



AIR PASSENGER MARKET ANALYSIS **December 2018**

Robust passenger demand and a record load factor in 2018

- Industry-wide revenue passenger kilometers (RPKs) grew by a robust 6.5% in 2018 as a whole, slightly below the 8.0% rate of 2017.
- Capacity grew at a slower pace than traffic in 2018 and the passenger load factor increased to a record high of 81.9%.
- Although passenger demand has moderated, 2019 is still looking robust in the face of economic uncertainty.

Modest slowdown in passenger demand in 2018

Industry-wide revenue passenger kilometers (RPKs) rose by 6.5% in 2018 as a whole. While this was another year of above trend growth, the pace was slower compared to 2017 (8.0%).

The moderation in traffic came alongside growing signs of slowing global economic expansion in the second half of 2018. Indeed, passenger volumes have grown at a 5% annualized pace over the course of H2 2018 compared to around 9% earlier in the year. On top of that, while lower average airfares still provided support to RPKs during 2018, the impetus was not as strong as in the previous years.

Ongoing uncertainty about global geopolitical developments and issues such as Brexit and rising US-China trade tensions contributed to the RPK/GDP multiplier returning to its long-run median level for the first time since 2011 (see Chart 1.)

Global passenger traffic is carrying solid momentum into 2019. Nonetheless, the softening in the upward traffic trend over the past six months, has seen year-on-year passenger growth moderating to 5.3% in December – the slowest pace since January 2018.

Solid growth in RPKs expected for 2019

Our current forecast is for passenger demand to rise by 6.0% in 2019, marking the tenth consecutive year of above trend growth in RPKs. The outlook is being supported by forecasts of a still relatively sound global economy. That said, the slower rate of RPK growth in the second half of last year and the increasing uncertainty about global economic conditions in 2019 pose downside risks to the passenger demand growth forecast in the upcoming year.

Indeed, the global composite Purchasing Manager's Index – a measure of global business confidence, which has proved to be a useful leading indicator of air

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

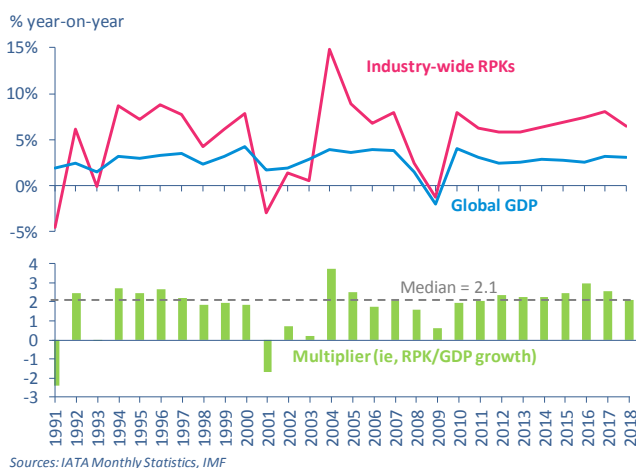
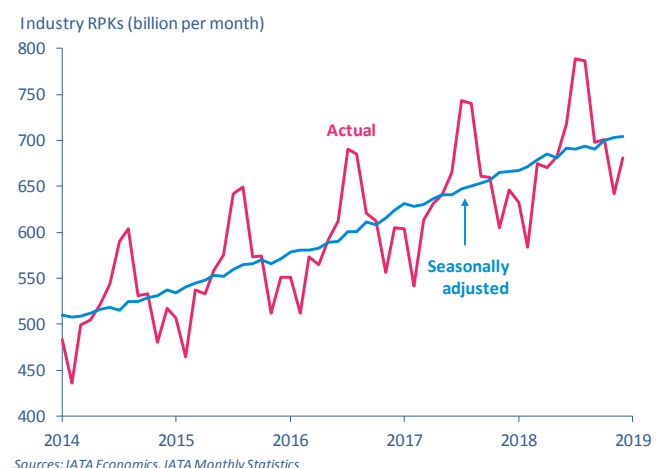


Chart 2 – Air passenger volumes



Air passenger market overview - December 2018

	World	December 2018 (% year-on-year)				2018 calendar year (% year-on-year)			
	share ¹	RPK	ASK	PLF (%-pt) ²	PLF (level) ³	RPK	ASK	PLF (%-pt) ²	PLF (level) ³
TOTAL MARKET	100.0%	5.3%	6.1%	-0.6%	80.4%	6.5%	6.1%	0.3%	81.9%
International	64.0%	5.5%	6.1%	-0.4%	79.9%	6.3%	5.7%	0.4%	81.2%
Domestic	36.0%	5.0%	6.3%	-0.9%	81.2%	7.0%	6.8%	0.2%	83.0%

