CARGO CHARTBOOK Q2 2017

Freight demand remains robust, alongside widening profit margins

- Annual growth in air freight tonne kilometres (FTKs) remained robust in the three months ended April 2017, with airline heads of cargo increasingly positive about the outlook over the year ahead.
- This performance continues to be set against a stronger global economic and trade backdrop.
- A combination of rising cargo yields and recent falls in fuel prices is lowering the breakeven load factor. With achieved loads continuing to recover, and freighter utilization increasing, profit margins are widening.

Market developments

- Industry-wide FTK growth has continued its strong start to 2017, with volumes up 10.6% year-on-year in the three months ended April. Once again, European and Asian carriers accounted for more than two-thirds of the annual growth rate.
- On a route basis, FTK growth over the period was fastest on the international segments within Asia and between Europe and Asia (16.5% and 14.5% year on-year respectively).
- Despite numerous complicating factors at the start of 2017 – not least the fact that 2016 was a leap year – the quarterly seasonally adjusted (SA) pace of FTK growth looks to have slowed from the pace seen during the second half of 2016.

Market drivers

- Global economic conditions have improved since mid-2016, including on the consumer side. The trade backdrop has strengthened too, particularly in so-called emerging economies.
- The new export orders component of the global manufacturing PMI has slipped slightly since February, but remains consistent with year-on-year FTK growth of around 8% in Q3 2017.

Capacity, costs and yields

- More than 5,200 tonnes of additional payload capacity were added to the fleet in H1 2017, mostly in the form of wide-body passenger belly capacity. That said, this was around 8% lower than the 5,700 tonnes of payload capacity added in H1 2016.
- Cargo yields (including fuel and other surcharges) have risen by 4.5% in SA terms since bottoming out in mid-2016. With crude oil prices currently some 10% below where they stood a year ago, the breakeven cargo load factor has fallen. At the same time, the achieved load factor has recovered, consistent with a widening in profit margins.
- The current upward trend in freighter utilization will help to lower unit costs further, and to reinforce the stronger backdrop for profitability.

Survey respondents are increasingly positive

- When surveyed in early-April, airline heads of cargo were increasingly confident about the demand outlook over the year ahead. (See Chart 1.) Moreover, respondents were also notably more positive about the outlook for yields; the weighted score jumped above the 50-mark for the first time in nearly three years.

Chart 1 – IATA survey of heads of cargo

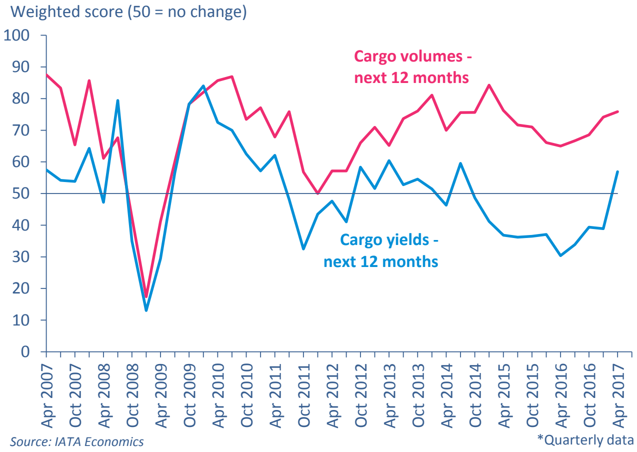


Table 1 – Key data overview

Key data overview - rolling 3 month periods

Rolling 3 month periods (unless specified otherwise)	*% year-on-year*	*% quarter-on-quarter*
Industry-wide FTKs[1]	**10.6%**	**1.2%**
North America-Asia[1]	11.6%	1.4%
Asia-Europe[1]	14.5%	2.9%
Europe-North America[1]	9.7%	1.1%
Within Asia (int'l)[1]	16.5%	3.7%
World trade volumes[1]	**3.9%**	**0.4%**
Additional widebody payload capacity (H1 2017)	Year-on-year change	
	Tonnes	%
Freighters	712	-21.6%
Belly	4,533	-4.8%
	Level[2]	5-yr avg
Global PMI new export orders	52.4	50.5

