



AIR PASSENGER MARKET ANALYSIS

June 2016

Another year of solid H1 growth, but the upward trend has slowed

- The global passenger market grew solidly in H1 2016, broadly in line with its 10-year average rate...
- ...but upward momentum has weakened in the face of moderate economic growth and terrorism impacts.
- The domestic India market expanded by more than 23% year-on-year in the first half of 2016.
- The industry has stabilized the (seasonally adjusted) passenger load factor at a historically-high level of 80%.

Another year of solid H1 passenger growth...

Industry-wide revenue passenger kilometres (RPKs) grew by 6.0% year-on-year in the first half of 2016 – slightly ahead of the 5.9% increase seen in the same period in 2015. Admittedly, growth this year was flattered somewhat by the leap year. But even after correcting for the extra day in February, we still estimate that traffic grew by 5.4% year-on-year over the period – broadly in line with the average pace seen over the past decade.

...but momentum has weakened in recent months

Annual growth in RPKs ticked up to 5.2% in June, from an upwardly-revised 4.8% in May. But as we have noted over the past few months, there are ongoing signs that passenger growth has shifted down a gear. The upward trend in seasonally-adjusted volumes has moderated

since January; the market has grown at annualized rate of around 3.5% since the start of the year – the weakest showing since 2011. (See Chart 1.)

The loss of momentum can be attributed partly to the ongoing and cumulative impacts of recent high-profile terrorist attacks, which have weighed on international European traffic in particular. Typically, the impact of such shock events is just transitory, but the repeated nature of recent events suggests that the effects may be longer-lasting this time. More generally, the fragile and increasingly uncertain global economic backdrop continues to present a headwind to passenger demand as well. (See Chart 2.) Heightened uncertainty following the 'Brexit' vote in the UK only increases the downside risks in this regard.

Chart 1 – Air passenger volumes

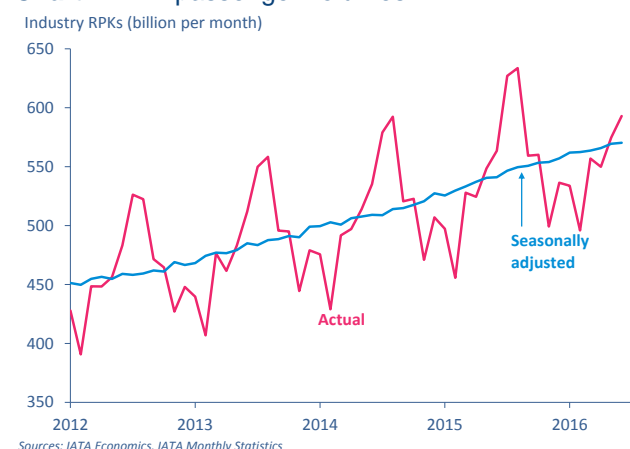
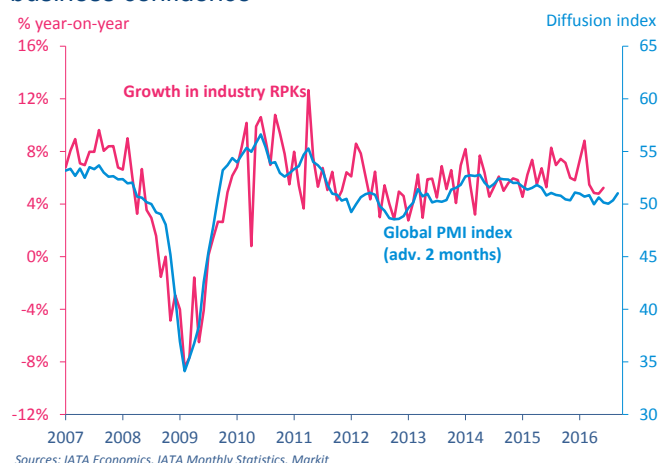


Chart 2 – Air passenger volume growth and global business confidence



Air passenger market overview - June 2016

	World	June 2016 (% 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%	5.2%	5.6%	-0.3%	80.7%	6.0%	6.2%	-0.2%	79.2%
International	63.6%	5.0%	6.4%	-1.1%	79.4%	6.2%	6.8%	-0.5%	78.1%
Domestic	36.4%	5.7%	4.3%	1.1%	83.2%	5.6%	5.1%	0.4%	81.2%

¹% of industry RPKs in 2015

²Year-on-year change in load factor

³Load factor level

Passenger demand continues to be supported somewhat by lower airfares. Further stimulus is likely to come through during the rest of 2016 from lagged impacts of prior falls in oil prices.

