

AIR FREIGHT MARKET ANALYSIS

JUNE 2015

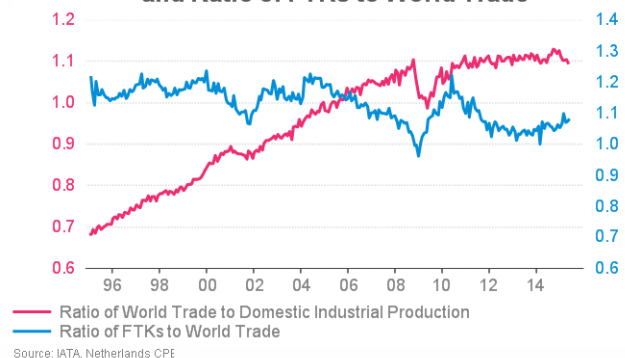
KEY POINTS

- ➔ Air freight volumes were up just 1.2% in June compared to a year ago. Growth for the first 6 months of 2015 has slowed to 3.5%. The June result confirms that growth in air freight volumes has slowed, which 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, in emerging markets and the US, 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's been no growth in FTKs since the end of 2014 and in fact the market was 1% smaller in June 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 0.3% contraction in FTKs in June year-on-year. The region has experienced notable declines in import and export volumes over recent months.
- ➔ Carriers in Europe and North America have recorded a contraction in volumes for the first 6 months of 2015 overall (0.6% and 0.4%, respectively). Recent improvements in business confidence in the Eurozone have not benefited air freight as consumer sentiment remains hampered by concerns about Greece exiting the Eurozone. 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.
- ➔ By contrast, carriers in the Middle East continue to show strong growth, with a rise of 15.3% in June year-on-year. Robust performance of regional carriers is being supported by capacity and network expansion, and remains unaffected by regional economic slowdown due to lower oil prices.
- ➔ World trade is still only growing 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 accelerate in the second half of the year, strengthening growth in air cargo volumes. Current demand conditions, however, are gloomy. June data show no increase in business confidence compared to the start of the year, and growth in export orders remains weak.

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

	Jun 2015 vs Jun 2014			YTD 2015 vs. YTD 2014		
	FTK	AFTK	FLF	FTK	AFTK	FLF
International	1.4%	5.6%	46.6%	3.9%	6.4%	48.0%
Domestic	0.0%	3.7%	28.7%	0.7%	1.3%	30.1%
Total Market	1.2%	5.3%	43.2%	3.5%	5.4%	44.6%

Month on Month Comparison

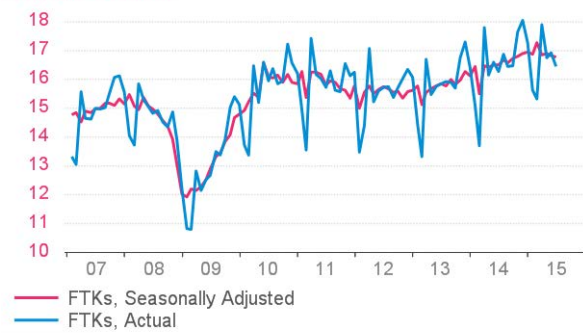
Jun 2015 vs. May 2015		
FTK	AFTK	FLF pt
-0.1%	-0.2%	0.0%
-2.0%	-1.5%	-0.2%
-0.4%	-0.4%	0.0%

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.

