



CARGO CHARTBOOK

Q3 2017

Freight demand stays strong into H2, alongside a rising yield trend

- Annual growth in air freight tonne kilometres (FTKs) accelerated to 11.8% in the three months ended July.
- Airline heads of cargo remain positive about the outlook over the year ahead, although indicators suggest that the current cyclical upturn in year-on-year FTK growth may be nearing a peak.
- Rising cargo yields are helping to offset upward pressure on breakeven loads from increased input prices. Given the recent increase in freight loads and freighter utilization, this is supporting financial performance.

Market developments

- Year-on-year industry-wide FTK growth accelerated to 11.8% in the three months ended July – its fastest pace since late-2010.
- This acceleration was driven by a pick-up in the contribution from North American airlines, helped by further increases in FTKs flown across the Atlantic. Freight traffic on all of the major international markets is currently growing in the region of 10-15% year-on-year.
- Having slowed earlier in the year, the quarterly seasonally adjusted (SA) pace of FTK growth recovered to match the sort of pace seen in the strong second half of 2016.

Market drivers

- The global economic and trade backdrop has remained supportive of air freight demand. World trade volumes grew by 4.1% year-on-year in H1 2017 – the strongest start to a year since 2011.
- Signs suggest that the cyclical upturn in FTK growth may be nearing a peak – not least the fact that the inventory-to-sales ratio has stopped falling. However, business surveys remain consistent with solid annual FTK growth of around 7.5% in Q3 2017.

Capacity, costs and yields

- 817 tonnes of additional payload capacity have been added to the freighter fleet so far this year – nearly half the amount that was added in the same period of 2016. Almost eight times as much belly payload capacity was added through wide-body passenger deliveries, but even this was a 6% lower than was added last year.
- Cargo yields (including fuel and other surcharges) rose by 7.9% year-on-year in July 2017 – its fastest pace in more than six years. Rising cargo yields are helping to offset upward pressure on breakeven loads from increased input prices.
- The ongoing upward trend in large freighter utilization will help to lower unit costs further, and to reinforce the backdrop for financial performance.

Survey respondents remain upbeat

- When surveyed in early-July, airline heads of cargo remained confident about the outlook for demand over the year ahead. (See Chart 1.) Despite the recent upward trend in cargo yields, our survey respondents were slightly more balanced on the outlook than they were in the previous survey.

