



# AIR PASSENGER MARKET ANALYSIS December 2017

## 2017: above-trend air passenger growth and a record load factor

- Global revenue passenger kilometres (RPKs) increased by 7.6% year-on-year in 2017 as a whole – another year of above-trend growth, well ahead of the ten-year average pace (5.5%).
- RPKs are carrying solid momentum into 2018, alongside buoyant global economic conditions. Nonetheless, we expect a moderate slowdown in full-year growth in 2018, as the stimulus to demand from lower airfares fades.
- The industry-wide load factor increased by 0.9% in 2017, taking it to a record calendar-year high of 81.4%.
- India posted the fastest domestic RPK growth for the 3rd year in a row, driven by economic and network expansion.

### Stronger economic activity supports 2017 demand

Industry-wide revenue passenger kilometres (RPKs) grew by 7.6% year-on-year in 2017 as a whole. This was another year of above-trend passenger growth, well ahead of the ten-year average pace (5.5%).

Passenger growth in 2017 was supported by a broad-based pick-up in global economic conditions as well as stimulus from lower airfares (mainly earlier in the year). Lower fares have provided a strong tailwind to passenger demand since late-2014, and have helped to drive the RPK/GDP multiplier above its long-run median level for three years in a row. (See Chart 1.)

### RPKs are carrying solid momentum into 2018

Global passenger traffic is carrying solid momentum into 2018. (See Chart 2.) Admittedly, year-on-year passenger growth slowed to 6.2% in December – its

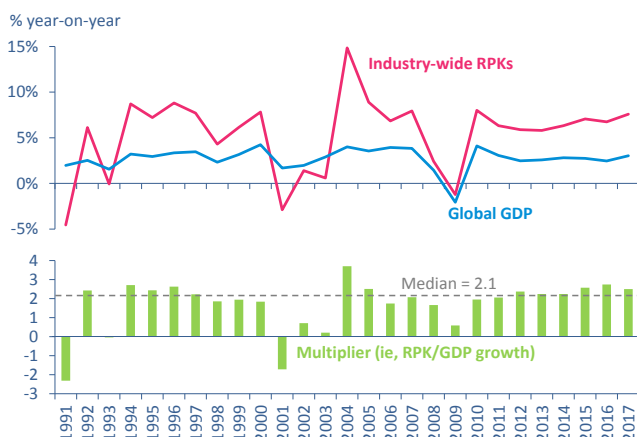
slowest rate in three months. However, this slowdown mostly stemmed from the comparison with the double-digit annualized growth trend seen in traffic seen during the final quarter of 2016.

### Modest slowdown in RPK growth forecast in 2018

We forecast 2018 to be another year of above-trend growth for industry-wide RPKs, driven by the ongoing supportive economic backdrop: the composite Purchasing Managers' Index (PMI) – a measure of global business confidence, which has proved to be a useful leading indicator of air passenger demand growth in the past – ended 2017 at its highest level in almost three years. It is currently consistent with year-on-year RPK growth in the region of 7.5-8% during early-2018. (See Chart 3, overleaf.)

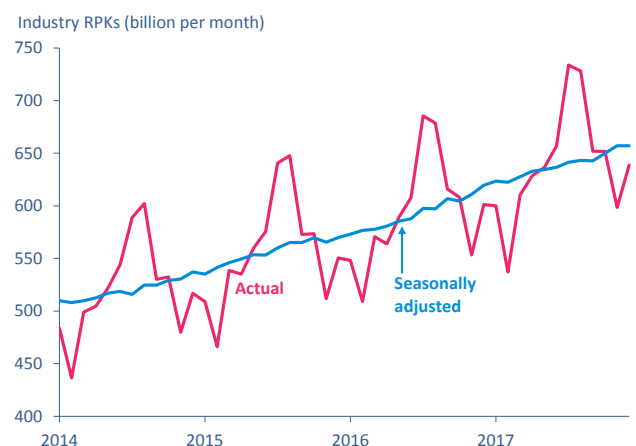
That said, full-year RPK growth in 2018 is forecast to be slightly slower than that seen in 2017. This is mainly

