



AIR PASSENGER MARKET ANALYSIS

August 2018

Load factor hits all-time high, alongside solid peak-season growth

- Industry-wide revenue passenger kilometres (RPKs) grew by a solid 6.4% year-on-year in August – underlining previous signs of solid growth in passenger traffic during the peak season over the northern hemisphere summer.
- The industry-wide load factor posted its highest ever level since our time series began in 1990 (85.3%). As was the case last month, European airlines led the way (88.7%), followed by North American carriers (86.5%).
- Domestic India RPKs posted their 48th consecutive month of double-digit annual growth in August. Meanwhile, Asia Pacific carriers topped the international RPK growth chart for the second time in five months.

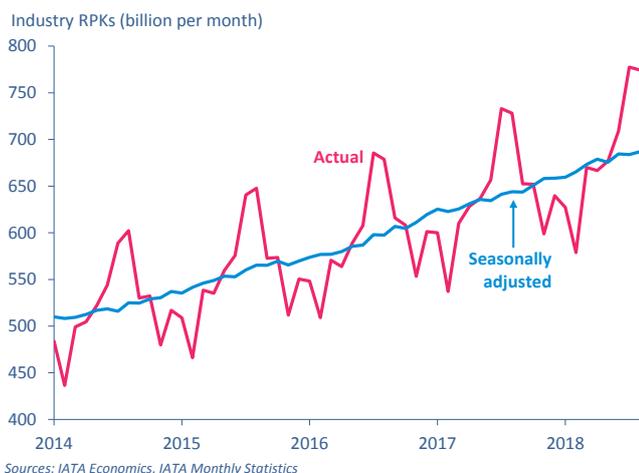
Further evidence of a solid peak travel season...

Year-on-year growth in industry-wide revenue passenger kilometres (RPKs) increased to 6.4% in August, up from 6.1% in July.

The August data provide further evidence of solid growth in RPKs during the peak period of passenger demand over the northern hemisphere summer. Passenger volumes have now risen by 6.8% over the first eight months of the year relative to the same period last year – broadly in line with the five-year average growth rate (6.9%). RPKs are currently trending upwards at a similar pace in seasonally adjusted (SA) terms. (See Chart 1.)

As we have noted before, recent developments underline our view that 2018 will be another year of above-trend growth for industry-wide RPKs.

Chart 1 – Air passenger volumes



Sources: IATA Economics, IATA Monthly Statistics

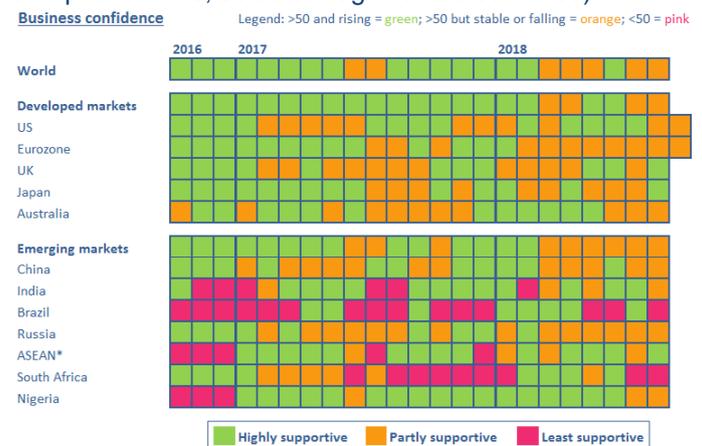
...but key drivers have become less supportive

That said, the pace of growth seen this year to date remains below that seen in the same period of 2017 (7.9%). This supports our existing view that RPK growth, while remaining robust, will slow moderately in calendar-year 2018 relative to 2017.

This partly reflects higher input costs for airlines translating into a reduced boost to demand from lower airfares than we have seen in recent years. Jet fuel prices are currently around 30% higher than they were a year ago, and airlines have also seen upward pressure on labor costs in a number of cases.

Meanwhile, although economic activity in parts of the world remain very strong – notably the US – business surveys currently paint a more mixed picture than they did during the best of the broad-based upturn in economic activity late last year. (See Chart 2.)

