



# AIR PASSENGER MARKET ANALYSIS

July 2017

## Robust July RPK growth, but the upward trend in traffic has eased

- Global revenue passenger kilometres grew by a robust 6.8% year-on-year in July – the first summer peak month.
- Passenger demand remains on course to grow solidly in 2017 as a whole. However, with stimulus from lower airfares waning, the exceptionally supportive demand backdrop has moderated.
- The industry-wide passenger load factor posted an all-time high for the month of July (84.7%).
- China tops the domestic chart for just the 2nd time in 28 months, but the upward trend in India has picked up.

### Robust passenger growth in the July peak period...

Industry-wide revenue passenger kilometres (RPKs) grew by 6.8% year-on-year in July, down from 7.7% in the previous month.

The strong finish for seasonally-adjusted (SA) traffic last year is continuing to provide a favorable comparison for annual RPK growth rates. Indeed, July's year-on-year growth rate was just ahead of the five-year average pace (6.4%).

### ...but the upward trend in SA traffic has eased

That said, the July data further underlined the extent to which the upward trend in SA passenger traffic has eased from that at the end of last year. Industry-wide RPKs were growing at an annualized rate of more than 12% coming into 2017, but this has since slowed to 6% over the past three months. (See Chart 2.)

### Business confidence has stopped improving...

The moderation in the upward trend for SA passenger volumes has come alongside a softening in demand drivers from the exceptionally supportive conditions seen in late-2016.

This partly relates to a pause in the upward trend in global business confidence; having risen strongly between September 2016 and January 2017, the global composite purchasing managers' index – a confidence measure that is highly correlated with industry-wide RPK growth – has broadly tracked sideways since January. (See Chart 2.) To be clear, the indicator remains consistent with rising economic activity as well as robust year-on-year RPK growth in the region of 6-6.5%. However, recent developments in the indicator appear to rule out an acceleration in annual RPK growth anytime soon.

Chart 1 – Air passenger volumes

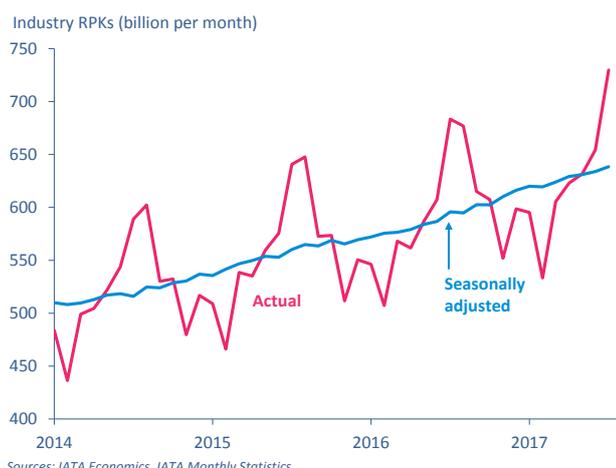
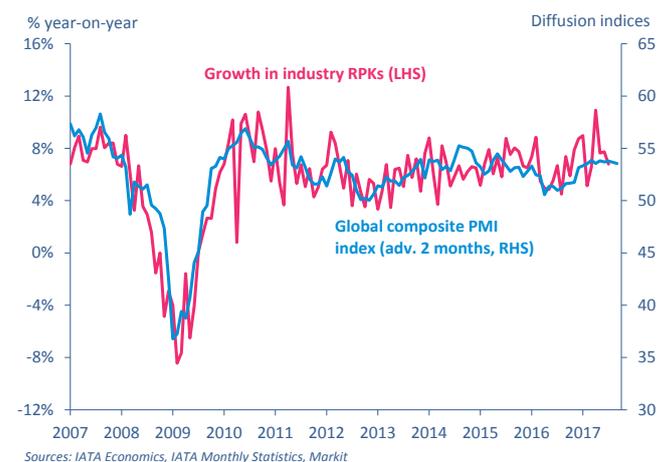


