



AIR PASSENGER MARKET ANALYSIS

March 2017

A robust first quarter of 2017 for air passenger demand

- Global revenue passenger kilometres (RPKs) grew by 6.8% year-on-year in March.
- RPKs grew by more than 8% in annual terms in Q1 2017 adjusting for the leap year, supported by lower airfares and an upturn in economic activity. But there are tentative signs of such drivers becoming more mixed.
- China overtakes India as the fastest growing domestic market, as L.American carriers post the fastest int'l growth.
- The seasonally adjusted (SA) load factor remained steady in March, close to its record high.

A robust first quarter of 2017 for pax growth

Global revenue passenger kilometres (RPKs) grew by 6.8% year-on-year in March. This was a moderate slowdown in growth relative to February once you allow for the distortion to the data last month owing to the extra day in February 2016. (We estimate that the 'underlying' February RPK year-on-year growth rate was slightly more than 8%, compared to the 'unadjusted' 4.9% figure.)

Nonetheless, the March data completed a robust first quarter of 2017 for passenger demand growth: industry-wide RPKs were 7.0% higher than in the same period a year ago, and around 8.1% higher adjusting for the leap year effect. This is well ahead of the long-run average RPK growth rate of around 5.5%.

Broad support for passenger demand...

The robust start to 2017 has been supported by a combination of lower yields and airfares, and a broad-

based upturn in global economic conditions, which has helped to drive demand for passenger travel. (See Chart 1.) Air travel has continued to become cheaper relative to the price of other goods and services; the price of air travel has fallen by around 10% in real terms over the past year.

...but are demand drivers becoming more mixed?

That said, having been unequivocally supportive over the past 6-9 months, there are some signs that the drivers of demand are becoming more mixed. Certainly month-to-month developments in RPKs were more mixed in SA terms during the first quarter of 2017 than the consistent upward trend seen during Q4 2016. (See Chart 2.)

This partly relates to signs that passenger yields have stopped trending downwards over the past three months or so. As we noted in a recent *Chart of the Week*, industry heads expect yields to increase further

Chart 1 – Air passenger volume growth and global business confidence

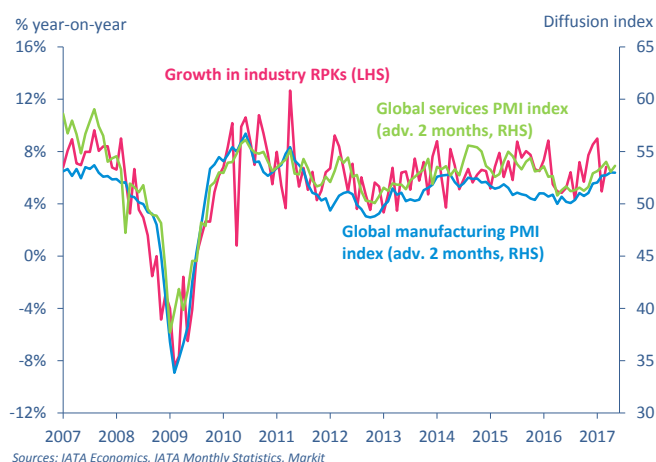
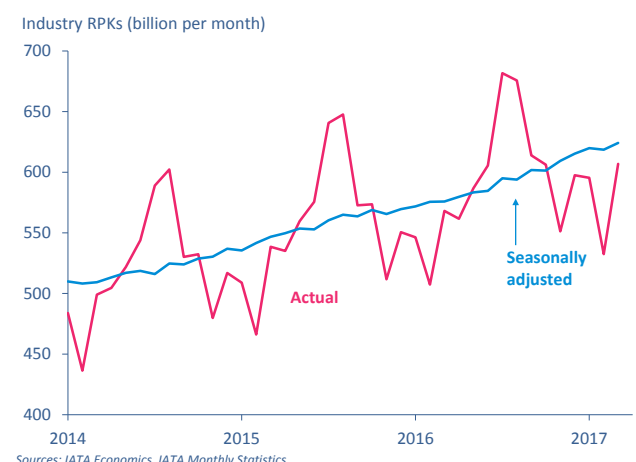


Chart 2 – Air passenger volumes



Air passenger market overview - March 2017

	World share ¹	March 2017 (% 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%	6.8%	6.1%	0.5%	80.4%	7.0%	5.5%	1.1%	80.1%
International	63.7%	6.4%	6.1%	0.2%	78.8%	7.1%	5.6%	1.1%	79.2%
Domestic	36.3%	7.6%	6.1%	1.2%	83.2%	6.7%	5.2%	1.1%	81.6%

over the coming 12 months. (See [link.](#)) Meanwhile, although business confidence indicators remain consistent with solid growth in economic activity, the upward trend in confidence looks to have paused, particularly in advanced economies.

