AIR FREIGHT MARKET ANALYSIS March 2017

March data complete a strong Q1 for annual FTK growth

- Global freight tonne kilometres (FTKs) grew by 14% year-on-year in March – the fastest pace since Oct 2010.
- The result completed a very strong first quarter for year-on year growth, albeit partly flattered by weakness last year. Freight volumes rose by nearly 11% year-on-year in Q1 allowing for the extra day in February 2016.
- Seasonally adjusted (SA) traffic bounced back in March, although the upward trend has eased since H2 2016.
- The freight load factor has continued to recover, and is now back to levels last seen in early 2015.

Growth reaches a multi-year high in March…

Global FTKs grew by 14.0% year-on-year in March – the fastest pace since October 2010.

Airlines based in Europe and Asia Pacific accounted for around two-thirds of the annual increase in freight volumes, with the remainder split almost equally between North American and Middle Eastern carriers. (See Chart 1.) The modest positive contribution made by African airlines was the strongest in nearly seven years, but Latin American carriers detracted from annual FTK growth for the thirteenth month in a row.

…and completes a very strong Q1 2017

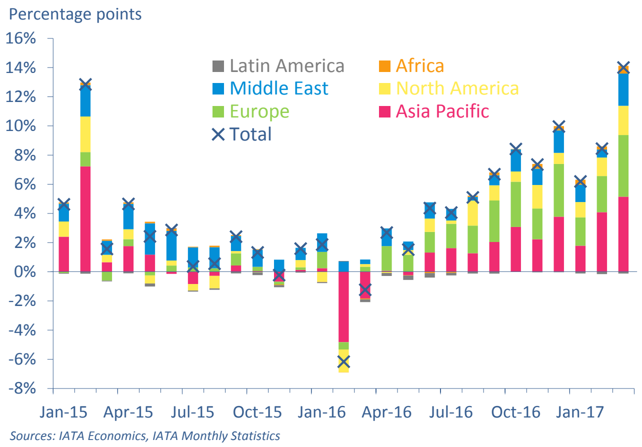
The March result was flattered in part by the comparison with a weak patch in Q1 2016. (Recall that March was the low point for seasonally adjusted (SA) volumes last year – see Chart 2.) We estimate that this accounted for around 1.5 percentage points of March's year-on-year growth rate – a boost that will not be repeated in the April data.

Nonetheless, Q1 was clearly a very strong quarter for annual FTK growth. The shifting timing of Chinese New Year means that it is always difficult to get a clear reading of underlying developments in air freight at the start of each year. Now that we have data for the first three months, the picture is clearer. FTKs have grown by 9.7% in annual terms so far this year to date. In fact, adjusting for the extra day in February 2016 owing to the leap year, we estimate that the true pace of FTK growth was even faster – closer to 11%.

Upward seasonally adjusted trend has slowed

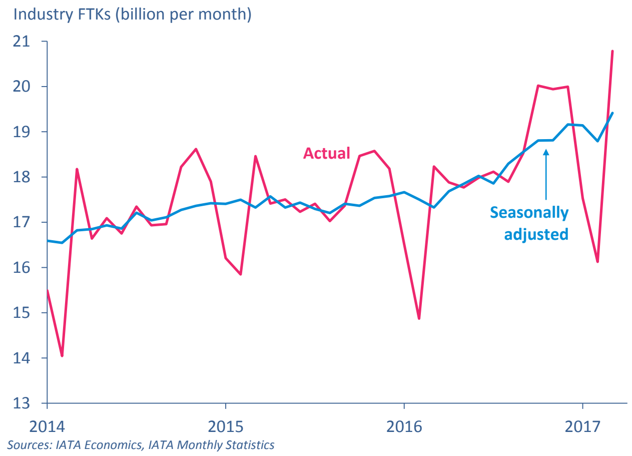
Developments in SA terms are not quite as stellar as the annual growth rate would suggest. Admittedly, having dipped in February, freight volumes bounced back in SA terms in March. But looking across Q1 as a whole, the upward trend has moderated from that

