

CARGO CHARTBOOK

2016 Q1

Key points

- Global growth continued to perform below its potential – “new mediocre” growth is now the new reality.
- Growth in FTKs had positive momentum since 2H2015 and into January of 2016 but subdued expectations on export orders and poor performance of semi-conductor shipments point to downward pressure for air cargo growth in the short term.
- In the medium term, strong consumer confidence and lagged impact of lower oil prices leave room for cautious optimism.
- Lower oil prices have brought freighter capacity out of storage, which can put further downward pressure on yields.

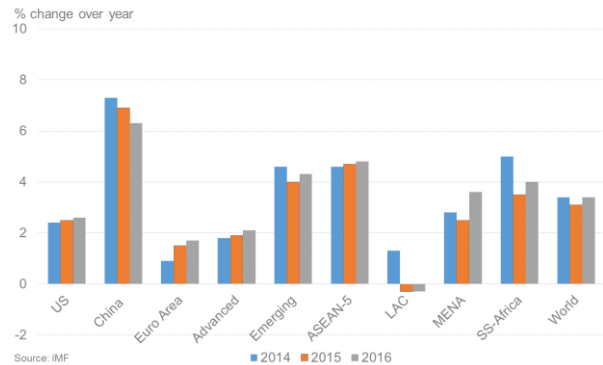
Economic Outlook & Traffic Performance

Global economic growth softened towards the end of 2015 and preliminary data suggest further waning in 2016 (1). Air cargo performance in 2015 was weak (2). December levels point to year-on-year growth of just 1.4% in FTKs. Compared to 2014, volume year-to-Dec FTK growth was 2.2%. These small gains in volumes over the year are explained by the surge in activity in Q1 because of the US West Coast seaport backlog and recalls in the US for Japanese auto-parts.

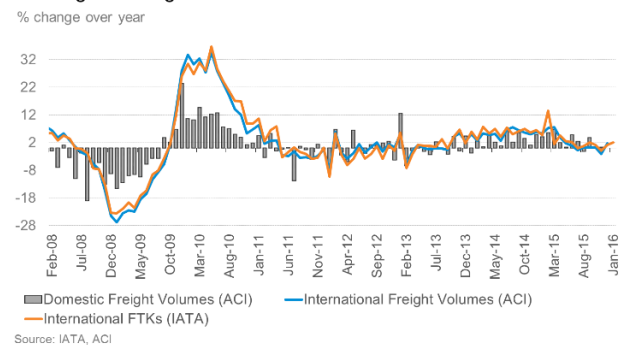
Advanced economies continued to expand but the rate of growth has slowed. The drop in US growth is in large part due to a sharp fall in investments in the energy sector, weather events and weaker export performance on the back of an appreciating USD. Crucially, underlying demand drivers look positive, with unemployment continuing to fall. The slow pick up in wage growth is not an immediate concern and is explained by lower inflationary pressures and retirement of baby boomers (3). Broad based growth has continued in the eurozone, aided by lower oil prices, but weaker exports create headwinds. Emerging economies continue to grow well below their potential. The slowdown and rebalancing in China has put commodity exporters under severe pressure. The Brazilian economy is expected to shrink by 3.2% in 2016, while India, a net commodity importer, is set to be the best performing major emerging economy.

Our forecast for 2016 points to acceleration in air cargo growth - FT and FTK growth of 2.7% and 3.0% respectively. Risks to our forecast are tilted to the downside. Global growth continues to stay mediocre while the combination of heightened financial market volatility and threat of deflationary pressure (4) add to risks to the forecast and the global recovery. However, action by policy makers, through coordinated accommodative monetary policy and where appropriate fiscal expansion along with structural reforms, can mitigate adverse impacts.

