AIR FREIGHT MARKET ANALYSIS January 2016

A solid start to the year for air freight, but challenges remain

- The recovery in air freight volumes from a weak first half of last year continued into 2016…
- …although subdued underlying global trade conditions suggest another modest year for volumes growth.
- Ongoing strong capacity growth is keeping the freight load factor and yields under pressure.

Solid start to the year for air freight…

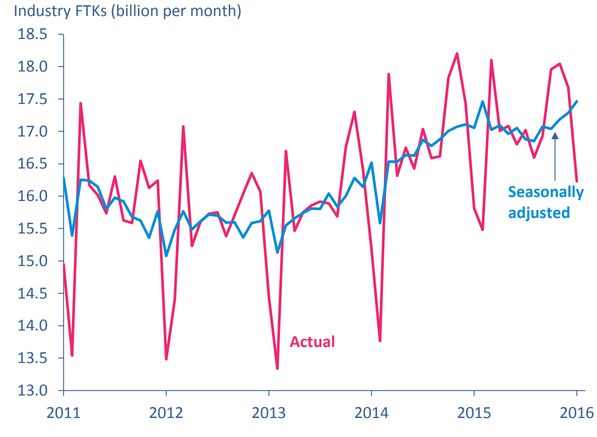
It is worth noting at the outset that any analysis of the industry at this time of the year can be complicated by shifts in the timing of Chinese New Year. While we strive to adjust for the impact of such moving holidays, a clearer picture will only fully emerge once February data are available.

Nonetheless, the first monthly reading from 2016 points to a reasonably solid start of the year for the freight side of the business. Global air freight volumes grew by 2.7% year-on-year in January 2016 – the fastest pace seen since April last year. More notably, perhaps, the recovery in seasonally-adjusted freight tonne kilometres (FTKs) from the weak patch seen during the first half of 2015 has continued. Indeed, total FTKs in January finally surpassed the seasonally-adjusted peak level reached in February 2015, when air freight across the Pacific was boosted by disruption to seaport activity on the west coast of the US. (See Chart 1.)

…although underlying conditions remain subdued

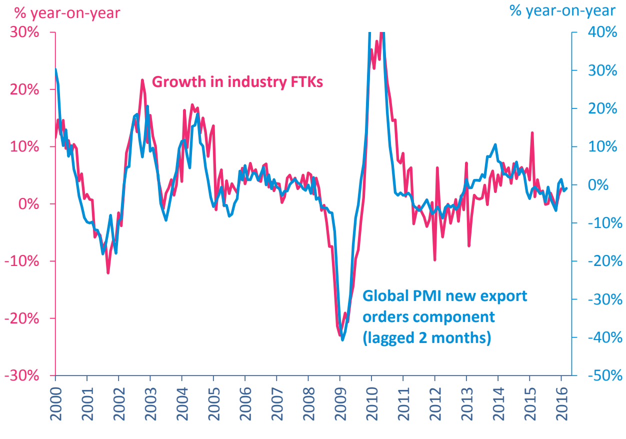
Looking ahead, the absence of any particularly strong demand tailwinds suggests that air freight volumes are set for another year of just modest growth in 2016 as a whole. Indeed, the broader backdrop remains one where global trade growth is weak by historical standards, continuing to grow broadly in line with global GDP (rather than around twice the pace that used to be considered 'normal'.) Admittedly, world trade volumes bounced back strongly in the second half of 2015 from the firm downward trend seen earlier in the year. Moreover, given the extent of the declines seen in H1 2015, annual trade growth is likely to pick up sharply

Chart 1 – Air Freight Volumes



Source – IATA Monthly Statistics

Chart 2 – Air freight growth vs. global export orders



Sources – IATA Monthly Statistics, Markit

Air freight market overview - January 2016

	World share[1]	January 2016 (% year-on-year)				2015 (% year-on-year)			
		FTK	AFTK	FLF (%-pt)[2]	FLF (level)[3]	FTK	AFTK	FLF (%-pt)[2]	FLF (level)[3]
TOTAL MARKET	***100.0%***	**2.7%**	**7.0%**	**-1.8%**	**41.3%**	**2.2%**	**6.2%**	**-1.7%**	**44.1%**
International	*87.0%*	2.1%	7.0%	-2.1%	43.9%	2.5%	6.5%	-1.9%	47.6%

