



AIR PASSENGER MARKET ANALYSIS

June 2018

RPK growth bounces back in June, capping a robust 1st half-year

- Industry-wide revenue passenger kilometres increased by 7.8% year-on-year in June, up from 6.0% in April.
- The first six months of the year produced growth of 7.0% – a robust, above-trend performance, but down on that of the same period in 2017. This is a pattern we continue to expect to play out over the course of the year overall.
- Carriers based in Africa and the Middle East posted the fastest international RPK growth rate this month. Of the main domestic markets, India again led the way with double-digit RPK growth for the 46th consecutive month.

A modest acceleration in RPK growth this month...

Industry-wide revenue passenger kilometres (RPKs) stepped up to a brisk 7.8% year-on-year pace in June, from an even 6.0% in both April and May.

In seasonally adjusted (SA) terms, RPKs rebounded this month, following a shortlived decline in growth last month. SA RPKs rose by a sizeable 1.4% in June - the strongest monthly rise seen in almost two years – after the 0.5% fall in May. (See Chart 1.) As we indicated last month, the monthly data can be volatile and the rebound on this occasion is unsurprising; taken together, the last two months point to a monthly growth rate that is broadly in line with the long-run average.

...although growth has moderated in 2018 so far

Looking at the first half of the year, RPKs are growing at a solid pace of 7.0%, consistent with our view that 2018 will be another year of above-trend growth for

industry-wide RPKs. Having said that, the pace of growth over the first half of the year has moderated compared with 1H 2017, where growth was running at an 8.3% pace.

This moderation in the pace of growth over the first half is in line with our expectation that RPK growth, while remaining robust, will nonetheless slow moderately in 2018 compared with the rate recorded last year.

Less stimulus from lower airfares a key factor

The moderation in demand momentum reflects the impact of a number of factors. First and foremost, the increase in airline input costs – most notably fuel prices which have risen by around 60% over the past year and are up ~125% from their low point in early-2016. The higher input costs are reducing the boost to demand from lower airfares, a key driver of the strong demand growth observed in recent years.

Chart 1 – Air passenger volumes

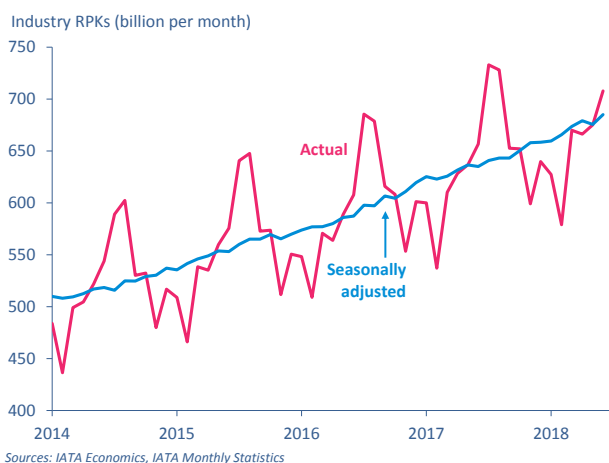
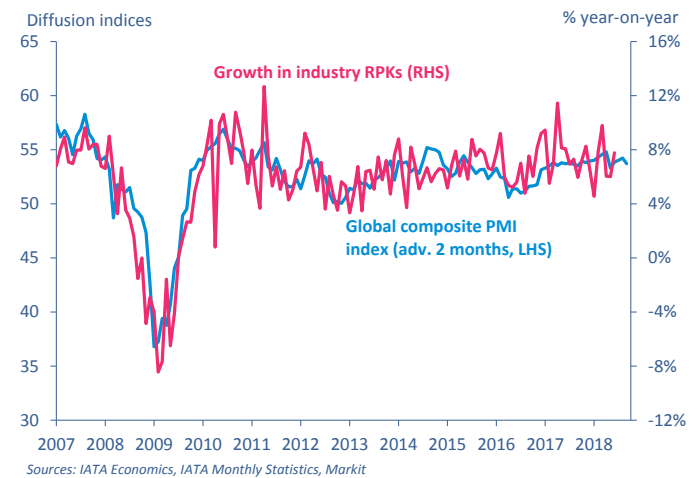


Chart 2 – Air passenger volume growth and global composite business confidence measure



