



AIR FREIGHT MARKET ANALYSIS

April 2017

Strong start to 2017, but have we passed the cyclical growth peak?

- Global freight tonne kilometres (FTKs) grew by 8.5% year-on-year in April, down from 13.4% in March.
- FTK growth has made a strong start to 2017, but the best of the cyclical upturn may be behind us. The upward trend in seasonally adjusted (SA) traffic has slowed to a 4% annualized pace since the end of last year.
- Year-on-year growth in international FTKs slowed from March in all regions except Latin America.
- Having outpaced capacity in H2 2016, demand has now trended in line with supply since the end of last year.

Growth eases back in April, but remains robust

Global FTKs grew by 8.5% year-on-year in April, down from 13.4% in March. Industry-wide FTKs have now grown by 9.3% in annual terms so far this year to date. Adjusting for the extra day in February 2016 owing to the leap year, this is equivalent annual growth of just over 10%.

Airlines registered in Asia Pacific and Europe accounted for more than 70% of the annual increase in freight volumes, with North American airlines accounting for much of the rest. Middle Eastern and African airlines contributed positively, but Latin American carriers detracted from annual FTK growth for the 25th time in 27 months. (See Chart 1.)

The upward seasonally adjusted trend has slowed

As we noted last time, developments in SA terms are not quite as strong as the annual growth rate would suggest. Indeed, as was the case last month, around

two-thirds of April's year-on-year FTK growth rate relates to gains that took place during the second half of last year. In fact, while industry-wide FTKs trended upwards at an annualized rate of more than 12% in the second half of 2016, the annualized trend growth rate has slowed to around 4% since the end of last year. (See Chart 2.)

A solid backdrop for freight in Q2 2017...

To be clear, this is still a relatively solid rate of growth. Indeed, it is slightly ahead of the average pace seen over the past five years (3.5%). Moreover, business indicators continue to offer encouragement: the new export orders component of the global purchasing managers' index (PMI) remains close to a six-year high, and indicative of healthy export order books for global manufacturers. At current levels, the measure is consistent with year-on-year FTK growth remaining in the region of 7.5% for the remainder of Q2 2017. (See Chart 3, overleaf.)

Chart 1 – Contributions to year-on-year growth by airline region of registration

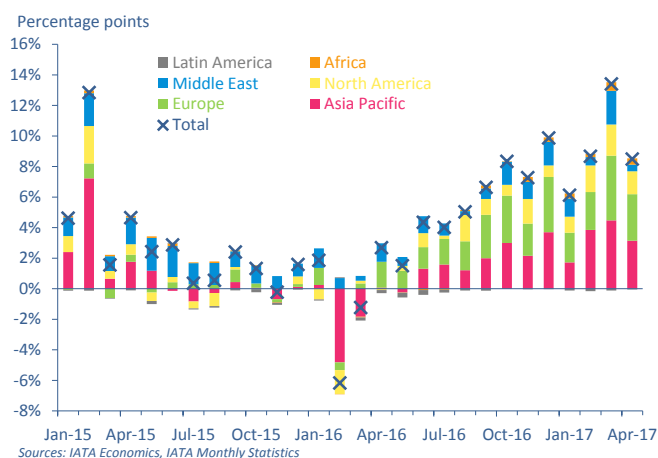
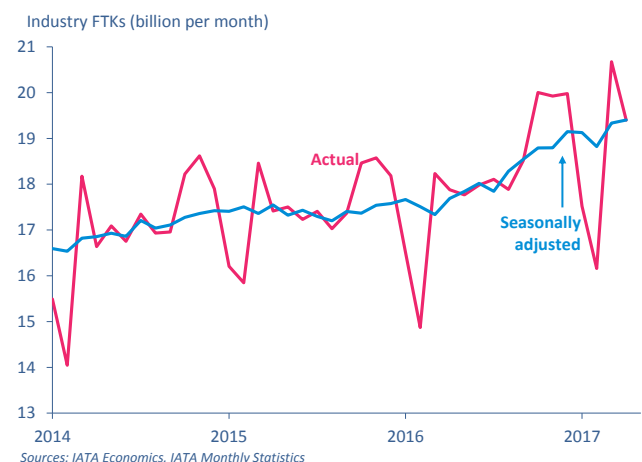


