Air Passenger Market Analysis

May 2021

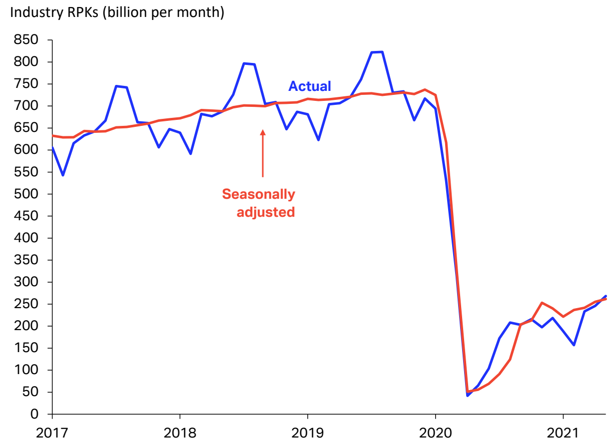
Air travel sustains recovery with challenges ahead

- Passenger traffic continued to recover in May with the support of domestic travel. However, industry-wide revenue passenger-kilometres (RPKs) were 62.7% lower compared to the pre-pandemic level (May 2019) since tight travel restrictions delayed the revival of international travel.
- Industry-wide seasonally adjusted available seat-kilometres were stable in May while load factors improved with the strength in domestic travel demand.
- The strength of the global economic recovery and rebound in bookings in June raise some optimism for summer recovery. However, increased concerns about new covid waves with the emergence of new variants put the expected rebound in travel in the second half of 2021 at risk.

Air travel sustained its recovery in May…

Air travel demand sustained its moderate recovery in May. Seasonally adjusted revenue passenger kilometres (SA RPKs) in May increased for the fourth consecutive month, up 2.4% month-on-month. Overall, industry-wide RPKs were 62.7% lower compared to the pre-crisis period (May 2019) since international traffic is limited. This was a progress compared to the previous month since the same metric was 65.2% lower in April 2021 compared with April 2019 **(Chart 1)**.

Chart 1 – Air passenger volumes

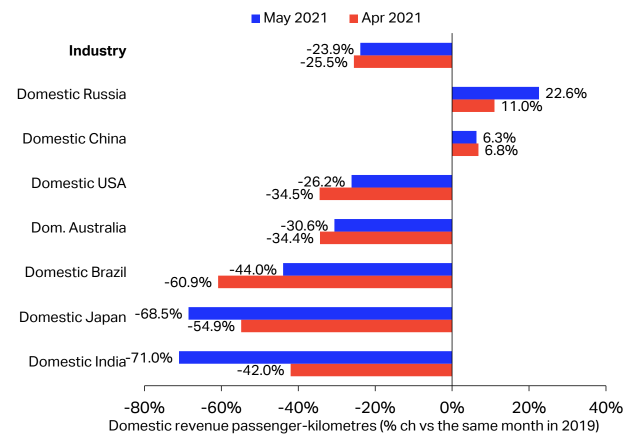


Sources: IATA Economics, IATA Monthly Statistics

Domestic air travel remains strong …

Domestic travel continued to strengthen in May. Domestic RPKs declined by 23.9% in May compared with pre-crisis period (May 2019), after posting a 25.5% decline in April. Amongst key domestic markets, China and Russia were the two large domestic markets that surpassed pre-crisis levels. There has been a shift from international to domestic destinations in both markets since international travel restrictions remain strict, **(Chart 2)**. While Russia domestic traffic rebounded 22% above the pre-crisis levels in May, China remained at 6.3% above the pre-crisis levels. Russia domestic travel also benefits from government subsidies supporting domestic tourism.

Chart 2 – Domestic RPK growth versus the same month in 2019, registration basis



Sources: IATA Economics, IATA Monthly Statistics

US domestic travel strengthened further in May (26.2% lower than May 2019) and the pace of recovery is expected to increase in the summer months. US domestic market is expected to achieve full recovery by the end of this year or early 2022. Domestic traffic in Australia increased as well with the support of

Air passenger market overview - May 2021

To aid understanding, the table includes both % comparisons with pre-crisis 2019 months and 2020 months.

