



CARGO CHARTBOOK

Q4 2017

Demand for air cargo still strong, as yields continue to rise

- Air freight tonne kilometres (FTKs) grew by a strong 8.8% year-on-year in the three months ended October, with industry reports indicating that demand has been strong in the key final months of the year too.
- Stronger economic and trade conditions, including sharp rises in consumer confidence, are expected to support the demand into 2018, even as the boost to air freight from the inventory cycle wanes. Business surveys are consistent with annual FTK growth of just under 7% in Q1.
- More favorable supply and demand dynamics have helped to drive cargo yields upwards, and to offset some pressure from rising fuel costs. Meanwhile, freighter utilization is currently back at levels last seen in 2012.

Market developments

- Industry-wide FTKs grew by 8.8% in the three months ended October – a slowdown from the seven-year high seen in the previous three months, but still a strong pace by historical standards.
- Annual growth in freight volumes remains robust on all of the major international market segments, broadly in the region of 10-15% year-on-year.
- FTKs are still trending upwards in seasonally adjusted (SA) terms, although the quarterly pace of growth slowed in the most recent 3-month period.

Market drivers

- There are further signs that the current FTK *growth* cycle peaked earlier in 2017, having been bolstered by the inventory re-stocking cycle. Nonetheless, the ongoing upturns in global economic and trade conditions, not least the strong gains in consumer confidence, are expected to remain supportive of air freight demand in the near term.
- All told, business surveys remain consistent with annual FTK growth of just under 7% in Q1 2018.

Capacity, costs and yields

- 11,632 tonnes of additional cargo payload capacity are estimated to be added in 2017 – around 10% below that of last year. Additions from belly-capacity via wide-body passenger fleet deliveries still to dominate. The amount of cargo payload added from deliveries of freighter aircraft was the lowest since 2008, around 30% below that seen last year.
- More favorable supply and demand dynamics are helping to drive cargo yields higher, and to offset upward pressure on breakeven loads from higher fuel prices. Cargo yields rose by 13.1% year-on-year in Oct 2017 – the fastest pace in seven years.
- Daily utilization rates of large freighter aircraft have increased throughout 2017, and are currently at their highest level since 2012. Increased utilization will help to further reduce unit costs, and to reinforce the backdrop for financial performance.

Heads of cargo are increasingly upbeat over yields

- When surveyed in early-October, nearly three-quarters of airline heads of cargo expected volumes to rise over the next 12 months. The survey respondents were also increasingly confident about the outlook for yields over the period. (See Chart 1.)

Chart 1 – IATA survey of heads of cargo

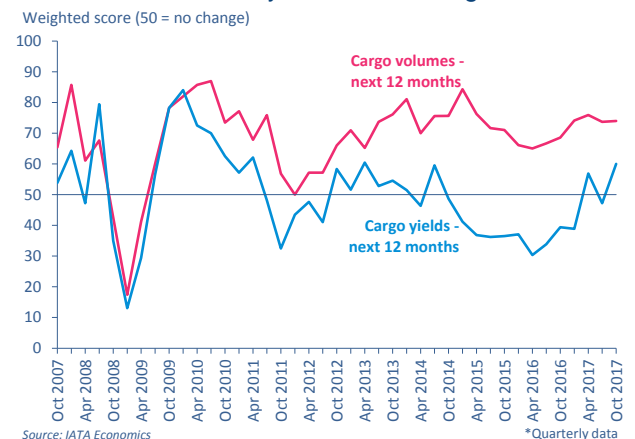


Table 1 – Key data overview

Key data overview - rolling 3 month periods

Rolling 3 month periods (unless specified otherwise)	% year-on-year	% quarter-on-quarter
Industry-wide FTKs¹	8.8%	1.2%
North America-Asia ²	9.6%	2.9%
Asia-Europe ²	10.5%	-0.8%
Europe-North America ²	11.8%	3.7%
Within Asia (int'l) ²	15.1%	4.5%
Industry-wide Freight Tonnes²	12.6%	2.9%
World trade volumes²	5.1%	1.4%
Additional widebody payload capacity (2017 calendar year)	Year-on-year change	
	Tonnes	%
Freighters	1,978	-29.7%
Belly	9,654	-4.9%
<i>Total</i>	<i>11,632</i>	<i>-10.3%</i>
	Level ³	5-yr avg
Global PMI new export orders	53.0	51.0

