



# AIR PASSENGER MARKET ANALYSIS January 2018

## Later timing of Lunar New Year visible in the January 2018 data

- Year-on-year growth in global revenue passenger kilometres (RPKs) slowed to a 46-month low of 4.6% in January 2018, but this was distorted by temporary factors including the later timing of Lunar New Year this year.
- We expect such effects to unwind next month and to see RPK growth pick up accordingly. The bigger picture is that global passenger traffic has carried solid momentum into 2018, helped by buoyant global economic conditions.
- Passenger capacity grew faster than RPKs in annual terms in January for the first time in 15 months.
- Domestic India RPKs posted their 41<sup>st</sup> consecutive month of double-digit year-on-year growth in January.

### Slowest annual RPK growth since March 2014...

Year-on-year growth in industry-wide revenue passenger kilometres (RPKs) slowed to 4.6% in January 2018, down from 6.4% in December.

This was the slowest annual RPK growth rate in almost four years. However, growth was distorted by the comparison with the strong upward trend in traffic seen during Q4 2016 and early-2017, as well as the later timing of Lunar New Year this year. We estimate that the latter effect accounts for around two-fifths of the slowdown in annual growth seen since December.

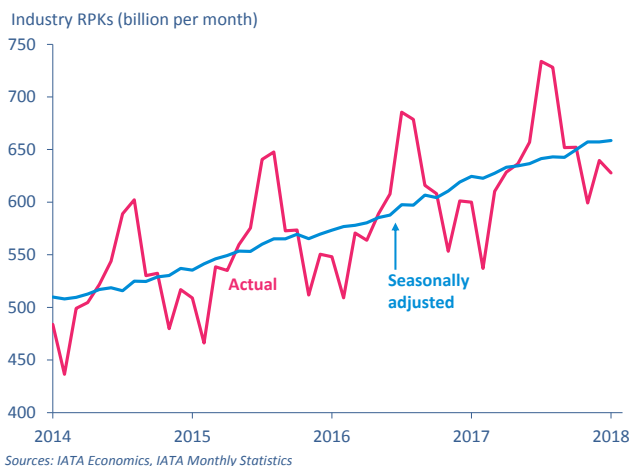
Both of these effects will ease in the coming months. Indeed, even if passenger traffic was unchanged in seasonally adjusted (SA) month-on-month terms in February, this would still be consistent with an acceleration in the annual growth rate next month.

### ...but traffic has carried momentum into 2018

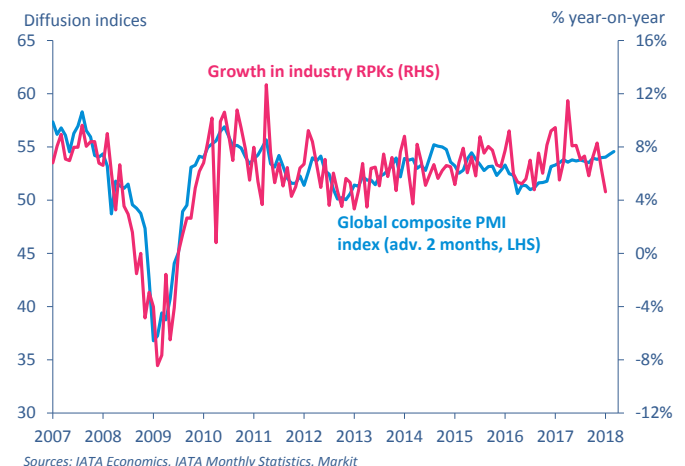
In any case, the bigger picture is that global passenger traffic has carried solid momentum into 2018. (See Chart 1.) Passenger volumes are currently trending upwards at a 5.5-6% annualized rate – slower than the full-year pace of growth seen last year but broadly in line with the ten-year average pace.

This is continuing to be supported by the robust global economic backdrop. The composite Purchasing Managers' Index (PMI) – a measure of global business confidence that has proved to be a useful leading indicator of air passenger demand growth in the past – has remained at or around a three-year high in recent months. It is currently at a level that is usually consistent with year-on-year RPK growth in the region of 7.5-8%. (See Chart 2.)

