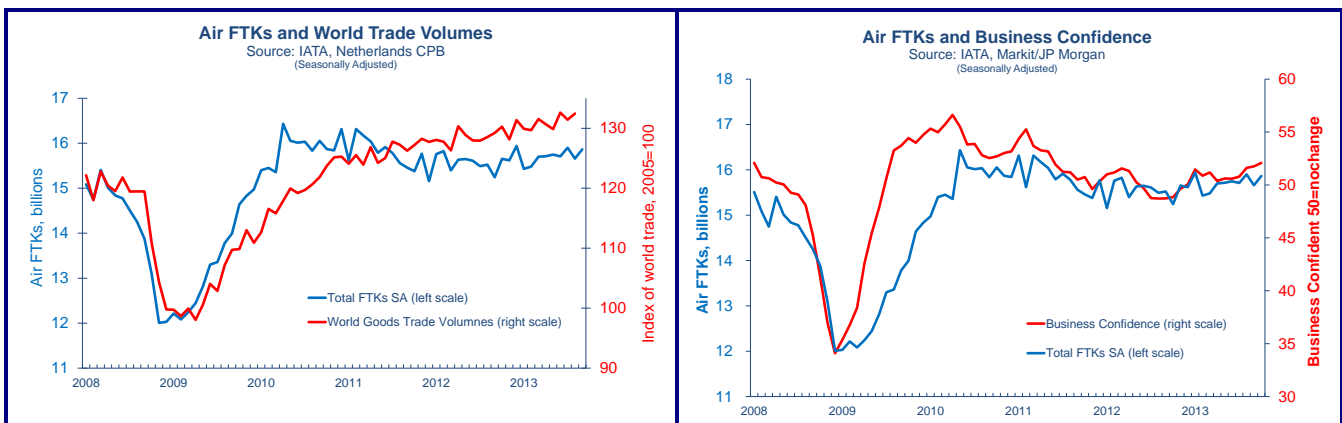


AIR FREIGHT MARKET ANALYSIS

OCTOBER 2013

KEY POINTS

- Air freight markets improved in October after a brief pause in growth in September. Global freight tonne kilometers were up 4.0% in October year-on-year, a rebound from the 0.3% contraction in September.
- Global FTKs also increased in October compared to September. This comes after an adjustment in volumes in September compared to August, which is within the normal volatility range. Current FTK levels remain above the low point in Q1 by almost 3%. The modest improvement in air freight markets this year is consistent with a more supportive business environment.
- Airlines in all regions saw a rise in air freight volumes in October compared to a year ago, except for airlines in Africa. Asia Pacific carriers experienced a rise of 2.0% in FTKs, which is an important result after having experienced declines compared to a year ago throughout 2013 as a whole. Over recent months, the region has seen a pick-up in China growth and a rebound in trade volumes after significant declines mid-year. Airlines in the region could be expecting the growth to continue, with a strong 4.1% rise in capacity year-on-year.
- The October air freight results also show solid growth for Middle Eastern and European carriers, which had experienced a moderation in growth in September after a mid-year acceleration in demand. Carriers in these regions experienced increases of 12.3% and 4.4%, respectively, compared to a year ago. October performance of European airlines is above growth year-to-date (1.0%) and maintains the steady improvements in demand over recent months, consistent with the region's emergence from economic decline.
- Load factors are showing signs of bottoming out after continued decline throughout much of 2013. In October, load factors were supported by solid growth in demand and slower capacity expansion, allowing for an improvement on September. But load factors remain below year-ago levels as a result of decline in prior months.
- The outlook for air freight markets continues to improve slowly. Business confidence has sustained an upward trend since mid-2013, and improvements in export orders over recent months appear now to be translating to a pick-up in world trade growth in emerging markets. There are also early signs of growth in air freight carried by Asia Pacific airlines, the region with the largest share of global FTKs. These factors should support further growth, albeit at a weak pace, throughout the last quarter of 2013.



