



AIR PASSENGER MARKET ANALYSIS

May 2018

Another month of solid RPK growth and a record load factor

- Industry-wide revenue passenger kilometres increased by 6.1% year-on-year in May – a slight pick-up from 6.0% in April. This helped to lift the passenger load factor above 80% for the first time ever in the month of May (80.1%).
- Reduced stimulus from lower airfares and a more mixed economic backdrop are expected to see RPK growth slow slightly in calendar-year 2018 relative to that seen last year. Nonetheless, the key point is that we continue to expect 2018 to be another year of above-trend passenger growth.
- Carriers based in Asia Pacific once again posted the fastest international RPK growth rate, while annual growth in domestic India RPKs remained in double-digit territory for the 45th month in a row.

Another month of solid annual RPK growth...

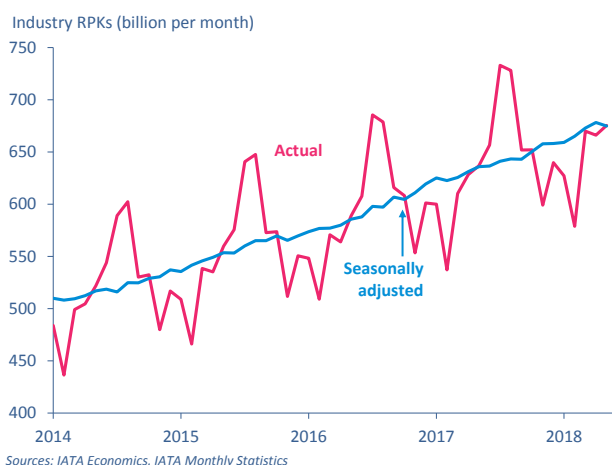
Industry-wide revenue passenger kilometres (RPKs) grew by 6.1% year-on-year in May, up very slightly from 6.0% in April.

RPKs fell by 0.5% in seasonally adjusted (SA) terms relative to April, which was the largest fall on this basis since November 2015. (See Chart 1.) However, it is worth noting that this followed a 0.7% increase in April and may simply be ‘noise’ (eg, the fall is within the range of historical variation seen in the series). We will monitor closely in the coming months and expect to see May’s fall to be reversed coming into the forthcoming peak period for passenger demand.

...although growth has moderated in 2018 so far

We continue to expect 2018 to be another year of above-trend growth for industry-wide RPKs. However,

Chart 1 – Air passenger volumes



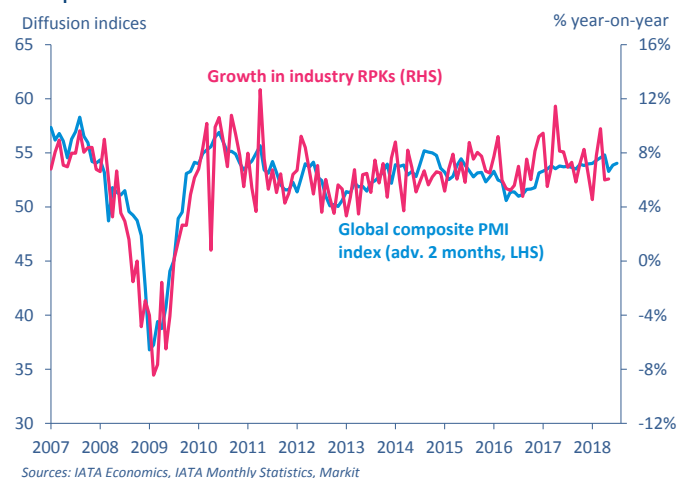
as we have argued before, we expect to see a moderate slowdown in full-year RPK growth relative to that seen last year.

Note that annual RPK growth has already slowed over the first five months of this year relative to that seen in the same period of 2017 (to 6.8% so far this year to date, compared to 8.3% a year ago) and is currently just below its five-year average pace (6.9%).

Mainly reflects less stimulus from lower airfares

The moderation in demand momentum is partly because higher airline input costs – notably fuel prices but also labor costs in some cases – are reducing the boost to demand from lower airfares, which was a key factor that propelled demand last year. Recall that the price of jet fuel recently rose above US\$90/bbl for the first time since 2014.