**Chart 1 – Industry-wide RPK vs. global GDP growth**



Sources: IATA Monthly Statistics, IMF

**Chart 2 – Air passenger volumes**



Sources: IATA Economics, IATA Monthly Statistics

### Air passenger market overview - December 2017

	World share <sup>1</sup>	December 2017 (% year-on-year)				2017 calendar year (% year-on-year)			
		RPK	ASK	PLF (%-pt) <sup>2</sup>	PLF (level) <sup>3</sup>	RPK	ASK	PLF (%-pt) <sup>2</sup>	PLF (level) <sup>3</sup>
<b>TOTAL MARKET</b>	<b>100.0%</b>	<b>6.2%</b>	<b>5.8%</b>	<b>0.3%</b>	<b>80.7%</b>	<b>7.6%</b>	<b>6.3%</b>	<b>0.9%</b>	<b>81.4%</b>
International	63.8%	6.0%	5.8%	0.1%	80.0%	7.9%	6.4%	1.1%	80.6%
Domestic	36.2%	6.7%	5.8%	0.6%	82.0%	7.0%	6.2%	0.7%	83.0%

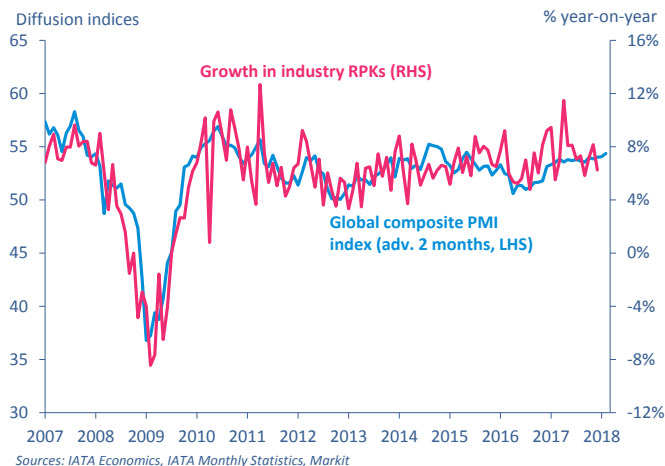
<sup>1</sup>% of industry RPKs in 2017

<sup>2</sup>Year-on-year change in load factor

<sup>3</sup>Load factor level

because increases in airline input costs – notably fuel prices but also labor costs in certain countries – mean that we are unlikely to see the same degree of demand stimulation from lower airfares in 2018 than we have in recent years.

**Chart 3 – Air passenger volume growth and global composite business confidence measure**



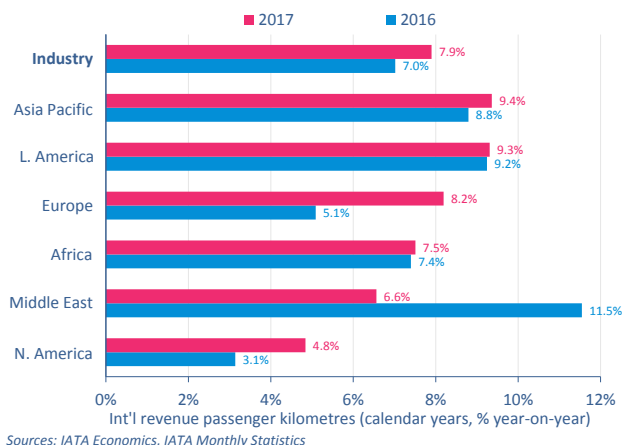
**SA load factor posts a record full-year high**

Industry-wide available seat kilometres (ASKs) increased by 6.3% in 2017 compared to 2016. As a result, the passenger load factor increased by 0.9 percentage points compared to the previous year, taking it to a record high for a calendar year (81.4%).

**Int'l RPK growth rose in most regions in 2017**

International RPKs grew by 7.9% in 2017 compared to the previous year. (See Chart 4.)

