



AIR PASSENGER MARKET ANALYSIS January 2017

Annual RPK growth accelerates to a 5-year high at the start of 2017

- Industry-wide passenger traffic grew by 9.6% year-on-year in Jan – its fastest pace in more than five years.
- The seasonally-adjusted (SA) trend accelerated coming into 2017, reflecting a combination of stimulus from lower airfares and stronger economic conditions, posing upside risks to our forecast for the year as a whole.
- India and China continue to lead the way on the domestic front, alongside a tentative recovery in Brazil.
- The industry-wide passenger load factor remains elevated close to its record SA high.

A strong start to 2017 for passenger traffic

Annual growth in industry-wide revenue passenger kilometres (RPKs) accelerated to 9.6% in January – its fastest pace since April 2011 and the strongest start to the year since 2005. The Middle East and Asia Pacific regions both posted double-digit annual growth rates, while North American airlines were the laggard for the fourth consecutive month (3.4%).

Upward traffic trend has accelerated in recent months

The shifting timing of Chinese New Year is always a complicating factor for comparisons at this time of year. This has traditionally been a bigger issue for the air freight market, but it may increasingly affect passenger data, particularly as the Chinese market continues to grow as a share of global traffic. We estimate that its relatively early

timing this year could account for as much as 0.5% percentage points of the annual growth rate in January (ie, industry-wide annual growth would have been closer to 9% without it). In any case, the bigger picture is that the trend in seasonally-adjusted (SA) RPKs accelerated strongly over the final third of 2016 and into 2017. Industry-wide RPKs have grown at an annualized pace of nearly 15% over the past three months. (See Chart 1.)

This pick-up in the passenger trend has reflected a combination of passengers adjusting to the multiple terrorism and political ‘shock’ events seen in early 2016 as well as an upturn in the global economic cycle. The global purchasing managers’ index reached its highest level since May 2011 in February. (See Chart 2.) Lower airfares have also served to stimulate demand: yields

Chart 1 – Air passenger volumes

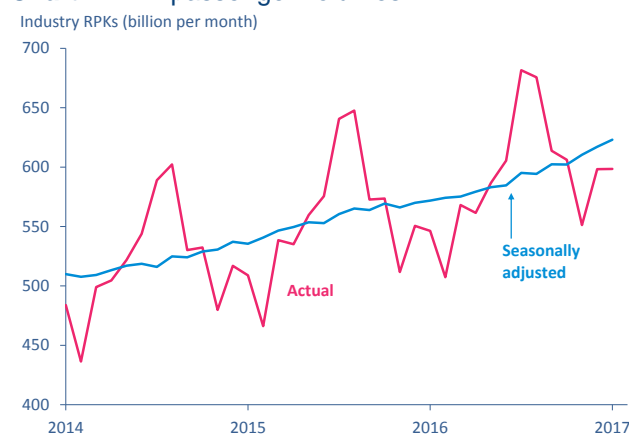
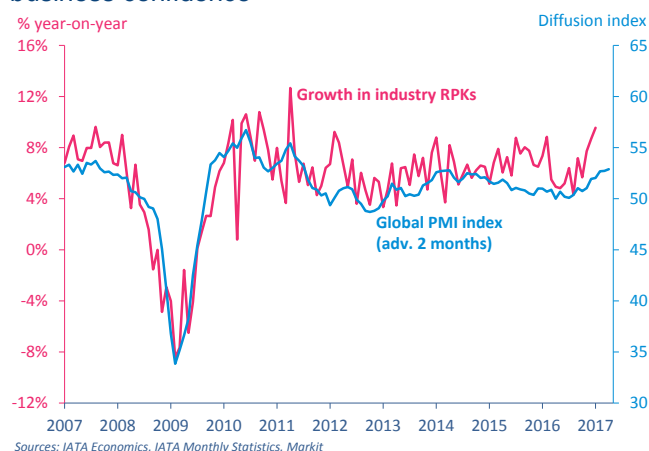


Chart 2 – Air passenger volume growth and global business confidence



Air passenger market overview - January 2017

	World	January 2017 (% year-on-year)				2016 calendar year			
	share ¹	RPK	ASK	PLF (%-pt) ²	PLF (level) ³	RPK	ASK	PLF (%-pt) ²	PLF (level) ³
TOTAL MARKET	100.0%	9.6%	8.0%	1.2%	80.2%	6.3%	6.3%	0.0%	80.5%
International	63.7%	9.3%	7.5%	1.3%	80.3%	6.7%	6.9%	-0.2%	79.5%
Domestic	36.3%	9.9%	8.7%	0.9%	80.1%	5.7%	5.1%	0.5%	82.2%

¹% of industry RPKs in 2016

²Year-on-year change in load factor

³Load factor level

continued to trend downwards during H2 2016, and fell by around 8% for the year as a whole.

