

# Passenger growth set to climb 6% in 2018 as tourist spending surges - IATA

By **Hibah Noor** on December, 5 2017 | Associations



Passenger numbers are forecast to rise 6% to 4.3 billion in 2018, according to the International Air Transport Association (IATA).

This would represent slower growth compared with 2017, when passenger numbers are expected to climb 7.5%.

And according to IATA's latest forecast, international tourists traveling by air are expected to spend more than US\$750 billion in 2018, a rise of 15% in just over two years.

Global industry net profit is expected to rise to US\$38.4 billion next year, an improvement from the US\$34.5 billion expected net profit in 2017.

Overall industry revenues are set to jump 9.4% to US\$824 billion next year compared to 2017 figures.

Strong demand and efficiency will help airlines improve net profitability in 2018 despite rising costs, IATA said.

In a further economic benefit, unique city pairs served by airlines grew to over 20,000 in 2017 (+1,351 on 2016 and double the 10,000 city pairs served in 1996). This saves time for users and opens new links for tourism, trade and investment, IATA said.

Alexandre de Juniac, Director General and CEO, IATA, said: "These are good times for the global air transport industry... More people than ever are traveling... More routes are being opened. Airlines are achieving sustainable levels of profitability. It's still, however, a tough business, and we are being challenged on the cost front by rising fuel, labor and infrastructure expenses."

## Performance drivers in 2018

Passenger numbers are expected to increase to 4.3 billion in 2018. Passenger traffic (revenue passenger kilometers or RPKs) is expected to rise 6.0% (slightly down on the 7.5% growth of 2017 but still ahead of the average of the past 10-20 years of 5.5%), which will exceed a capacity expansion (available seat kilometers or ASKs) of 5.7%. This will push up the average load factor to a record 81.4%, helping to drive a 3.0% improvement in yields.

Revenues from the passenger business are expected to grow to US\$581 billion (+9.2% on US\$532 billion in 2017).

## Regional outlook

All regions are expected to report improved profitability in 2018 and all regions are expected to see demand growth outpace capacity expansion. Carriers in North America continue to lead on financial performance, accounting for nearly half of the industry's total profits.

Airlines in North America are forecast to generate the strongest financial performance with net profits of US\$16.4 billion in 2018 (up from US\$15.6 billion in 2017). Market conditions are expected to continue to be strong, with announced capacity growth (3.4%) likely to be slightly less than IATA's traffic forecast of 3.5%.

Airlines in Asia Pacific are forecast to see profits of US\$9 billion in 2018 (up from US\$8.3 billion in 2017).

Passenger market conditions vary across the region. Domestic markets have strengthened in China, India and Japan. New low-cost market entrants in the ASEAN region are intensifying competition and contributing to keeping profitability low. But there has been a pause in competitive pressures from the "super connectors" on long-haul routes as they face various challenges in their home markets.

Airlines in Europe are expected to deliver a net profit of US\$11.5 billion in 2018 (up from US\$9.8 billion in 2017). Announced capacity increases of 5.5% trail the expected 6.0% growth in demand in 2018, supporting a strengthening of the region's performance.

European airlines are benefiting from a strong economic recovery in home markets, including Russia, a rebound from the terrorism events of 2016, and some consolidation following the failure of several regional airlines.

The results of these developments are evident in the continent achieving the highest average passenger load factor in 2017 to date—84.3%. Strong transatlantic demand is also supporting this performance, although new market entry is intensifying already-stiff competition. And an early resolution to Brexit uncertainties is needed for airlines to plan and market their flying programs, IATA noted.

Airlines in Latin America are forecast to generate US\$900 million net profit in 2018 (up from US\$700 million in 2017). Passenger demand is expected to grow by 8.0% in 2018, outpacing announced passenger capacity growth of 7.5%.

The region will approach 2018 with momentum provided by the moderate recovery in the Brazilian economy, reasonable growth in Mexico and the weaker US dollar over the last year.

Middle East carriers are forecast to see net profits improve to US\$600 million in 2018 (up from US\$300 million in 2017). Demand in 2018 is expected to grow by 7.0%, outpacing announced capacity expansion of 4.9% (the slowest growth since 2002).

The region's carriers face challenges to their business models, and from low oil revenues, regional conflict, crowded air space, the impact of travel restrictions to the US, and competition the new "super connector" (Turkish Airlines). Despite the challenges, there is positive momentum heading into 2018.

African carriers are expected to continue to make small losses of US\$100 million in 2018 following a collective net loss of US\$100 million in 2017. Stronger forecast economic growth in the region is expected to support demand growth of 8.0% in 2018, slightly outpacing the announced capacity expansion of 7.5%.

The wider economic situation is only improving slowly in Africa, which is hampering the financial performance of its airlines. The key Nigerian economy is only just out of recession and growth in South Africa remains extremely weak.

While traffic is growing, passenger load factors for African airlines are just over 70% which is over 10 percentage points lower than the industry average.

Stronger economic growth will help in 2018, but the continent's governments need a concerted effort to further liberalize to promote growth of intra-Africa connectivity, IATA said.

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