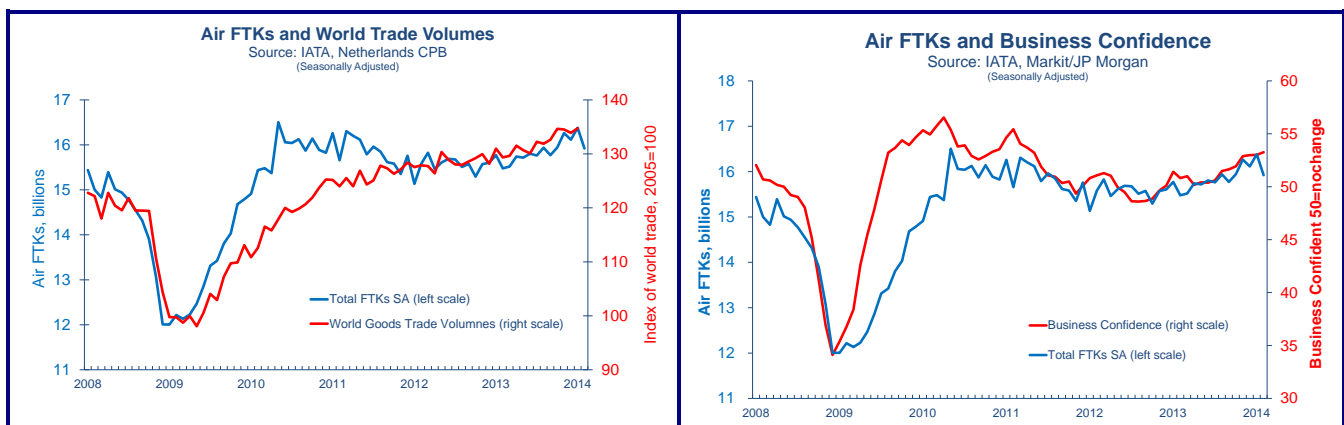


AIR FREIGHT MARKET ANALYSIS

FEBRUARY 2014

KEY POINTS

- Growth in air freight markets moderated in February, rising 2.9% compared to a year ago, down on the 4.3% increase in January. But combining the first two months of the year shows there has been a solid 3.6% gain in 2014 compared to the year ago period - well above the growth in 2013 overall (1.4%).
- The growth trend in air freight volumes (first chart below) showed a 2.8% slip in February compared to January. While this could be interpreted as a reversal in the recent acceleration of the growth trend, fundamental drivers of air freight remain broadly positive, which suggests the contraction in February is likely due to temporary factors leading to volatility in volumes.
- Our freight model shows that recent increases in world trade growth contributed about 2.0% pts to the 2.9% year-on-year rise in FTKs in February. The model also indicates that a slight rise in inventory-to-sales ratios had about a 1.2% point dampening effect on the February year-on-year growth rate. The rise in inventories, however, is likely reflecting improvements in business conditions which point to stronger output and sales ahead.
- Regional performance was mixed in February. Middle Eastern airlines continue to record the strongest increases, up 11.9%, with regional carriers continuing to expand capacity and network reach. European carriers have experienced steady increases in air freight demand since mid-2013, consistent with the region's emergence from recession, and have continued on this path with a 5.5% rise in FTKs in February. By contrast, Asia Pacific carriers, which have seen improvement in air freight demand over recent months due to acceleration in regional trade growth, recorded almost no change in FTK volumes in February (0.1%) compared to a year ago.
- Load factors slipped slightly in February compared to January, as the fall in volumes exceeded the contraction in capacity. Nonetheless, air freight load factors are currently in line with levels a year ago, with only Asia Pacific and Africa seeing a fall, in both cases as a result of weak demand.
- The outlook for air freight remains broadly positive, consistent with the cyclical pick-up in global economic growth. But current growth in trade is slower than expected at this point in the economic cycle, largely due to on-shoring trends which have equalized the relationship between world trade and domestic production growth. Moreover, while the US and Europe gain economic momentum, China is entering a steeper downturn. These factors will likely keep future growth in air freight demand contained, but still stronger than performance in 2013.