Year on Year Comparison

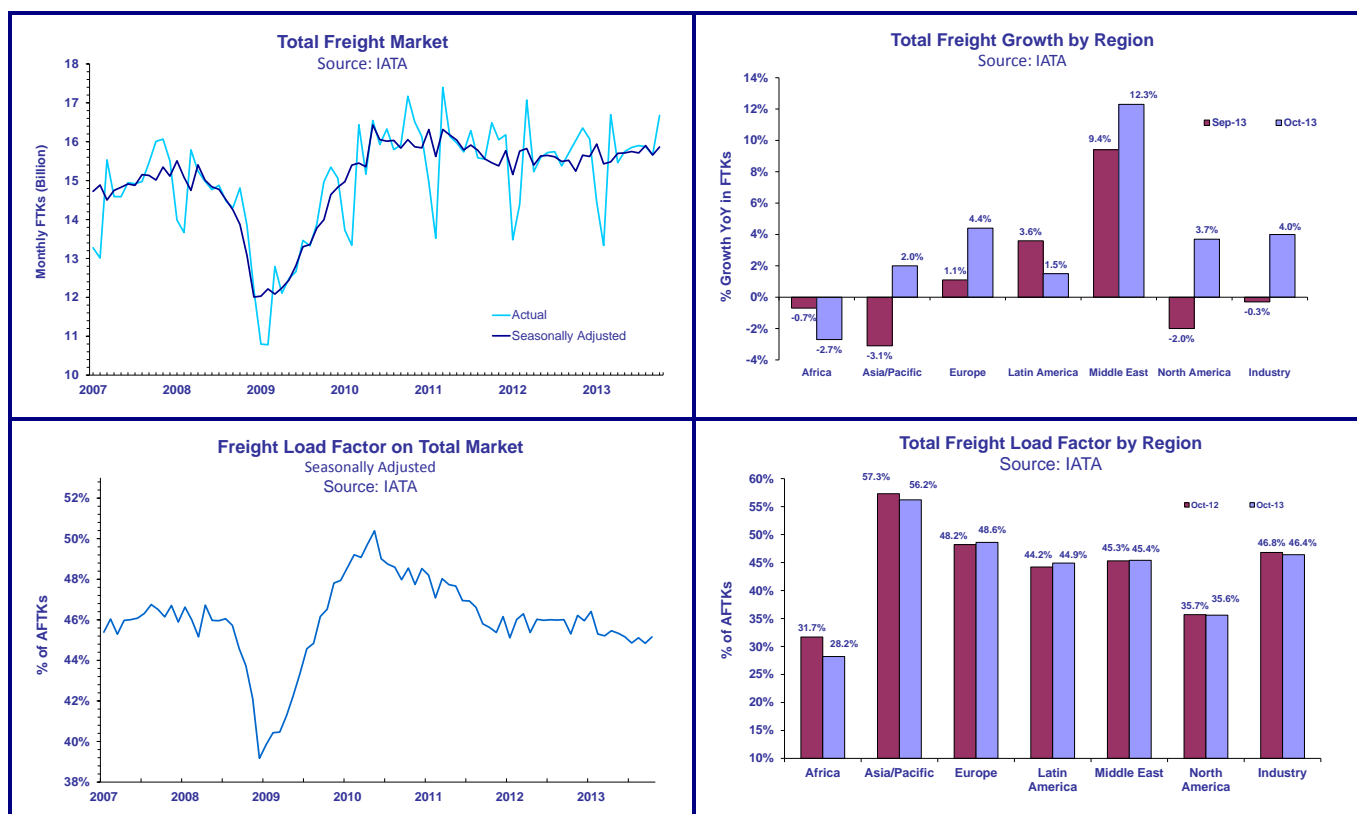
| | Oct 2013 vs. Oct 2012 | | | YTD 2013 vs. YTD 2012 | | |
|----------------------|-----------------------|------|-------|-----------------------|------|-------|
| | FTK | AFTK | FLF | FTK | AFTK | FLF |
| International | 3.9% | 4.9% | 50.0% | 0.6% | 2.2% | 48.4% |
| Domestic | 4.6% | 4.6% | 32.0% | 2.3% | 2.1% | 30.5% |
| Total Market | 4.0% | 4.9% | 46.4% | 0.8% | 2.2% | 44.8% |

