



AIR FREIGHT MARKET ANALYSIS

July 2016

Robust annual growth in July, but there are reasons to be cautious

- Global air freight tonne kilometres rose by 5.0% year-on-year in July 2016 – the fastest pace since early 2015.
- Conditions have improved since earlier in the year, but there remain some reasons to be cautious.
- European airlines posted the fastest growth for only the 4th month in a decade, but Africa and L.America struggled.
- Capacity growth has continued to outpace that of demand, keeping revenues and yields under downward pressure.

Annual air freight growth accelerated again in July...

Annual growth in global air freight tonne kilometres (FTKs) accelerated to 5.0% year-on-year in July 2016, up from 4.5% in June. In terms of total FTKs flown, European airlines posted the fastest annual growth for only the fourth month in the past decade, closely followed by carriers in the Middle East. By contrast, African and Latin American carriers both saw freight volumes contract in year-on-year terms in July.

Industry-wide conditions have improved from the weak patch seen earlier in the year. Annual growth was the fastest seen since February 2015, and volumes are generally trending upwards in seasonally-adjusted terms.

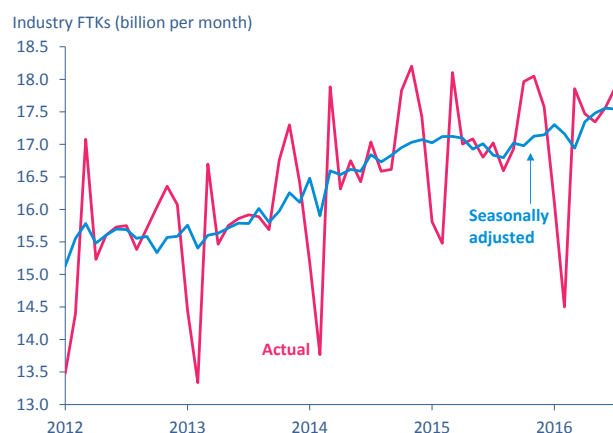
...but there are reasons to be cautious

Nonetheless, there remain some reasons to be cautious, not least because annual growth in July was flattered

somewhat by the favourable annual comparison. (Recall that July and August 2015 marked the low-point for seasonally adjusted volumes last year.) While freight volumes are growing, the bigger picture is that FTKs have increased at a more modest annual rate of around 3% since the start of 2016. (See Chart 1.) Meanwhile, although it is never wise to read too much into one data point, the initial results from July indicate that the upward momentum has softened slightly too, which we will be monitoring closely in the months ahead.

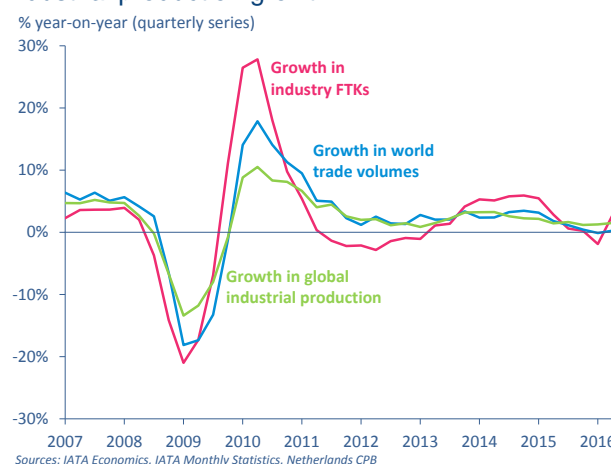
More generally, the ongoing sluggishness of global trade growth continues to present clear headwinds for the air freight market too. Despite recovering slightly in month-on-month terms in June, data compiled by the Netherlands CPB show that world trade volumes barely grew at all in year-on-year terms in the first half of 2016

Chart 1 – FTK levels



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 - July 2016

	World share ¹	July 2016 (% year-on-year)				% year-to-date			
		FTK	AFTK	FLF (%-pt) ²	FLF (level) ³	FTK	AFTK	FLF (%-pt) ²	FLF (level) ³
TOTAL MARKET	100.0%	5.0%	5.2%	-0.1%	41.3%	1.2%	5.8%	-1.9%	42.3%
International	87.0%	4.6%	5.8%	-0.5%	44.4%	0.8%	5.9%	-2.3%	45.5%

¹% of industry FTKs in 2015

²Year-on-year change in load factor

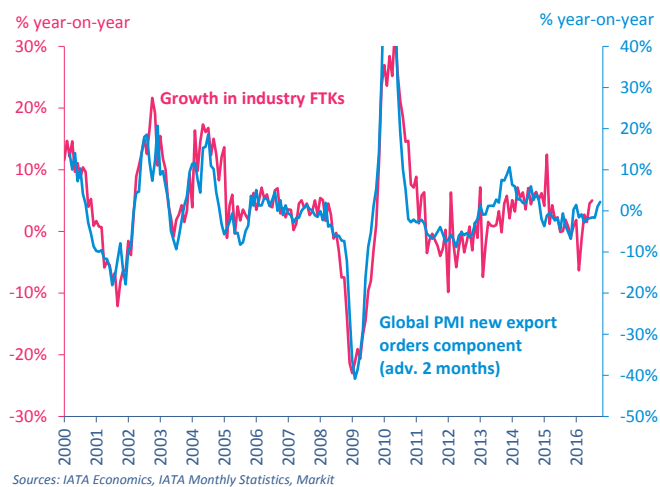
³Load factor level

(+0.1%). Tellingly, global trade growth has also lagged behind that seen in industrial production so far this year – a far cry from the trend before the global financial crisis (GFC) when global trade tended to grow around twice as fast as output.