Air passenger market overview - June 2018

| | World | June 2018 (% year-on-year) | | | | % year-to-date | | | |
|---------------------|--------------------|----------------------------|-------------|-------------------------|--------------------------|----------------|-------------|-------------------------|--------------------------|
| | share ¹ | RPK | ASK | PLF (%-pt) ² | PLF (level) ³ | RPK | ASK | PLF (%-pt) ² | PLF (level) ³ |
| TOTAL MARKET | 100.0% | 7.8% | 6.5% | 1.0% | 82.8% | 7.0% | 6.1% | 0.7% | 81.3% |
| International | 63.8% | 7.7% | 5.9% | 1.4% | 81.9% | 6.7% | 5.7% | 0.8% | 80.4% |
| Domestic | 36.2% | 7.9% | 7.5% | 0.3% | 84.5% | 7.5% | 6.9% | 0.5% | 82.9% |

¹ of industry RPKs in 2017

²Year-on-year change in load factor

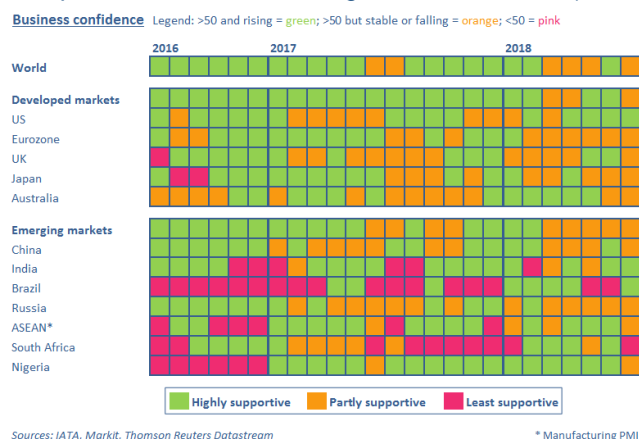
³Load factor level

In addition, businesses are generally less confident around the global economic outlook than was the case last year. Uncertainty around a possible global trade war, geopolitical tensions in various parts of the world and region-specific issues such as Brexit are weighing on business sentiment.

This uncertainty is captured in the global composite Purchasing Managers' Index (PMI) which has been shown to be reliable indicator for RPK growth. (See Chart 2, previous page.) The more mixed PMI outcomes compared with last year are consistent with a modest slowdown in annual industry-wide RPK growth over the coming months.

The moderation in economic activity has been most visible up to now in the Eurozone, but has recently spread to other large developed economies. (See Chart 3.)

Chart 3 – Economic conditions (monthly data from composite PMIs, selected regions and countries)



Passenger load factor rises vs a year ago

Year-on-year growth in industry-wide available seat kilometres (ASKs) again lagged behind that of RPKs this month (6.5% year-on-year vs 7.8%). As a result, the passenger load factor rose by an even 1.0 percentage point relative to June 2017, taking it to 82.8%. In SA terms, demand and capacity are broadly rising at similar rates at present.

Internat'l RPK growth accelerates again in June...

Year-on-year growth in industry-wide international RPKs accelerated further in June, to a brisk 7.7%, up from 5.6% in May. (See Chart 4.)

Airlines based in the Middle East and Africa topped the international RPK growth chart this month, with double-digit growth of 11.0% and 10.9% year-on-year, respectively.

...with Middle East & Africa leading the way...

For the Middle East airlines, this month's strong outturn follows a very weak result last month, which is

partly attributable to the timing of Ramadan. However, and as we noted last month, 2017 also saw demand in the region adversely impacted by a number of policy measures including the ban on portable electronic devices and travel restrictions, so part of the expected improved performance over coming months will reflect those developments of a year ago.

In Africa, the upward SA demand trend remains reasonably strong, perhaps supported in part by the continent's recent commitment to improving air connectivity. Higher oil and commodity prices have supported the economic backdrop in a number of countries, including Nigeria.

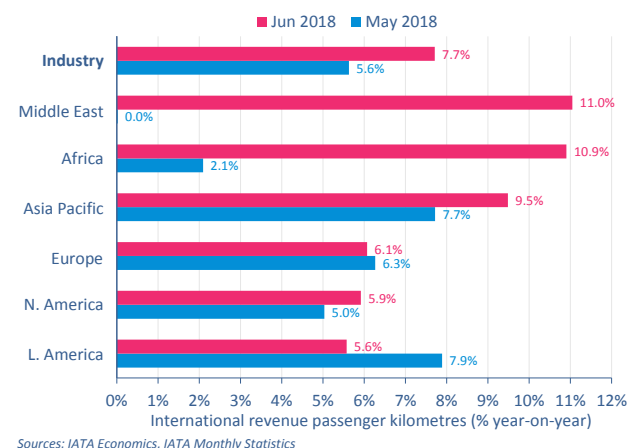
...and Asia Pacific not far behind

International RPKs for the Asia Pacific airlines grew by 9.5% year-on-year in June. Passenger traffic has continued to trend upwards strongly in SA terms supported by a combination of robust regional economic growth and ongoing increases in the number of options for travelers. The latter translates into time savings for passengers and has a similar stimulatory impact on demand as reductions in fares.

