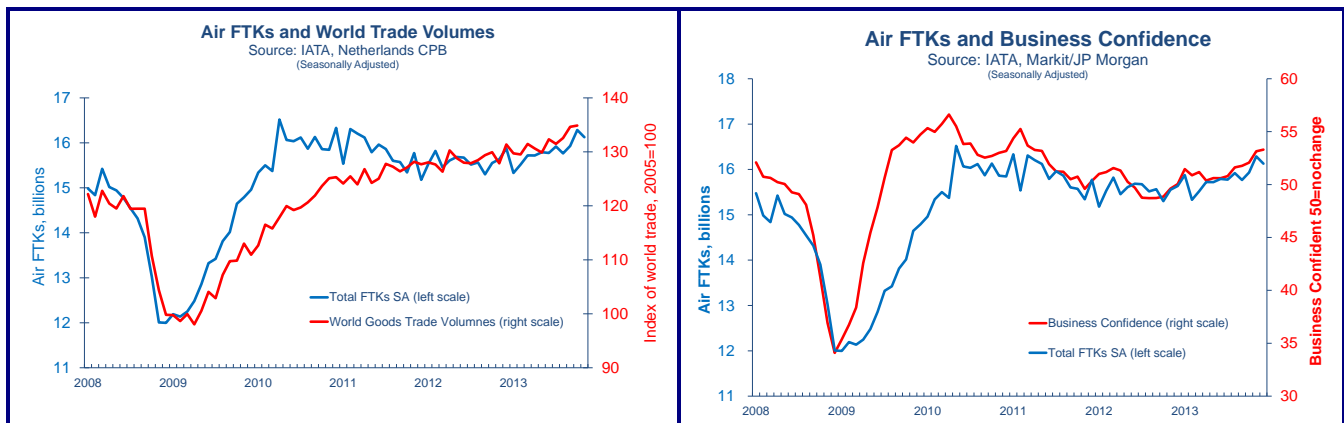


# AIR FREIGHT MARKET ANALYSIS

## DECEMBER 2013

### KEY POINTS

- Air freight markets showed slow and steady improvement throughout 2013, with a more notable pick-up in growth during the second half of the year. Global FTKs expanded 1.4% in 2013 compared to 2012. In December, air freight markets were up 1.8% on a year ago, above the annual trend, but slower than November growth (6.0%).
- Overall, 2013 has provided a relatively more supportive demand backdrop for air cargo markets, with a pick-up in advanced economy growth, including the Eurozone's emergence from recession, and more recently acceleration in world trade growth. Business confidence indicators are now the highest they have been since Q1 2011.
- A majority of the growth in air freight volumes in 2013 was carried by Middle Eastern and European airlines. Middle Eastern carriers experienced a 12.8% increase in FTKs year-to-date, the strongest of any region, reflecting solid growth of regional trade and improving demand in advanced economies. European carriers saw a rebound in air freight demand in Q2, consistent with the region's first quarter of growth in 18-months, supporting a 1.8% expansion in demand in 2013. Airlines in Latin America and Africa also recorded FTK growth in 2013, 2.4% and 1.0% respectively, but these results are both slower than growth in 2012, reflecting sluggishness during parts of the year in some local economies and regional trade volumes.
- Air freight carried by Asia Pacific airlines contracted 1.0% in 2013, hampered by sluggish global demand for Asia manufactured goods as well as patchy regional economic growth. There have been recent signs of a pick-up in demand, consistent with acceleration in regional trade growth. In December, however, Asia Pacific FTKs moderated with a slight contraction (0.3%).
- Load factors turned up toward the end of the 2013, helped by the improvement in volumes. As a result, load factors in 2013 (45.3%) were similar to 2012 levels (45.2%), despite significant weakness throughout earlier parts of the year with excess capacity entering through the passenger business.
- The near-to-medium term outlook for air freight is improving slowly, consistent with the cyclical pick-up in global economic growth. But the recent acceleration in world trade has been in line with economic growth, not at twice the pace as it had been in the past. This suggests that further growth in air freight could be limited unless the historical relationship between world trade and economic activity is restored.



