

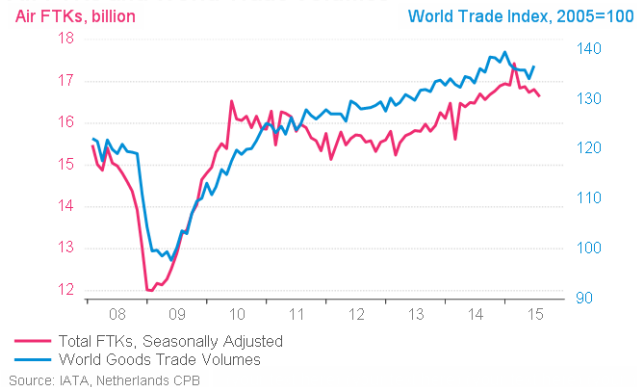
AIR FREIGHT MARKET ANALYSIS

JULY 2015

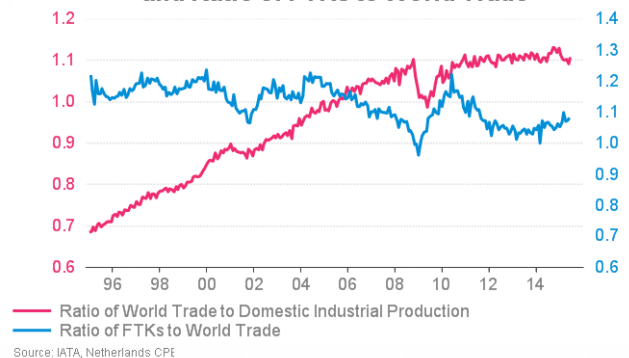
KEY POINTS

- Air freight volumes fell 0.6% in July year-on-year, suggesting further deepening of the already declining growth trend. The weakness in air freight volumes is consistent with declines in trade activity, mostly in emerging markets. The decline in world trade reflects a combination of weaker than expected global economic growth, particularly in emerging markets, as well as shifts toward the domestic market in China.
- The first chart below shows the growth trend in air freight volumes. The series reveals that there has been no growth in FTKs since the end of 2014 and in fact the market was 2% smaller in July compared to December 2014.
- Airlines in several regions are showing weakness in air freight growth, including key regions Asia Pacific, Europe and North America. Carriers in Asia Pacific recorded a 1.9% contraction in FTKs in July year-on-year. The region has experienced notable declines in import and export volumes so far this year.
- Carriers in Europe and North America recorded declines of 1.5% and 3.7% in July year-on-year, respectively. Recent improvements in business confidence in the Eurozone have not benefited air freight. Trade to and from central and Eastern Europe has seen steep declines in recent months, now down 10% since the end of Q1. North American carriers have experienced a significant drop in FTK volumes since the boost from modal shift due to sea port congestion earlier in the year.
- By contrast, carriers in the Middle East continue to show robust growth, with a rise of 10.8% in July year-on-year. The July result is slightly down compared to the year-to-date trend owing to the timing of Ramadan, which started in June this year and took place mostly in July in 2014. The holy month tends to boost demand for air freighted goods, including gifts and foodstuffs.
- World trade is still growing only in line with domestic production, but air freight's share of world trade has been increasing since mid-2014. At the moment we are sticking with our view that economic growth and trade will improve in the second half of the year, providing some support to air cargo volumes. However, given recent declines in air freight, there would need to be a significant pick-up in H2 for prior growth expectations to be met.

Air FTKs and World Trade Volumes



Ratio of World Trade to Domestic Industrial Production and Ratio of FTKs to World Trade



Year on Year Comparison

	Jul 2015 vs Jul 2014			YTD 2015 vs. YTD 2014		
	FTK	AFTK	FLF	FTK	AFTK	FLF
International	-0.7%	6.7%	44.5%	3.2%	6.4%	47.5%
Domestic	0.2%	7.0%	27.6%	0.8%	2.8%	29.6%
Total Market	-0.6%	6.7%	41.2%	2.9%	5.7%	44.0%

