AIR FREIGHT MARKET ANALYSIS May 2016

Upward momentum in FTKs has stalled in 2016

- Annual growth in global air freight tonne kilometres fell to 0.9% year-on-year in May 2016.
- The upward momentum that was a feature in H2 2015 has stalled, amid a soft underlying demand backdrop.
- Asia Pacific and N.American airlines registered declines in FTKs in May, offset partly by robust European growth.
- The industry-wide freight load factor fell to a record-May low, keeping intense pressure on revenues and yields.

Annual freight growth dropped back in May…

Global air freight tonne kilometres (FTKs) grew by 0.9% year-on-year in May 2016, down from a (revised) 2.6% in April. (See Chart 1.)

May's growth rate is an improvement from the negative rates seen during Q1 2016, which followed the boost to air freight in early-2015 from seaport disruption on the US west coast. But it is increasingly evident that the upward momentum in seasonally-adjusted terms that was a feature of the second half of 2015 has stalled. Indeed, seasonally-adjusted FTKs in May were just 0.2% higher than in January.

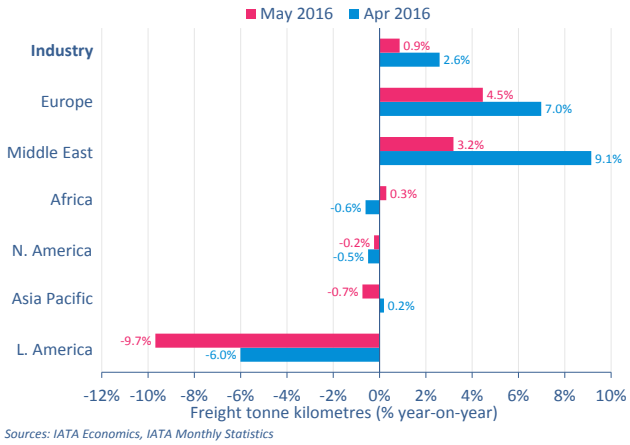
…with outlook overshadowed by familiar headwinds

The soft patch for air cargo corresponds with broader weakness in global trade growth. (Developments in global trade volumes explain four-fifths of the weakness in air freight traffic.) As we noted last month, global trade volumes declined in year-on-year terms in Q1 2016 for the first time since the end of 2009.

Admittedly, annual world trade growth increased to an eight month high in April. Moreover, given that May 2015 marked the nadir in trade volumes last year, the favorable annual comparison is likely to see world trade growth climb higher in May too. (See Chart 2.) Nonetheless, the bigger picture is that world trade volumes have broadly tracked sideways since the end of 2014, and the relationship between global output and trade has undergone a structural shift.

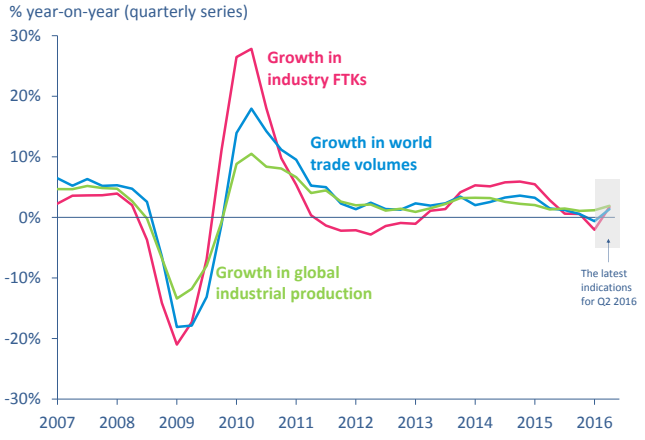
Global business surveys continue to offer little encouragement for an immediate turnaround in fortunes for industry-wide air freight either. The new export orders