One of the main uncertainties for 2017 is the extent to which lower fares will continue to stimulate demand. Differing hedging practices throughout the industry mean that changes in oil prices tend to impact airline fuel bills with a lag. Big movements in exchange rates can also influence how changes in US-dollar priced fuel affects individual airlines. But given that oil prices are currently around double their level of a year ago, the biggest stimulus to demand may have passed. As a result, the strength of the economic cycle will play an important role in driving the pace of global passenger growth in 2017.

In any case, even if we were to see no further increase in SA traffic from January's level during the rest of the year, annual RPK growth would still be in the region of 5.5%. All told, the risks to our forecast made late last year of 5.1% RPK growth in 2017 lie to the upside.

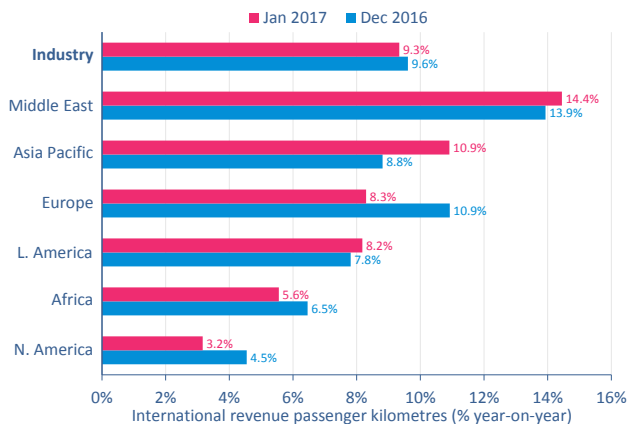
Load factor remains close to an all-time high

Industry-wide available seat kilometres increased by 8.0% year-on-year in January. Airlines have increased capacity at an annualized rate of around 10% over the past three months, somewhat slower than demand. This combination has helped to keep the SA load factor elevated and close to an all-time high in January.

Pressure on Middle Eastern carrier loads has eased

Annual growth in international RPKs edged down to 9.3% year-on-year in January from 9.6% in December. (See Chart 3.)

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



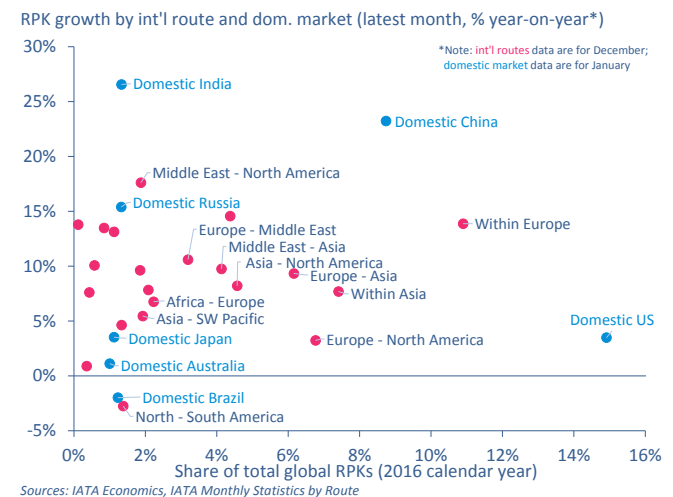
Middle Eastern airlines posted the fastest international RPK growth rate for the third month in a row (14.4%), slightly ahead of the five-year average pace (12.4%). The SA upward trend in demand is strong and airlines have

moderated the upward trend in SA capacity too. As a result, year-on-year capacity growth has now lagged behind that of demand in each of the past three months. This has stopped the downward trend in the region's SA international load factor seen through much of 2016.

SA trends remain strong in the largest int'l regions

Asia Pacific airlines posted the second fastest growth in January 2017 (10.9%), up from 8.8% in December 2016 and above the region's five-year average pace. The upward trend in the region's SA traffic has reasserted itself strongly over the past three months, helped by solid traffic growth on international routes within Asia (7.7% year-on-year in December – the latest data available). Having been affected by terrorism-related events during H1 2016, conditions on the Asia-Europe route have also improved of late (annual growth accelerated to 9.3% in December 2016 – the fastest pace since March 2012). (See Chart 4.)

