



AIR PASSENGER MARKET ANALYSIS

July 2018

A solid start to the peak season, alongside a record July load factor

- Annual growth in industry-wide revenue passenger kilometres made a solid start to the peak demand season in July (6.2%), underlining our view that 2018 will be another year of above-trend growth for passenger volumes.
- The industry-wide load factor posted a record high for the month of July (85.2%), led by European airlines (89.0%).
- Airlines based in Asia Pacific posted the fastest annual international RPK growth rate for the first time in three months. Meanwhile, the domestic India growth rate remained in double-digit territory for the 47th month in a row.

RPK growth makes a solid start to the peak season

Year-on-year growth in industry-wide revenue passenger kilometres (RPKs) slowed to 6.2% in July, down from 8.1% in June.

Nonetheless, the July outcome marked a solid start to the peak passenger demand season and underlines our view that 2018 will be another year of above-trend growth for industry-wide RPKs. Passenger volumes have increased by 6.9% over the first seven months of the year compared to the same period of 2017 – in line with the average pace seen over the past five years.

That said, and as we have noted before, the pace of growth this year to date has been slower than that seen in the same period of 2017, during which RPKs grew by 8.1% in year-on-year terms. This supports our view that RPK growth, while remaining robust, will slow moderately in calendar-year 2018 relative to last year.

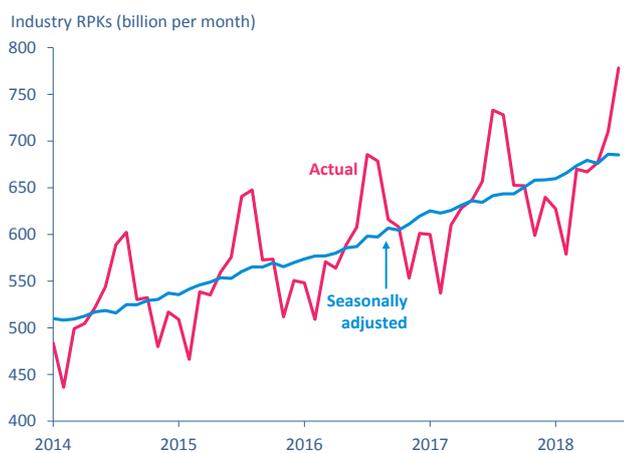
Key demand drivers have become less supportive

This view reflects a number of factors, particularly the increase in airline input costs, which stems in large part from higher fuel prices. Upward pressure on input costs is translating into a reduced boost to demand from lower airfares, which has been a key driver of the strong RPK growth rates seen in recent years.

As we pointed out in a recent [note](#), declines in the value of a number of currencies relative to the US dollar will exacerbate the impact of rising US dollar-denominated fuel costs for airlines in some key emerging market economies.

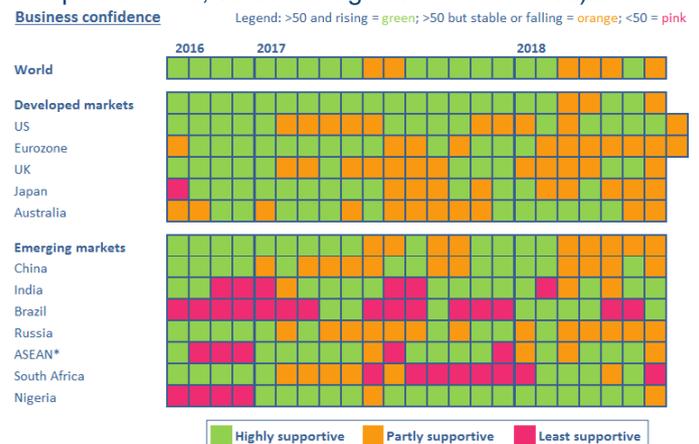
Meanwhile, business surveys also indicate that the underlying economic backdrop has become more mixed too – particularly when compared to the best of the synchronized and broad-based pick-up in economic activity seen at end-2017. (See Chart 2.)