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



Air passenger market overview - May 2018

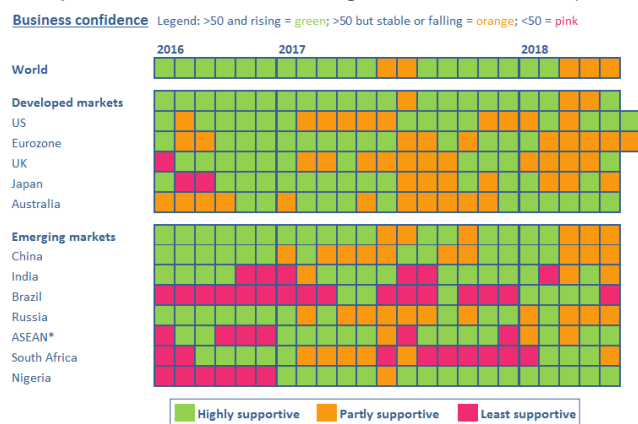
	World	May 2018 (% year-on-year)				% year-to-date			
	share ¹	RPK	ASK	PLF (%-pt) ²	PLF (level) ³	RPK	ASK	PLF (%-pt) ²	PLF (level) ³
TOTAL MARKET	100.0%	6.1%	5.9%	0.1%	80.1%	6.8%	6.0%	0.6%	81.0%
International	63.8%	5.8%	5.4%	0.3%	78.7%	6.5%	5.6%	0.7%	80.1%
Domestic	36.2%	6.6%	6.7%	-0.1%	82.6%	7.4%	6.7%	0.5%	82.5%

¹of industry RPKs in 2017 ²Year-on-year change in load factor ³Load factor level

Moreover, while the global composite Purchasing Managers' Index (PMI) has reversed some of the weakness seen in early-2018 in recent months, the overall picture for global business confidence is currently more mixed than it was last year. Based on past experience, this is consistent with a modest slowdown in annual industry-wide RPK growth during the forthcoming peak period for passenger demand in the northern-hemisphere summer. (See Chart 2, previous page.)

The moderation in economic activity has been most visible up to now in the Eurozone, but has recently weakened in large emerging market economies too – notably Brazil, but also India and China. (See Chart 3.)

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



Yet another record month for the pax load factor

Year-on-year growth in industry-wide available seat kilometres (ASKs) lagged behind that of RPKs in May for the 18th time in 19 months (5.9% versus 6.1%). As a result, the passenger load factor rose by 0.1 percentage points relative to May 2017, taking it above 80% in May for the first time on record. In SA terms, demand and capacity are currently rising at similar rates.

International RPK growth accelerates from April

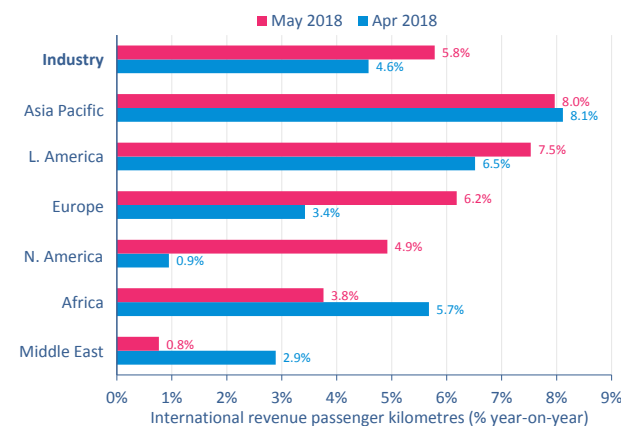
Year-on-year growth in international RPKs accelerated to 5.8% in May, having slowed to 4.6% in April. (See Chart 4.)

Airlines based in Asia Pacific topped the international RPK growth chart for the second month in a row, with year-on-year growth of 8.0%. 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.

Tentative signs of moderation in Latin America

International RPKs flown by carriers based in Latin America rose by 7.5% year-on-year in May, up from 6.5% in April. There are tentative signs that the strong upward trend in traffic has slowed slightly in recent months, which may relate in part to the economic disruption seen in the region's largest economy, Brazil, during May. (Again, see Chart 3.) To the extent this is the case, this impact is likely to be temporary.