Chart 2 – Air passenger volume growth and global business confidence measures



### Air passenger market overview - July 2017

	World share <sup>1</sup>	July 2017 (% year-on-year)				% year-to-date			
		RPK	ASK	PLF (%-pt) <sup>2</sup>	PLF (level) <sup>3</sup>	RPK	ASK	PLF (%-pt) <sup>2</sup>	PLF (level) <sup>3</sup>
<b>TOTAL MARKET</b>	<b>100.0%</b>	<b>6.8%</b>	<b>6.1%</b>	<b>0.6%</b>	<b>84.7%</b>	<b>7.7%</b>	<b>6.1%</b>	<b>1.2%</b>	<b>81.3%</b>
International	63.7%	6.2%	5.5%	0.5%	84.6%	7.8%	6.0%	1.4%	80.5%
Domestic	36.3%	7.9%	7.1%	0.6%	85.0%	7.5%	6.3%	0.9%	82.8%

<sup>1</sup>% of industry RPKs in 2016

<sup>2</sup>Year-on-year change in load factor

<sup>3</sup>Load factor level

**...and demand stimulus from lower fares is fading**

The easing in the SA industry-wide RPK trend also reflects a reduced degree of stimulus to demand from lower airfares; indeed, passenger yields have begun to trend upwards modestly over the past few months, and were broadly unchanged in year-on-year terms in May (which was the strongest result in nearly four years).

All told, the strong first half of the year and the robust start to the peak summer period means that 2017 is on course to be another year of above-trend RPK growth. However, the moderation in demand drivers suggests that the upward trend in H2 2017 and into 2018 is likely to be somewhat weaker than was seen in the same period of 2016.

**Another record month-high load factor**

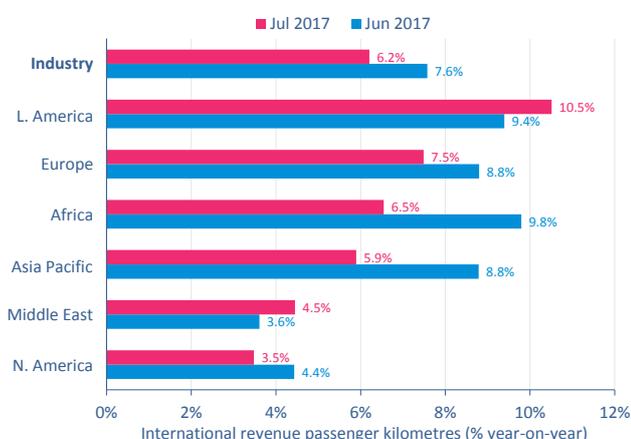
Industry-wide available seat kilometres (ASKs) increased by 6.1% year-on-year in July, and by the same pace over the first seven months of 2017 as a whole. The global passenger load factor rose by 0.6 percentage points in July compared to July 2016, taking it to a record high for the month (84.6%).

The recent moderation in the upward trend in SA RPKs means that they are currently back trending upwards at a broadly similar pace to ASKs (having exceeded capacity throughout much of 2016). Nonetheless, this has resulted in the SA industry-wide load factor remaining close to an all-time high.

**Moderation in int'l RPK growth in most regions**

Year-on-year growth in international RPKs slowed to 6.2% in July, from 7.6% in June. (See Chart 4.) The annual growth rate slowed in all regions except Latin America and the Middle East.

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



**Latin American airlines top the int'l growth chart**

Latin America topped the growth chart in July for the second time in seven months (10.5%). There continues to be little sign of any slowdown in the

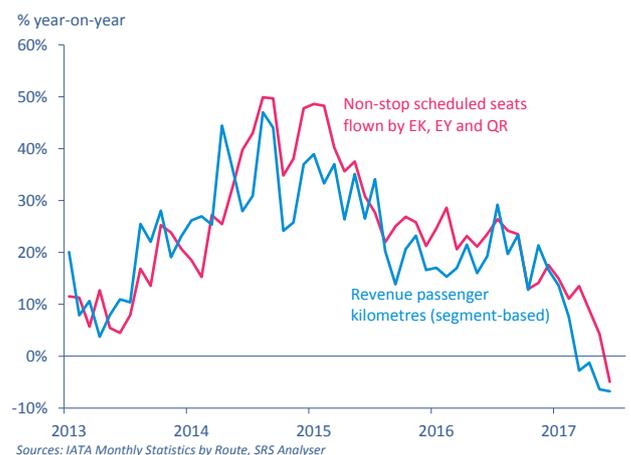
strong upward SA traffic trend, with international volumes between North and Central America in particular continuing to trend upwards strongly over the course of 2017. Meanwhile, traffic on the North-South America market segment has also started to trend upwards again, helped in part by the stronger, albeit still fragile, economic backdrop in Brazil.