On balance, the drivers of demand look set to remain supportive of RPK growth ahead of the upcoming peak travel season during the middle months of the year. However, we will monitor developments in such drivers closely in the coming months.

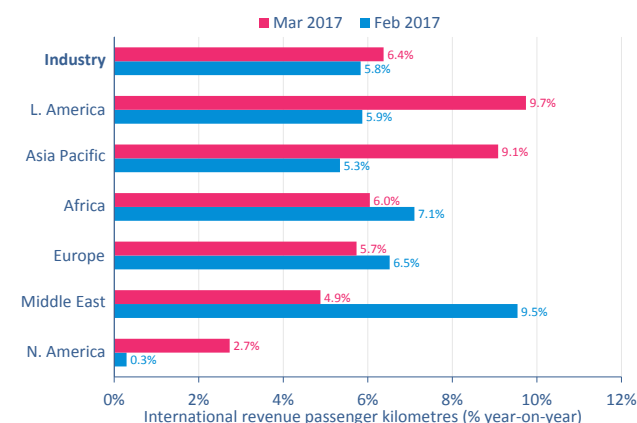
Load factor reaches an all-time March high

Industry-wide available seat kilometres (ASKs) increased by 6.1% year-on-year in March. Airlines have slowed the pace of capacity growth over the recent past: ASKs have trended upwards at an annualized rate of 5.2% over the past six months, compared to 7.4% for demand. This combination has helped to keep the SA load factor steady at a record high level over the past five months. March's load factor (80.4%) was also a record high for the month.

Wide spread in international RPK performance

International RPKs grew by 6.4% year-on-year in March, up from 5.8% in February. (See Chart 3.) However, adjusting for the impact of the leap year in February 2016, growth actually *decelerated* slightly.

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



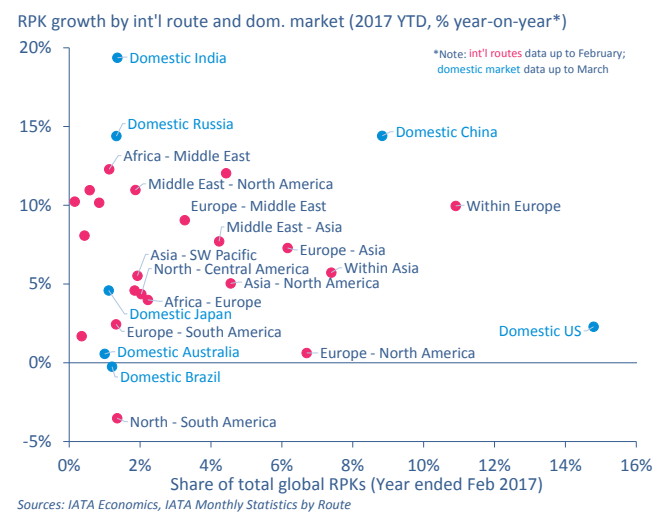
Latin American airlines posted the fastest year-on-year growth rate in March, for only the second time in 63 months. The strong upward trend in SA traffic is underpinned in part by robust international demand within South America. RPKs on the larger North-South America route have trended downwards in SA terms since mid-2015, however, and are now nearly 5% below their mid-2015 peak. (See Chart 4.)

Airlines based in Asia Pacific posted the second fastest growth rate in March, and the upward trend in SA traffic has remained strong. While volatile on a monthly basis, the demand trend on international

routes within the Asia region is solid. Having been affected by terrorism-related disruption in early-2016, traffic on the Asia-Europe route has continued to recover strongly (demand has grown at annualized rate of 22% since November).

Despite ongoing fragility in the region's biggest economies (Nigeria and South Africa), the SA upward trend in international RPKs flown by African airlines has strengthened in recent months; RPKs have grown at an annualized pace of nearly 10% since mid-2016. This pick-up reflects a combination of faster growth on the key market to and from Europe, and also between Africa and the Middle East. (Again, see Chart 4.)