[1]% of industry FTKs in 2015 [2]Year-on-year change in load factor [3]Load factor level

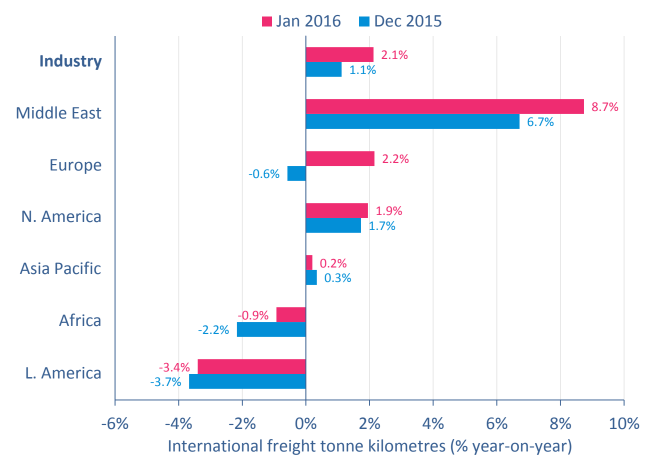
over the coming months too (we expect to see annual trade growth in the region of 5-6% during Q2 2016). But the key point is that the upward trend in world trade volumes was actually rather modest in the second half of the year – around 2% on an annualized basis.

Moreover, while business surveys show that global export orders are increasing modestly, the long-standing historical relationship with air freight volumes appears to rule out a surge in growth anytime soon either. (See Chart 2 on the previous page.)

Load factors remain under pressure

Meanwhile, growth in the amount of capacity coming into the market has continued to far outstrip that of demand, and is keeping pressure on yields and revenues. Industry-wide available tonne kilometres increased by 7.0% year-on-year in January. All told, the downward trend in the seasonally-adjusted industry-wide freight load factor that was a feature throughout most of 2015 appears to have bottomed out over recent months. But at 41.3% in January, the industry-wide load factor was 1.8 percentage points lower than in was in the same month a year ago.

Chart 3 – International FTK growth by carrier region of registration



Source – IATA Monthly Statistics

Wide variation in performance of regional carriers…

Taking a closer look at international freight volumes carried by airlines grouped according to their region of registration, the strongest annual growth in January was seen by Middle Eastern airlines (8.7% year-on-year – see Chart 3). This pace of growth was nearly four times that of the next fastest group (Europe), although slower than the 11.5% gain seen in 2015 as a whole. Growth in freight carried by Middle Eastern airlines continues to be helped by large-scale network and fleet expansion by the region's carriers.

Freight volumes carried by other major players in the industry also increased relative to January 2015, albeit at much more modest rates. FTKs carried by European carriers were 2.2% higher than in January 2015, although this was flattered somewhat by the weakness and volatility seen at the start of last year. The upward trend in volumes is modest, and annual growth looks likely to fall back into negative territory next month. Recent falls in business surveys so far this year underline the fragility of economic situation in the region.

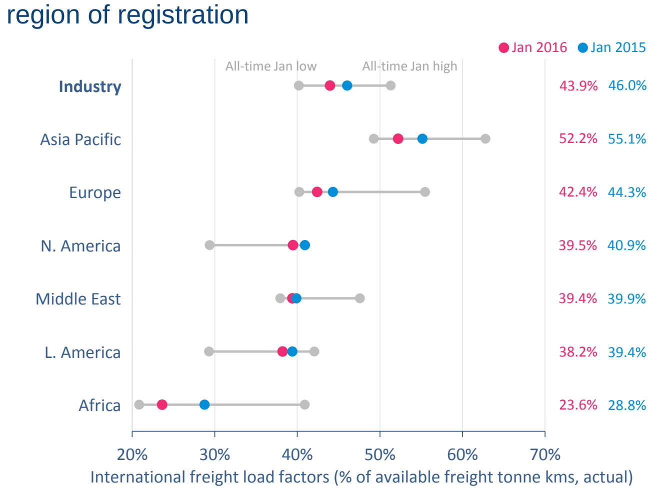
…with Asia Pac and North American trending up…

Annual volume growth for North American and Asia Pacific carriers in January was slower still (1.9% and 0.2% respectively). That said, the bigger picture is that these carriers have accounted for the bulk of the recovery in seasonally adjusted industry-wide freight volumes seen since the middle of last year.