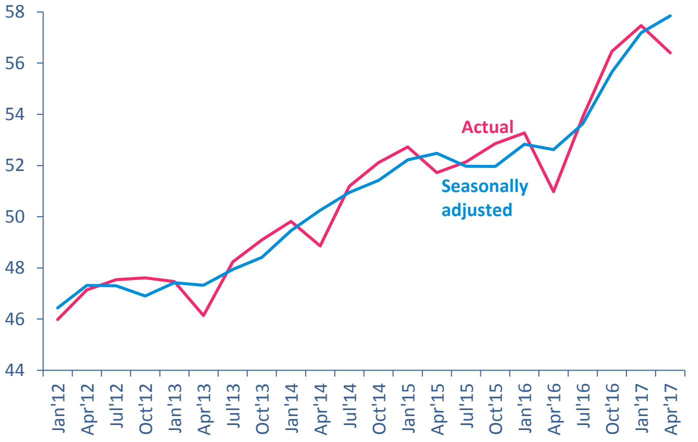
[1] 3m ended Apr 2017
[2] Average of 3m ended May 2017

David Oxley
economics@iata.org
29th June 2017

Market developments

1. Air freight volumes continued to trend upwards on a quarterly seasonally-adjusted basis over the three months ended April 2017. That said, the quarterly pace of growth slowed from that seen during the second half of 2016.

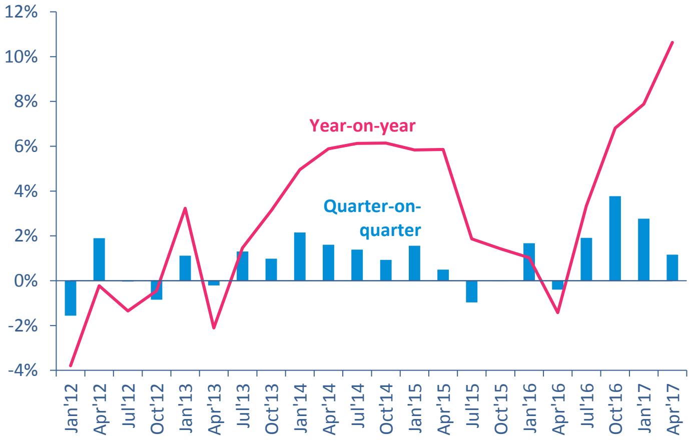
Industry-wide FTKs (billions per rolling 3m period)



Sources: IATA Economics, IATA Monthly Statistics *Rolling 3 month periods

2. Indeed, year-on-year growth in FTKs rose to 10.6% during the three months to April – the fastest pace on a rolling 3-month basis since late-2010. However, around two-thirds of such annual growth relates to gains made in late-2016.

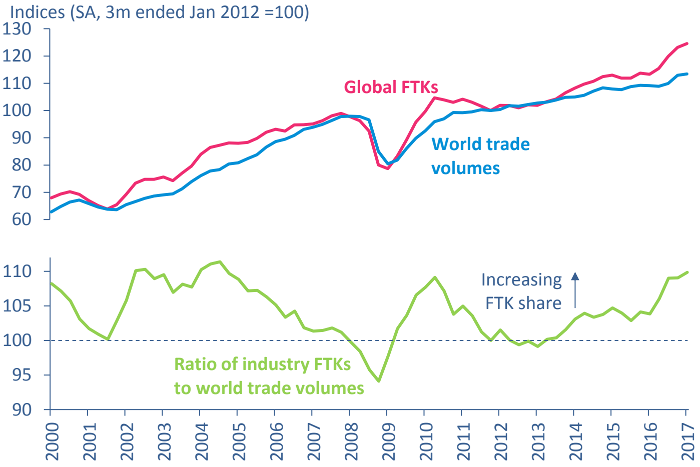
Industry-wide FTKs (% growth rate)



Sources: IATA Economics, IATA Monthly Statistics *Rolling 3 month periods

3. Air freight has gained market share relative to wider world trade volumes since the middle of 2016. This has tended to occur in the past at the start of upturns in the economic cycle, as firms turn to the speed afforded by air freight to restock.

