

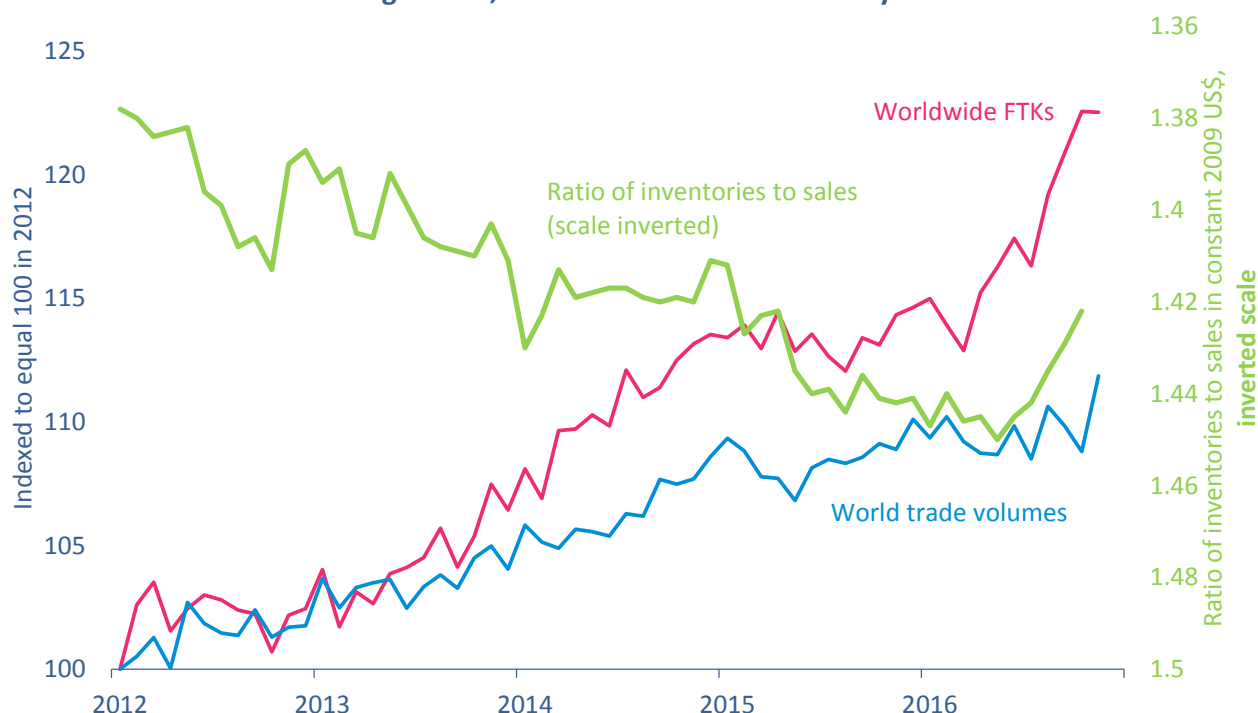


# IATA ECONOMICS' CHART OF THE WEEK

27 JANUARY 2017

## WHAT EXPLAINS THE RECENT OUTPERFORMANCE OF AIR FREIGHT?

Air freight FTKs, world trade and the inventory-sales ratio



Source: FTKs - IATA Statistics, World trade - Netherlands CPB, US inventory-sales ratio - Haver

- Cross-border trade appears not to be at the top of policy-makers priority lists at the moment, with UK PM May announcing a 'hard' Brexit from the EU and US President Trump pulling out of the Trans Pacific Partnership, looking to renegotiate NAFTA, a border tax with Mexico and measures to discourage US firms investing overseas. Yet air freight volumes have been doing rather well recently. Watch out for the release on Wednesday of December data to see how 2016 ended.
- By November last year worldwide air freight tonne kilometers (FTKs) had risen almost 7% since the start of the year, which is a very strong outperformance over other modes of transport, since overall world trade volumes were up only 1.5% over the same period. Why has air cargo done well in what is a pretty weak world trade environment?
- There are a number of factors. One is the cyclical fall in business inventories compared to sales (note the scale is inverted), which typically causes firms to replenish inventories by air. There are also some structural drivers: the growth of e-commerce and the strength of certain sectors, such as pharmaceuticals, that typically ship product by air. And there were some one-off factors: the Hanjin Shipping bankruptcy in August may have diverted cargo to air temporarily, and the Samsung Galaxy S7 worldwide recall and replacement is unlikely to be repeated. Finally, one of the reasons why shipping and overall world trade has been weak is due to the lack of demand for bulk commodities from Chinese construction.
- This outperformance may not be repeated, unless the growth of anti-trade sentiment is appropriately opposed. After all, there is evidence that air cargo, and trade generally, is good for the global economy (eg, see our recent [study](#)).

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