



AIR PASSENGER MARKET ANALYSIS

May 2017

Passenger demand growth slows in May, but remains robust

- Year-on-year growth in global revenue passenger kilometres (RPKs) slowed to 7.7% in May, but stayed robust.
- The stronger global economic backdrop, as well as stimulus from lower airfares, has continued to drive passenger growth. However, the exceptionally supportive backdrop that we saw in H2 2016 has softened.
- A mixed month for international RPK growth, as India regains its position at the top of the domestic growth chart.
- The seasonally adjusted (SA) industry-wide load factor remains close to an all-time high.

Slower growth in May, but a robust start to 2017

Having reached a six-year high of 10.9% in April, year-on-year growth in global RPKs slowed to (a still robust) 7.7% in May.

Industry-wide RPKs have now grown by 7.9% year-on-year so far this year compared to the same period in 2016. This is equivalent to annual growth of around 8.6% once you allow for the extra day in 2016 on account of it having been a leap year.

Moderation in SA trend from a stellar end to 2016

The upward trend in SA traffic has moderated from the double-digit annualized pace that we saw at the end of 2016 and into this year. (See Chart 1.) Indeed, whereas industry-wide RPKs were growing at an annualized rate of more than 12% coming into 2017, this pace has fallen to around 8% over the past three months or so.

It is worth putting this moderation in perspective; after all, the current pace of growth is still very strong, well ahead of both the five-year and ten-year average rates, for example (6.4% and 5.5%, respectively).

Equally, however, the exceptionally supportive conditions for passenger demand that were a feature of the second half of last year have softened. This relates to two factors: first, the recent rise in business confidence has paused; having risen for five consecutive months starting in September 2016, the services purchasing managers' index – a key measure of business confidence that is strongly linked with passenger growth – has tracked sideways since January. (See Chart 2.)

Second, while lower airfares are continuing to stimulate air passenger demand, the degree of stimulation is starting to ease, partly reflecting upward pressure on airlines' costs. After adjusting for inflation,

Chart 1 – Air passenger volumes

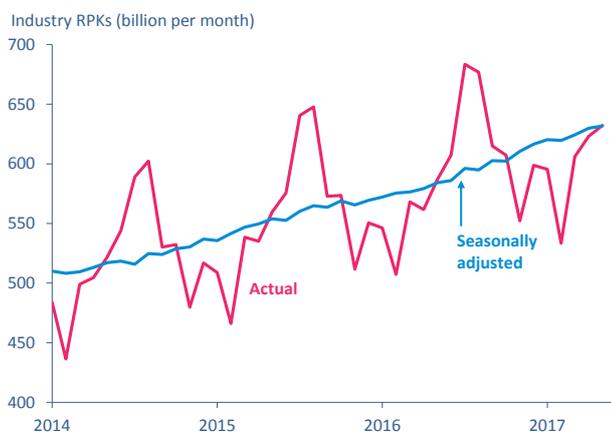
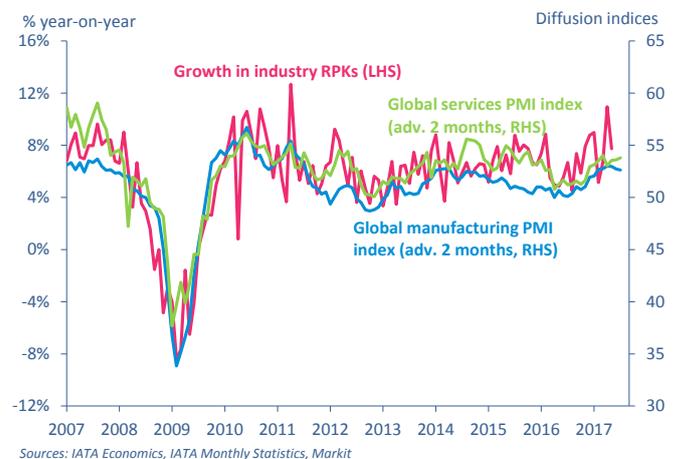


Chart 2 – Air passenger volume growth and global business confidence



Air passenger market overview - May 2017

	World share ¹	May 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%	7.7%	6.1%	1.2%	80.1%	7.9%	6.0%	1.4%	80.4%
International	63.7%	7.6%	5.7%	1.4%	78.5%	8.3%	6.0%	1.7%	79.5%
Domestic	36.3%	7.9%	6.9%	0.8%	83.0%	7.3%	6.1%	1.0%	82.0%

the price of air travel coming into Q2 2017 was around 6% lower than a year ago. We estimate that this explains around two-fifths of the annual growth in passenger traffic seen in May. However, the degree of stimulus from lower fares is currently around half that seen in H2 2016, and is likely to fade further during the second half of this year.

