



AIR PASSENGER MARKET ANALYSIS

August 2017

A strong peak period, but the upward trend in traffic has eased

- Global revenue passenger kilometres (RPKs) increased by a robust 7.2% in August compared to a year ago.
- Solid gains during the peak summer period look set to help underpin another year of above-trend RPK growth in 2017. However, the upward trend in seasonally adjusted (SA) traffic has moderated since the start of the year.
- The global passenger load factor rose from August 2016, but was just below the record for the month set in 2015.
- India rose to the top of the domestic chart with its 36th consecutive month of double-digit annual RPK growth.

August data complete a strong peak period...

Industry-wide revenue passenger kilometres (RPKs) grew by 7.2% year-on-year in August, up slightly from July, and completing a solid performance during the peak northern-hemisphere summer period; industry-wide RPKs grew by 7.1% year-on-year in July and August combined, compared to 5.6% in the same period a year ago. This looks set to help underpin another year of above-trend growth in passenger traffic in 2017, some way ahead of the five-year average RPK growth rate (6.5%).

...but further signs of an easing in the SA trend

That said, and as we have noted before, the latest data once again showed that the upward trend in SA passenger traffic has eased from that seen towards the end of last year. Indeed, industry-wide RPKs were trending upwards at a double-digit annualized pace

coming into 2017, but this has now slowed to a more moderate pace in the region of 6%. (See Chart 1.)

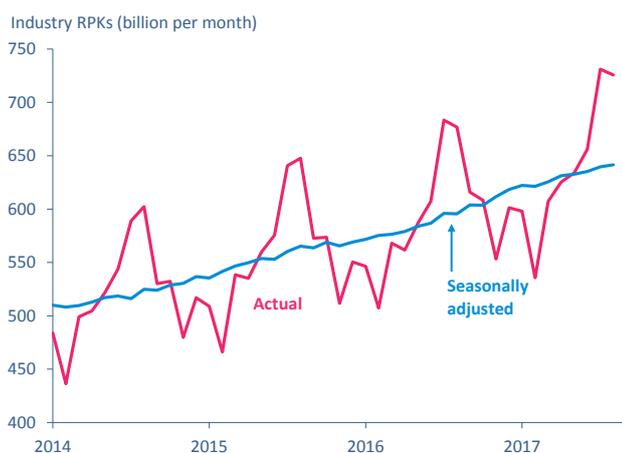
Reduced stimulus from lower airfares...

This moderation has in part reflected a reduced degree of stimulus to demand from lower airfares. Admittedly, passenger yields in July 2017 were only slightly higher than they were in the same month in 2016 (0.1% when adjusting for potential distortions from exchange rate movements); in fact, adjusting for inflation, the price of air travel still became relatively cheaper than other goods and services over the period. However, passenger yields have clearly now begun to trend upwards, albeit modestly.

...but the economic backdrop remains solid

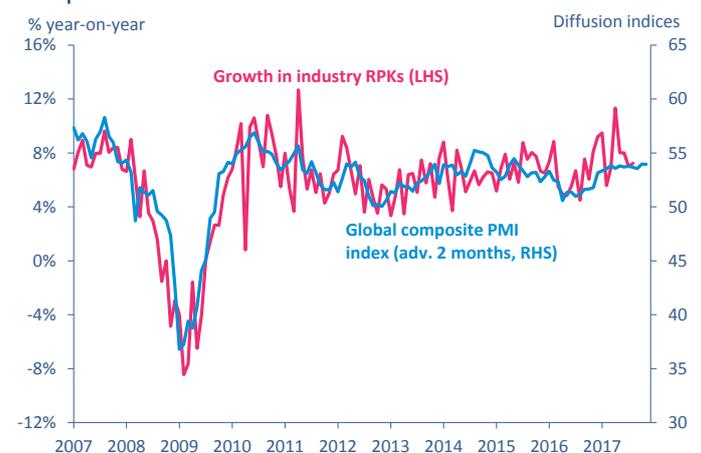
At the same time, the improvement in economic conditions that helped to drive the acceleration in RPK growth in late-2016, has also paused. Indeed, while

Chart 1 – Air passenger volumes



Sources: IATA Economics, IATA Monthly Statistics

Chart 2 – Air passenger volume growth and global composite business confidence measure



