

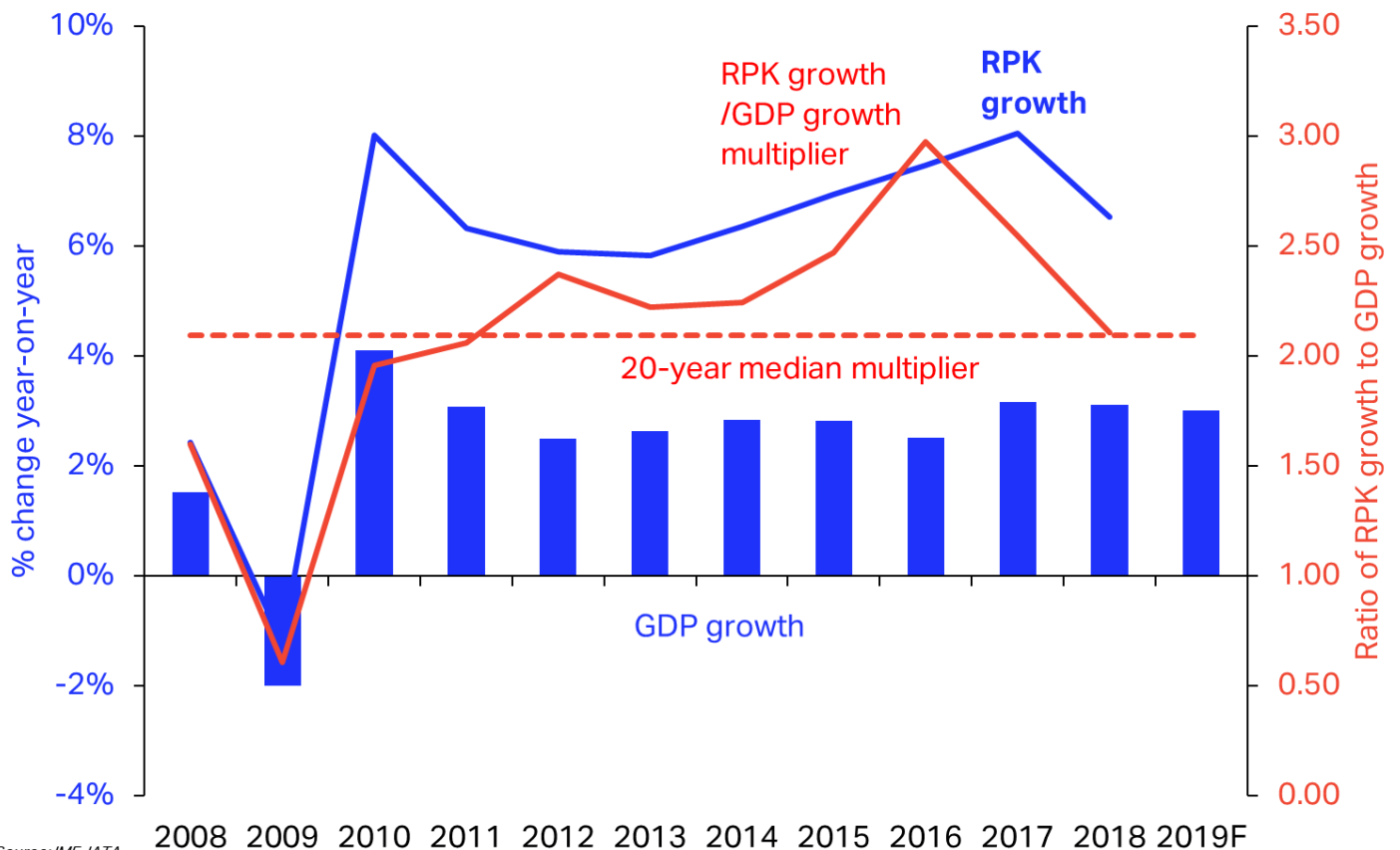


# IATA Economics' Chart of the Week

8 February 2019

## Air travel GDP multiplier falls sharply back to its 20-year median

Global (Revenue) Passenger Km flown, GDP growth and the multiplier



Source: IMF, IATA

- Full year data on air travel (measured here by revenue passenger kilometers flown) in 2018 revealed a further year of strong, above-trend, growth at 6.5%. That was a slowdown from the previous year's 8.0% growth but still comfortably above the long-term average of 5.5%. Air travel growth was propelled by another year of healthy economic growth.
- But the degree to which the 3.1% GDP growth had a multiplier effect on RPK growth fell sharply from the previous several years. During the post-GFC period the multiplier has been close to its 20-year median of 2.1; air travel has grown only slightly faster in relation to economic growth than would have been expected. But the spike higher in the multiplier in 2015 and 2016 was driven by the fall in fuel prices, which led to additional travel stimulus from a 16% fall in fares (more so in inflation-adjusted terms). It was also associated with an acceleration in the number of city-pair connections, which boosts demand, facilitated by increasing deliveries of longer-range narrow body aircraft. The sharp fall in the multiplier in the past two years is partly, though not entirely, explained by the significant rise in airlines' unit costs and the resulting impact on the cost of travel during that period.
- This year GDP growth is expected to slow, but not by much in mainstream forecasts. The multiplier is back to its 20-year median. If it stays there that implies 2019 RPK growth of around 6% - which is our current forecast. Fuel prices have fallen once more and new city-pairs are still being connected at a robust pace. But will that be enough to stop the multiplier falling, or will growth turn out slower than our forecast? More on this in later editions.

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