Chart 2 – FTK levels



Air freight market overview - April 2017

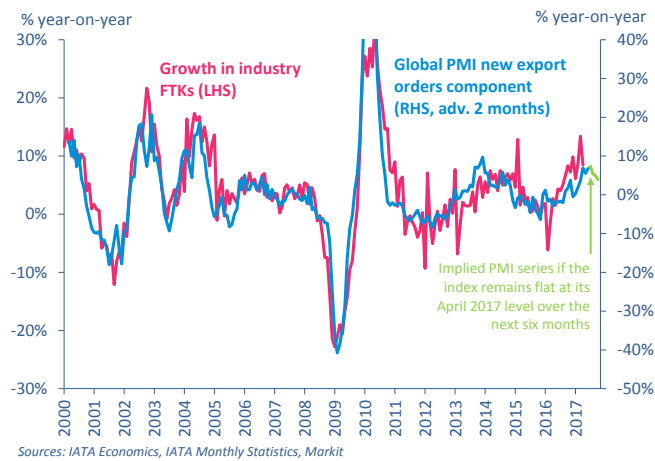
	World share ¹	April 2017 (% year-on-year)				% year-to-date			
		FTK	AFTK	FLF (%-pt) ²	FLF (level) ³	FTK	AFTK	FLF (%-pt) ²	FLF (level) ³
TOTAL MARKET	100.0%	8.5%	3.9%	1.9%	45.0%	9.3%	3.0%	2.6%	44.4%
International	86.7%	9.8%	4.4%	2.4%	49.1%	10.6%	3.2%	3.3%	48.7%

¹% of industry FTKs in 2016

²Year-on-year change in load factor

³Load factor level

Chart 3 – Air freight growth vs. global new export orders

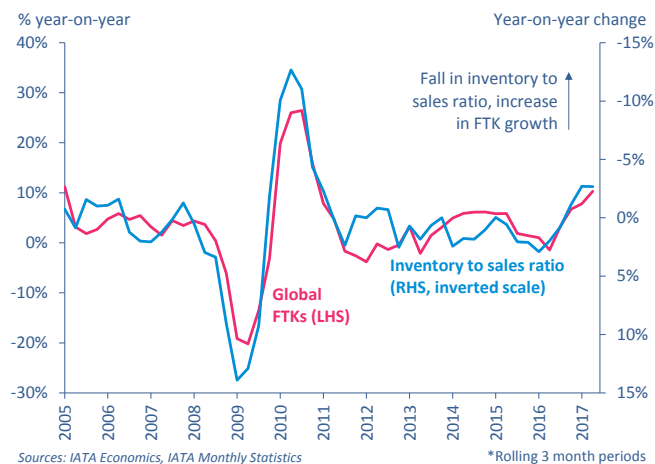


...but is the cyclical pick-up starting to wane?

However, the loss of momentum in SA FTKs over recent months does raise the question as to whether the best of the cyclical upturn in air freight may now be behind us. Indeed, it is worth noting that the new export orders component of the global manufacturing PMI peaked in February and has actually fallen back slightly since. In the absence of further gains in manufacturing export order books, support for freight growth looks likely to moderate towards the end of 2017. (Again, see Chart 3.)

More generally, the ability of air freight to move goods quickly around the world comes into its own at the start of economic cycles when firms rush to restock. The decline in the inventory-to-sales ratio between May and December 2016 looks to have helped to underpin the outperformance of air freight relative to wider world trade over the past year or so. (See Chart 4.) But while the inventory-to-sales ratio remains lower than it was a year ago, it has now stopped falling. To the extent that this translates into less need to restock quickly, this may start to dampen the demand for air freight.

Chart 4 – Air freight growth vs. inventory-to-sales ratio



Looking further ahead, rising protectionist rhetoric remains an ongoing concern. Structural concerns about the relationship between global trade and output

haven't gone away either. But the hope is that niche areas such as cross-border e-commerce may yet help air freight to de-couple from global trade conditions.

