



# AIR FREIGHT MARKET ANALYSIS

April 2016

## Annual growth recovered in April, but structural headwinds persist

- Annual growth in air freight tonne kilometres returned to positive territory in April 2016, as the one-off boost to air freight in early-2015 from disruption at US west coast seaports dropped out of the annual comparison.
- Freight growth accelerated for all regions between April and March except Latin America...
- ...although given the soft underlying demand backdrop, 2016 is likely to be another weak year for air freight.
- Industry-wide freight capacity continues to trend upwards, keeping intense pressure on yields.

### Annual freight growth recovered in April...

Global growth in air freight tonne kilometres (FTKs) jumped to 3.2% year-on-year in April 2016, having been in negative territory in March and February. (See Chart 1.) Freight growth was expected to recover in April as the boost to air freight volumes in early-2015 from the disruption at seaports on the US west coast dropped out of the annual comparison. The pick-up was slightly stronger than expected, though, with growth registering its fastest pace in 12 months.

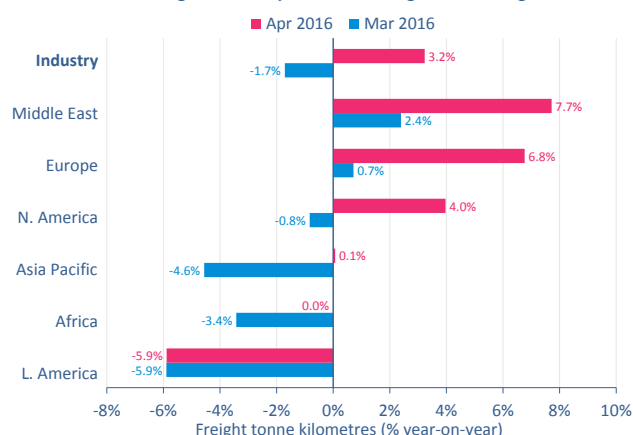
### ...but outlook overshadowed by familiar fragilities

That said, now that the distortion from the strong start to 2015 has started to clear, it is evident that the upward trend in seasonally-adjusted freight volumes that was a feature of the second half of last year looks to have

stalled during the first four months of 2016. This ties in with recent softness in underlying world trade demand. Global trade volumes fell by 1.7% between the final quarter of 2015 and the first quarter of 2016, and declined in year-on-year terms in Q1 for the first time since the end of 2009. (See Chart 2.) Global trade volumes have only tended to decline in annual terms in the past during times of global economic recession (eg, during 2001 and 2008/09). The latest developments underline the extent to which the relationship between economic output and trade has changed in the years since the global financial crisis.

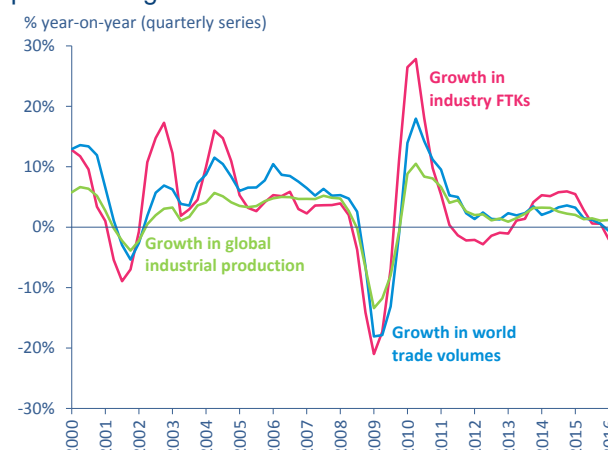
Global business surveys remain subdued too, and offer little encouragement for an immediate turnaround in fortunes for industry-wide air freight either. The new

Chart 1 – FTK growth by carrier region of registration



Sources: IATA Economics, IATA Monthly Statistics

Chart 2 – Air freight growth vs. world trade and industrial production growth



Sources: IATA Economics, IATA Monthly Statistics, Netherlands CPB

### Air freight market overview - April 2016

	World share <sup>1</sup>	April 2016 (% year-on-year)				% year-to-date			
		FTK	AFTK	FLF (%-pt) <sup>2</sup>	FLF (level) <sup>3</sup>	FTK	AFTK	FLF (%-pt) <sup>2</sup>	FLF (level) <sup>3</sup>
<b>TOTAL MARKET</b>	<b>100.0%</b>	<b>3.2%</b>	<b>6.6%</b>	<b>-1.4%</b>	<b>43.5%</b>	<b>-0.7%</b>	<b>6.7%</b>	<b>-3.1%</b>	<b>42.3%</b>
International	87.0%	3.1%	6.2%	-1.4%	46.7%	-1.2%	6.1%	-3.4%	45.7%

