



AIR PASSENGER MARKET ANALYSIS **December 2016**

Another year of solid RPK growth, with a pick-up in trend in H2

- Industry-wide passenger traffic grew by 8.8% year-on-year in December, and by 6.3% in 2016 as a whole.
- The seasonally-adjusted (SA) trend strengthened during H2, in keeping with a pick-up in the economic cycle.
- 2016 saw robust international RPK growth in most regions, but wide variation in domestic performance.
- Industry-wide passenger load factor posts a record high of 80.5% in 2016.

A strong end to 2016 for passenger traffic...

Annual growth in industry-wide revenue passenger kilometres (RPKs) increased to a 10-month high of 8.8% year-on-year in December, up from 7.8% in November. The three-fastest growing regions (the Middle East, Asia Pacific and Europe) posted double-digit annual growth rates, while North American airlines were the laggard for the third consecutive month (3.1%).

...rounding out another solid year of growth

Industry-wide RPKs increased by 6.3% in 2016 as a whole, which was consistent with 6.0% growth once you adjust for the fact that last year was a leap year. This marked a slowdown from the (oil price-assisted) 7.1% growth seen in 2015. But it was still a strong performance, and well ahead of its 10-year average growth rate (5.5%).

2016 was a year of two halves

The upward trend in seasonally-adjusted (SA) passenger traffic moderated during the first six months of the year. (See Chart 1.). This owed to a combination of headwinds from high-profile terrorist attacks, political instability, and subdued economic activity. (See Chart 2.)

However, the second half of the year saw an acceleration in the SA passenger trend, with RPKs growing at an annualized pace of nearly 9% between June and December. This pick-up reflected a combination of passengers adjusting to the uncertain environment as well as a moderate upturn in the global economic cycle. Although sizeable risks to the economic outlook remain, the global purchasing managers' index reached a fresh

Chart 1 – Air passenger volumes

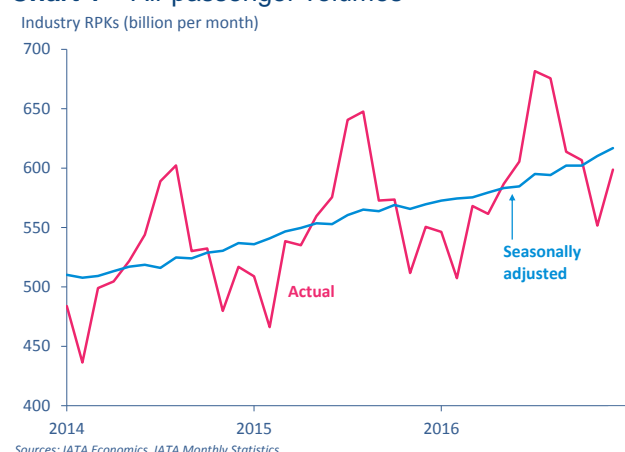
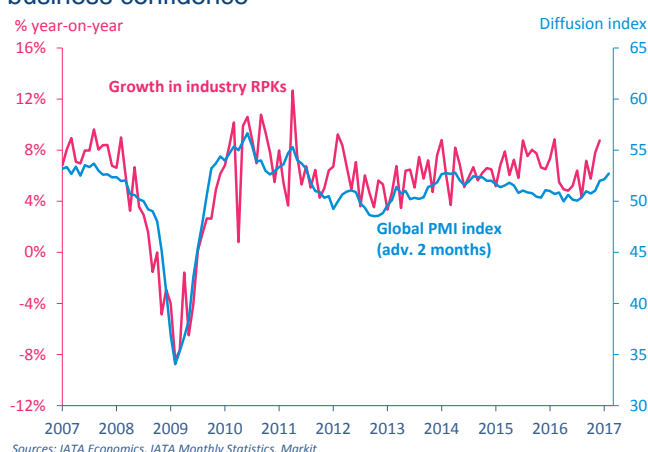


Chart 2 – Air passenger volume growth and global business confidence



Air passenger market overview - December 2016

	World share ¹	December 2016 (% year-on-year)				2016 calendar year			
		RPK	ASK	PLF (%-pt) ²	PLF (level) ³	RPK	ASK	PLF (%-pt) ²	PLF (level) ³
TOTAL MARKET	100.0%	8.8%	6.6%	1.6%	80.6%	6.3%	6.2%	0.1%	80.5%
International	63.7%	9.7%	7.2%	1.9%	80.2%	6.7%	6.9%	-0.2%	79.6%
Domestic	36.3%	7.1%	5.8%	1.0%	81.5%	5.7%	5.1%	0.5%	82.2%

¹% of industry RPKs in 2016

²Year-on-year change in load factor

³Load factor level

34-month high in December (the latest data available at the time of writing). (Again, see Chart 2, overleaf.)