To be clear, there is no simple mechanistic link between air freight and world trade, mainly because air freight carries just a very small proportion of total trade volumes. As shown in Chart 2, industry-wide FTKs are prone to short periods of under and over performance relative to global trade volumes, driven in the main by the narrow product mix transported by air. However, air freight cannot hold back the tide indefinitely, and the structural shift seen in the relationship between global trade and output, and phenomenon including the miniaturization of consumer electricals, present constant headwinds to freight volumes. Opposition to further trade liberalization, evident in political rhetoric on both sides of the Atlantic, also raises risks and poses the question of whether we have surpassed ‘peak trade openness’.

All told, if the modest upward trend in seasonally adjusted FTKs continues, annual growth looks set to stay solid for rest of the year. The uptick in the new export orders component of the global purchasing managers’ index back into expansionary territory in recent months offers some near-term encouragement for air freight. (See Chart 3.) But following the subdued first half of the year, volumes are only likely to grow in the region of 2-2.5% this year (broadly in line with our forecast of 2.1% growth). More importantly, the broader global backdrop points to continuation of just modest and fitful growth in the years ahead, rather than a sustained return to the 5-6% rates of old.

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



Load factor (SA) has stabilized, albeit at a low level

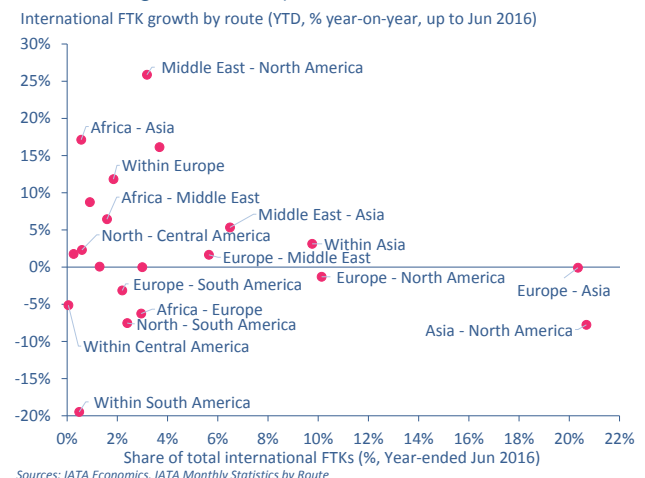
Industry-wide freight capacity increased by 5.2% year-on-year in July, and by 5.8% this year to date. The upward trend in available freight tonne kilometres (AFTKs) mainly reflects increased belly capacity from ongoing additions to the wide-body passenger fleet.

Having fallen sharply during the middle months of 2015, carriers have stabilized the seasonally-adjusted industry-wide load factor somewhat over the past six months or so, albeit at a historically-low level (around 42-43% of AFTKs). Low loads are continuing to exert downward pressure on freight yields and revenues.

Market-level performance is a mixed bag

International traffic within Asia has been the fastest growing of the ‘big-four’ markets so far this year. Freight traffic grew modestly in year-on-year terms in July on the Transpacific and Europe to Asia markets (the two largest in terms of FTKs flown), although the former remains the laggard of the group this year to date. (See Chart 4.)

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

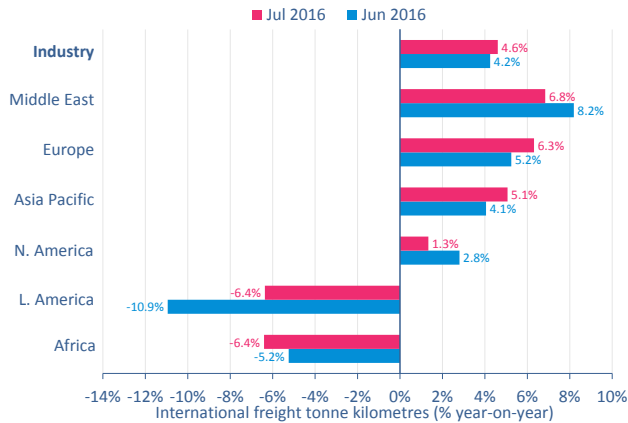


Middle East and Europe top the int’l growth chart

Growth in international FTKs increased to 4.6% year-on-year in July, up from 4.2% in June. (See Chart 5, overleaf.)

In terms of international freight flown, Middle Eastern airlines once again posted the fastest growth of all regions (+6.8% year-on-year). However, the strong upward trend in their seasonally-adjusted traffic has eased over the past year or so: having increased by almost 14% each year on average between 2012 and 2015, the rate of growth has halved since. This is mainly attributable to slower growth on the market between the Middle East and Asia, with signs suggesting more traffic is flying directly between Europe and Asia.