Chart 1 – Air passenger volumes



Sources: IATA Economics, IATA Monthly Statistics

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 - July 2018

	World share ¹	July 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%	6.2%	5.5%	0.6%	85.2%	6.9%	6.1%	0.7%	81.9%
International	63.8%	5.3%	4.7%	0.5%	85.0%	6.6%	5.6%	0.8%	81.2%
Domestic	36.2%	7.8%	6.9%	0.8%	85.6%	7.6%	6.9%	0.5%	83.3%

¹% of industry RPKs in 2017

²Year-on-year change in load factor

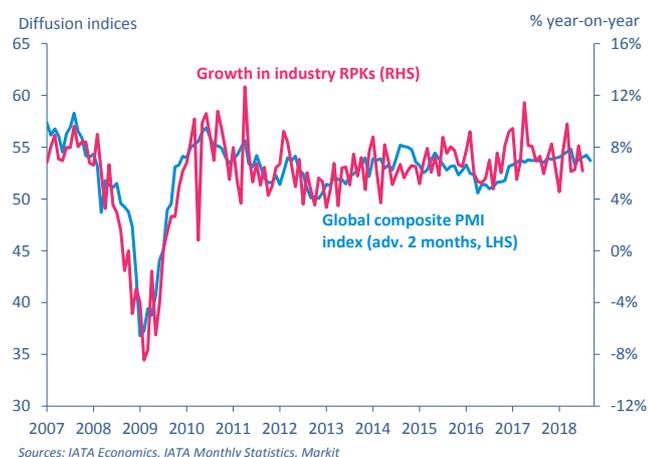
³Load factor level

While economic conditions remain reasonably solid, heightened uncertainty about trade restrictions, geopolitical tensions in parts of the world and region-specific issues such as Brexit, have all played a role in the moderation in business sentiment.

All told, the global composite Purchasing Managers' Index (PMI) is consistent with annual industry-wide RPK growth remaining around its current solid rate over the coming months. (See Chart 3.)

However, having fallen from its elevated level earlier in the year, the indicator suggests that we are unlikely to see any significant or sustained acceleration in industry-wide RPK growth in the near term.

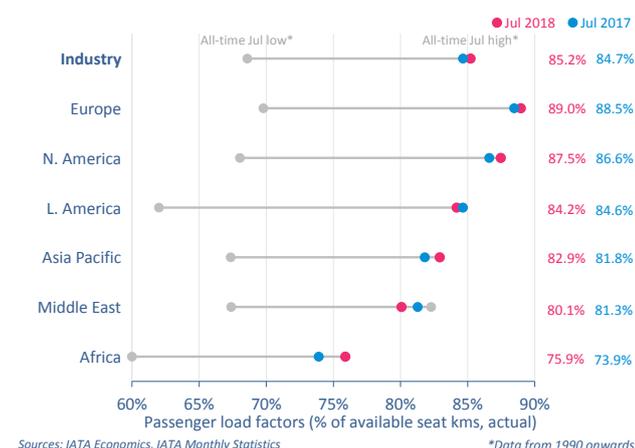
Chart 3 – Air passenger volume growth and global composite business confidence measure



Load factor rises to a fresh July-high, above 85%

Industry-wide available seat kilometres (ASKs) grew by 5.5% year-on-year in July. As a result, the passenger load factor rose by 0.6 percentage points relative to July 2017, to a record-high for the month (85.2%). All regions except the Middle East and Latin America registered record July passenger load factors. (See Chart 4.) In seasonally adjusted (SA) terms, demand is once again trending upwards slightly faster than capacity.

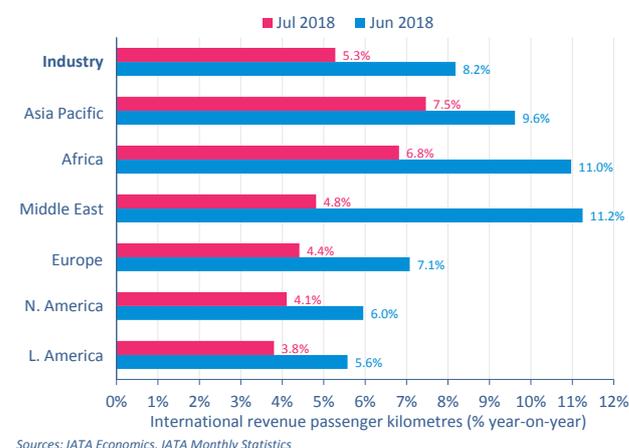
Chart 4 – Passenger load factors by region



International RPK growth slows in all regions

Year-on-year growth in industry-wide international RPKs fell to 5.3% in July, with annual RPK growth slowing in all regions relative to June. (See Chart 5.)