Chart 1 – FTK growth by carrier region of registration



Sources: IATA Economics, IATA Monthly Statistics

Chart 2 – Air freight growth vs. world trade and industrial production growth



Sources: IATA Economics, IATA Monthly Statistics, Netherlands CPB

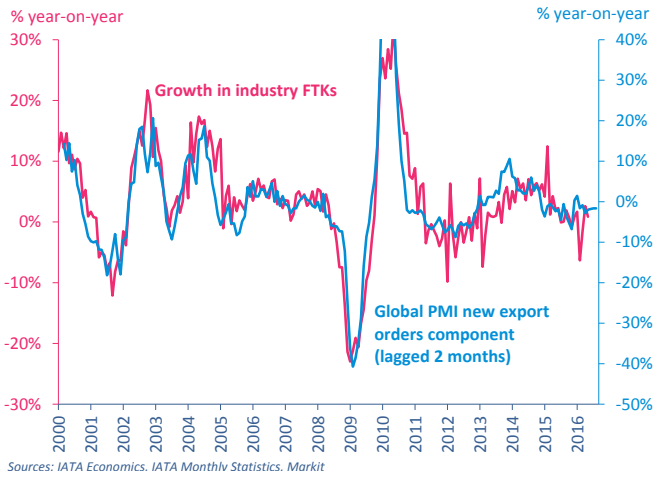
Air freight market overview - May 2016

	World share[1]	May 2016 (% year-on-year) FTK	AFTK	FLF (%-pt)[2]	FLF (level)[3]	% year-to-date FTK	AFTK	FLF (%-pt)[2]	FLF (level)[3]
TOTAL MARKET	***100.0%***	**0.9%**	**4.9%**	**-1.7%**	**41.9%**	**-0.5%**	**6.3%**	**-2.9%**	**42.2%**
International	*87.0%*	0.8%	5.1%	-1.9%	45.1%	-0.9%	5.9%	-3.1%	45.5%

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

component of the global Purchasing Managers' Index (PMI) – a closely-watched survey which has a long-standing relationship with growth in air freight volumes – remained in contractionary territory for the fifth consecutive month in June. (See Chart 3.)

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



Sources: IATA Economics. IATA Monthly Statistics. Markit

All told, 2016 is shaping up to be another disappointing year for air freight. We forecast FTKs (including mail) to increase by 2.1% in 2016, although given the weak start to the year, the risks appear on the downside.

Little respite on the capacity front

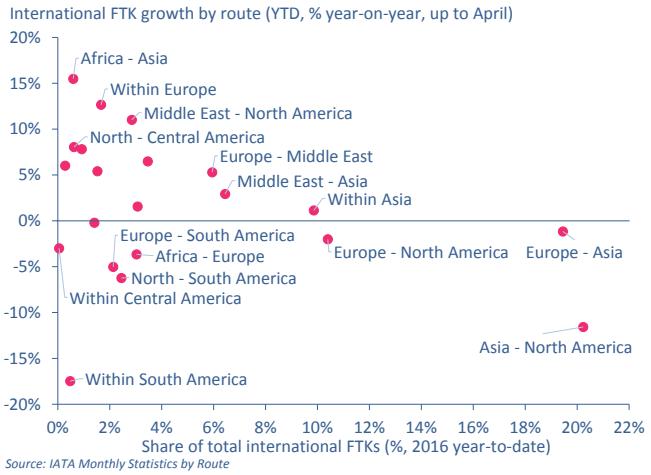
There is little respite on the capacity front either. Admittedly, annual growth in available freight tonne kilometres (AFTKs) eased to 4.9% year-on-year in May – the slowest pace since March 2015. But this looks to be a blip, and industry-wide freight capacity has continued to trend upwards strongly. All told, the industry-wide freight load factor dropped to 41.9% in May – a record low for the month and 1.7 percentage points lower than in May 2015. This is continuing to exert intense pressure on freight yields and revenues.

A wide spread in route-level performance

Air freight volumes across the Pacific – the largest market in terms of FTKs flown – were almost 12% lower during the first four months of 2016 compared to the same period in 2015. (See Chart 4.) Looking specifically at air cargo volumes into and out of the US, imports from Japan are down 46% this year to date (up to April), mainly reflecting the boost that air cargo received from airbag recalls in early 2015. (See Chart 5.)

