



AIR FREIGHT MARKET ANALYSIS

August 2016

Moderate FTK growth, but global trade conditions remain weak

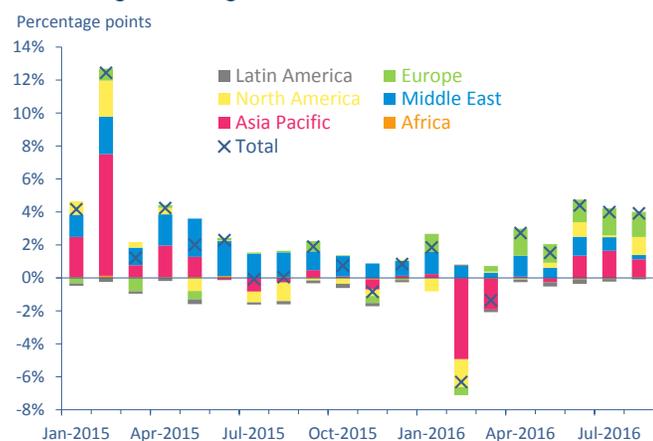
- Global air freight tonne kilometres grew by 3.9% year-on-year in August 2016, down from 4.0% in July.
- Conditions have improved since early-2016, and there are some reasons for cautious optimism in the near term...
- ...but the weak underlying global trade backdrop continues to present a stiff headwind to industry growth.
- The seasonally-adjusted freight load factor has stabilized, albeit at a low level, and yields remain under pressure.

Another month of moderate growth in FTKs...

Annual growth in global air freight tonne kilometres (FTKs) eased slightly to 3.9% year-on-year in August 2016, from a revised 4.0% in July. As was the case in May and July, European airlines posted the fastest annual growth of all regions, and have made a solid contribution to overall growth over recent months. (See Chart 1.) By contrast, Middle Eastern traffic growth has slowed, and Latin American carriers saw freight volumes contract in annual terms for the sixth consecutive month.

Industry-wide conditions have improved from the weak patch seen in the first quarter of 2016. Routes to, from and within Asia in particular are doing well, in keeping with reports from the industry, and overall freight volumes are trending upwards in seasonally-adjusted terms at a moderate, if not stellar, pace. (See Chart 2.)

Chart 1 – Contributions to annual FTK growth by airline region of registration



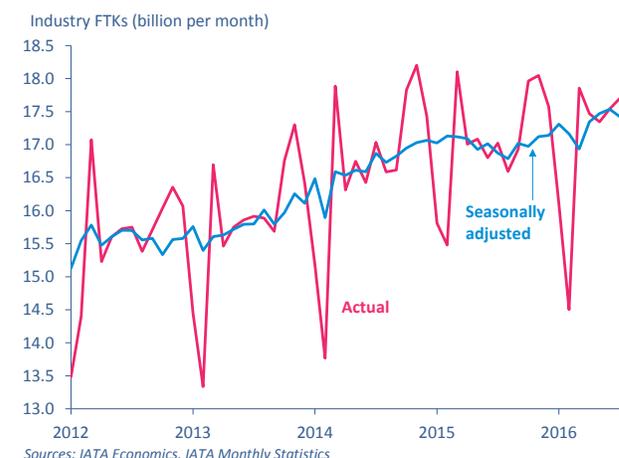
Sources: IATA Economics, IATA Monthly Statistics

...and reasons for cautious optimism in near term

There are a few reasons for cautious optimism in the near term, particularly following the collapse of the container shipping firm Hanjin at the end of August. Other container shipping firms appear to have seen the biggest boost to demand so far (container shipping rates have risen sharply). But there is the potential for freight forwarders to turn to air cargo during the peak season of product launches and deliveries of new product lines, which may provide a one-off boost to air cargo similar to that seen during the disruption at seaports on the US west coast in early 2015.

The uptick in the new export orders component of the global purchasing managers' index back into expansionary territory in recent months also offers some encouragement for air freight over the months ahead. (See Chart 3, overleaf.)

Chart 2 – FTK levels



Sources: IATA Economics, IATA Monthly Statistics

Air freight market overview - August 2016

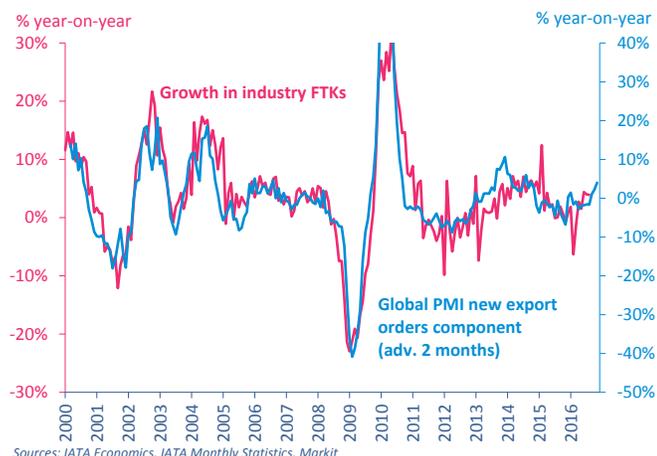
	World share ¹	August 2016 (% year-on-year)				% year-to-date			
		FTK	AFTK	FLF (%-pt) ²	FLF (level) ³	FTK	AFTK	FLF (%-pt) ²	FLF (level) ³
TOTAL MARKET	100.0%	3.9%	4.1%	-0.1%	40.8%	1.4%	5.6%	-1.7%	42.1%
International	87.0%	3.5%	4.4%	-0.4%	43.8%	1.1%	5.7%	-2.1%	45.2%

