

Domestic markets dominated the recovery for another month

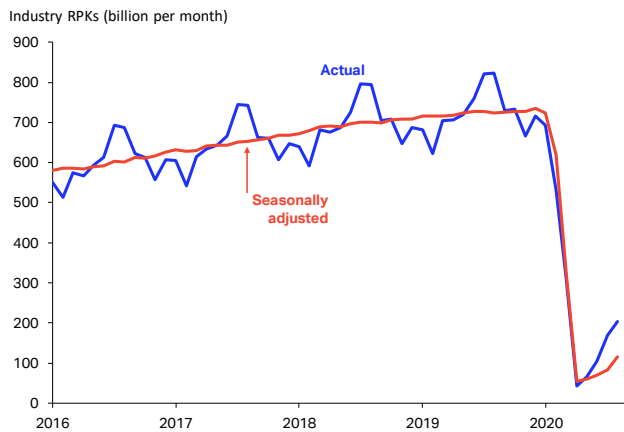
- Industry-wide revenue passenger-kilometres (RPKs) contracted by 75.3% year-on-year in August, compared with 79.5% decline in July. All regions posted modest demand improvements.
- Domestic markets continue to drive the industry rebound. However, resurgence of COVID-19 cases has slowed progress in some countries. Apart from the intra-European routes, international demand was subdued.
- Industry-wide available seat-kilometres (ASKs) recovered faster than RPKs. As a result, the global passenger load factor reached all-time low for August, at 58.5%.

Passenger demand increased slightly in August

Passenger volumes continue to rise from the low point in April, but the pace of improvement remains slow. Industry-wide revenue passenger-kilometres (RPKs) fell by 75.3% year-on-year compared with 79.5% annual contraction in July. Seasonally adjusted passenger volumes (stripped of seasonal ups and downs) also moved higher for another month, but are nowhere near the pre-COVID levels.

All regions reported smaller annual declines, with Asia Pacific posting the most resilient outcome for another month (-69.2%yoy). European carriers showed the fastest recovery (-73%yoy in August vs. -81.2%yoy in July), benefitting from robust performance on Russia domestic routes and tentative signs of rising demand in the smaller intra-European market.

Chart 1 – Air passenger volumes

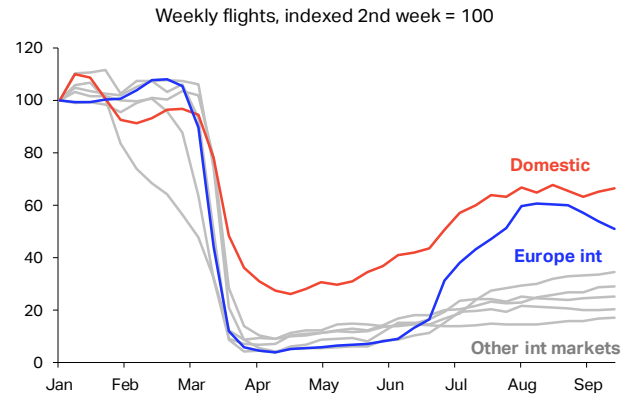


Sources: IATA Economics, IATA Monthly Statistics

Domestic markets outperform international routes

Domestic markets continued to drive the industry's rebound. However, new spikes in COVID-19 cases slowed or reversed recoveries in some countries, including Vietnam, South Korea and Japan. In August, the aggregated domestic RPKs contracted by 50.9% year-on-year, vs. 56.9% annual fall in July. This represents a slower rise than in the previous two months. Weekly aircraft movements indicate that the speed of improvement might ease further in September (Chart 2).

Chart 2 – Domestic and international weekly flights



Source: IATA Economics analysis based on data provided under license by FlightRadar 24. All rights reserved.

International demand remains weak (down 88.3% year-on-year) although restrictions on cross-border travel were relaxed in many countries. Lack of inexpensive/convenient testing and also compulsory quarantines seem to be one of the main factors hindering the recovery of international volumes so far. Europe remained the only market that had been

Air passenger market overview - August 2020

	World share ¹	August 2020 (% 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%	-75.3%	-63.8%	-27.2%	58.5%	-63.7%	-55.3%	-15.6%	67.4%
International	63.8%	-88.3%	-79.5%	-37.0%	48.7%	-70.2%	-64.3%	-13.6%	68.8%
Domestic	36.2%	-50.9%	-34.5%	-21.5%	64.2%	-52.3%	-39.1%	-18.1%	65.9%