**Chart 1 – Air passenger volumes**



**Chart 2 – Air passenger volume growth and global composite business confidence measure**



### Air passenger market overview - January 2018

	World share <sup>1</sup>	January 2018 (% 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>4.6%</b>	<b>5.3%</b>	<b>-0.5%</b>	<b>79.6%</b>	<b>7.6%</b>	<b>6.4%</b>	<b>1.0%</b>	<b>81.5%</b>
International	63.8%	4.4%	5.3%	-0.7%	79.6%	7.9%	6.4%	1.1%	80.6%
Domestic	36.2%	5.1%	5.3%	-0.2%	79.8%	7.1%	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

We think it unlikely that RPK growth will be as fast as indicated by the PMI, mainly because increases in airline input costs – notably fuel prices but also labor costs in certain countries – mean that we expect to see much less stimulation from lower airfares in 2018 than we have in recent years. Indeed, we still expect full-year RPK growth in 2018 to be slightly slower from than that seen in 2017. Nonetheless, to put this into perspective, we still expect 2018 to be another year of above-trend growth for industry-wide RPKs.

### Capacity grew faster than demand in January

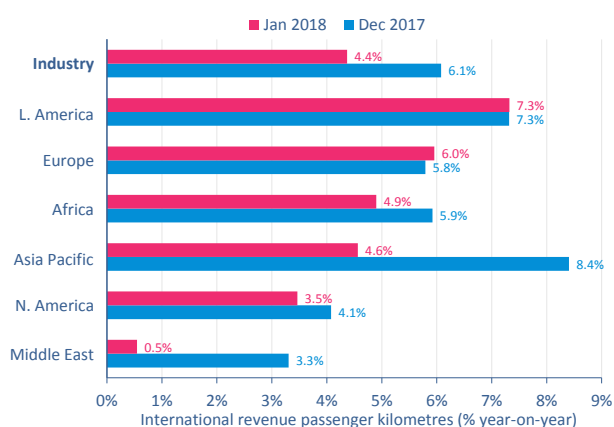
Industry-wide available seat kilometres (ASKs) increased by 5.3% year-on-year in January 2018. This was the first time in 15 months in which ASKs grew faster in year-on-year terms than RPKs. The fact that capacity growth did not slow in line with demand in January reflects the fact that aircraft schedules are generally fixed in advance for the season and are therefore usually less prone to the type of fluctuation seen in RPKs this month.

The passenger load factor fell by 0.5 percentage points relative to January 2017, taking it to 79.6%. That said, both capacity and demand are currently trending upwards in SA terms at broadly similar rates.

### International RPK growth slowed in most regions

International RPK growth slowed to 4.4% in January 2018, from 6.1% in December. (See Chart 3.)

**Chart 3 – International passenger traffic growth by airline region of registration**



### Solid upward trends for the biggest regions...

The two largest regions in terms of international RPKs flown – Asia Pacific and Europe – have both continued to see passenger traffic trend upwards solidly in SA terms into 2018.

Admittedly, year-on-year RPK growth for airlines based in Asia Pacific slowed to a 46-month low of 4.6% in January. However, this slowdown reflected similar dynamics to the global series mentioned earlier; even if Asia Pacific passenger traffic was

unchanged in SA month-on-month terms in February, we estimate that this would see the year-on-year growth rate rise by more than two percentage points next month. Traffic is being supported by robust regional economic growth and ongoing expansion in the number of options for travelers.

European airlines flew 6.0% more international RPKs in January 2018 than they did a year ago; the region was the only one to see an acceleration in the year-on-year growth rate in January. The SA upward trend in passenger traffic has strengthened over the past four months or so, alongside ongoing buoyant economic conditions in the region.

### ...and ongoing recovery for L.American carriers

International RPKs flown by Latin American airlines rose by 7.3% year-on-year in January – the same pace as seen in December. The upward trend in SA passenger volumes weakened during Q3 2017, mainly reflecting disruption caused by the harsh hurricane season. However, SA RPK volumes have recovered strongly in recent months, rising at an annualized rate of more than 13% since September. Stronger economic conditions in Europe have helped to support rising demand on the market between Europe and South America in particular.

### N. American traffic is trending sideways...

By contrast, North American RPKs have continued to trend sideways since the hurricane-related disruption last year. While international RPKs grew by 3.5% year-on-year in January, this mainly reflected gains seen in Q1 2017. The comparatively robust economic backdrop is helping to support outbound passenger demand, but this appears to be being offset in part by a negative impact on inbound travel to the US.