**Middle East continues to come under pressure**

International RPKs flown by Middle Eastern airlines grew by 4.5% in July compared to July 2016. This was an acceleration from the 3.6% annual growth seen in June, but was still well below the five-year average pace (11.2%). SA volumes jumped in July on a month-on-month basis, which may relate to the timing of Eid being later in June than it was last year. Notwithstanding this monthly rise, SA traffic volumes are still only level with where they started the year.

The Middle East to North America market has been affected by a combination of factors in 2017, including the recently-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, in line with a moderation in the pace of growth of non-stop services flown by the largest Middle Eastern airlines. (See Chart 4.) However, the number of scheduled seats flown on the route fell in year-on-year terms in June, and RPKs on the market fell on the same basis for the fourth consecutive month (-6.8%).

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



**Slowdowns in the SA trends for European...**

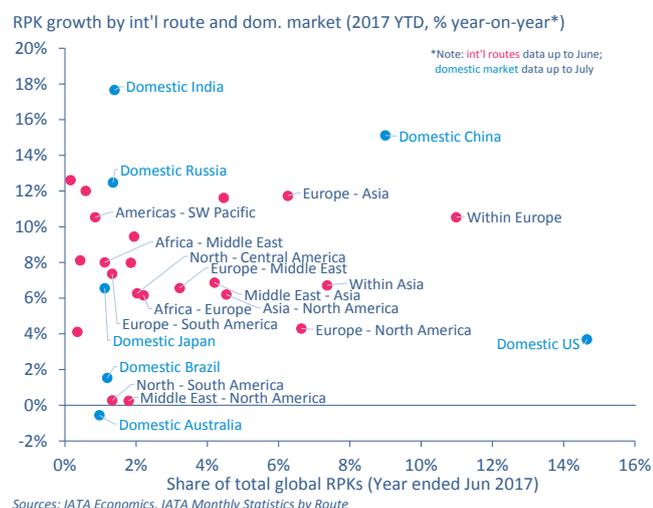
International RPKs flown by European airlines grew by 7.5% in July 2017 compared to the same period in 2016, down from 8.8% in June. The economic backdrop in the region has strengthened, as evidenced by another quarter of comparatively strong GDP growth in the region's main economies in Q2 2017. However, the upward trend in SA RPKs has

moderated sharply: RPKs have risen at an annualized rate of around 3.5% since February – barely a quarter of the pace seen during H2 2016 – slightly below the pace of capacity.

### ...and Asia Pacific airlines

It is a similar case for airlines based in Asia Pacific: the SA upward trend in international RPKs has slowed to around a 4% annualized pace since April, and year-on-year growth decelerated to 5.9% in July, from 8.8% in June. Traffic on the Asia-Europe route rose by nearly 12% in annual terms in the first half of the year, although volumes have dipped in SA terms in the two latest months. (See Chart 5.) Meanwhile, the strong upward SA trend on RPKs flown on international routes within Asia has also paused.

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



### Moderation in upward trend in African int'l RPKs

International RPKs flown by African airlines grew by 6.5% year-on-year in July, down from 9.8% in June. The region's two largest economies have continued to see a divergence in economic performance; business confidence in Nigeria is currently at its highest level in more than two years, but South Africa's economy fell into recession in Q1 2017. Following two consecutive month-on-month falls in May and June, SA traffic volumes partly recovered in July. Nonetheless, the upward trend in RPKs has moderated from that seen in late-2016.

### North American airlines hold on to earlier gains

North American airlines' international RPKs grew by 3.5% in year-on-year terms in July, down from 4.4% in June, but still ahead of the five-year average pace (2.9%). SA passenger traffic has held on to the monthly gains achieved earlier in the year, and the comparatively solid economic backdrop in North America is expected to continue to support outbound passenger demand in the near term. That said, anecdotal evidence has continued to suggest that

tourists are being deterred by the additional security measures now involved with travelling to the US.

### Ongoing variation in domestic market growth

Domestic RPKs grew by 7.9% year-on-year in July, a broadly unchanged pace from that seen in June. (See Chart 6.)

