



AIR FREIGHT MARKET ANALYSIS

August 2017

Another strong month for FTKs, but signs that cyclical peak is near

- Global freight tonne kilometres grew at a double-digit annual pace in August for the fifth time in 6 months (12.1%).
- Indicators continue to suggest that the cyclical upturn in air freight growth may be nearing a peak. However, with the seasonally-adjusted (SA) traffic trend remaining robust, the data are currently not showing this impact.
- All regions except Latin America posted double-digit annual int'l volume growth in August, led by airlines in Africa.
- Demand in August grew two-and-a-half times faster than capacity, helping to boost the industry-wide load factor.

Yet another month of double-digit FTK growth...

Industry-wide freight tonne kilometres (FTKs) grew by 12.1% year-on-year in August, up from a revised 10.9% in July, and still well ahead of the five and ten-year average rates (4.4% and 3.2%, respectively). Annual FTK growth has now been in double-digit territory for five of the past six months.

...alongside a pick-up in seasonally adjusted traffic

Having fallen modestly in SA terms in June and July, FTKs increased strongly in August. (See Chart 1.) In fact, August saw the strongest month-on-month rise in SA FTKs since January, with volumes still currently trending upwards at a double-digit annualized pace.

As we have noted before, the turnaround in air freight's fortunes over the past 12-18 months has coincided with a broad-based pick-up in global economic and trade conditions: indeed, data from the Netherlands CPB show that world trade volumes grew by 4.2% so far in

the first seven months of 2017 compared to the same period in 2016 – the strongest showing on this basis since 2011. The improvement in trade conditions has also been highly visible in a pick-up in the new export orders component of the global manufacturing purchasing managers' indices (PMI). As shown in Chart 2, periods of growth in this measure (the blue line on the chart) have been strongly correlated with industry-wide FTK growth in the past (the pink line).

Air freight has outperformed wider world trade...

More generally, the recent outperformance of air freight relative to wider world trade remains consistent with the typical pattern seen at the start of upturns in the global economic cycle. This relates in large part to the ability of air freight to allow firms to restock quickly. It is no coincidence to see that the increase in the SA trend in industry-wide FTKs has coincided with a sharp decline in the (US) inventory-to-sales ratio during 2016.

Chart 1 – FTK levels

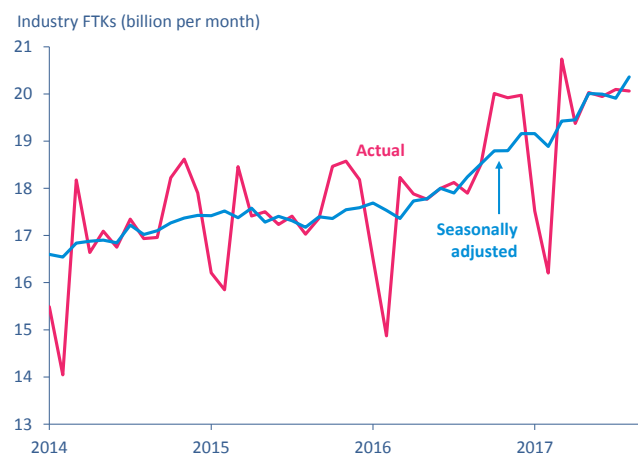
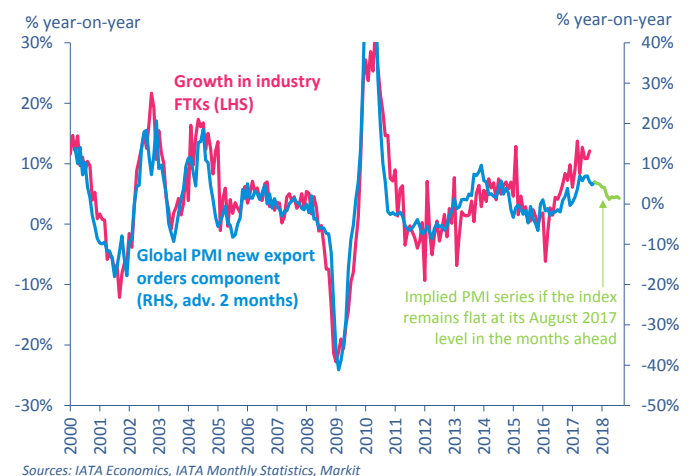


