



# AIR FREIGHT MARKET ANALYSIS

June 2016

## A welcome improvement, but familiar headwinds and risks persist

- Global air freight tonne kilometres grew by 4.3% year-on-year in June 2016 – the fastest pace in 14 months.
- Conditions have improved since early-2016, but the underlying demand backdrop remains weak and with risks.
- Middle East airlines post fastest growth once again, alongside solid gains for Europe and Asia Pac carriers.
- Capacity growth has continued to outstrip that of demand, keeping downward pressure on revenues and yields.

### Annual air freight growth accelerated in June...

Annual growth in global air freight tonne kilometres (FTKs) accelerated to 4.3% year-on-year in June 2016, up from a revised 1.5% in May and the fastest pace since April 2015. All regions with the exception of Latin America registered positive annual growth in the month.

The latest data point to an improvement from the weak conditions seen earlier this year. (Note that Q1 2016 was weak even after allowing for the distortions associated with the timing of Chinese New Year, as well as from the one-off boost to air freight in early-2015 from seaport disruption on the US west coast.) Indeed, there are welcome signs that the modest upward trend in seasonally-adjusted FTKs has finally resumed. Industry-wide FTKs have grown at an annualized rate of around 3.5% since the start of 2016. (See Chart 1.)

### ...but outlook continues to face headwinds

That said, the outlook for air freight continues to face significant headwinds, including ongoing sluggish economic growth and heightened risks in the aftermath of 'Brexit', as well as broader weakness in global trade.

According to data compiled by the Netherlands CPB, global trade volumes have trended downwards sharply in month-on-month terms in recent months. In annual terms, growth has slowed to a halt. (See Chart 2.) To be clear, the relationship between global trade growth and air freight is not mechanistic – in part because air freight carries just a small subset of global trade volumes. Nonetheless, the structural change in the relationship between global output and trade in recent years clearly presents a challenging backdrop for air freight.

Chart 1 – FTK levels

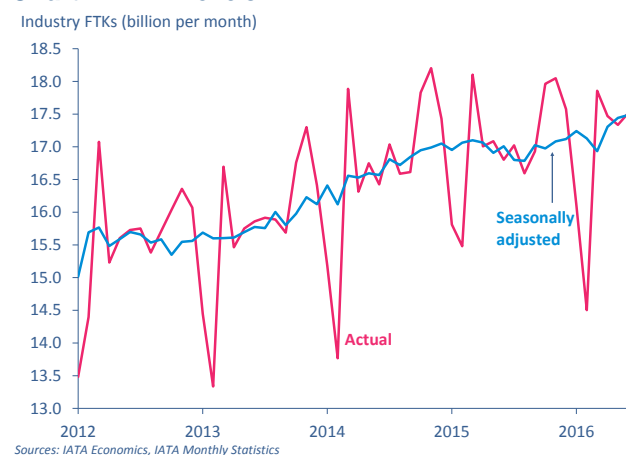
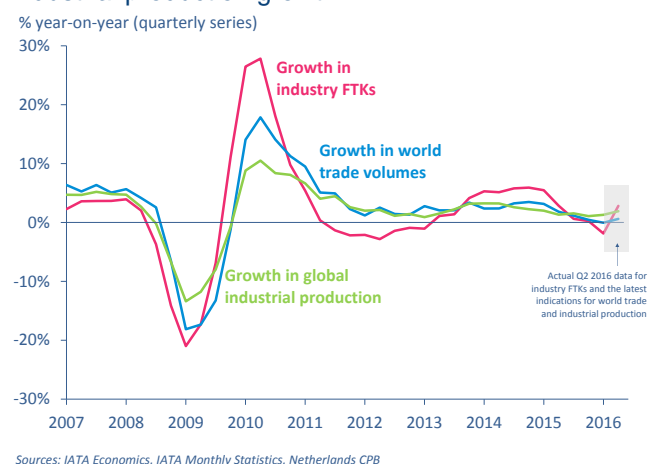