Month on Month Comparison

| Oct 2013 vs. Sep 2013 | | |
|-----------------------|------|--------|
| FTK | AFTK | FLF pt |
| 1.0% | 0.5% | 0.3% |
| 3.2% | 1.3% | 2.0% |
| 1.3% | 0.6% | 0.3% |

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 improved in October after a brief pause in September. Global freight tonne kilometers were up 4.0% in October year-on-year, a rebound from the 0.3% contraction in September. There was also a solid 1.3% rise in volumes in October compared to September, contributing to the marginally positive trend in air freight growth seen since Q2. October performance is consistent with an improving business environment.
- Airlines in all regions except Africa saw a rise in air freight in October compared to a year ago. Asia Pacific carriers experienced a rise of 2.0% in FTKs. This is an important result given that airlines in this region carry the largest share of the global air freight market and have been seeing a string of declines throughout 2013. In fact, the October rise is in contrast to the trend so far this year – a contraction of 1.6%.
- Until this month, the region has not featured in the slow improvement in global air freight demand since Q2. While there were signs of easing downward pressure in the region over recent months, particularly with respect to the Chinese economy, there had been no improvement in FTK volumes until October. One month of data is not basis enough to suggest a recovery in the trend, but developments in the region are broadly positive. Manufacturing activity in China expanded at a 7-month-high rate in October, suggesting that Q4 economic growth could at least match the pick-up seen in Q3. Moreover, while the government continues to steer the economy away from its reliance on exports toward consumption, export orders have seen some improvement over recent months. The region more broadly has also seen resurgence in trade growth momentum. Both export and import volumes rose strongly in emerging Asia in September, a turnaround from significant declines mid-year. This positive momentum could support further growth in air freight carried by Asia Pacific airlines. Carriers in the region may share similar expectations, with a solid 4.1% rise in capacity in October compared to year ago.
- The October air freight results also show solid growth for Middle Eastern and European carriers, who had experienced a moderation in growth in September after a mid-year acceleration in demand. Carriers in these regions experienced increases of 12.3% and 4.4%, respectively, compared to a year ago. Combined, airlines in Europe and the Middle East have carried three quarters of the modest increase in global FTKs over the past 6 months.
- October performance of European airlines is above growth year-to-date (1.0%) and maintains the steady improvements in demand over recent months, consistent with the region's emergence from contracting economic growth. The Eurozone stopped contracting in Q2 and has maintained the modest economic recovery in H2 2013, but only just. Eurozone growth in Q3 (0.1%) slowed compared to Q2 (0.3%), with the recovery remaining fragile and patchy. Nonetheless, indicators of business activity continue to suggest some growth in the region for the remainder of the year, albeit at a weak pace, which should support further modest expansion in FTKs for the region's carriers.

- Middle Eastern airlines recorded a rise in FTKs in October in line with the trend so far in 2013 (12.3%). This is the fastest rate of expansion among regions. The trend is likely to continue with October data showing a record high rise in exports orders in the United Arab Emirates, which bodes well for continued growth in the region's trade volumes.
- Latin American carriers experienced a slowdown in FTK growth in October with a rise of 1.5% on a year ago, compared to 3.6% in September. Volumes were almost flat (0.1%) over the month – October compared to September. Nonetheless, growth so far this year (3.6%) is second fastest among regions. Growth in Latin American trade volumes has been solid this year, increasing 10% in September compared to the start of 2013. Carriers in the region do, however, experience strong competition from European and North American airlines in a significant number of air freight markets.
- North American airlines recorded a solid 3.7% rise in FTKs in October compared to a year ago, a rebound from the 2.0% contraction in September. So far this year, however, growth remains down on 2012 (0.9%). The October result suggests that air freight businesses of carriers experienced solid performance, despite the 17-day US government shutdown that occurred during the month. Indicators of business activity in the manufacturing sector have been increasing for the past 3 months, which should provide some support to demand for air transport of goods produced. But to put that into context, the rates of expansion are almost 3 times slower than they were in Q1, so the outlook remains difficult.
- The only region to experience a decline in air freight volumes in October compared to a year ago was Africa. Airlines in this region saw volumes fall 2.7% in October year-on-year. After a solid start to the year, growth in air freight carried by African airlines has seen a slow decline over the past several months. Although trade volumes for the region continue to increase and local economies are seeing fast growth, 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. The weakness in demand coupled with continued expansion in capacity has placed load factors under further pressure. African airlines' load factors are well below the industry average, and in October fell 3.5% points compared to a year ago.