Chart 1 – Contributions to year-on-year growth by airline region of registration



Sources: IATA Economics, IATA Monthly Statistics

Chart 2 – FTK levels



Sources: IATA Economics, IATA Monthly Statistics

Air freight market overview - March 2017

	World share[1]	March 2017 (% 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%***	**14.0%**	**4.2%**	**4.1%**	**47.4%**	**9.7%**	**2.6%**	**2.9%**	**44.3%**
International	*86.7%*	15.8%	4.5%	5.1%	52.1%	10.9%	2.7%	3.6%	48.6%

[1]% of industry FTKs in 2016 [2]Year-on-year change in load factor [3]Load factor level

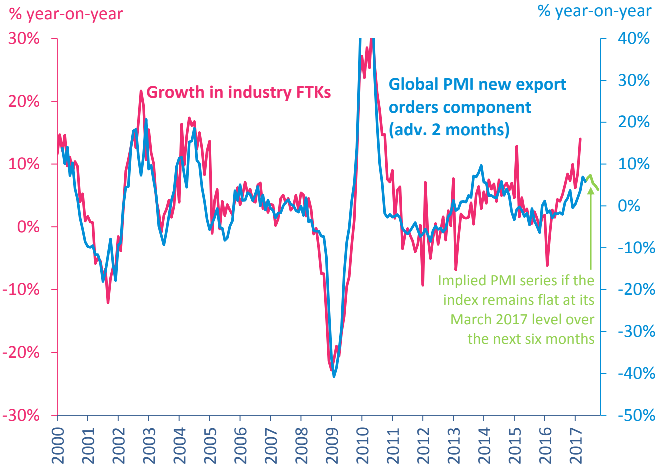
seen in H2 2016. Indeed, around two-thirds of March's strong year-on-year FTK growth rate relates to gains that took place last year.

Improved backdrop for world trade conditions

The pick-up in air freight since the middle of last year has coincided with a broader improvement in world trade conditions. Business surveys continue to indicate healthy export order books for global manufacturers. The new export orders component of the global purchasing managers' index (PMI) remains close to a six-year high, and at current levels, is consistent with year-on-year FTK growth of around 7.5% in Q2 2017. (See Chart 3.)

Meanwhile, traditional demand drivers for air freight have been strong. We expect silicon shipments data from Q1 2017, which are due for release just after the publication of this note, to have continued the strong year-on-year growth seen in Q4 2016.

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



Sources: IATA Economics, IATA Monthly Statistics, Markit

Rising protectionist rhetoric is an ongoing concern, and something that warrants close monitoring. Moreover, as shown in Chart 3, in the absence of further gains in manufacturing export order books, support for freight growth looks likely to moderate towards the end of the year. However, air freight has gained market share over the past year or so. Moreover, the increasing importance of niche areas such as pharmaceuticals and cross-border e-commerce may yet help air freight to de-couple from wider world trade conditions.

The freight load factor has increased in 2017 so far

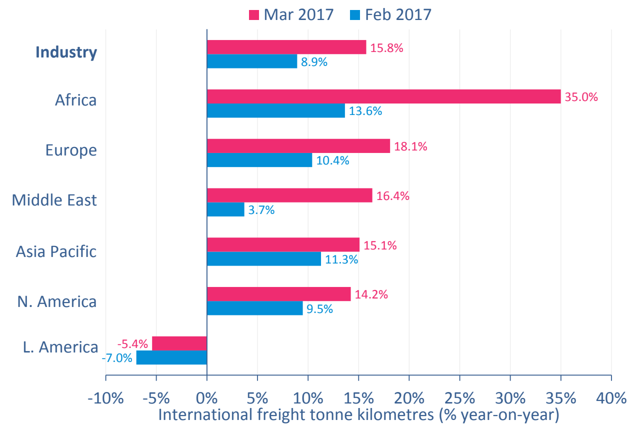
Available freight tonne kilometres (AFTKs) grew by 4.2% year-on-year in March. Adjusting for the leap year effect, we estimate that AFTKs have grown by around 3.7% in annual terms in 2017 to date.

The industry-wide load factor has risen by nearly three percentage points over the past year and, in seasonally adjusted terms, is currently back to levels last seen in early 2015.