#### Year on Year Comparison

##### Dec 2013 vs Dec 2012

##### 2013 vs. 2012

|                      | FTK  | AFTK | FLF   | FTK  | AFTK | FLF   |
|----------------------|------|------|-------|------|------|-------|
| <b>International</b> | 1.6% | 4.0% | 50.0% | 1.2% | 2.6% | 49.0% |
| <b>Domestic</b>      | 2.7% | 2.1% | 32.4% | 2.5% | 2.3% | 30.8% |
| <b>Total Market</b>  | 1.8% | 3.6% | 46.3% | 1.4% | 2.6% | 45.3% |

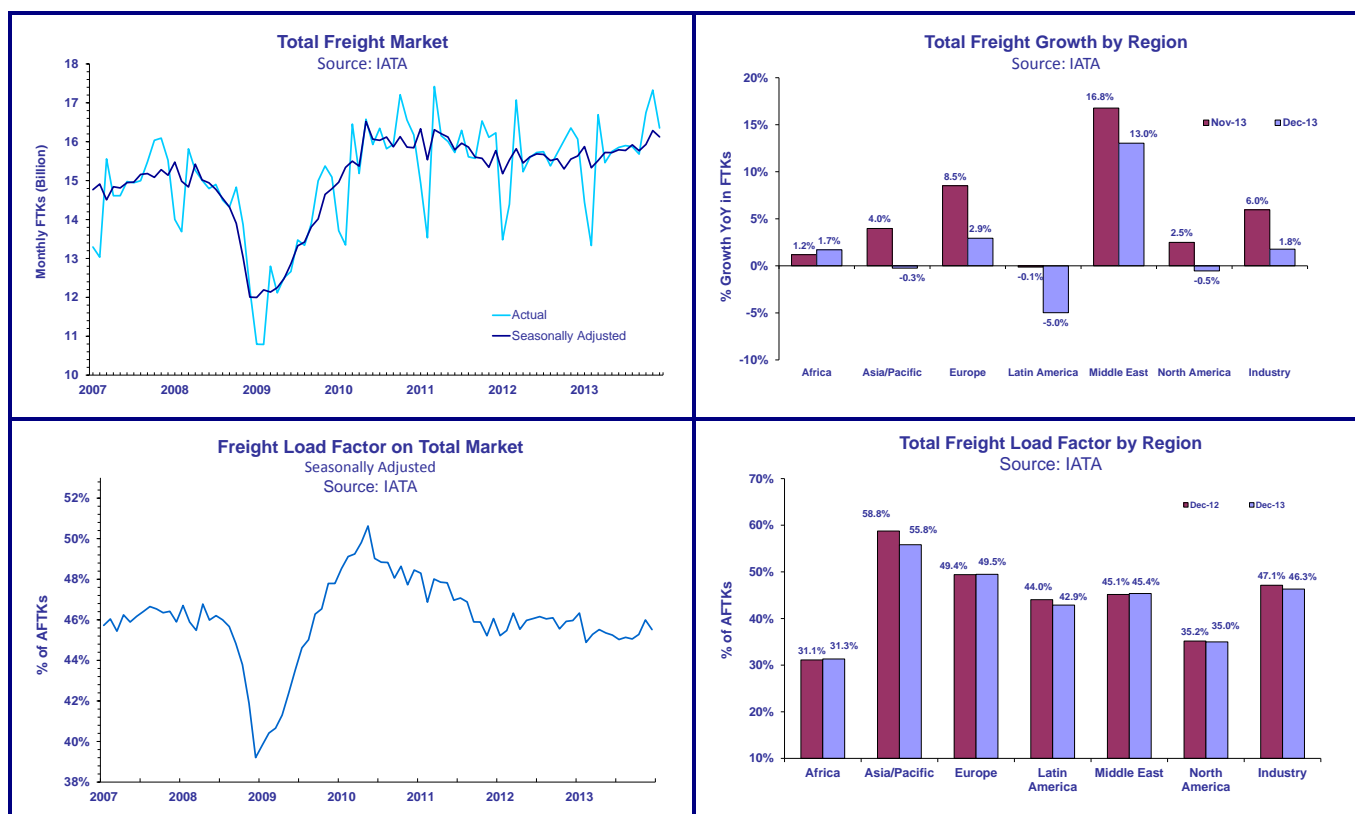
#### Month on Month Comparison

##### Dec 2013 vs. Nov 2013

|                      | FTK   | AFTK | FLF pt |
|----------------------|-------|------|--------|
| <b>International</b> | -1.2% | 0.0% | -0.6%  |
| <b>Domestic</b>      | 0.3%  | 0.3% | 0.0%   |
| <b>Total Market</b>  | -1.0% | 0.0% | -0.5%  |

FTK: Freight-Tonne-Kilometers; AFTK: Available Freight Tonne Kilometers; FLF: Freight Load Factor; All Figures are expressed in % change Year on Year except FLF which are the load factors for the specific month.