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



Asia Pacific carriers post the fastest growth...

Airlines based in Asia Pacific topped the growth chart for the first time in three months. While year-on-year growth fell to 7.5% in July, from 9.6% in June, the bigger picture is that the upward trend in passenger traffic remains strong, supported by a combination of robust regional economic growth and ongoing increases in the number of options for travelers.

...followed by Middle Eastern and African airlines

Year-on-year growth in international RPKs flown by airlines based in the Middle East more than halved between July and June (to 4.8%, from 11.2%), although this mainly reflected volatility in the data a year ago than any major development at present.

The region has been adversely impacted by a number of policy measures in recent years, including the ban on portable electronic devices and travel restrictions.

However, there are tentative signs of a pick-up in the upward trend in passenger volumes, which we will continue to monitor closely in the coming months.

Volatility a year ago was also a key factor behind the slowdown in year-on-year international RPK growth for African airlines in July (to 6.8%, from 11.0% in June). Indeed, the upward SA demand trend remains strong.

Higher oil and commodity prices have supported the economic backdrop in a number of countries, including Nigeria, although business confidence remains fragile in South Africa. (Again, see Chart 2.)

Divergence in Europe and N.America trends....

Europe and North America posted similar year-on-year RPK growth rates in July (4.4% and 4.1% respectively), although the SA RPK trends have diverged somewhat in recent months.

In Europe's case, passenger volumes have now tracked sideways for the past three months, which is consistent with mixed developments on the economic front as well as possible disruption related to ATC strikes in the region. By contrast, strong momentum in the US economy has helped to underpin a pick-up in international passenger demand for North American airlines in recent months.

...amid a recent weakening in Latin America

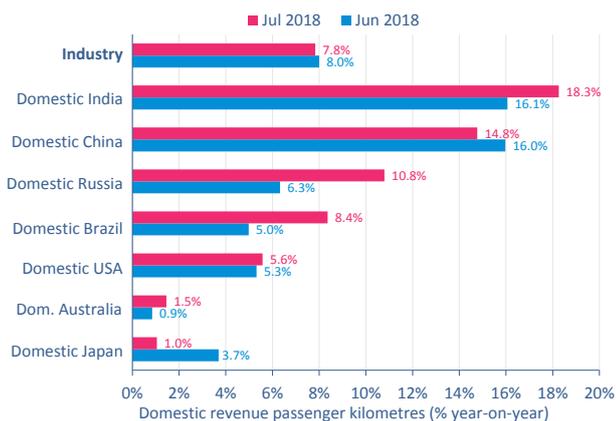
Having topped the growth chart just two months ago, Latin American carriers posted the slowest international RPK growth rate in July, at 3.8% year-on-year. Recent signs of softness in demand have come alongside disruption from the general strikes in Brazil.

This has been amplified by comparison with the strong period of demand a year ago, prior to last year's Hurricane season. Given the disruption caused by the latter, the year-on-year comparison is likely to become more favorable over the coming months.

Slight slowdown in domestic RPK growth

Annual growth in domestic RPKs slowed slightly in July, to 7.8% from 8.0% in June. (See Chart 5.)

Chart 6 – Domestic RPK growth by market



India and China top the growth chart once again...

The India domestic market topped the growth chart for the 12th time in 13 months in July, and posted its 47th consecutive month of double-digit growth (18.3%). Meanwhile, China's growth performance wasn't far

behind that of India, with domestic RPKs up 14.8% compared to July 2017.

Demand continues to be supported in both cases by structural changes, including ongoing rises in living standards, as well as sizeable 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 also posts double-digit annual growth

Meanwhile, year-on-year growth in domestic Russia RPKs accelerated into double-digit territory in July, to a 13-month high (10.8%). The upward trend in SA demand remains very strong, with higher world oil prices helping to support economic activity in the Russian economy, as well as incomes and jobs.