Still strong support for the passenger peak season

The upshot is that passenger demand is likely to remain well supported during the upcoming peak travel months of July and August. All told, this is likely to underpin another above-trend year of RPK growth in 2017 overall.

However, with the biggest stimulus to demand from lower oil prices now likely to be behind us, the strength of the economic backdrop will be an increasingly important driver of passenger demand into H2 2017.

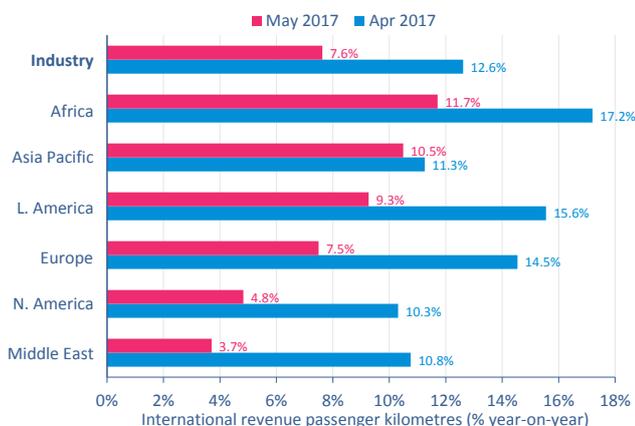
SA load factor remains close to a record high

Industry-wide available seat kilometres (ASKs) increased by 6.1% year-on-year in May. ASKs have trended upwards at an annualized rate of around 7.0% over the past three months, slightly below the corresponding rate for demand. As a result, the SA industry-wide load factor has remained close to a record high, and the industry-wide load factor (80.1%) posted a record high for the month of May. Most regions, with the exception of the Middle East and North America, posted record-high May load factors.

Int'l RPKs slow in line with industry-wide trend

International RPKs grew by 7.6% year-on-year in May, down from 12.6% in April. (See Chart 3.)

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

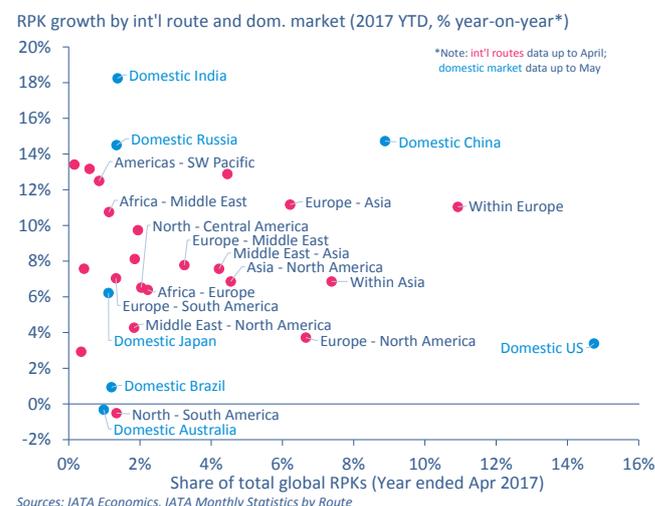


African carriers posted the fastest year-on-year growth in international RPKs for the second month in a row (11.7%). There continues to be little sign of any slowdown in the strong upward trend in SA traffic. This follows a recovery in the trend on the key passenger

market to and from Europe. Conditions in the region's two largest economies are diverging: business confidence in Nigeria has risen sharply over the past six months, although South Africa's economy fell into recession in Q1 2017.