Data are seasonally adjusted. All figures are expressed in % change MoM except, FLFpt which are the percentage point difference between load factors of two months.



- Air freight markets have shown slow and steady improvement throughout 2013, particularly in the last quarter of the year. Air freight volumes gained in December, up 1.8% compared to a year ago, but at a slower rate than in November (6.0%). Overall, the strength of recent increases has helped air freight rise 1.4% in 2013 compared to 2012.
- The growth trend in global air freight, as shown in the first chart above, reveals solid acceleration in volumes in Q4 2013, preceded by steady improvements throughout most of the year before that. Over the month there was moderation in volumes in December after the strong rise in November. In December compared to November, the global air freight market contracted 1.0%, but volumes remain at an improved level, the second-highest they have been since Q1 2011.
- A majority of the growth in air freight volumes in 2013 was carried by Middle Eastern and European airlines. Middle Eastern carriers experienced a 12.8% increase in FTKs year-to-date, the strongest of any region. Carriers in the Middle East have benefited from improvements in advanced economies, including better demand in Europe, as well as solid economic and trade growth of nations in the Gulf. The trend is likely to continue with indicators showing strong increases for exports orders in the United Arab Emirates, which bodes well for continued growth in the region's trade volumes.
- European carriers saw a rebound in air freight demand in Q2, consistent with the region's first quarter of growth in 18-months. December performance of European airlines, up 2.9%, is above growth year-to-date (1.8%) maintaining the steady improvements in demand over recent months, consistent with the region's emergence from economic contraction in 2013. Indicators of manufacturing activity in the Eurozone (measured by JPMorgan/Markit) show that Q4 2013 has been the strongest quarter for two and a half years. The outlook is also improving. Eurozone manufacturing activity rose for the seventh successive month in December, largely reflecting momentum in the German economy, where the sector is expanding at a three-year high growth rate. Export orders, which are a leading indicator for world trade growth and demand for air freight, also continue to rise, reaching a high in December not seen since April 2011.
- Airlines in Latin America and Africa also saw volumes expand in 2013, 2.4% and 1.0% respectively, but these results are both slower than growth in 2012, reflecting sluggishness during parts of the year in some regional economies and trade volumes. Airlines in Latin America have seen steady increases in air freight volumes since Q3, after weakness in the first half of the year. Air freight demand has been supported by solid growth in Latin American trade volumes, but also contained by sluggish growth in Brazil, the continent's largest economy. African airlines, similarly, have experienced periods of weak air freight demand throughout 2013. After a solid start to the year, growth in air freight carried by African airlines was weak throughout mid-2013. Over more recent months,

there have been signs of slowing growth in regional trade volumes, as well as weakness in major economies like South Africa. Moreover, competition from airlines registered in other regions is intense on important trade routes and lack of adequate infrastructure and political stability continue to hinder growth potential.

- Air freight carried by Asia Pacific airlines, the largest share of global FTKs, contracted 1.0% in 2013. Air freight in this region has been hampered by sluggish global demand for Asia manufactured goods as well as patchy regional economic growth. Over recent months, economic growth in China has picked up and that has benefitted other major Asian export economies. As a result, Asian trade volumes have rebounded after significant declines mid-year. Improving demand for Asian manufactured consumer goods in North America and Europe has also supported the rise in trade and air freight volumes for Asia Pacific carriers. In December, however, Asia Pacific FTKs moderated with a slight contraction (0.3%). Moreover, recent indicators of Chinese economic performance suggest that there is potential for a slowdown in early 2014. Latest indicators show weakening in China's manufacturing sector and new export orders, which does not bode well for regional trade and air freight demand.
- North America was the other region to see a contraction in FTKs in 2013, declining 0.4% compared to 2012. Indicators of business activity in the manufacturing sector have been improving over recent months, recovering from any adverse impacts of the government shutdown in October. But the rates of expansion are significantly slower than they were at the start of 2013, so growth prospects for air freight were slight throughout much of the year. Having said that, recent months have shown a pick-up in US trade volumes, and if that trend continues, there could be some improvement in the demand backdrop.