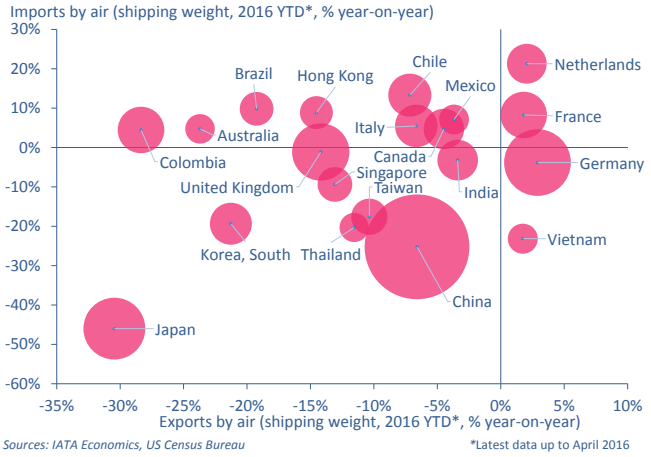
The next two largest freight markets – those between Europe and Asia, and across the Atlantic – have also

Chart 4 – International FTK growth by route (year-to-date, segment-basis)



Source: IATA Monthly Statistics by Route

Chart 5 – US trade by air, top-20 trading markets



Sources: IATA Economics, US Census Bureau

*Latest data up to April 2016

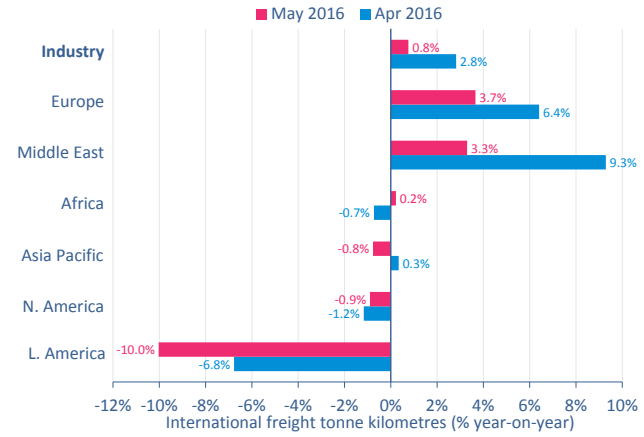
seen annual declines in FTKs this year to date, albeit more modest (1.2% and 2.0% respectively).

Europe and Mid East post the fastest growth in May

International FTKs increased by 0.8% year-on-year in May. In terms of performance by airline region of registration, European and Middle Eastern airlines once again saw the fastest growth in international FTKs (3.7% year-on-year and 3.3% in May 2016 respectively). (See Chart 6, overleaf.)

The uptick in European growth corresponds with a strong tick-up in the new export orders component of the Germany PMI in June. FTKs flown on the Europe-Asia market jumped by 5.9% year-on-year in April. It is still too early to tell whether seasonally-adjusted European FTKs have broken out of the corridor that they have occupied since mid-2010, but the recent upward trend is encouraging.

Chart 6 – International FTK growth by carrier region of registration



Sources: IATA Economics, IATA Monthly Statistics

On the other hand, despite posting year-on-year growth in May, demand conditions for Middle Eastern carriers have weakened considerably over the recent past. Indeed, the strong upward trend in Middle Eastern FTKs that was the norm from the start of 2009 onwards has weakened markedly; annual growth in May 2016 was less than one-fifth of the pace registered in May 2015. The slowdown coincides with an easing in annual network expansion growth (airport pairs served) by the main carriers in the region since the second quarter of 2015, but it is also indicative of the broader weak patch in the industry.

Annual declines in FTKs registered in three regions

Airlines in Asia Pacific fly the most international FTKs (almost 40% of the total in 2015), but continue to face headwinds from the weak trade backdrop in the region. International FTKs in May fell by 0.8% compared to May 2015. Trade volumes from Emerging Asia remain under pressure, with total volumes in April 2016 coming in at the same level as those seen at the end of 2013. By way of context, total air freight tonnes handled at Shanghai airport have grown by just 1.8% this year-to-date, compared to 11.7% in the same period in 2015. The one glimmer of hope is that conditions in the 'Within Asia' air cargo market appear to be improving slowly.