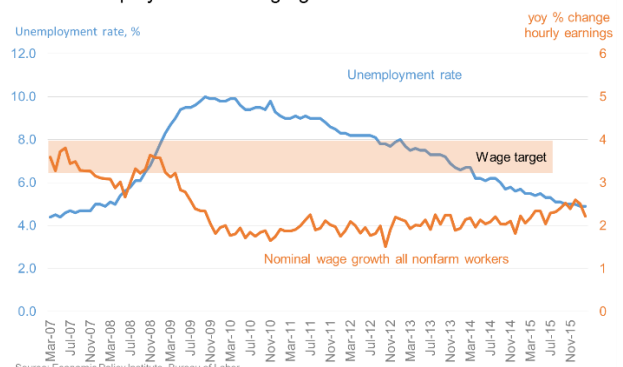
1. Forecast for GDP growth



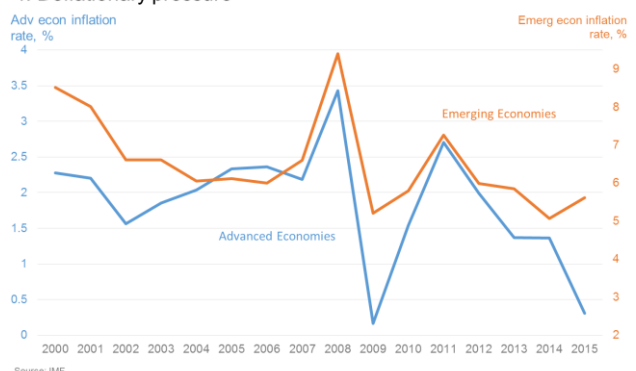
2. Freight traffic growth



3. US unemployment and wage growth



4. Deflationary pressure



Demand Environment and Drivers

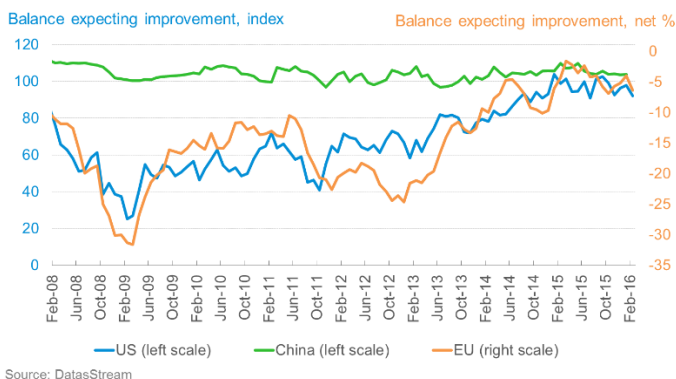
Global trade growth has been weak in 2015, December levels were up just 0.6% from a year ago, growing slower than air cargo. Trade growth failed to regain momentum at the end of the year with month-on-month growth rates in November declining by 0.3% and staying flat in December. This is explained by weaker performance in trade of bulk commodities/heavy industry. Air cargo benefited from increasing share of global growth originated in advanced economies in 2015 (5). Even if growth in air cargo in 2016 outperforms world trade, the weak economic recovery will subdue growth potential.

Global PMI for export orders dipped into contractionary territory in February. This suggests that in the short term downward pressure on air cargo growth can be expected (6).

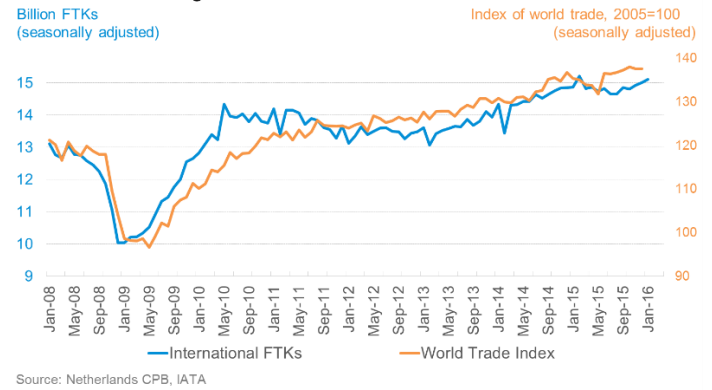
The increase in business inventories to sales ratio offers another explanation on the weakness observed in FTKs. The continuing build-up of US inventories suggests that even if a higher than expected acceleration in economic activity was to materialize it may not significantly stimulate air cargo volumes as inventory overhang threatens to subdue air cargo growth prospects (7).

The decrease in semi-conductor shipments is yet another indicator that points to weaker demand drivers in the short term (8). Consumer confidence has been strong, despite some minor dips in latest data (9). However, consumer spending in the US has supported stronger growth in the services sector or has been moderated due to a higher shift to savings, limiting the upside impacts for air cargo demand. Nevertheless, the continued strength in consumer confidence, falling unemployment in advanced economies and prospects for favorable lagged impact of lower oil prices are factors that in the medium term can be a source of optimism.