Year on Year Comparison

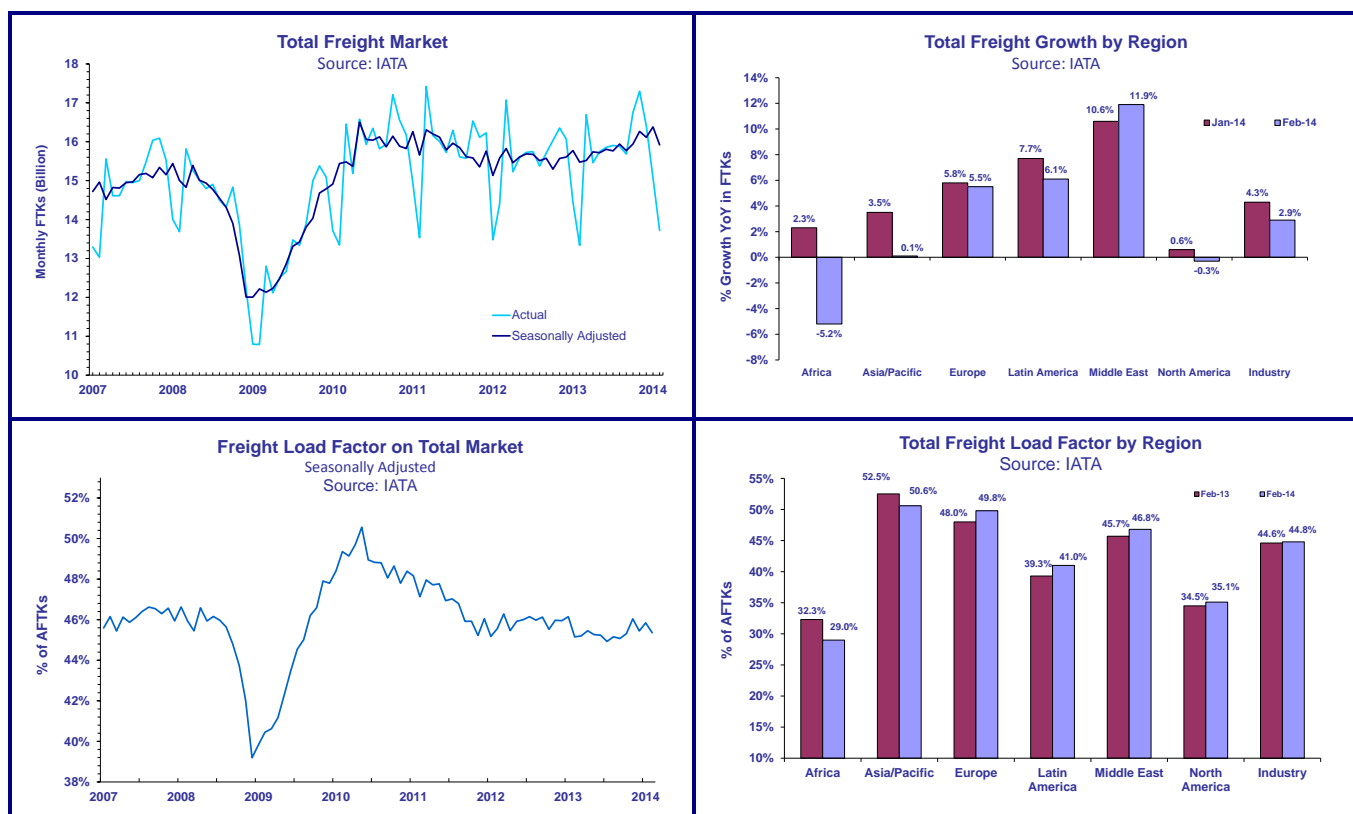
	Feb 2014 vs Feb 2013			YTD 2014 vs. YTD 2013		
	FTK	AFTK	FLF	FTK	AFTK	FLF
International	2.8%	2.5%	49.0%	4.0%	4.0%	47.6%
Domestic	3.6%	1.8%	29.0%	1.6%	2.4%	29.6%
Total Market	2.9%	2.3%	44.8%	3.6%	3.7%	43.9%

Month on Month Comparison

Feb 2014 vs. Jan 2014		
FTK	AFTK	FLF pt
-3.1%	-2.1%	-0.5%
-0.8%	-0.6%	-0.3%
-2.8%	-1.8%	-0.5%

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.