¹% of industry RPKs in 2018

²Year-on-year change in load factor

³Load factor level

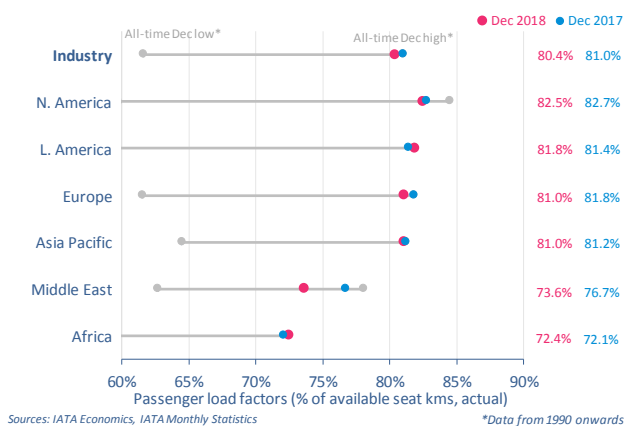
passenger demand in the past – ended last year at its lowest level in around two and a half years. Although the result still remains consistent with RPKs sustaining its current growth pace, it provides an indication that there is little upside to growth in the near term.

Load factor reaches a new record high in 2018

During 2018, capacity (available seat kilometers – ASKs) grew at a slower rate than traffic, leading to a rise in the industry-wide passenger load factor (PLF). ASKs increased by 6.1% compared to 2017 and the PLF reached a record high of 81.9%, up from 81.5% in 2017.

That said, December saw a modest fall in the industry-wide PLF. The performance across regions was mixed compared to the same period a year ago (see Chart 3).

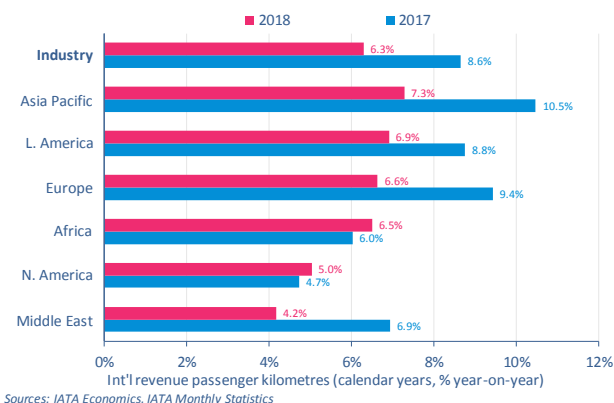
Chart 3 – Passenger load factors by region



International RPK growth softens in most regions

International RPK growth eased to 6.3% year-on-year in 2018 as a whole, down from 8.6% in 2017 (see Chart 4). At the regional level, the growth performance moderated across all markets with the exception of Africa and North America compared to 2017.

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



Asia Pacific tops the annual growth chart again...

Airlines based in Asia Pacific reported the fastest annual international RPK growth rate for the second

consecutive year (7.3%). That said, the pace eased from its double-digit rate of 10.5% in 2017.

Passenger volumes trended upwards in SA terms during most of 2018, with a minor setback in September caused by typhoons – we previously estimated that the net impact of weather disruptions subtracted 0.3-0.6pp from annual international RPK growth in September for the carriers in the region ([link](#)).

...followed by carriers based in Latin America

Latin American airlines showed similar growth (6.9%) over the course of 2018, a modest slowdown from 8.8% in 2017. In SA terms, passenger volumes trended upwards at a softer pace than in the previous year, affected by disruptions from the general strikes in Brazil in the middle of the year as well as by political and economic developments in a number of the region's key economies.

Growth in Europe slows amid economic uncertainty in the region

In Europe, international RPK volumes increased by 6.6% in 2018 as a whole, down from a brisk 9.4% in 2017. Although the region had the fastest growing passenger demand of all in December, up 8.0% year-on-year, traffic in SA terms has softened a little in recent months. In part this likely reflects growing uncertainty over the economic backdrop, including a lack of clarity regarding Brexit.

Africa's demand performs better than in 2017...

