



AIR PASSENGER MARKET ANALYSIS February 2018

Passenger growth rebounds in Feb after Lunar New Year distortion

- As expected, year-on-year growth in industry-wide revenue passenger kilometres (RPKs) rebounded in February following the distortion last month from temporary factors including the later timing of Lunar New Year in 2018.
- The upward trend in passenger volumes is continuing to be supported by robust global economic conditions.
- The industry-wide load factor posted a record high for the month of Feb (80.4%). All regions except the Middle East posted record highs for the month, while the domestic India load factor exceeded 90% for the first time ever.
- Carriers based in Latin America posted the fastest international RPK growth of all regions in February. Meanwhile, year-on-year growth in domestic India RPKs remained in double-digit territory for the 42nd month in a row.

RPK growth rebounded in February as expected...

As expected, year-on-year growth in air passenger volumes rebounded in February following the distortion last month owing to the later timing of Lunar New Year this year. Industry-wide revenue passenger kilometres (RPKs) increased by 7.6% year-on-year compared to February 2017, up from 4.6% in January.

...although the strong demand trend seen a year ago is affecting the annual comparison

Overall, global RPKs grew by 5.9% in year-on-year terms over the first two months of 2018 combined – the slowest annual growth over this period in five years. However, it is important to note that year-to-date RPK growth so far in 2018 has been affected by the comparison with the very strong upward trend in

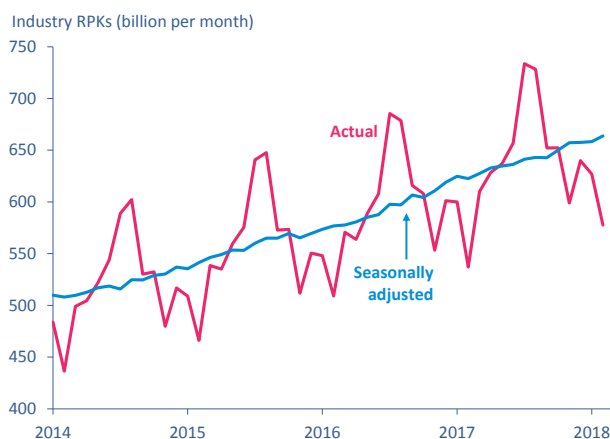
seasonally adjusted (SA) passenger traffic in early-2017. We estimate that this has reduced the annual growth rate so far this year to date by around 0.6 percentage points relative to where it would have been had the SA traffic trend not been so strong a year ago.

In any case, the key point is that global passenger volumes have continued to trend upwards solidly in recent months, with passenger volumes currently rising at a 6-6.5% annualized rate. (See Chart 1.) To put this into context, while this is slower than the full-year pace of growth seen in 2017 (7.6%) it is still well ahead of the ten-year average rate (5.5%).

Robust economic backdrop is supporting demand

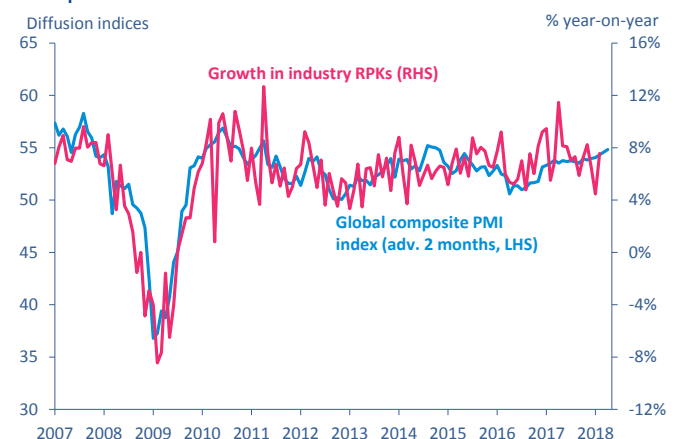
Passenger demand is continuing to be supported by the robust global economic backdrop. The composite

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 - February 2018

| | World share ¹ | February 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% | 7.6% | 6.3% | 0.9% | 80.4% | 5.9% | 5.7% | 0.2% | 80.0% |
| International | 63.8% | 7.2% | 5.9% | 1.0% | 79.3% | 5.6% | 5.6% | 0.0% | 79.4% |
| Domestic | 36.2% | 8.2% | 7.0% | 0.9% | 82.3% | 6.5% | 6.0% | 0.4% | 81.0% |