Chart 2 – Air freight growth vs. world trade and industrial production growth



### Air freight market overview - June 2016

	World share <sup>1</sup>	June 2016 (% year-on-year)				% year-to-date			
		FTK	AFTK	FLF (%-pt) <sup>2</sup>	FLF (level) <sup>3</sup>	FTK	AFTK	FLF (%-pt) <sup>2</sup>	FLF (level) <sup>3</sup>
<b>TOTAL MARKET</b>	<b>100.0%</b>	<b>4.3%</b>	<b>4.9%</b>	<b>-0.3%</b>	<b>43.1%</b>	<b>0.5%</b>	<b>6.0%</b>	<b>-2.3%</b>	<b>42.5%</b>
International	87.0%	4.1%	5.4%	-0.6%	46.4%	0.2%	5.9%	-2.6%	45.7%

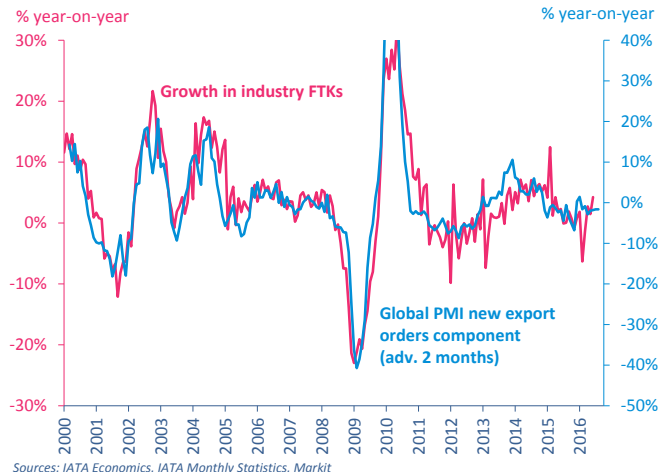
<sup>1</sup>% of industry FTKs in 2015

<sup>2</sup>Year-on-year change in load factor

<sup>3</sup>Load factor level

The weakness of global trade is borne out in global business surveys as well, which continue to offer little encouragement for an immediate turnaround in fortunes for industry-wide air freight either. The new export orders component of the global Purchasing Managers' Index (PMI) – a closely-watched survey which has a long-standing relationship with growth in air freight volumes – has been in contractionary territory during most of 2016 so far. (See Chart 3.)

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



Sources: IATA Economics, IATA Monthly Statistics, Markit

All told, despite the tentative recovery in seasonally-adjusted terms in recent months, 2016 is shaping up to be another subdued year for air freight. We forecast FTKs (including mail) to increase by 2.1% in 2016 – an outcome that will require the recent upward trend in seasonally-adjusted FTKs to continue throughout the second half of the year.

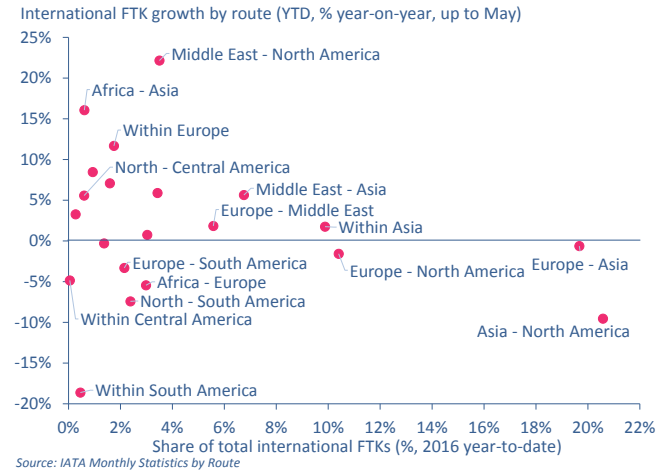
**Capacity growth continues to outpace demand**

Industry-wide freight capacity increased by 6.0% year-on-year in the first half of 2016 – twelve times faster than demand. The result mainly reflects increased belly capacity from ongoing additions to the wide-body passenger fleet. As a result, the industry-wide freight load factor fell to 42.5% in H1 as a whole – a record low for the period and 2.3 percentage points lower than in H1 2015. This is continuing to exert downward pressure on freight yields and revenues.