## ANNEX

| Year on Year Comparison | Dec 2013 vs. Dec 2012 |             |              | 2013 vs. 2012 |             |              |
|-------------------------|-----------------------|-------------|--------------|---------------|-------------|--------------|
|                         | FTK                   | AFTK        | FLF          | FTK           | AFTK        | FLF          |
| Africa                  | 2.4%                  | -0.3%       | 33.1%        | 1.5%          | 6.6%        | 30.4%        |
| Asia/Pacific            | -1.1%                 | 4.0%        | 58.5%        | -1.6%         | 0.1%        | 58.7%        |
| Europe                  | 2.7%                  | 2.9%        | 50.6%        | 1.7%          | 1.8%        | 48.7%        |
| Latin America           | -5.2%                 | -3.2%       | 45.5%        | 1.3%          | 2.3%        | 43.9%        |
| Middle East             | 13.2%                 | 13.1%       | 45.7%        | 12.9%         | 12.1%       | 45.0%        |
| North America           | -1.6%                 | 0.2%        | 40.0%        | -1.5%         | 0.8%        | 38.8%        |
| <b>International</b>    | <b>1.6%</b>           | <b>4.0%</b> | <b>50.0%</b> | <b>1.2%</b>   | <b>2.6%</b> | <b>49.0%</b> |
| Africa                  | 1.7%                  | 1.0%        | 31.3%        | 1.0%          | 6.6%        | 29.0%        |
| Asia/Pacific            | -0.3%                 | 5.0%        | 55.8%        | -1.0%         | 0.8%        | 55.5%        |
| Europe                  | 2.9%                  | 2.7%        | 49.5%        | 1.8%          | 2.2%        | 47.5%        |
| Latin America           | -5.0%                 | -2.4%       | 42.9%        | 2.4%          | 1.8%        | 41.9%        |
| Middle East             | 13.0%                 | 12.5%       | 45.4%        | 12.8%         | 11.8%       | 44.5%        |
| North America           | -0.5%                 | 0.0%        | 35.0%        | -0.4%         | 0.9%        | 34.3%        |
| <b>Total Market</b>     | <b>1.8%</b>           | <b>3.6%</b> | <b>46.3%</b> | <b>1.4%</b>   | <b>2.6%</b> | <b>45.3%</b> |

FTK: Freight-Tonne-Kilometers; AFTK: Available Freight Tonne Kilometers; FLF: Freight Load Factor;  
All Figures are expressed in % change Year on Year except FLF which are the load factors for the specific month.

| Month on Month Comparison | Dec 2013 vs. Nov 2013 |             |              | Market Share  |
|---------------------------|-----------------------|-------------|--------------|---------------|
|                           | FTK                   | AFTK        | FLFpt        | FTK           |
| Africa                    | -1.5%                 | -5.0%       | 1.1%         | 1.8%          |
| Asia/Pacific              | -1.8%                 | 0.4%        | -1.3%        | 40.0%         |
| Europe                    | -1.7%                 | -0.9%       | -0.4%        | 26.2%         |
| Latin America             | -3.9%                 | -3.3%       | -0.3%        | 3.4%          |
| Middle East               | 2.7%                  | 3.1%        | -0.2%        | 14.7%         |
| North America             | -1.7%                 | -0.7%       | -0.4%        | 13.9%         |
| <b>International</b>      | <b>-1.2%</b>          | <b>0.0%</b> | <b>-0.6%</b> | <b>100.0%</b> |
| Africa                    | -1.5%                 | -4.2%       | 0.8%         | 1.6%          |
| Asia/Pacific              | -1.6%                 | 0.5%        | -1.1%        | 38.8%         |
| Europe                    | -1.7%                 | -0.9%       | -0.4%        | 22.9%         |
| Latin America             | -4.0%                 | -2.7%       | -0.6%        | 3.2%          |
| Middle East               | 2.7%                  | 3.0%        | -0.1%        | 12.6%         |
| North America             | -0.8%                 | -0.4%       | -0.2%        | 21.0%         |
| <b>Total Market</b>       | <b>-1.0%</b>          | <b>0.0%</b> | <b>-0.5%</b> | <b>100.0%</b> |

Data are seasonally adjusted. All Figures are expressed in % change Month on Month except PLP pt and FLF which are the percentage point difference between load factors of two consecutive months.

IATA Economics  
E-Mail: [economic@iata.org](mailto:economic@iata.org)  
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## FURTHER ANALYSIS AND DATA

Access data related to this briefing through the Route Tracker publication:

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