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

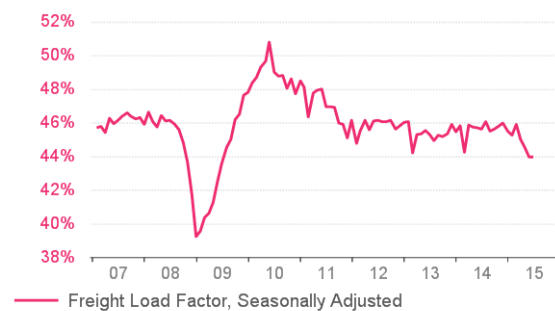
Monthly FTKs, billion



Source: IATA

Freight Load Factor on Total Market

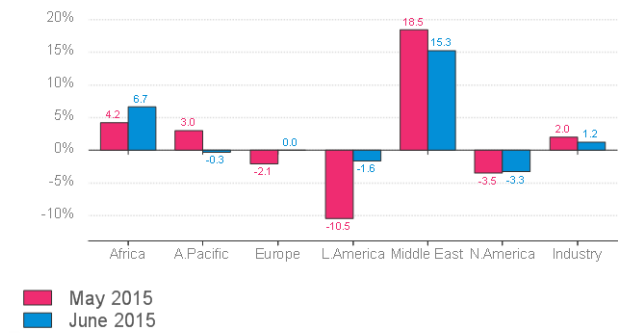
% of AFTKs



Source: IATA

Total Freight Growth by Region

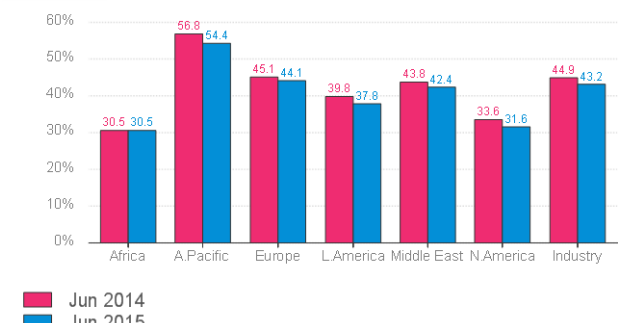
% growth in FTKs



Source: IATA

Total Freight Load Factor by Region

% of AFTKs



Source: IATA

- The first chart above shows that after adjusting for seasonal and holiday ups and downs in FTK volumes, there has been no change in volumes since late 2014. So although year-on-year comparisons remain positive (albeit weakening), they are being supported by growth that took place last year, rather than additional gains in 2015. In fact the market was 1% smaller in June compared to December 2014. This development is consistent with a trend change in world trade, with volumes shrinking 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 other emerging markets in South America, including Brazil and Argentina, as well as 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 0.3% contraction in FTKs in June year-on-year. The region has experienced a notable slowdown in imports and exports over recent months. Latest trade data (May) shows that trade activity to/from Emerging Asia is down 8% compared to the end of 2014. 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.
- Carriers in Europe and North America are now recording a contraction in volumes for the first 6 months of 2015 (0.6% and 0.4%, respectively). Recent improvements in business confidence in the Eurozone have yet to translate into increased demand for air freight and consumer confidence remains subdued. Consumer confidence was increasing during Q1 2015, but has taken a hit in recent months, partly due to concerns about implications of Greece exiting the Eurozone.
- North American carriers have experienced a significant decline in volumes since the boost from modal shift due to sea port congestion earlier in the year. Moreover, economic data show a disappointing first quarter of GDP performance, with a contraction compared to Q4 2014. Although better economic performance is expected in Q2, as the effects of bad weather that impacted Q1 dissipate, that is yet to translate to stronger demand for air freight transport. North American carriers experienced the largest contraction among regions in June, 3.3% year-on-year.
- In Latin America, regional carriers recorded a 1.6% contraction in volumes in June 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.
- By contrast, carriers in the Middle East continue to show strong growth, with a rise of 15.3% in June year-on-year. A large part of the airlines' business success is owed to network and capacity expansion that has encouraged air

freight to go through Middle East hubs. 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.

- African airlines, carrying a small part of worldwide FTKs, recorded a rise in FTKs of 6.7% in June 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	Jun 2015 vs. Jun 2014			YTD 2015 vs. YTD 2014		
	FTK	AFTK	FLF	FTK	AFTK	FLF
Africa	7.0%	7.2%	31.8%	5.0%	0.9%	32.4%
Asia/Pacific	-1.0%	3.7%	57.3%	5.5%	6.4%	57.4%
Europe	0.2%	1.6%	45.8%	-0.4%	3.1%	47.3%
Latin America	-2.2%	0.2%	41.9%	-7.3%	-0.7%	41.6%
Middle East	15.3%	19.4%	42.8%	14.0%	19.2%	43.2%
North America	-3.7%	4.1%	35.3%	-0.4%	1.7%	39.2%
International	1.4%	5.6%	46.6%	3.9%	6.4%	48.0%
Africa	6.7%	6.7%	30.5%	4.8%	1.0%	30.9%
Asia/Pacific	-0.3%	4.0%	54.4%	5.4%	6.4%	54.0%
Europe	0.0%	2.2%	44.1%	-0.6%	3.2%	45.9%
Latin America	-1.6%	3.7%	37.8%	-6.9%	2.8%	37.8%
Middle East	15.3%	19.2%	42.4%	14.0%	18.9%	42.9%
North America	-3.3%	2.8%	31.6%	-0.4%	0.0%	34.7%
Total Market	1.2%	5.3%	43.2%	3.5%	5.4%	44.6%

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	Jun 2015 vs. May 2015			Market Share
	FTK	AFTK	FLFpt	FTK
Africa	-1.1%	3.7%	-1.5%	1.8%
Asia/Pacific	-0.8%	-1.3%	0.3%	39.7%
Europe	1.8%	0.5%	0.6%	25.8%
Latin America	4.6%	-0.5%	2.1%	2.9%
Middle East	-2.2%	0.0%	-0.9%	16.3%
North America	0.1%	0.3%	-0.1%	13.5%
International	-0.1%	-0.2%	0.0%	100.0%
Africa	-1.2%	3.4%	-1.4%	1.6%
Asia/Pacific	-0.7%	-1.3%	0.3%	38.8%
Europe	1.8%	0.6%	0.5%	22.9%
Latin America	3.8%	-0.3%	1.5%	2.8%
Middle East	-2.2%	0.0%	0.0%	14.3%
North America	-1.3%	-0.8%	-0.2%	19.6%
Total Market	-0.4%	-0.4%	0.0%	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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