<sup>1</sup>% of industry FTKs in 2015

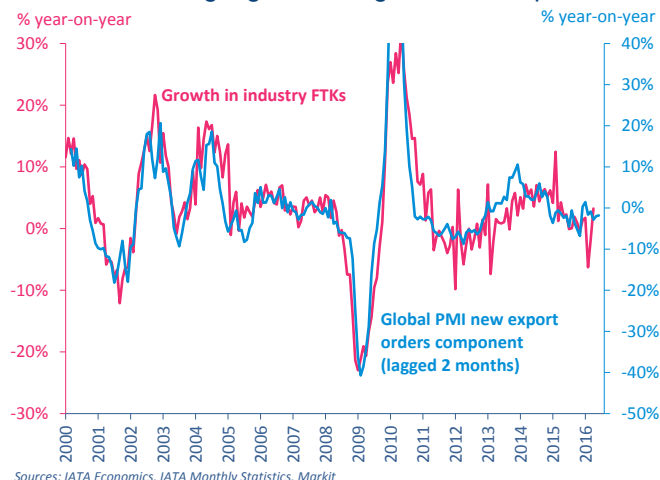
<sup>2</sup>Year-on-year change in load factor

<sup>3</sup>Load factor level

export orders component of the global Purchasing Managers' Index (PMI) – a closely-watched survey which has a long-standing relationship with growth in air freight volumes – remained in contractionary territory for the third consecutive month in April. (See Chart 3.)

All told, 2016 is shaping up to be another disappointing year for air freight. Given the weak first quarter, even if freight volumes manage to continue to grow by 3% year-on-year from May onwards, overall FTK growth in 2016 would still come in below 2% year-on-year.

**Chart 3 – Air freight growth vs. global new export orders**



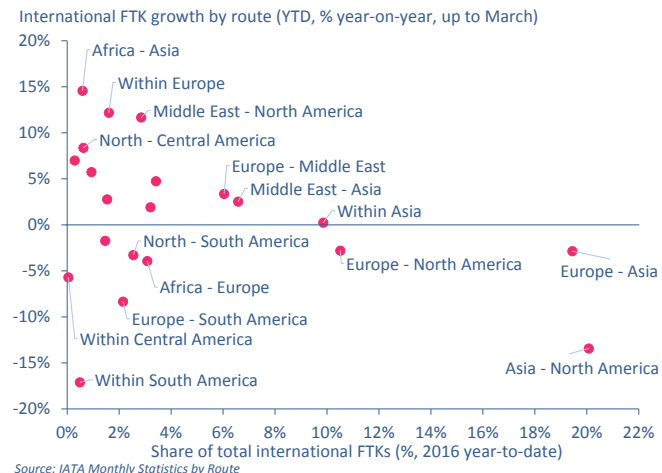
### Upward trend in capacity keeping pressure on yields

Industry-wide freight capacity continued to expand strongly and to trend upwards in April. Total available freight tonne kilometres (AFTKs) increased by 6.6% year-on-year, with the industry-wide freight load factor coming in at 43.5% – 1.4 percentage points lower than in the same month last year. (The corresponding figures for the first four months of the year as a whole were 6.7% growth in AFTKs, and a load factor of 42.3%.) The falling load factor continues to keep intense pressure on freight yields and revenues.

### Trans-Pacific market drove the weakness in Q1

The distortion caused by the US west coast disruption in early-2015 is clear to see when looking at the latest air freight trends at a route level basis. (See Chart 4.) Air freight volumes across the Pacific – the largest market in terms of FTKs flown – were more than 13% lower during the first quarter of 2016 compared to the same period in 2015. The next two largest freight markets – those between Europe and Asia, and across the Atlantic – also saw annual declines in FTKs, albeit more modest.

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



### Mid East and Europe posted fastest growth in April

International FTKs increased by 3.1% year-on-year in April. Looking at developments in terms of airlines grouped according to the region in which they are registered, Middle Eastern and European airlines saw the fastest growth in international FTKs in April 2016 (7.9% year-on-year and 6.2% respectively). (See Chart 5, overleaf.)

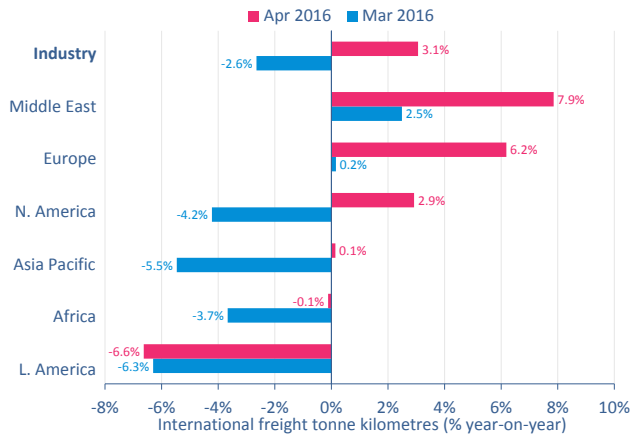
European growth was the strongest since November 2013. This corresponds with a tick-up in the new export orders component of the Germany PMI in recent months, and robust cargo volume growth in and out of Frankfurt in April. While route-level data for April are not available yet, all signs suggest that conditions on the Europe-Asia market have improved in Q2. However, although trending upwards, seasonally-adjusted European FTKs in April 2016 were still only around 1.5% higher than they were during mid-2011.