¹ 3m ended Oct 2017

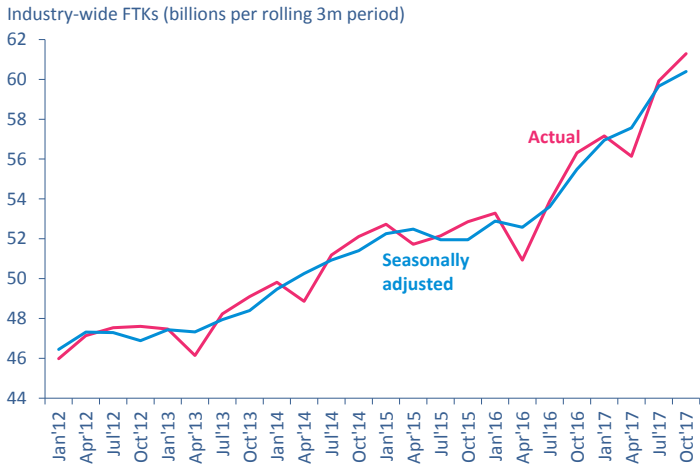
² 3m ended Sep 2017

³ Average of 3m ended Nov 2017

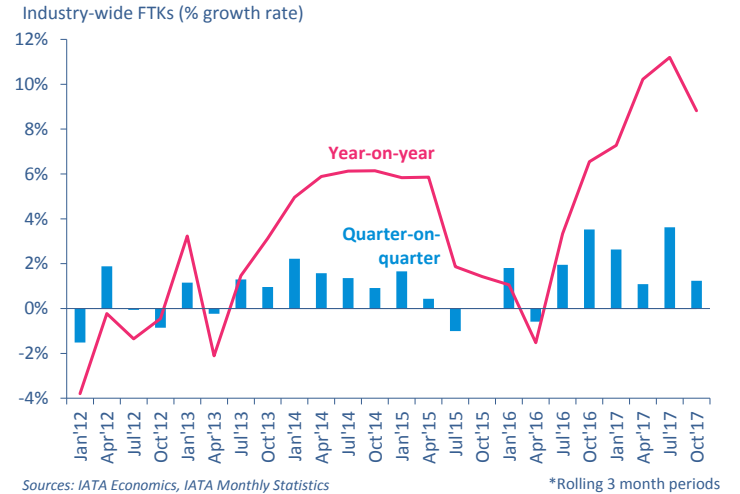
David Oxley
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 18th December 2017

Market developments

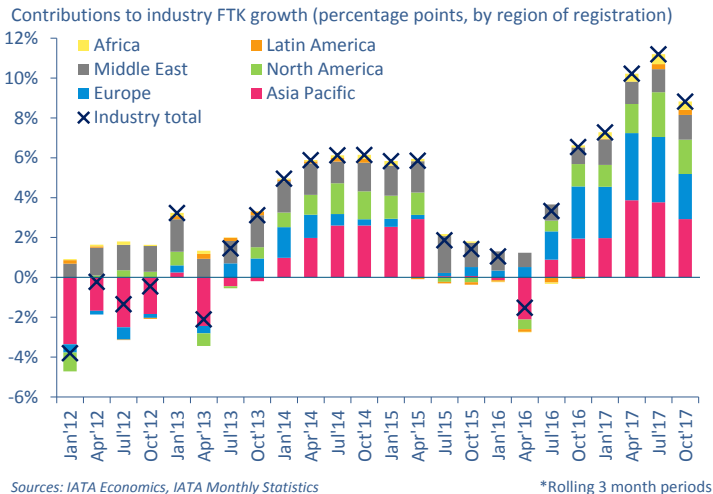
1. The seasonally adjusted (SA) upward trend in air freight tonne kilometres (FTKs) has remained robust throughout 2017. Reports indicate that demand has been strong in the key final months of the year too.