One of the main uncertainties for 2017 is the extent that lower airfares will stimulate demand. Yields have continued to trend downwards during the second half of 2016, and this is another factor that will have helped to support demand growth. But with oil prices currently around twice their 12-year low-point reached in January 2016, the biggest stimulus to demand from lower airfares may have passed. All told, the strength of the economic cycle will play a key role in determining the pace of passenger traffic growth in 2017. In any case, though, given the robust end to 2016, even if we were to see no further increase in SA traffic throughout all of 2017, full-year RPK growth would still be in the region of 4-4.5%.

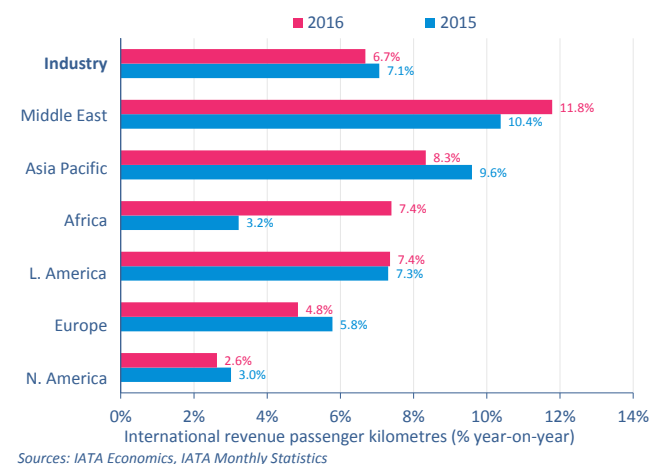
Load factor climbs to an all-time high in 2016

Industry-wide available seat kilometres increased by 6.6% year-on-year in December, and by 6.2% in 2016. Airlines slowed the upward trend in SA capacity in the final third of the year, which helped to drive the SA load factor to a fresh all-time high in November, and its highest annual average on record (80.5%).

Middle Eastern carriers top int'l growth chart again

Annual growth in international RPKs eased to 6.7% in 2016, down from 7.1% in 2015. (See Chart 3.)

Chart 3 – International passenger traffic growth by carrier region of registration



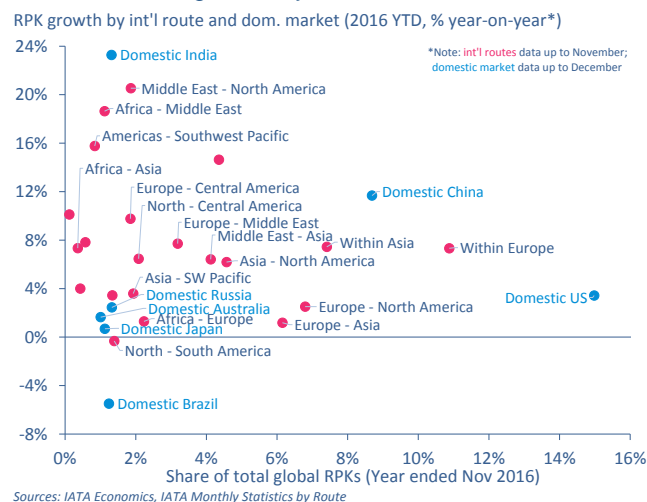
Middle Eastern airlines posted the fastest full-year international RPK growth rate for the fifth year in a row (11.8%), broadly in line with the five-year average pace. The SA upward trend is more robust than it looked a few months ago, although the bigger picture is that demand growth in the region has continued to lag behind that of capacity. Conditions improved somewhat in the final months of the year, but passenger load factors on the key

routes to and from the Middle East (between Asia and Europe) fell by around 2.5 percentage points during 2016 compared to 2015.

Strong SA trends in Asia Pacific and Europe

Asia Pacific airlines posted the second fastest growth in 2016 as a whole (8.3%). This was down slightly from the pace seen in 2015 but above the region's five-year average pace (6.9%). The upward trend in Asia Pacific airlines' SA traffic has reasserted itself, helped by robust traffic growth on international routes within the region (7.4% year-on-year between Jan-Nov 2016 – the latest data available). (See Chart 4.)