Sources: IATA Economics, IATA Monthly Statistics, Markit

Air passenger market overview - August 2017

	World share ¹	August 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%	7.2%	6.3%	0.7%	84.5%	7.9%	6.5%	1.1%	81.7%
International	63.7%	7.0%	6.1%	0.8%	84.5%	8.2%	6.6%	1.2%	81.0%
Domestic	36.3%	7.6%	6.9%	0.6%	84.5%	7.5%	6.4%	0.8%	83.0%

¹% of industry RPKs in 2016

²Year-on-year change in load factor

³Load factor level

the global composite purchasing managers' index (PMI) has risen very slightly in recent months, the bigger picture is that it has broadly tracked sideways since the start of the year. (See Chart 2, previous page). To be clear, the global PMI remains consistent with rising economic activity as well as robust year-on-year RPK growth in the region of 6.5-7%. However, based on past experience and at current levels, the indicator is not consistent with a marked acceleration in annual RPK growth anytime soon.

All told, the strong first half of the year and the robust peak northern-hemisphere summer period means that 2017 is on course to be another year of above-trend RPK growth. However, the recent easing in demand drivers suggests that passenger traffic will continue to trend upwards at a more moderate pace into 2018 than we have seen in the recent past.

Capacity starting to trend faster than demand?

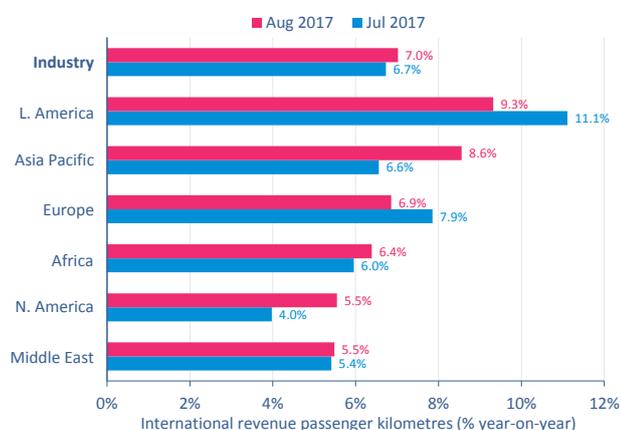
Industry-wide available seat kilometres (ASKs) increased by 6.3% year-on-year in August. As a result, the passenger load factor increased by 0.7 percentage points, to 84.5%, compared to the same month a year ago.

The SA industry-wide load factor remains close to an all-time high, above 81%. However, the recent moderation in the upward trend in SA RPKs means that demand is currently trending upwards more slowly than ASKs. We will continue to monitor developments in this closely over the coming months.

Accelerations in int'l RPK growth in most regions

Year-on-year growth in international RPKs increased slightly to 7.0% in August, from 6.7% in July. (See Chart 3.) The annual growth rate increased in all regions except Latin America and Europe.

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



Sources: IATA Economics, IATA Monthly Statistics

Latin America tops the int'l growth chart again

Year-on-year growth in international RPKs flown by Latin American airlines slowed to 9.3% in August, from 11.1% in July. Nonetheless, this was enough to see the region top the growth chart for the third month in a row. Moreover, there continues to be little sign of any slowdown in the strong upward SA traffic trend.

Having fallen in SA terms throughout 2016, traffic on the North-South America segment has recovered in recent months, helped in part by signs of ongoing recovery in the region's largest economy, Brazil; SA RPKs flown on the route recently surpassed their August-2015 peak level. Meanwhile, international RPKs flown between North and Central America, as well as within South America, have also continued to trend upwards strongly.

A slower upward trend in int'l European RPKs...

Europe was the only other region to see a slowdown in the pace of international RPK growth in August (to 6.9%, from 7.9% in July). In fact, the upward trend in SA RPKs has slowed considerably since late-2016: international RPKs have risen at an annualized rate of around 3% since February – around one-quarter of the pace seen during H2 2016 – and slightly below the pace of capacity growth over the same period.

International traffic flown on routes within Europe have fallen back in SA terms in recent months, despite a strengthening economic backdrop in the region. This may in part reflect a period of normalization after the very strong upward trend in traffic in H2 2016, but is something that we will continue to monitor closely. Similarly, SA traffic conditions on the Europe-Asia route have also weakened in recent months, with SA traffic volumes currently back at where they stood in February.

...with a similar picture for Asia Pacific airlines

Airlines based in Asia Pacific flew 8.6% more international RPKs in August 2017 than they did in the same month a year ago. (For context, international RPKs have grown at an average pace of 7.9% over the past five years.) As was the case for European airlines, the SA traffic trend on a number of key routes to, from and within the region has moderated from that seen at the end of last year, even though the economic backdrop has remained solid.