Chart 2 – FTK growth vs. global new export orders



Air freight market overview - August 2017

	World share ¹	August 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%	12.1%	4.7%	2.8%	43.3%	10.5%	3.8%	2.7%	44.3%
International	86.7%	12.9%	4.7%	3.4%	47.1%	11.6%	4.1%	3.3%	48.4%

¹% of industry FTKs in 2016

²Year-on-year change in load factor

³Load factor level

The strong start to 2017 for freight volumes is likely to underpin robust year-on-year growth in FTKs this year as a whole. In fact, we judge that the risks to our current forecast of 7.5% growth in FTKs for 2017 now lie increasingly on the upside.

...but signs that the cyclical peak may be near

That said, while the upward SA FTK trend remains robust, the industry drivers that we track suggest that the upturn in FTK growth maybe be nearing a peak.

Admittedly, the new export orders component of the global PMI recently reached its highest level since March 2011, and is well above the notional 50-mark that indicates growing export order books. However, given the strong relationship between year-on-year changes in the indicator and industry-wide FTK growth, Chart 2 suggests that we will need to see even further rises in the measure to avoid a moderation in FTK growth from its current levels going into 2018. Moreover, the fact that the inventory-to-sales ratio in the US stopped falling earlier this year is also consistent with the current period of strong year-on-year FTK growth starting to moderate over the second half of 2017 and into 2018.

Capacity growth lagged far behind demand in July

Daily utilization rates of widebody freighters are starting to increase, but we have seen less payload capacity added to the fleet so far in 2017 compared to recent years. Indeed, as we noted in our latest [Cargo Chartbook](#), 817 tonnes of additional payload capacity have been added to the freighter fleet so far this year – nearly half the amount that was added in the same period of 2016. Almost eight times as much belly payload capacity was added through wide-body passenger aircraft deliveries, but even this was a 6% lower than was added last year.

All told, available freight tonne kilometres (AFTKs) grew by 4.7% year-on-year in August – less than half the corresponding pace of FTK growth. As a result, the August load factor came in 2.8 percentage points higher than where it stood a year ago, while the SA measure increased to a three-year high.

Double-digit int'l FTK growth in most regions

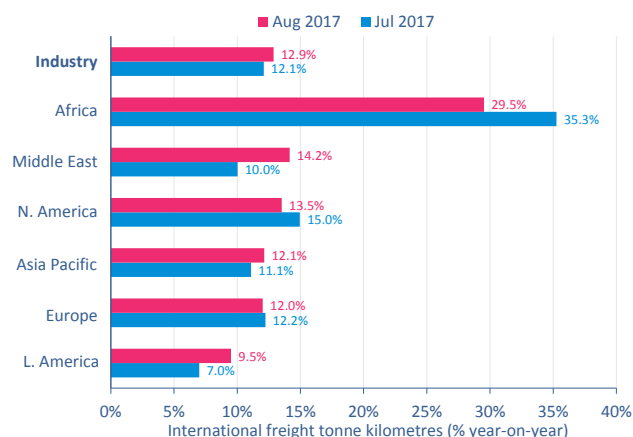
International FTKs grew by 12.9% year-on-year in August, up from 12.1% in July. (See Chart 3.) All regions except Latin America posted double-digit annual international volume growth in the month.

African airlines' FTK resurgence has continued

African airlines topped the international growth chart for the 11th time in 12 months. International FTKs flown by African airlines surged by 29.5% year-on-year in August – a slowdown from the rate in July, but still

more than treble the five-year average pace (8.8%). As we have noted before, the wider pick-up in African airlines' freight volumes has been helped by a surge in traffic between Africa and Asia; while still a comparatively small market, FTKs flown on the route have jumped by more than 67% in the first seven months of the year (the latest data available, see Chart 4, overleaf.)

