



AIR FREIGHT MARKET ANALYSIS November 2016

November data underline the strong 2016 peak season for air cargo

- Global air freight tonne kilometres grew by a robust 6.8% year-on-year in November 2016.
- Latest data underline a strong 2016 peak season for air cargo, alongside a pick-up in silicon material shipments.
- The wider world trade backdrop remains weak, but business surveys point to near-term momentum for air cargo.
- The seasonally adjusted freight load factor has risen strongly of late, with Africa the notable exception.

Another robust performance in November...

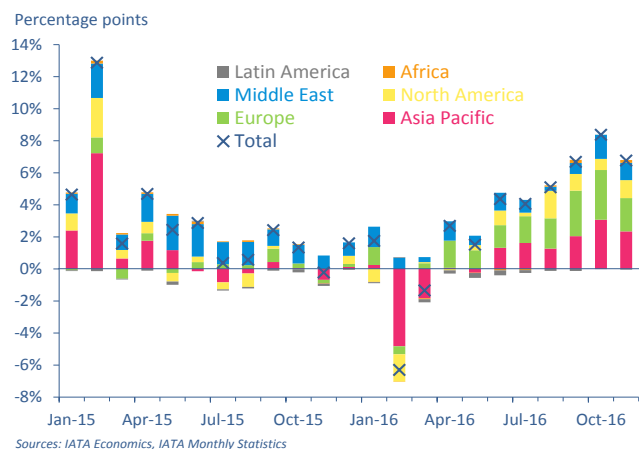
Global air freight tonne kilometres (FTKs) increased by 6.8% year-on-year in November 2016. This was a slowdown from October's pace (a 20-month high of 8.4%), but it was still more than two-and-a-half times the average annual growth rate seen over the past decade (2.6%).

Once again, European and Asia Pacific airlines accounted for more than half of the annual increase in industry-wide FTKs, with smaller positive contributions coming from those in the Middle East, North America, and Africa. (See Chart 1.) By contrast, Latin American carriers' freight volumes fell in annual terms for the 21st time in 23 months.

...alongside a steady rise in business surveys...

Industry-wide FTK volumes dipped in seasonally-adjusted (SA) terms in November, although the key point is that the upward trend accelerated in H2 2016. (See Chart 2.)

Chart 1 – Contributions to annual FTK growth by airline region of registration



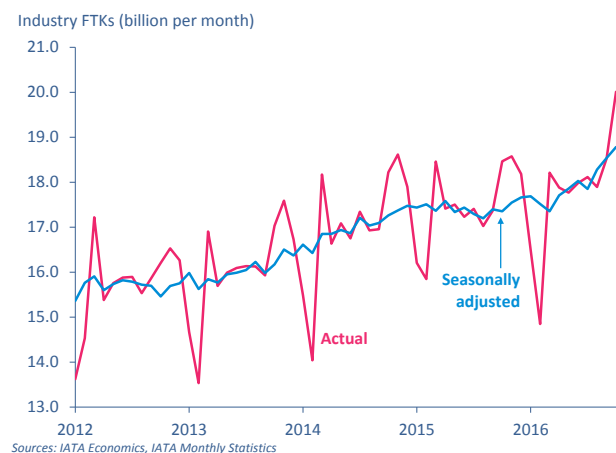
The pick-up in the FTK trend has coincided with a steady and ongoing rise in the new export orders component of the global purchasing managers' index (PMI) over the same period. This component reached a fresh 26-month high in December and, if sustained at current levels, suggests that air freight will carry moderate momentum into the first half of 2017. (See Chart 3, overleaf.)

...and a pick-up in semi-conductor shipments

More generally, the latest data further underline the strong peak season for the industry in late-2016. As noted last month, the intensity of the latest peak may in part relate to some one-off factors, including potential mode shift to air freight following the collapse of the Hanjin shipping company in late-August 2016.