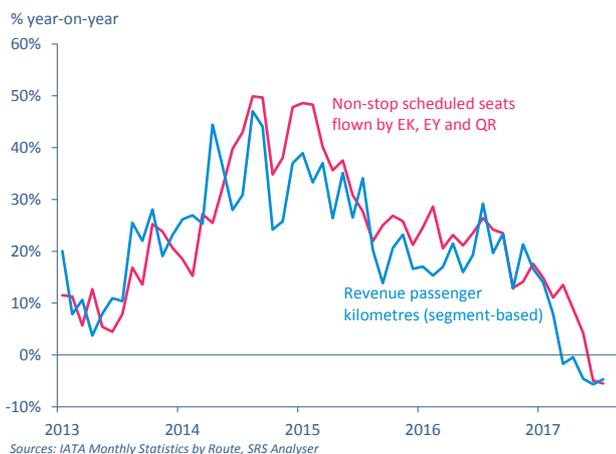
Middle Eastern growth remains under pressure

International RPKs flown by Middle Eastern airlines grew by 5.5% year-on-year in August, broadly unchanged from the rate seen in July, but still well below the five-year average pace (11.1%). In SA

terms, RPKs have now trended upwards at an annualized pace of just 2% since the start of the year.

The Middle East to North America market in particular has been hit by a combination of factors, including the now-lifted ban on personal electronic devices, as well as a wider impact from the proposed travel bans to the US. Traffic growth on the segment was already slowing in early-2017, alongside an easing in the pace of growth of non-stop services flown by the largest Middle Eastern airlines. (See Chart 4.) However, RPKs flown on the market segment fell in year-on-year terms for the fifth consecutive month in July (-4.7%).

Chart 4 – Scheduled services and passenger traffic between the Middle East and North America



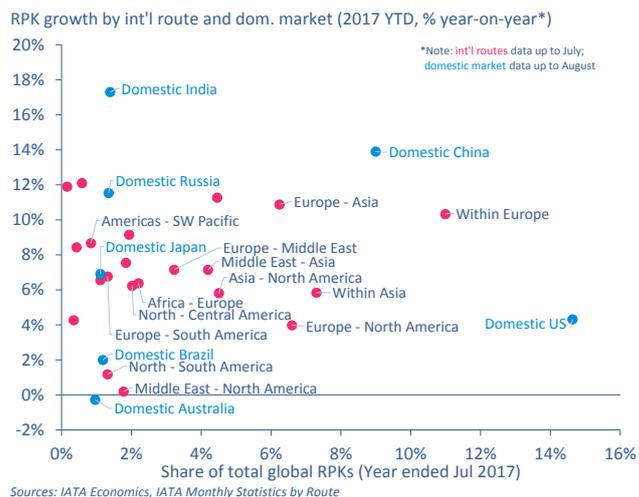
The upward trend in African int'l RPKs has paused

International RPKs flown by African airlines increased by 6.4% year-on-year in August, up slightly from 6.0% in July. The two largest economies in the continent – Nigeria and South Africa – both exited from economic recessions during the second quarter of the year. Nonetheless, SA RPKs have now broadly tracked sideways so far this year. While volatile on a monthly basis, demand conditions on the key market to and from Europe have improved so far in 2017, with RPKs up 6.4% year-on-year over the January-July period (the latest data available). (See Chart 5.)

Acceleration in North American RPK growth

North American airlines' international RPKs grew by 5.5% in year-on-year terms in August, up from 4.0% in July, and nearly double the five-year average (3.1%). SA passenger traffic has extended the month-on-month gains achieved earlier in the year, and the comparatively bright economic backdrop in North America should continue to support outbound passenger demand in the near term. However, there are ongoing signs that inbound travelers to the US are being deterred by the additional security measures now involved with travelling there.

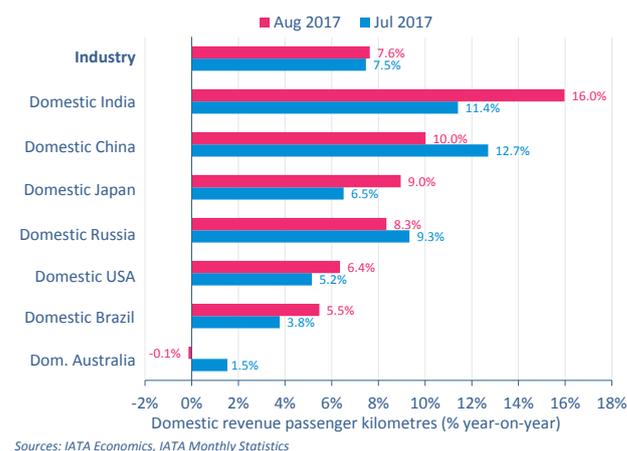
Chart 5 – RPK growth by route and market (YTD)



Wide range in domestic market performance

Domestic RPK growth was broadly unchanged in year-on-year terms in August compared to July (7.6% versus 7.5%). (See Chart 6.)