Chart 4 – RPK growth by route and market



European carriers fly the most international RPKs of any region – 37% of the total in 2016. There was a pause in the strong upward trend in SA traffic in January, but the bigger picture is that passenger volumes have grown at an annualized pace of around 12% since June. This is set against a backdrop of moderate momentum in the Eurozone economy, where business confidence recently climbed to a five-and-a-half year high.

Robust growth for Africa and Latin America

Latin American and African airlines fly a relatively small proportion of international RPKs, but both regions saw solid increases in demand in January (8.2% and 5.6% year-on-year respectively).

There is still no sign of any slowdown in the SA trend for Latin American carriers. This is underpinned in large part

by robust international demand within the South America region (10.1% year-on-year in December). By contrast, RPKs on the larger North-South America route fell by 2.7% during the same period.

The upward trend in African airlines' SA passenger traffic has reasserted itself in recent months, despite ongoing weakness in the region's biggest economies of Nigeria and South Africa. RPKs have grown at an annualized pace of around 11% over the past six months, mainly reflecting a recovery on the key route to/from Europe (+6.8% year-on-year in December 2016).

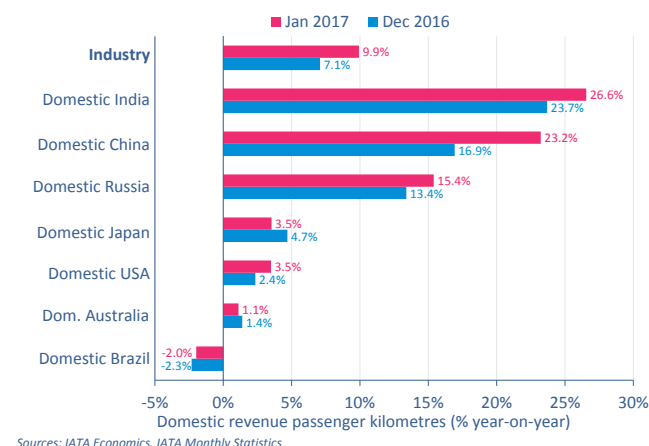
Easing in N. American capacity and demand trends

By contrast to the other regions, the SA trend in both traffic and capacity for North American carriers has flattened off since the middle of 2016. International RPKs and ASKs flown by North American carriers grew by 3.2% and 3.1% respectively in year-on-year terms in January, leaving the load factor broadly unchanged. Traffic on the Transpacific market has continued to trend upwards, but the SA trend on the North Atlantic market has weakened since the middle of 2016, in keeping with a modest moderation in momentum on the UK-US market since June. Any impact of the new US administration's travel ban, and the extent to which this is deterring travel to the US, will become apparent in forthcoming months' data.

Broad split in domestic market performance

Year-on-year growth in domestic RPKs rose to 9.9% in January, from 7.1% in December. (See Chart 5.)

Chart 5 – Domestic RPK growth by market



Passenger volumes in India surged by 26.6% year-on-year in January, and the market topped the growth chart for the 22nd month in a row. (January was the 15th consecutive month in which the annual growth rate exceeded 20%.) Having slowed towards the end of 2016, the SA traffic trend resumed its stellar upward trajectory in January. Airlines are scheduling strong flight frequency

growth in 2017, which will translate into time savings for passengers and will have the same stimulatory impact on demand as a cut in fares.

Meanwhile, annual growth in domestic China RPKs accelerated in January to its fastest pace since June 2010 (23.2%). The timing of Chinese New Year may complicate the annual comparison, but there is no sign of any slowing in the strong upward SA trend. This comes against a backdrop of ongoing robust expansion in the services sector and, as in India, flight frequencies are scheduled to rise substantially during 2017.

Strong momentum in domestic Russia market

The worst of the distortion caused by the collapse of Transaero in November 2015 has passed. The 15.4% year-on-year growth rate in domestic Russia RPKs reflects a sustained strong recovery in SA domestic traffic over the past year, with traffic now back close to its trend before the collapse of Transaero. This comes alongside ongoing signs that the country's economic recession has eased: business confidence climbed again at the start of 2017, and the rouble has recovered strongly against the dollar. (The latter has partially shielded Russian airlines from the recent rise in US-dollar denominated fuel prices.)

US and Japan post identical growth rates in January

The domestic US market – the world's largest in terms of RPKs flown – and the domestic Japan market both posted year-on-year RPK growth of 3.5% in January 2016.