**Chart 4 – International passenger traffic growth by airline region of registration**



**Asia-Pac airlines post the fastest int'l growth...**

Airlines based in Asia Pacific posted the fastest full-year international RPK growth rate for the first time since 1994 (9.4%, up from 8.8% in 2016).

Passenger volumes trended upwards strongly in SA terms over the course of the year, driven by robust regional economic growth and ongoing expansion in the number of options for travelers.

**...just ahead of carriers based in Latin America**

Latin American airlines posted a similar pace of growth (9.3% – its fastest full-year rate since 2011). That said, the upward trend in SA passenger volumes weakened towards the end of the year, partly reflecting disruption caused by the harsh hurricane 2017 season. SA RPK volumes in December were broadly unchanged from their July 2017 level.

**Robust growth for European airlines in 2017...**

European airlines flew 8.2% more international RPKs in 2017 than they did in the previous year. The result was partly flattered by the inclusion of the weak terrorism-affected period in H1 2016 in the annual comparison. Nonetheless, traffic in SA terms is trending upwards at a robust 6% annualized rate going into 2018, underpinned by buoyant economic conditions in the region.

**...alongside a similar picture for African airlines**

International RPKs flown by carriers based in Africa grew by 7.5% in 2017 relative to 2016. The result was set against a mixed economic backdrop for the region's largest economies: activity in Nigeria returned to growth, helped by recent rises in oil prices, although political uncertainty took a toll in South Africa; economic indicators in that country are still consistent with *falling* economic output.

**RPK trend has flattened for N. American airlines**

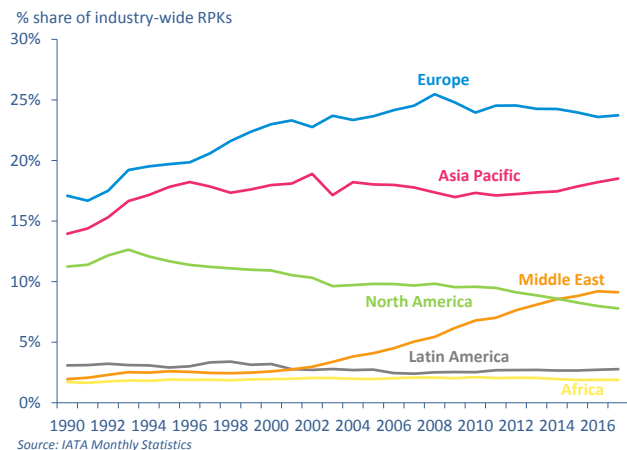
In keeping with the picture elsewhere, North American airlines posted their fastest full-year of international RPK growth since 2011 (4.8%). As in Latin America, disruption caused by the 2017 hurricane season contributed to traffic trending sideways in SA terms since August. The comparatively robust economic backdrop is helping to support outbound passenger demand, but this has been offset in part by a negative impact on inbound travel to the US.

**Market share of Middle Eastern airlines falls for the first time since 1997**

The Middle East was the only region to see a slowdown in its full-year international RPK growth rate in 2017 (to 6.6%, from 11.5% in 2016). The region's share of global traffic fell for the first time in 20 years. (See Chart 5, overleaf.)

Airlines based in the region faced a challenging first half of the year, although it is worth noting that the SA trend in international RPKs recovered somewhat during the second half. The market segment to and from North America was hit the hardest in 2017, having faced headwinds including the now-lifted ban on personal electronic devices, as well as a wider impact stemming from the proposed travel bans to the US.