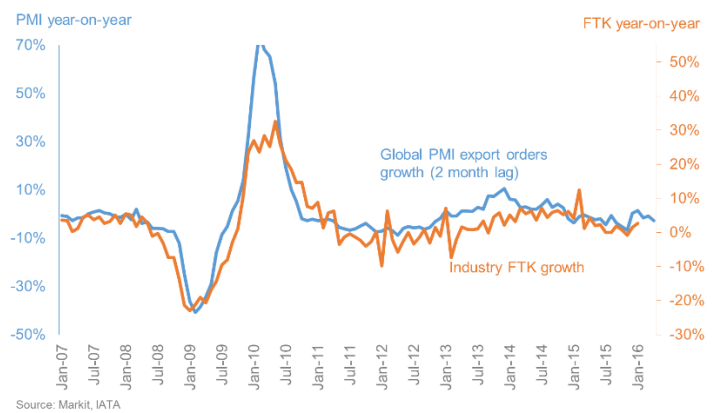
9. Consumer confidence



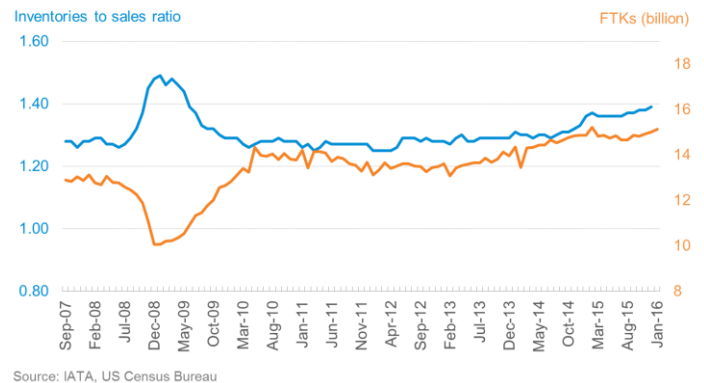
5. World trade in goods and air FTKs



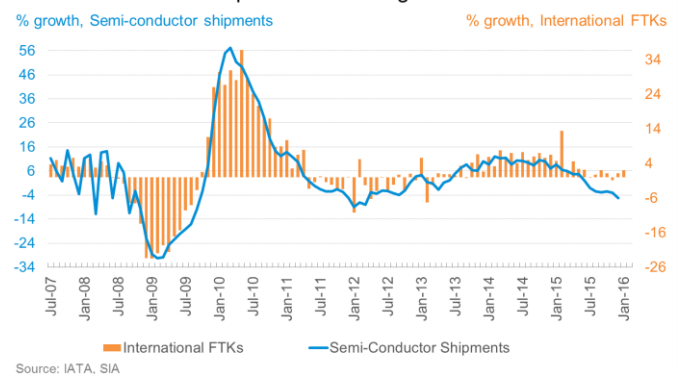
6. Global export orders and air freight



7. Total business inventories to sales ratio & FTKs



8. Semi-conductor shipments & air freight



Capacity and Competition

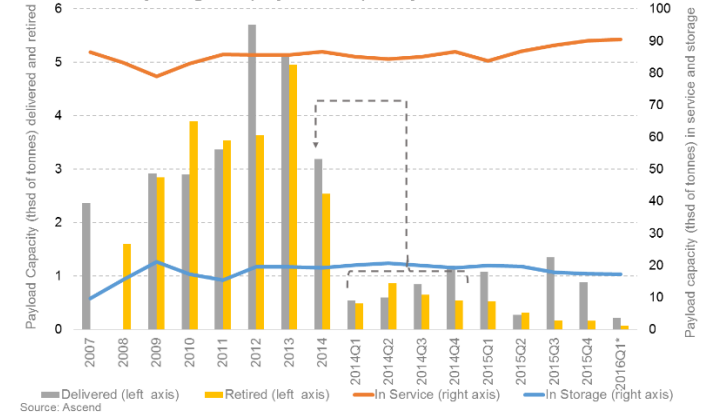
In-service payload capacity for widebody freighters increased for the fourth consecutive quarter. The increase is explained by a reduction of in-storage capacity and delivery of new aircraft. In-storage capacity remains at levels comparable to historical highs but has reduced as aircraft have come out of storage. The pace of retirement of older aircraft has continued to slow, with retirements of only two aircraft in 2015Q4 and one aircraft so far in 2016Q1 (10).