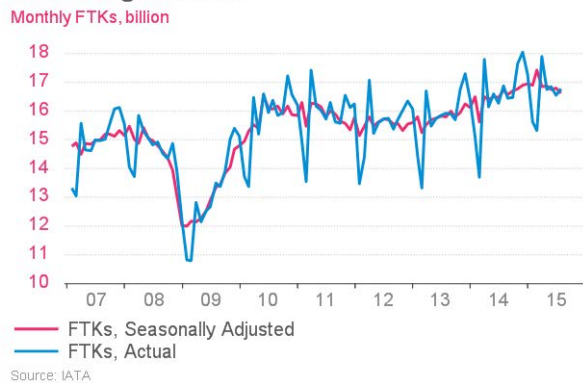
Month on Month Comparison

Jul 2015 vs. Jun 2015		
FTK	AFTK	FLF pt
-1.3%	0.5%	-0.8%
0.8%	1.2%	-0.1%
-1.0%	0.6%	-0.7%

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.

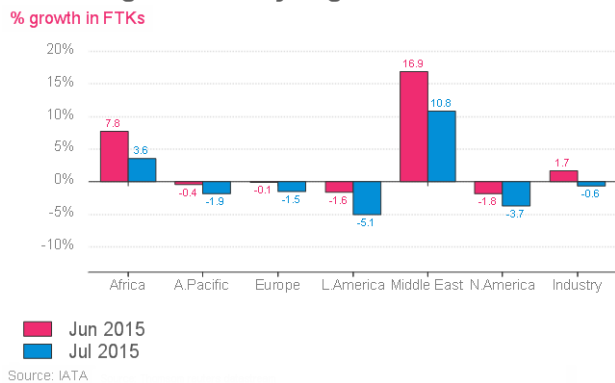
Total Freight Market



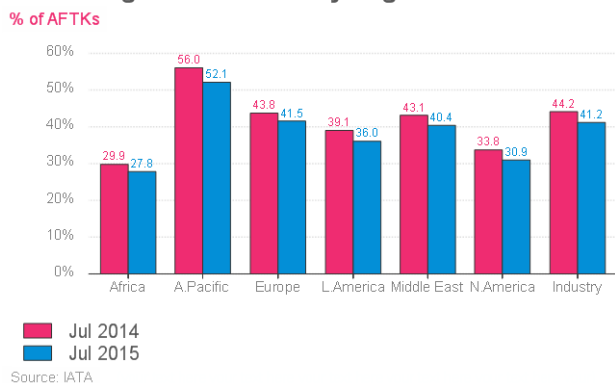
Freight Load Factor on Total Market



Total Freight Growth by Region



Total Freight Load Factor by Region



- The first chart above shows that after adjusting for seasonal and holiday impacts ups, the trend in FTK volumes has been declining for several months. Currently, industry volumes are down 2% compared to the end of 2014. This has been consistent with shrinking world trade volumes throughout H1 2015, particularly in emerging markets, after solid growth toward the end of 2014.
- The declines in trade have resulted from weaker than expected global economic growth as well as focal shifts in some economies. Global economic growth has softened due to slower growth in China as well as emerging markets in South America, including Brazil and Argentina, and notably weak Q1 performance in the US. The sluggish demand backdrop has been compounded by China's shift in focus toward its domestic market as well as the US's support of its own manufacturing sector.
- Airlines in several regions are showing weakness in air freight growth, including key regions Asia Pacific, Europe and North America. Carriers in Asia Pacific recorded a 1.9% contraction in FTKs in July year-on-year. The region has experienced notable declines in import and export volumes so far this year. According to Markit, China's manufacturing sector has been struggling during the recent months, accompanied by weakness in export orders, causing some firms to cut employment at the steepest rates since 2009. Most recent data has shown that economic slowdown in China is likely to be worse than expected.
- Carriers in Europe and North America recorded declines of 1.5% and 3.7%, respectively, in July year-on-year. Recent improvements in business confidence in the Eurozone have not benefited air freight. Trade to and from central and Eastern Europe has experienced strong declines over recent months, now down 10% since the end of Q1. This has been a result of notable slowdown in several economies in the region, including Czech Republic, Romania, Bulgaria, Hungary, Poland and Slovakia.
- North American carriers have experienced a significant decline in FTK volumes since the boost from modal shift due to sea port congestion earlier in the year. Shippers had relied heavily on air cargo to avoid delays from US container port congestion from November through March. But now, with no congestion at West Coast sea ports, demand for air freight transport has been easing off. More fundamentally, although better economic performance is expected in H2, we are yet to see any benefits by way of stronger demand for air freight transport.
- By contrast, carriers in the Middle East continue to show robust growth, with a rise of 10.8% in July year-on-year. The July result is slightly down compared to the year-to-date trend, due to the timing of Ramadan, which started in June this year and took place mostly in July in 2014. The holy month tends to boost demand for air freighted goods, including gifts and foodstuffs. Major economies in the Middle East, including Saudi Arabia and the United Arab Emirates, have seen slowdowns in non-oil sectors in Q2 2015 (Markit), but the rates of growth remain robust and this should help sustain solid growth in air freight demand for local carriers.