Airlines based in Asia Pacific posted year-on-year growth of 10.5% in May, and the upward trend in SA traffic remains strong. Having been affected by terrorism-related disruption in early-2016, traffic on the Asia-Europe route has continued to trend upwards strongly on a SA basis; it has surged at an annualized rate of more than 26% since November, and has grown by more than 11% year-on-year so far in 2017. (See Chart 4.) Meanwhile, although RPKs are volatile from month to month, the SA trend on international routes within Asia remains robust.

Chart 4 – RPK growth by route and market (YTD)



European RPK trend has slowed, despite an improving economic backdrop

Year-on-year growth in international RPKs flown by European airlines slowed to 7.5% in May, from 14.5% in April. We estimate that the power outage-related disruption seen in the month at Heathrow and Gatwick could explain as much as 0.3 percentage points of the slowdown.

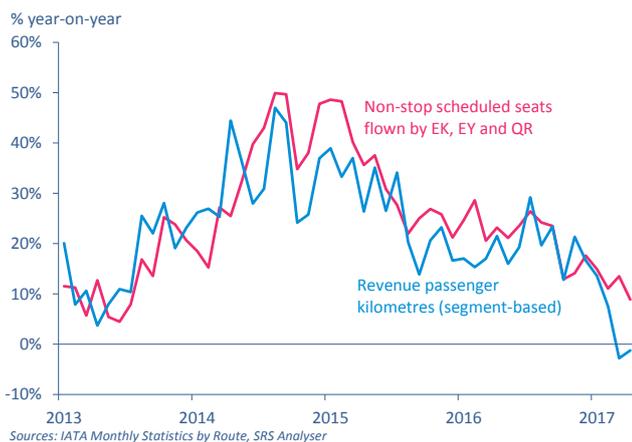
However, the key point is that the SA RPK trend has moderated over the past three months, despite growing momentum in the region's economy. (Consumer confidence in the eurozone, for example, recently reached its highest level in more than 16 years.) This appears to relate mostly to a pause in the recovery in international traffic within the region; RPKs on the route have grown by 11% year-on-year so far this year-to-date, but they have trended sideways in SA terms since December. We will monitor developments closely in the coming months.

Middle East traffic under pressure

The 3.7% year-on-year growth seen in Middle Eastern airlines' international passenger volumes in May was close to an eight-year low. Admittedly, this was distorted partly by the shape of developments last year; we expect to see a partial bounce back in the year-on-year growth rate in June. However, the bigger picture is that international RPKs flown by the region's carriers have trended down at a 3% annualized rate since the start of the year.

This mainly reflects disruption from a combination of factors on the Middle East to North America market. (The route to and from Europe, for example, has continued to trend upwards solidly in SA terms this year.) These disrupting factors include the recent ban on personal electronic devices (PED), as well as a wider impact on inbound travel to the US from President Trump's proposed travel bans. Passenger traffic growth on the market segment was already slowing in early-2017, in line with a moderation in the pace of growth of non-stop services flown by the 'big-three' Middle Eastern airlines. (See Chart 5.) But RPKs fell again in year-on-year terms in April (-1.2%) for just the second time on record (the series begins in 2010). As we noted last month, it remains difficult to reconcile all data sources: for example, annual origin-destination traffic growth between the two regions looks to have held up better than its segment-based counterpart. Again, we will continue to monitor the situation in the coming months.

Chart 5 – Scheduled services and passenger traffic between the Middle East and North America



Solid RPK growth for North American airlines

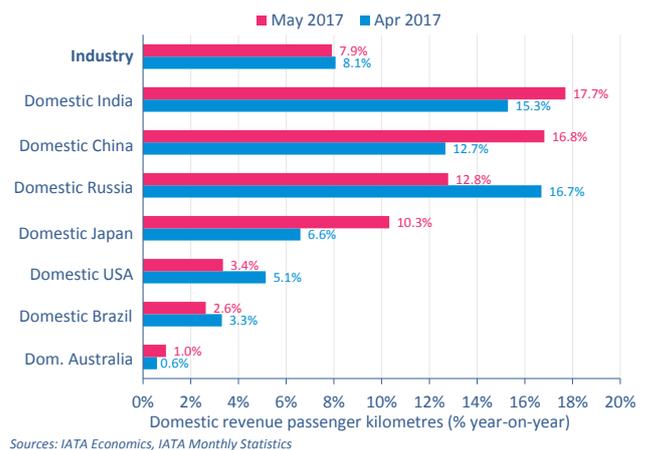
Annual growth in international passenger traffic flown by North American airlines slowed to 4.8% in May (although this is still stronger than the five-year average of 2.8%). The pick-up in SA volumes that we have seen over the past few months has paused, although the comparatively robust economic backdrop in North America, as well as the strength of the US