Chart 1 – IATA survey of heads of cargo

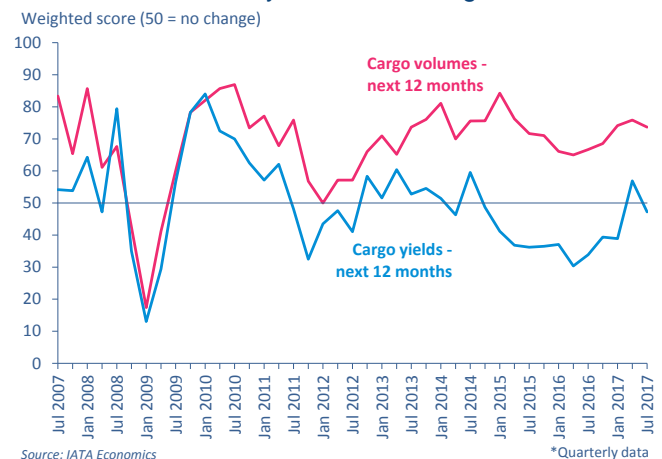


Table 1 – Key data overview

Key data overview - rolling 3 month periods

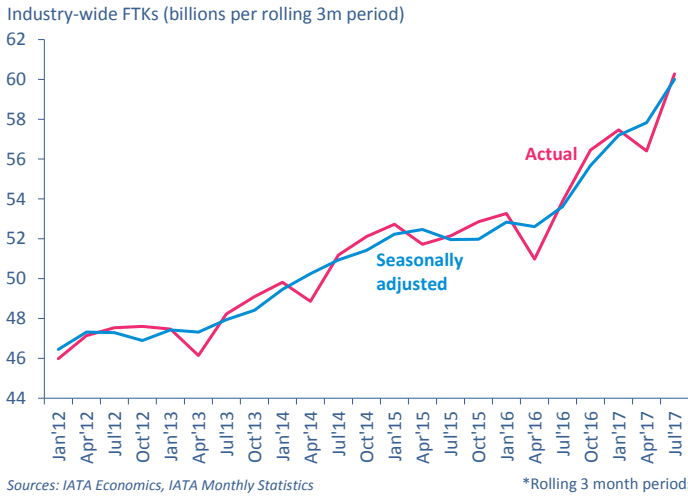
Rolling 3 month periods (unless specified otherwise)	% year-on-year	% quarter-on-quarter
Industry-wide FTKs¹	11.8%	3.8%
North America-Asia ²	9.9%	4.4%
Asia-Europe ²	14.2%	3.8%
Europe-North America ²	11.8%	3.5%
Within Asia (int'l) ²	13.0%	4.0%
World trade volumes¹	4.3%	0.4%
Additional widebody payload capacity (Jan-Sept 2017)	Year-on-year change	
	Tonnes	%
Freighters	817	-48.0%
Belly	6,203	-6.0%
Global PMI new export orders	Level ³	5-yr avg
	52.8	50.8

¹ 3m ended Jul 2017
² 3m ended Jun 2017
³ Average of 3m ended Aug 2017

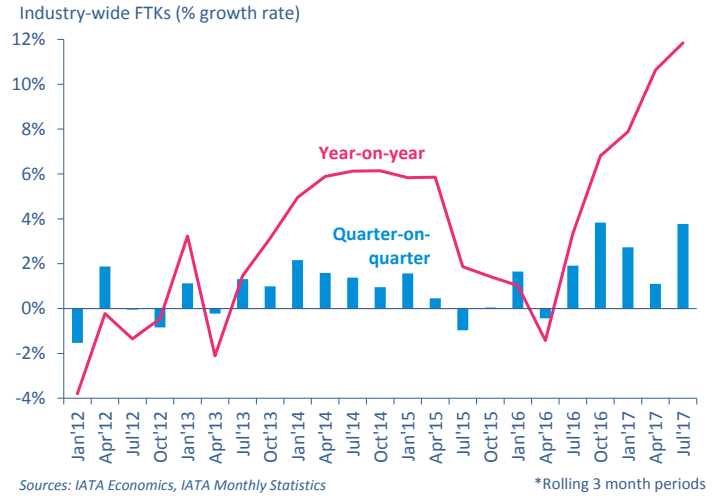
David Oxley
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 18th September 2017

Market developments

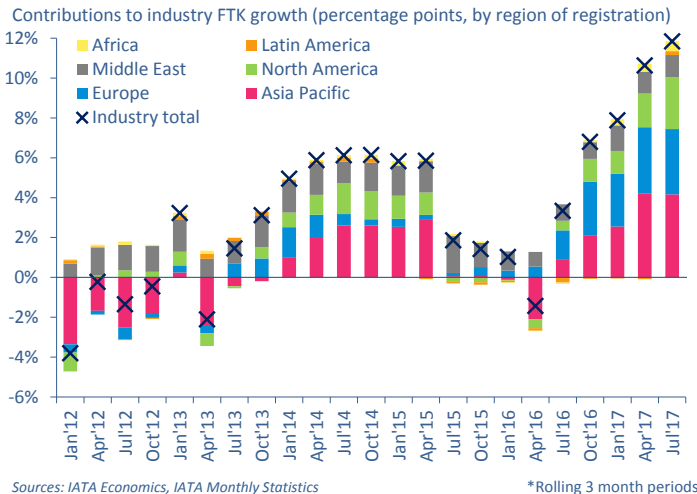
1. Having moderated earlier in the year, the upward trend in quarterly seasonally-adjusted air freight tonne kilometres (FTKs) accelerated once again in the three months ended July 2017.



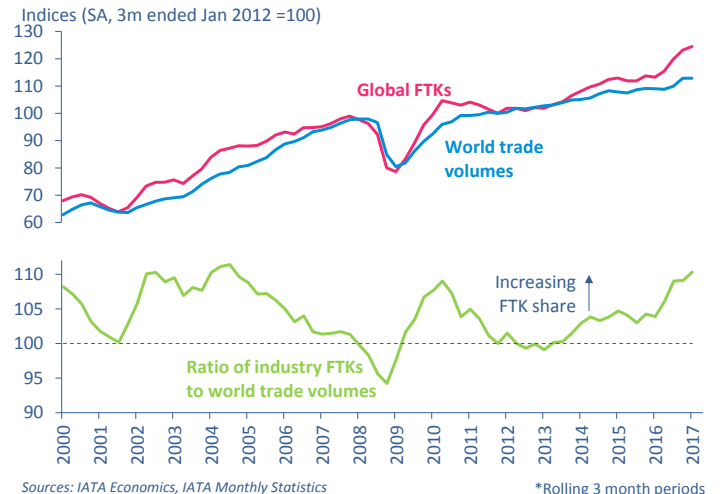
2. The quarterly pace of growth matched that seen during the middle of 2016. All told, year-on-year growth in FTKs increased to 11.8% during the period – the fastest pace on this 3-month rolling basis since 2010.