Chart 4 – RPK growth by route and market



European carriers fly the most international RPKs of any region – 37% of all the total in 2016. Having seen the SA international passenger trend weaken during H1, conditions strengthened considerably during the second half of 2016. Indeed, passenger volumes have grown at an annualized pace of 15% since June. This is set against a backdrop of a growing Eurozone economy (business confidence in the region recently climbed to a five-and-a-half year high) and some normalization in demand following the disruption in H1.

Annual growth in international RPKs flown by North American carriers accelerated to 4.6% in December, which lifted year-on-year growth to 2.6% in 2016 as a whole. However, the SA trend for both traffic and capacity has in fact flattened over the second half of 2016. Traffic on the Transpacific market has continued to grow strongly, but the SA trend on the North Atlantic market has broadly tracked sideways since mid-2016.

Robust growth for Africa and Latin America too

African and Latin American airlines fly a relatively small proportion of international RPKs (around 7% of the total

between them in 2016). But in spite of challenging economic backdrops, both regions posted identical international passenger growth of 7.4% in 2016.

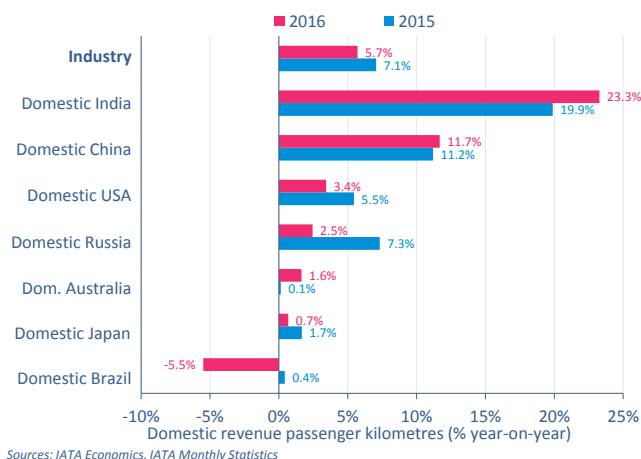
Economic conditions in much of Africa remain difficult, particularly in the biggest economies of Nigeria and South Africa. However, the upward trend in SA passenger traffic has reasserted itself in recent months, helped by strong demand on routes to/from Asia and the Middle East (traffic grew by 18.6% during the Jan-Nov period in 2016 compared to the same period in the previous year).

Meanwhile, there remains little sign of any slowdown in the SA trend for Latin American carriers. International traffic within the South America region grew by a healthy +11.1% year-on-year in November (the latest data available), although conditions on the larger North-South America route are weaker.

Wide variation in domestic market performance

Year-on-year growth in domestic RPKs eased to 7.1% in December, from 7.3% in the previous month. Domestic traffic grew by 5.7% in 2016 overall. (See Chart 5.)

Chart 5 – Domestic RPK growth by market



The domestic India market topped the growth chart for the second year in a row; passenger volumes surged by 23.3% in 2016 – twice as fast as the next fastest growing market, China. It has not all been positive news over recent months; indeed, the SA traffic trend slowed in H2 from its stellar upward trajectory, and business confidence has fallen following the withdrawal of large-denomination banknotes in November. However, airlines are scheduling strong flight frequency growth in 2017, which will translate into time savings for passengers and will have the same stimulatory impact on demand as a cut in fares.

Domestic China RPKs grew by 11.7% in 2016 – the fourth consecutive year of double-digit growth – and there

remains little signs of any slowing in the SA trend. This comes against a backdrop of ongoing robust expansion in the services sector and, as in India, flight frequencies are scheduled to rise substantially during 2017.

Distortion from Transaero collapse continues

The year-on-year growth rate for domestic Russia RPKs continues to be distorted by the collapse of Transaero in November 2015; passenger traffic increased by 13.4% year-on-year in December, but rose by 2.5% in 2016 as a whole. The recovery in seasonally-adjusted domestic traffic is continuing, alongside ongoing signs that the country's economic recession is easing. (Business confidence reached its highest level in nearly six years at the end of 2016.)

The domestic US market – the world's largest in terms of RPKs flown – expanded by 3.4% in 2016. The SA trend picked up over the second half of last year, in keeping with strong readings from consumer confidence surveys. But while the SA upward trend in capacity moderated slightly in the final third of the year, the market was the only one to see a marginal decline in the load factor in 2016.

