent reduction in fares, have helped to propel growth within advanced passenger markets to rates far in advance of those consistent with the economic backdrop.
- Clearly, the boost from falling oil prices cannot go on forever; indeed, the Brent crude price is now actually slightly higher than where it stood a year ago. Hedging practices within the industry mean the stimulus of lower oil prices on demand may still be felt for a while yet. But the key point is that weaker tailwinds are likely to see passenger growth moderate in advanced markets during 2017.
- This need not be disastrous for overall market performance, though, in part because there are tentative signs of a pick-up in business confidence in advanced economies. If sustained, stronger economic conditions in these markets would help to at least counteract the weaker boost afforded by lower oil prices.
- More notably, advanced markets are not as dominant a force in the global market as they once were: indeed, having grown far faster than their advanced counterparts each year over the past decade, developing markets have seen their share of global traffic surge from below 25% in 2006 to nearly 40% in 2015. Conversely, the share of advanced markets has slipped from more than 60% in 2005 to around 45% last year. Crucially, growth in developing markets is not as reliant on the boost from oil prices as that in the more mature advanced markets. Instead, it relates more to a number of key drivers, including structurally quicker growth in incomes, as well as faster air network expansion.
- All told, the oil-assisted 7.4% increase in passenger numbers that we saw in 2015 is likely to prove a high watermark for growth for the foreseeable future. But even though the afterburners are running out of fuel, growth momentum in the global air passenger market is unlikely to stall.

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