ANNEX

| Year on Year Comparison | Oct 2013 vs. Oct 2012 | | | YTD 2013 vs. YTD 2012 | | |
|-------------------------|-----------------------|-------------|--------------|-----------------------|-------------|--------------|
| | FTK | AFTK | FLF | FTK | AFTK | FLF |
| Africa | -1.9% | 9.1% | 29.7% | 1.0% | 5.9% | 30.0% |
| Asia/Pacific | 1.5% | 3.5% | 59.5% | -2.2% | -0.8% | 58.5% |
| Europe | 4.3% | 3.5% | 49.6% | 0.9% | 1.4% | 48.0% |
| Latin America | 1.0% | -0.7% | 47.3% | 2.2% | 2.9% | 43.2% |
| Middle East | 12.5% | 12.7% | 45.8% | 12.4% | 12.1% | 44.4% |
| North America | 3.7% | 4.1% | 40.3% | -2.1% | 0.8% | 38.2% |
| International | 3.9% | 4.9% | 50.0% | 0.6% | 2.2% | 48.4% |
| Africa | -2.7% | 9.4% | 28.2% | 0.7% | 5.8% | 28.7% |
| Asia/Pacific | 2.0% | 4.1% | 56.2% | -1.6% | -0.1% | 55.2% |
| Europe | 4.4% | 3.6% | 48.6% | 1.0% | 1.9% | 46.8% |
| Latin America | 1.5% | -0.2% | 44.9% | 3.6% | 2.3% | 41.3% |
| Middle East | 12.3% | 12.1% | 45.4% | 12.3% | 11.7% | 44.0% |
| North America | 3.7% | 4.1% | 35.6% | -0.9% | 0.9% | 33.9% |
| Total Market | 4.0% | 4.9% | 46.4% | 0.8% | 2.2% | 44.8% |

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 | Oct 2013 vs. Sep 2013 | | | Market Share |
|---------------------------|-----------------------|-------------|-------------|---------------|
| | FTK | AFTK | FLFpt | FTK |
| Africa | -2.3% | 2.2% | -1.3% | 1.6% |
| Asia/Pacific | 0.8% | 0.3% | 0.3% | 39.6% |
| Europe | 0.7% | 0.0% | 0.3% | 27.1% |
| Latin America | -0.2% | -2.1% | 0.8% | 3.2% |
| Middle East | 0.7% | 0.7% | 0.0% | 13.9% |
| North America | 3.3% | 1.4% | 0.7% | 14.7% |
| International | 1.0% | 0.5% | 0.3% | 100.0% |
| Africa | -2.4% | 2.4% | -1.3% | 1.4% |
| Asia/Pacific | 1.0% | 0.3% | 0.4% | 38.8% |
| Europe | 0.7% | 0.1% | 0.3% | 23.9% |
| Latin America | 0.1% | -1.5% | 0.7% | 3.1% |
| Middle East | 0.7% | 0.7% | 0.0% | 12.0% |
| North America | 3.4% | 1.4% | 0.7% | 20.8% |
| Total Market | 1.3% | 0.6% | 0.3% | 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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4TH December 2013

FURTHER ANALYSIS AND DATA

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

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