Chart 6 – Domestic RPK growth by market



Domestic India regains position at top of chart...

Year-on-year growth in domestic India RPKs accelerated to 16.0% in August – its 36th consecutive month in double-digit territory. Having slowed in late-2016 and early-2017, the strong upward SA traffic trend has reasserted itself in recent months: domestic RPKs have risen at an annualized rate of more than 30% since April. As is the case in China, demand continues to be stimulated by sizeable increase in the number of domestic routes served.

...with China in second place

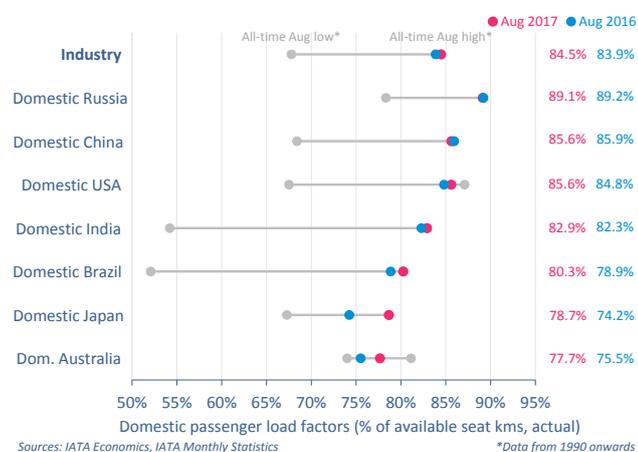
Domestic China RPKs grew by 10.0% year-on-year in August, down from 12.7% in July. The past few months have seen SA traffic track sideways, although it is unclear as yet whether this is the start of a sustained pause in the long-standing upward trend in domestic traffic or just part of the normal variation in the series. As we have noted before, air travel demand is continuing to be stimulated by supply

factors, including a sizeable increase in the number of unique airport-pair routes served in 2017 compared to the previous year.

Russia RPKs are currently trending sideways

Domestic Russia RPKs grew by 8.3% year-on-year in August, down from 9.3% in July, and its slowest pace in ten months. Moreover, much of the growth indicated by the year-on-year rate actually took place last year: indeed, the strong upward in SA RPKs that we saw throughout 2016 and into this year has now ground to a halt, alongside more mixed signs from economic business surveys. The domestic load factor fell very slightly in year-on-year terms in August, but was still the highest of the seven domestic markets that we track. (See Chart 7.)

Chart 7 – Domestic passenger load factors

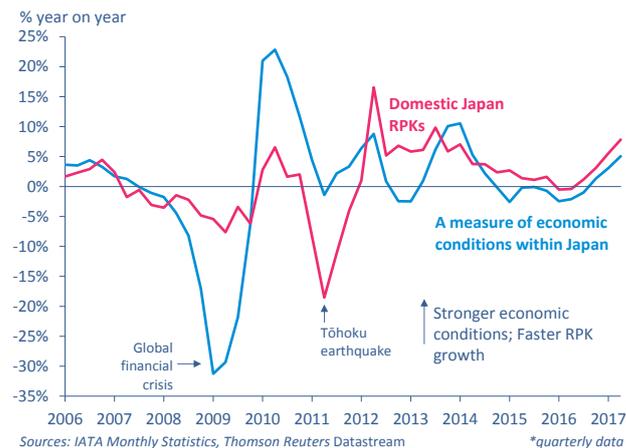


Economic pick-up supporting domestic Japan

Domestic Japan RPKs grew by 9.0% year-on-year in August – more than double the five-year average pace (4.1%). The recent pick-up in the SA traffic trend has coincided with an improvement in economic conditions. (See Chart 8.) Economic output has now risen for six quarters in a row – the longest sustained period of economic growth in Japan in 11 years.

As we have noted before, the recent pick-up in passenger demand has also outpaced that of supply: the domestic Japan load factor jumped by 4.4 percentage points in August compared to August 2016, lifting it to another record monthly high (78.7%). In fact, August was the first month in nearly four years in which the domestic Japan load factor was not the lowest of the markets we track. (Again, see Chart 7.)