- Several regions saw a rise in air freight volumes in February compared to a year ago, but there was significant variation in the rates of increase. Middle Eastern airlines continue to record the strongest increases, up 11.9%. Carriers in the region are benefiting from better conditions in advanced economies, but trade activity with emerging markets continues to provide a strong base for growth, with various goods passing through the hub location to Asia and Africa, for example. As a result, Middle Eastern carriers continue to expand capacity as well as to increase their network and the services they provide, broadening the types of commodities they can transport.
- European carriers have experienced steady increases in air freight demand since mid-2013, consistent with the region's emergence from recession, and have continued on this path with a 5.5% rise in FTKs in February, only slightly down on the January rise of 5.8%. Indicators of business activity in the Eurozone (measured by JPMorgan/Markit) show the strongest rates of increase in early 2014 since the first half of 2011. Export orders, which are a leading indicator for world trade growth and demand for air freight, have been showing improvement over recent months. That improvement appears to be supporting growth in trade for central and eastern European countries, which have seen steady increases in volumes since mid-2013.
- Airlines in Latin America also recorded solid growth in February, with volumes rising 6.1% compared to a year ago. Carriers in this region have been experiencing slow and steady improvement in air freight demand in the second half of 2013. Solid growth in the region's trade volumes should support further expansion in demand. And while weakness has been characteristic of the region's largest economy, Brazil, the upcoming World Cup event should provide some support to the local economy and a potential boost to consumption.
- By contrast, Asia Pacific carriers, which have seen improvement in air freight growth over recent months due to acceleration in regional trade growth, recorded almost no change in FTK volumes in February (0.1%) compared to a year ago. The Chinese New Year holiday, which occurred at the end of January, would have dampened air freight demand for regional carriers in the early parts of February – due to business closures – but the same occurred in February 2013, so the year-on-year comparison is not distorted by the holiday. The coming months will be telling as to whether recent improvements in air freight demand in the region will continue. Regional trade growth momentum has been positive, but indicators of Chinese economic performance suggest that there is potential for a slowdown in early 2014 (specifically in manufacturing and forward looking export orders), and that remains a significant downside risk for trade and air freight demand. Latest indicators show weakening in China's manufacturing sector and new export orders, which does not bode well for regional trade and air freight demand.
- The two regions to see declines in February compared to a year ago are North America and Africa. In the case of Africa, big swings in growth rates are not uncommon, but in addition to any such volatility, carriers in the region

have seen downward pressure on demand from the slowdown in major regional economies, like South Africa, over recent months. Moreover, there have been signs of slowing growth in regional trade volumes since the fourth quarter of 2013. Africa airlines' FTKs were down 5.2% in February compared to a year ago.

- North American airlines experienced a small contraction (0.3%) in air freight volumes in February year-on-year. Indicators of business activity in the manufacturing sector were slightly subdued in January, but there was a strong rebound in February, reaching a near three-year high. Looking ahead, growth in the manufacturing sector coupled with increases in export orders could provide a stronger base for air freight demand going forward.

ANNEX

Year on Year Comparison	Feb 2014 vs. Feb 2013			YTD 2014 vs. YTD 2013		
	FTK	AFTK	FLF	FTK	AFTK	FLF
Africa	-5.3%	6.3%	30.3%	-1.5%	4.8%	29.3%
Asia/Pacific	-1.0%	3.0%	55.1%	1.6%	5.7%	54.6%
Europe	5.4%	1.6%	51.2%	5.7%	3.0%	48.8%
Latin America	6.8%	1.0%	43.3%	8.0%	-0.1%	41.8%
Middle East	12.1%	9.8%	47.3%	11.5%	11.0%	44.6%
North America	-1.2%	-3.3%	40.1%	-0.1%	-2.3%	39.5%
International	2.8%	2.5%	49.0%	4.0%	4.0%	47.6%
Africa	-5.2%	5.5%	29.0%	-1.5%	4.4%	27.9%
Asia/Pacific	0.1%	3.9%	50.6%	2.0%	6.7%	50.8%
Europe	5.5%	1.7%	49.8%	5.7%	2.8%	47.5%
Latin America	6.1%	1.7%	41.0%	6.9%	0.5%	39.1%
Middle East	11.9%	9.2%	46.8%	11.3%	10.5%	44.2%
North America	-0.3%	-1.9%	35.1%	0.2%	-1.5%	34.9%
Total Market	2.9%	2.3%	44.8%	3.6%	3.7%	43.9%

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	Feb 2014 vs. Jan 2014			Market Share
	FTK	AFTK	FLFpt	FTK
Africa	-4.9%	3.8%	-2.6%	2.0%
Asia/Pacific	-5.5%	-4.3%	-0.7%	37.0%
Europe	-1.3%	-1.4%	0.1%	28.0%
Latin America	-2.1%	0.0%	-1.0%	4.0%
Middle East	1.0%	-0.7%	0.7%	16.0%
North America	-3.8%	-1.2%	-1.1%	14.0%
International	-3.1%	-2.1%	-0.5%	100.0%
Africa	-4.7%	3.3%	-2.3%	2.0%
Asia/Pacific	-5.1%	-4.1%	-0.6%	36.0%
Europe	-1.2%	-1.3%	0.0%	24.0%
Latin America	-2.5%	-0.4%	-0.9%	3.0%
Middle East	1.0%	-0.7%	0.7%	13.0%
North America	-2.5%	-0.5%	-0.7%	21.0%
Total Market	-2.8%	-1.8%	-0.5%	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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FURTHER ANALYSIS AND DATA

Access data related to this briefing through the
Monthly Statistics publication:
<http://www.iata.org/publications/Pages/monthly-traffic-statistics.aspx>

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