	World share [1]	May 2021 (% ch vs the same month in 2019)				May 2021 (% year-on-year)			
		RPK	ASK	PLF (%-pt)[2]	PLF (level)[3]	RPK	ASK	PLF (%-pt)[2]	PLF (level)[3]
TOTAL MARKET	***100.0%***	**-62.7%**	**-53.7%**	**-15.9%**	**65.8%**	**312.4%**	**226.6%**	**13.7%**	**65.8%**
International	*45.7%*	-85.1%	-74.6%	-33.2%	47.3%	776.0%	487.5%	15.6%	47.3%
Domestic	*54.3%*	-23.9%	-15.7%	-8.1%	75.9%	249.6%	162.9%	18.8%	75.9%

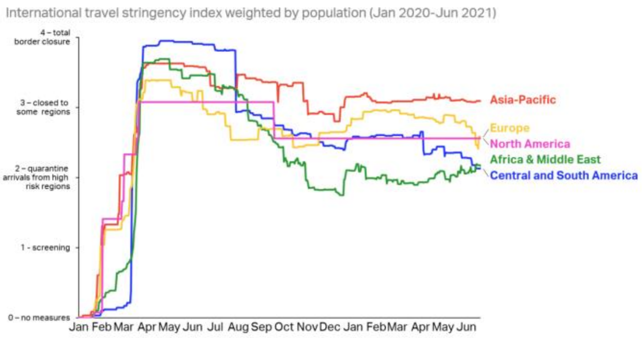
[1]% of industry RPKs in 2020 [2]Change in load factor vs same month in 2019 [3]Load factor level

leisure travel as international travel restrictions remained in place. However, domestic traffic would revert since authorities implemented new restrictions with new outbreaks. Brazil domestic travel rebounded with the easing of some of the domestic restrictions. However, recoveries in domestic travel are dependent on the control of new waves. In India, domestic traffic deteriorated further since the country struggles with new variant cases. Similarly, domestic traffic in Japan fell with the expansion of restrictions amidst the resurgence of COVID-19 cases.

Borders remain largely closed…

International restrictions remain tight even in the regions where vaccination rollout progresses, such as North America and Europe (Chart 3). While, in Latin America restrictions continue to ease, travel measures became more stringent for the countries dealing with new COVID-19 variants and new variants would delay easing of stringent travel measures ahead of the holiday season.

Chart 3 – Stringency of government international air travel measures by region

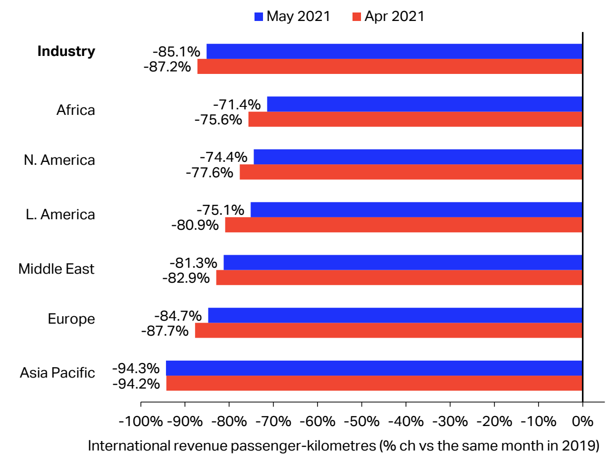


Source: IATA Economics analysis based on Oxford University data

International travel is still very weak…

International RPKs had been 87%-88% lower than pre-crisis levels since February. In May, international RPK contraction condensed slightly to -85.1% (vs May 2019). **(Chart 4).** All regions with the exception of Asia Pacific contributed to this minor improvement.