Chart 8 – Domestic Japan RPKs vs. a measure of economic conditions in Japan



Pick-up in growth trend in US traffic and capacity

Year-on-year growth in domestic US RPKs accelerated to 6.4% in August, from 5.4% in July. The upward SA RPK trend in the market – the largest in the world – remains strong. This ties in with the ongoing comparatively bright economic backdrop. However, the upward trend in demand has been outpaced by a pick-up in capacity growth in recent months: SA capacity has risen at an annualized rate of around 10% since May.

Stagnant domestic Australia demand...

Domestic Australia RPKs fell by 0.1% in year-on-year terms in August. RPKs have been trending sideways in SA terms over the past year or so, although domestic capacity has trended *down* over the same period (at an annualized pace of around 2% since late-2016). As a result, while the domestic Australia passenger load factor in August was the lowest of the domestic markets that we track, it was still more than 2 percentage points higher than it registered in August 2016. (Again, see Chart 7.)

...while the recovery in Brazil has continued

Domestic Brazil RPKs grew by 5.5% year-on-year in August, up from 3.8% in the previous month. Given the declines in traffic seen during 2015 and early-2016, domestic RPKs in SA terms are still nearly 5% lower than their late-2014 peak. However, amid ongoing signs that the economic recovery is continuing, domestic RPKs are currently trending upwards again, at an annualized pace of around 8%.

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 5th October 2017

Air passenger market detail - August 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%	7.2%	6.3%	0.7%	84.5%	7.9%	6.5%	1.1%	81.7%
Africa	2.2%	5.7%	3.1%	1.9%	75.6%	7.4%	3.6%	2.5%	70.3%
Asia Pacific	32.9%	9.0%	8.6%	0.3%	82.6%	10.2%	8.3%	1.4%	81.1%
Europe	26.5%	7.0%	5.7%	1.1%	88.0%	8.7%	6.6%	1.6%	84.0%
Latin America	5.2%	7.5%	6.9%	0.4%	81.7%	7.5%	5.7%	1.4%	81.8%
Middle East	9.6%	5.4%	5.4%	0.0%	81.1%	7.0%	7.3%	-0.2%	75.5%
North America	23.7%	6.0%	4.7%	1.0%	86.1%	4.5%	4.1%	0.4%	84.0%
International	63.7%	7.0%	6.1%	0.8%	84.5%	8.2%	6.6%	1.2%	81.0%
Africa	1.9%	6.4%	3.4%	2.1%	75.7%	8.3%	4.0%	2.7%	69.8%
Asia Pacific	18.2%	8.6%	8.3%	0.2%	81.4%	9.2%	7.6%	1.2%	79.9%
Europe	23.7%	6.9%	5.5%	1.2%	88.3%	8.7%	6.4%	1.8%	84.6%
Latin America	2.7%	9.3%	10.1%	-0.6%	82.7%	10.3%	8.2%	1.6%	82.4%
Middle East	9.2%	5.5%	5.1%	0.3%	81.4%	7.3%	7.2%	0.1%	75.7%
North America	8.0%	5.5%	3.9%	1.4%	86.6%	4.8%	4.1%	0.6%	82.2%
Domestic	36.3%	7.6%	6.9%	0.6%	84.5%	7.5%	6.4%	0.8%	83.0%
Dom. Australia ⁴	1.0%	-0.1%	-2.9%	2.1%	77.7%	-0.3%	-2.2%	1.5%	77.6%
Domestic Brazil ⁴	1.2%	5.5%	3.6%	1.4%	80.3%	2.0%	1.0%	0.8%	80.8%
Dom. China P.R. ⁴	8.7%	10.0%	10.4%	-0.3%	85.6%	13.9%	11.8%	1.6%	84.5%
Domestic India ⁴	1.3%	16.0%	15.1%	0.6%	82.9%	17.3%	15.2%	1.5%	85.0%
Domestic Japan ⁴	1.1%	9.0%	2.8%	4.4%	78.7%	6.9%	1.7%	3.4%	70.3%
Dom. Russian Fed. ⁴	1.3%	8.3%	8.4%	-0.1%	89.1%	11.5%	12.4%	-0.6%	80.8%
Domestic US ⁴	15.0%	6.4%	5.3%	0.8%	85.6%	4.3%	4.0%	0.2%	85.0%

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

Further details about the statistics in this publication can be found [here](#).

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