¹% of industry FTKs in 2015

²Year-on-year change in load factor

³Load factor level

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



But world trade weakness is an ongoing headwind

But crucially, any boost in the near term is likely to prove transitory; the bigger picture is that the ongoing sluggishness of global trade conditions continues to present a stiff headwind for air freight. Data compiled by the Netherlands CPB show that world trade volumes fell by 1.1% month-on-month in July, and contracted in year-on-year terms for only the second time since the end of 2009. Global trade growth has 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. (See Chart 4.)

Chart 4 – World trade and industrial production growth



To be clear, there is no mechanistic link between air freight and world trade, principally because air freight carries just a very small proportion of total trade volumes. Air cargo is prone to periods of under and over performance relative to global trade volumes, mainly reflecting the narrow product mix transported by air. But in the current political environment, any new impetus to

reinvigorate the stagnation in world trade volumes looks unlikely. Indeed, taking political rhetoric at face value, the future of even existing free-trade arrangements appears under threat.

The upshot is that the tailwinds that used to propel global trade and air cargo volumes are likely to be much weaker in the future than they were in the past. Such a backdrop points to continuation of just modest and fitful growth in air freight volumes in the years ahead, rather than a sustained return to the 5-6% growth rates of old.

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

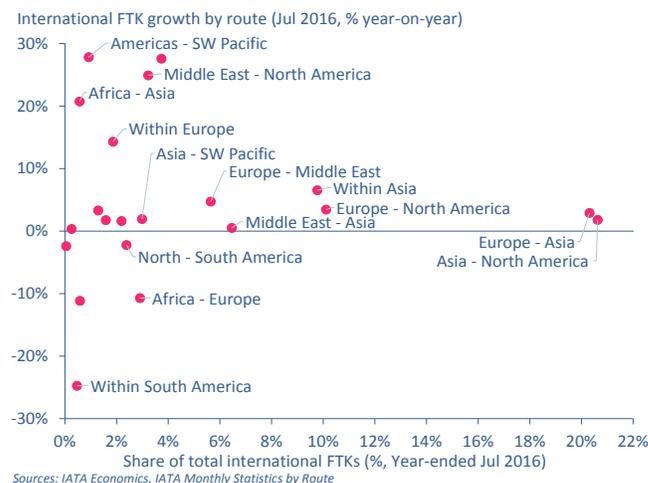
Industry-wide freight capacity increased by 4.1% year-on-year in August – the slowest pace in two years. The upward trend in available freight tonne kilometres (AFTKs) has eased in recent months, in part owing to a slowdown in deliveries to the wide-body passenger fleet in 2016 (particularly in Asia Pacific).

As a result, carriers have stabilized the seasonally-adjusted industry-wide load factor 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 remains mixed

There are signs of a pick-up in the main freight lanes out of Asia. International traffic within the region has been the strongest of the ‘big-four’ markets so far this year, with traffic up by 6.5% year-on-year in July 2016 (the latest data available; see Chart 5.) But also, having trended downwards over the past five years or so, traffic on the Europe to Asia route has risen in seasonally-adjusted terms in recent months (volumes grew by 2.9% year-on-year in July). The trend on the Transpacific market has picked up tentatively too, although it remains the laggard of the ‘big-four’ so far this year to date.

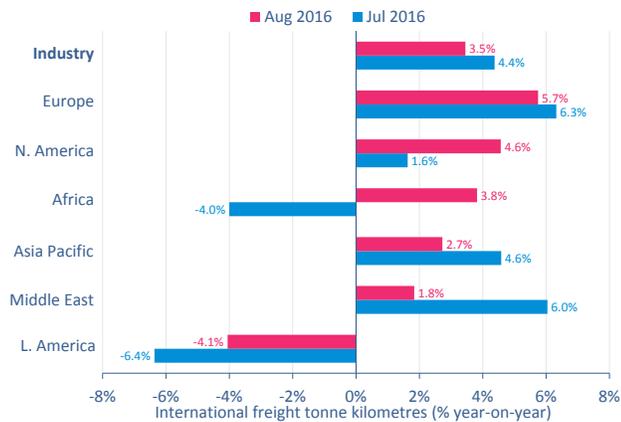
Chart 5 – International FTK growth by route (% year-on-year, segment-basis)



European carriers are the standout story

Growth in international FTKs slowed to 3.5% year-on-year in August, from 4.4% in July. (See Chart 6.)