¹% of industry RPKs in 2019

²Year-on-year change in load factor

³Load factor level

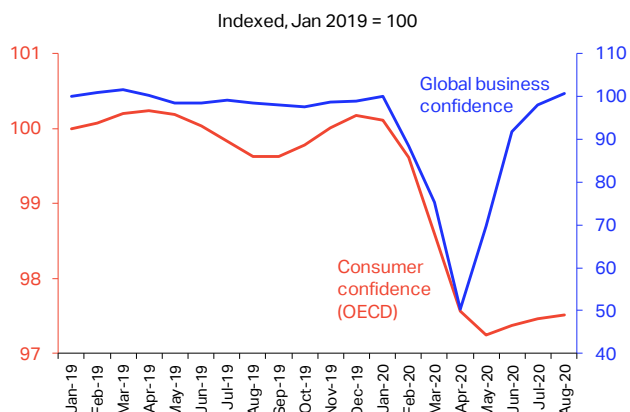
showing some gain in international RPKs. However, the weekly flight data show that the market's upward trend was reversed recently (Chart 2).

Key demand drivers continue to show mixed results

Developments in key drivers of air travel demand have been mixed. Q2 GDP results confirmed the severe impact of the pandemic on global economic backdrop. World economy contracted by ~9% year-on-year in the second quarter, about three times faster fall than in the 'worst' quarter of the Global Financial Crisis. Moreover, unemployment rates remain elevated in many countries.

On a more positive note, some more timely leading indicators of business activity show that economic activity has been recovering since late Q2 as lockdowns eased and businesses resumed. Global business sentiment (measured by composite Purchaser Manager's Index) rebounded from the through in April (Chart 3). Retail sales – a proxy for consumer spending – have increased compared with a year ago in some of the key air travel markets including the US, Euro Area and China.

Chart 3: Business confidence (monthly data from composite PMIs) and consumer confidence



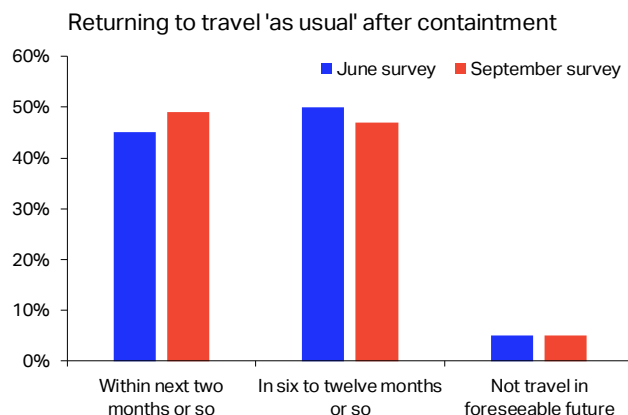
Source: IATA Economics using data from Markit and Thomson Reuters Datastream

However, the rebound in economic activity – which was historically one of the leading indicators of air travel demand – will have limited impact on passenger volumes unless the pandemic is contained. Widespread reliable testing will be one of the crucial factors for growth in passenger volumes in the near-term before the vaccine is developed and distributed. However, for now there is still some uncertainty if the tests are available in sufficient amount.

According to the latest IATA's passenger survey, willingness to fly remains low. More than half of the respondents plans to travel no sooner than in six months (Chart 4). The risk of compulsory quarantine at destination is one of the key deterrents; 83% of the respondents indicated that they will not travel if there is chance of quarantine after arrival.

The overall consumer confidence is also subdued (Chart 3) amidst concerns about rising unemployment once government subsidies end. Given these concerns, consumers will be cautious about their personal finances and future expenses (including spending on air travel) in the near term.

Chart 4: – Survey data of air traveler confidence



Source: IATA

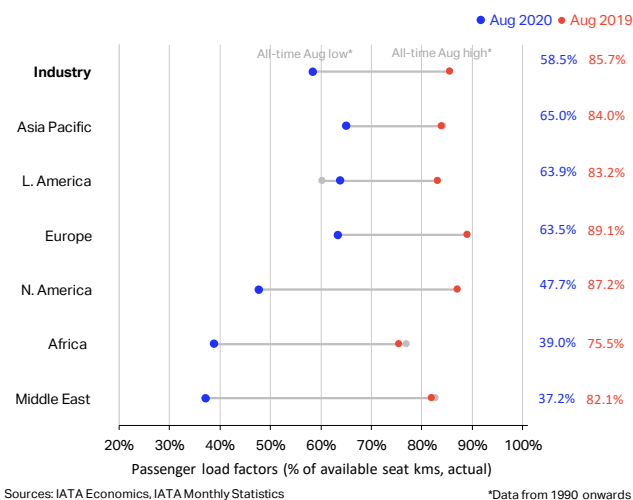
Load factors remain at record lows...

The decline in capacity continued to ease in August as airlines returned more fleet to service and increased the frequency of operations on some routes. Industry-wide available seat-kilometres (ASKs) fell by 63.8%yoy, up 6ppts vs. July.