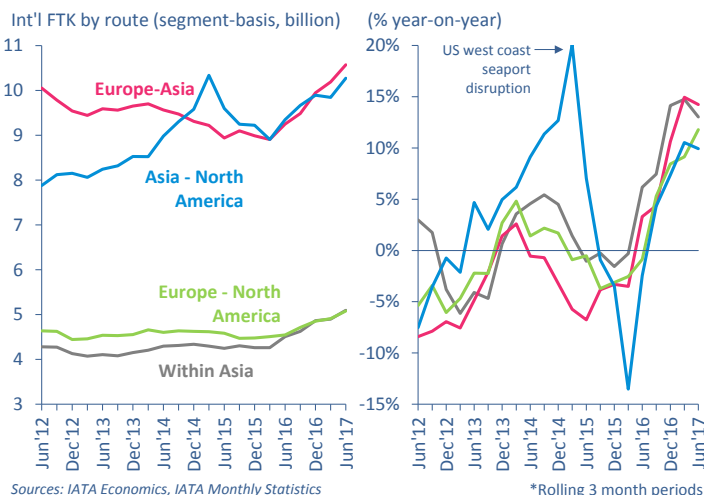
3. Carriers based in Europe and Asia Pacific made sizeable contributions to annual growth in FTKs in the 3 months to July. But the pick-up compared to the previous three month period was driven largely by North American airlines.



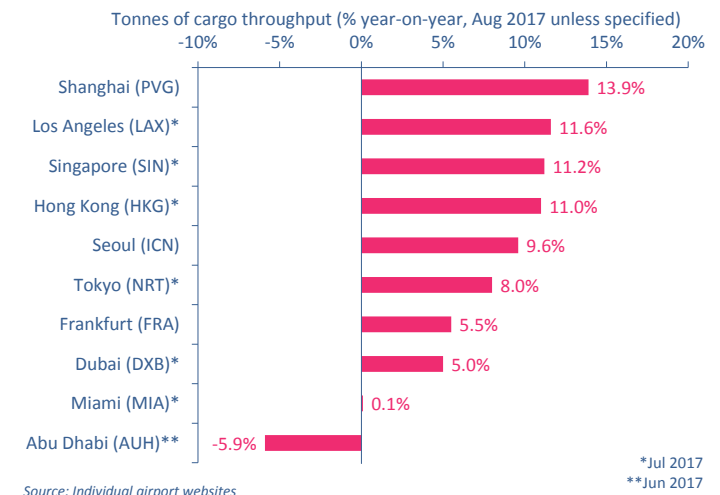
4. The recent period of air freight outperformance relative to wider goods trade has been consistent with the typical pattern seen during upturns in the economic cycle, as firms turn to the speed afforded by air freight to restock.



5. Traffic increased in seasonally-adjusted terms on all four major segment-based trade lanes over the past three months. Year-on-year FTK growth remained in the region of 10-15% in all cases.

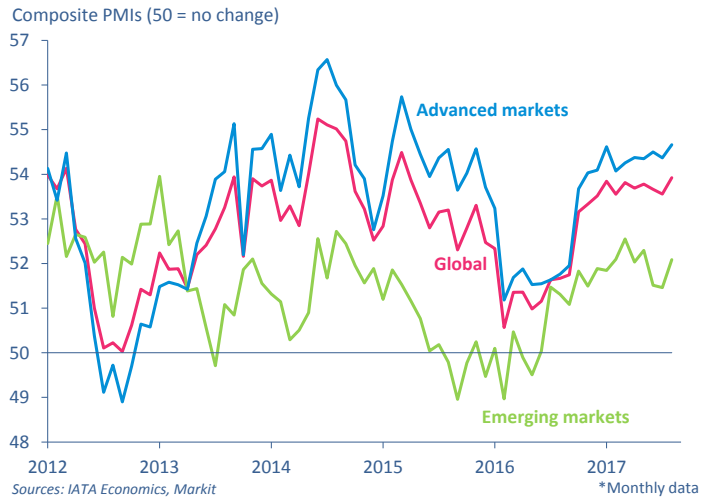


6. Cargo throughput rose robustly at a number of key freight airports in August 2017, particularly in Asia. Miami and the Middle East airports remain the outliers, however, notably Abu Dhabi.