Chart 4 – RPK growth by route and market



Middle Eastern airlines post the fastest year-on-year int'l passenger growth in Q1 2017

Middle Eastern airlines' international passenger volumes fell in SA terms in March, although the decline in the year-on-year growth rate in March (to 4.9%) related more to developments seen last year. Any impact of the laptop ban on passenger traffic will be visible from the April data onwards. The bigger picture is that the region has seen the fastest year-on-year growth in international RPKs so far this year, reflected in robust growth to and from Asia and Europe.

International RPKs flown by European airlines – the largest region on this measure – grew by a solid 5.7% year-on-year in March. The strong upward trend in SA passenger volumes is supported in part by ongoing momentum in the regional economy (business confidence in the region is at a six-year high). That said, there is wide variation in performance of segment-based markets to and from the region. Passenger demand across the Atlantic has grown just modestly in year-on-year terms so far this year to date, while RPKs flown on the routes to and from Asia and the Middle East have grown by around 7-9% over the period. (Again, see Chart 4.)

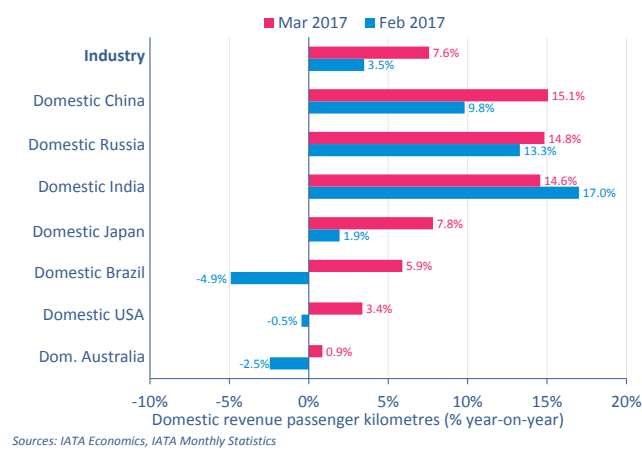
Moderation in N.American capacity and demand

By contrast to the other regions, passenger traffic flown by North American airlines has trended sideways in SA terms since July 2016, alongside a similar trend in capacity. The SA trend in passenger traffic across the Atlantic has tracked sideways since mid-2016, but the upward trend on the large market to and from Asia remains solid.

Wide range in domestic market performance

Year-on-year growth in domestic RPKs accelerated to 7.6% in March, up from 3.5% in February. (See Chart 5.) (That said, we estimate that the underlying rate of growth in February was closer to 7% after adjusting for the impact of the leap year.)

Chart 5 – Domestic RPK growth by market



China tops the domestic growth chart again

China posted the fastest year-on-year domestic growth rate for the first time in two years. The timing of Chinese New Year can complicate annual comparisons at the start of each year, but the bigger picture is that domestic China RPKs grew by more than 15% in year-on-year in Q1 2017 adjusting for the impact of the 2016 leap year. The solid upward trend in traffic is underpinned by ongoing robust growth in the country's services sector, as well as supply developments that translate into time savings for passengers and will have the same stimulatory impact on demand as a cut in fares: the number of domestic routes flown within China are scheduled to increase by 6% in 2017 compared to the previous year, alongside a 3% increase in average flight frequencies too.

Russia posted the second fastest domestic growth in March. The 14.8% year-on-year growth in domestic Russia RPKs reflects a sustained strong rise in SA domestic traffic over the past year, with traffic now back on its upward trend before the collapse of Transaero in late-2015. This recovery is set against an improving economic outlook as oil prices have firmed. However, the domestic market is the only one that we

track not to have seen an annual increase in the passenger load factor so far in 2017.

Domestic India RPKs grew at their slowest pace since September 2015, with a broader slowing in the stellar upward SA traffic trend. This is the first possible sign of reduced cash supply and wider economic uncertainty weighing on demand. That said, some context is needed: March was the 31st consecutive month in which domestic passenger volumes grew at a double-digit annual pace. Moreover, airlines are now scheduling a 9% increase in domestic routes in 2017.

Modest growth in US traffic and capacity

Upward momentum in the US domestic market – the largest in the world – has slowed to a standstill over the past six months or so. This is despite ongoing strong readings from consumer confidence surveys, but is set against a similar slowing in the trend in capacity. As a result, the domestic US load factor in Q1 was unchanged in year-on-year terms from that seen in the same period a year ago (not far below record high of 83.1% reached in Q1 2014).

