

# Year End Review: A Record Year in 2023 What's Next in 2024

As 2023 comes to an end and the holidays quickly approach, the L&B LAB looks back on how our industry performed this past year and where our forecasters see it heading as we enter 2024.

## 2023 - A Record Year

Air travel in many parts of the world exceeded 2019 volumes in 2023. According to IATA's September 2023 Air Passenger Market Analysis (the most recent report available), worldwide domestic air travel is 2.7% below 2019 volumes, while domestic travel in the United States (U.S.) is up 5%. International travel remains down almost 7%. Despite some sectors not returning to pre-pandemic volumes, travel volumes, which are measured by revenue passenger-kilometers (RPKs), are 30% higher than September of 2022. Further, the trend remains strongly upwards.



### Global Air Passenger Market in Detail (September 2023)

	World Share <sup>1</sup>	September 2023 (% year-on-year)				September 2023 (% ch vs the same month in 2019)			
		RPK	ASK	PLF (%-pt) <sup>2</sup>	PLF (level) <sup>3</sup>	RPK	ASK	PLF (%-pt) <sup>2</sup>	PLF (level) <sup>3</sup>
<b>Total Market</b>	<b>100.0%</b>	<b>30.1%</b>	<b>28.8%</b>	<b>0.8%</b>	<b>82.6%</b>	<b>-2.7%</b>	<b>-3.5%</b>	<b>0.7%</b>	<b>82.6%</b>
<b>International</b>	<b>58.1%</b>	<b>31.2%</b>	<b>29.2%</b>	<b>1.3%</b>	<b>83.8%</b>	<b>-6.9%</b>	<b>-9.2%</b>	<b>2.1%</b>	<b>83.8%</b>
<b>Domestic</b>	<b>41.9%</b>	<b>28.3%</b>	<b>28.2%</b>	<b>0.1%</b>	<b>80.7%</b>	<b>5.0%</b>	<b>7.1%</b>	<b>-1.6%</b>	<b>80.7%</b>

Notes:

<sup>1</sup> % of industry RPKs in 2022

<sup>2</sup> Change in load factor

<sup>3</sup> Load factor level

Source: IATA Air Passenger Market Analysis – September 2023<sup>4</sup>

The return of international air travel was uneven because some countries (principally China and Japan) are still experiencing slow recovery in their international sector. This is mainly due to the delay in lifting their COVID-19 travel restrictions. As a result, international travel between Europe and Asia, North America and Asia, and within Asia are more than 30% lower than 2019. Travel from Asia to Australia and New Zealand is still 20% lower than 2019, too. However, travel across the Atlantic Ocean and to the Middle East has exceeded 2019 volumes.

The growth of air travel in 2023 was led by a return of tourism. As of April 2023, worldwide tourism is about 87% of December 2019 volumes. Only Asia (excluding China) is still below December 2019 volumes, which is driven by the lack of Chinese visitors. Spring 2023 volumes to Europe and the UK were well above 2022 and the summer season exceeded 2019. Spring 2023 tourism to Asia (excluding China) tripled 2022 volumes.

<sup>4</sup> IATA Air Passenger Market Analysis, September 2023. <https://www.iata.org/en/iata-repository/publications/economic-reports/air-passenger-market-analysis---september-2023/>

