



AIR PASSENGER MARKET ANALYSIS

March 2018

Air passenger growth completes a strong first quarter of 2018

- Global revenue passenger kilometres (RPKs) grew by 9.5% year-on-year in March – the fastest pace in 12 months.
- Current robust RPK growth rates are being helped by the strength of global economic conditions. That said, we expect reduced stimulus from lower fares to translate into a moderate slowing in full-year RPK growth this year.
- Having set a record high for the month of February, the industry-wide load factor posted another record high in March (82.4%). Once again, all regions except the Middle East posted record highs for the month.
- Year-on-year growth in domestic India RPKs stayed in double-digit territory for the 43rd consecutive month, while Latin American airlines once again posted the fastest international RPK growth of all regions.

RPK growth posts its fastest pace in 12 months...

Industry-wide revenue passenger kilometres (RPKs) increased by 9.5% year-on-year in March – the fastest pace since March 2017 and well above the five-year average rate (6.8%).

Overall, global RPKs grew by 7.2% in year-on-year terms during the first quarter of 2018 – broadly in line with the pace seen in the same period a year ago.

...driven by a supportive economic backdrop

Robust growth in air travel has continued to be supported by the comparatively strong global economic backdrop. Recall that the composite 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 – reached a 3½ year high in February. A reading around this level has usually been consistent in the past with year-on-year RPK growth of around 8%. (See Chart 1.) Against this backdrop, it is no surprise to have seen that global passenger volumes have trended upwards strongly in SA terms in recent months, rising at an annualized rate in the region of 7-9% since late-2017. (See Chart 2.)

Economic conditions to provide less of a tailwind?

Having said that, the composite PMI dropped sharply in March, falling for the first time in six months and by the biggest amount in more than two years.

Admittedly, this fall may have been distorted in part by a temporary impact from bad weather in parts of Europe. Moreover, the key point is that the PMI is still

Chart 1 – Air passenger volume growth and global composite business confidence measure

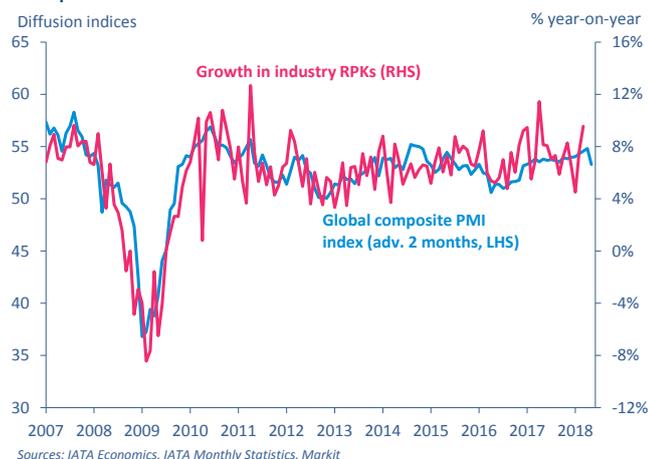
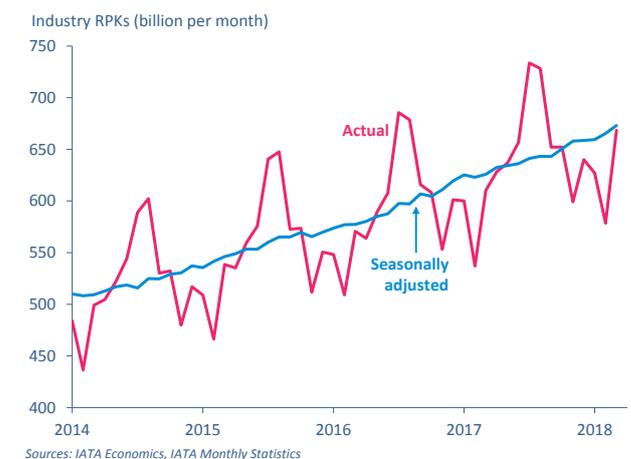