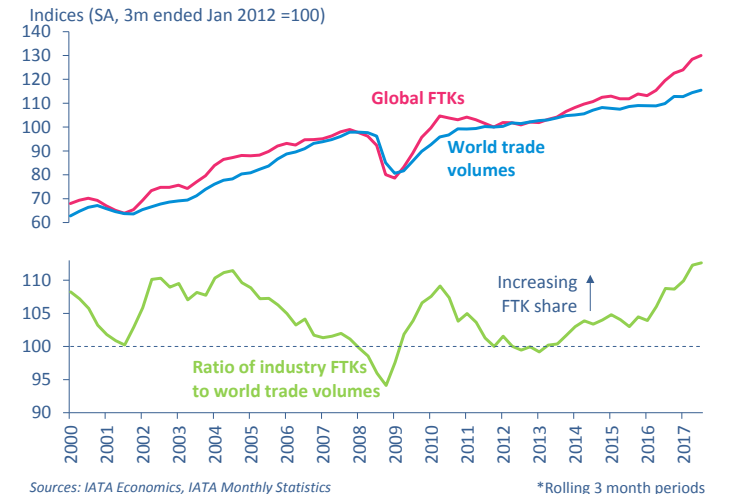
2. The quarterly and annual FTK growth rates both slowed in the 3-months ended October compared to the previous period. Nonetheless, at 8.8%, the annual growth rate remained strong by historical standards.



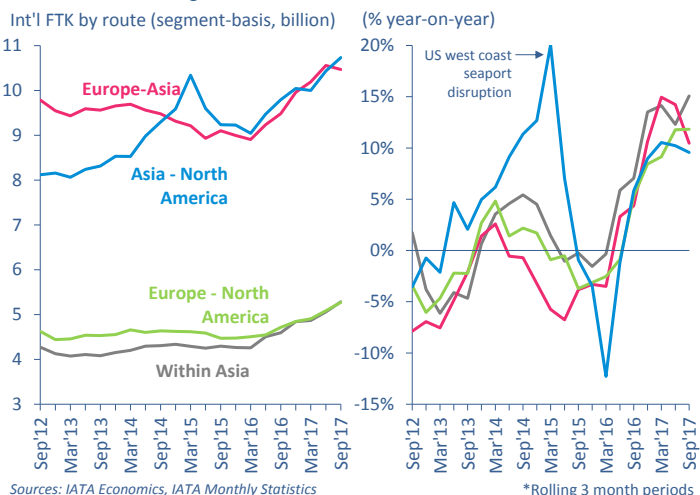
3. Every region made a positive contribution to annual FTK growth in the three months to October. The slowdown compared to the previous period was driven mainly by airlines based in Europe and Asia Pacific.



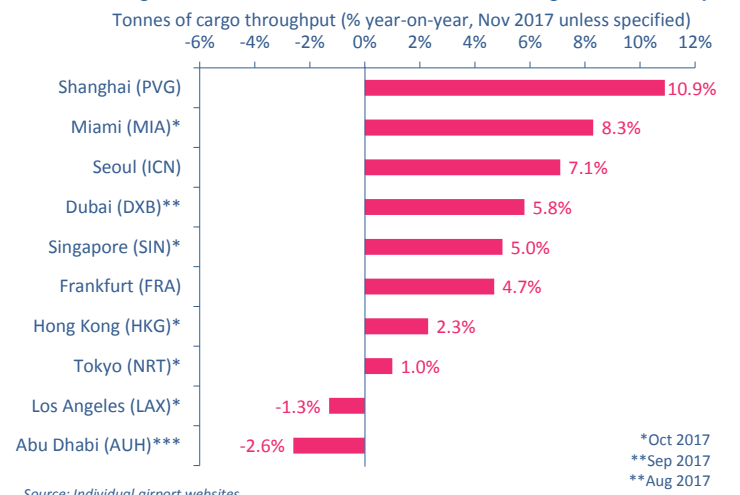
4. Air freight has outperformed wider goods trade since the start of 2016. This is consistent with the typical pattern seen during upturns in the economic cycle, although the growing importance of e-commerce may also be a factor at play.



5. Traffic demand has continued to be robust on the four major segment-based trade lanes. Year-on-year FTK growth rates have remained broadly in the region of 10-15%, led by international freight traffic flow within Asia.

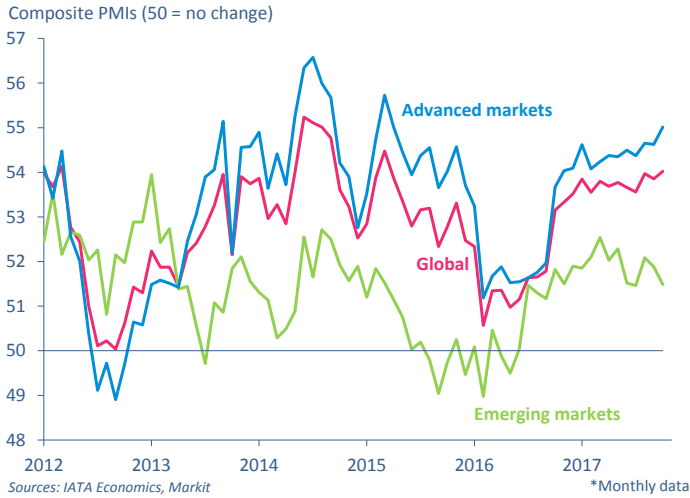


6. There is a wide range in cargo throughput performance at an airport level in recent months, with no clear geographic pattern evident. Shanghai posted the fastest growth (10.9%), but Los Angeles and Abu Dhabi are both in negative territory.