Africa was one of the two regions (along with North America) that posted an increase in annual international RPK growth compared to 2017 (6.5% vs 6.0%). This came despite the mixed economic backdrop for the region's largest economies over the course of 2018. That said, the upward trend in regional passenger demand softened to 4.9% year-on-year in end-2018, from 5.7% in November.

...matching the performance of North America

North American airlines recorded their fastest annual international RPK growth since 2011 (5.0%). However, while the first two months of Q4 marked robust year-on-year growth in international RPKs (~6%), the pace almost halved to 3.6%yoy in December. Although economic outcomes remain sound, we note some increasing concerns about the outlook for the US economy, including trade tensions with China.

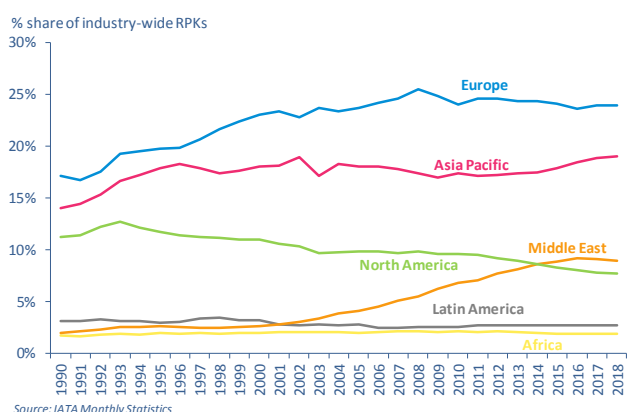
Middle East share of global traffic falls again...

Carriers based in the Middle East saw a slowdown in their full-year international RPK growth rate in 2018 (to 4.2%, from 6.9% in 2017). On top of that, the region's share of global traffic fell for the second consecutive

year, following a period of strong gains over the previous two decades.

Annual growth in international RPKs in the Middle East was volatile over the course of the year, reflecting the impact of number of policy measures and geopolitical tensions in recent years, including the ban on portable electronic devices and travel restrictions. In December, the region's airlines posted a negative annual international RPK growth rate (-0.1%) for the first time in 2018. That said, the decline appears to reflect more standard data volatility rather than any clear shift in the long-term upward trend in demand.

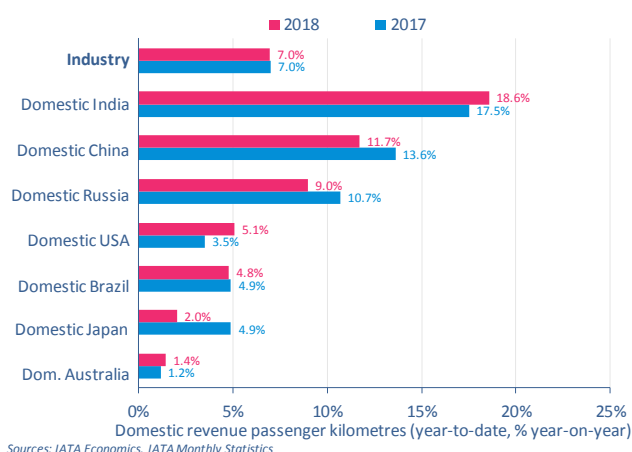
Chart 5 – Regional int'l RPKs (share of total RPKs)



Large variation in domestic RPK growth in 2018

Industry-wide domestic RPKs rose by 7% year-on-year over the course of 2018, the pace unchanged from 2017. That said, there was a wide disparity in growth at a market level.

Chart 6 – Domestic RPK growth by market



India posted the fastest domestic growth again

The India domestic market recorded the fastest full-year domestic growth rate for the fourth year in a row (18.6%) followed by China (11.7%).

In both countries, domestic demand was underpinned by a robust economic expansion as well as by increasing number of domestic pairs – particularly in

India, which recorded its 50th consecutive month of double-digit annual growth in October. In China, there have been some recent signs of slowdown in passenger demand, reflecting increasing concerns of a moderation in economic activity. However, Chinese business confidence – a leading indicator of RPK demand growth – gives reason for some optimism going forward.

Russia sustained a strong RPK upward trend...

Russian carriers saw solid growth in domestic passenger demand in 2018, flying 9.0% more RPKs on domestic routes than they did in 2017. Traffic has been trending upwards sharply in SA terms over H2 2018, notwithstanding a softer demand outcome in December.

...along with solid growth in the US and Brazil

Domestic US RPKs grew by a solid 5.1% in 2018. Strong momentum in the US economy has supported domestic passenger growth in recent years. Nonetheless, the upward trend in SA traffic has moderated since the middle of the year, partly reflecting the concerns noted previously.