All regions registered smaller capacity contraction vs. the previous month. The North America, Asia Pacific and Europe carriers put the most capacity back so far, with ASKs down around 60% year-on-year.

Although more seats have been made available, demand to fill them remains low. Industry-wide passenger load factor (PLF) was at record low for another month, at 58.5% (Chart 5).

Chart 5 – Passenger load factors by region



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

Same as in July, the PLF on domestic routes was on average higher than that in international markets (64.2% vs. 48.7%). This hints that passengers continue

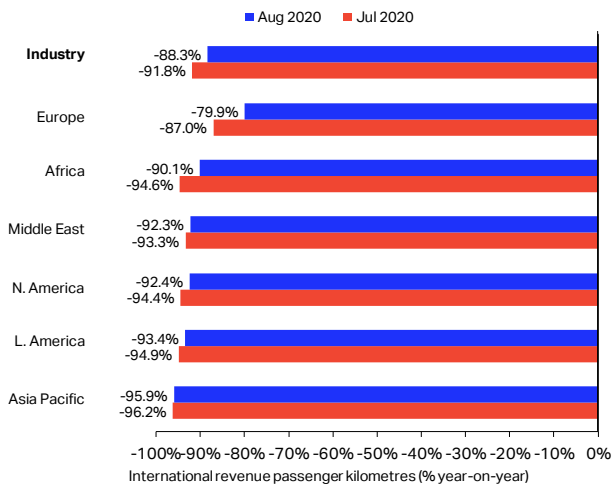
to prefer traveling on domestic routes as developments in international travel remain uncertain.

International demand remains subdued

International demand lagged the positive developments on domestic routes in August. International RPKs were still almost 90% lower compared with the same period a year ago (Chart 6).

The only exception was Europe international market, where year-on-year contraction eased by 7.1ppt, to -79.9%. The region's outperformance can be explained by increasing demand on intra-European routes, where majority of restrictions were lifted in mid-June. That said, the recent spike of COVID-19 cases and related capacity cuts indicate that the improvement might not continue into September.

Chart 6 – International RPK growth, yearly (airline region of registration basis)

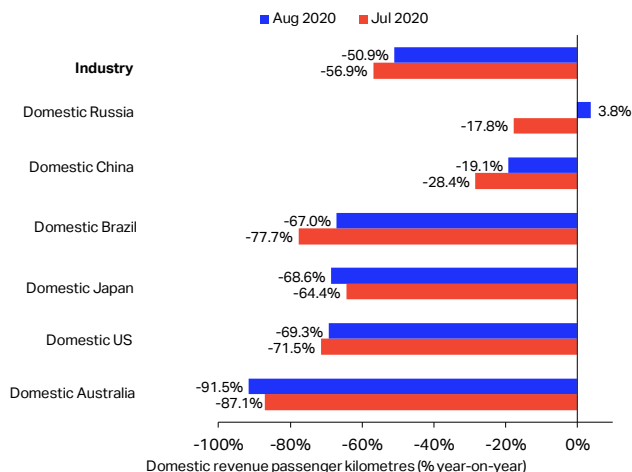


Sources: IATA Economics, IATA Monthly Statistics

Second waves weigh on some domestic markets

Domestic markets drove the industry rebound, posting 50.9% year-on-year RPK contraction (Chart 7). However, the recovery slowed modestly compared with July as new waves of COVID-19 cases emerged in several countries.

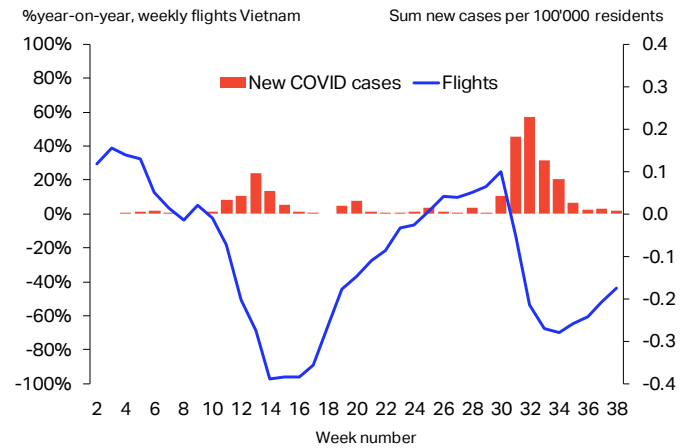
Chart 7 – Domestic RPK growth by market



Sources: IATA Economics, IATA Monthly Statistics

Indeed, annual domestic RPKs decline eased by 5.9ppt in August, vs. ~11ppt gains in the previous two months (Chart 7). Some countries – including Vietnam, Japan and Korea – are currently in a “W-shaped” recovery as the second waves of COVID-19 subside there (Chart 8).

