Outlook for air travel markets

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International Air Transport Association
Extended period of strong air travel market growth

Growth in worldwide RPKs

Source: IATA Monthly Statistics
But a very mixed picture across travel markets today

Source: IATA Monthly Statistics by Route
Biggest growth in Asian markets but also Europe

Source: IATA Monthly Statistics by Route
World has been stuck in a low economic growth path

IMF forecasts of global economic growth

Source: IATA using IMF World Economic Outlook data
Yet we’ve had to revise up successive RPK forecasts

Source: IATA Economic Performance of the Airline Industry
Price stimulation from LCC entry in significant markets

**Sources:** IATA using SRS Analyser data

- Within Asia
- Within Southeast Asia
- North America - Asia
- Europe - Asia
- Australasia - Asia
- Middle East - Asia
- Global
- North America - Europe
- Within Europe

**LCC share of seats flown (% of total)**

- 0%
- 10%
- 20%
- 30%
- 40%
- 50%
- 60%

2005 - 2015

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**Lines:**

- **Within Southeast Asia**
- **Within Europe**
- **Global**
- **Within Asia**
- **Australasia - Asia**
- **Middle East - Asia**
- **Europe - Asia**
- **North America - Asia**
- **North America - Europe**
Significant price stimulation from fuel cost pass-through

Average return fare and Brent crude oil prices

Source: IATA using PaxIS+ and Haver data
The lackluster economic cycle now seems to be slowing

Global economic cycle indicators

International trade growth
Industrial production growth
Business confidence

Source: IATA using Netherlands CPB and Markit data
Both developed and emerging economies now weaker

Business confidence

Source: IATA Economics using Markit data
But living standards are expected to rise over 20 years

Chart 7 – Forecast growth in GDP per capita (% CAGR, 2015-2035)

Source: IATA/Tourism Economics Air Passenger Forecasts, April 2016
Important living standard thresholds to be reached

Chart 13 – Forecast changes in income groups (2015 -2035)

Source: IATA/Tourism Economics Air Passenger Forecasts, April 2016
Living standards make big difference to travel frequency

Frequency of air travel and living standards

- **Trip frequency**
- **Months before next trip**

Source: IATA/Tourism Economics Air Passenger Forecasts, April 2016
Diverse trip frequency shows the potential for growth

Source: IATA/Tourism Economics Air Passenger Forecasts, April 2016
Also very different demographic futures

% change

-25% -20% -15% -10% -5% 0% 5% 10% 15% 20% 25% 30% 35%

The UN's projected change in population (2015-2035, %)

UN projections adjusted for demographic factors

Source: IATA/Tourism Economics Air Passenger Forecasts, April 2016
There is also still a lot of pent-up demand (and supply)

Distribution of countries by level of air market liberalization

- Air markets are less liberal
- Air markets are more liberal

Median WALI scores
2005: 9.9
2011: 10.2

Source: World Trade Organization QASAR database
Wide range of growth expected over next 20 years

Drivers of passenger growth (2015-2035 % CAGR, selected countries)

- Travel cost
- Population & demographics
- Living standards
- Total growth

% year-on-year

Source: IATA/Tourism Economics Air Passenger Forecasts, April 2016
The largest growth will be in domestic travel markets

Change in domestic O-D markets (millions, 2015-2035)

Source: IATA/Tourism Economics Air Passenger Forecasts, April 2016
Top international travel markets for incremental growth