The combination of these factors has meant that in-service widebody freighter payload capacity in 2015Q4 grew by 1.6% compared to Q3 and 3.9% compared to 2014Q4. While capacity in storage in 2015Q4 fell by 2.2% compared to Q3 and 9.5% compared to 2014Q4 (11).

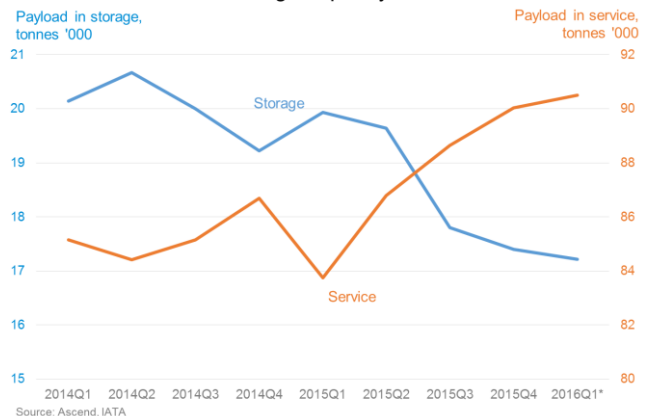
The capacity challenge is further exacerbated by the strong growth in demand in the passenger business (12). Deliveries of wide-body passenger aircraft have led to the addition of significant levels of hull capacity (13). On some trade lanes this has had a significant impact on dynamics in the air cargo market.

Increasing aircraft utilization translates to higher availability of capacity. With aircraft utilization hovering near all-time highs this points to another means through which capacity has been boosted in the current market environment (14).

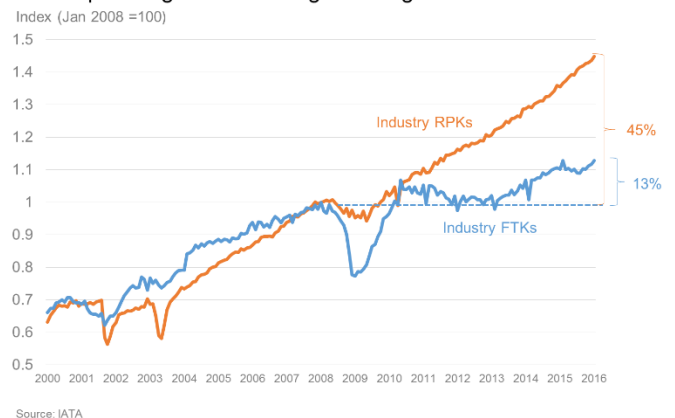
10. Widebody freighter payload capacity



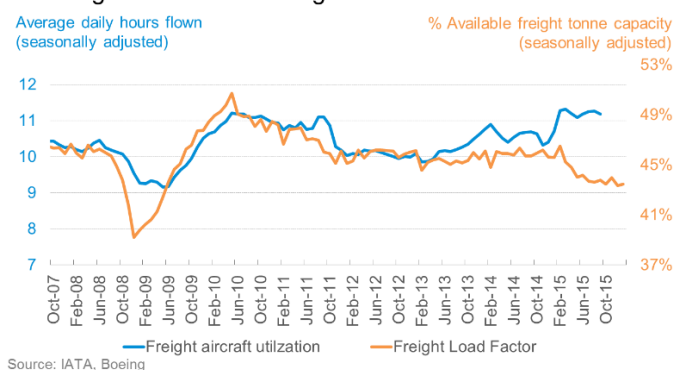
11. In service and in storage capacity



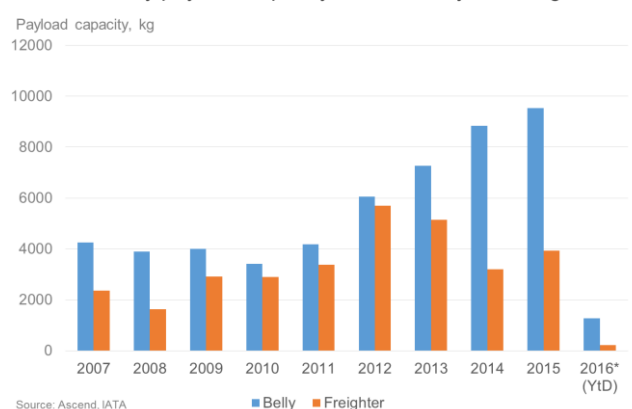
12. Air passenger and air cargo traffic growth