Chart 8 – COVID cases vs. domestic flights in Vietnam



Source: IATA Economics analysis based on data provided under license by FlightRadar24. All rights reserved. ECDC

Domestic **Russia** became the first key domestic market where passenger volumes returned to expansion (+3.8%yo) this year. Falling fares along with boom in domestic tourism were amongst the main contributors to the swift RPK rise. Russia's PLF was also the highest amongst the main markets (86.4%), confirming the country's appetite for air travel.

Domestic RPKs in **China** contracted by 19.1% year-on-year – up 9.3ppt vs. July. Similarly, as in Russia, the demand in the market has been stimulated by falling fares. Successful containment of the virus in Mainland China also underpinned the market's rebound.

Demand continues to gradually recover also in the **Brazil** domestic market. Its RPKs fell by 67.0% year-on-year in August, up from -77.7% in July. Latest weekly flight movement data indicate that similar developments will be observed in September.

In the **US**, domestic market recovery slowed amidst the new wave of COVID-19 infections. Domestic passenger volumes declined by 69.3% year-on-year – little improvement vs. the previous month (-71.5%).

Resurgence of the virus has weighted on RPK outcomes also in **Japan** and **Australia** where the year-on-year contraction rose slightly, to -68.6% and -91.5%yo, respectively. RPK developments in Australia were also impacted by travel restrictions between some states and territories.

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Air passenger market detail - August 2020

	World share ¹	August 2020 (% 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%	-75.3%	-63.8%	-27.2%	58.5%	-63.7%	-55.3%	-15.6%	67.4%
Africa	2.1%	-87.4%	-75.5%	-36.6%	39.0%	-66.7%	-59.9%	-12.2%	59.7%
Asia Pacific	34.6%	-69.2%	-60.3%	-19.0%	65.0%	-61.8%	-53.7%	-14.3%	67.9%
Europe	26.8%	-73.0%	-62.1%	-25.5%	63.5%	-66.3%	-60.3%	-13.0%	72.3%
Latin America	5.1%	-82.8%	-77.5%	-19.3%	63.9%	-60.9%	-57.0%	-7.4%	75.4%
Middle East	9.1%	-91.3%	-80.8%	-44.9%	37.2%	-66.2%	-60.0%	-12.0%	64.8%
North America	22.3%	-77.8%	-59.4%	-39.5%	47.7%	-63.0%	-48.9%	-23.4%	62.0%
International	63.8%	-88.3%	-79.5%	-37.0%	48.7%	-70.2%	-64.3%	-13.6%	68.8%
Africa	1.8%	-90.1%	-78.4%	-41.0%	34.6%	-67.7%	-60.7%	-12.8%	58.7%
Asia Pacific	19.1%	-95.9%	-90.4%	-48.0%	34.8%	-73.2%	-67.4%	-14.7%	66.6%
Europe	24.0%	-79.9%	-68.7%	-32.1%	57.1%	-69.4%	-63.9%	-13.0%	72.7%
Latin America	2.7%	-93.4%	-90.1%	-27.8%	56.1%	-66.4%	-63.2%	-7.2%	76.0%
Middle East	8.7%	-92.3%	-81.9%	-47.1%	35.3%	-66.6%	-60.3%	-12.2%	64.8%
North America	7.6%	-92.4%	-82.6%	-49.9%	38.5%	-71.0%	-63.8%	-16.9%	67.6%
Domestic	36.2%	-50.9%	-34.5%	-21.5%	64.2%	-52.3%	-39.1%	-18.1%	65.9%
Dom. Australia ⁴	0.8%	-91.5%	-81.2%	-44.9%	37.1%	-64.3%	-58.3%	-11.4%	68.1%
Domestic Brazil ⁴	1.1%	-67.0%	-64.3%	-6.4%	76.1%	-53.0%	-51.0%	-3.3%	79.3%
Dom. China P.R. ⁴	5.1%	-19.1%	-5.9%	-12.3%	75.3%	-43.8%	-32.1%	-14.6%	70.6%
Domestic Japan ⁴	6.1%	-68.6%	-28.4%	-45.6%	35.6%	-56.3%	-34.1%	-24.6%	48.1%
Dom. Russian Fed. ⁴	1.5%	3.8%	9.3%	-4.6%	86.4%	-30.2%	-17.0%	-13.3%	70.3%
Domestic US ⁴	14.0%	-69.3%	-45.7%	-37.7%	48.9%	-58.4%	-40.3%	-26.1%	59.9%

¹% of industry RPKs in 2019

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 83% 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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