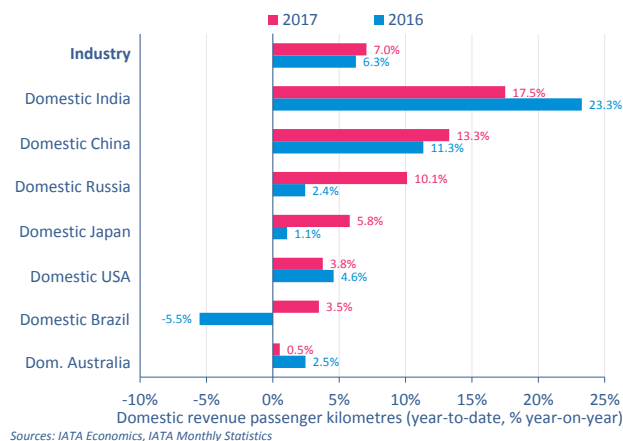
## Chart 5 – Regional shares of international RPKs



## Wide variation in domestic RPK growth in 2017

Domestic RPKs increased by 7.0% year-on-year in 2017 as a whole, although there was wide variation at a market level. (See Chart 6.)

## Chart 6 – Domestic RPK growth by market



## India and China post the fastest domestic growth

The domestic India market posted the fastest full-year growth rate for the third year in a row (17.5%), followed by China (13.3%).

As shown in Chart 7, we estimate that such growth rates were driven mainly by the comparatively strong rates of economic expansion seen in each country, as well as stimulus from additional airport pairs being offered. Such new services translate into time savings for passengers and have a similar stimulatory impact on demand as cuts in airfares.

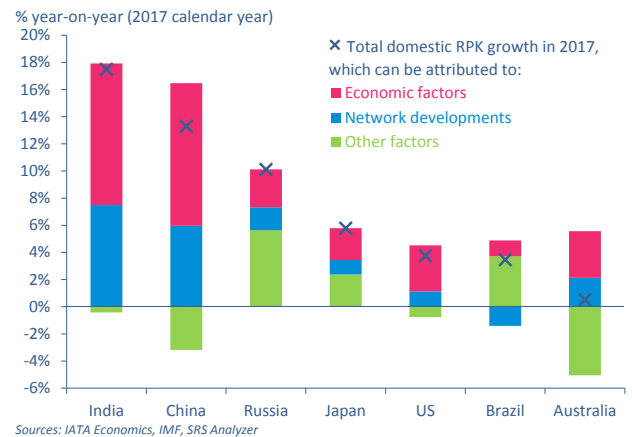
(Note that the analysis that underpins Chart 7 indicates that economic and network developments explain around three-quarters of the variation in domestic RPK growth rates over time.)

## Russia and Japan post multi-year high growth

RPK growth in the domestic Russia market accelerated to 10.1% in 2017 – its fastest rate since 2014. Around two-fifths of this pick-up can be explained by the improvement in economic conditions

seen in the country during 2017 as oil prices increased, as well as by network growth. However, a large part of the strong full-year growth rate reflects continued catch-up following the collapse of Transaero in late-2015: the SA RPK level finally regained its pre-collapse trend during the year.

## Chart 7 – Estimated drivers of domestic RPK growth



Meanwhile, domestic Japan RPKs posted their fastest full-year of growth since 2013 (5.8%), driven in part by the stronger economic backdrop in the country; indeed, the Japanese economy is currently enjoying its longest stretch of growth since at least 1994.

## Robust economic growth is propelling US RPKs

Year-on-year growth in the US market matched its five-year average pace (3.8%) in 2017, although this represented a modest slowdown from 4.6% in the previous year. Our estimates show that the solid performance in domestic RPKs was driven entirely by the comparatively strong economic backdrop. (Again, see Chart 7.) The potential boost to activity from the recently agreed tax package may be a further positive in this regard.

## A return to growth for domestic Brazil RPKs

Having fallen by 5.5% in 2016, domestic Brazil RPKs returned to growth last year (3.5%) in line with a muted recovery in the economic backdrop. Indeed, the return to passenger growth came in spite of a 4.5% reduction in the number of domestic airport-pairs in operation.

Domestic Australia RPKs grew by just 0.5% year-on-year in 2017. Nonetheless, SA traffic made a strong finish to the year, rising at an annualized rate of around 7% in Q4. This will provide a helpful starting point for year-on-year growth rates in early-2018.