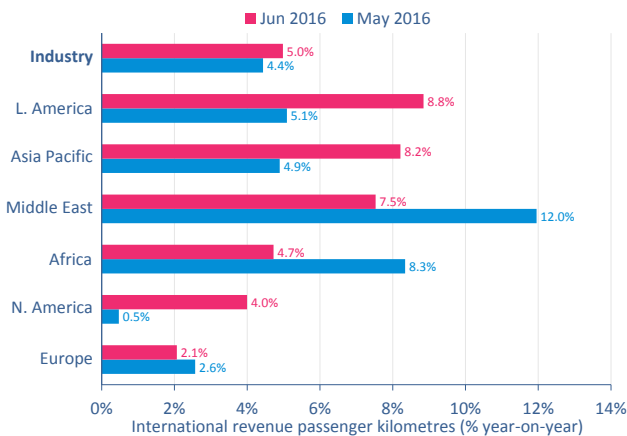
Load factor has stabilized in seas-adjusted terms

The industry-wide load factor was 79.2% in the H1 2016 as a whole – only 0.2 percentage points lower than the record high seen in H1 2015. The seasonally-adjusted load factor remains 1.2 percentage points lower than the all-time high reached in November 2015. But it has been stable at around 80% for the past five months as airlines have slowed capacity growth in line with slowing demand.

Largest int'l carrier regions have lost momentum...

Annual growth in international RPKs increased to 5.0% in June, from 4.4% in May. (See Chart 3.) However, the (seasonally-adjusted) trends in the two largest international regions, Europe and Asia Pacific (whose combined international traffic accounts for more than 40% of global RPKs), have eased in recent months.

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



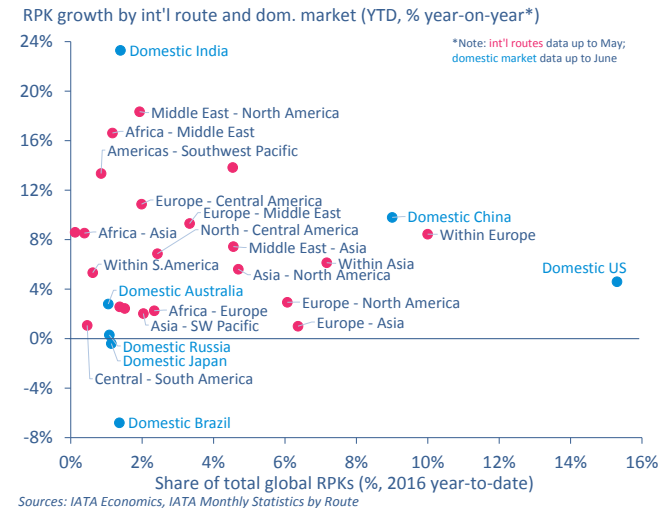
Sources: IATA Economics, IATA Monthly Statistics

Demand in Europe has been affected by disruption and deterred travel associated with further tragic terrorist attacks in parts of the region. The upward trend in seasonally-adjusted traffic has paused in recent months, and traffic grew by just 2.1% year-on-year in June. Typically, demand tends to recover reasonably quickly after such shock events, but the repeated nature of recent actions suggests that impacts may persist this time – to the detriment of certain markets. Uncertainty following the 'Brexit' vote in the UK is also expected to hit European airlines and markets the hardest in the coming months.

International traffic flown by Asia Pacific airlines grew by 8.2% year-on-year in June. However, most of this growth relates to the strong upward trend in seasonally-adjusted

traffic seen in the final months of 2015 and into 2016; the upward trend has flattened since, with June passenger volumes barely higher than in February. This could simply relate to demand pausing for breath, but is also a possible sign of Asian passengers being put off by terrorism in Europe. Passenger traffic on the Europe-Asia route fell by 2.6% year-on-year in May, and it has been the weakest-performing major route so far in 2016. (See Chart 4.)

Chart 4 – RPK growth by route and market



Sources: IATA Economics, IATA Monthly Statistics by Route

African airlines saw strong growth in RPKs during the second half of 2015, in line with expansion of long-haul networks by the region's carriers – particularly Ethiopian Airlines. However, similar to the pattern seen in the much larger counterparts of Europe and Asia Pacific, the strong upward trend in traffic has paused since the start of the year. Economic conditions remain challenging throughout much of the continent, particularly in the biggest economies of Nigeria and South Africa.