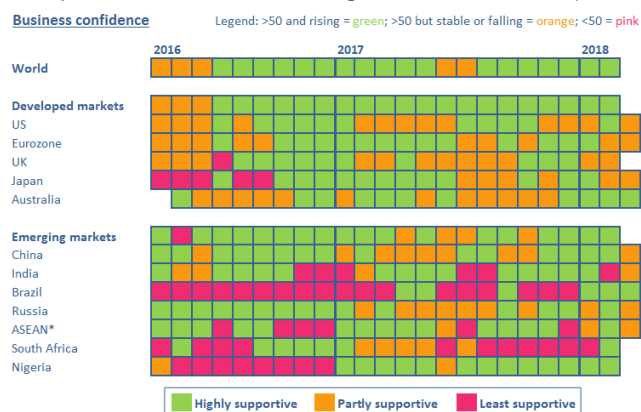
¹% of industry RPKs in 2017

²Year-on-year change in load factor

³Load factor level

Purchasing Managers' Index (PMI) – a measure of global business confidence that has proved to be a useful leading indicator of air passenger demand growth in the past – recently rose to its highest level in three and a half years. It is currently at a level that is usually consistent with year-on-year RPK growth in the region of 8%. (See Chart 2, previous page.) As shown in Chart 3, the strength remains broad-based across most of the world's major economies.

Chart 3 – Economic conditions (monthly data from composite PMIs, selected regions and countries)



As have we noted before, we think that RPK growth is unlikely to achieve the sort of pace in 2018 that the PMI suggests. This is mainly because increases in airline input costs – notably fuel prices but also labor costs in some countries – mean that we expect to see a reduced boost to demand from lower airfares in 2018 than we have in recent years.

Nonetheless, we still expect 2018 to be another year of above-trend growth for industry-wide RPKs, albeit slightly slower than that seen in 2017.

Capacity and RPKs are trending up at similar rates

Industry-wide available seat kilometres (ASKs) increased by 6.3% year-on-year in February. As a result, the passenger load factor increased by 0.9 percentage points compared to the same period in 2017, taking it to a record high for the month of February. That said, ASKs and RPKs have both trended upwards in SA terms at a similar pace in recent months.

International RPK growth slowed in most regions

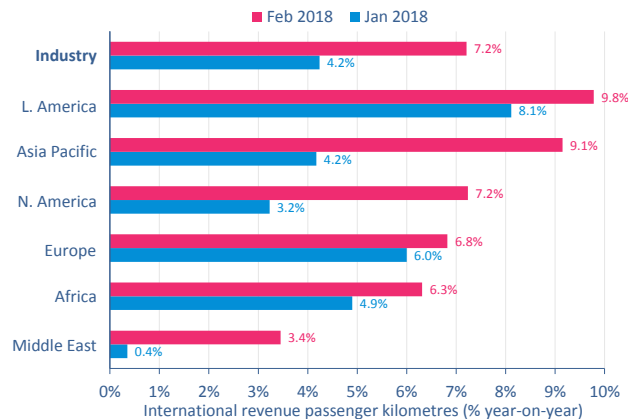
Annual growth in international RPKs accelerated to 7.2% in February, up from the 46-month low of 4.2% in January. (See Chart 4.) Year-on-year growth accelerated in all regions compared to January.

L.American carriers top the growth chart again

Latin American airlines posted the fastest year-on-year international RPK growth rate for the second month in a row in February (9.8%), up from 8.1%. The

upward trend in SA passenger volumes weakened during the third quarter of last year owing to disruption caused by the harsh hurricane season. However, SA RPK volumes have continued to increase at a double-digit annualized rate in recent months.

Chart 4 – International passenger traffic growth by airline region of registration



Robust growth in the biggest regions

European airlines flew 6.8% more international RPKs in February than they did a year ago – a modest acceleration from that seen in January. Passenger volumes are currently trending upwards at a double-digit annualized rate alongside ongoing supportive economic conditions in the region.

Meanwhile, year-on-year RPK growth for airlines based in the Asia Pacific region rebounded sharply in February as distortion from the later Lunar New Year eased; annual RPK growth more than doubled to 9.1% from 4.2% in January. Passenger traffic is continuing to be supported by robust regional economic growth and ongoing expansion in the number of options for travelers.