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



European traffic trend remains robust

European airlines flew 6.2% more international RPKs in May than they did in the same month last year. Despite the well-publicized impacts of strikes in the region in recent months, as well as mixed signs on the health of the economic backdrop, the upward trend in international passenger demand for the region's airlines remains robust.

North America growth rebounds as expected

As expected, year-on-year international RPK growth for North American airlines rebounded in May after dropping to a 36-month low of 0.9% in April. (Recall that the recent volatility in the year-on-year growth rate stems from a pronounced pick-up in SA traffic in April 2017, which has now dropped out of the annual comparison.) As we have noted before, the bigger picture is that the comparatively robust economic backdrop in the US is continuing to support outbound passenger demand from the region.

Middle East growth slows to a five-month low

Year-on-year growth in international RPKs flown by airlines based in the Middle East slowed to just 0.8% in May, from 2.9% in April. The earlier timing of Ramadan this year may have affected the result, although the bigger picture is that the upward trend in traffic has slowed compared to last year (notwithstanding ongoing growth on the key routes to/from Asia and Europe).

As we noted last month, given that we are approaching the one year anniversary of the peak disruption caused by policies including the now-lifted ban on personal electronic devices, the annual comparison for traffic growth should start to become more favorable in the coming months.

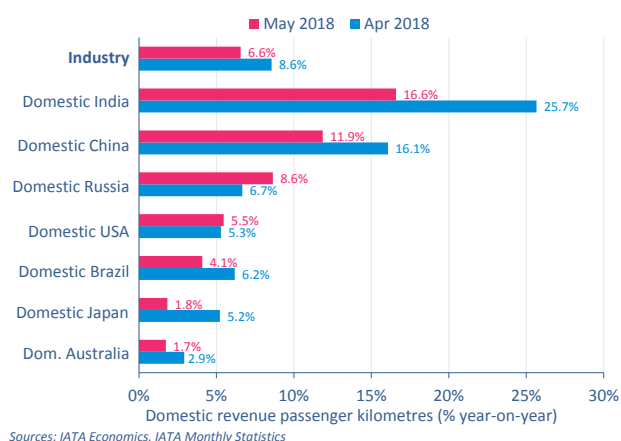
Moderation in African passenger traffic growth

Annual growth in international RPKs flown by African airlines slowed to an eight-month low of 3.8% in May, down from 5.7% in April and below its five-year average pace for just the second time in 23 months (4.8%). The upward SA demand trend remains reasonably strong, but mixed signs are again emerging in the continent's two largest economies; higher oil prices are helping to bolster economic activity in Nigeria, but business confidence in South Africa has weakened again. (Again, see Chart 3.)

Moderate slowdown in domestic RPK growth...

Annual industry-wide domestic RPK growth slowed to 6.6% in May, from 8.6% in April. (See Chart 5.)

Chart 5 – Domestic RPK growth by market



...driven by India and China...

We estimate that India and China account for around three-quarters of the slowdown in overall domestic RPK growth between May and April.

SA passenger volumes in India have fallen back in recent months alongside some mixed signs on the economic front. Nonetheless, the bigger point is that May was India's 45th consecutive month of double-digit annual RPK growth (16.6%). Passenger demand has continued to be supported by strong growth in the number of airport connections within the country too; 22% more airport-pairs are scheduled to operate in 2018 compared to last year.

It is a similar picture for China, where the number of domestic airport-pairs in operation has risen by more

than 50% over the past four years. While year-on-year growth in domestic China RPKs slowed to 11.9% in May from 16.1% in April, the upward trend remains very strong.

...and offset by a pick-up in domestic US growth

The slowdowns in annual growth in India and China were partly offset by a small pick-up in the world's largest domestic market, the US (to 5.5%, from 5.3% in April). Domestic passenger traffic is currently trending upwards at an annualized rate of around 7%, helped by the comparatively strong economic performance of the US economy.