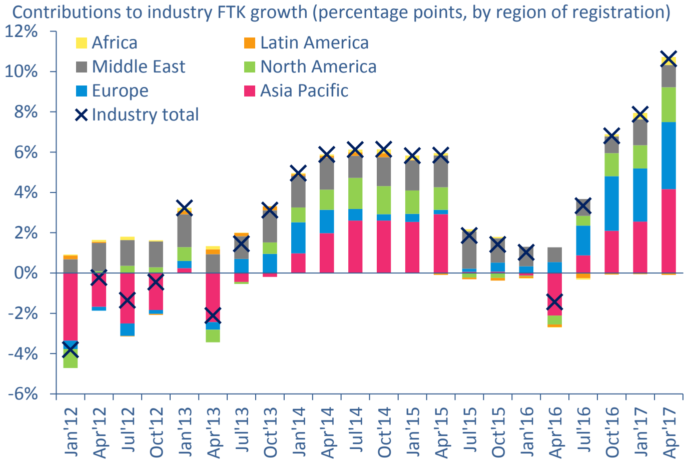
Indices (SA, 3m ended Jan 2012 =100)



Sources: IATA Economics, IATA Monthly Statistics *Rolling 3 month periods

4. Airlines based in Asia Pacific and Europe accounted for around 70% of the annual growth in FTKs over the three months to April. By contrast, Latin American carriers made another modest negative contribution to growth.

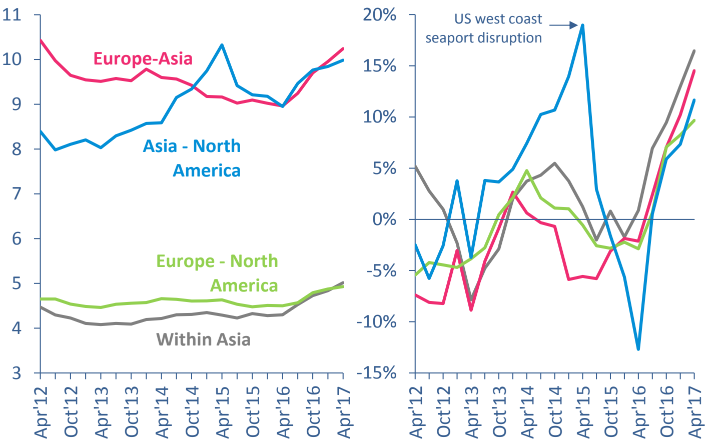
Contributions to industry FTK growth (percentage points, by region of registration)



Sources: IATA Economics, IATA Monthly Statistics *Rolling 3 month periods

5. Traffic increased in seasonally-adjusted terms on all four major segment-based trade lanes over the past three months. Year-on-year growth in the three months ended April was fastest on the within Asia and Europe-Asia markets.

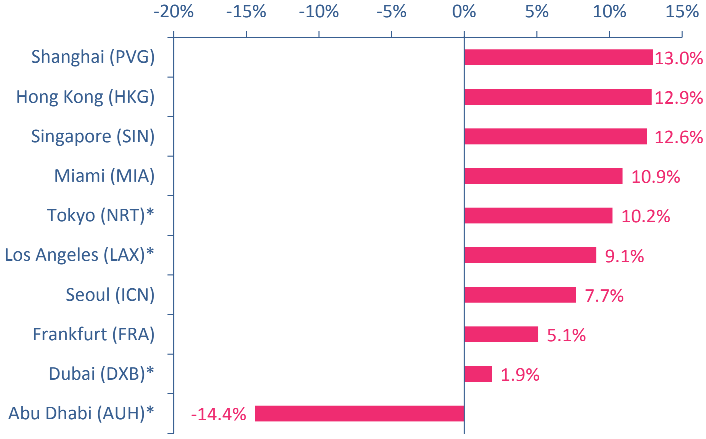
Int'l FTK by route (segment-basis, billion) (% year-on-year)



Sources: IATA Economics, IATA Monthly Statistics *Rolling 3 month periods

6. Cargo throughput increased at double-digit annual paces at a number of key freight airports in May 2017, particularly outbound traffic from Asia. Conditions in the Middle East remain softer, however, with Abu Dhabi a notable outlier.

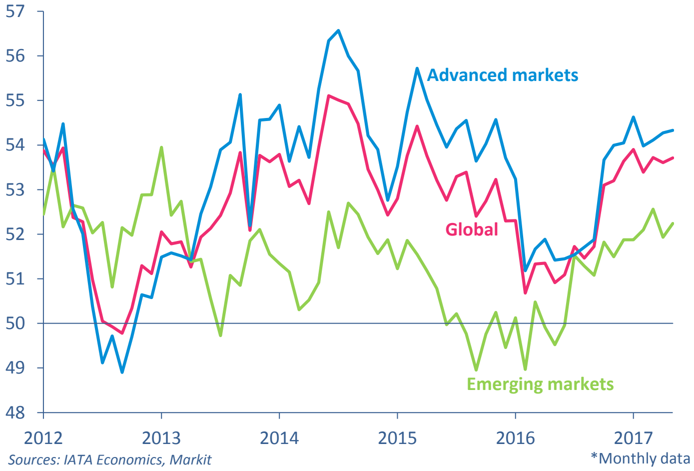
Tonnes of cargo throughput (% year-on-year, May 2017 unless specified)