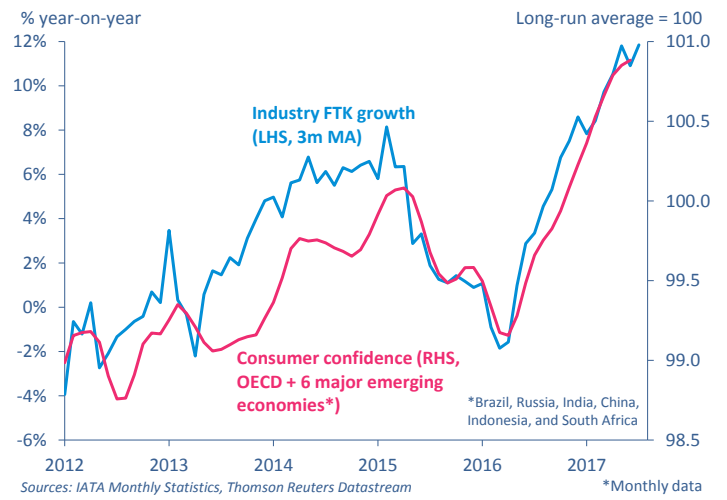


Market drivers

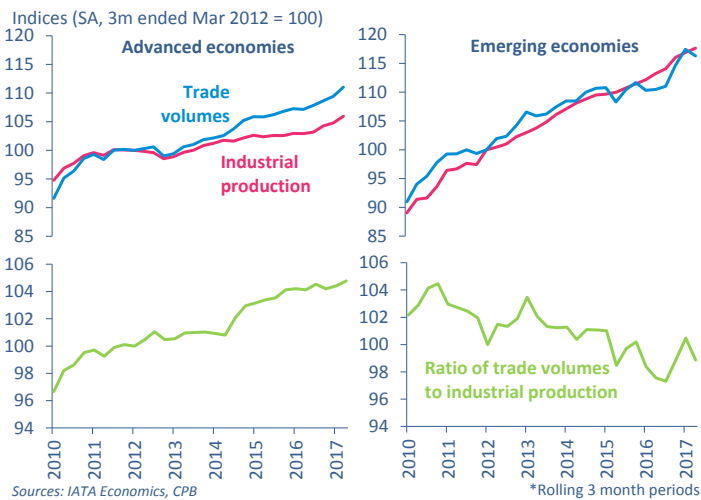
7. Global business confidence has largely tracked sideways since late-2016. Nonetheless, confidence remains above its five-year average and picked up in August, particularly in so-called emerging markets.



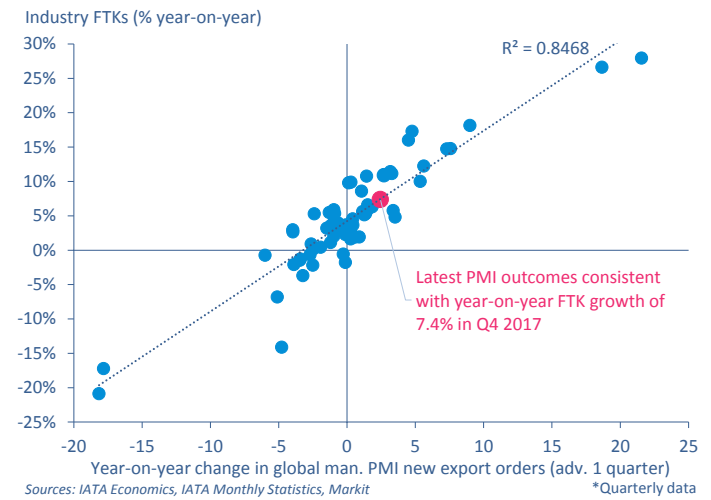
8. Having risen strongly since early-2016, consumer confidence in particular has remained strong. This pick-up is translating into stronger consumer spending and is helping to support demand for air freighted goods.



