



AIR FREIGHT MARKET ANALYSIS

October 2016

Air freight growth accelerated to an 18-month high in October

- Global air freight tonne kilometres grew by 8.2% year-on-year in October 2016 – the fastest pace in 18 months.
- The upward trend in seasonally adjusted (SA) air freight has strengthened over the past three months...
- ...amid signs of a stronger-than-expected peak season, particularly for European and Asian carriers.
- The SA load factor has risen strongly recently, with annual improvements in October in all regions except Africa.

A strong peak season for air freight...

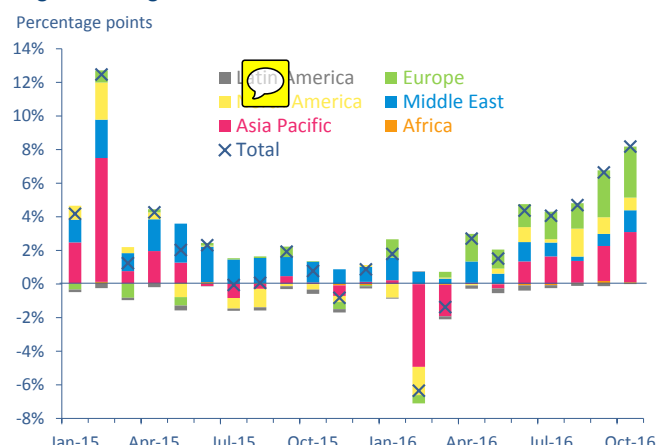
Global air freight tonne kilometres (FTKs) grew by 8.2% year-on-year in October 2016 – the fastest pace since February 2015 when air freight received a boost from disruption at seaports on the west coast of the US.

As was the case in September, European and Asia Pacific airlines accounted for the bulk of the annual increase in industry-wide FTKs, with growth of 13.4% and 7.8% year-on-year, respectively. (See Chart 1.) Middle East and North American airlines made smaller positive contributions to year-on-year growth, while Latin American carriers saw freight volumes contract in annual terms for the eighth month in a row (albeit only by 0.1%).

...consistent with signs from business surveys

The upward trend in seasonally-adjusted FTKs has strengthened over the past three months. (See Chart 2.)

Chart 1 – Contributions to annual FTK growth by airline region of registration

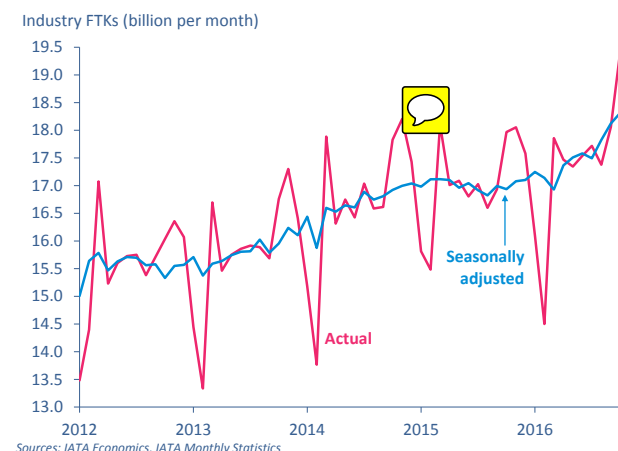


This is consistent with the pick-up in the new export orders component of the global purchasing managers' index (PMI) since the middle of the year. This component reached a 26-month high in November, albeit just slightly ahead of where it stood this time last year. (See Chart 3, overleaf.) All told, if sustained, the survey results suggest that air freight will carry some momentum into 2017.

A sign of more intense peak periods ahead?

More generally, October's data tie in with broader signs of a stronger-than-expected peak season for air freight in 2016. This may in part be explained by some one-off factors, including some potential mode shift to air freight this year following the collapse of the Hanjin shipping company in late-August. Others have also suggested that weak market conditions earlier this year may have caused some complacency amongst companies ahead of this year's peak season, and thereby led to more of a last-minute reliance on air freight.

Chart 2 – FTK levels



Air freight market overview - October 2016

	World share ¹	October 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%	8.2%	3.6%	1.9%	46.2%	2.7%	5.5%	-1.2%	42.4%
International	86.9%	9.2%	4.3%	2.3%	50.5%	2.6%	5.5%	-1.3%	46.1%