The freight load factor has increased in 2017 so far

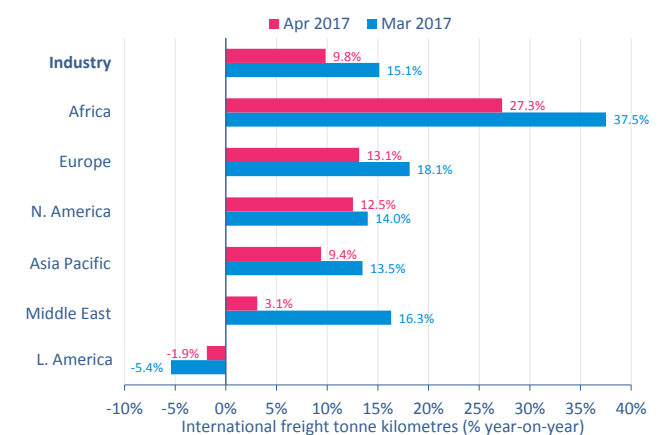
Available freight tonne kilometres (AFTKs) grew by 3.9% year-on-year in April. The industry-wide load factor has risen by nearly three percentage points over the past year and, in seasonally adjusted terms, is currently back to levels last seen in early 2015.

However, given the slowdown in the upward trend of SA FTKs in recent months, demand is once again trending upwards at a similar rate as capacity.

International FTK growth outpaces the total again

International FTK growth slowed to 9.8% year-on-year in April, from 15.1% in March. (See Chart 5.) Year-on-year growth slowed from the previous month in all regions except Latin America.

Chart 5 – International FTK growth by airline region of registration



Strong growth for both Asia Pacific...

The SA trends in freight volumes in the two largest regions – Asia Pacific and Europe – have echoed that seen in industry-wide traffic.

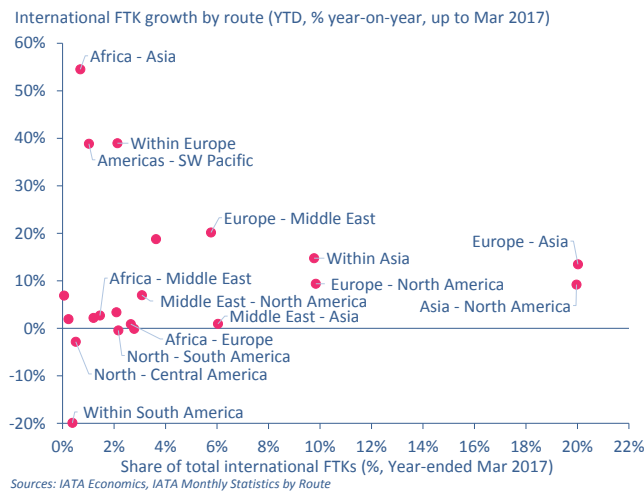
Air freight is a key part of airline business models in Asia Pacific, and the region is the biggest in terms of international FTKs flown. International freight volumes grew by 9.4% year-on-year in April, which was a slowdown from 13.5% in March but still well ahead of its five-year average (1.7%). Volumes in SA terms recently surpassed the levels reached following the global financial crisis in 2010.

Business confidence surveys from much of the region have continued to indicate strong order books. There has been a modest weakening in demand conditions on the route to and from North America in recent months. However, international FTKs flown within Asia have grown by 15% in annual terms so far this year to date. (See Chart 6, overleaf.)

...and European airlines

Strong demand on the Europe-Asia market has also benefited carriers based in Europe. International freight volumes flown by European airlines grew by 13.1% year-on-year in April. Similar to Asia Pacific, this was a slowdown from the pace seen in March but was still well ahead of the five-year average (3.5%). The region's robust performance continues to be helped by the ongoing weakness in the euro, which is visible in very strong order books for European exporters. FTK volumes across between Europe and North America – the other key market for the region's carriers – grew by 9.2% year-on-year in Q1. (Again, see Chart 6.) SA volumes on this route recently reached levels last seen in early-2011, although the upward trend has weakened in recent months.

Chart 6 – International FTK growth by route (% year-to-date, segment basis)



Volatility in Middle East growth rates

International FTKs flown by Middle Eastern airlines grew by 3.1% year-on-year in April. This was a sharp slowdown from the 16.3% rate seen in March, although this appears to relate to volatile monthly developments last year rather than any pronounced recent downturn. (Note that such developments boosted the year-on-year growth rate in March 2017 too.) The bigger picture is that international freight volumes have increased by 8.0% so far this year to date, which is slower than the five-year average pace (around 11%).

There continues to be a large divergence in the performance on the major segment-based routes to and from the Middle East: FTKs flown to and from Europe have grown by more than 20% so far this year, but traffic to and from Asia has grown by just 0.9% over the same period. (Again, See Chart 6.)

A strong April for North American demand

North American airlines posted annual FTK growth of 12.5% year-on-year in April. Volumes jumped in SA terms from March. That said, the movement was within the normal range of monthly volatility so it is too soon to say whether this is the start of lasting pick-up.