- In Latin America, regional carriers recorded a 5.1% contraction in volumes in July year-on-year. Although key economies like Brazil and Argentina continue to struggle, regional trade activity has bucked the global trend with solid gains during H1 2015. Unfortunately, this trade activity has not benefitted air freight transport, as of yet.
- African airlines, carrying a small part of worldwide FTKs, recorded a rise in FTKs of 3.6% in July year-on-year. From the perspective of demand drivers, major economies Nigeria and South Africa underperformed during parts of 2015, however, regional trade activity is holding-up, which should support demand for air transport of goods.

ANNEX

Year on Year Comparison	Jul 2015 vs. Jul 2014			YTD 2015 vs. YTD 2014		
	FTK	AFTK	FLF	FTK	AFTK	FLF
Africa	3.8%	11.8%	28.9%	5.0%	2.6%	31.8%
Asia/Pacific	-2.4%	4.6%	55.5%	4.2%	6.1%	57.2%
Europe	-1.3%	3.4%	43.1%	-0.5%	3.2%	46.6%
Latin America	-5.5%	2.1%	39.3%	-7.1%	-0.3%	41.2%
Middle East	10.8%	18.4%	40.8%	13.8%	19.1%	42.9%
North America	-5.9%	5.3%	34.3%	-1.6%	2.2%	38.2%
International	-0.7%	6.7%	44.5%	3.2%	6.4%	47.5%
Africa	3.6%	11.4%	27.8%	4.8%	2.6%	30.4%
Asia/Pacific	-1.9%	5.3%	52.1%	4.2%	6.2%	53.7%
Europe	-1.5%	3.9%	41.5%	-0.7%	3.3%	45.2%
Latin America	-5.1%	3.2%	36.0%	-6.7%	2.9%	37.5%
Middle East	10.8%	18.3%	40.4%	13.8%	18.8%	42.6%
North America	-3.7%	5.4%	30.9%	-1.1%	1.3%	33.9%
Total Market	-0.6%	6.7%	41.2%	2.9%	5.7%	44.0%

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	Jul 2015 vs. Jun 2015			Market Share
	FTK	AFTK	FLFpt	FTK
Africa	1.5%	1.6%	0.0%	1.8%
Asia/Pacific	-1.3%	0.1%	-0.7%	39.8%
Europe	-1.1%	1.1%	-1.1%	25.7%
Latin America	-1.1%	1.7%	-1.2%	2.9%
Middle East	-2.3%	0.4%	-1.2%	16.0%
North America	-0.8%	-0.2%	-0.2%	13.8%
International	-1.3%	0.5%	-0.8%	100.0%
Africa	1.7%	1.6%	0.0%	1.6%
Asia/Pacific	-1.3%	0.3%	-0.9%	38.6%
Europe	-1.1%	1.1%	-1.0%	22.7%
Latin America	-1.1%	-0.1%	-0.4%	2.8%
Middle East	-2.3%	0.5%	0.0%	13.9%
North America	0.3%	0.6%	-0.1%	20.4%
Total Market	-1.0%	0.6%	-0.7%	100.0%

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.

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