Chart 3 – International FTK growth by airline region of registration



Sources: IATA Economics, IATA Monthly Statistics

Ongoing solid trend in Middle Eastern freight traffic

Middle Eastern airlines' international FTK growth accelerated to 14.2% year-on-year in August 2017, from 10.0% in July. The pick-up in year-on-year growth largely reflects a short-lived weaker patch for demand a year ago rather than an acceleration in the current traffic trend. This factor is likely to support growth in the year-on-year growth rate in September too.

All told, international freight traffic flown by Middle Eastern carriers has continued to trend upwards solidly in SA terms. But as we have noted before, strong competition from other regions' carriers, particularly on the Asia-Europe route, has contributed to Middle Eastern carriers not seeing the strong pick-up in the SA traffic trend that has been apparent in the major regions over the past year or so.

Robust growth for carriers based in Asia Pacific...

International freight volumes flown by airlines based in Asia Pacific – the biggest region on this basis – grew by 12.1% year-on-year in August. Volumes increased in SA terms compared to July, and are now almost 6% higher than the level they reached in the rebound following the global financial crisis in 2010. Demand growth has been strong on all the major routes to, from and within the region, particularly to/from Europe and within Asia on which FTKs have grown by more than 14% so far this year. (See Chart 4.)

As shown in Chart 5, the strong upward trend in freight air traffic is set against a backdrop of buoyant export

order books for the region's manufacturers. The picture is the strongest in Taiwan, and has improved in Korea. Similarly, having seen some weaker outturns earlier in the year, the latest signs from the major exporters of China and Japan have also improved in recent months.

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

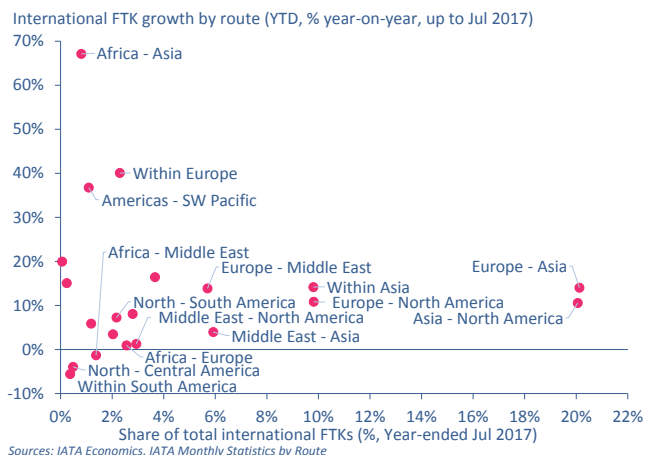
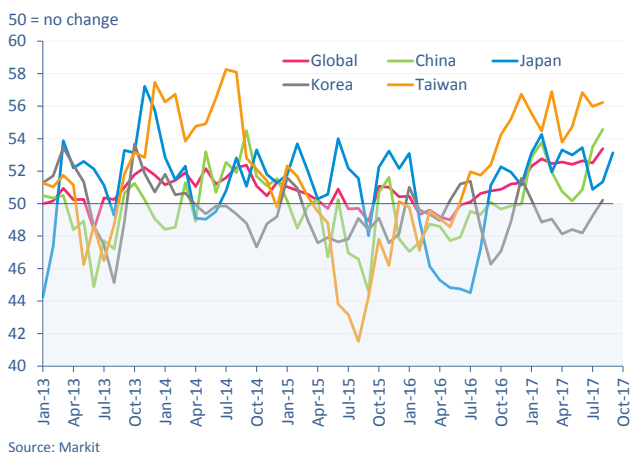


Chart 5 – Selected new export orders components of manufacturing PMI indices in the Asia Pacific region



...with similar-sized gains for European airlines

European airlines – the second largest region in terms of international FTKs flown – saw a similar-sized increase in year-on-year freight traffic to their Asia Pacific counterparts (12.0%). This was broadly unchanged from the rate of growth seen in July, and was the tenth month out of the past 12 in which annual FTK growth has been in double-digit territory.