International FTK growth outpaces the total again

International FTK growth jumped to 15.8% year-on-year in March. (See Chart 4.) Year-on-year growth accelerated from the previous month in all regions, although the February data were distorted downwards by there being one fewer day in the month this year compared to 2016. (All else equal, this effectively subtracted around 3.3 percentage points from the year-on-year growth rates in February.)

Chart 4 – International FTK growth by airline region of registration



Sources: IATA Economics, IATA Monthly Statistics

Double-digit growth in the four major regions

The four largest regions in terms of freight flown all posted double-digit year-on-year growth in international FTKs in March.

International freight volumes flown by European airlines grew by 18.1% in year-on-year terms – the fastest pace in almost six years. The region's robust performance continues to be helped by the ongoing weakness in the euro, which is visible in very strong order books for European exporters.

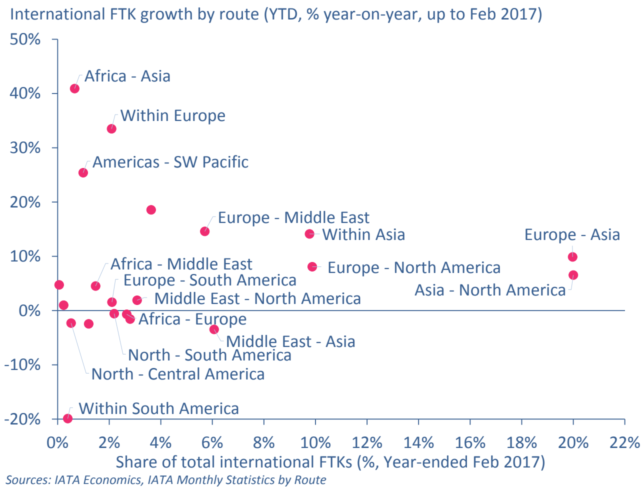
The SA trend in international freight volumes has slowed from the stellar trend seen in H2 2016, but remains firmly upwards. Air freight is growing strongly on the trade lanes to and from Asia, and across the Atlantic; SA freight volumes on the latter recently reached levels last seen in early-2011.

Strong growth in the Asia Pacific region

Air freight is a key part of airline business models in Asia Pacific, and the region is the biggest in terms of international FTKs flown. International freight volumes grew by 15.1% year-on-year in March and the SA upward trend remains positive: volumes recently surpassed the levels reached following the global financial crisis in 2010.

Exporters in much of the region have continued to report buoyant order books. Notwithstanding a modest weakening in demand conditions across the Pacific, demand conditions on other key routes to, from and within the region have strengthened considerably over the past six months: International FTKs within the region have grown by 14.1% in annual terms so far this year to date, while the Europe-Asia market has also seen volumes rise by 9.9% on the same basis. (See Chart 5.)

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



Recovery in Middle East growth conditions

International FTKs flown by Middle Eastern airlines climbed by 16.4% year-on-year in March – the fastest pace since June 2015. The upward trend in SA traffic remains robust, and freight volumes have grown by nearly 11% this year to date allowing for the leap year effect. Having moderated in late-2015 and throughout 2016, the year-on-year growth rate has recovered back broadly in line its long-run average pace.

A big divergence has emerged in performance on the major segment-based routes to and from the region: FTKs flown between the Middle East and Europe have grown by more than 15% so far this year allowing for the impact of the leap year in 2016, but traffic to and from Asia has fallen modestly over the same period.

North American trend has slowed

North American airlines posted annual FTK growth of 14.2% year-on-year in March. This was the fastest pace of growth since the boost to air freight caused by disruption at US west coast seaports in early 2015. That said, in contrast to the other major regions, the SA trend in freight volumes has slowed almost to a standstill, alongside a modest weakening in demand conditions across the Pacific.

The strength of the US dollar is likely to continue to support US inbound air freight, but it is also expected to continue to keep outbound flows under pressure.

