



AIR FREIGHT MARKET ANALYSIS

February 2016

A turbulent month for freight, amid ongoing structural headwinds

- Air freight volumes fell sharply in annual terms in February, although the comparison is complicated by the one-off boost to air freight a year ago following the disruption at seaports on the US west coast.
- Middle Eastern airlines are the only group to have seen robust annual growth in volumes this year to date.
- Ongoing structural headwinds continue to point to a year of just modest growth for the industry as a whole.
- The industry-wide freight load factor was just 0.5 percentage points above its all-time February low, keeping intense pressure on yields and revenues.

Annual comparisons are difficult at this time of year

Global air freight volumes fell by 5.6% year-on-year in February 2016 – the biggest annual decline in three years. That said, the timing of Chinese New Year can complicate annual comparisons at this time of the year. Moreover, the boost to air freight at the start of last year following the disruption to seaport activity on the west coast of the US is an additional complicating factor for the annual comparison this time around.

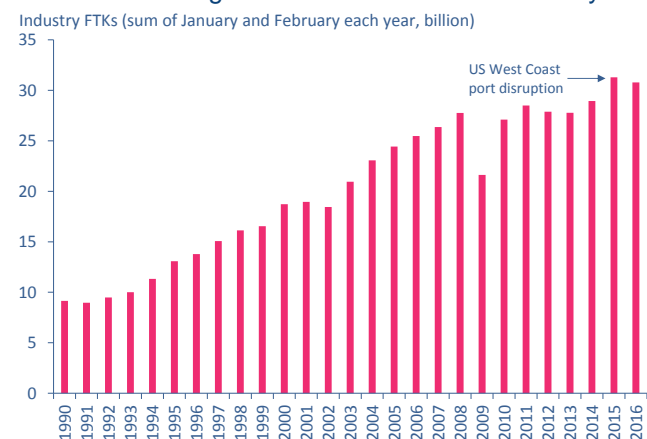
Looking at total freight volumes flown in both January and February helps to look through such potential distortions. The broader picture here is not stellar, and the global economic outlook remains fragile. But equally the picture is not too disheartening either. Indeed, total freight volumes in January and February 2016 were

1.6% lower than in the same months in 2015, but they were still 6.3% higher than in 2014. (See Chart 1.) This translates into annual growth of 3.1% over the past two years – a relatively solid growth rate by the post-global financial crisis (GFC) standards (annual freight growth has averaged just 1.7% since the start of 2011).

Underlying demand drivers remain subdued...

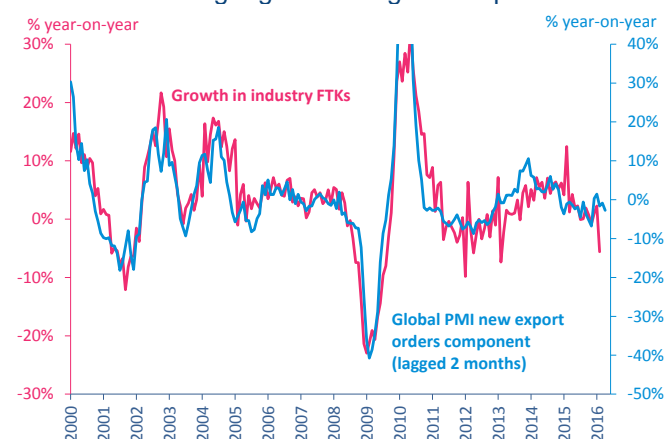
Looking ahead, ongoing headwinds continue to point to another year of just modest growth in 2016 as a whole. Indeed, the broader global trade backdrop remains subdued; world trade volumes grew by 2.0% in 2015 as a whole, slower than the estimated pace of global GDP growth. (Recall that in the decades before the GFC it was considered normal for world trade to grow at around twice the pace of global output.) Admittedly, annual

Chart 1 – Air freight volumes at the start of each year



Sources: IATA Economics, IATA Monthly Statistics

Chart 2 – Air freight growth vs. global export orders



Sources: IATA Economics, IATA Monthly Statistics, Markit

Air freight market overview - February 2016

	World share ¹	February 2016 (% year-on-year)				February 2016 (% year-to-date)			
		FTK	AFTK	FLF (%-pt) ²	FLF (level) ³	FTK	AFTK	FLF (%-pt) ²	FLF (level) ³
TOTAL MARKET	100.0%	-5.6%	7.5%	-5.7%	41.0%	-1.6%	6.8%	-3.5%	41.2%
International	87.0%	-6.4%	6.5%	-6.1%	44.5%	-2.2%	6.2%	-3.8%	44.4%