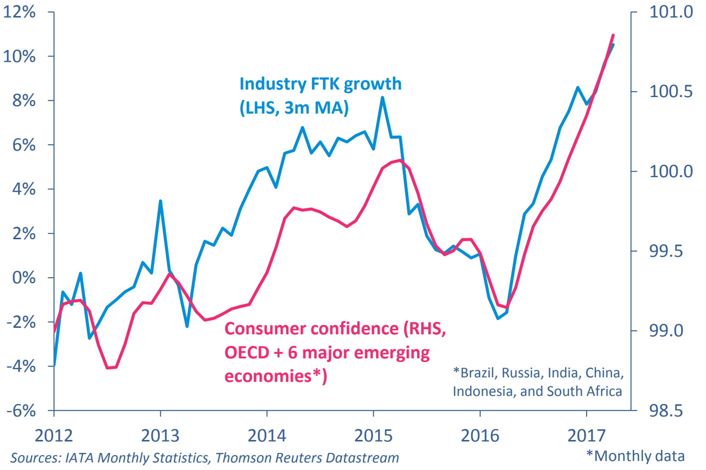
Source: Individual airport websites *Apr 2017

Market drivers

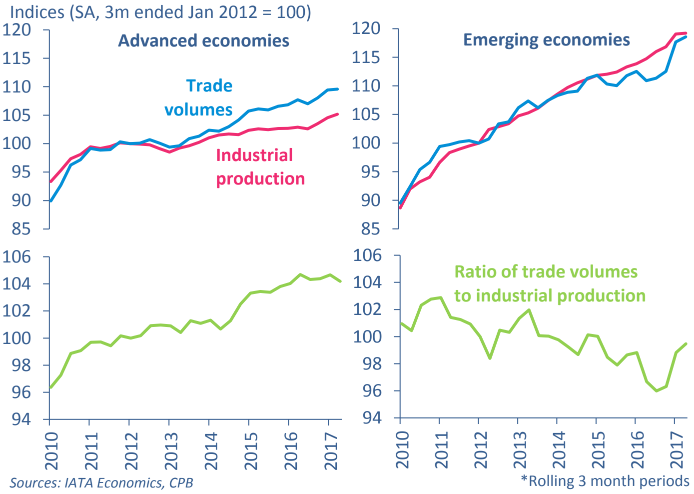
7. The recovery in business confidence has levelled off in advanced economies since start-2017, but has continued to trend upwards in emerging markets. The key point is that the economic backdrop remains much stronger than a year ago.



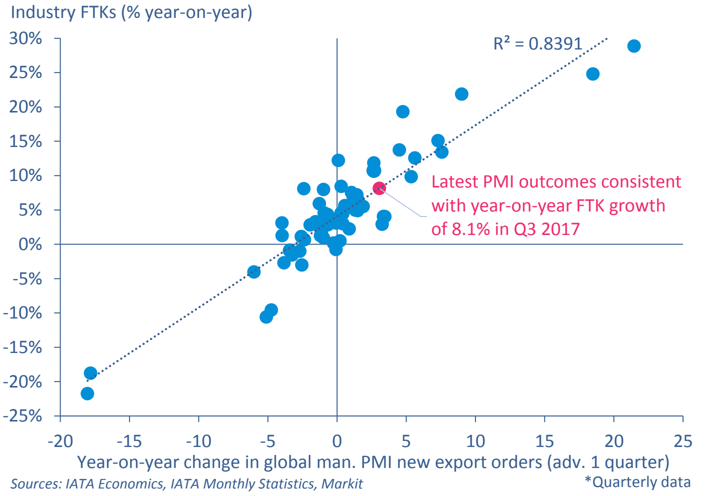
8. Consumer confidence in particular has continued its strong upward trend that began in early-2016. This is translating into increased consumer spending and is helping to support demand for air freighted goods.