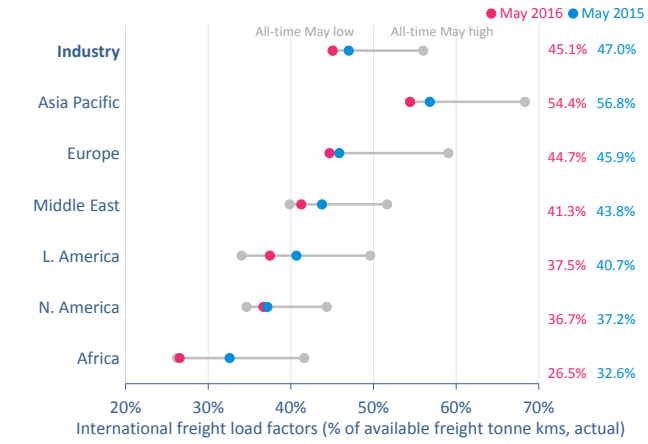
FTKs carried by North American airlines remained in negative territory for the 12th consecutive month in May. Although the US dollar weakened somewhat in early-2016, its previous strength has kept US outbound air freight under pressure. As shown in Chart 5 on the previous page, 16 of the top-20 air cargo markets for the US have seen air export volumes from the US decline in annual terms so far in 2016.

International FTKs flown by Latin American carriers plunged by 10.0% in annual terms in May, and have trended down since mid-2015. In a reflection of the highly challenging economic conditions in the continent – not least in Brazil – the 'Within South America' market remains the worst performing freight route so far this year. FTKs on the larger North-South America route have held up better, helped by an increase in US imports from many Latin America countries so far this year on the back of weaker currencies throughout the regions. (Again, see Chart 5.)

African freight capacity continues to surge

International FTKs flown by African airlines in May 2016 edged up by 0.2% compared to the same month in 2015. However, as has been the trend since December 2015, international freight capacity growth far outstripped that of demand, driven by rapid long-haul expansion (particularly by Ethiopian Airlines). The combination of rising capacity and falling demand pushed the African international freight load factor down to just 26.5% in May 2016 – more than six percentage points lower than in May 2015 and less than half the level of Asia Pacific carriers. (See Chart 7.)

Chart 7 – International freight load factors by carrier region of registration



Sources: IATA Economics, IATA Monthly Statistics

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6th July 2016

Air freight market detail - May 2016

	World share [1]	May 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%***	**0.9%**	**4.9%**	**-1.7%**	**41.9%**	**-0.5%**	**6.3%**	**-2.9%**	**42.2%**
Africa	*1.5%*	0.3%	22.2%	-5.6%	25.5%	-1.1%	22.9%	-6.0%	24.9%
Asia Pacific	*38.9%*	-0.7%	3.7%	-2.3%	51.6%	-3.4%	4.1%	-3.9%	50.5%
Europe	*22.3%*	4.5%	5.7%	-0.5%	43.9%	2.9%	5.9%	-1.3%	44.8%
Latin America	*2.8%*	-9.7%	-7.0%	-1.0%	35.3%	-4.0%	1.8%	-2.1%	35.3%
Middle East	*14.0%*	3.2%	9.5%	-2.5%	40.9%	5.9%	11.0%	-2.0%	41.0%
North America	*20.5%*	-0.2%	3.2%	-1.1%	31.8%	-2.3%	5.8%	-2.8%	33.2%
International	***87.0%***	**0.8%**	**5.1%**	**-1.9%**	**45.1%**	**-0.9%**	**5.9%**	**-3.1%**	**45.5%**
Africa	*1.5%*	0.2%	23.1%	-6.1%	26.5%	-1.1%	24.0%	-6.6%	25.9%
Asia Pacific	*34.6%*	-0.8%	3.6%	-2.4%	54.4%	-4.0%	4.1%	-4.5%	53.4%
Europe	*21.9%*	3.7%	6.4%	-1.2%	44.7%	2.4%	6.4%	-1.8%	45.6%
Latin America	*2.5%*	-10.0%	-2.3%	-3.2%	37.5%	-4.2%	1.9%	-2.5%	39.4%
Middle East	*14.0%*	3.3%	9.5%	-2.5%	41.3%	6.0%	11.0%	-2.0%	41.4%
North America	*12.4%*	-0.9%	0.4%	-0.5%	36.7%	-4.2%	1.6%	-2.3%	38.8%

[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.

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