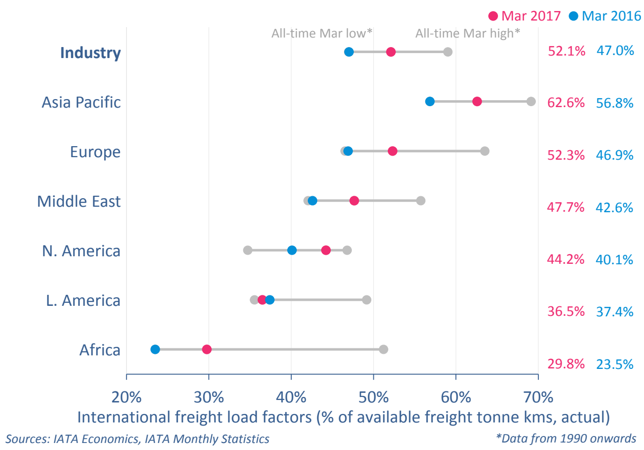
Contrasting fortunes for the smallest regions

African and Latin American airlines fly a comparatively small proportion of global air cargo (less than 5% of international FTKs combined). The two regions have seen a big divergence in performance so far this year.

International FTKs flown by African carriers surged by 35% year-on-year in March (and by more than 25% so far this year to date adjusting for the leap year impact). The performance has continued to be helped by rapid growth on the trade lane to and from Asia, following an increase in direct services between the continents; while still a comparatively small route, FTKs between Asia and Africa have jumped by more than 40% so far this year. (Again, see Chart 5.) The region's load factor remains the lowest out of all the regions, but increased by more than six percentage points compared to March 2016. (See Chart 6.)

Meanwhile, international FTKs flown by Latin American airlines fell once again in year-on-year terms in March (for the 26th time in the last 28 months). Having recovered partly during H2 2016, the region's SA traffic trend fell in March to its lowest level since October 2010; FTKs are now more than 18% lower than their 2014-peak. The region's airlines have managed to adjust capacity, which has limited the impact on the region's load factor. But the March load factor has only been lower on one occasion (in 2002), and the region was the only one to see a fall in loads compared to March 2016. (Again, see Chart 6.)

Chart 6 – Freight load factors by region



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3rd May 2017

Air freight market detail - March 2017

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TOTAL MARKET	***100.0%***	**14.0%**	**4.2%**	**4.1%**	**47.4%**	**9.7%**	**2.6%**	**2.9%**	**44.3%**
Africa	*1.6%*	33.5%	6.3%	5.9%	28.9%	23.1%	4.4%	3.9%	25.8%
Asia Pacific	*37.5%*	13.6%	4.8%	4.4%	57.0%	10.0%	3.9%	2.9%	52.1%
Europe	*23.5%*	18.2%	6.7%	4.9%	50.8%	12.8%	4.4%	3.5%	47.3%
Latin America	*2.8%*	-4.2%	-1.9%	-0.8%	31.9%	-4.3%	-2.0%	-0.7%	30.5%
Middle East	*13.9%*	16.3%	2.7%	5.6%	47.6%	9.7%	1.5%	3.4%	44.8%
North America	*20.7%*	9.5%	2.8%	2.3%	36.9%	7.0%	0.7%	2.1%	35.9%
International	***86.7%***	**15.8%**	**4.5%**	**5.1%**	**52.1%**	**10.9%**	**2.7%**	**3.6%**	**48.6%**
Africa	*1.6%*	35.0%	6.6%	6.3%	29.8%	24.1%	4.5%	4.2%	26.6%
Asia Pacific	*33.3%*	15.1%	4.6%	5.7%	62.6%	10.9%	3.6%	3.8%	57.3%
Europe	*23.0%*	18.1%	5.9%	5.4%	52.3%	12.6%	3.5%	4.0%	48.9%
Latin America	*2.4%*	-5.4%	-3.1%	-0.9%	36.5%	-5.8%	-3.2%	-1.0%	35.9%
Middle East	*13.9%*	16.4%	4.0%	5.1%	47.7%	9.8%	2.5%	3.0%	44.9%
North America	*12.6%*	14.2%	3.6%	4.1%	44.2%	10.4%	0.9%	3.7%	42.4%

[1]% of industry FTKs in 2016 [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. Historical statistics are subject to revision.

Further details about the statistics in this publication can be found here.

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Access data related to this briefing through IATA's Monthly Statistics publication:
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