¹% of industry FTKs in 2015

²Year-on-year change in load factor

³Load factor level

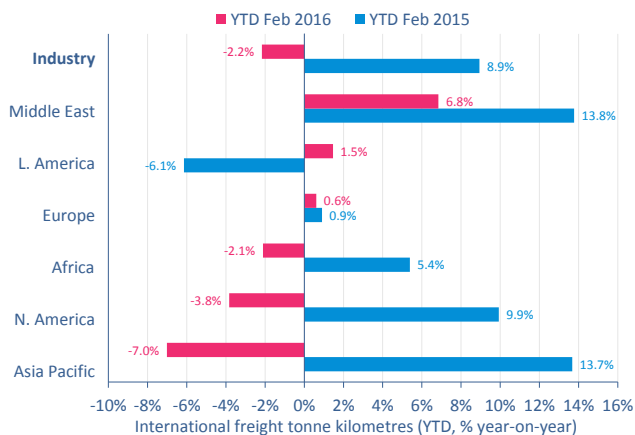
trade growth may pick up sharply over the coming months, as the annual comparison is flattered by the downward trend in volumes seen during the first half of last year. We would not be surprised to see annual world trade growth in the region of 5% during Q2 2016. However, the key point is that the upward trend in world trade volumes stalled over the final quarter of 2015, and overall growth in global trade volumes remains modest.

Moreover, the export orders component of the global Purchasing Managers' Index – a closely watched business survey – fell back sharply into contractionary territory in February. All told, the long-standing historical relationship between export orders and growth in air freight volumes appears to rule out a surge in freight volumes anytime soon. (See Chart 2, overleaf.)

...and low loads are keeping yields under pressure

Industry-wide available tonne kilometres increased by 7.5% year-on-year in February, and the total load factor came in at 41.0%. This was a whopping 5.7 percentage points lower than it was in February 2015 and just 0.5 percentage points higher than the all-time February low seen in 2009. Low loads are keeping intense pressure on industry yields and revenues.

Chart 3 – International FTK growth by carrier region of registration (year to date)



Middle Eastern carriers lead the way once again...

International freight volumes fell by 6.4% in year-on-year terms in February, although once again the spike in volumes a year ago means it makes more sense to focus on year-to-date developments. In a similar fashion to the wider industry, international freight volumes were 2.2% lower during the first two months of 2016 compared to last year, but were 6.6% higher than the start of 2014. (See Chart 3.)

Middle Eastern airlines once again led the pack, with year-to-date FTK growth of 6.8%, over four times that of

the next fastest-growing group. However, such growth was only half as fast as that registered during the same period in 2015, and coincides with a marked slowdown in annual network expansion growth by the main carriers in the region over the past six months or so.

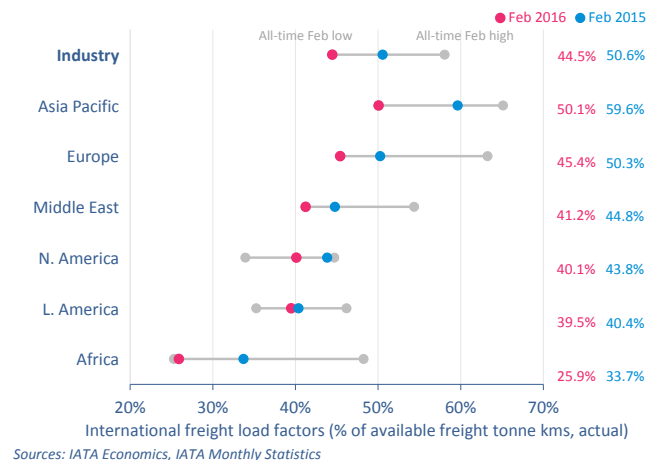
FTKs flown by Latin American airlines edged up by 1.5% relative to the first two months of 2015. The 'Within South America' market remains under firm pressure reflecting challenging economic conditions in the region (Brazil – the region's biggest economy remains mired in its worst recession in 25 years.) But volumes on the North-South America route are holding up better.