### ...and remains under pressure in the Middle East

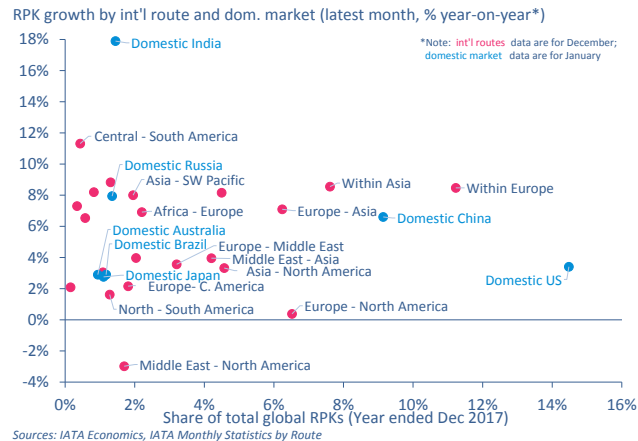
Year-on-year growth in international RPKs flown by Middle Eastern airlines fell to 0.5% in January – its slowest pace since September 2008. Having faced a challenging year in 2017, traffic is currently trending upwards at an annualized pace of around 1%. Notably, the market segment to and from North America faced numerous headwinds in 2017, including the now-lifted ban on personal electronic devices, as well as a wider impact stemming from the proposed travel bans to the US. It was the only international market that we track to see a decline in traffic in December from a year ago (-3.0%). (See Chart 4, overleaf.)

### Solid traffic trend for African airlines

International RPKs flown by carriers based in Africa grew by 4.9% year-on-year in January. The upward trend in traffic remains solid, albeit set against a

mixed economic backdrop for the region's largest economies: business confidence in Nigeria has risen sharply over the past 15 months, helped by recent rises in oil prices, but political uncertainty is continuing to take a toll on economic activity in South Africa.

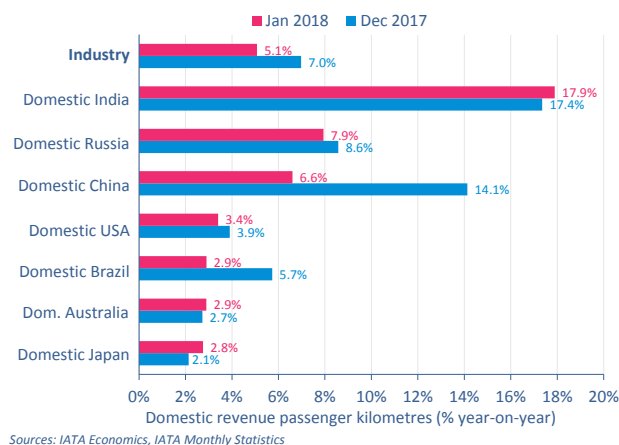
**Chart 4 – International RPK growth by route (% year-on-year)**



**Slower domestic RPK growth, driven by China**

Domestic RPKs rose by 5.1% year-on-year in January, down from 7.0% in December. (See Chart 5.) We estimate that all of this slowdown can be attributed to the later timing of Lunar New Year (LNY) in 2018 compared to last year. Year-on-year growth in domestic China RPKs slowed to 6.6% in January, from 14.1% in December. With the LNY traffic boost pushed into February this year, we expect to see a big jump in annual RPK growth next month.

**Chart 5 – Domestic RPK growth by market**



**India posted the fastest domestic growth again**

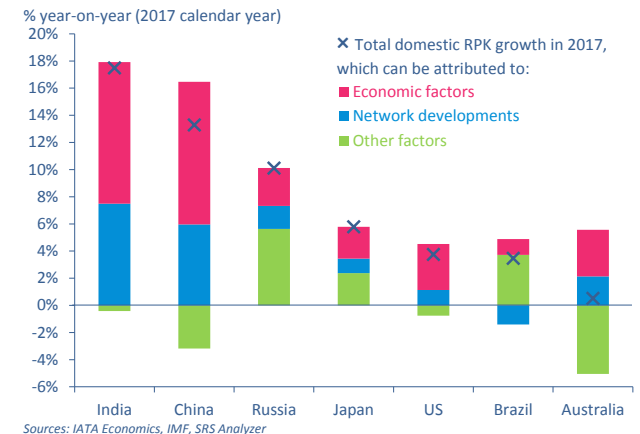
The domestic India market posted double-digit year-on-year RPK growth for the 41<sup>st</sup> month in a row. (17.9%). Growth in the India market in recent years has been driven mainly by the comparatively strong rates of economic expansion seen in the country, as well as stimulus from additional airport pairs being offered. (See Chart 6.) Such new services translate

into time savings for passengers and have a similar stimulatory impact on demand as cuts in airfares.

**Strong upward trend in domestic Russia traffic**

Domestic Russia RPKs grew by 7.9% year-on-year in January. Traffic is being supported by stronger economic conditions, helped by higher oil prices. Domestic RPKs have trended upwards at a double-digit annualized pace over the past six months or so.