**Chart 6 – Domestic RPK growth by market**



### China tops the domestic growth chart

The domestic China market topped the domestic growth chart in July for just the second time in 28 months (15.0% year-on-year). This was a slowdown from 17.2% in June, although there continues to be little sign of any moderation in the SA traffic trend. The latest GDP figures from Q2 2017 were stronger than expected, although growth in both consumer spending per head and in wider consumer-driven industries slowed. As we have noted before, air travel demand is continuing to be stimulated by supply factors, including a near 15% increase in the number of unique airport-pair routes served in 2017 compared to the previous year, which ultimately translates into time savings for passengers.

### India market regains some momentum

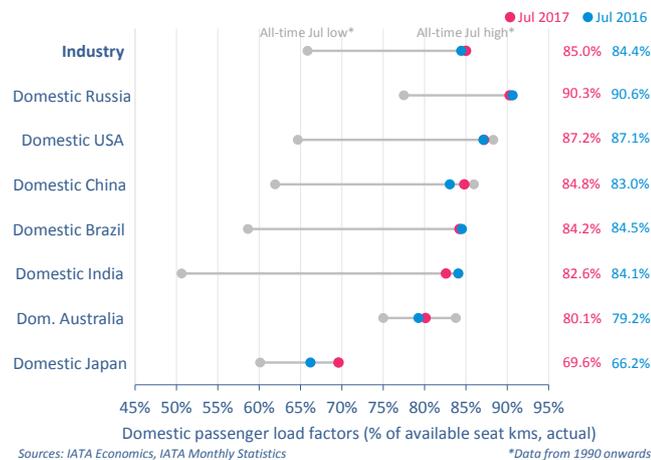
Year-on-year growth in domestic India RPKs slowed to 12.5% in July – its slowest pace since November 2014. That said, a very strong month-on-month increase in SA RPKs in July meant that annual RPK growth managed to remain in double digits for the 35<sup>th</sup> consecutive month. In fact, having slowed in the opening months of 2017, the strong upward SA traffic trend looks to have reasserted itself in recent months. As is the case in China, demand continues to be stimulated by sizeable increase in the number of domestic routes served.

### Pick-up in economic activity helping Russia RPKs

Domestic Russia RPKs grew by 9.1% year-on-year in July – broadly in line with the five-year average pace. RPKs have fallen back in SA terms in recent months,

alongside a similar decline in business confidence. The load factor fell slightly in July compared to the same month in 2016, although it still came in above 90%, and was the highest of the key domestic markets that we track. (See Chart 7.)

**Chart 7 – Domestic passenger load factors**



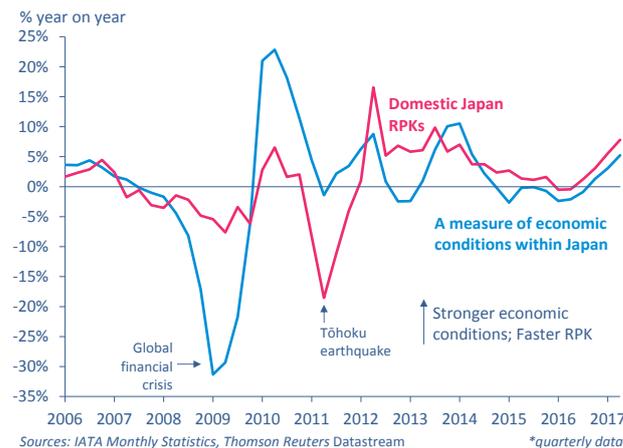
**Pick-up in the economy is supporting Japan RPKs**

Domestic Japan RPKs grew by 6.6% year-on-year in July – well above the five-year average pace (4.0%). The recent pick-up in the SA traffic trend has been supported by an improvement in economic conditions. (See Chart 8.) The economy has now expanded for six quarters in a row – the longest streak in 11 years. The increase in passenger demand has also outpaced that of supply: while still the lowest of all the domestic markets that we track, Japan’s domestic load factor jumped by 3.4 percentage points in July compared to the same month a year ago, taking it to a yet another record monthly high (69.6%).

**Pick-up in growth trend in US traffic and capacity**

The US domestic market – the world’s largest – grew by 5.1% year-on-year in July, up from 3.7% in June. In a reflection of the comparatively solid economic

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



backdrop, including buoyant consumer confidence, RPKs have trended upwards at an annualized pace of around 10% since early-2017. Capacity has also trended up over the period, albeit slightly more slowly (around an 8% annualized pace). As a result, the SA load factor remains elevated, close to record high.