As in Asia Pacific, the strong demand backdrop for European airlines reflects buoyant export order books for the region's manufacturers. Such exporters appear to have so far shrugged off any headwinds from the recent appreciation of the euro; indeed, German

manufacturers are currently reporting that their export order books are growing at their fastest pace since early-2010.

Freight demand remains robust on the biggest market segments (to and from Asia and across the Atlantic). The international market within Europe is much smaller, but has still seen very strong growth in freight traffic in the first seven months of the year (40.1% year-on-year). This appears to relate in large part to strong growth by carriers such as Turkish Airlines. (Again, see Chart 4.)

Fall in the dollar to help to rebalance US imports?

International FTKs flown by North American airlines grew by 13.5% year-on-year in August – a deceleration from July but still more than four times the five-year average pace. The upward SA trend remains very positive.

As we have noted before, the strength of the US dollar over recent years has helped to support inbound air freight volumes to the US: the latest data from the US Census Bureau shows that import volumes coming into the US by air grew by 12.7% year-on-year in the first seven months of 2017, compared to a slower 5.8% rise in exports. The US dollar still remains strong by historical standards, but we expect its decline since the start of the year to start to help rebalancing trade flows by boosting exports and deterring imports.

Signs of recovery in Latin American FTK volumes

Latin America was the only region not to post double-digit annual growth in international FTKs in August. Nonetheless, the 9.5% increase in air freight flown by the region's airlines compared to August 2016 was close to a seven-year high and well above the five-year average rate (-0.1%).

Freight volumes have been volatile in SA terms over the past year, but have now trended upwards strongly over the past six months; while they remain more than 4% below their 2014 peak, FTKs have risen at an annualized rate of more than 20% over the past six months. This pick-up has come alongside further signs that the recovery in the region's largest economy, Brazil, is continuing.

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 4th October 2017

Air freight market detail - August 2017

	World share ¹	August 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%	12.1%	4.7%	2.8%	43.3%	10.5%	3.8%	2.7%	44.3%
Africa	1.6%	29.4%	5.9%	4.1%	22.7%	27.7%	9.3%	3.5%	24.5%
Asia Pacific	37.5%	11.3%	5.7%	2.7%	54.2%	10.4%	4.9%	2.7%	54.0%
Europe	23.5%	11.8%	5.1%	2.6%	43.5%	13.2%	5.8%	3.0%	46.0%
Latin America	2.8%	8.5%	9.3%	-0.2%	32.5%	2.0%	1.3%	0.2%	32.1%
Middle East	13.9%	14.1%	2.8%	4.4%	43.8%	8.9%	2.2%	2.7%	44.2%
North America	20.7%	11.7%	3.7%	2.5%	34.8%	8.8%	1.4%	2.4%	35.6%
International	86.7%	12.9%	4.7%	3.4%	47.1%	11.6%	4.1%	3.3%	48.4%
Africa	1.6%	29.5%	6.4%	4.1%	23.1%	28.5%	9.8%	3.6%	25.0%
Asia Pacific	33.3%	12.1%	5.6%	3.5%	59.3%	11.3%	4.5%	3.6%	59.2%
Europe	23.0%	12.0%	5.0%	2.8%	45.2%	13.2%	5.4%	3.3%	47.6%
Latin America	2.4%	9.5%	4.8%	1.6%	37.4%	1.7%	-0.9%	1.0%	37.4%
Middle East	13.9%	14.2%	3.9%	3.9%	43.9%	8.9%	3.3%	2.3%	44.3%
North America	12.6%	13.5%	3.4%	3.5%	39.7%	12.3%	1.9%	3.8%	41.5%

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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