Chart 6 – International FTK growth by carrier region of registration



Sources: IATA Economics, IATA Monthly Statistics

The pick-up in European carriers' fortunes has been the standout story in recent months, and they topped the international growth chart in August. International traffic flown by European airlines has trended upwards strongly, in keeping with a pronounced rise in the new export orders component of the German PMI (which recently reached its highest level since January 2014). Traffic has now firmly broken out of the corridor that it occupied between mid-2010 and the start of this year. In fact, aside from the Middle East, Europe is the only major region whose international freight has surpassed the level reached during the post-GFC rebound.

By contrast, Middle Eastern airlines' growth slumped to 1.8% year-on-year – the slowest pace since July 2009. The strong upward trend in seasonally-adjusted traffic had eased over the past year or so, but has now ground to a halt: in seasonally-adjusted terms, traffic in July 2016 was slightly below that seen in January. The weakening is at least partly attributable to slower growth on the market between the Middle East and Asia. This suggests that Middle Eastern carriers have lost business to European airlines on the Europe-Asia route, with more traffic flying directly between Europe and Asia. In tonnage terms, cargo throughput fell in year-on-year terms in July in both Abu Dhabi and Dubai airports (3.7% and 1.2% respectively).

Conditions improving 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, as well as on routes to and from the region. While freight volumes in seasonally-adjusted terms are still just marginally ahead of the level seen in early 2015, the seasonally-adjusted trend has improved since March (volumes have grown at an annualized rate of 13% since).

Annual growth in international traffic flown by North American airlines accelerated to 4.6% in August – its fastest pace since the disruption at US seaports in February 2015. But year-on-year growth in August was flattered by the fact that August 2015 marked the nadir of the downward trend last year: in seasonally adjusted terms, FTKs are barely changed from the levels seen in early-2008. 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, 16 of the top-20 air cargo markets for the US saw air export volumes from the US decline in annual terms in the first seven months of 2016.

African traffic rebounds but L.America falls again

African traffic rebounded sharply in August to be 3.8% higher than in August 2015 – the fastest growth rate in twelve months. But some context is required because 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 comparatively modest demand growth means the African international freight load factor was just 22.2% in August – almost six percentage points lower than a year ago and almost half the industry average of 43.8%.

International FTKs flown by Latin American carriers have rebounded somewhat in seasonally adjusted terms in recent months. However, having trended downwards sharply since late-2014, traffic was still down by 4.1% year-on-year in August and remains more than 13% lower than its (seasonally-adjusted) October 2014-peak. The 'Within South America' market (-20.3% this year-to-date) has been the weakest performing market so far this year. Northbound flows on the larger North-South America route have been helped by the comparative strength of the US economy. (US imports by air from Colombia and Brazil increased by 4% and 12% year-on-year respectively in the first seven months of 2016.) But FTKs flown on the route have still fallen by 6.5% in annual terms so far this year.

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5th October 2016

Air freight market detail - August 2016

	World share ¹	August 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%	3.9%	4.1%	-0.1%	40.8%	1.4%	5.6%	-1.7%	42.1%
Africa	1.5%	3.7%	29.2%	-5.3%	21.6%	-1.6%	27.8%	-6.9%	22.9%
Asia Pacific	38.9%	2.8%	1.2%	0.8%	51.8%	-0.8%	3.2%	-2.1%	51.6%
Europe	22.3%	6.6%	4.7%	0.8%	42.0%	4.7%	5.7%	-0.4%	44.2%
Latin America	2.8%	-3.3%	-0.2%	-1.1%	33.4%	-4.8%	0.8%	-2.1%	34.6%
Middle East	14.0%	1.8%	6.9%	-1.9%	38.8%	5.8%	10.1%	-1.7%	40.7%
North America	20.5%	5.5%	3.7%	0.5%	31.2%	0.0%	4.5%	-1.5%	32.7%
International	87.0%	3.5%	4.4%	-0.4%	43.8%	1.1%	5.7%	-2.1%	45.2%
Africa	1.5%	3.8%	30.9%	-5.8%	22.2%	-1.6%	29.2%	-7.4%	23.7%
Asia Pacific	34.6%	2.7%	2.1%	0.3%	55.1%	-1.1%	3.7%	-2.6%	54.6%
Europe	21.9%	5.7%	5.4%	0.1%	42.8%	4.0%	6.3%	-1.0%	45.0%
Latin America	2.5%	-4.1%	-2.5%	-0.6%	38.0%	-5.3%	0.4%	-2.3%	38.8%
Middle East	14.0%	1.8%	6.9%	-1.9%	39.2%	5.9%	10.1%	-1.7%	41.1%
North America	12.4%	4.6%	1.9%	0.9%	34.9%	-1.7%	1.6%	-1.3%	37.5%

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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