But recent strength has clearly been supported by developments in the traditional demand drivers of growth too. Certainly, the outperformance of air freight relative to

Chart 2 – FTK levels

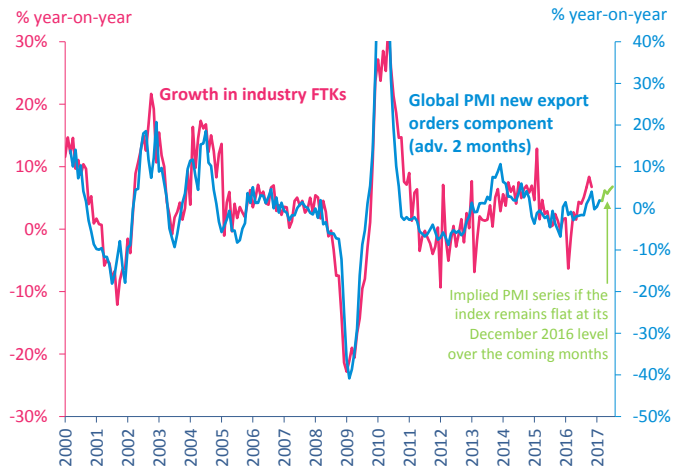


Air freight market overview - November 2016

	World share ¹	November 2016 (% 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%	6.8%	4.4%	1.1%	47.2%	3.2%	5.4%	-0.9%	42.7%
International	86.8%	6.9%	3.8%	1.5%	51.7%	3.1%	5.4%	-1.1%	46.3%

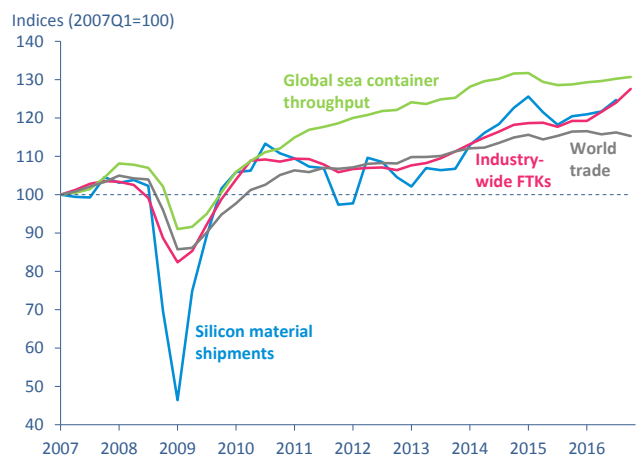
¹% of industry FTKs in 2015 ²Year-on-year change in load factor ³Load factor level

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



developments in wider world trade flows during Q3 2016 mirrored a rise in semi-conductor material shipments over the same period. (See Chart 4.) Moreover, given the rising popularity of sales events such as Black Friday and Cyber Monday, and their corresponding focus on traditionally air-freighted items including consumer electronics, the intensity of the 2016 peak period may be a sign of things to come for future years.

Chart 4 – Selected trade indicators



Wider weakness in world trade conditions remains an ongoing concern. Data compiled by the Netherlands CPB show that world trade volumes have trended sideways for the past two years or so. (In fact, global trade volumes fell in year-on-year terms in October 2016 for only the third month in almost seven years.) Against this backdrop, the big uncertainty remains how strong the underlying trend for air freight will be once the peak periods have ended.

But the latest data further indicate that air freight is ending 2016 on a high, and this should provide a solid base for year-on-year growth rates in early-2017.

SA load factor has rebounded from early-2016 low

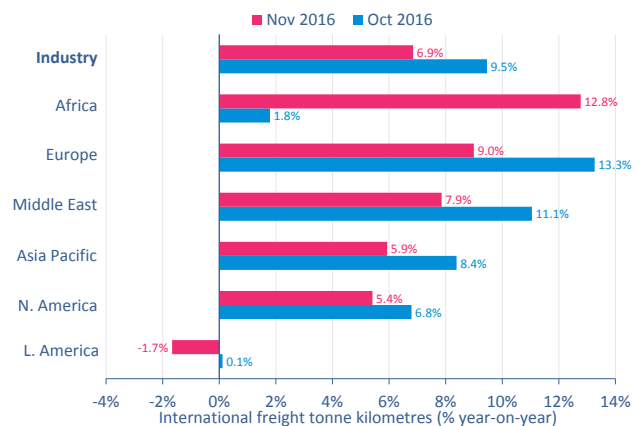
Industry-wide freight capacity increased by 4.4% year-on-year in October. The upward trend in available freight tonne kilometres has slowed markedly in recent months, in part owing to a slowdown in deliveries to the wide-body passenger fleet (particularly in Asia Pacific).