Chart 2 – Air passenger volumes



Air passenger market overview - March 2018

	World share ¹	March 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%	9.5%	6.4%	2.3%	82.4%	7.2%	6.0%	1.0%	80.9%
International	63.8%	10.6%	6.6%	2.9%	81.5%	7.4%	5.9%	1.1%	80.2%
Domestic	36.2%	7.8%	6.2%	1.3%	84.0%	6.9%	6.0%	0.7%	82.1%

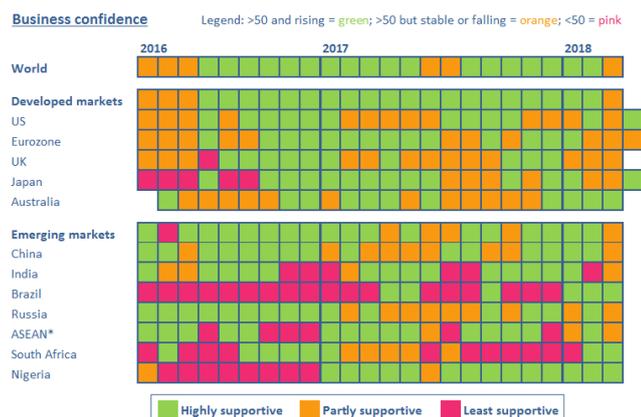
¹% of industry RPKs in 2017

²Year-on-year change in load factor

³Load factor level

well above the 50-mark that typically corresponds with rising global economic and air travel activity. Nonetheless, the broad nature of the moderation in business confidence seen in March suggests that the pace of global economic growth is slowing. If sustained, this would be consistent with a corresponding slowdown in annual passenger traffic growth in Q2 2018. (See Chart 3.) We will continue to monitor business surveys closely in the coming months (note that the global PMI data for April are scheduled to be released shortly after this note).

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



All told, while we still expect 2018 to be another year of above-trend growth for industry-wide RPKs, we forecast a moderation in full-year passenger growth in 2018 compared to 2017. This is mainly because increases in airline input costs – notably fuel prices but also labor costs in some cases – mean that we expect to see a reduced boost to demand from lower airfares in 2018 than we have in recent years.

Capacity and RPKs are trending up at similar rates

Industry-wide available seat kilometres (ASKs) increased by 6.4% year-on-year in March. As a result, the passenger load factor jumped to a record high for the month (82.4%), 2.3 percentage points higher than in March 2017. Capacity and demand have continued to trend upwards in SA terms at similar paces in recent months.

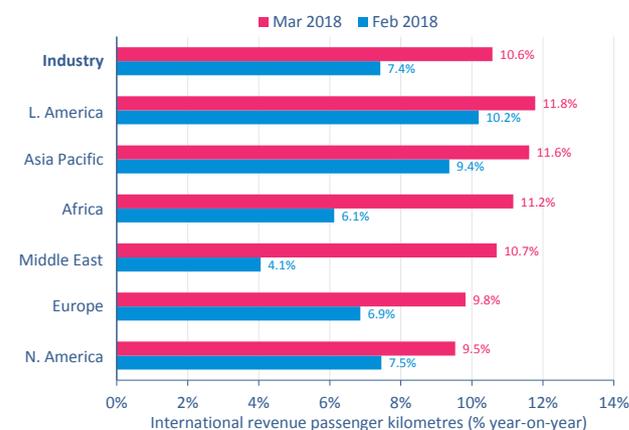
Int'l RPK growth led again by Latin America...

Annual growth in international RPKs accelerated to 10.6% in March. (See Chart 4.) Year-on-year growth accelerated in all regions relative to February, into double-digit territory in most cases.

Airlines based in Latin America posted the fastest year-on-year international RPK growth rate for the third month in a row (11.8%). Traffic has continued to recover strongly following the disruption caused by the harsh hurricane season in Q3 2017, driven in part

by stronger economic conditions in Brazil. (Again, see Chart 3.) SA RPK volumes have risen at an annualized rate in the region of 15% since October.

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



...and closely followed by carriers in Asia Pacific

Meanwhile, airlines based in Asia Pacific posted double-digit annual international RPK growth for the first time in five months (11.6%, up from 9.4% in February). Passenger traffic is continuing to trend upwards strongly in SA terms, supported by robust regional economic growth and ongoing expansion in the number of options for travelers.