Chart 4 – International RPK growth versus the same month in 2019 (airline region of registration basis)



Sources: IATA Economics, IATA Monthly Statistics

Africa was the best performer since travel restrictions are less strict in the region. While North America improved as vaccination rollout gained pace, Latin America jumped most compared with the previous month with the support of vaccination-related travel.

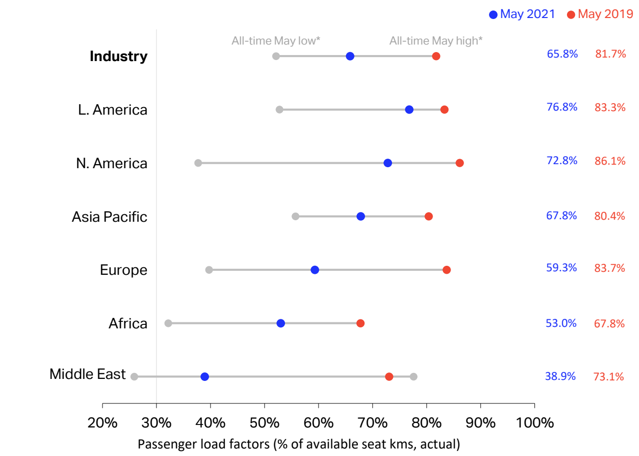
Capacity was almost stable in May…

Industry-wide seasonally adjusted available seat-kilometres (SA ASKs) were stable in May following the jump (3.7%) in April. ASKs declined by 53.7% compared to pre-crisis levels. The largest fall was in Europe (-68.8%) as international traffic there had a substantial share before the pandemic. On the other hand, the capacity in North America contracted the least with the support of the recovery in the large U.S. domestic market.

…load factors improved due to domestic markets

Load factors continued to improve with the strength in domestic travel demand. The industry-wide metric jumped to 65.8% in May but is still 15.9 ppts lower compared with May 2019 (**Chart 5**). Seasonally adjusted load factors improved compared to the previous month in all regions except for Asia-Pacific and Africa. Latin America remained the region with the highest load factor.

Chart 5 – Passenger load factors by region



Sources: IATA Economics, IATA Monthly Statistics *Data from 1990 onwards

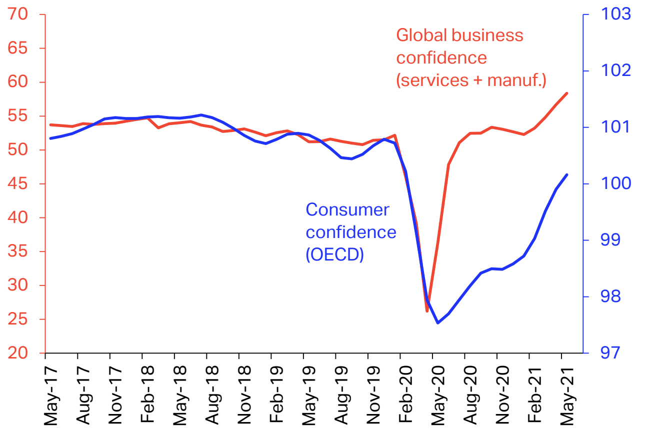
The improvement in domestic load factors became more visible in May and overall domestic load factors were 8.1ppts lower than the May 2019 level. Domestic load factors in Latin America were 1.8 ppts below their pre-crisis level (May 2019) and load factors returned to pre-crisis levels in Brazil's domestic market. In China and Russia, where domestic traffic jumped above pre-pandemic levels, domestic load factors were only c. 3-4ppts lower than the pre-pandemic levels.

Business and consumer confidence remain robust…

The global economic environment is supportive of air travel although there are uncertainties regarding the pandemic developments. Global business confidence has rebounded quicky following the lockdown period last year and reached above pre-pandemic levels. On the other hand, consumer confidence was lagging the business confidence since consumers were uncertain about the outlook for the economy and job market.

Nevertheless, consumer confidence started to trend upwards with the support of government stimulus packages and vaccine developments since the end of last year and the index jumped above the critical level of 100 in May indicating consumers are more optimistic about economic prospects. (**Chart 6**).

