



# AIR FREIGHT MARKET ANALYSIS

March 2016

## A weak Q1 for air freight, with little sign of a near-term pick-up

- Air freight volumes declined in annual terms for the second consecutive month in March 2016, and rounded out the weakest opening quarter of the year since 2012.
- Growth should pick up in the coming months as the US seaport disruption drops out of the annual comparison...
- ...but broad signs of softness mean that 2016 is shaping up to be another weak year for air freight.
- Industry-wide capacity has continued to grow strongly as demand has fallen, keeping intense pressure on yields.

### A difficult start to the year for air freight...

Global air freight volumes fell by 2.0% year-on-year in March 2016, and by a similar amount across the first quarter of the year combined. (Note that the latter period includes a boost from the leap year: adjusting for the extra day in February, we estimate that freight volumes in Q1 this year were closer to 3% lower than in Q1 2015.)

The annual decline in volumes in Q1 was driven overwhelmingly by North American and Asia Pacific carriers, both of whom enjoyed strong boosts to transpacific air freight at the time of the US west coast seaport disruption in early 2015. (See Chart 1.) Indeed, the latest available data by route show that air freight volumes across the Pacific – the largest market in terms of air freight tonne kilometres (FTKs) – were almost 15% lower during the start of this year compared to the same

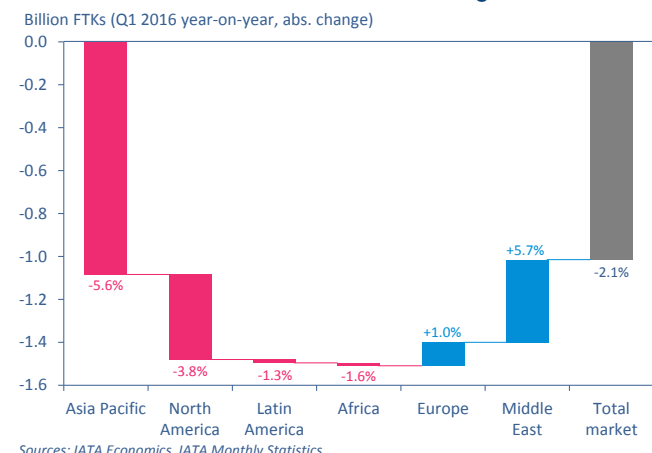
period in 2015. (See Chart 2.) Modest year-on-year increases in FTKs flown by European and Middle Eastern carriers provided a partial offset for total FTKs. (Again, see Chart 1.)

### ...set against an ongoing challenging backdrop

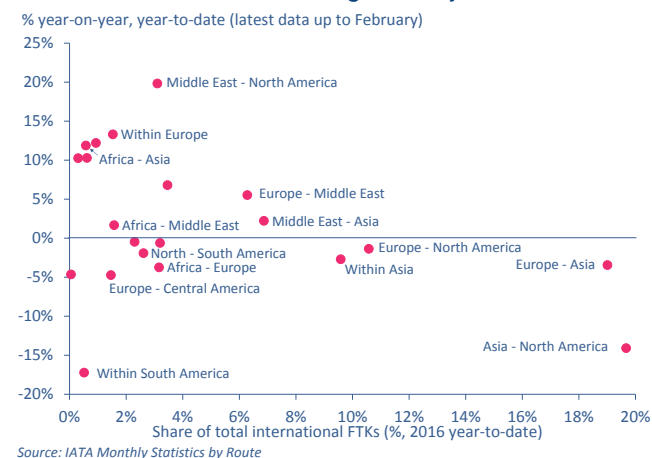
Clearly, a lot of the weakness in the first quarter of 2016 relates to the temporary boost from the seaport disruption early-2015. Year-on-year freight growth is likely to recover somewhat in the coming months as this factor drops out of the annual comparison.

Nonetheless, the underlying backdrop for air freight remains weak – not least because wider global trade growth remains subdued. World trade volumes have grown by just 0.8% in annual terms so far this year. Admittedly, annual trade growth may pick up sharply

**Chart 1 – Contributions to annual change in total FTKs**



**Chart 2 – International FTK growth by route**



### Air freight market overview - March 2016

	World share <sup>1</sup>	March 2016 (% year-on-year)				% year-to-date			
		FTK	AFTK	FLF (%-pt) <sup>2</sup>	FLF (level) <sup>3</sup>	FTK	AFTK	FLF (%-pt) <sup>2</sup>	FLF (level) <sup>3</sup>
<b>TOTAL MARKET</b>	<b>100.0%</b>	<b>-2.0%</b>	<b>6.9%</b>	<b>-4.0%</b>	<b>43.5%</b>	<b>-2.1%</b>	<b>6.7%</b>	<b>-3.8%</b>	<b>41.9%</b>
International	87.0%	-2.8%	6.3%	-4.4%	47.0%	-2.6%	6.1%	-4.1%	45.3%