Weather impact visible in Europe in March?

European airlines flew 9.8% more international RPKs in March than they did in the same month last year, with passenger volumes currently trending upwards strongly. Business confidence in the most-open countries in the region has been hit by trade tensions in recent months, but economic conditions in the region remain broadly supportive. As in Asia Pacific, passenger demand is also being stimulated by increases in the number of non-stop airport-pairs in operation, which saves time for passengers and has a similar impact as reductions in airfares.

That said, Europe was the only region to see a modest decline in traffic in month-on-month SA terms in March, which may reflect an impact from the recent period of wintry weather. We will monitor closely for signs of a corresponding pick-up in April.

N. American traffic is rising in SA terms again

North American RPKs have clearly broken out of their recent sideways trend; international RPKs grew by 9.5% year-on-year in March – well above the five-year average (3.6%). The weakening in the US dollar since the start of 2017 appears to be helping to boost inbound traffic, while the comparatively robust economic backdrop in the US is continuing to support outbound passenger demand from the region.

Middle East int'l RPK growth accelerates

Year-on-year growth in international RPKs flown by airlines based in the Middle East accelerated to 10.7% in March, up from 4.1% in February and just ahead of its five-year average pace (10.1%).

The SA upward trend has strengthened since the start of the year. This reflects ongoing strong growth between the Middle East and Asia, as well as signs of stabilization on the Middle East to North America market segment following the disruption caused in H1 2017 by the now-lifted ban on personal electronic devices, as well as a wider impact stemming from the proposed travel bans to the US.

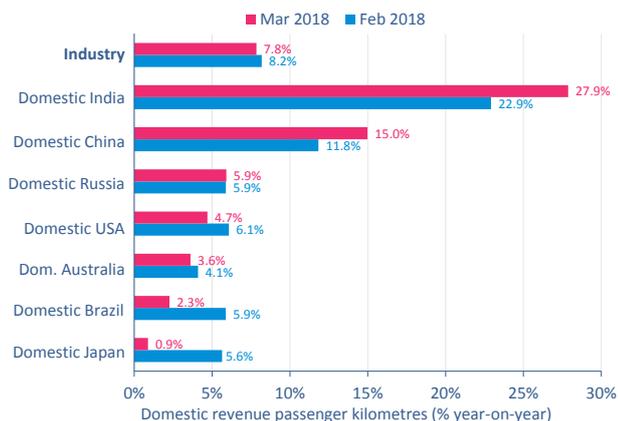
Strong RPK growth for African airlines

International RPKs flown by carriers based in Africa grew by 11.2% year-on-year in March – more than twice the five-year average pace (4.8%). The region's airlines are seeing strong growth on the segments to/from Europe and Asia, and will be helped by ongoing signs of improvement in the region's largest economies: business confidence in Nigeria has risen sharply over the past 12-18 months, helped by higher oil prices, while business confidence in South Africa is once again consistent with rising economic activity. (Again, see Chart 3.)

Slight slowdown in domestic RPK growth...

Annual domestic RPK growth slowed slightly in March, to 7.8% from 8.2% in February. (See Chart 5.)

Chart 5 – Domestic RPK growth by market



...driven by an expected deceleration in the US...

This slowdown mainly reflected an expected deceleration in domestic US RPKs (to 4.7% year-on-year, from 6.1%). This relates more to the shape of traffic developments last year rather than any marked change in the current traffic trend, which is being helped by robust economic growth in the country. The annual comparison will continue to be challenging over the coming months.

...and despite accelerations in India and China

India and China remain in a league of their own. The domestic India market posted double-digit annual growth for the 43rd consecutive month (27.9%, up from 22.9% in February), with passenger demand continuing to be supported by a combination of strong economic and network growth. Once again, India posted the highest load factor of all domestic markets (87.8%), 6.7 percentage points higher than in March 2017.

Meanwhile, domestic China RPKs grew by 15.0% year-on-year in March – the strongest pace in five months. Although trade tensions with the US pose risks to economic activity, the services sector is growing strongly, which should continue to bolster passenger demand growth in both the short and the long run.