...but the trend in other regions is picking up

Annual growth in international RPKs flown by Middle Eastern airlines slowed to 7.5% year-on-year in June, which could owe in part to the timing of Ramadan, which tends to depress traffic growth. Nonetheless, there remains little sign of a marked easing in the strong upward trend in traffic. All segment-based passenger routes to and from the Middle East saw solid gains during the first five months of 2016. (Again, see Chart 4.) That said, the rise in passenger capacity continues unabated; annual growth in Middle Eastern international RPKs has now lagged behind that of capacity for 19 of the past 21 months, resulting in the load factor slipping back.

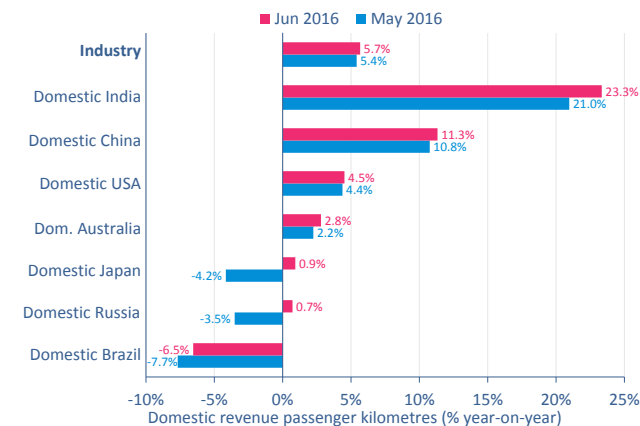
Having trended down since July 2015, North American carriers' international traffic has also picked up in recent months. Strikingly, seasonally-adjusted volumes have risen by 2.1% since March – an annualized rate of over

8%. Annual growth in traffic jumped to 4.0% in June, from 0.5% in May. The strong upward trend in (seasonally adjusted) international traffic carried by Latin American carriers has also resumed in recent months, following the soft patch seen in the first quarter of 2016.

Wide variation in domestic market performance

Domestic air travel grew by 5.7% year-on-year in June, and by 5.6% in H1 2016 as a whole. (See Chart 5.)

Chart 5 – Domestic RPK growth by market



Sources: IATA Economics, IATA Monthly Statistics

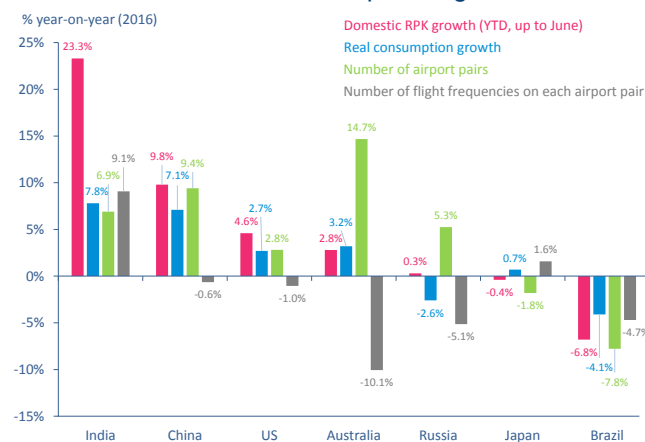
India and China topped the domestic growth chart for the first half of the year, with annual RPK growth of 23.3% and 9.8% respectively. (See Chart 6.) This was propelled in both cases by strong growth in real consumer spending, although the outperformance in India's case was well in excess of the usual elasticities that we would expect to see. A big part of the additional traffic growth is because airlines are rapidly adding airport-pairs and frequencies, which cuts journey times for passengers and has the same effect on demand as a large cut in fares. Both Indian and Chinese airlines are adding more airport-pairs in 2016 which will stimulate travel, but the big difference between the two is that Chinese frequencies are not scheduled to increase this year.

The domestic US market – the largest in the world – saw solid growth in H1 2016 too, set against a comparatively robust economic backdrop. Seasonally-adjusted traffic went through a soft patch in the first quarter of the year, but picked up strongly in Q2. All told, annual growth edged up to 4.5% in June, from 4.4% in May.

Passenger traffic in the mature domestic Japan market has trended sideways for the past 18 months, in keeping with underlying weak momentum in consumer spending. However, air capacity has fallen since the start of 2015, as operators have reduced airport-pairs and shifted to smaller aircraft. As a result, while RPKs fell by 0.4% in

annual terms in the first half of 2016, the domestic load factor actually *increased* by 1.8 percentage points.