<sup>1</sup>% of industry FTKs in 2015

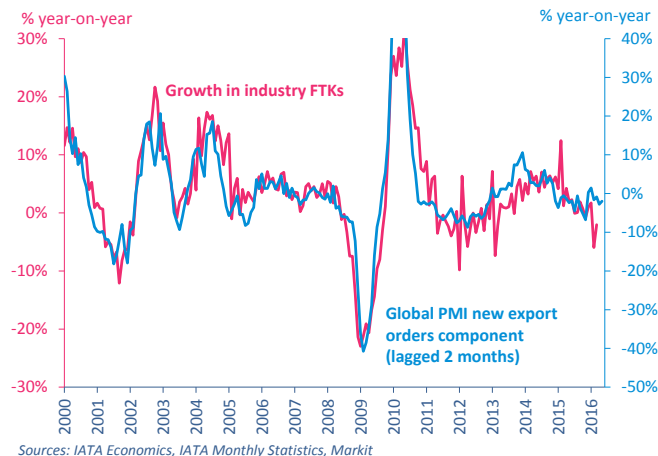
<sup>2</sup>Year-on-year change in load factor

<sup>3</sup>Load factor level

over the coming months, as the annual comparison is flattered by the downward trend in volumes seen during the first half of 2015. (We would not be surprised to see annual world trade growth in the region of 5% during Q2 2016.) But the key point is that the current upward trend in global trade volumes is very modest (around 1.5% in annualized terms since the middle of last year). Tellingly, world trade volumes in February were only 0.4% higher than at the end of 2014. Moreover, the export orders component of the global Purchasing Managers' Index – a closely watched business survey which has a long-standing relationship with growth in air freight volumes – remained in contractionary territory for the second consecutive month in March. (See Chart 3.)

All told, 2016 is shaping up to be another year of disappointing growth for air freight. Even if FTKs grow in line with their five-year average rate of around 1.5% over the rest of this year, given the poor start, overall volumes would still only expand by 0.6% in 2016 as a whole.

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



### Load factors head lower, keeping pressure on yields

Industry-wide freight capacity has continued to expand strongly even as demand has declined. Total available tonne kilometres (AFTKs) increased by 6.9% year-on-year in March, with the total load factor coming in at 43.5% – four percentage points lower than in March 2015. (The corresponding figures for the first quarter as a whole were 6.7% growth in AFTKs, and a load factor of 41.9%.) Falling loads continue to keep intense pressure on freight yields and revenues.

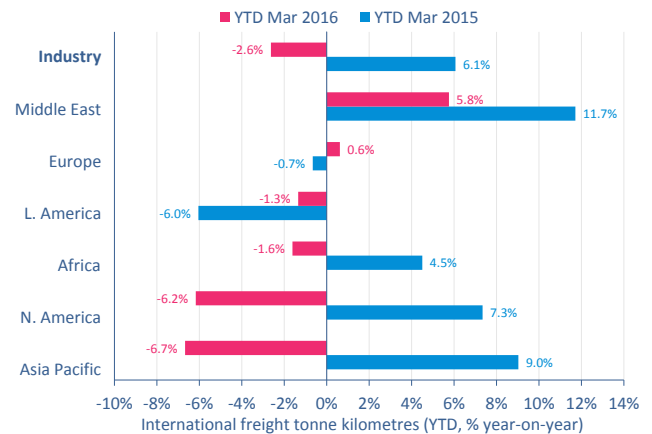
### Asia Pac and North America lagging behind...

International FTKs fell by 2.8% in year-on-year terms in March, and by 2.6% in Q1 as a whole. (See Chart 4.)

The bumper start to 2015 was always going to be a difficult act to follow for Asia Pacific and North American carriers, and so it proved. FTKs flown by these carriers

fell by 6.7% and 6.2% respectively in annual terms in the first quarter this year. Carriers in Asia Pacific face wider headwinds from the weak trade backdrop in the region: export volumes from Emerging Asia have now fallen in annual terms in 11 of the past 12 months. While they are faring better than those on the Transpacific market, air freight volumes on the key route between Asia and Europe also fell in annual terms during the start of 2016.

**Chart 4 – International FTK growth by carrier region of registration (year to date)**



The comparative strength of the US economy and the strong US dollar may help to support inbound freight volumes for North American carriers over the rest of this year. (Imports to the US have resumed their upward trend in recent months.) However, the flip-side is that the strong US dollar is keeping exports under pressure, which may constrain outbound freight demand.