Chart 2 – Economic conditions (monthly data from composite PMIs, selected regions and countries)



Sources: IATA, Markit, Thomson Reuters Datastream

* Manufacturing PMI

Air passenger market overview - August 2018

	World share ¹	August 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%	6.4%	5.5%	0.7%	85.3%	6.8%	5.9%	0.7%	82.4%
International	63.8%	5.6%	5.1%	0.4%	85.0%	6.5%	5.6%	0.7%	81.7%
Domestic	36.2%	7.7%	6.2%	1.2%	85.7%	7.4%	6.6%	0.6%	83.6%

¹ of industry RPKs in 2017

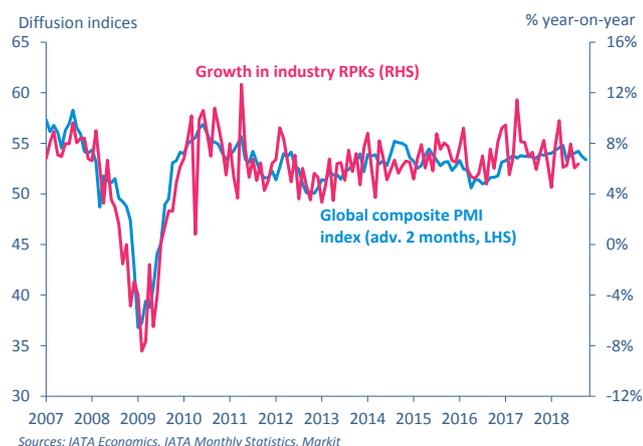
²Year-on-year change in load factor

³Load factor level

The moderation in business sentiment has been driven by a range of factors, including heightened uncertainty about trade restrictions, geopolitical tensions in parts of the world and region-specific issues such as Brexit.

To be clear, the global composite Purchasing Managers' Index (PMI) remains consistent with annual industry-wide RPK growth remaining at solid rates over the coming months. (See Chart 3.) However, having dropped back from the peak levels reached in early-2018, the indicator continues to suggest that we are unlikely to see any significant or sustained acceleration in industry-wide RPK growth in the near term.

Chart 3 – Air passenger volume growth and global composite business confidence measure

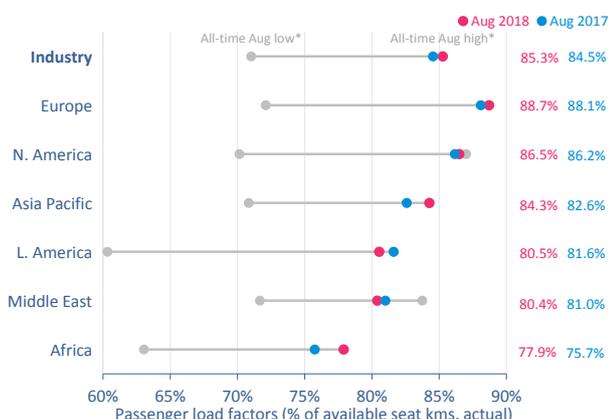


Load factor rises to an all-time high

Industry-wide available seat kilometres (ASKs) grew by 5.5% year-on-year in August. As a result, the industry-wide passenger load factor rose by 0.7 percentage points relative to August 2017, to an all-time record high of 85.3%. The load factor rose in annual terms in August in all regions except the Middle East and Latin America. (See Chart 4.)

Passenger demand is continuing to trend upwards in SA terms at a slightly faster rate than capacity.

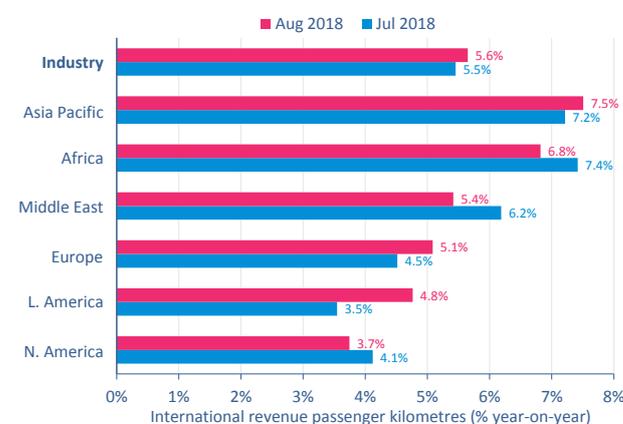
Chart 4 – Passenger load factors by region



International RPK growth slows in all regions

Year-on-year growth in industry-wide international RPKs rose to 5.6% in August. (See Chart 5.)