N. American traffic is rising in SA terms again

North American RPKs appear to have now broken out of their recent sideways trend; international RPK growth accelerated to an 11-month high in February (7.2%). The comparatively robust economic backdrop in the US is continuing to support outbound passenger demand from the region, while the weaker US dollar appears to be helping to offset some of the negative impacts that we have seen on inbound travel.

Middle East growth to find support during H1 2018

Year-on-year growth in international RPKs flown by airlines based in the Middle East accelerated to 3.4% in February, up from 0.4% in the previous month (which was its slowest pace since September 2008). Traffic is currently trending upwards at a moderate 3.5-4% annualized pace.

The region's airlines saw a declining trend in passenger traffic during H1 2017 in the face of numerous headwinds, including the now-lifted ban on personal electronic devices, as well as a wider impact stemming from the proposed travel bans to the US. As a result, even if traffic continues to trend upwards at its current moderate pace, year-on-year RPK growth is likely to accelerate further in the coming months (to >6% in the middle of the year).

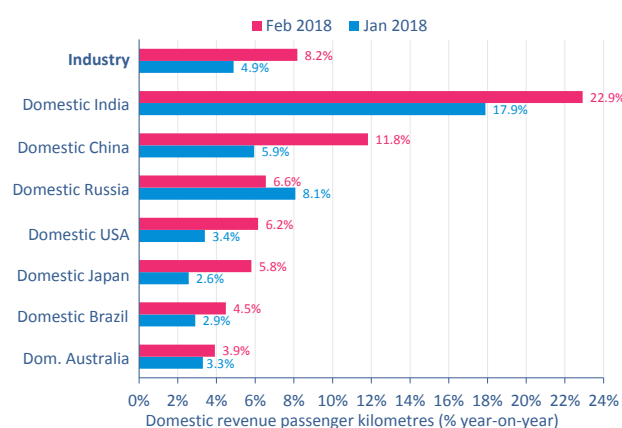
Ongoing solid upward trend for African traffic

International RPKs flown by carriers based in Africa grew by 6.3% year-on-year in February. The upward trend in traffic remains solid, and may find further support from a tentative improvement in the region's largest economies: business confidence in Nigeria has risen sharply over the past 15 months, helped by recent rises in oil prices, while a reduction in political uncertainty in South Africa recently helped business confidence to return to positive territory for the first time in more than a year. (Again, see Chart 3.)

Rebound in domestic RPK growth as expected...

Domestic RPK growth accelerated sharply in February, to 8.2% year-on-year, from 4.9% in January. (See Chart 5.) The usual Lunar New Year traffic boost was pushed into February in 2018, which caused year-on-year growth in domestic China RPKs to rebound significantly from January. However, whereas the decline in Chinese RPK growth in January fully accounted for the slowdown in domestic RPK growth between January and December, the pick-up in Chinese growth this month accounts for just under half the acceleration in February.

Chart 5 – Domestic RPK growth by market



...helped by robust growth in domestic US traffic

Much of the remainder of the pick-up in domestic RPK growth this month is accounted for by an acceleration in the US – the world's largest domestic market. Year-on-year growth rose to 6.2% in February, from 3.4% in the previous month. We estimate that the ongoing

solid RPK performance is being driven in most part by the comparative strength of economic activity in the US. That said, the shape of developments last year mean that the year-on-year RPK growth comparison will become less favorable over the coming months.

India posted the fastest domestic growth again

The domestic India market posted double-digit year-on-year RPK growth for the 42nd month in a row. (22.9%). Business confidence recently fell below the key 50-mark for the first time since the tax reforms in mid-2017. (Again, see Chart 3.) However, this dip looks to have been temporary and, more importantly, India remains the fastest growing major economy in the world. Moreover, passenger demand is continuing to be stimulated by network growth, which translates into time savings for passengers and has a similar stimulatory impact as cuts in airfares. The domestic load factor exceeded 90% for the first time on record.

Strong upward trend in domestic Russia traffic

The domestic Russia market was the only one to see a slowdown in year-on-year RPK growth in February relative to the previous month. However, this related more to developments a year ago than any change in the current SA trend. Indeed, domestic RPKs are continuing to trend upwards at a double-digit annualized pace, supported by stronger economic conditions, helped by higher oil prices. The shape of developments last year look set to support year-on-year RPK growth in the region of 9% in mid-2018.