Chart 5 – International FTK growth by carrier region of registration



European airlines have seen their international traffic trend pick up over the past six months or so, in tandem with a strong tick-up in the new export orders component of the Germany PMI (which remains close to a two-and-a-half year high). The latest results (+6.3% year-on-year) offer further encouragement that traffic has now broken out of the narrow corridor that it occupied following mid-2010. In fact, aside from the Middle East, Europe is the only one of the major regions whose international traffic has now surpassed the level reached during the rebound following the GFC.

Subdued demand conditions for Asia Pac carriers

Carriers based in the Asia Pacific region fly almost two-fifths of total international FTKs, and freight is a key part of airline business models in the region. Demand conditions have improved in the ‘Within Asia’ air cargo market in recent months; it has seen by far the fastest growth of the ‘big-four’ in recent months (FTKs increased by 9.8% year-on-year in June). Nonetheless, developments are not broad based. The latest business surveys from the region are a mixed bag, with export orders increasing in Korea, Taiwan and Vietnam, but falling in the larger exporters of Japan and China. Wider goods trade volumes from Emerging Asia remain under pressure too, with trade volumes in mid-2016 coming in broadly in line with levels seen during early-2014. All told, international FTKs increased by 5.1% year-on-year in July, but the seasonally-adjusted trend has been flat for the past 18 months or so.

International FTKs flown by North American airlines also remain subdued, with volumes up just 1.3% year-on-year in July. The strength of the US dollar has kept US outbound air freight under pressure for some time. According to data published by the US Census Bureau, 17 of the top-20 air cargo markets for the US saw air export volumes from the US decline in annual terms in the first half of 2016. In seasonally adjusted terms, the bigger picture is that FTKs are barely changed from the levels seen in early-2008 before the GFC.

Africa and Latin America see demand contract

African and Latin American carriers both saw international FTKs contract by 6.4% year-on-year in July. (It must be noted that carriers in these regions fly just a small proportion of international FTKs – less than 5% of total international traffic between them.)

In Africa’s case, this was the biggest decline in seven years, and the annual growth rate has now been in negative territory for ten consecutive months. As has been the trend since December 2015, international freight capacity growth has continued to outstrip that of demand, driven by rapid long-haul expansion (particularly by Ethiopian Airlines). The combination of rising capacity and only modest demand growth pushed the African international freight load factor down to just 19.9% in July – more than seven percentage points lower than in July 2015 and well under half the industry average.

International FTKs flown by Latin American carriers have rebounded somewhat in recent months. However, it is unclear whether the sharp downward trend that has been a feature of the past 18 months or so is bottoming out or is simply taking a pause. Either way, FTKs are back to early-2010 levels. Highly challenging economic conditions in parts of the continent – not least Brazil – have taken a toll on the ‘Within South America’ market (-19.5% this year-to-date). Northbound flows on the larger North-South America route have been helped by the comparative strength of the US economy, but volumes on the route have still fallen by 7.5% in annual terms so far this year.

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Air freight market detail - July 2016

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TOTAL MARKET	100.0%	5.0%	5.2%	-0.1%	41.3%	1.2%	5.8%	-1.9%	42.3%
Africa	1.5%	-6.8%	31.3%	-7.9%	19.4%	-2.7%	24.2%	-6.6%	23.7%
Asia Pacific	38.9%	4.9%	2.7%	1.1%	53.1%	-1.2%	3.6%	-2.5%	51.6%
Europe	22.3%	7.2%	3.8%	1.4%	43.2%	4.4%	5.9%	-0.6%	44.5%
Latin America	2.8%	-5.6%	10.1%	-5.0%	30.0%	-5.1%	2.5%	-2.7%	34.3%
Middle East	14.0%	6.7%	11.0%	-1.6%	39.2%	6.5%	10.6%	-1.6%	41.0%
North America	20.5%	4.1%	3.4%	0.2%	31.7%	-0.1%	4.8%	-1.6%	33.1%
International	87.0%	4.6%	5.8%	-0.5%	44.4%	0.8%	5.9%	-2.3%	45.5%
Africa	1.5%	-6.4%	32.9%	-8.4%	19.9%	-2.7%	25.4%	-7.1%	24.6%
Asia Pacific	34.6%	5.1%	4.0%	0.6%	56.3%	-1.6%	3.9%	-3.0%	54.5%
Europe	21.9%	6.3%	4.6%	0.7%	44.1%	3.8%	6.5%	-1.2%	45.4%
Latin America	2.5%	-6.4%	7.6%	-5.1%	34.0%	-5.5%	2.2%	-3.1%	38.4%
Middle East	14.0%	6.8%	11.0%	-1.6%	39.6%	6.6%	10.7%	-1.6%	41.4%
North America	12.4%	1.3%	1.4%	0.0%	35.2%	-2.3%	1.6%	-1.5%	38.0%

¹% of industry FTKs in 2015

²Year-on-year change in load factor

³Load 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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