Further signs of life in the domestic Japan market

The SA trend in domestic RPKs in Japan has picked up since May 2016, and year-on-year traffic growth accelerated to a three-year high of 7.8% in March. This has come alongside an increase in the number of domestic routes flown (albeit with lower average flight frequencies). While still the lowest of all the domestic markets that we track, Japan's domestic load factor posted another record month-high in March (74.6%), 3.3 percentage points higher than March 2016.

Meanwhile, domestic Australia RPKs have grown by just 1.7% year-on-year in 2017 to date once you adjust for the leap year effect. Capacity has trended sideways in SA terms over the past three years, which has helped to support passenger loads.

Domestic Brazil year-on-year growth moves back into positive territory

The recovery in the SA domestic traffic trend in Brazil has continued. As expected, the year-on-year domestic RPK growth rate recovered into positive territory in March for the first time since July 2015. The challenging economic and political backdrop has taken a toll in recent years, but Brazilian carriers have been able to adjust capacity, partly by reducing the number of domestic routes operated, to limit the impact on the load factor.

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4th May 2017

Air passenger market detail - March 2017

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		RPK	ASK	PLF (%-pt) ²	PLF (level) ³	RPK	ASK	PLF (%-pt) ²	PLF (level) ³
TOTAL MARKET	100.0%	6.8%	6.1%	0.5%	80.4%	7.0%	5.5%	1.1%	80.1%
Africa	2.2%	4.9%	1.9%	2.0%	69.4%	5.2%	2.5%	1.8%	69.1%
Asia Pacific	32.9%	10.7%	8.0%	1.9%	80.7%	10.0%	7.1%	2.2%	81.2%
Europe	26.4%	6.0%	5.3%	0.5%	81.4%	6.9%	5.3%	1.2%	80.4%
Latin America	5.2%	7.8%	5.3%	1.9%	80.2%	5.1%	3.2%	1.5%	81.5%
Middle East	9.6%	4.7%	9.3%	-3.2%	73.2%	9.1%	9.2%	-0.1%	75.6%
North America	23.7%	3.2%	3.3%	-0.1%	83.6%	2.3%	2.3%	-0.1%	81.1%
International	63.7%	6.4%	6.1%	0.2%	78.8%	7.1%	5.6%	1.1%	79.2%
Africa	1.9%	6.0%	2.4%	2.3%	68.2%	6.2%	3.1%	2.0%	68.1%
Asia Pacific	18.2%	9.1%	7.4%	1.2%	78.7%	8.3%	6.2%	1.5%	80.0%
Europe	23.6%	5.7%	4.7%	0.8%	82.2%	6.8%	4.9%	1.4%	81.2%
Latin America	2.7%	9.7%	6.4%	2.4%	80.7%	8.0%	5.0%	2.2%	82.0%
Middle East	9.3%	4.9%	9.4%	-3.1%	73.1%	9.6%	9.3%	0.2%	75.8%
North America	8.0%	2.7%	3.7%	-0.7%	79.8%	2.1%	2.3%	-0.2%	78.8%
Domestic	36.3%	7.6%	6.1%	1.2%	83.2%	6.7%	5.2%	1.1%	81.6%
Dom. Australia ⁴	1.0%	0.9%	-0.4%	0.9%	76.4%	0.6%	-1.2%	1.3%	76.4%
Domestic Brazil ⁴	1.2%	5.9%	4.1%	1.3%	79.0%	-0.3%	-1.6%	1.1%	81.0%
Dom. China P.R. ⁴	8.7%	15.1%	10.8%	3.1%	85.2%	14.4%	10.2%	3.1%	84.8%
Domestic India ⁴	1.3%	14.6%	13.5%	0.8%	83.2%	19.4%	16.1%	2.3%	86.1%
Domestic Japan ⁴	1.1%	7.8%	3.0%	3.3%	74.6%	4.6%	0.9%	2.4%	69.7%
Dom. Russian Fed. ⁴	1.3%	14.8%	18.0%	-2.1%	75.7%	14.4%	16.1%	-1.1%	73.7%
Domestic US ⁴	14.9%	3.4%	3.1%	0.3%	85.7%	2.3%	2.3%	0.0%	82.5%

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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