14. Freight load factor & freighter aircraft utilization



13. Widebody payload capacity added - belly and freighter



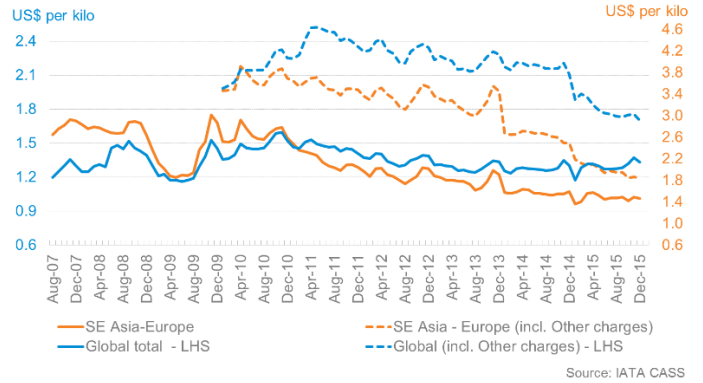
Revenues, costs and profits

At an industry level air cargo yields have largely stayed flat in Q4 although a gradual downward slide in yields continues when including other charges (15).

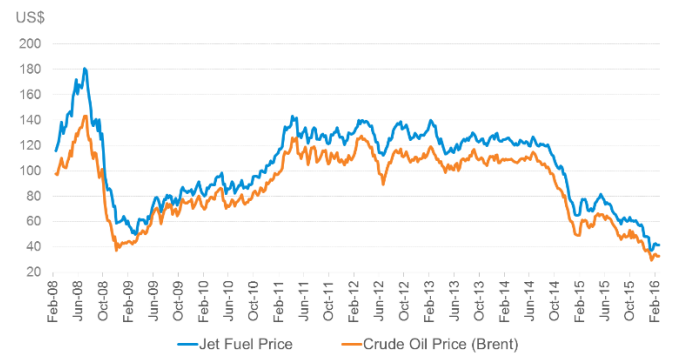
Jet fuel prices in Q4 were on average 9% lower compared to Q3. They ended the year at a third of the price compared to the February 2013 high (16). The year on year yield comparison, at an industry level, shows that the falls in yields do not exceed what can be expected from the impact of lower oil price.

However, an increase in widebody freighter payload capacity (see above) and continued deliveries of belly capacity will put downward pressure on yields. IATA survey of heads of cargo confirms the concerns over yield performance for the year ahead (17).

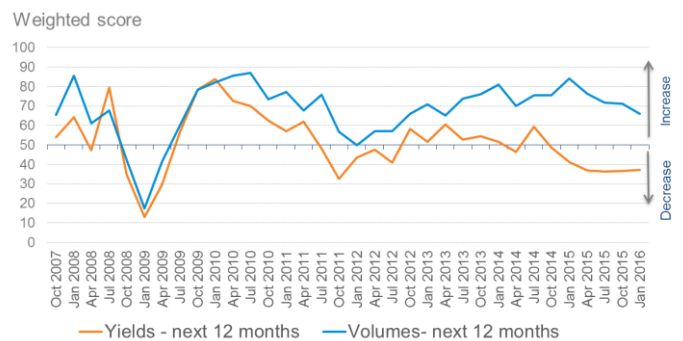
15. Air freight yield (US\$ per kilo)



16. Jet fuel and crude oil price (US\$/barrel)



17. IATA survey of heads of cargo



Air Freight Routes and Direction

Table 1. International Freight Volume Growth by Route Area (Source: IATA statistics)