Chart 6 – Business and consumer confidence indices

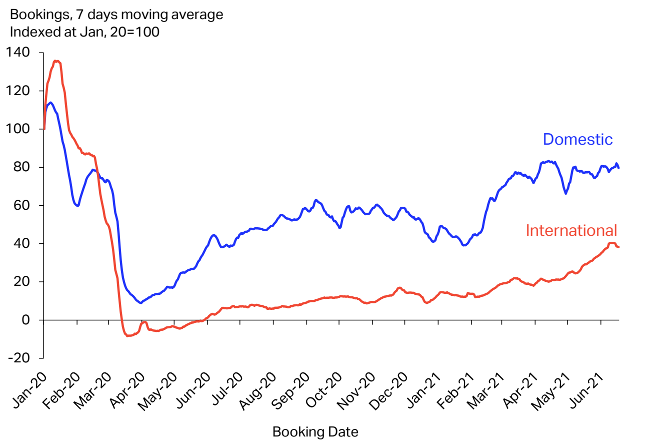


Source: IATA Economics using data from Markit and Refinitiv Eikon Datastream

…international travel bookings jumped in June

While bookings for domestic travel remained strong in June, international travel bookings picked up from very low levels **(Chart 7)**.

Chart 7 – Trends in passenger bookings (domestic vs international)



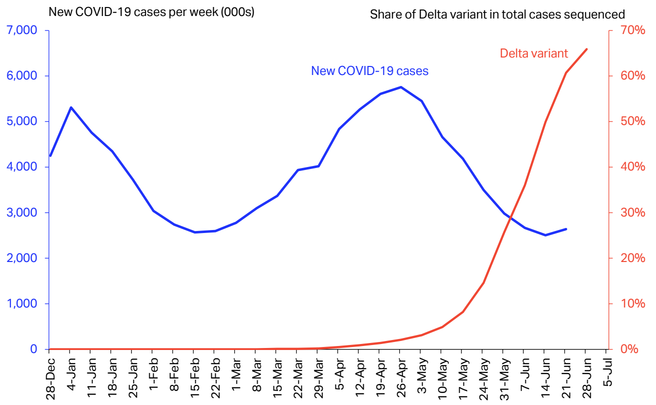
Source: IATA Economics using DDS

Bookings for international travel jumped by c.80% in June compared to the lowest point in April 2021, indicating a revival of demand for summer international travel. Since passengers are booking their trips close to the travel date, the recovery for summer travel would gain further momentum if travel restrictions are lifted.

…but concerns related to new variants have grown

Global new daily COVID-19 cases have declined but concerns regarding new variants have increased. While global new COVID-19 cases stabilized at 3 million new cases per week, the share of the more contagious Delta variant in total cases trends upwards **(Chart 8)**. Some countries in Asia-Pacific and Latin America have been hit by new variants and concerns are growing in other regions ahead of the summer holiday season.

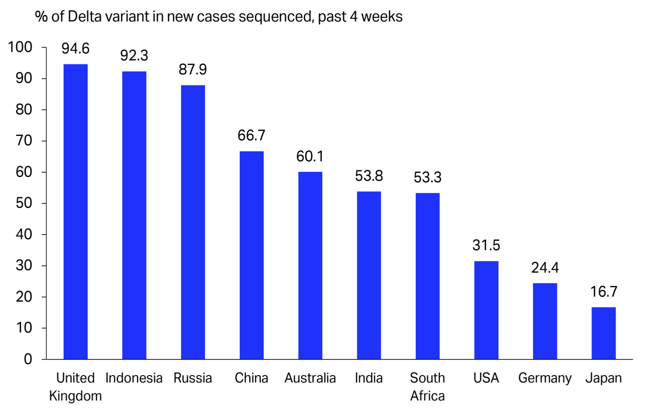
Chart 8 – New COVID cases vs share of Delta variant in total cases



Source: ECDC, GISAID

New variants could delay the re-opening of international traffic and impact domestic market recovery in some regions. The fast increase in Delta variant cases in the UK **(Chart 9)** also raises concerns in other European countries, which would impact European summer travel. Russia also faces another COVID-19 wave due to Delta variant, which would invert the strong recovery in its domestic travel. Hence, new COVID waves with the spread of new variants are the main risk for the travel recovery in the second half of 2021.