The combination of rising demand and the easing in the trend for capacity has caused the seasonally-adjusted industry-wide load factor to rise by around two-and-a-half percentage points since its recent low in early-2016. For the second month in a row, freight load factors increased in annual terms for all regions in November except Africa.

European airlines' growth remains robust

International FTKs increased by a robust 6.9% year-on-year in November, albeit down from the 9.5% increase registered in October. (See Chart 5.)

Chart 5 – International FTK growth by carrier region of registration



Annual growth in international FTKs flown by European airlines slowed to 9.0% in November, from 13.3% previously. The slowdown was possibly influenced by strikes at Lufthansa during the month, although the bigger picture is that such growth is well ahead of the series' 10-year average rate (2.2%) and the seasonally-adjusted trend remains very strong. This ties in with ongoing strength in the new export orders component of the German PMI, helped in part by ongoing weakness in the euro. Despite domestic economic and political upheaval, Turkish Airlines in particular has also grown very strongly this year. The hub nature of their operations helps to explain the recent strength of the international 'Within Europe' freight segment (+64% year-on-year in October).

Broad strength in Asia Pacific business surveys

Carriers based in the Asia Pacific region, who fly almost 40% of all international FTKs, also reported robust

demand growth (5.9% year-on-year in November). In seasonally adjusted terms, volumes have risen at an annualized rate of 15% since March, and are finally back to levels reached in the aftermath of the global financial crisis (GFC) in 2010. Encouragingly, business surveys in much of the region increased in the final months of 2016: Japan's new export orders component has held up above the 50-mark for four months in a row and is likely to be helped further by the recent weakening in the yen. Meanwhile, the same measures in Taiwan and Korea posted 26 and 36-month highs respectively in December, while that for Vietnam climbed to its highest level since the series began in early-2011.

At a segment-based route level, the main freight lanes out of Asia are performing well. Having trended downwards in SA terms between 2010 and the start of 2016, traffic on the Europe to Asia route has now risen at an annualized rate of more than 30% since March; volumes increased by 10.7% year-on-year in October (the latest data available). International traffic within the Asia region has also trended upwards strongly since early 2016, with growth of 12.5% year-on-year in October.

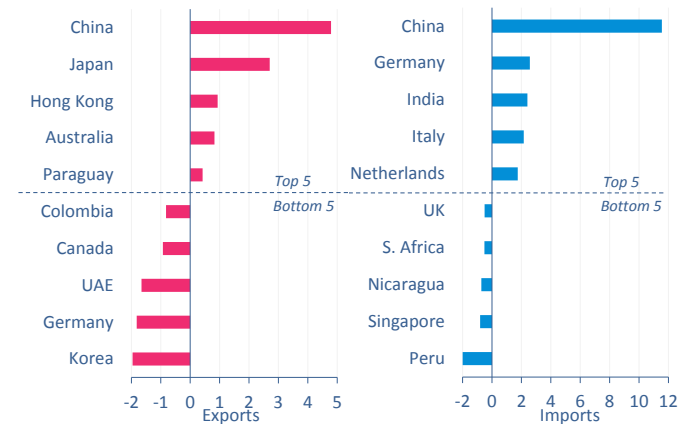
Middle Eastern growth has stepped down a gear

International FTKs flown by Middle Eastern airlines increased by a solid 7.9% year-on-year in November. Middle Eastern carriers have benefited from the strong peak demand in recent months, although growth has stepped down a gear this year. (International FTKs grew by 6.5% year-on-year in January-November 2016, compared to 11.9% in the same period of 2015.) While growth picked up in October, conditions on the biggest routes to and from the Middle East (those between Asia and Europe) have weakened: FTKs on such routes grew by just 4% in 2016 to date, compared to 8-11% over the same period in 2015.