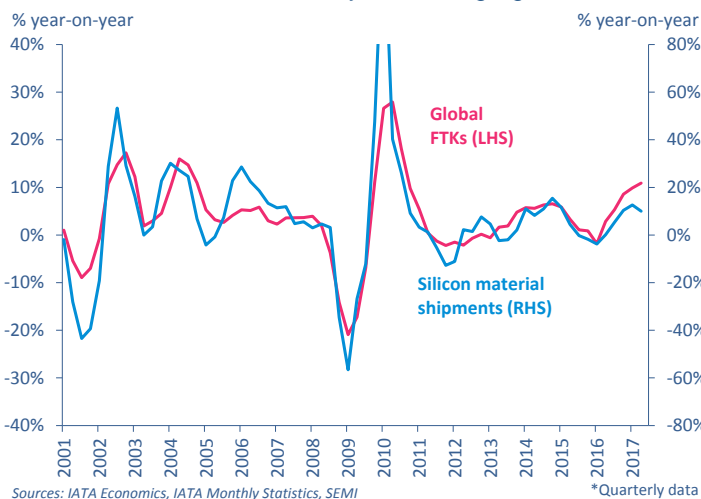
9. The trade backdrop has also improved: world trade volumes grew by 4.1% year-on-year in H1 2017 – the strongest start to a year since 2011. This was driven by a 5.9% increase in emerging market trade.



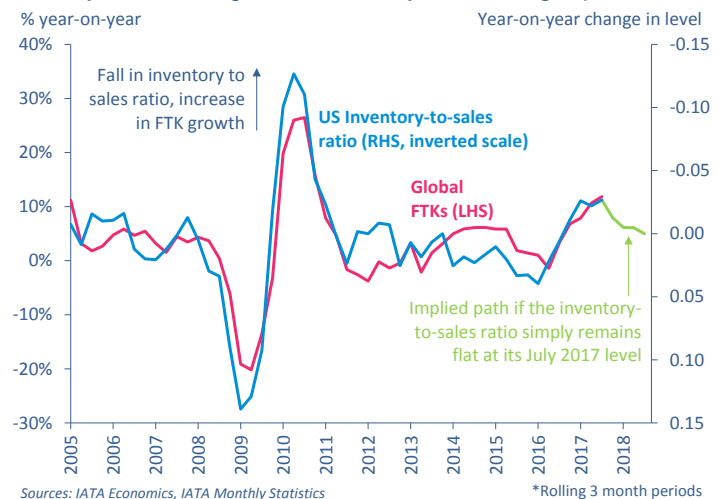
10. The rising trend in the new export orders component of the global PMI paused during H1 2017. Nonetheless, exporters' order books remain robust, and the measure is consistent with year-on-year FTK growth of 7.4% in Q4 2017.



11. The traditional demand drivers of air freight volumes have also been strong so far in 2016. The quantity of silicon material shipments increased by 10.1% year-on-year in Q2 2017 – almost double its five-year average growth rate.

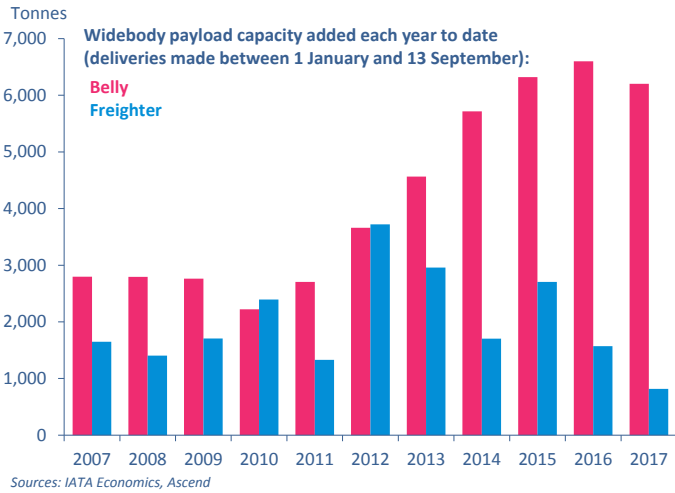


12. The recent fall in the (US) inventory-sales ratio has also helped to drive the pick-up in FTK growth. That said, the ratio has now stopped falling, and suggests that the annual industry-wide FTK growth rate may be nearing a peak.