A solid performance in Europe & North America...

RPK growth in Europe and North America was broadly similar, at around 6% year-on-year. Both are being supported by a generally healthy economic backdrop – although the picture is somewhat more mixed in that regard in Europe. Overall the demand trend remains sound for both regions. That said, the possibility of further ATC strikes in Europe over the summer peak period may impact growth outcomes for that region over coming months, while the prospect of further escalation in the trade dispute could weigh upon demand for the North America carriers.

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



...but some signs of a slowing in Latin America

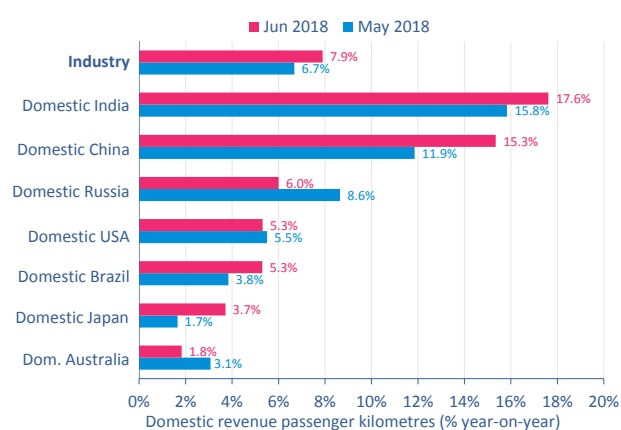
International RPKs flown by carriers based in Latin America rose by 5.6% year-on-year in June, slipping

back from a robust 7.9% pace last month. In terms of the trend in air transport demand, there are some tentative indications of a slowdown. Although we wouldn't read too much into that at this stage, given the typical volatility in the data. We are keenly watching developments in two of the region's key economies – Brazil and Argentina – which could have a bearing on the region's overall traffic performance in coming months.

Moderate acceleration in domestic RPK growth...

Annual industry-wide domestic RPK growth also accelerated in June, rising from 6.7% year-on-year in May to a 7.9% pace in June. (See Chart 5.)

Chart 5 – Domestic RPK growth by market



Sources: IATA Economics, IATA Monthly Statistics

...again driven by India and China...

As was the case with last month's short-lived RPK growth slowdown, the performance of the domestic markets of both China and India were key contributors to the lift in the overall aggregate outcome.

The India domestic market continues to lead the way, with year-on-year growth of 17.6% in June; its 46th consecutive month of double-digit growth, fast closing in on the four year milestone which would be a substantial achievement.

China's growth performance this month wasn't far behind that of India, with domestic RPKs up 15.3% on their level of a year ago.

In both cases, the very strong annual growth outcomes continue to be supported by sizeable increases in the number of airport connections within the respective countries. And although such growth rates cannot continue indefinitely, at this stage, there are few signs of any significant change in the growth performance anytime soon.

Growth eases modestly in the domestic US market

The domestic US market – the world's largest – gave up its modest gain from last month, with growth returning to a 5.3% year-on-year pace, from 5.5% last month. Notwithstanding this month's result, the bigger picture is that US domestic passenger traffic is currently trending upwards strongly and continues to be supported by signs of increasing momentum in the US economy.

...and in Russia

Year-on-year growth in domestic Russia RPKs also eased somewhat in June, to an even 6.0% pace, down from their six-month high of 8.6% in May.

Looking through the monthly volatility shows a strong upward trend in demand for the domestic Russia market. Part of this might be a reflection of the contribution from the recent World Cup football event, but more broadly is likely to highlight the positive impact that higher world oil prices are having on the health of the Russian economy, incomes and jobs.

Domestic Brazil growth recovers, but impact of strikes persists

In June, RPKs for the domestic Brazil market recorded year-on-year growth of 5.3%, up from 3.8% in May. We noted last month the impact of the general strikes in the country, which adversely impacted economic activity and contributed to the first year-on-year fall in the domestic passenger load factor in 10 months. That impact has not been fully unwound in June, with the PLF still 2.0 percentage points lower than that of a year ago, even with the recovery observed in RPK growth on this occasion.