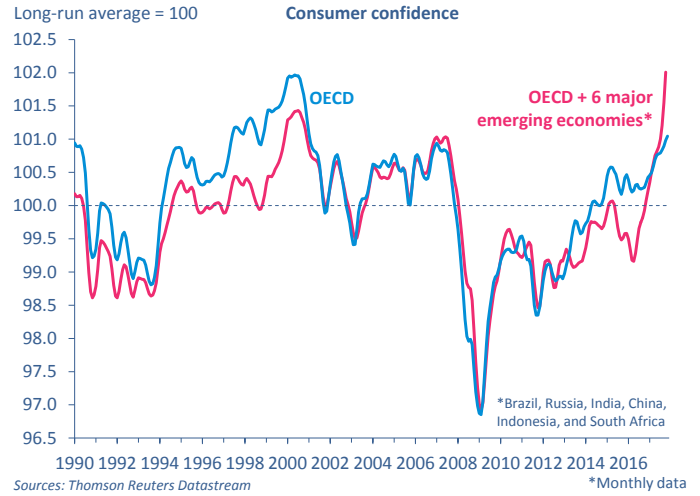


Market drivers

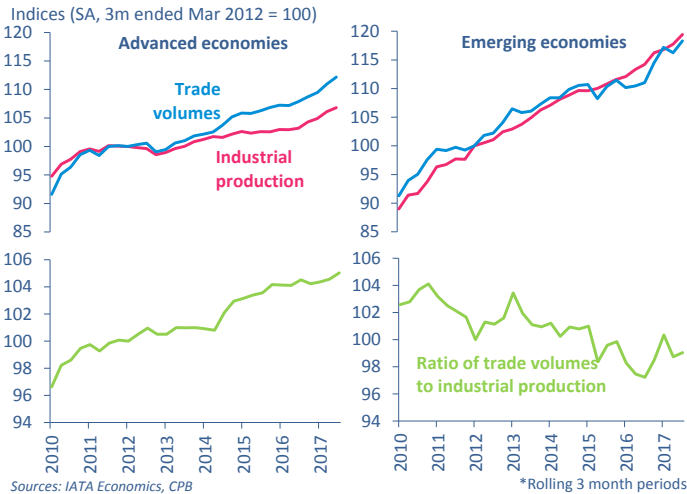
7. Global business confidence has trended upwards in recent months, driven by increases in advanced markets. Developments in the so-called emerging markets have been more volatile, but are still consistent with rising activity.



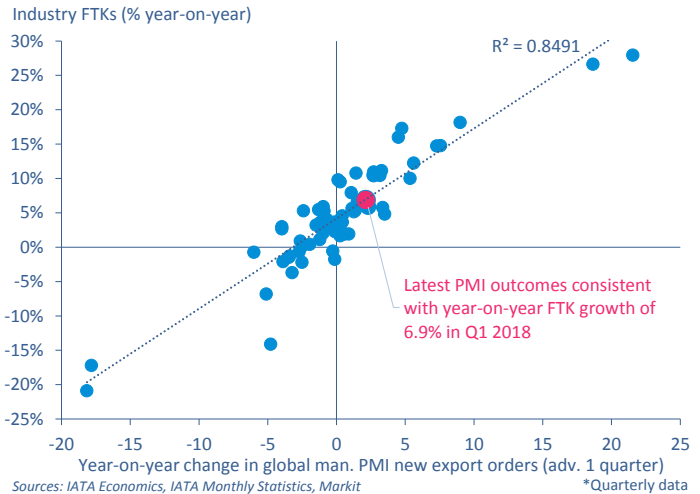
8. Consumer confidence has risen sharply, and is helping to support demand for air freighted goods. This has particularly been the case in major emerging markets, which fits in with reports of more balanced cargo flows on key trade lanes.