Domestic demand in Brazil grew 4.8% in 2018 as a whole, in line with the 4.9% outcome in 2017. Although the economic backdrop remains challenging, the recovery in domestic demand from the low levels throughout 2016 has continued, supported by a rising number of domestic airport-pairs in operation for the first time since 2015.

Domestic Japan RPK growth slows vs last year

The domestic Japan market saw a sizeable slowdown in full-year growth rate in 2018 to 2.0%, compared with 4.9% a year ago. Although SA domestic demand continued to trend upwards during 2018 as a whole, passenger volumes were substantially disrupted in September as a result of Typhoon Jebi which interrupted operations at Kansai airport for an extended period.

...and declines further in Australia

Domestic Australia RPKs grew by 1.4% year-on-year in 2018, a slight improvement compared to 2017. That said, annual growth in passenger demand was falling in late-2018 (-0.7% in November and -1.8% in December) compared to the same period in 2017. All told, the key takeaway is that RPKs are continuing to trend broadly sideways in SA terms at present.

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Air passenger market detail - December 2018

	World share ¹	December 2018 (% year-on-year)				2018 calendar year (% year-on-year)			
		RPK	ASK	PLF (%-pt) ²	PLF (level) ³	RPK	ASK	PLF (%-pt) ²	PLF (level) ³
TOTAL MARKET	100.0%	5.3%	6.1%	-0.6%	80.4%	6.5%	6.1%	0.3%	81.9%
Africa	2.1%	2.1%	1.6%	0.4%	72.4%	2.4%	1.0%	1.0%	71.4%
Asia Pacific	34.5%	6.4%	6.7%	-0.2%	81.0%	8.6%	7.9%	0.5%	81.5%
Europe	26.7%	7.8%	8.8%	-0.8%	81.0%	6.6%	5.8%	0.6%	84.5%
Latin America	5.1%	6.0%	5.4%	0.4%	81.8%	6.2%	6.6%	-0.3%	81.6%
Middle East	9.2%	0.0%	4.2%	-3.1%	73.6%	4.0%	4.9%	-0.6%	74.8%
North America	22.4%	3.6%	4.0%	-0.3%	82.5%	5.0%	4.7%	0.2%	83.8%
International	64.0%	5.5%	6.1%	-0.4%	79.9%	6.3%	5.7%	0.4%	81.2%
Africa	1.9%	4.9%	4.1%	0.5%	72.0%	6.5%	4.4%	1.4%	71.0%
Asia Pacific	19.0%	6.3%	5.2%	0.8%	81.6%	7.3%	6.4%	0.7%	80.6%
Europe	23.9%	8.0%	9.1%	-0.8%	81.5%	6.6%	5.9%	0.6%	85.0%
Latin America	2.7%	6.1%	6.1%	0.0%	81.0%	6.9%	7.7%	-0.6%	81.8%
Middle East	8.9%	-0.1%	4.5%	-3.4%	73.4%	4.2%	5.2%	-0.7%	74.7%
North America	7.6%	3.6%	2.7%	0.7%	81.8%	5.0%	3.7%	1.0%	82.6%
Domestic	36.0%	5.0%	6.3%	-0.9%	81.2%	7.0%	6.8%	0.2%	83.0%
Dom. Australia ⁴	0.9%	-1.8%	-0.8%	-0.8%	80.5%	1.4%	0.0%	1.1%	80.1%
Domestic Brazil ⁴	1.1%	3.4%	2.3%	0.9%	84.3%	4.8%	5.1%	-0.2%	81.3%
Dom. China P.R. ⁴	9.5%	7.3%	9.8%	-1.9%	80.8%	11.7%	12.0%	-0.2%	84.1%
Domestic India ⁴	1.6%	10.0%	16.5%	-5.0%	84.5%	18.6%	18.3%	0.2%	86.3%
Domestic Japan ⁴	1.0%	4.7%	1.9%	1.8%	68.8%	2.0%	0.8%	0.9%	71.9%
Dom. Russian Fed. ⁴	1.4%	11.4%	11.6%	-0.1%	78.8%	9.0%	6.6%	1.8%	83.4%
Domestic US ⁴	14.1%	3.8%	4.9%	-0.9%	82.8%	5.1%	5.3%	-0.2%	84.6%

¹% of industry RPKs in 2018 ²Year-on-year change in load factor ³Load factor level

⁴Note: 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.

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