Japan and Australia post only modest growth

Year-on-year growth in domestic Japan RPKs lifted somewhat on this occasion, to 3.7% in June, from 1.8% last month. Against some tentative indications of a softening economic backdrop, the solid, if unspectacular, upwards trend in SA air passenger demand currently remains in place.

Australia remains the slowest growing of the domestic markets that we regularly monitor. RPKs increased by a modest 1.8% year-on-year in June, easing from the 3.1% pace recorded in May.

IATA Economics
economics@iata.org
 9 August 2018

Air passenger market detail - June 2018

| | World share ¹ | June 2018 (% year-on-year) | | | | % year-to-date | | | |
|--------------------------------|--------------------------|----------------------------|-------------|-------------------------|--------------------------|----------------|-------------|-------------------------|--------------------------|
| | | RPK | ASK | PLF (%-pt) ² | PLF (level) ³ | RPK | ASK | PLF (%-pt) ² | PLF (level) ³ |
| TOTAL MARKET | 100.0% | 7.8% | 6.5% | 1.0% | 82.8% | 7.0% | 6.1% | 0.7% | 81.3% |
| Africa | 2.2% | 6.3% | 1.8% | 2.9% | 68.0% | 2.7% | 1.1% | 1.1% | 69.7% |
| Asia Pacific | 33.7% | 11.2% | 9.8% | 1.0% | 81.7% | 9.7% | 8.8% | 0.7% | 81.5% |
| Europe | 26.6% | 5.8% | 4.5% | 1.0% | 86.4% | 6.3% | 5.0% | 1.1% | 83.3% |
| Latin America | 5.2% | 5.3% | 6.5% | -1.0% | 80.3% | 6.7% | 6.2% | 0.3% | 81.4% |
| Middle East | 9.5% | 10.3% | 7.5% | 1.8% | 71.1% | 4.7% | 4.4% | 0.2% | 73.7% |
| North America | 23.0% | 5.5% | 4.3% | 0.9% | 87.2% | 5.1% | 4.6% | 0.4% | 83.5% |
| International | 63.8% | 7.7% | 5.9% | 1.4% | 81.9% | 6.7% | 5.7% | 0.8% | 80.4% |
| Africa | 1.9% | 10.9% | 5.5% | 3.3% | 68.0% | 6.8% | 4.5% | 1.5% | 69.4% |
| Asia Pacific | 18.5% | 9.5% | 7.4% | 1.5% | 80.6% | 8.3% | 7.5% | 0.7% | 80.2% |
| Europe | 23.7% | 6.1% | 4.8% | 1.1% | 86.8% | 6.4% | 5.1% | 1.0% | 83.9% |
| Latin America | 2.8% | 5.6% | 6.5% | -0.7% | 81.4% | 8.2% | 8.0% | 0.2% | 81.9% |
| Middle East | 9.1% | 11.0% | 8.0% | 1.9% | 71.0% | 4.8% | 4.6% | 0.1% | 73.7% |
| North America | 7.8% | 5.9% | 3.6% | 1.9% | 86.7% | 5.4% | 3.9% | 1.2% | 82.0% |
| Domestic | 36.2% | 7.9% | 7.5% | 0.3% | 84.5% | 7.5% | 6.9% | 0.5% | 82.9% |
| Dom. Australia ⁴ | 0.9% | 1.8% | 1.2% | 0.5% | 78.0% | 3.4% | 1.5% | 1.4% | 78.3% |
| Domestic Brazil ⁴ | 1.2% | 5.3% | 8.0% | -2.0% | 78.2% | 4.8% | 4.8% | 0.0% | 80.3% |
| Dom. China P.R. ⁴ | 9.1% | 15.3% | 16.3% | -0.7% | 84.6% | 13.1% | 13.4% | -0.2% | 84.4% |
| Domestic India ⁴ | 1.4% | 17.6% | 17.0% | 0.5% | 85.8% | 21.1% | 17.7% | 2.5% | 88.3% |
| Domestic Japan ⁴ | 1.1% | 3.7% | 1.3% | 1.6% | 70.9% | 3.2% | 1.5% | 1.1% | 70.0% |
| Dom. Russian Fed. ⁴ | 1.4% | 6.0% | 5.4% | 0.5% | 84.3% | 6.9% | 4.3% | 1.9% | 79.4% |
| Domestic US ⁴ | 14.5% | 5.3% | 4.8% | 0.4% | 87.9% | 5.0% | 5.1% | 0.0% | 84.4% |

¹% of industry RPKs in 2017 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.

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

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