Despite very strong readings from consumer confidence surveys, the SA trend in the US has slowed almost to a standstill in recent months. With capacity continuing to grow over the period, the domestic US load factor fell by 0.9 percentage points compared to January 2016.

Domestic RPKs in Japan picked up further in SA terms in January; the 3.5% year-on-year growth in RPKs was well ahead of the average rate over the past decade (0.5%). This was set against a backdrop of increased momentum in consumer spending, and ongoing constraint in increasing ASKs. While still the lowest of all the domestic markets that we track, Japan's domestic load factor posted a record January-high of 65.2%. Meanwhile, domestic Australia RPKs grew by just 1.1% year-on-year in January, although capacity fell by 0.4% over the same period. As a result, the recovery in the SA load factor that has been a feature of the past two years has continued.

Passenger traffic is recovering slowly in Brazil

The challenging economic backdrop in Brazil has weighed on passenger demand in recent years; domestic RPKs fell

in annual terms for the 18th consecutive month in January. But airlines have reacted by reducing capacity, which has supported the domestic load factor. Moreover, while the economy remains fragile, the SA trend in passenger traffic has turned around. RPKs have trended upwards at an

annualized pace of around 4% since the middle of last year, and the year-on-year growth rate is on track to turn positive in February.

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 7th March 2017

Air passenger market detail - January 2017

	World share ¹	January 2017 (% year-on-year)				2016 calendar year			
		RPK	ASK	PLF (%-pt) ²	PLF (level) ³	RPK	ASK	PLF (%-pt) ²	PLF (level) ³
TOTAL MARKET	100.0%	9.6%	8.0%	1.2%	80.2%	6.3%	6.3%	0.0%	80.5%
Africa	2.2%	5.2%	3.9%	0.9%	70.1%	6.5%	6.3%	0.1%	68.6%
Asia Pacific	32.9%	14.3%	11.1%	2.2%	81.5%	9.1%	8.1%	0.7%	79.7%
Europe	26.4%	8.4%	7.0%	1.0%	79.4%	4.6%	4.4%	0.2%	82.4%
Latin America	5.2%	4.9%	3.7%	0.9%	83.2%	3.6%	1.9%	1.3%	80.8%
Middle East	9.6%	13.5%	11.2%	1.6%	79.4%	11.2%	13.5%	-1.6%	74.7%
North America	23.7%	3.4%	4.1%	-0.5%	80.0%	3.2%	3.7%	-0.4%	83.5%
International	63.7%	9.3%	7.5%	1.3%	80.3%	6.7%	6.9%	-0.2%	79.5%
Africa	1.9%	5.6%	4.5%	0.7%	69.9%	7.4%	7.4%	0.0%	67.7%
Asia Pacific	18.2%	10.9%	8.9%	1.5%	81.4%	8.2%	7.7%	0.4%	78.5%
Europe	23.6%	8.3%	6.7%	1.2%	80.3%	4.8%	5.0%	-0.1%	82.8%
Latin America	2.7%	8.2%	5.7%	1.9%	83.7%	7.4%	4.8%	1.9%	81.3%
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North America	8.0%	3.2%	3.1%	0.0%	80.3%	2.6%	3.3%	-0.5%	81.3%
Domestic	36.3%	9.9%	8.7%	0.9%	80.1%	5.7%	5.1%	0.5%	82.2%
Dom. Australia ⁴	1.0%	1.1%	-0.4%	1.2%	77.3%	1.7%	0.2%	1.1%	77.0%
Domestic Brazil ⁴	1.2%	-2.0%	-2.8%	0.7%	83.8%	-5.5%	-5.8%	0.2%	80.1%
Dom. China P.R. ⁴	8.7%	23.2%	18.5%	3.2%	83.2%	11.7%	10.8%	0.7%	83.0%
Domestic India ⁴	1.3%	26.6%	20.9%	3.9%	88.2%	23.3%	21.4%	1.3%	83.8%
Domestic Japan ⁴	1.1%	3.5%	1.3%	1.4%	65.2%	0.7%	-2.1%	1.9%	68.5%
Dom. Russian Fed. ⁴	1.3%	15.4%	16.6%	-0.7%	71.6%	2.5%	-1.8%	3.3%	80.4%
Domestic US ⁴	14.9%	3.5%	4.7%	-0.9%	80.0%	3.4%	3.9%	-0.4%	84.8%

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

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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