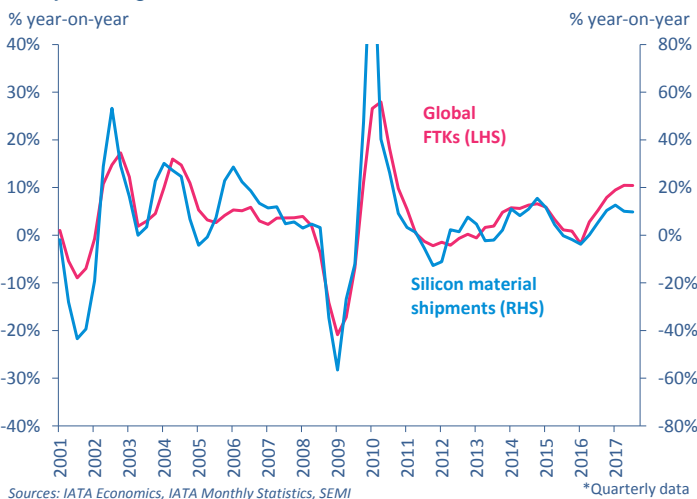
9. The pick-up in global trade conditions has continued: world trade volumes grew by 5.1% year-on-year in Q3 2017 – the fastest pace since early-2011. This has been supported by stronger trade for both advanced and emerging economies.



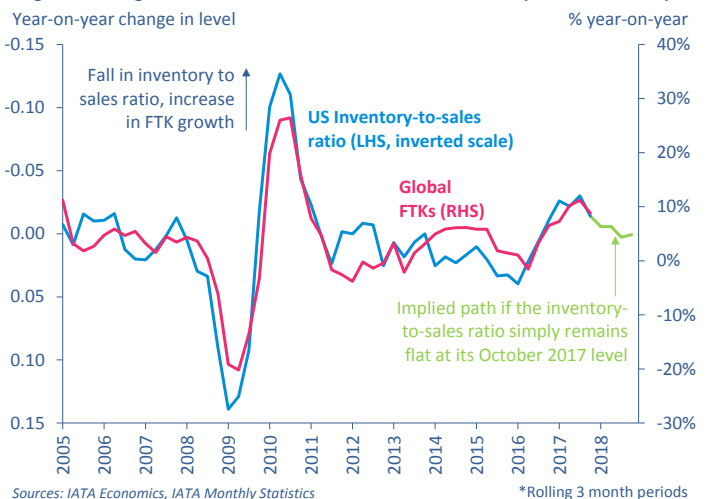
10. The new export orders component of the global PMI has increased in recent months, taking it to highest level since March 2011. The indicator is currently consistent with year-on-year FTK growth of 6.9% in Q1 2018.



11. The quantity of silicon material shipments increased by 9.8% year-on-year in Q3 2017 – well above its ten-year average growth rate (6.0%). This driver has traditionally been a very strong coincident indicator for FTK demand.

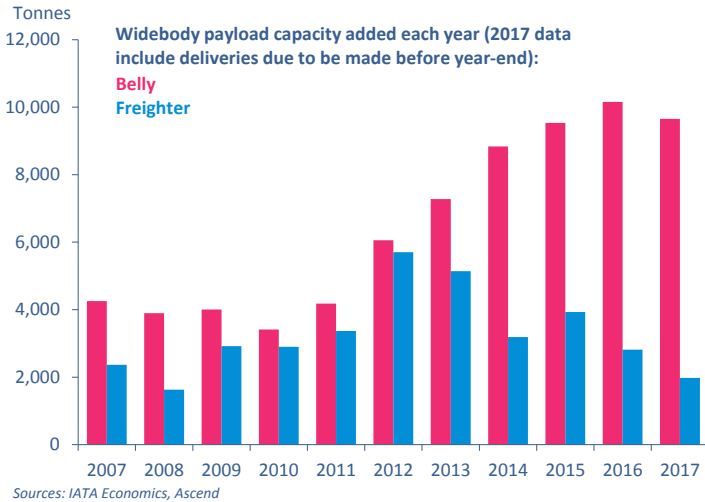


12. The decline in the inventory-to-sales ratio seen during 2016 is illustrative of the restocking cycle that has helped to drive recent robust FTK growth. That said, the ratio is no longer falling, and in fact has trended sideways since May.