Route Area	% Growth in Freight Tonnes, year-on-year					
	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15
Africa - Europe	-1.3%	0.6%	2.4%	-4.1%	-9.7%	-3.4%
Africa - Asia	-2.5%	-0.1%	-9.3%	-5.5%	-4.6%	-1.4%
Africa - Middle East	12.5%	12.7%	5.2%	7.1%	0.4%	5.3%
Central America / Caribbean	-7.6%	-7.8%	16.1%	12.4%	18.4%	11.9%
Europe - Central America	-10.0%	-8.0%	0.2%	-12.7%	-9.7%	-6.6%
Europe - Asia	-5.7%	-4.7%	-3.0%	-3.5%	-5.5%	-1.7%
Europe - Middle East	9.8%	7.2%	9.2%	9.6%	9.0%	14.4%
Europe - North America	-5.1%	-2.6%	-3.3%	-2.4%	-5.1%	-1.1%
Europe - South America	5.3%	3.0%	1.5%	-11.4%	-12.3%	-13.2%
Asia - North America	0.2%	-2.8%	-0.2%	-1.8%	-4.1%	-3.7%
Asia - Southwest Pacific	3.0%	7.8%	14.2%	8.8%	5.1%	9.4%
Middle East - Asia	8.0%	7.2%	3.0%	5.9%	0.8%	1.4%
Middle East - North America	22.9%	11.5%	-0.4%	4.0%	11.8%	5.8%
North America - Central	5.2%	-2.8%	-8.2%	-3.5%	2.7%	21.6%
North America - South America	-4.9%	0.1%	-1.7%	-3.7%	-2.2%	-4.3%
North / South America	10.5%	11.7%	20.2%	3.4%	16.1%	17.2%
Within Central America	2.0%	1.0%	15.3%	-7.9%	-2.4%	4.1%
Within Europe	8.1%	4.0%	-6.4%	-11.9%	-10.0%	-14.5%
Within Asia	-1.7%	-0.5%	1.7%	1.4%	-4.6%	-0.4%
Within South America	-9.3%	-25.3%	-21.8%	-22.2%	-25.3%	-14.2%

Table 2. Outbound CASS Market Revenues (incl. fuel and other surcharges)

Origin Region	US\$m Q42015	% Growth in Air Freight Revenues, year-on-year					
		2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4
Africa	99	-4%	11%	15%	9%	4%	-8
Asia Pacific	1359	14%	3%	17%	-8%	-13%	-16
Europe	2417	3%	-6%	-21%	-21%	-20%	-17
Latin America & The Caribbean	478	6%	5%	-4%	-12%	-9%	-10
Middle East & North Africa	138	16%	6%	3%	-4%	-15%	-10
North Asia	1590	17%	6%	-4%	-11%	-14%	-19
North Atlantic & North America	1015	4%	1%	-1%	-9%	-16%	-20

Table 3. Inbound CASS Market Revenues (incl. fuel and other surcharges)

Destination Region	US\$m Q4 2015	% Growth in Air Freight Revenues, year-on-year					
		2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4
Africa	385	11%	8%	-10%	-17%	-21%	-23
Asia Pacific	1523	6%	0.1%	-11%	-14%	-17%	-18
Europe	1576	9%	-2%	-10%	-15%	-14%	-15
Latin America & The Caribbean	619	-8%	-1%	-15%	-18%	-17%	-20
Middle East & North Africa	596	9%	1%	-8%	-10%	-7%	-5
North Asia	685	6%	-9%	-17%	-22%	-22%	-15
North Atlantic & North America	1616	20%	20%	21%	-6%	-14%	-20

Glossary

- ACI: Airports Council International
- AFTK: Available Freight Tonne Kilometers
- ECB: European Central Bank
- EIU: Economist Intelligence Unit
- CASS: Cargo Accounts Settlement System
- FTK: Freight Tonne Kilometers
- PMI: Purchasing Managers Index
- Netherlands CPB: Netherlands Bureau for Economic Policy Analysis
- ODS: Origin-Destination Statistics
- SIA: Semiconductors Industry Association
- US BTS: US Bureau of Transportation Statistics
- M-o-m: Month over month percentage change
- Y-o-y: Year over year percentage change
- YtD: Year to date



15th March 2016

George Anjaparidze
IATA Economics
anjaparidg@iata.org

Terms and Conditions for the use of this IATA Economics Report and its contents can be found here: <http://www.iata.org/economics-terms> By using this IATA Economics Report and its contents in any manner, you agree that the IATA Economics Report Terms and Conditions apply to you and agree to abide by them. If you do not accept these Terms and Conditions, do not use this report.

FURTHER ANALYSIS AND DATA

Access data related to this briefing through the Monthly Statistics publication:

<http://www.iata.org/publications/Pages/monthly-traffic-statistics.aspx>

NEW RELEASE ALERTS

To receive email notification of new analysis from IATA Economics, select 'Economic Briefings' from:

www.iata.org/optin