Higher oil prices helping sustain Russian demand

Year-on-year growth in domestic Russia RPKs increased to a six-month high of 8.6% in May, from 6.7% in April. RPKs have trended upwards at a double-digit annualized rate over the past six months. This indicates that the beneficial impact from higher oil prices is continuing to help to offset any potential impacts on passenger demand from recently-imposed international sanctions.

Brazil strikes hit the domestic load factor in May

Meanwhile, the impact of the strikes that affected economic activity in Brazil in May look to be visible in the domestic load factor, which fell in year-on-year terms for the first time in 10 months. This impact should prove temporary, however, and the key point is that domestic passenger traffic is continuing to trend upwards modestly, despite still being around 4% lower than its mid-2014 peak level.

Australia and Japan post slowest growth again

Domestic Australia RPKs increased by 1.7% year-on-year in May – the slowest pace since September 2017 but still just ahead of the five-year average rate (1.6%).

Year-on-year growth in domestic Japan RPKs also slowed in May, to 1.8% from 5.2% in April. The economic backdrop in the country has weakened so far in 2018, with the economy shrinking for the first time in nine quarters in Q1 and consumer spending coming under pressure. Nonetheless, the solid upward SA trend in domestic Japan RPKs passenger traffic looks to have resumed, with traffic currently rising at a 5% annualized pace.

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 5th July 2018

Air passenger market detail - May 2018

	World share ¹	May 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%	6.1%	5.9%	0.1%	80.1%	6.8%	6.0%	0.6%	81.0%
Africa	2.2%	-0.8%	-0.9%	0.0%	66.8%	2.3%	1.2%	0.7%	70.1%
Asia Pacific	33.7%	8.7%	8.6%	0.1%	79.6%	9.4%	8.6%	0.6%	81.4%
Europe	26.5%	6.0%	5.0%	0.8%	83.0%	6.5%	5.1%	1.1%	82.6%
Latin America	5.2%	6.1%	6.2%	-0.1%	79.8%	6.9%	6.1%	0.6%	81.6%
Middle East	9.5%	0.5%	3.3%	-1.9%	67.5%	3.8%	3.8%	0.0%	74.2%
North America	23.0%	5.2%	4.9%	0.3%	84.4%	5.0%	4.6%	0.3%	82.7%
International	63.8%	5.8%	5.4%	0.3%	78.7%	6.5%	5.6%	0.7%	80.1%
Africa	1.9%	3.8%	3.2%	0.4%	66.4%	6.3%	4.5%	1.2%	69.7%
Asia Pacific	18.5%	8.0%	7.6%	0.3%	77.9%	8.1%	7.5%	0.5%	80.1%
Europe	23.7%	6.2%	5.1%	0.8%	83.5%	6.4%	5.1%	1.0%	83.2%
Latin America	2.8%	7.5%	7.0%	0.4%	81.6%	8.7%	8.2%	0.4%	82.0%
Middle East	9.1%	0.8%	3.7%	-1.9%	67.5%	3.8%	4.0%	-0.2%	74.3%
North America	7.8%	4.9%	3.4%	1.2%	82.0%	5.3%	3.9%	1.0%	81.0%
Domestic	36.2%	6.6%	6.7%	-0.1%	82.6%	7.4%	6.7%	0.5%	82.5%
Dom. Australia ⁴	0.9%	1.7%	2.5%	-0.6%	75.2%	3.4%	1.6%	1.4%	78.1%
Domestic Brazil ⁴	1.2%	4.1%	5.4%	-1.0%	76.9%	4.8%	4.2%	0.4%	80.7%
Dom. China P.R. ⁴	9.1%	11.9%	12.5%	-0.5%	83.4%	12.7%	12.8%	-0.1%	84.4%
Domestic India ⁴	1.4%	16.6%	18.0%	-1.1%	87.5%	22.0%	18.0%	2.9%	88.8%
Domestic Japan ⁴	1.1%	1.8%	1.4%	0.3%	69.4%	3.1%	1.5%	1.1%	69.8%
Dom. Russian Fed. ⁴	1.4%	8.6%	7.5%	0.8%	78.5%	7.1%	4.0%	2.3%	78.1%
Domestic US ⁴	14.5%	5.5%	5.8%	-0.3%	85.9%	5.0%	5.1%	-0.1%	83.7%

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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