**Performance at a route level is a mixed bag**

Demand conditions across the Pacific – the largest market in terms of FTKs flown – look to have improved somewhat in recent months. That said, after the weakness earlier in the year, volumes on the route were down 9.5% year-on-year in H1 as a whole. (See Chart 4.) The next two largest freight markets – those between

**Chart 4 – International FTK growth by route (% year-to-date, segment-basis)**



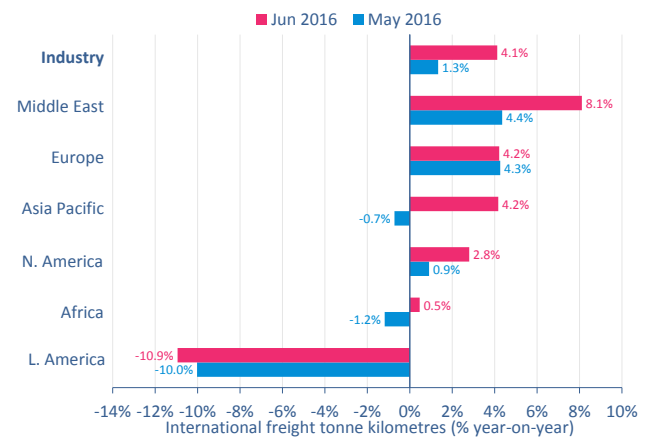
Source: IATA Monthly Statistics by Route

Europe and Asia, and across the Atlantic – have seen much more modest annual declines over the same period (0.6% and 1.6% respectively). In fact, the former has registered robust growth in the most recent months.

**Middle East posts the fastest growth again in June**

Growth in international FTKs increased to 4.1% year-on-year in June, up from 1.3% in May.

**Chart 5 – International FTK growth by carrier region of registration**



Sources: IATA Economics, IATA Monthly Statistics

Middle Eastern airlines posted the fastest growth of all regions (+8.1% year-on-year) for the 16<sup>th</sup> consecutive month in June. This was nearly twice the rate in May, although the bigger picture is that demand growth for Middle Eastern airlines has stepped down a gear over the past year or so: international FTKs flown by Middle Eastern carriers grew by 6.5% year-on-year in H1 2016 compared to 14.3% in the same period in 2015. Around half of this slowdown is accounted for by slower (albeit still rapid) growth on the North America–Middle East route. But slower growth on the routes between the Middle East and Asia and Europe appears to be more a

function of broader weakness in the global demand backdrop.

### Solid annual growth for Europe and Asia Pac airlines

European and Asia Pacific airlines both registered growth of 4.2% year-on-year in international FTKs in June – broadly in line with the industry as a whole.

June's result rounds out a robust quarter for European airline freight performance and corresponds with a strong tick-up in the new export orders component of the Germany PMI in recent months. All told, seasonally-adjusted European FTKs have continued to trend upwards, and the latest results offer further encouragement that have now broken out of the corridor that they have occupied since mid-2010.

Freight is an integral part of airline business models in Asia Pacific; carriers based in the region fly almost two-fifths of total international FTKs. Following the weak patch earlier in the year, demand conditions have improved in the region in recent months, notably on the large international 'Within Asia' air cargo market (in which volumes were up 4.1% year-on-year in May). Nonetheless, wider goods trade volumes from Emerging Asia remain under pressure, with total volumes in May 2016 coming in at the same level as those seen at the end of 2013. By way of context, total air freight tonnes handled at Shanghai airport grew by just 2.3% year-on-year in the first half of 2016, compared to 10.9% in the same period in 2015.

International FTKs flown by North American airlines grew by a modest 2.8% year-on-year in June. The strength of the US dollar has kept US outbound air freight under pressure for some time. Based on US trade data, 16 of the top-20 air cargo markets for the US have seen air export volumes from the US decline in annual terms so far in 2016. In seasonally adjusted terms, the bigger picture is that FTKs are still more than 2.5% below the peak reached in early 2015 and broadly in line with the level seen in early-2008 before the global financial crisis.

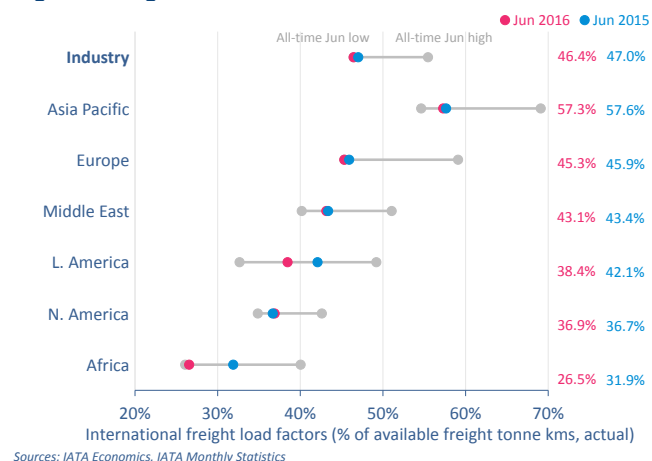
### Africa and Latin America seeing the slowest growth

African and Latin American carriers are seeing the weakest demand conditions at present (although it must

be noted that they fly only a small proportion – less than 5% – of international FTKs between them).