dollar, should continue to support outbound passenger demand. The strength of the dollar will be deterring foreign inbound visits, however, and anecdotes suggest that tourists are also being deterred more generally by the additional security measures now involved with travelling to the US.

Domestic markets remain a mixed bag

Year-on-year growth in domestic RPKs fell slightly to 7.9% in May, from 8.1% in April. (See Chart 6.)

Chart 6 – Domestic RPK growth by market



India climbs back to the top of the growth chart

India climbed back to the top of the domestic growth chart in May: the 17.7% year-on-year increase was the 33rd consecutive month of double-digit RPK growth. That said, the very strong upward SA traffic trend has slowed since the unexpected 'demonetization' in November 2016, in line with the wider impact that this looks to have had on economic activity. Business confidence surveys have recovered somewhat in recent months, particularly on the services side. However, the upward trend in domestic RPKs has slowed to an annualized rate of around 7% over the past six months. As we noted before, at the current trend, India's impressive run of double-digit year-on-year growth rates looks set to end in July.

Strong upward trend in Chinese traffic continues

Year-on-year growth in domestic China RPKs rose to 16.8% in May, from 12.7% in April, and there remains little sign of any slowdown in the SA traffic trend. Having fallen for the four previous months, conditions in the services sector picked up in May. Ongoing growth in the number of unique airport-pair routes served is also translating into time savings for passengers, and is continuing to stimulate demand.

Stronger economic activity helping Russia RPKs

Domestic Russia RPKs grew by 12.8% year-on-year in May – the seventh consecutive month of double-digit growth. In SA terms, domestic RPKs have now

fully recovered in line with their trend level before the collapse of Transaero in late-2015. This recovery has been helped by the stronger economic backdrop, partly reflecting a firming of oil prices compared to their multi-year low reached in early-2016. Indeed, business confidence remains well above its five-year average level. However, Russia is the only market to have seen a modest year-on-year decline in its load factor so far this year-to-date.

Moderate growth trend in US traffic and capacity

The US domestic market – the world’s largest – grew by 3.4% year-on-year in May, broadly in line with its five-year average pace (3.3%). The moderate upward trend in SA volumes remains in place, and consumer confidence surveys remain strong. Demand is currently rising in line with capacity, keeping the load factor at an elevated level at an all-time high for the month of May (86.1%). (See Chart 7.)

Ongoing pick-up in the domestic Japan market

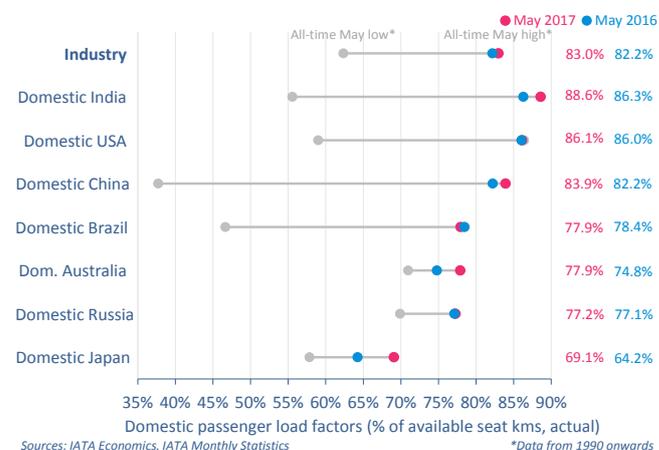
Year-on-year growth in domestic Japan RPKs accelerated to close to a five-year high in May (10.2%), with SA traffic continuing the upward trend that has been in place since May 2016. The pick-up in demand has far outpaced that of supply: although still the lowest of all the domestic markets that we track, Japan’s domestic load factor surged by 4.8 percentage points compared to May 2016, taking it to a record high for the month (69.1%). (See Chart 7.) This performance continues to be set against a comparatively robust economic backdrop – the economy has expanded for five consecutive quarters, which is the longest run in more than a decade.