Chart 6 – Drivers of domestic passenger markets



Sources: IATA Monthly Statistics, SRS Analyser, EIU

Capacity in Australia has also been cut sharply over the past few months, reflecting wide-scale changes to the domestic network including much fewer frequencies and smaller aircraft. Demand has picked up in recent months, with RPKs increasing by 2.8% year-on-year in June, causing the load factor to jump by 4.9 percentage points compared to that seen in June 2015.

Falling consumer spending weighing on passenger demand in Russia and Brazil

Passenger markets in the highly energy-dependent economies of Brazil and Russia have been weak so far in 2016, mainly reflecting the deep economic recessions that have hit both countries: real consumption in both cases is forecast to contract for the second consecutive year in 2016. (Again, see Chart 6.) Traffic in Russia grew by a modest 0.7% year-on-year in June, although seasonally-adjusted traffic has now recovered to its September 2015 peak prior to the collapse of Transaero. The number of airport pairs in Russia is scheduled to grow in 2016, albeit at the expense of average frequencies.

The domestic Brazil market contracted by 6.5% year-on-year in June, and by 6.8% in H1 2016 as a whole. In addition to the squeeze on incomes, options for Brazilian travelers are being curtailed by fewer and less frequent air connections. Traffic has stopped freefalling in seasonally-adjusted terms in recent months, but it remains almost 10% lower than it was in early 2015. Moreover, given the highly uncertain economic and political backdrop, it is too early to call an end of the firm downward trend in passenger traffic.

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 4th August 2016

Air passenger market detail - June 2016

	World share ¹	June 2016 (% 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%	5.2%	5.6%	-0.3%	80.7%	6.0%	6.2%	-0.2%	79.2%
Africa	2.2%	3.2%	5.9%	-1.7%	65.0%	8.4%	8.6%	-0.1%	67.1%
Asia Pacific	31.5%	9.0%	7.2%	1.3%	79.1%	8.4%	7.8%	0.5%	78.5%
Europe	26.7%	2.0%	2.7%	-0.6%	82.9%	3.8%	3.6%	0.2%	80.0%
Latin America	5.4%	4.6%	1.9%	2.1%	80.8%	3.7%	2.9%	0.6%	80.0%
Middle East	9.4%	7.3%	14.4%	-4.6%	70.3%	10.6%	14.6%	-2.7%	74.2%
North America	24.7%	4.3%	4.3%	0.0%	86.3%	3.7%	4.0%	-0.2%	82.8%
International	63.6%	5.0%	6.4%	-1.1%	79.4%	6.2%	6.8%	-0.5%	78.1%
Africa	1.9%	4.7%	7.4%	-1.7%	64.4%	9.6%	10.0%	-0.2%	65.9%
Asia Pacific	17.4%	8.2%	7.3%	0.6%	78.2%	8.2%	7.7%	0.3%	77.8%
Europe	23.8%	2.1%	3.4%	-1.1%	83.3%	3.9%	4.3%	-0.2%	80.6%
Latin America	2.9%	8.8%	5.2%	2.7%	82.4%	7.5%	6.3%	0.9%	80.3%
Middle East	9.1%	7.5%	14.3%	-4.4%	69.9%	11.0%	14.7%	-2.5%	74.0%
North America	8.5%	4.0%	4.7%	-0.6%	84.3%	2.0%	2.4%	-0.3%	80.0%
Domestic	36.4%	5.7%	4.3%	1.1%	83.2%	5.6%	5.1%	0.4%	81.2%
Dom. Australia ⁴	1.1%	2.8%	-3.6%	4.9%	79.4%	2.8%	0.4%	1.8%	76.7%
Domestic Brazil ⁴	1.4%	-6.5%	-6.4%	-0.1%	77.7%	-6.8%	-6.0%	-0.7%	79.3%
Dom. China P.R. ⁴	8.4%	11.3%	8.9%	1.8%	82.2%	9.8%	9.9%	-0.1%	81.1%
Domestic India ⁴	1.2%	23.3%	23.8%	-0.3%	82.6%	23.3%	22.8%	0.3%	84.4%
Domestic Japan ⁴	1.2%	0.9%	-2.7%	2.4%	65.7%	-0.4%	-3.1%	1.8%	67.0%
Dom. Russian Fed. ⁴	1.3%	0.7%	-4.0%	3.7%	80.2%	0.3%	-5.9%	4.7%	75.1%
Domestic US ⁴	15.4%	4.5%	4.3%	0.2%	87.7%	4.6%	4.9%	-0.2%	84.4%

¹% of industry RPKs in 2015

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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