Having declined in annual terms for the previous eight months, international FTKs flown by African airlines edged up by 0.5% year-on-year in June 2016. However, as has been the trend since December 2015, international freight capacity growth has continued to outstrip that of demand, driven by rapid long-haul expansion (particularly by Ethiopian Airlines). The combination of rising capacity and only modest demand growth pushed the African international freight load factor down to 26.5% in June – more than five percentage points lower than in June 2015 and by far the lowest of all regions. (See Chart 6.)

**Chart 6 – International freight load factors by carrier region of registration**



International FTKs flown by Latin American carriers plunged by 10.9% in annual terms in May, and fell by 5.4% in H1 as a whole. Having trended downwards in seasonally-adjusted terms since mid-2015, FTKs are now back to levels last seen in early-2010. The 'Within South America' market remains by far the worst performing freight route this year, reflecting the highly challenging economic conditions in the continent – not least in Brazil. FTKs on the larger North-South America route have held up slightly better, as weaker currencies throughout the region, and solid economic conditions in the US, have helped to support northbound flows.

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 3<sup>rd</sup> August 2016

## Air freight market detail - June 2016

	World share <sup>1</sup>	June 2016 (% year-on-year)				% year-to-date			
		FTK	AFTK	FLF (%-pt) <sup>2</sup>	FLF (level) <sup>3</sup>	FTK	AFTK	FLF (%-pt) <sup>2</sup>	FLF (level) <sup>3</sup>
<b>TOTAL MARKET</b>	<b>100.0%</b>	<b>4.3%</b>	<b>4.9%</b>	<b>-0.3%</b>	<b>43.1%</b>	<b>0.5%</b>	<b>6.0%</b>	<b>-2.3%</b>	<b>42.5%</b>
Africa	1.5%	0.4%	19.9%	-5.0%	25.6%	-1.0%	22.4%	-5.9%	24.9%
Asia Pacific	38.9%	3.5%	3.6%	0.0%	54.5%	-2.2%	3.9%	-3.2%	51.2%
Europe	22.3%	5.1%	4.9%	0.1%	44.3%	3.7%	6.2%	-1.1%	44.7%
Latin America	2.8%	-9.8%	-2.6%	-2.7%	34.4%	-5.0%	1.1%	-2.2%	35.2%
Middle East	14.0%	8.0%	8.7%	-0.3%	42.7%	6.4%	10.6%	-1.6%	41.3%
North America	20.5%	4.3%	4.0%	0.1%	32.4%	-0.9%	5.1%	-2.0%	33.3%
<b>International</b>	<b>87.0%</b>	<b>4.1%</b>	<b>5.4%</b>	<b>-0.6%</b>	<b>46.4%</b>	<b>0.2%</b>	<b>5.9%</b>	<b>-2.6%</b>	<b>45.7%</b>
Africa	1.5%	0.5%	20.6%	-5.3%	26.5%	-1.1%	23.5%	-6.4%	25.9%
Asia Pacific	34.6%	4.2%	4.8%	-0.4%	57.3%	-2.7%	4.1%	-3.8%	54.2%
Europe	21.9%	4.2%	5.6%	-0.6%	45.3%	3.1%	6.7%	-1.6%	45.6%
Latin America	2.5%	-10.9%	-2.5%	-3.6%	38.4%	-5.4%	1.2%	-2.7%	39.3%
Middle East	14.0%	8.1%	8.7%	-0.2%	43.1%	6.5%	10.6%	-1.6%	41.7%
North America	12.4%	2.8%	2.2%	0.2%	36.9%	-2.8%	1.6%	-1.8%	38.6%

<sup>1</sup>% of industry FTKs in 2015

<sup>2</sup>Year-on-year change in load factor

<sup>3</sup>Load 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.

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