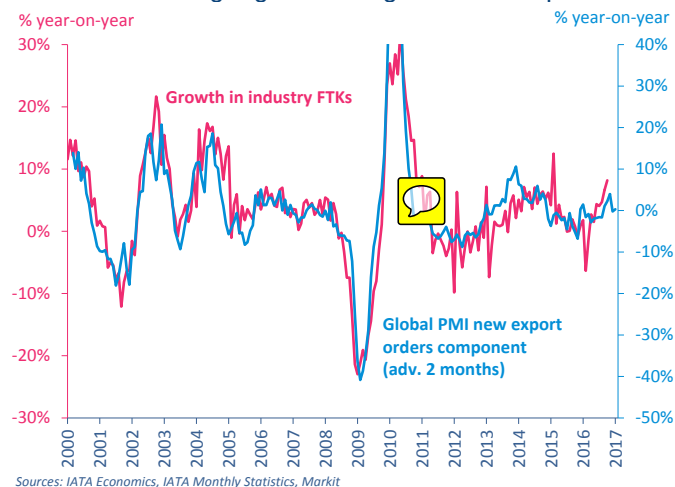
¹% of industry FTKs in 2015

²Year-on-year change in load factor

³Load factor level

But equally, the strong October data may be an early sign of a shift in the industry business model and a pivot away from the traditional drivers of growth. (Recall that we pointed to the necessity of this shift in a recent note: [link](#).) For example, anecdotes from the industry have reported strong growth in cross-border e-commerce and pharmaceutical flows. Moreover, with sales events such as Black Friday and Cyber Monday only becoming more popular, this year may also be a sign of more intense peak periods in the future for more traditional items such as apparel and consumer electronics. Certainly anecdotes suggest that November has been another strong month.

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



Of course, the wider weakness in world trade trends remains an ever-present headwind. Data compiled by the Netherlands CPB show that the upward trend in world trade volumes has more or less slowed to a standstill in 2016, with trade growth lagging behind that seen in industrial production so far this year. The big unknown is how strong the underlying trend in air freight volumes will be once the 2016 peak period has ended.

However, air freight is ending 2016 on a high, which is likely to provide a solid base for annual growth rates throughout early-2017.

SA load factor has risen since earlier in the year

Industry-wide freight capacity increased by 3.6% year-on-year in October. The upward trend in available freight tonne kilometres has moderated since the middle of the year, in part owing to a slowdown in deliveries to the wide-body passenger fleet (particularly in Asia Pacific).

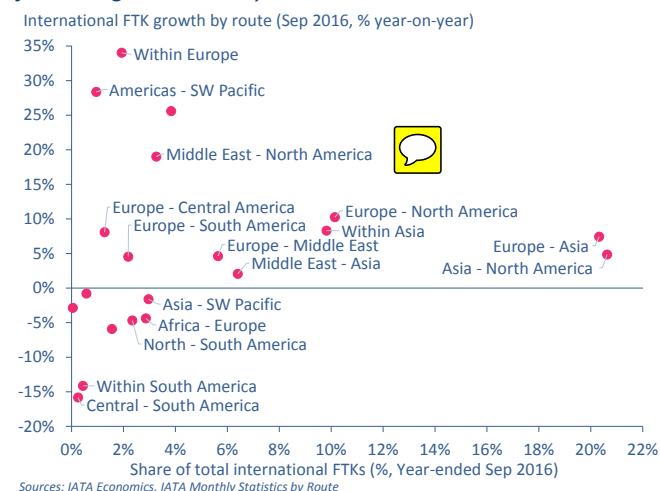
Given the acceleration in the upward trend for traffic in recent months, the seasonally-adjusted industry-wide load factor has risen by two and a half percentage points since its recent low in early-2016. Freight load factors

increased compared to October 2015 for all regions except Africa.

Asia-Europe traffic has grown strongly

The main freight lanes out of Asia are continuing to perform well. Having trended downwards over the past five years or so, traffic on the Europe to Asia route has risen at an annualized rate of more than 17% over the past three months; volumes increased by 7.4% year-on-year in September (the latest data available). (See Chart 4.) International traffic within the region also grew by 8.3% year-on-year in September 2016.

Chart 4 – International FTK growth by route (% year-on-year, segment-basis)



The Transpacific market remains the laggard of the 'big-four' so far this year to date, mainly reflecting the boosts to traffic seen last year from US west coast seaport disruption and airbag recalls. (As shown in Chart 6, overleaf, US imports by air from Japan and China have fallen considerably this year compared to the same period in 2015.) Year-on-year traffic growth on the route accelerated to 4.8% in September, but seasonally-adjusted volumes have broadly tracked sideways since the middle of the year.

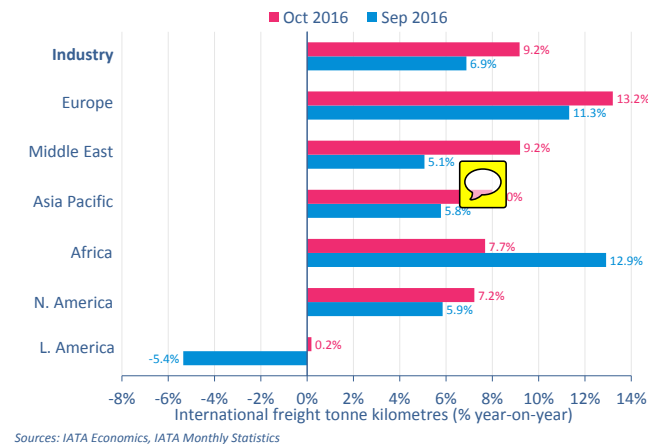
European carriers remain the standout story

Growth in total international FTKs accelerated to 9.2% year-on-year in October, up from 6.9% in September. (See Chart 5, overleaf.)

