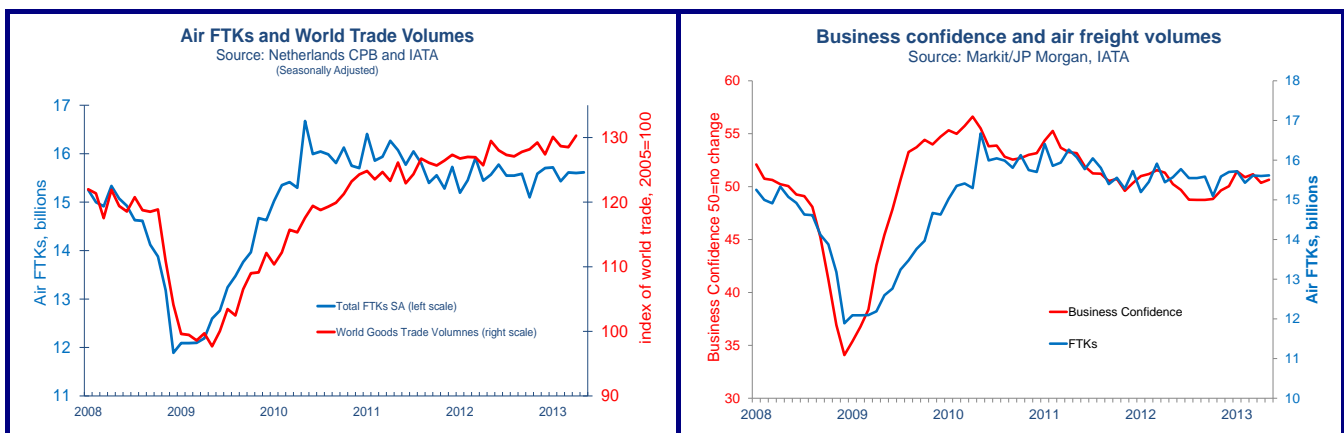


AIR FREIGHT MARKET ANALYSIS

MAY 2013

KEY POINTS

- Air freight markets made little progress in May. Global air freight tonne kilometers were up just 0.8% in May compared to a year ago, similar to the slow 1.3% growth recorded in April.
- The growth trend in global FTKs, as presented in the first chart below, shows no further progress on the gains made during Q4 2012, when improvements in business confidence appeared to be supporting a recovery in air freight demand. Taking a longer term view, air freight volumes over recent months are actually broadly in line with the trend seen over the past 18 months. Air freight markets have been flat since late-2011.
- The stall in both air freight markets and business confidence over recent months has resulted from an emerging softness in some developing economies, including China. GDP growth in China failed to meet expectations in Q1 and business confidence has now slipped to levels which indicate contraction in manufacturing activity. Moreover, growth momentum in Asian trade has slowed this year after picking up at the end of 2012. As a result, while Asia Pacific airlines carried much of the increase in freight volumes throughout Q4 2012, they are seeing a decline in demand so far this year. In May, Asia Pacific airlines' FTKs were down 0.5% compared to a year ago, and have contracted most compared to other regions year-to-date (2.5%).
- The only region to see strong growth in air freight demand in May was the Middle East. Airlines in this region experienced a 9.7% rise in air FTKs in May compared to a year ago. Growth in Asia – Africa trade has supported the strong performance of Middle Eastern airlines over the past several years, and further expansion into markets like Japan – where export volumes have started to improve over recent months – will only help support continued growth for these carriers.
- Air freight load factors remain weak and at the lowest seasonally adjusted levels since the post-crisis recovery. All regions recorded a decline in freight load factors in May compared to a year ago.
- While renewed weakness in China reflects the persistent lack of demand from advanced economies, a recent easing in the rate of decline in the Eurozone could help reduce downward pressure on global growth. For the moment, however, levels of business confidence are barely above stagnation and world trade growth remains subdued in advanced economies, both of which will continue to place downward pressure on air freight demand.