Chart 9 – Share of Delta variant in total cases in selected countries



Source: GISAID

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7th July 2021

Air passenger market detail - May 2021

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Africa	*1.9%*	-69.4%	-60.9%	-14.8%	53.0%	1258.9%	725.1%	20.8%	53.0%
Asia Pacific	*38.6%*	-59.5%	-52.0%	-12.6%	67.8%	122.5%	106.1%	5.0%	67.8%
Europe	*23.7%*	-77.9%	-68.8%	-24.4%	59.3%	838.2%	528.6%	19.6%	59.3%
Latin America	*5.7%*	-57.4%	-53.8%	-6.5%	76.8%	821.0%	648.2%	14.4%	76.8%
Middle East	*7.4%*	-79.6%	-61.6%	-34.1%	38.9%	797.7%	496.9%	13.0%	38.9%
North America	*22.7%*	-44.0%	-33.8%	-13.3%	72.8%	643.2%	284.9%	35.1%	72.8%
International	***45.7%***	**-85.1%**	**-74.6%**	**-33.2%**	**47.3%**	**776.0%**	**487.5%**	**15.6%**	**47.3%**
Africa	*1.6%*	-71.4%	-61.8%	-16.9%	50.2%	1391.9%	721.0%	22.6%	50.2%
Asia Pacific	*11.0%*	-94.3%	-86.4%	-45.5%	33.2%	198.8%	193.9%	0.5%	33.2%
Europe	*18.5%*	-84.7%	-75.7%	-31.3%	52.9%	1014.2%	681.5%	15.8%	52.9%
Latin America	*2.2%*	-75.1%	-69.9%	-14.6%	69.5%	1239.8%	785.7%	23.5%	69.5%
Middle East	*7.0%*	-81.3%	-63.7%	-35.3%	37.7%	766.9%	462.1%	13.2%	37.7%
North America	*5.5%*	-74.4%	-58.5%	-32.2%	51.7%	1399.3%	691.0%	24.4%	51.7%
Domestic	***54.3%***	**-23.9%**	**-15.7%**	**-8.1%**	**75.9%**	**249.6%**	**162.9%**	**18.8%**	**75.9%**
Dom. Australia[4]	*0.7%*	-30.6%	-22.8%	-7.7%	68.4%	2150.7%	1305.2%	25.7%	68.4%
Domestic Brazil[4]	*1.6%*	-44.0%	-44.2%	0.4%	82.1%	528.6%	445.0%	10.9%	82.1%
Dom. China P.R.[4]	*19.9%*	6.3%	12.7%	-4.7%	79.3%	97.9%	71.7%	10.5%	79.3%
Domestic India[4]	*2.1%*	-71.0%	-50.1%	-37.7%	52.3%	1142.9%	1117.9%	1.1%	52.3%
Domestic Japan[4]	*1.5%*	-68.5%	-44.0%	-32.0%	41.1%	238.6%	121.2%	14.3%	41.1%
Dom. Russian Fed.[4]	*3.4%*	22.6%	28.2%	-3.5%	76.4%	609.7%	290.1%	34.4%	76.4%
Domestic US[4]	*16.6%*	-26.2%	-18.3%	-8.4%	79.1%	593.0%	240.8%	40.2%	79.1%

[1]% of industry RPKs in 2020 [2]Change in load factor vs same month in 2019 [3]Load factor level

[4] Note: the seven domestic passenger markets for which broken-down data are available account for approximately 46% of global total RPKs and 84% 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 registrated; it should not be considered as regional traffic.

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