**Chart 6 – Estimated drivers of domestic RPK growth**



**Robust economic activity is driving US growth**

Growth in the domestic US passenger market slowed to 3.4% year-on-year in January, although the upward trend in traffic remains solid. Our estimates indicate that the ongoing solid RPK performance is being driven in most part by the comparative strength of economic activity in the country. (Again, see Chart 6.)

**Similar growth rates in Brazil, Australia and Japan**

The domestic Brazil, Japan and Australia passenger markets all posted similar growth rates in January, between 2.8 and 2.9% year-on-year. For Australia, such growth was around twice the five-year average pace, and six times stronger than that seen in 2017. The strong finish to the year for RPKs in SA terms is likely to continue to provide a beneficial base for year-on-year growth rates over the first half of 2018.

Meanwhile, although the Japanese economy is currently enjoying its longest period of expansion in 28 years, the upward trend in domestic Japan RPKs has paused. Indeed, domestic RPKs are broadly unchanged from where they were in mid-2017. We will monitor developments closely in the coming months. Finally, while year-on-year growth in domestic Brazil RPKs slowed to an 8-month low in January (2.9%), domestic passenger traffic has continued to trend upwards modestly in line with an ongoing recovery in domestic economic conditions.

David Oxley  
 economics@iata.org  
 8<sup>th</sup> March 2018

## Air passenger market detail - January 2018

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		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>4.6%</b>	<b>5.3%</b>	<b>-0.5%</b>	<b>79.6%</b>	<b>7.6%</b>	<b>6.4%</b>	<b>1.0%</b>	<b>81.5%</b>
Africa	2.2%	2.8%	2.4%	0.2%	70.3%	6.4%	2.9%	2.3%	70.9%
Asia Pacific	33.7%	5.4%	6.6%	-0.9%	80.6%	10.2%	8.4%	1.3%	81.0%
Europe	26.5%	6.4%	5.1%	0.9%	80.0%	8.2%	6.2%	1.5%	83.9%
Latin America	5.2%	5.0%	5.0%	-0.1%	83.2%	7.0%	5.5%	1.2%	81.8%
Middle East	9.5%	0.8%	4.5%	-2.8%	76.6%	6.4%	6.5%	-0.1%	74.6%
North America	23.0%	3.5%	4.2%	-0.5%	79.3%	4.2%	4.1%	0.1%	83.6%
<b>International</b>	<b>63.8%</b>	<b>4.4%</b>	<b>5.3%</b>	<b>-0.7%</b>	<b>79.6%</b>	<b>7.9%</b>	<b>6.4%</b>	<b>1.1%</b>	<b>80.6%</b>
Africa	1.9%	4.9%	4.2%	0.5%	70.3%	7.6%	3.6%	2.6%	70.3%
Asia Pacific	18.5%	4.6%	6.1%	-1.2%	80.4%	9.4%	7.9%	1.1%	79.6%
Europe	23.7%	6.0%	5.0%	0.7%	80.8%	8.2%	6.1%	1.6%	84.4%
Latin America	2.8%	7.3%	8.2%	-0.7%	82.6%	9.3%	8.0%	1.0%	82.1%
Middle East	9.1%	0.5%	4.6%	-3.1%	76.8%	6.6%	6.4%	0.1%	74.7%
North America	7.8%	3.5%	4.3%	-0.7%	79.6%	4.8%	4.5%	0.3%	81.7%
<b>Domestic</b>	<b>36.2%</b>	<b>5.1%</b>	<b>5.3%</b>	<b>-0.2%</b>	<b>79.8%</b>	<b>7.1%</b>	<b>6.2%</b>	<b>0.7%</b>	<b>83.0%</b>
Dom. Australia <sup>4</sup>	0.9%	2.9%	2.1%	0.6%	78.3%	0.5%	-1.6%	1.7%	78.6%
Domestic Brazil <sup>4</sup>	1.2%	2.9%	2.4%	0.4%	84.7%	3.5%	1.7%	1.4%	81.6%
Dom. China P.R. <sup>4</sup>	9.1%	6.6%	8.9%	-1.7%	81.4%	13.4%	11.7%	1.3%	84.4%
Domestic India <sup>4</sup>	1.4%	17.9%	16.7%	0.9%	89.1%	17.5%	14.9%	1.9%	85.7%
Domestic Japan <sup>4</sup>	1.1%	2.8%	1.5%	0.8%	66.0%	5.8%	1.3%	3.1%	71.7%
Dom. Russian Fed. <sup>4</sup>	1.3%	7.9%	2.6%	3.7%	75.2%	10.1%	9.2%	0.6%	81.0%
Domestic US <sup>4</sup>	14.5%	3.4%	4.1%	-0.5%	79.2%	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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