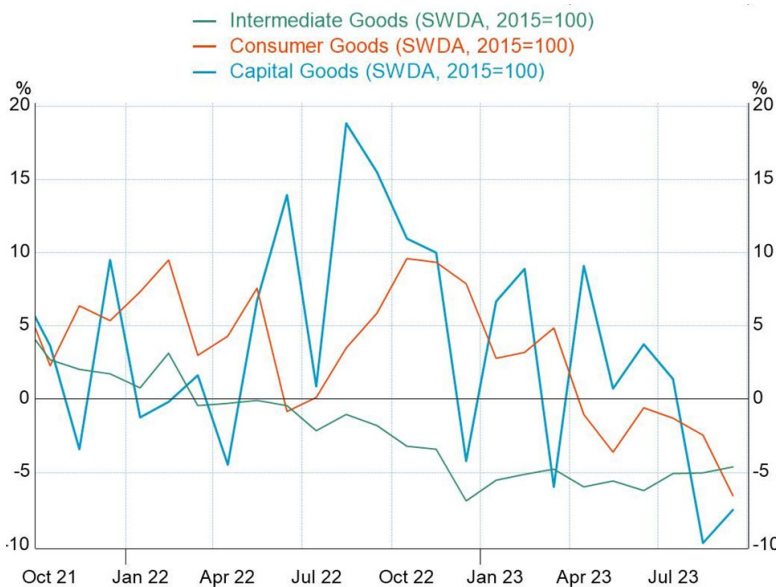
Interesting to note, European businesses saw a year over year decline in production from 2022 to 2023, while U.S. businesses saw increases in production in 2023. Predictions indicate that business travel may never return to pre-pandemic levels. The pandemic greatly accelerated a pre-existing trend to use virtual meeting and conference tools, thereby reducing business travel expenses without reducing interactions with teammates and learning opportunities. On the other hand, domestic travel for conferences, business-to-business planning, and sales have likely already returned to pre-pandemic levels, where face-to-face interactions are more essential.

### Why Do Employees Go on Business Trips?

Reason	Survey %	Potential to Return to 2019 Levels	L&B Assessment of Reasoning
To attend conferences	62	High	Initial connections are better in person
To meet with other companies for business planning	56	High	Critical for business growth
For professional development	44	Medium	More on-line learning opportunities
To meet with coworkers in a different location	40	Low	Partially replaced by on-line meetings
To pitch new products	30	High	Critical for business growth

Source: Skift through <https://financesonline.com/business-travel-statistics/>, 2016 and L&B Analysis

### Year-on-Year Performance of Euro Area Industrial Production Main Sectors



Source: Statistical Office of the European Communities/Haver Analytics

The convergence of the declining European business production with increased tourism demonstrates that a portion of the 2023 demand is a result of postponed travel from the years 2020 to 2022. Similarly, much of the rise in Asian tourism can be attributed to pent-up demand from the same period.

According to IATA, airline load factors in September 2023 were 82.6%, compared to 81.9% in 2019. Airlines persist in distributing their capacity to routes that ensure their aircraft remain in operation and maintain a satisfactory passenger occupancy.

## What's Next in 2024

Two major trends will shape aviation demand in 2024. First, European and U.S. economic growth will continue to slow faster than emerging markets and developing economies. Chinese growth will continue to slow, impacted by weakening performance and overall confidence in its economy. This in turn will reduce employment and limit personal travel. Second, pent-up demand from the pandemic in the U.S. will have been served as passengers will have spent down their savings accumulated during COVID-19. In Europe, the spend down of savings has been slower and some pent-up demand will still drive travel in 2024. In Asia, pent-up demand is just beginning to drive travel demand in 2023 and will continue to in 2024.

The pandemic greatly accelerated the use of teleconferencing for professional development and intra-company meetings. Many of these business travel changes are likely permanent. These trips, when they do occur, will likely include a mix of both leisure and business activities and will be longer. Airlines have already acknowledged that their passengers are making these types of combined trips.

### Slowing U.S., European and Chinese Economic Growth

According to the International Monetary Fund (IMF), European economic growth was driven by the services sector, driven primarily by strong tourism. As pent-up demand for tourism dissipates, growth in economic activity in the services sector will also slow. Manufacturing was already slowing down and is expected to be weak into 2024. The U.S. economy was already strong in many sectors through the third quarter of 2023. However, the consensus of many forecasts is that U.S. economic growth will slow starting in the fourth quarter of 2023 and continue slowing to 0.9% to 1.7% in the first half of 2024. European economies will start to recover in 2024, but economic growth will be slow – in the 0.5% to 1.2% range. The Chinese economy will slow in 2024 to a growth rate between 3.0% and 4.7%. The slowdowns in Europe and the U.S. are partially driven by high interest rates, which were raised by central banks to slow inflation. The slowdown in China is due to issues with debt in the property development businesses and rising youth unemployment rate eroding confidence in the economy. While inflation will have slowed in Europe and the U.S, it will still be above the target rates established by central banks. These interest rates will remain comparatively high until inflation further eases.