Year on Year Comparison

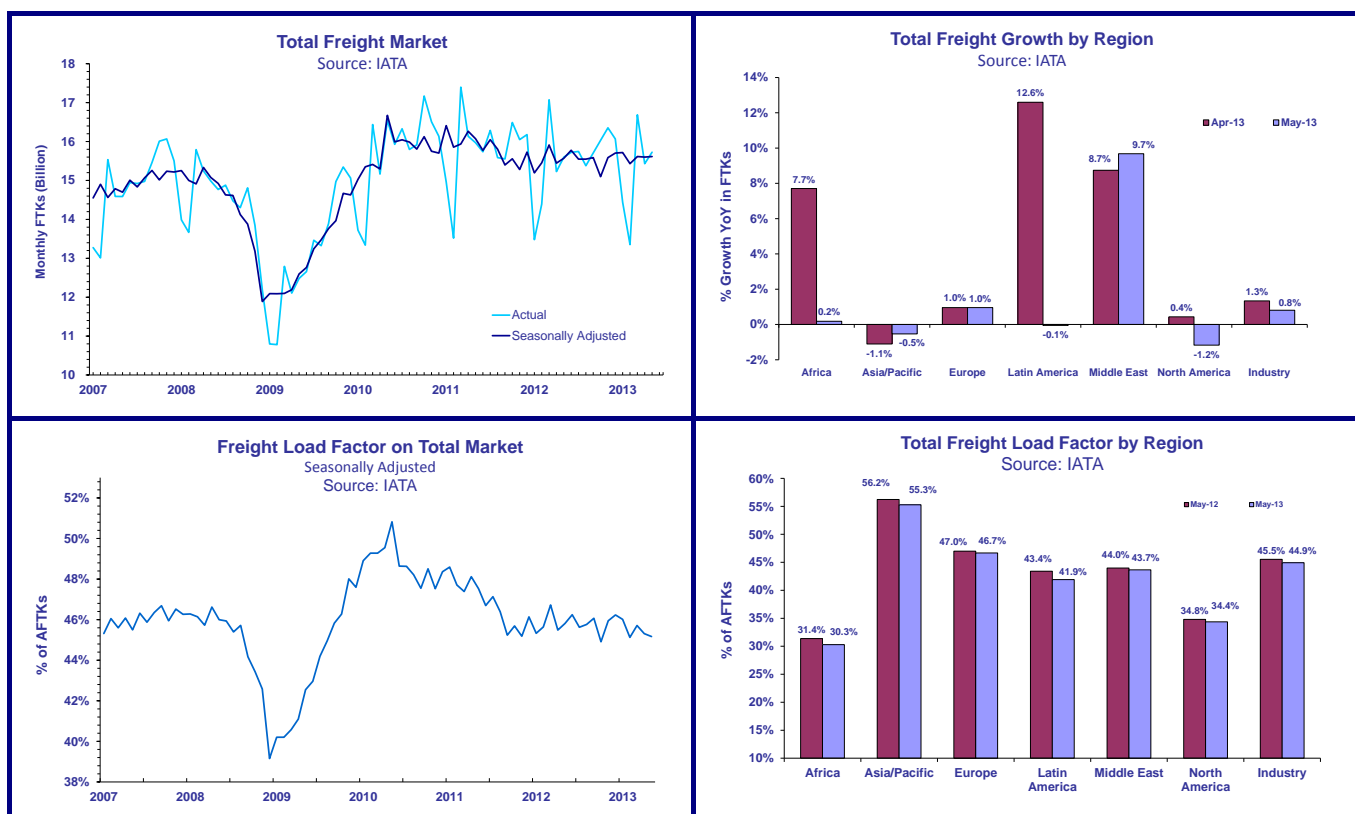
	May 2013 vs. May 2012			YTD 2013 vs. YTD 2012		
	FTK	AFTK	FLF	FTK	AFTK	FLF
International	0.8%	2.3%	48.4%	-0.5%	0.4%	49.0%
Domestic	0.6%	1.7%	30.8%	1.8%	1.2%	30.3%
Total Market	0.8%	2.1%	44.9%	-0.2%	0.6%	45.2%

Month on Month Comparison

May 2013 vs. Apr 2013		
FTK	AFTK	FLF pt
0.1%	0.6%	-0.5%
-0.8%	-0.9%	0.0%
0.1%	0.4%	-0.1%

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.



- Globally, air freight markets have shown little change throughout 2013. Moreover, the pick-up in growth seen at the end of 2012 continues to stall. May results were largely unchanged compared to April, both at the year-on-year and month-on-month comparison. Over the month, there was virtually no change in air freight volumes in May compared to April (0.1%). But seasonally adjusted volumes are still above the October 2012 low point, which suggests that there has been some improvement in 2013 compared to 2012.
- Improvements in business confidence toward the end of 2012 helped initiate a recovery in air freight demand. In 2013, however, business confidence has stalled and air freight growth has done much the same. In May there was a small improvement in global business confidence compared to April, but levels remain barely above stagnation. So far this year, business confidence has declined most in emerging markets, down to some of the weakest levels since the 2008/2009 recession. While economic growth in emerging regions is still tracking at a faster pace than in advanced economies, levels of business confidence show that manufacturing activity in Brazil, Russia and India is close to stagnation and in China there are already signs of contraction. On the positive side, while this weakness in some emerging markets reflects the continuing lack of demand from advanced economies, a recent easing in the rate of decline in the Eurozone could help reduce downward pressure on growth globally.
- Regional results show weak growth in air freight in May compared to a year ago in most parts of the world, except for airlines in the Middle East. Middle Eastern airlines experienced growth of 9.7% in May on a year ago, taking their growth year-to-date to 10.9%. Middle Eastern airlines have sustained a trend of strong growth over the past 2 years, supported by the strategy to expand both capacity and network. Being the geographic junction between Asia, Europe and Africa, the region acts as a hub and major re-export center. Airlines in the region help support the growing demand for air freight between Asia and Africa, with China now Africa's largest trading partner. Moreover, there is also demand for air transport of goods that arrive in the Middle East by sea – this includes sea freighted goods coming from markets like Asia which then continue on by air to Europe and other destinations. Most recently, some regional airlines have boosted services to Japan, where export volumes have been on the increase over the past few months.
- Air freight carried by Latin American airlines slipped in May, contracting 0.1% after recording strong growth in April (12.6%). April, however, is not a good comparison point since it was likely inflated by an unusually weak April in 2012. Nonetheless, growth in May is weak compared to performance year-to-date, which shows expansion of 3.1% for the first five months of 2013. The weakness in May could be reflecting recent softening in business confidence in regions major economy, Brazil. But for the region overall export volumes have shown solid increase over recent months, and if this continues Latin American airlines should continue to see growth in air freight demand ahead.