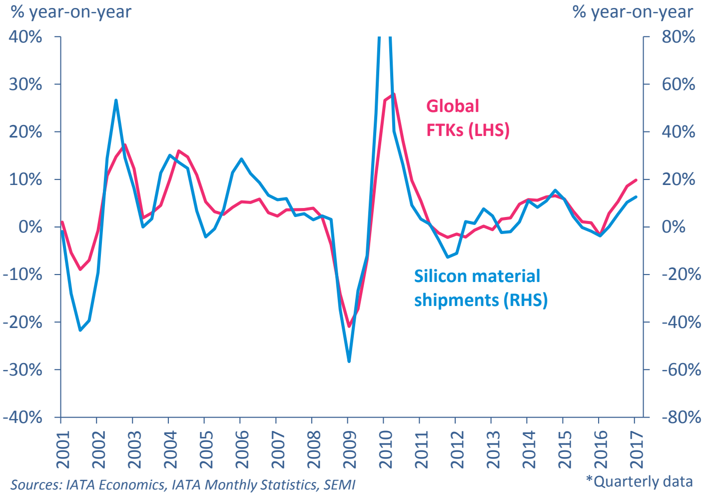
9. The trade backdrop has also improved, most notably for emerging economies. This has helped to stabilize the trend decline in the trade/industrial production ratio for these economies that has been a feature since 2008.



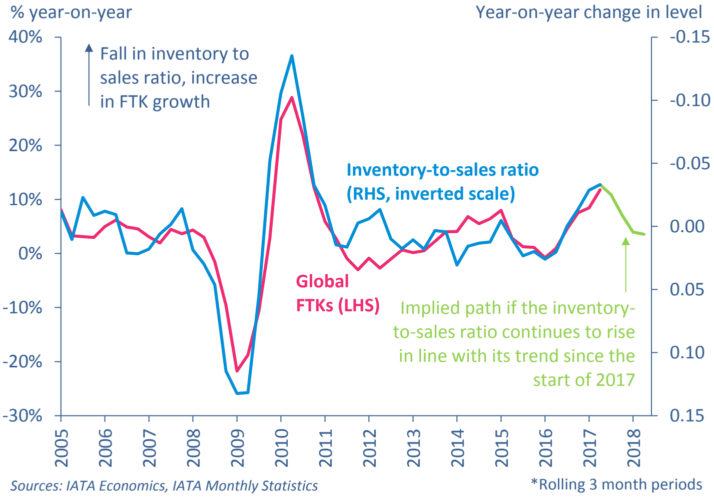
10. The new export orders component of the global PMI has slid back slightly since February, but exporters' order books remain healthy. Based on past performance, the measure is consistent with year-on-year FTK growth of 8.1% in Q3 2017.



11. The traditional demand drivers for air freight volumes have also been solid. Indeed, the quantity of silicon material shipments increased by 12.6% year-on-year in Q1 2017 – the fastest pace since Q4 2014.

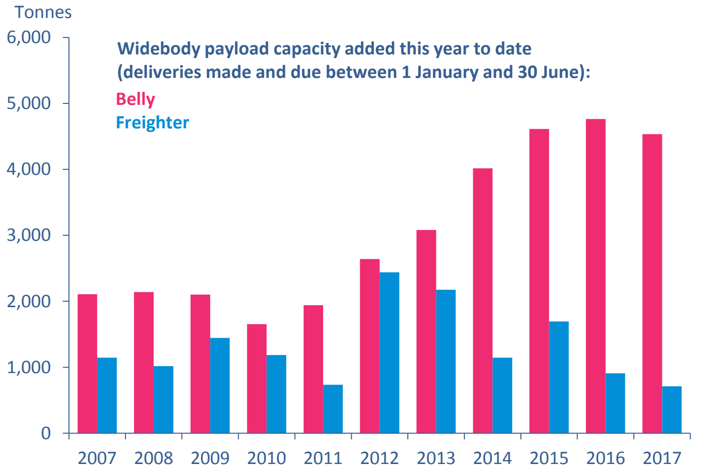


12. A fall in the (US) inventory-sales ratio has been a key driver of the pick-up in FTK growth, consistent with the rise in FTK market share. (See 3.) However, there are tentative signs that we may have reached the cyclical growth peak.