Annual growth in international traffic flown by North American airlines eased in November but still remained robust (5.4%). Freight traffic across the Atlantic has strengthened considerably over the past few months, with FTKs up by 9.0% year-on-year in October. This has been driven in part by increases in westbound flows from Germany, Italy, and the Netherlands to the US, aided by the strong dollar. (See Chart 6.) (The flip-side, of course, is that the strength of the dollar has kept US outbound air freight under pressure over the past few years.)

Following the boost to traffic seen in 2015 from US west coast seaport disruption and airbag recalls, freight volumes on the Transpacific market have fallen by nearly 3% so far this year to date. But there are also signs of recovery on this market, with year-on-year traffic growth accelerating to 6.8% in October, driven by increased US trade by air with China and Japan. (Again, see Chart 6.)

Chart 6 – US trade by air (change in million kgs, October 2016, year-on-year)



Sources: IATA Economics, US Census Bureau

A pause in the recovery in Latin American FTKs

The recovery in international FTKs flown by Latin American carriers from the weakness in H1 2016 paused in November. The (SA) series is now back broadly in line with where it started the year, but FTKs remain around 10% lower than their peak in late-2014. The 'Within South America' market has been the weakest performing market in 2016 to date, with volumes down nearly 20% compared to the same period in 2015.

Although volatile on a monthly basis, African carriers' international traffic looks to have held on to the strong (SA) gains seen during Q3. Annual growth in international FTKs flown by African airlines jumped to 12.8% in November. However, freight capacity has continued to grow far faster than demand, driven by rapid long-haul expansion (particularly by Ethiopian Airlines) and increases by North African carriers. As a result, the African international freight load factor fell in annual terms in November for the 19th consecutive month, and posted an all-time low for the month of just 26.1%.

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Air freight market detail - November 2016

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		FTK	AFTK	FLF (%-pt) ²	FLF (level) ³	FTK	AFTK	FLF (%-pt) ²	FLF (level) ³
TOTAL MARKET	100.0%	6.8%	4.4%	1.1%	47.2%	3.2%	5.4%	-0.9%	42.7%
Africa	1.6%	10.9%	26.9%	-3.7%	25.3%	1.1%	27.4%	-5.6%	21.4%
Asia Pacific	38.1%	6.1%	4.0%	1.1%	56.9%	1.4%	3.4%	-1.1%	52.5%
Europe	22.7%	9.0%	4.8%	1.9%	48.3%	6.8%	6.8%	0.0%	44.1%
Latin America	3.0%	-1.3%	-1.6%	0.1%	36.9%	-4.6%	-1.5%	-1.1%	33.0%
Middle East	13.5%	7.8%	5.1%	1.2%	47.5%	6.4%	8.7%	-0.9%	42.6%
North America	21.1%	5.6%	2.6%	1.1%	37.9%	1.6%	3.8%	-0.7%	34.1%
International	86.8%	6.9%	3.8%	1.5%	51.7%	3.1%	5.4%	-1.1%	46.3%
Africa	1.6%	12.8%	28.3%	-3.6%	26.1%	1.5%	28.5%	-5.8%	21.8%
Asia Pacific	33.9%	5.9%	3.8%	1.2%	61.6%	1.2%	3.9%	-1.5%	56.9%
Europe	22.3%	9.0%	4.0%	2.3%	50.0%	6.2%	6.2%	0.0%	45.4%
Latin America	2.6%	-1.7%	-3.6%	0.9%	44.4%	-5.3%	-1.6%	-1.5%	38.0%
Middle East	13.5%	7.9%	5.3%	1.1%	48.0%	6.5%	8.8%	-0.9%	43.1%
North America	12.9%	5.4%	-0.9%	2.8%	46.0%	0.9%	1.3%	-0.2%	39.1%

¹% of industry FTKs in 2015

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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