- In May, Asia Pacific saw FTKs down 0.5% compared to a year ago, and have contracted most compared to other regions year-to-date (2.5%). As a result, while Asia Pacific airlines carried much of the increase in freight volumes throughout Q4 2012, they have seen contraction so far this year. Growth in the Chinese economy was below expectation in Q1 and business confidence slipped to levels which indicate contraction in manufacturing activity. Moreover, trade volumes for Asia have flattened this year, after picking-up at the end of 2012. Looking ahead, with Chinese exports continuing to fall sharply, the outlook for Chinese exports (and therefore also for Asian trade) is downbeat. Offsetting some of this regional pessimism is better results in Japan, where export volumes have been on the rise over recent months.
- African airlines also saw lackluster performance in May, with growth of just 0.2% year-on-year. While this is a fall from the 7.7% rise in April year-on-year, the underlying growth trend remains positive. Unlike global air freight markets, airlines in Africa have seen continually steady growth in FTKs over the past 2 years. With economic growth in some African nations tracking at the fastest rates globally, demand for high-value light-weight consumer goods is on the rise. And although traditional trade lanes with Europe have been weakening, there has been growing demand on markets connected to the Middle East and Asia. As a result, overall trade volumes for Africa continue to rise and buck the slowing global trend. All these factors should help to support further growth in air freight demand for African airlines this year.
- Airlines in Europe and North America continue to experience weak demand for air freight. North American airlines experienced a 1.2% decline in FTKs in April compared to a year ago. Major cargo carriers in the region continue to suffer from weakness on international markets, particularly those linked to Europe, and the growth trend for the region is similar to that of the global market overall. European airlines posted a 1.0% rise in air freight demand in May year-on-year. But over the month, the 0.1% slip in May compared to April implies the continuation of the broadly flat growth trend seen over the past 12 months. With recession in many Eurozone economies, this trend is unlikely to show significant improvement in the near-term. However, Eurozone business-confidence recorded a 15-month high in May, and although the level of business confidence still indicates economic weakness, the improvements could help contain further downward pressure on trade volumes and air freight demand in the region.

ANNEX

Year on Year Comparison	May 2013 vs. May 2012			YTD 2013 vs. YTD 2012		
	FTK	AFTK	FLF	FTK	AFTK	FLF
Africa	-0.1%	3.8%	31.6%	5.6%	8.5%	30.9%
Asia/Pacific	-0.6%	0.9%	58.4%	-3.2%	-3.2%	58.6%
Europe	0.7%	1.0%	47.9%	-0.8%	0.1%	48.7%
Latin America	-2.3%	2.2%	43.6%	1.0%	5.4%	42.8%
Middle East	9.8%	10.8%	44.2%	10.9%	9.8%	44.8%
North America	-1.6%	0.0%	38.7%	-2.7%	-1.3%	39.5%
International	0.8%	2.3%	48.4%	-0.5%	0.4%	49.0%
Africa	0.2%	3.8%	30.3%	5.1%	8.2%	29.5%
Asia/Pacific	-0.5%	1.2%	55.3%	-2.5%	-2.6%	55.2%
Europe	1.0%	1.7%	46.7%	-0.7%	0.8%	47.4%
Latin America	-0.1%	3.5%	41.9%	3.1%	4.6%	40.9%
Middle East	9.7%	10.5%	43.7%	10.9%	9.6%	44.3%
North America	-1.2%	0.1%	34.4%	-1.5%	-0.6%	34.6%
Total Market	0.8%	2.1%	44.9%	-0.2%	0.6%	45.2%

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	May 2013 vs. Apr 2013			Market Share
	FTK	AFTK	FLFpt	FTK
Africa	0.4%	-0.2%	0.2%	1.8%
Asia/Pacific	-0.6%	0.4%	-0.6%	39.3%
Europe	-0.1%	0.3%	-0.2%	27.1%
Latin America	-6.0%	-1.5%	-2.1%	3.2%
Middle East	0.6%	1.0%	-0.2%	13.6%
North America	1.7%	1.5%	0.1%	15.1%
International	0.1%	0.6%	-0.5%	100.0%
Africa	0.3%	-0.1%	0.1%	1.6%
Asia/Pacific	-0.5%	0.3%	-0.4%	38.0%
Europe	-0.2%	0.3%	-0.2%	23.9%
Latin America	-6.0%	-0.8%	-2.3%	3.1%
Middle East	0.6%	1.0%	-0.2%	11.7%
North America	1.5%	1.0%	0.1%	21.7%
Total Market	0.1%	0.4%	-0.1%	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 Route Tracker publication:

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