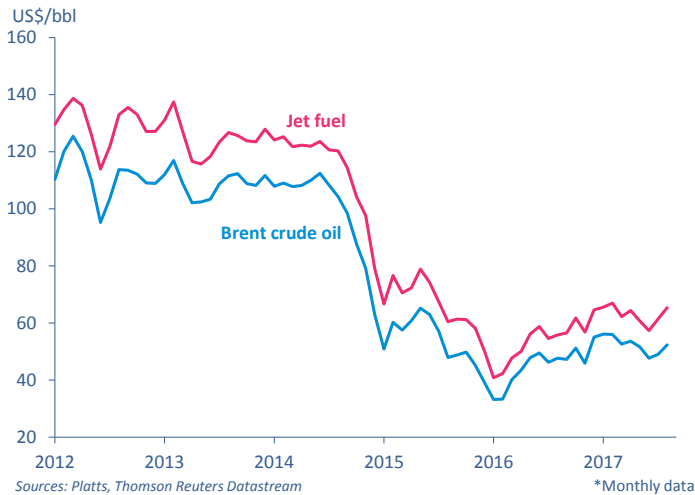


Capacity, costs, and yields

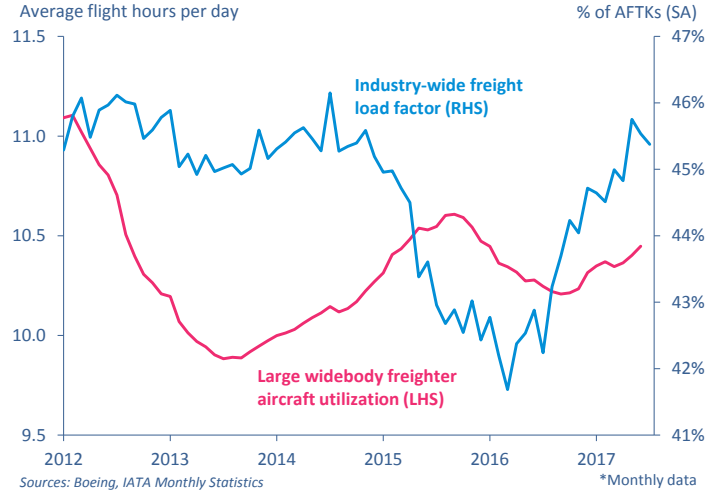
13. 817 tonnes of capacity have been added to the freighter fleet so far this year – almost half the amount added in the same period of 2016. Additional payload from widebody belly capacity has continued to exceed freighter-only additions.



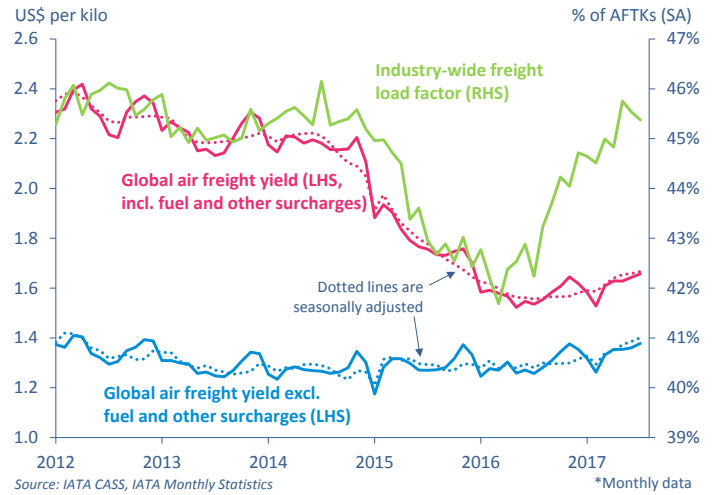
15. Brent oil prices recently rose to a five-month high around US\$54/bbl, driven in part by a weaker US dollar. Oil price futures are consistent with prices remaining broadly in line with current levels over the coming years.



14. Large widebody freighter aircraft increased throughout the first half of 2017, taking it back to levels last seen in late-2015. The pick-up in utilization has come alongside a recovery in the freight load factor from its early-2016 lows.



16. The recovery in the freight load factor has helped to underpin a recovery in cargo yields. The cargo yield including fuel and other surcharges rose by 7.9% year-on-year in July – its fastest annual pace since late-2010.



Get the data

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