Air travel markets over the next two decades

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We’ve enjoyed a long period of above-trend air travel growth

Growth in worldwide RPKs

Source: IATA using data from IATA Statistics
With emerging air passenger markets catching up fast

% of total O-D journeys (12m rolling sum)

Within developed markets

Within emerging markets

Between developed and emerging markets

Source: IATA using data from PaxIS+
But 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

Source: IATA Economics using Markit data
World awash with savings and short of investment

US 10 year Treasury yield and 10 year TIPS real yield

10-year Treasury yield
10-year TIPS real yield

Source: IATA using data from Haver
Central banks continue to print money

Source: IATA using data from Haver
Asset price valuations back to pre-GFC levels or more

US Treasury yields, house prices and equity values

- US house prices
- Cyclically-adjusted equity PE ratio
- US 10-year Treasury yield

Source: IATA using data from Haver
The world has a debt problem, again

Outstanding debt of non-financial sector, % of GDP

Developed economies

Developing economies

Source: IATA using data from BIS
Donald Trump Vows to Rip Up Trade Deals and Confront China

The New York Times
28 June 2016

Across Europe, distrust of mainstream political parties is on the rise

Guardian
25 May 2016

Clamour for trade protectionism on rise:
Arun Jaitley

CNBC
13 October 2016
Air passenger markets expand substantially under most scenarios

Source: IATA using data from TE/IATA Air Passenger Forecasts, October 2016
Centre of growth shifting East and South

Source: IATA using data from TE/IATA Air Passenger Forecasts, October 2016
Centre of gravity shifting East

Source: IATA using data from TE/IATA Air Passenger Forecasts, October 2016
Varying catch-up in living standards

Growth in per capita incomes over the long run

% CAGR (2015-2035)

Source: IATA using data from TE/IATA Air Passenger Forecasts, October 2016

India 4.8%  China 4.7%  Indonesia 3.9%  Turkey 2.5%  Russia 1.5%  Mexico 1.4%  Brazil 1.3%  United Kingdom 1.2%  United States 0.9%  Germany 0.8%  Canada 0.8%  France 0.8%  Japan 0.7%  Italy 0.7%
Which drives frequency of trips

Source: IATA using data from TE/IATA Air Passenger Forecasts, October 2016
Emerging economies’ middle income households catching up

% of total

Middle-class households

Source: IATA using data from TE/IATA Air Passenger Forecasts, October 2016
Very different demographics

The UN's projected change in population (2015-2035, %)
UN projections adjusted for demographic factors

Source: IATA using data from TE/IATA Air Passenger Forecasts, October 2016
New top international country-pair markets emerging

Source: IATA using data from TE/IATA Air Passenger Forecasts, October 2016
Largest increment to passenger numbers on domestic markets

Source: IATA using data from TE/IATA Air Passenger Forecasts, October 2016

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

Corresponding CAGR

- China: 5.2%
- United States: 2.6%
- India: 6.7%
- Indonesia: 3.5%
- Vietnam: 8.2%
- Turkey: 5.2%
- Brazil: 2.6%
- Philippines: 6.0%
- Australia: 3.0%
- Mexico: 4.2%
Rise of Asian domestic markets

Top domestic passenger markets, ranked by passenger numbers

US 1
China 2
Japan 3
Indonesia 4
Brazil 5
India 6
Australia 7
Russia 8
Turkey 9
Canada 10

2015 2017 2019 2021 2023 2025 2027 2029 2031 2033 2035

Source: IATA using data from TE/IATA Air Passenger Forecasts, September 2016
Favourable population and demographic factors are forecast to contribute 0.8 percentage points to annual growth.

Improvements in living standards contribute 1.4 percentage points to annual growth.

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, which is slightly lower than the long-term average of 3.7% per annum over the period 1990-2013. This puts the United States in the 28th percentile of fastest growing markets in our forecast during the period 2014-2034.

The United States is forecast to gain an additional 559 million passengers by 2034, compared to 2014. Trade flows will continue to increase at an average annual growth rate of 2.0% per annum over the period 2014-2034, which is slightly higher than the long-term average of 1.8% per annum over the period 1990-2013. This is largely due to the impact of the tariff agreement between the United States and Japan in 2014.

Other factors, mainly future technological gains, will contribute 0.8 percentage points per year.

Whilst the United States is in the 28th percentile in terms of fastest growing markets over the next 20 years, it is forecast to be ranked as the 2nd largest market based on the total number of passengers in 2034. The United States domestic market is the largest market in 2014; the 2nd largest market is Canada, accounting for 3% of total passengers which is forecast to rise marginally to 3.6% by 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.

Other factors propel US growth:

- 0.8% of growth is attributed to favourable population and demographic factors.
- 1.4% of growth is attributed to improvements in living standards.
- 0.8% of growth is attributed to future technological gains.
- 1.3% of growth is attributed to the introduction of new longer size aircraft.
- 0.8% of growth is attributed to reductions in travel times in the future.
- 1.3% of growth is attributed to US growth in countries for whom the United States is a very important export market.
- 0.8% of growth is attributed to US growth in countries whose populations are projected to age considerably over the coming 20 years.
- 0.8% of growth is attributed to US growth in countries that are facing strong headwinds in the period 2014-2034.

While the biggest faller in the period 2014-2034 is forecast to be Australia falling 6 places to be ranked 22nd largest market in 2034, 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 biggest three markets in 2014 are the US Domestic, Canada and Mexico, while in 2034 they are forecast to become the US Domestic, Mexico and Canada respectively.

In 2014, passengers will make up 68.6% of total growth, equal to 100 million additional passengers.

Foreign passengers will contribute less to overall growth, representing 31.4% of total growth, equal to 175 million adittional passengers.

The explanation for the reduction in the proportion of growth accounted for by passengers can be decomposed into four factors:

1. Favourable population and demographic factors: 0.8% of growth.
2. Improvements in living standards: 1.4% of growth.
3. Future technological gains: 0.8% of growth.
4. Reductions in travel times in the future: 0.8% of growth.

This puts the United States in the 28th percentile of fastest growing markets in our forecast during the period 2014-2034.
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