Strong momentum in the domestic US market

The largest domestic market in the world – the US – saw annual RPK growth increase to a five-month high of 5.6% in July – some way above the five-year average (4.2%). Passenger traffic is currently trending upwards strongly, supported by increasing momentum in the US economy. In SA terms, domestic RPKs have risen at an annualized rate of around 7.5% since the start of 2018.

Recovery in domestic Brazil RPKs has resumed

Domestic RPKs in Brazil posted their fastest annual growth in July since April 2014 (8.4%). After the disruption owing to the general strikes in the country in recent months, the recovery in domestic RPKs looks to have resumed. In SA terms, RPKs are now back within 1% of the peak reached in late-2014.

Australia and Japan post just modest growth

Domestic RPKs flown in Australia grew by 1.5% year-on-year in July, up from 0.9% in June and in line with the five-year average pace.

Year-on-year growth in domestic Japan RPKs fell to 1.0% in July. Volatility during the typhoon season last year is likely to continue to affect year-on-year growth rates in the coming months. Nonetheless, the key point is that SA air passenger demand is currently trending upwards at a 2-3% annualized rate.

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30th August 2018

Air passenger market detail - July 2018

	World share ¹	July 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%	6.2%	5.5%	0.6%	85.2%	6.9%	6.1%	0.7%	81.9%
Africa	2.2%	3.5%	0.8%	2.0%	75.9%	2.8%	1.0%	1.2%	70.7%
Asia Pacific	33.7%	9.4%	7.9%	1.1%	82.9%	9.7%	8.7%	0.8%	81.7%
Europe	26.6%	4.6%	4.0%	0.5%	89.0%	6.3%	5.0%	1.0%	84.3%
Latin America	5.2%	5.3%	5.9%	-0.5%	84.2%	6.4%	6.1%	0.2%	81.9%
Middle East	9.5%	4.5%	6.1%	-1.2%	80.1%	4.7%	4.7%	0.0%	74.7%
North America	23.0%	5.0%	4.0%	0.9%	87.5%	5.1%	4.5%	0.5%	84.1%
International	63.8%	5.3%	4.7%	0.5%	85.0%	6.6%	5.6%	0.8%	81.2%
Africa	1.9%	6.8%	3.9%	2.1%	76.0%	6.8%	4.3%	1.6%	70.5%
Asia Pacific	18.5%	7.5%	6.0%	1.1%	82.1%	8.2%	7.2%	0.8%	80.5%
Europe	23.7%	4.4%	3.9%	0.5%	89.1%	6.3%	5.1%	1.0%	84.8%
Latin America	2.8%	3.8%	4.6%	-0.6%	84.2%	7.5%	7.4%	0.1%	82.3%
Middle East	9.1%	4.8%	6.5%	-1.3%	80.3%	4.8%	4.9%	-0.1%	74.7%
North America	7.8%	4.1%	2.8%	1.1%	87.2%	5.2%	3.7%	1.2%	82.9%
Domestic	36.2%	7.8%	6.9%	0.8%	85.6%	7.6%	6.9%	0.5%	83.3%
Dom. Australia ⁴	0.9%	1.5%	0.9%	0.4%	81.4%	2.9%	1.3%	1.3%	78.8%
Domestic Brazil ⁴	1.2%	8.4%	9.1%	-0.6%	83.7%	5.3%	5.4%	-0.1%	80.8%
Dom. China P.R. ⁴	9.1%	14.8%	14.3%	0.4%	84.6%	13.5%	13.7%	-0.1%	84.5%
Domestic India ⁴	1.4%	18.3%	12.2%	4.4%	86.9%	20.5%	16.7%	2.8%	88.1%
Domestic Japan ⁴	1.1%	1.0%	-2.0%	2.2%	71.8%	2.8%	1.0%	1.2%	70.2%
Dom. Russian Fed. ⁴	1.4%	10.8%	10.2%	0.5%	90.9%	7.7%	5.4%	1.7%	81.5%
Domestic US ⁴	14.5%	5.6%	4.7%	0.8%	87.9%	5.1%	5.1%	0.1%	84.9%

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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