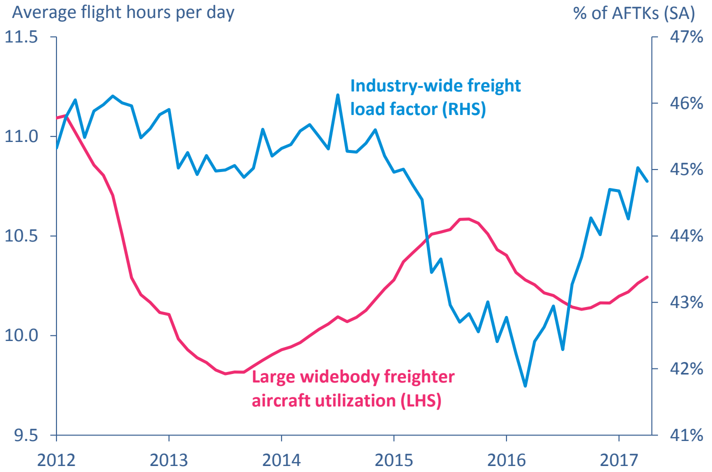
Capacity, costs, and yields

13. 712 additional tonnes of capacity were added to the freighter fleet in H1 2017 – 22% lower than in the same period of 2016. Additional payload from widebody belly capacity has continued to exceed that from freighters only.



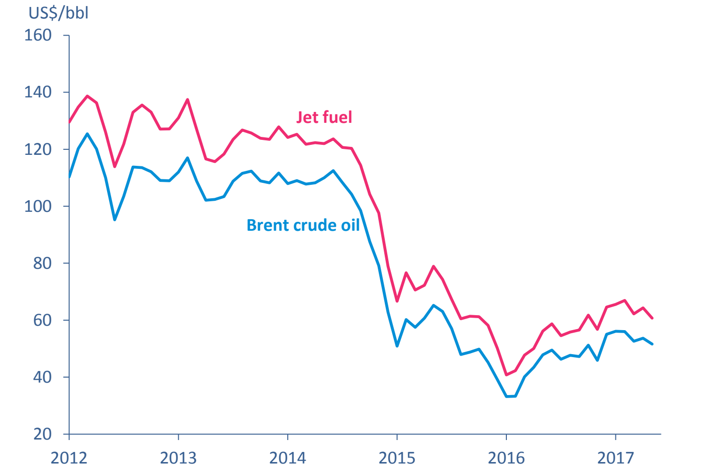
Sources: IATA Economics, Ascend

14. Having started to trend upwards in late-2016, large widebody freighter aircraft utilization has continued to increase so far in 2017 (latest data up to April). This has come alongside a recovery in the freight load factor.



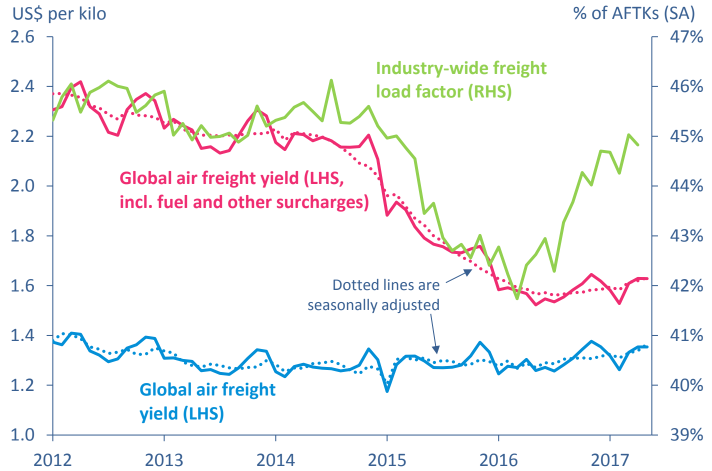
Sources: Boeing, IATA Monthly Statistics *Monthly data

15. Oil prices have slid backwards since the start of the year, and at the time of writing are at a six-month low around US$45/bbl. Oil price futures are consistent with prices increasing just modestly over the years ahead.



Sources: Platts, Thomson Reuters Datastream *Monthly data

16. The upward trend in the load factor has helped to underpin a recovery in cargo yields. The cargo yield including fuel and other surcharges has risen by 4.5% in seasonally adjusted terms since its low-point in mid-2016.



Source: IATA CASS, IATA Monthly Statistics *Monthly data

Get the data

Access data related to this briefing through IATA's Monthly Statistics publication:
www.iata.org/monthly-traffic-statistics

IATA Economics Consulting

To find out more about our tailored economics consulting solutions, visit:
www.iata.org/consulting

New release alerts

To receive email notifications from IATA Economics, select 'Economic Briefings' from:
www.iata.org/optin

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