As we have noted before, the strength of the US dollar is likely to continue to support US inbound air freight. However, it is also expected to continue to keep outbound flows under pressure.

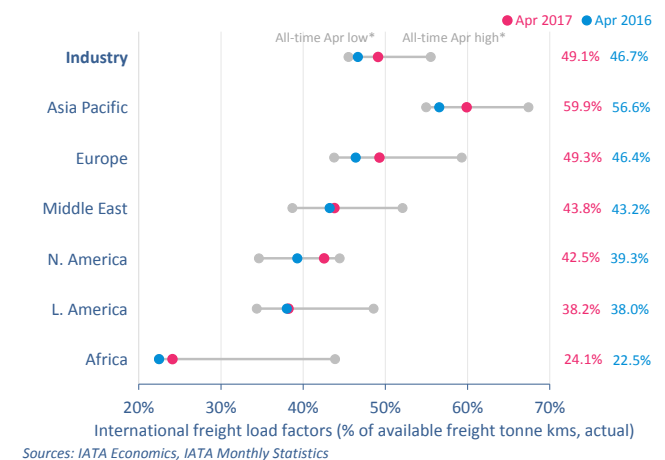
Ongoing divergence in the smallest regions

African and Latin American airlines fly a relatively small proportion of global air cargo between them (less than 5% of total international FTKs). The two regions have seen a big divergence in performance of late.

International FTKs flown by Latin American airlines fell yet again in annual terms in April. Having recovered partly during H2 2016, freight volumes in SA terms remained close to a seven year low in in April, around 18% lower than their 2014 peak. However, the region's airlines have managed to adjust capacity, which has limited the impact on the region's, admittedly, comparatively low, load factor. (See Chart 7.)

Meanwhile, African carriers' international traffic surged by 27.3% year-on-year in April, and by more than 25% so far this year to date. The performance has continued to be helped by rapid growth on the trade lane to and from Asia. FTKs between Asia and Africa have jumped by nearly 55% so far this year. (Again, see Chart 6.) That said, the region's load factor remains the lowest out of all the regions, well under half the level of carriers based in Asia Pacific. (Again, see Chart 7.)

Chart 7 – Freight load factors by region



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 1st June 2017

Air freight market detail - April 2017

	World share ¹	April 2017 (% year-on-year)				% year-to-date			
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TOTAL MARKET	100.0%	8.5%	3.9%	1.9%	45.0%	9.3%	3.0%	2.6%	44.4%
Africa	1.6%	26.0%	17.7%	1.6%	23.6%	24.3%	11.5%	2.5%	24.4%
Asia Pacific	37.5%	8.4%	3.7%	2.4%	54.7%	8.9%	3.5%	2.6%	52.6%
Europe	23.5%	12.9%	6.9%	2.6%	47.9%	12.8%	5.1%	3.3%	47.5%
Latin America	2.8%	-1.9%	-0.2%	-0.6%	33.3%	-3.7%	-2.8%	-0.3%	31.5%
Middle East	13.9%	3.1%	0.8%	1.0%	43.7%	8.0%	1.3%	2.7%	44.5%
North America	20.7%	7.3%	2.1%	1.7%	36.1%	7.6%	1.2%	2.1%	36.1%
International	86.7%	9.8%	4.4%	2.4%	49.1%	10.6%	3.2%	3.3%	48.7%
Africa	1.6%	27.3%	18.6%	1.6%	24.1%	25.4%	12.0%	2.7%	25.1%
Asia Pacific	33.3%	9.4%	3.3%	3.3%	59.9%	10.1%	3.2%	3.6%	57.9%
Europe	23.0%	13.1%	6.5%	2.9%	49.3%	12.8%	4.3%	3.7%	49.0%
Latin America	2.4%	-1.9%	-2.4%	0.2%	38.2%	-4.8%	-4.7%	0.0%	37.1%
Middle East	13.9%	3.1%	1.8%	0.6%	43.8%	8.0%	2.3%	2.4%	44.6%
North America	12.6%	12.5%	3.9%	3.3%	42.5%	11.8%	2.0%	3.8%	42.6%

¹% of industry FTKs in 2016 ²Year-on-year change in load factor ³Load factor level

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. Historical statistics are subject to revision.

Further details about the statistics in this publication can be found [here](#).

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