Meanwhile, domestic traffic in Australia grew by just 1.6% year-on-year in 2016. Seasonally-adjusted traffic broadly tracked sideways throughout 2017, and has risen by less than 1.5% each year since 2013.

Reduced capacity support loads in Japan and Brazil

Domestic RPKs in Japan picked up in SA terms in December, lifting the year-on-year growth rate to a 23-month high of 4.7%. This was set against a backdrop of increased momentum in consumer spending at the end of last year, although the bigger picture is that traffic has trended sideways in seasonally-adjusted terms for the best part of two years. (Traffic grew by just 0.7% in 2016 as a whole.) However, Japanese carriers have reduced capacity since the start of 2015. As a result, while still the lowest of all the domestic markets that we track, Japan's load factor posted a record high of 68.6% in 2016 (the domestic Japan series starts in 2000).

The challenging economic backdrop in Brazil is continuing to weigh on passenger demand; domestic RPKs fell in annual terms for the 17th consecutive month in December, and dropped by 5.5% in 2016 as a whole. However, similar to the case in Japan, domestic capacity shrank by more than demand in 2016 (-5.8%). As a result, the full-year domestic load factor in Brazil came in above 80%-mark for the first time since the series began in 1990.

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 2nd February 2017

Air passenger market detail - December 2016

	World share ¹	December 2016 (% year-on-year)				2016 calendar year			
		RPK	ASK	PLF (%-pt) ²	PLF (level) ³	RPK	ASK	PLF (%-pt) ²	PLF (level) ³
TOTAL MARKET	100.0%	8.8%	6.6%	1.6%	80.6%	6.3%	6.2%	0.1%	80.5%
Africa	2.2%	5.8%	5.3%	0.3%	71.6%	6.5%	6.3%	0.1%	68.6%
Asia Pacific	32.9%	11.2%	8.0%	2.3%	80.8%	9.2%	8.1%	0.8%	79.7%
Europe	26.4%	10.7%	7.2%	2.5%	80.6%	4.6%	4.4%	0.2%	82.4%
Latin America	5.2%	5.0%	2.8%	1.7%	81.2%	3.6%	1.9%	1.3%	80.8%
Middle East	9.6%	12.9%	11.6%	0.9%	77.4%	11.2%	13.5%	-1.6%	74.7%
North America	23.6%	3.1%	3.0%	0.1%	83.0%	3.2%	3.7%	-0.4%	83.5%
International	63.7%	9.7%	7.2%	1.9%	80.2%	6.7%	6.9%	-0.2%	79.6%
Africa	1.9%	6.5%	6.1%	0.3%	70.9%	7.4%	7.4%	0.0%	67.7%
Asia Pacific	18.2%	9.2%	6.6%	1.9%	80.5%	8.3%	7.7%	0.4%	78.6%
Europe	23.6%	10.9%	7.3%	2.7%	81.3%	4.8%	5.0%	-0.1%	82.8%
Latin America	2.7%	7.8%	5.1%	2.0%	81.1%	7.4%	4.8%	1.9%	81.3%
Middle East	9.3%	13.9%	11.8%	1.5%	77.9%	11.8%	13.7%	-1.3%	74.7%
North America	8.0%	4.6%	3.7%	0.7%	81.6%	2.6%	3.3%	-0.5%	81.3%
Domestic	36.3%	7.1%	5.8%	1.0%	81.5%	5.7%	5.1%	0.5%	82.2%
Dom. Australia ⁴	1.0%	0.9%	0.2%	0.5%	78.6%	1.6%	0.2%	1.1%	76.9%
Domestic Brazil ⁴	1.2%	-1.9%	-4.3%	1.9%	81.7%	-5.5%	-5.8%	0.3%	80.1%
Dom. China P.R. ⁴	8.7%	16.9%	13.1%	2.7%	81.4%	11.7%	10.8%	0.7%	83.0%
Domestic India ⁴	1.3%	23.7%	21.4%	1.7%	88.6%	23.3%	21.4%	1.3%	83.8%
Domestic Japan ⁴	1.1%	4.7%	-1.6%	4.1%	67.6%	0.7%	-2.1%	1.9%	68.6%
Dom. Russian Fed. ⁴	1.3%	13.4%	11.2%	1.5%	75.0%	2.5%	-1.8%	3.3%	80.4%
Domestic US ⁴	14.9%	2.4%	2.7%	-0.3%	83.9%	3.4%	3.9%	-0.4%	84.8%

¹% of industry RPKs in 2016

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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