**Australia demand and capacity are declining...**

Domestic Australia RPKs fell modestly in year-on-year terms in July, down 0.8%. Both demand and capacity have now trended downwards at an annualized rate of around 2% since the start of 2017, which has helped to support the load factor: in fact, this year was the first time in which the July load factor came in above 80% since 2009. (Again, see Chart 7.)

**...alongside ongoing recovery in Brazil RPK trend**

Domestic Brazil RPKs grew by 3.9% in July compared to the same month in 2016, way ahead of the five-year average rate (1.3%). Passenger volumes are trending upwards in SA terms, but partly in reflection of the fragile political and economic backdrop, they remain more than 5% lower than their late-2014 peak.

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 6<sup>th</sup> September 2017

## Air passenger market detail - July 2017

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		RPK	ASK	PLF (%-pt) <sup>2</sup>	PLF (level) <sup>3</sup>	RPK	ASK	PLF (%-pt) <sup>2</sup>	PLF (level) <sup>3</sup>
<b>TOTAL MARKET</b>	<b>100.0%</b>	<b>6.8%</b>	<b>6.1%</b>	<b>0.6%</b>	<b>84.7%</b>	<b>7.7%</b>	<b>6.1%</b>	<b>1.2%</b>	<b>81.3%</b>
Africa	2.2%	5.9%	1.5%	3.1%	74.1%	7.7%	3.7%	2.6%	69.5%
Asia Pacific	32.8%	8.4%	7.9%	0.3%	82.0%	10.2%	7.9%	1.7%	81.0%
Europe	26.5%	7.7%	6.2%	1.2%	88.5%	8.6%	6.3%	1.8%	83.5%
Latin America	5.2%	7.7%	7.3%	0.3%	84.8%	6.8%	4.7%	1.6%	82.0%
Middle East	9.6%	4.6%	4.1%	0.4%	81.2%	6.7%	7.0%	-0.2%	74.7%
North America	23.7%	4.5%	4.5%	-0.1%	86.6%	3.9%	3.6%	0.2%	83.6%
<b>International</b>	<b>63.7%</b>	<b>6.2%</b>	<b>5.5%</b>	<b>0.5%</b>	<b>84.6%</b>	<b>7.8%</b>	<b>6.0%</b>	<b>1.4%</b>	<b>80.5%</b>
Africa	1.9%	6.5%	1.7%	3.4%	74.1%	8.7%	4.2%	2.9%	68.8%
Asia Pacific	18.1%	5.9%	6.7%	-0.6%	81.0%	8.5%	6.7%	1.4%	79.8%
Europe	23.7%	7.5%	5.9%	1.3%	88.7%	8.6%	5.9%	2.0%	84.1%
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<b>Domestic</b>	<b>36.3%</b>	<b>7.9%</b>	<b>7.1%</b>	<b>0.6%</b>	<b>85.0%</b>	<b>7.5%</b>	<b>6.3%</b>	<b>0.9%</b>	<b>82.8%</b>
Dom. Australia <sup>4</sup>	1.0%	-0.8%	-1.9%	0.9%	80.1%	-0.6%	-2.4%	1.4%	77.6%
Domestic Brazil <sup>4</sup>	1.2%	3.9%	4.3%	-0.3%	84.2%	1.5%	0.6%	0.8%	80.9%
Dom. China P.R. <sup>4</sup>	8.7%	15.0%	12.7%	1.8%	84.8%	15.1%	12.4%	2.0%	84.5%
Domestic India <sup>4</sup>	1.3%	12.5%	14.5%	-1.5%	82.6%	17.7%	15.4%	1.7%	85.4%
Domestic Japan <sup>4</sup>	1.1%	6.6%	1.4%	3.4%	69.6%	6.6%	1.6%	3.2%	69.0%
Dom. Russian Fed. <sup>4</sup>	1.3%	9.1%	9.6%	-0.4%	90.3%	12.5%	13.0%	-0.4%	79.6%
Domestic US <sup>4</sup>	15.0%	5.1%	5.0%	0.1%	87.2%	3.7%	3.5%	0.1%	84.9%

<sup>1</sup>% of industry RPKs in 2016      <sup>2</sup>Year-on-year change in load factor      <sup>3</sup>Load factor level

<sup>4</sup>Note: 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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