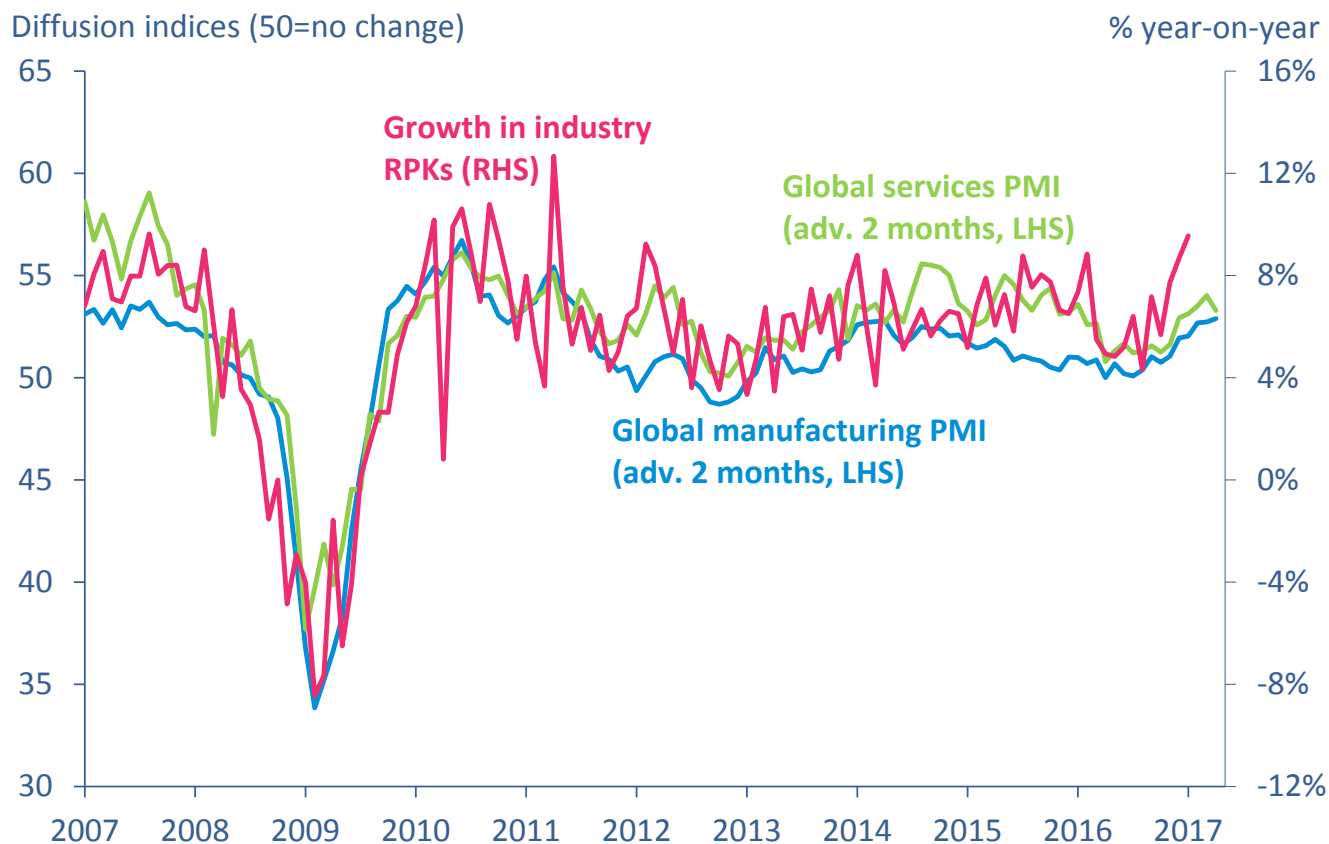




IATA ECONOMICS' CHART OF THE WEEK

17 MARCH 2017

WHAT'S BEHIND THE STRONG START TO AIR TRAVEL GROWTH IN 2017?



Sources: IATA Economics, IATA Monthly Statistics, Markit

- Those of you familiar with the work of IATA Economics will be aware that one of the indicators of the economic cycle that we follow is the global manufacturing purchasing managers' index (PMI). This provides a measure of the health of the global manufacturing sector and provides a useful leading indicator for both passenger and cargo traffic volumes.
- However, as economies develop, they typically transition away from manufacturing towards services and other higher value-added activities, and the relative importance of the manufacturing sector as a share of GDP diminishes. Indeed, for many of the so-called 'advanced' economies, services account for the bulk (up to three-quarters) of total output.
- So, in addition to the manufacturing sector, it makes a lot of sense to monitor closely the health of its services sector counterpart too. As can be seen from this week's chart, the global services sector PMI provides a similar lead time but tends to perform slightly better than the manufacturing PMI in terms of estimating passenger volumes (RPKs).
- After a subdued start to last year, the services PMI has risen strongly since mid-2016, and is currently consistent with annual RPK growth in the region of 7% continuing into Q2. (Note that the recent 'outperformance' of RPK growth reflects a combination of a high degree of demand stimulation from lower airfares and favorable 'base effects' following the moderation in passenger growth seen a year ago related to terrorism-related disruption in Europe.)
- The so-called emerging market economies are on track to continue to grow as a proportion of total global output in the future. As their economies continue to develop, and the relative share of services within them increases, the services PMI will become an increasingly useful guide to developments in the global air passenger market.

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