Despite topping the growth chart, demand conditions for Middle Eastern carriers have weakened. Annual growth in April and this year-to-date was just half the pace of that during the same periods in 2015. The strong upward trend in Middle Eastern FTKs that was the norm from the start of 2009 onwards has weakened markedly. This coincides with a slowdown in annual network expansion growth (airport pairs served) by the main carriers in the region since the second quarter of 2015, but is also indicative of the broader weak patch in the industry.

### Asian carriers facing wider headwinds

Collectively, Asia Pacific carriers fly the most international FTKs (around 40% of the total in 2015), but they face headwinds from the weak trade backdrop in the region. International FTKs in April were broadly unchanged in annual terms from April 2015. Admittedly,

**Chart 5 – International FTK growth by carrier region of registration**



Sources: IATA Economics, IATA Monthly Statistics

annual growth in total export volumes from Emerging Asia jumped in March, but this relates more to developments last year rather than a marked turnaround in the current trend. Total air freight tonnes handled at Shanghai airport have grown by just 2.0% this year-to-date and after growing strongly in early-2015, the ‘Within Asia’ market has also stagnated so far in 2016.

North American carriers were the other region to benefit notably from the US west coast seaport disruption in early-2015. Growth in international FTKs carried by the region’s airlines jumped to 2.9% year-on-year in April from -4.2% previously. Imports to the US slipped in March, but have held up better than exports and should continue to be supported by the comparative strength of the US economy. By contrast, although the US dollar

has weakened in recent months, its previous strength has kept exports under pressure, and is constraining outbound freight demand.

**Latin America FTKs reach a six-year low**

International FTKs flown by Latin American carriers have trended down since mid-2015. They were 6.6% lower in April 2016 compared to the same month in 2015. International FTKs reached a six-year low in April and have now fallen by almost 14% from their seasonally-adjusted peak in late-2014. The ‘Within South America’ market was the worst performing route in the first quarter of 2016, reflecting challenging economic conditions in the continent (not least Brazil). FTKs on the larger North-South America route have held up better, but they still declined in annual terms during Q1 2016.

International FTKs carried by African airlines were broadly unchanged in year-on-year terms in April. International AFTKs surged by 25.6% year-on-year, though – more than double the pace of the next fastest growing region – driven by rapid long-haul expansion (particularly by Ethiopian Airlines). The combination of rising capacity and falling demand has pushed the African international freight load factor down to just 25.7% this year-to-date – less than half the level of Asia Pacific carriers.

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 30<sup>th</sup> May 2016

## Air freight market detail - April 2016

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		FTK	AFTK	FLF (%-pt) <sup>2</sup>	FLF (level) <sup>3</sup>	FTK	AFTK	FLF (%-pt) <sup>2</sup>	FLF (level) <sup>3</sup>
<b>TOTAL MARKET</b>	<b>100.0%</b>	<b>3.2%</b>	<b>6.6%</b>	<b>-1.4%</b>	<b>43.5%</b>	<b>-0.7%</b>	<b>6.7%</b>	<b>-3.1%</b>	<b>42.3%</b>
Africa	1.5%	0.0%	24.3%	-6.1%	25.2%	-1.3%	23.3%	-6.1%	24.7%
Asia Pacific	38.9%	0.1%	2.8%	-1.4%	52.5%	-4.0%	4.0%	-4.2%	50.4%
Europe	22.4%	6.8%	5.6%	0.5%	45.9%	2.4%	6.0%	-1.6%	45.0%
Latin America	2.8%	-5.9%	-0.7%	-2.0%	36.7%	-2.5%	4.2%	-2.4%	35.3%
Middle East	14.0%	7.7%	11.0%	-1.3%	41.8%	6.2%	11.0%	-1.9%	41.0%
North America	20.5%	4.0%	9.2%	-1.7%	34.1%	-2.0%	7.2%	-3.2%	33.6%
<b>International</b>	<b>87.0%</b>	<b>3.1%</b>	<b>6.2%</b>	<b>-1.4%</b>	<b>46.7%</b>	<b>-1.2%</b>	<b>6.1%</b>	<b>-3.4%</b>	<b>45.7%</b>
Africa	1.5%	-0.1%	25.6%	-6.7%	26.1%	-1.3%	24.4%	-6.7%	25.7%
Asia Pacific	34.6%	0.1%	3.3%	-1.8%	55.3%	-4.8%	3.9%	-4.9%	53.4%
Europe	22.0%	6.2%	6.2%	0.0%	46.7%	1.9%	6.4%	-2.0%	45.8%
Latin America	2.5%	-6.6%	0.1%	-2.9%	40.8%	-2.7%	3.0%	-2.4%	39.9%
Middle East	14.0%	7.9%	11.1%	-1.3%	42.2%	6.3%	11.1%	-1.9%	41.3%
North America	12.4%	2.9%	5.4%	-1.0%	39.8%	-4.0%	2.7%	-2.8%	39.5%

<sup>1</sup>% of industry FTKs in 2015

<sup>2</sup>Year-on-year change in load factor

<sup>3</sup>Load 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.

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