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 1st February 2018

## Air passenger market detail - December 2017

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<b>TOTAL MARKET</b>	<b>100.0%</b>	<b>6.2%</b>	<b>5.8%</b>	<b>0.3%</b>	<b>80.7%</b>	<b>7.6%</b>	<b>6.3%</b>	<b>0.9%</b>	<b>81.4%</b>
Africa	2.2%	3.4%	2.6%	0.6%	72.1%	6.3%	2.9%	2.3%	70.9%
Asia Pacific	33.7%	9.1%	8.3%	0.6%	81.1%	10.1%	8.4%	1.3%	81.0%
Europe	26.5%	6.1%	4.4%	1.3%	81.5%	8.2%	6.2%	1.5%	83.9%
Latin America	5.2%	5.4%	5.0%	0.3%	81.5%	7.0%	5.5%	1.2%	81.8%
Middle East	9.5%	3.4%	5.7%	-1.7%	75.5%	6.4%	6.5%	-0.1%	74.5%
North America	23.0%	4.0%	4.2%	-0.2%	82.7%	4.2%	4.1%	0.1%	83.6%
<b>International</b>	<b>63.8%</b>	<b>6.0%</b>	<b>5.8%</b>	<b>0.1%</b>	<b>80.0%</b>	<b>7.9%</b>	<b>6.4%</b>	<b>1.1%</b>	<b>80.6%</b>
Africa	1.9%	4.9%	3.7%	0.8%	71.6%	7.5%	3.6%	2.5%	70.3%
Asia Pacific	18.5%	8.3%	8.0%	0.2%	80.4%	9.4%	7.9%	1.1%	79.6%
Europe	23.7%	5.7%	4.4%	1.1%	82.1%	8.2%	6.1%	1.6%	84.4%
Latin America	2.8%	7.4%	7.6%	-0.2%	80.8%	9.3%	8.0%	1.0%	82.1%
Middle East	9.1%	3.4%	5.7%	-1.6%	76.0%	6.6%	6.4%	0.1%	74.7%
North America	7.8%	4.1%	4.5%	-0.3%	81.3%	4.8%	4.5%	0.3%	81.7%
<b>Domestic</b>	<b>36.2%</b>	<b>6.7%</b>	<b>5.8%</b>	<b>0.6%</b>	<b>82.0%</b>	<b>7.0%</b>	<b>6.2%</b>	<b>0.7%</b>	<b>83.0%</b>
Dom. Australia <sup>4</sup>	0.9%	2.8%	-0.2%	2.3%	81.0%	0.5%	-1.6%	1.7%	78.6%
Domestic Brazil <sup>4</sup>	1.2%	5.4%	3.3%	1.7%	83.0%	3.5%	1.7%	1.4%	81.5%
Dom. China P.R. <sup>4</sup>	9.1%	13.5%	11.8%	1.3%	82.5%	13.3%	11.6%	1.3%	84.4%
Domestic India <sup>4</sup>	1.4%	17.4%	16.4%	0.7%	89.3%	17.5%	14.9%	1.9%	85.7%
Domestic Japan <sup>4</sup>	1.1%	2.1%	1.8%	0.2%	67.6%	5.8%	1.3%	3.1%	71.7%
Dom. Russian Fed. <sup>4</sup>	1.4%	8.6%	2.5%	4.4%	78.4%	10.1%	9.2%	0.6%	81.0%
Domestic US <sup>4</sup>	14.5%	3.9%	4.1%	-0.2%	83.5%	3.8%	3.8%	0.0%	84.8%

<sup>1</sup>% of industry RPKs in 2017      <sup>2</sup>Year-on-year change in load factor      <sup>3</sup>Load factor level

<sup>4</sup>Note: the seven domestic passenger markets for which broken-down data are available account for 30% of global total RPKs and approximately 82% of total domestic RPKs

**Note:** the total industry and regional growth rates are based on a constant sample of airlines combining reported data and estimates for missing observations. Airline traffic is allocated according to the region in which the carrier is registered; it should not be considered as regional traffic.

Further details about the statistics in this publication can be found [here](#).

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