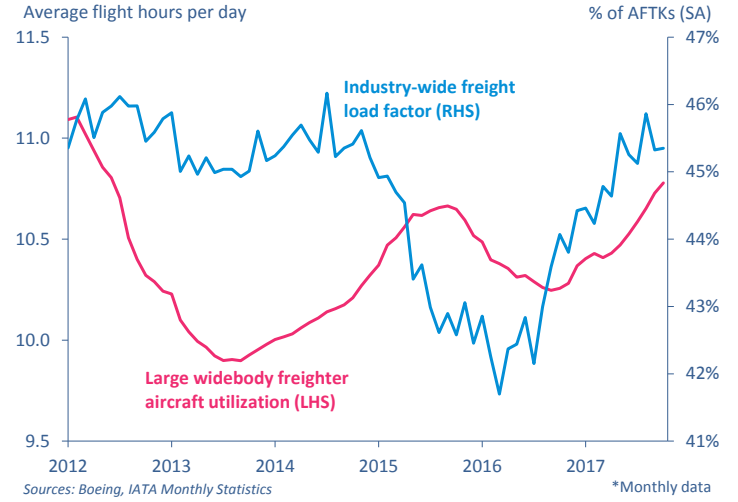


Capacity, costs, and yields

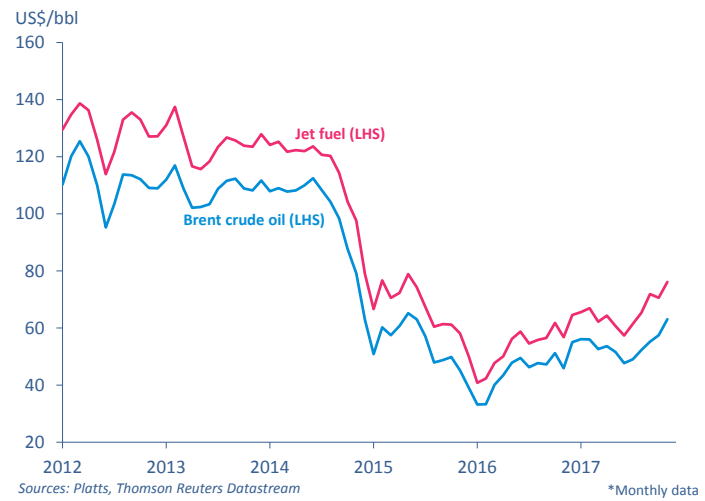
13. 1,978 tonnes of payload capacity are estimated to be added to the freighter fleet in 2017 – the smallest increase since 2008. Additions from belly capacity via deliveries to the wide-body passenger fleet have continued to dominate.



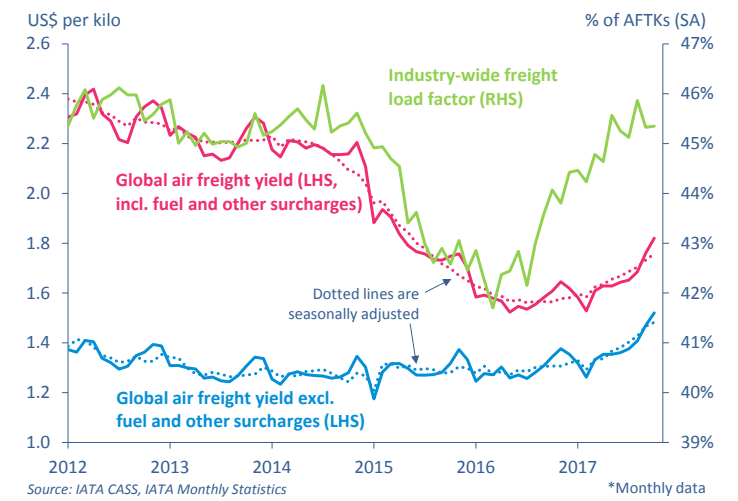
14. Large widebody freighter aircraft utilization is trending upwards and is now back to levels last seen in 2012. At the same time, airlines are managing to maintain the SA freight load factor at levels last seen in late-2014.



15. Brent oil prices have increased through H2 2017, partly in anticipation of OPEC's recent decision to extend oil production cuts until end-2018. At the time of writing, prices are around US\$63/bbl – the highest level since mid-2015.



16. More favorable supply and demand dynamics are helping to drive yields upwards. The cargo yield, both including and excluding fuel and other surcharges, rose by 13.1% year-on-year in October – its fastest annual pace in seven years.



Get the data

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