Chart 5 – International passenger traffic growth by airline region of registration



Asia Pacific carriers post fastest growth again...

Airlines based in Asia Pacific topped the growth chart for the second time in five months, with year-on-year growth of 7.5% in August. The upward trend in passenger traffic remains very strong, supported by structural changes, including ongoing rises in living standards in the region, as well as network changes that translate into time savings for passengers and ultimately stimulate demand.

...followed by Middle East and African carriers

African airlines posted the second fastest growth rate in August (6.8%). While this was a slight deceleration from July, the bigger picture is that the upward SA demand trend remains strong, with annual RPK growth ahead of its five-year average (4.9%). This comes despite an increasingly challenging economic backdrop in the continent's largest economies, with South Africa reentering recession in Q2 and a moderation in business confidence in Nigeria in recent months. (Again, see Chart 2, previous page.)

Meanwhile, year-on-year growth in international RPKs flown by airlines based in the Middle East also fell back in August relative to July (to 5.4%, from 6.2%). The region has been adversely impacted by a number of policy measures and geopolitical tensions in recent years, including the ban on portable electronic devices and travel restrictions. However, passenger volumes have trended upwards at an 8% annualized rate since the start of the year.

European traffic is trending sideways...

European airlines flew 5.1% more international RPKs in August 2018 than they did in the same month last year. However, all of this growth occurred in late-2017 and early-2018: passenger volumes have now tracked

sideways in SA terms for the past four months. As we noted before, this is consistent with recent mixed signs on economic situation in the region, as well as possible disruption related to ATC strikes.

...as is demand for Latin American airlines

It is a similar case for airlines based in Latin America. Admittedly, year-on-year growth accelerated in August (to 4.8%, from 3.5% in July). But this mainly stems from a more beneficial comparison with the period of disruption during last year's Hurricane season. While traffic looks to be recovering from recent signs of softness in demand – which coincided with the general strikes seen in Brazil – the bigger picture is that passenger traffic has broadly tracked sideways in SA terms since April.

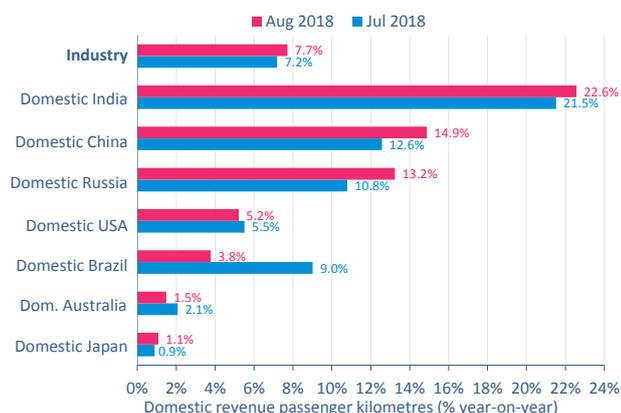
Ongoing robust upward trend in N America

By contrast, strong momentum in the US economy has helped to underpin a pick-up in international passenger demand for North American airlines. While year-on-year growth slowed to 3.7% in August, this mainly reflected developments a year ago rather than any change in the current robust trend. The latest annual RPK growth rate was broadly in line with its five-year average pace.

Modest acceleration in domestic RPK growth

Annual growth in domestic RPKs increased to 7.7% in August, from 7.2% in July. (See Chart 6.)

Chart 6 – Domestic RPK growth by market



India and China top the growth chart...

Once again, India and China topped the domestic growth chart. Domestic India RPKs posted their 48th consecutive month of double-digit growth (22.6%), while year-on-year growth in domestic China RPKs accelerated to a four-month high (14.9%).

As we have noted before, demand continues to be supported in both cases by structural changes,

including ongoing rises in living standards, as well as large increases in the number of airport connections within the respective countries. The latter translates into time savings for passengers and has a similar stimulatory impact on demand as reductions in fares.

...as Russia posts double-digit growth again

Meanwhile, year-on-year growth in domestic Russia RPKs remained in double-digit territory in August for the second month in a row (13.2%). Despite headwinds from sanctions and comparatively modest growth in economic activity, domestic Russia RPKs have continued to trend upwards strongly in SA terms.