### ...with slowing momentum in other key regions too

Middle Eastern and European airlines were the only groupings to see annual increases in FTKs flown in Q1. That said, European growth was very modest (0.6% year-on-year) and volumes have yet to break out of the sideways trend that they have followed for the best part of a decade. In fact, seasonally-adjusted European FTKs in March 2016 were still only around 1% higher than they were at the start of 2008.

Moreover, while Middle Eastern airlines led the way in terms of annual growth in Q1, there were clear signs of weakness here too. Annual growth in Q1 was just half the pace of that during the same period last year, and the strong upward trend in Middle Eastern FTKs that was the norm from the start of 2009 onwards has weakened markedly. At only 2.5% in March, annual FTK growth was the slowest since July 2009. This coincides with a marked slowdown in annual network expansion growth by the main carriers in the region over the past

six months or so, but is also indicative of the broader weak patch in the industry.

### African load factors drop to an all-time low

Latin American and African airlines are both relatively small players in the overall freight market, accounting for just 2.8% and 1.5% of total FTKs respectively in 2015. Nonetheless, both regions have now seen FTKs trend down in seasonally adjusted terms since mid-2015.

International FTKs flown by Latin American carriers were 6.3% lower in March 2016 compared with the same month in 2015 and down 1.3% over the first quarter as a whole. Volumes have now fallen by almost 15% from their seasonally-adjusted peak in late-2014. The 'Within South America' market was the worst performing route in the opening months of 2016, reflecting challenging economic conditions in the continent (not least Brazil). FTKs on the larger North-

South America route have held up better, although they still declined in annual terms so far this year.

International freight traffic for African airlines fell by 3.4% in March year-on-year, but by a more modest 1.6% this year to date. Volumes on the main Africa to Europe market are struggling.

Notably, available international freight capacity for African airlines has surged in recent months on the back of long-haul route expansion. (International AFTKs jumped by 23.7% year-on-year in 2016 to date – more than double the pace of the next fastest growing region). The combination of rising capacity and falling demand has pushed the African international freight load factor down to just 25.6% this year-to-date – an all-time low and less than half the level of Asia Pacific carriers.

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 4<sup>th</sup> May 2016

### Air freight market detail - March 2016

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		FTK	AFTK	FLF (%-pt) <sup>2</sup>	FLF (level) <sup>3</sup>	FTK	AFTK	FLF (%-pt) <sup>2</sup>	FLF (level) <sup>3</sup>
<b>TOTAL MARKET</b>	<b>100.0%</b>	<b>-2.0%</b>	<b>6.9%</b>	<b>-4.0%</b>	<b>43.5%</b>	<b>-2.1%</b>	<b>6.7%</b>	<b>-3.8%</b>	<b>41.9%</b>
Africa	1.5%	-3.1%	22.7%	-6.9%	25.9%	-1.6%	22.6%	-6.1%	24.6%
Asia Pacific	38.9%	-5.2%	3.8%	-5.0%	52.5%	-5.6%	4.3%	-5.2%	49.6%
Europe	22.3%	1.3%	7.9%	-3.0%	46.0%	1.0%	6.8%	-2.6%	44.5%
Latin America	2.8%	-5.9%	2.3%	-3.2%	36.9%	-1.3%	5.8%	-2.5%	34.9%
Middle East	14.0%	2.4%	10.8%	-3.4%	41.0%	5.7%	11.0%	-2.1%	40.7%
North America	20.5%	-1.8%	7.1%	-3.1%	34.2%	-3.8%	6.1%	-3.5%	33.7%
<b>International</b>	<b>87.0%</b>	<b>-2.8%</b>	<b>6.3%</b>	<b>-4.4%</b>	<b>47.0%</b>	<b>-2.6%</b>	<b>6.1%</b>	<b>-4.1%</b>	<b>45.3%</b>
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Asia Pacific	34.6%	-5.9%	3.7%	-5.7%	55.7%	-6.7%	4.0%	-6.0%	52.7%
Europe	21.9%	0.7%	8.3%	-3.5%	46.7%	0.6%	7.2%	-3.0%	45.3%
Latin America	2.5%	-6.3%	4.8%	-4.9%	40.9%	-1.3%	4.0%	-2.2%	39.6%
Middle East	14.0%	2.5%	10.8%	-3.4%	41.4%	5.8%	11.1%	-2.1%	41.0%
North America	12.4%	-5.0%	1.5%	-2.8%	40.9%	-6.2%	1.2%	-3.1%	39.7%

<sup>1</sup>% of industry FTKs in 2015

<sup>2</sup>Year-on-year change in load factor

<sup>3</sup>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.

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