<table>
<thead>
<tr>
<th>Market</th>
<th>Change in international O-D markets (millions, 2015-2035)</th>
<th>Corresponding CAGR</th>
</tr>
</thead>
<tbody>
<tr>
<td>UAE - India</td>
<td>25</td>
<td>6.8%</td>
</tr>
<tr>
<td>China - Taiwan</td>
<td>20</td>
<td>4.9%</td>
</tr>
<tr>
<td>Mexico - US</td>
<td>15</td>
<td>2.7%</td>
</tr>
<tr>
<td>Canada - US</td>
<td>15</td>
<td>2.5%</td>
</tr>
<tr>
<td>Korea - China</td>
<td>15</td>
<td>3.3%</td>
</tr>
<tr>
<td>Spain - UK</td>
<td>10</td>
<td>1.9%</td>
</tr>
<tr>
<td>Malaysia - Indonesia</td>
<td>10</td>
<td>5.6%</td>
</tr>
<tr>
<td>Hong Kong - China</td>
<td>10</td>
<td>4.0%</td>
</tr>
<tr>
<td>Singapore - Indonesia</td>
<td>10</td>
<td>5.2%</td>
</tr>
<tr>
<td>Thailand - China</td>
<td>10</td>
<td>3.3%</td>
</tr>
</tbody>
</table>

Source: IATA/Tourism Economics Air Passenger Forecasts, April 2016
Significant change in the top-10 over the next 20 years

Source: IATA/Tourism Economics Air Passenger Forecasts, April 2016
Main drivers measured by exports and imports as a proportion of 2014-2034 and its propensity to travel. We therefore include Oxford Economics' forecasts of trade.

<table>
<thead>
<tr>
<th>Country</th>
<th>Trade 20 year</th>
<th>Change in passenger numbers, 2014-2034</th>
<th>Decomposition of growth, 2014-2034</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canada</td>
<td>5.7%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ireland</td>
<td>2.5%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Jamaica</td>
<td>9,557</td>
<td></td>
<td></td>
</tr>
<tr>
<td>France</td>
<td>5,836</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Colombia</td>
<td>8,369</td>
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<tr>
<td>Dominican Republic</td>
<td>23,733</td>
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<tr>
<td>Brazil</td>
<td>438,252</td>
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<td></td>
</tr>
<tr>
<td>Australia</td>
<td>4.0%</td>
<td></td>
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<tr>
<td>Japan</td>
<td>3.1%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>UK</td>
<td>2.6%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mexico</td>
<td>4.5%</td>
<td></td>
<td></td>
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<tr>
<td>Canada - Domestic</td>
<td>3,053</td>
<td></td>
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<tr>
<td>US Domestic</td>
<td>10,997</td>
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<tr>
<td>China</td>
<td>5,659</td>
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<tr>
<td>India</td>
<td>4,865</td>
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<td>UK</td>
<td>6,698</td>
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<td>Japan</td>
<td>7,166</td>
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<td>China</td>
<td>9,726</td>
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<td>6,982</td>
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<td>Mexico</td>
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<tr>
<td>Australia</td>
<td>11,739</td>
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<tr>
<td>US Domestic</td>
<td>13,975</td>
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<tr>
<td>China</td>
<td>12,358</td>
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<tr>
<td>India</td>
<td>11,485</td>
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<td>UK</td>
<td>26,145</td>
<td></td>
<td></td>
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<tr>
<td>Japan</td>
<td>39,084</td>
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</tr>
</tbody>
</table>

The largest riser in the 20 year period is forecast to be India rising 5 places to be ranked 6th largest market in 2034.

The United States domestic market is ranked 1st in 2014, and is forecast to remain as the largest market in 2034; taking 70.6% of the total market in 2034, down from 76.5% in 2014.

Improvements in living standards contribute 1.4 percentage points to annual growth. This puts the United States in the 28th percentile of fastest growing markets in our forecast during the period 2014-2034.

The United States air passenger market is forecast to grow at an average annual growth rate of 3.2% per annum over the next 20 years.

Price and liberalisation headwinds.

Market growth in countries whose populations are projected to age considerably over the coming 20 years is likely to face demographic structures; given that older people tend to fly less often than people in working age groups, air travel in the future. This will depend on changes in total population sizes over time as well as changes in relationship between the number of trips taken on average by inhabitants of a country each year and that country's output produced in an economy each year divided by its population). The living standards channel captures the clear relationship between the number of trips taken on average by inhabitants of a country each year and that country's output produced in an economy each year divided by its population.
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