Strong momentum in the domestic US market

The strong economic backdrop in the US is continuing to help to drive robust growth in domestic passenger volumes. Year-on-year growth in domestic RPKs fell slightly to 5.2% in August, from 5.5% in July. However, the rate remained above the five-year average (4.2%) and passenger traffic is continuing to trend upwards strongly in SA terms.

Recovery in domestic Brazil RPKs has resumed

Annual growth in domestic Brazil RPKs slowed sharply in August relative to July (to 3.8%, from 9.0%). However, this was driven in large part by a spike in traffic between August and July last year rather than any slump at present. While the economic situation remains fragile, passenger traffic has continued its broad recovery from its low-point reached in early-2016.

Australia and Japan post just modest growth

Australia and Japan posted the slowest domestic RPK growth rates in August (1.5% and 1.1%, respectively). In Australia's case, growth was broadly in line with the five-year average pace (1.4%), and traffic has trended sideways in SA terms since last October.

In the case of Japan, the year-on-year growth rate masks the fact that passenger traffic has now actually trended upwards at a 6% annualized rate over the past six months, helped by comparatively strong economic growth. Volatility caused by Typhoon Talim last year is likely to lend support to the year-on-year growth comparison in the coming months, although this will be offset in part by the impact of Typhoon Jebi in the September data.

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 1st October 2018

Air passenger market detail - August 2018

	World share ¹	August 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%	6.4%	5.5%	0.7%	85.3%	6.8%	5.9%	0.7%	82.4%
Africa	2.2%	3.4%	0.6%	2.1%	77.9%	2.9%	1.0%	1.4%	71.7%
Asia Pacific	33.7%	9.5%	7.3%	1.7%	84.3%	9.5%	8.3%	0.8%	82.0%
Europe	26.6%	5.4%	4.6%	0.6%	88.7%	6.2%	5.0%	1.0%	85.0%
Latin America	5.2%	4.4%	5.8%	-1.1%	80.5%	6.1%	6.1%	0.0%	81.7%
Middle East	9.5%	5.0%	5.8%	-0.6%	80.4%	4.9%	4.9%	0.0%	75.5%
North America	23.0%	4.6%	4.2%	0.3%	86.5%	5.0%	4.5%	0.4%	84.4%
International	63.8%	5.6%	5.1%	0.4%	85.0%	6.5%	5.6%	0.7%	81.7%
Africa	1.9%	6.8%	3.8%	2.2%	78.2%	6.9%	4.3%	1.7%	71.5%
Asia Pacific	18.5%	7.5%	6.1%	1.1%	82.6%	8.1%	7.1%	0.8%	80.7%
Europe	23.7%	5.1%	4.5%	0.5%	88.9%	6.2%	5.1%	0.9%	85.4%
Latin America	2.8%	4.8%	6.5%	-1.3%	81.4%	7.1%	7.2%	-0.1%	82.2%
Middle East	9.1%	5.4%	6.3%	-0.7%	80.7%	5.1%	5.2%	-0.1%	75.6%
North America	7.8%	3.7%	3.3%	0.4%	87.2%	5.0%	3.6%	1.1%	83.5%
Domestic	36.2%	7.7%	6.2%	1.2%	85.7%	7.4%	6.6%	0.6%	83.6%
Dom. Australia ⁴	0.9%	1.5%	0.8%	0.5%	78.0%	2.2%	0.5%	1.3%	78.8%
Domestic Brazil ⁴	1.2%	3.8%	4.8%	-0.8%	79.5%	5.2%	5.4%	-0.1%	80.7%
Dom. China P.R. ⁴	9.1%	14.9%	11.7%	2.4%	88.0%	13.2%	12.9%	0.2%	84.9%
Domestic India ⁴	1.4%	22.6%	16.1%	4.6%	87.5%	21.2%	17.0%	3.0%	88.1%
Domestic Japan ⁴	1.1%	1.1%	-0.6%	1.3%	80.3%	2.6%	0.8%	1.3%	71.6%
Dom. Russian Fed. ⁴	1.4%	13.2%	11.3%	1.6%	90.8%	8.6%	6.3%	1.8%	83.0%
Domestic US ⁴	14.5%	5.2%	4.6%	0.5%	86.1%	5.1%	5.0%	0.1%	85.1%

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.

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