The resumption of the upward trend in international FTKs in Asia comes in spite of a weak backdrop of total trade to and from the region. According to the Netherlands CPB, emerging Asian trade contracted in month-on-month terms throughout the second half of 2015. Moreover, notwithstanding the spike at the time of the seaport disruption in early 2015, US trade data show that eastbound air freight on the Pacific route declined throughout the rest of the year too.

North American freight volumes have risen particularly strongly in seasonally adjusted terms over the past few months. Judging from US trade data, this appears to relate to a sharp rise in air imports from Europe, largely of electrical machinery goods, towards the end of the year, as opposed to out-bound exports, which are struggling with the strong dollar.

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



Source – IATA Monthly Statistics

…but ongoing challenges elsewhere

By contrast, freight volumes carried by African and Latin American airlines both fell in annual terms in January, by 0.9% and 3.4% respectively. (It must be noted, however, that such airlines are just a small part of the overall freight industry, carrying less than 4.5% of industry volumes between them – see detailed table.) The largest economies in both regions – notably Brazil, Nigeria and South Africa – are highly dependent on energy industries and have all been hit hard by the slump in global commodity prices over the past 18 months or so.

Load factors lower across the board

International freight load factors in January 2016 were lower than they were in the same month in 2015 in all six regions. (See Chart 4 on the previous page.)

The rise in North American freight volumes in seasonally adjusted terms over recent months came alongside steady growth in freight capacity. As a result, while the North American international load factor is still some way below the industry figure, it is the only notable case to have *improved* markedly in recent months.

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2nd March 2016

Air freight market detail - January 2016

	World share[1]	January 2016 (% year-on-year)				2015 (% year-on-year)			
		FTK	AFTK	FLF (%-pt)[2]	FLF (level)[3]	FTK	AFTK	FLF (%-pt)[2]	FLF (level)[3]
TOTAL MARKET	***100.0%***	**2.7%**	**7.0%**	**-1.8%**	**41.3%**	**2.2%**	**6.2%**	**-1.7%**	**44.1%**
Africa	*1.5%*	-1.4%	19.4%	-4.8%	22.6%	1.8%	5.5%	-1.1%	29.8%
Asia Pacific	*38.9%*	1.3%	5.9%	-2.3%	49.8%	2.4%	5.7%	-1.8%	54.0%
Europe	*22.3%*	2.5%	6.3%	-1.5%	41.6%	-0.2%	4.4%	-2.1%	44.9%
Latin America	*2.8%*	-3.6%	4.2%	-2.7%	32.9%	-5.9%	4.3%	-4.1%	37.4%
Middle East	*14.0%*	8.8%	9.8%	-0.3%	39.2%	11.6%	15.7%	-1.6%	42.9%
North America	*20.5%*	2.5%	6.7%	-1.4%	34.6%	0.1%	3.8%	-1.3%	34.3%
International	***87.0%***	**2.1%**	**7.0%**	**-2.1%**	**43.9%**	**2.5%**	**6.5%**	**-1.9%**	**47.6%**
Africa	*1.5%*	-0.9%	20.7%	-5.1%	23.6%	2.0%	5.7%	-1.1%	31.1%
Asia Pacific	*34.6%*	0.2%	5.9%	-2.9%	52.2%	2.3%	5.4%	-1.7%	57.4%
Europe	*21.9%*	2.2%	6.8%	-1.9%	42.4%	0.0%	4.2%	-2.0%	46.2%
Latin America	*2.5%*	-3.4%	-0.4%	-1.2%	38.2%	-5.9%	1.3%	-3.2%	41.9%
Middle East	*14.0%*	8.7%	10.1%	-0.5%	39.4%	11.5%	15.7%	-1.6%	43.3%
North America	*12.4%*	1.9%	5.7%	-1.4%	39.5%	0.4%	4.9%	-1.7%	39.1%

[1] % of industry FTKs in 2015 [2] Year-on-year change in load factor [3] 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.

Further analysis and data

Access data related to this briefing through IATA's Monthly Statistics publication:
www.iata.org/monthly-traffic-statistics

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