One of the best known rules of thumb in the industry is that linking growth in industry-wide passenger traffic to growth in global economic activity. On average over the past 30 years or so, global revenue passenger kilometres (RPK) have grown around 1.7 times faster than global GDP each year.

Applying this rule to the IMF’s latest economic forecasts, which were released this week, implies RPK growth of around 6.3% in 2019. However, as we have noted before, while the rudimentary rule of thumb works well as an average over time, it is subject to significant errors from year to year. These can come through two channels: errors that the IMF makes in its GDP forecasts one year ahead – most notably around the time of the global financial crisis a decade ago, for example – as well as from unforeseen events that affect aviation more than economic activity (eg, SARS in 2003).

This week’s chart illustrates the uncertainty associated with using the rule of thumb to predict RPK growth next year, based on the distribution of the past errors of following this approach. The darkest shaded area of the fan indicates that 30% of the time you can expect to see RPK growth come in pretty close to what the rule predicts – in our case between 5.5% and 7.1% next year.

However, the widening in the fan highlights the limits of what we can say with any certainty about where growth may end up. Indeed, based on past performance, nine times out of ten RPK growth is likely to be between 0% and 8.5% next year – a very wide range. Moreover, the fact that the fan is wider at the bottom shows that you are more likely to overestimate RPK growth using this approach than underestimate it. This simply reflects the fact that unforeseen downward shocks to air passenger traffic have tended to have bigger impacts on RPK growth than upside surprises.

The fan shows the range of outcomes that you would expect to see in 2019 if you applied the standard GDP multiplier approach to predict RPK growth using the IMF’s latest economic forecasts.

Source: IATA Economics

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