European airlines were the only other group to see freight volumes expand in year-on-year terms over the first two months of 2016. That said, FTKs only grew by 0.6% over the period and the bigger picture is that international FTKs carried by European carriers have tracked sideways over the past two years. (In fact, they remain only slightly ahead of their pre-GFC level in 2008.) Recent falls in business surveys, not least in Germany – the region's largest economy – underline the fragility of the economic situation.

...as Asia Pacific and North American carriers nurse hangovers from a bumper start to 2015

North American and Asia Pacific carriers were the biggest beneficiaries from the boost to air freight during the US west coast seaport disruption last February. The bumper period in 2015 was always going to be a difficult act to follow, particularly as trade data indicate that eastbound air freight on the Pacific route declined throughout the rest of last year once the seaport disruption ended. This was borne out in the latest traffic data, with FTKs flown by North American and Asia

Chart 4 – International freight load factors by carrier region of registration



Pacific airlines 3.8% and 7.0% lower this year to date, respectively.

The trade backdrop for Asia Pacific remains particularly weak. According to the Netherlands CPB, trade to and from the Emerging Asia region contracted in month-on-month terms throughout the second half of 2015. Moreover, more recent data show that Chinese export values plunged by over 25% year-on-year in February.

The comparative strength of the US economy may help to support inbound freight volumes for North American carriers over the rest of this year. North American freight volumes rose strongly in seasonally adjusted terms over the final months of 2015 and into this year, relating largely to a sharp rise in imports of electrical machinery by air from Europe. By contrast, though, out-bound freight is struggling with the strong US dollar.

Additional long-haul capacity weighing on African load factors

Freight volumes carried by African airlines also fell in annual terms during the first two months of 2016, although it must be noted that African carriers carry just 1.5% of industry volumes – see detailed table.) The largest economies in the continent – Nigeria and South Africa – are highly dependent on energy industries and have been hit hard by the slump in global commodity prices over the past 18 months or so.

Meanwhile, available capacity has surged on the back of long-haul route expansion, particularly by Ethiopian Airlines. This combination has pushed the African international freight load factor down to just 25.9% in February – fully half the level of Asia Pacific carriers. (See Chart 4, overleaf.)

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 6th April 2016

Air freight market detail - February 2016

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		FTK	AFTK	FLF (%-pt) ²	FLF (level) ³	FTK	AFTK	FLF (%-pt) ²	FLF (level) ³
TOTAL MARKET	100.0%	-5.6%	7.5%	-5.7%	41.0%	-1.6%	6.8%	-3.5%	41.2%
Africa	1.5%	-1.7%	26.2%	-7.1%	25.0%	-2.2%	22.7%	-6.0%	23.5%
Asia Pacific	38.9%	-12.4%	3.7%	-8.5%	46.2%	-5.7%	4.4%	-5.1%	48.2%
Europe	22.3%	-2.4%	7.3%	-4.4%	44.6%	0.9%	6.2%	-2.3%	43.6%
Latin America	2.8%	2.7%	8.4%	-1.9%	34.6%	1.4%	7.6%	-2.1%	34.0%
Middle East	14.0%	3.7%	12.3%	-3.4%	41.0%	6.8%	11.0%	-1.6%	40.3%
North America	20.5%	-4.0%	8.0%	-4.2%	34.0%	-2.6%	6.4%	-3.1%	33.9%
International	87.0%	-6.4%	6.5%	-6.1%	44.5%	-2.2%	6.2%	-3.8%	44.4%
Africa	1.5%	-1.9%	27.8%	-7.8%	25.9%	-2.1%	24.2%	-6.6%	24.5%
Asia Pacific	34.6%	-13.5%	3.0%	-9.6%	50.1%	-7.0%	4.0%	-6.0%	51.2%
Europe	21.9%	-2.8%	7.5%	-4.8%	45.4%	0.6%	6.6%	-2.6%	44.5%
Latin America	2.5%	2.1%	4.4%	-0.9%	39.5%	1.5%	3.6%	-0.8%	39.0%
Middle East	14.0%	3.7%	12.6%	-3.5%	41.2%	6.8%	11.3%	-1.7%	40.5%
North America	12.4%	-6.3%	2.4%	-3.7%	40.1%	-3.8%	2.3%	-2.6%	39.7%

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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