Robust upward trend in domestic Russia RPKs

Domestic Russia RPKs grew by 5.9% year-on-year in March – an unchanged pace from February. Domestic RPKs are continuing to trend upwards at a solid 6-8% annualized pace, with domestic economic activity being helped by higher oil prices. That said, we will monitor closely in the coming months for any impact from recently-imposed international sanctions.

Australia, Japan, and Brazil post slowest growth

Domestic Australia RPKs rose by 3.6% year-on-year in March – well above the five-year average pace (1.5%). SA traffic volumes in Australia have levelled off over the past five months, but the strong upward trend seen in late-2017 is continuing to provide a beneficial base for the year-on-year comparison.

Annual growth in domestic Japan RPKs fell to its slowest pace in 18 months in March (0.9%). Passenger traffic has trended broadly sideways since May 2017, and the annual comparison is likely to become more challenging from Q2 onwards.

Meanwhile, the slowdown in the year-on-year growth in the domestic Brazil market in March (to a modest 2.3%) may relate in part to the earlier timing of Carnival this year. In any case, the bigger point is that domestic passenger traffic has continued to trend upwards modestly in line with an ongoing recovery in domestic economic conditions. In fact, with the annual comparison set to become more favorable in the coming months, we expect annual passenger growth to rebound to around 6-7% in April.

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3rd May 2018

Air passenger market detail - March 2018

	World share ¹	March 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%	9.5%	6.4%	2.3%	82.4%	7.2%	6.0%	1.0%	80.9%
Africa	2.2%	6.1%	2.7%	2.3%	71.6%	3.6%	1.8%	1.2%	70.2%
Asia Pacific	33.7%	12.0%	9.1%	2.1%	82.3%	9.0%	8.1%	0.6%	81.7%
Europe	26.5%	9.5%	6.1%	2.6%	83.9%	7.7%	5.4%	1.7%	81.9%
Latin America	5.2%	8.5%	6.8%	1.3%	81.3%	7.3%	6.0%	1.0%	82.3%
Middle East	9.5%	10.6%	4.2%	4.4%	76.6%	5.2%	4.3%	0.6%	75.9%
North America	23.0%	6.3%	4.1%	1.7%	85.3%	5.3%	4.4%	0.8%	81.8%
International	63.8%	10.6%	6.6%	2.9%	81.5%	7.4%	5.9%	1.1%	80.2%
Africa	1.9%	11.2%	6.7%	2.9%	71.0%	7.4%	4.7%	1.7%	69.8%
Asia Pacific	18.5%	11.6%	8.2%	2.5%	80.9%	8.3%	7.4%	0.6%	80.6%
Europe	23.7%	9.8%	6.4%	2.6%	84.6%	7.7%	5.5%	1.7%	82.6%
Latin America	2.8%	11.8%	10.0%	1.3%	81.8%	9.9%	8.9%	0.8%	82.4%
Middle East	9.1%	10.7%	4.3%	4.4%	76.7%	5.0%	4.4%	0.4%	76.0%
North America	7.8%	9.5%	4.9%	3.5%	83.5%	6.9%	4.6%	1.7%	80.6%
Domestic	36.2%	7.8%	6.2%	1.3%	84.0%	6.9%	6.0%	0.7%	82.1%
Dom. Australia ⁴	0.9%	3.6%	0.0%	2.7%	78.9%	3.1%	0.2%	2.3%	78.5%
Domestic Brazil ⁴	1.2%	2.3%	0.8%	1.2%	80.2%	3.6%	2.4%	0.9%	82.0%
Dom. China P.R. ⁴	9.1%	15.0%	13.8%	0.9%	85.2%	10.9%	11.6%	-0.5%	84.1%
Domestic India ⁴	1.4%	27.9%	18.1%	6.7%	87.8%	22.8%	17.5%	3.8%	89.2%
Domestic Japan ⁴	1.1%	0.9%	1.2%	-0.2%	74.7%	2.9%	1.6%	0.9%	70.7%
Dom. Russian Fed. ⁴	1.4%	5.9%	3.1%	2.1%	78.1%	6.6%	2.3%	3.1%	77.0%
Domestic US ⁴	14.5%	4.7%	3.7%	0.8%	86.5%	4.6%	4.3%	0.3%	82.6%

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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