Brazil, Australia and Japan post slowest growth

Year-on-year growth in domestic Australia RPKs accelerated to a 17-month high of 3.9% in February. While the upward trend in SA traffic has levelled off over the past three months, the strong finish to 2017 for RPKs in SA terms will continue to provide a beneficial base for year-on-year growth rates over the course of H1 2018.

Annual growth in domestic Japan RPKs accelerated to 5.8% in February – well above the five-year average (3.9%). Domestic passenger traffic in Japan has recovered strongly since mid-2016 in line with a pick-up in economic activity (the economy is currently enjoying its longest period of expansion in 28 years). Meanwhile, year-on-year growth in domestic Brazil climbed to 4.5% in February, up from an 8-month low in January (2.9%). Domestic passenger traffic has continued to trend upwards modestly in line with an ongoing recovery in domestic economic conditions.

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 5th April 2018

Air passenger market detail - February 2018

| | World share ¹ | February 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% | 7.6% | 6.3% | 0.9% | 80.4% | 5.9% | 5.7% | 0.2% | 80.0% |
| Africa | 2.2% | 2.1% | 0.2% | 1.3% | 68.8% | 2.4% | 1.4% | 0.7% | 69.6% |
| Asia Pacific | 33.7% | 10.1% | 9.3% | 0.6% | 82.1% | 7.4% | 7.7% | -0.2% | 81.3% |
| Europe | 26.5% | 7.0% | 4.9% | 1.6% | 81.6% | 6.7% | 5.0% | 1.3% | 80.8% |
| Latin America | 5.2% | 7.2% | 6.1% | 0.9% | 81.4% | 6.3% | 5.6% | 0.6% | 82.6% |
| Middle East | 9.5% | 3.7% | 3.9% | -0.2% | 74.0% | 2.0% | 4.2% | -1.6% | 75.3% |
| North America | 23.0% | 6.5% | 5.0% | 1.1% | 80.6% | 4.8% | 4.5% | 0.3% | 79.9% |
| International | 63.8% | 7.2% | 5.9% | 1.0% | 79.3% | 5.6% | 5.6% | 0.0% | 79.4% |
| Africa | 1.9% | 6.3% | 3.3% | 1.9% | 67.8% | 5.5% | 3.8% | 1.1% | 69.1% |
| Asia Pacific | 18.5% | 9.1% | 8.4% | 0.6% | 80.5% | 6.5% | 7.1% | -0.5% | 80.3% |
| Europe | 23.7% | 6.8% | 5.0% | 1.4% | 82.2% | 6.4% | 5.0% | 1.1% | 81.5% |
| Latin America | 2.8% | 9.8% | 8.9% | 0.6% | 81.5% | 8.9% | 8.7% | 0.1% | 82.3% |
| Middle East | 9.1% | 3.4% | 3.9% | -0.3% | 74.1% | 1.8% | 4.2% | -1.8% | 75.4% |
| North America | 7.8% | 7.2% | 4.6% | 1.9% | 78.0% | 5.1% | 4.3% | 0.6% | 78.8% |
| Domestic | 36.2% | 8.2% | 7.0% | 0.9% | 82.3% | 6.5% | 6.0% | 0.4% | 81.0% |
| Dom. Australia ⁴ | 0.9% | 3.9% | 0.5% | 2.6% | 77.3% | 3.6% | 0.7% | 2.2% | 78.5% |
| Domestic Brazil ⁴ | 1.2% | 4.5% | 3.4% | 0.8% | 80.1% | 3.6% | 2.8% | 0.6% | 82.6% |
| Dom. China P.R. ⁴ | 9.1% | 11.8% | 13.1% | -0.9% | 85.3% | 8.9% | 10.5% | -1.2% | 83.4% |
| Domestic India ⁴ | 1.4% | 22.9% | 17.7% | 3.9% | 90.7% | 20.3% | 17.2% | 2.3% | 89.9% |
| Domestic Japan ⁴ | 1.1% | 5.8% | 2.1% | 2.5% | 71.8% | 4.1% | 1.8% | 1.5% | 68.6% |
| Dom. Russian Fed. ⁴ | 1.4% | 6.6% | 1.3% | 3.8% | 77.9% | 7.3% | 2.0% | 3.8% | 76.6% |
| Domestic US ⁴ | 14.5% | 6.2% | 5.2% | 0.7% | 81.9% | 4.7% | 4.6% | 0.1% | 80.5% |

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.

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

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