Modest growth in domestic Australia RPKs

Australia saw just modest year-on-year growth in domestic RPKs in May (1.0%), with passenger

volumes in SA terms continuing to track broadly sideways. However, capacity has *fallen* in SA terms since the start of the year, and the load factor posted an all-time high for the month of May, 3.1 percentage points higher than May 2016. (Again, see Chart 7.)

Chart 7 – Domestic passenger load factors



Weak recovery is continuing in Brazil

The domestic Brazil RPK growth rate remained in positive territory (2.6%) in May for only the third time in 22 months. The political backdrop remains fragile, although the economic backdrop is improving slowly. In any case, the upward trend in SA passenger traffic is fitful, and passenger volumes are still 8% lower in SA terms than their late-2010 peak. As we have noted before, though, Brazilian airlines have managed to balance supply and demand to limit the impact on their aggregate load factor; May’s load factor was slightly below that seen in May 2016, but is still higher than it was in year-to-date terms.

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 6th July 2017

Air passenger market detail - May 2017

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TOTAL MARKET	100.0%	7.7%	6.1%	1.2%	80.1%	7.9%	6.0%	1.4%	80.4%
Africa	2.2%	10.4%	4.6%	3.6%	68.2%	8.5%	3.8%	3.0%	69.7%
Asia Pacific	32.8%	11.8%	8.6%	2.2%	79.6%	10.5%	7.7%	2.1%	80.8%
Europe	26.5%	7.7%	5.6%	1.6%	82.2%	8.7%	6.1%	2.0%	81.7%
Latin America	5.2%	7.3%	5.5%	1.4%	80.5%	6.6%	4.0%	2.0%	81.4%
Middle East	9.6%	3.8%	5.9%	-1.4%	70.0%	8.0%	8.4%	-0.3%	74.4%
North America	23.7%	3.9%	3.6%	0.2%	84.0%	3.8%	3.3%	0.4%	82.3%
International	63.7%	7.6%	5.7%	1.4%	78.5%	8.3%	6.0%	1.7%	79.5%
Africa	1.9%	11.7%	5.1%	4.0%	67.5%	9.7%	4.4%	3.3%	68.8%
Asia Pacific	18.1%	10.5%	7.2%	2.3%	77.6%	9.2%	6.6%	1.9%	79.7%
Europe	23.7%	7.5%	5.2%	1.8%	82.8%	8.7%	5.7%	2.3%	82.5%
Latin America	2.7%	9.3%	6.8%	1.9%	81.8%	9.4%	5.6%	2.8%	82.2%
Middle East	9.3%	3.7%	5.7%	-1.3%	69.8%	8.4%	8.4%	0.0%	74.6%
North America	8.0%	4.8%	4.2%	0.5%	80.5%	4.3%	3.4%	0.7%	79.8%
Domestic	36.3%	7.9%	6.9%	0.8%	83.0%	7.3%	6.1%	1.0%	82.0%
Dom. Australia ⁴	1.0%	1.0%	-3.1%	3.1%	77.9%	-0.3%	-2.9%	2.0%	77.4%
Domestic Brazil ⁴	1.2%	2.6%	3.3%	-0.5%	77.9%	0.9%	0.0%	0.7%	80.3%
Dom. China P.R. ⁴	8.7%	16.8%	14.4%	1.7%	83.9%	14.7%	12.0%	2.0%	84.2%
Domestic India ⁴	1.3%	17.7%	14.7%	2.3%	88.6%	18.2%	16.0%	1.6%	86.0%
Domestic Japan ⁴	1.1%	10.3%	2.6%	4.8%	69.1%	6.2%	1.7%	2.9%	68.7%
Dom. Russian Fed. ⁴	1.3%	12.8%	12.6%	0.1%	77.2%	14.5%	15.3%	-0.5%	75.6%
Domestic US ⁴	15.0%	3.4%	3.3%	0.1%	86.1%	3.4%	3.2%	0.2%	83.8%

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

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