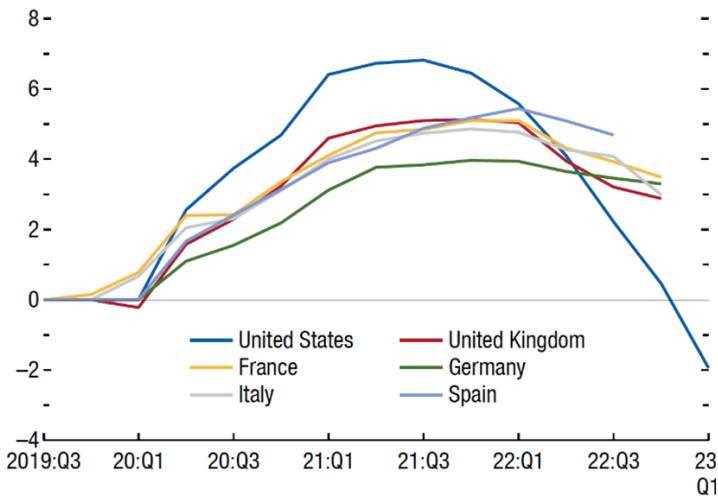
#### Forecasted Economic Growths of the U.S., Europe, and China

Forecast Sources	U.S.		Europe		China	
	2023	2024	2023	2024	2023	2024
IMF	2.1%	1.5%	0.7%	1.2%	5.0%	4.2%
S&P	2.3%	1.7%	0.5%	0.5%	4.8%	4.7%
Fitch	2.0%	0.3%	0.6%	1.1%	4.6%	3.0%
OECD	2.2%	1.3%	0.6%	1.1%	5.1%	4.6%
Swiss RE	2.1%	0.9%	-	-	-	-
Deloitte	2.2%	1.7%	-	-	-	-
U.S. CBO	0.9%	1.5%	-	-	-	-

Source: International Monetary Fund, Standard and Poor's, Fitch Ratings, Swiss RE Institute, Deloitte Insights, and U.S. Congressional Budget Office

## Pent-Up U.S. Demand from the Pandemic Has Been Served

### Accumulated Savings from a 3rd Quarter 2019 Base



Source: de Soyres, Moore, and Ortiz (2023).

Note: Stock begins accumulating from 0 at  $t = -1$ , in which  $t = 0$  is the first period of low growth due to COVID-19. Excess savings are calculated as deviation from the predicted saving rate using a Hamilton trend.

Outside of Asia, the aviation industry has accommodated much of the pent-up demand for travel from the pandemic years of 2020 through 2022. This demand was fueled by an accumulation of savings during the pandemic. According to the IMF, the U.S. has spent down this accumulation of savings to 2% below levels observed in 2019. The Europeans have held on to savings, and their pent-up demand for travel will carry over into 2024. Thus, U.S. rates of discretionary travel will return to historical levels. European travel will continue to be above historical levels through 2024. Asian travel is still recovering from the pandemic, and discretionary travel should grow well above 2023 levels. The coming year will likely challenge airlines worldwide financial performance, especially in an environmental of slowing demand growth combined with a greater supply of airlines seats.

To read more about four specific travel markets in 2024, please continue to the case studies that follow this article. Our four case studies cover a wide range of air travel frequency of usage. According to Airbus's Global Market Forecast (GMF), propensity to use air travel in India stood at about 0.1 trips per person in 2019 compared to 0.5 in China, 2.1 in the U.S., and 3.1 in Australia.

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## What is the L&B LAB?

The LAB is Landrum & Brown's research and development unit. Our mission is to harness decades worth of industry knowledge and expertise to develop innovative solutions that support our clients along with promoting industry thought leadership.

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