The surge in international traffic flown by European airlines remains a standout story in recent developments. FTKs grew by 13.2% year-on-year in October – the fastest pace since April 2011 – and the upward trend in seasonally-adjusted traffic is very strong. This is in keeping with a sustained increase in the new export orders component of the German PMI, helped in part by ongoing weakness in the euro. Carrier-level data indicate

that cargo-only carriers registered in the region are continuing to do well, and Turkish Airlines has also grown very strongly this year, despite domestic economic and political upheaval. The hub nature of the latter helps to explain the strength of the international 'Within Europe' freight segment in recent months as well. While only a small market (around one-tenth the size of the Transpacific market, for example), volumes surged by 34% year-on-year in October.

Chart 5 – International FTK growth by carrier region of registration



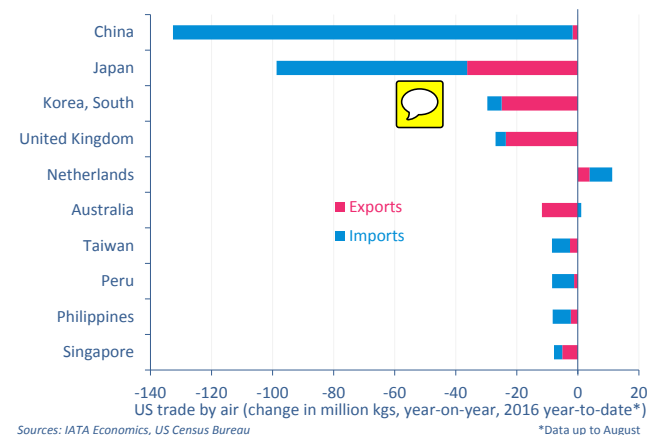
Carriers based in the Asia Pacific, who fly almost 40% of all international FTKs, have also reported strengthening demand conditions in recent months (8.0% year-on-year in October). In seasonally adjusted terms, volumes have risen at an annualized rate of 15% since March, and are finally back to levels reached in the aftermath of the global financial crisis (GFC) in 2010. Demand conditions have improved in the 'Within Asia' air cargo market in recent months, as well as on routes to and from the region. The airports in Hong Kong and Shanghai reported that cargo tonnage increased by 7.1% and 8.9% year-on-year respectively in October, with the latter being driven by international inbound freight.

Middle Eastern growth recovers but trend has slowed

International FTKs flown by Middle Eastern airlines increased by a solid 9.2% year-on-year in October. This was an improvement from the rates seen in recent months, but the bigger picture is that the strong upward trend in seasonally-adjusted traffic has eased over the recent past. This turnaround partly relates to weaker conditions on the biggest routes to and from the Middle East (those between Asia and Europe). Freight traffic on such routes has grown by just 2.5-3.5% so far this year, compared to 8-11.5% over the same period in 2015. Conditions have weakened on the much faster-growing Middle East to North America route as well.

Annual growth in international traffic flown by North American airlines accelerated to 7.2% in October – its fastest pace since the disruption at US seaports in February last year. As in the case of Asia Pacific airlines, seasonally-adjusted freight traffic is finally back to the levels reached in the aftermath of the GFC in 2010. The strength of the US dollar has kept US outbound air freight under pressure so far this year. But the biggest declines in US trade by air this year to date have been on imports from China and Japan, in keeping with the comparative weakness of conditions on the Transpacific market. (See Chart 6.)

Chart 6 – US trade volumes by air (top-10 biggest changing trading partners, 2016 year-to-date)



Robust African growth and some recovery in Lat.Am

Annual growth in international FTKs flown by African airlines slowed in October, but still remained robust (7.7% year-on-year). In keeping with the recent trend, freight capacity grew more than three times faster than demand in October (26.1% year-on-year). The latter is being driven by rapid long-haul expansion (particularly by Ethiopian Airlines) and expansion by North African carriers too. The African international freight load factor was just 27.9% in October – nearly five percentage points lower than in October 2015, and the only region in which loads fell compared to a year ago.

International FTKs flown by Latin American carriers have recovered somewhat in seasonally adjusted terms from earlier in the year. But they are only back to where they started 2016, and remain around 10% lower than peak-level in late-2014. The 'Within South America' market has been the weakest performing market so far this year (volumes contracted by 14% year-on-year in October).

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 7th December 2016

Air freight market detail - October 2016

	World share ¹	October 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%	8.2%	3.6%	1.9%	46.2%	2.7%	5.5%	-1.2%	42.4%
Africa	1.5%	7.4%	24.7%	-4.3%	27.0%	0.8%	27.1%	-6.2%	23.8%
Asia Pacific	38.9%	7.8%	3.9%	2.0%	56.1%	0.8%	3.4%	-1.4%	52.4%
Europe	22.3%	13.4%	5.9%	3.1%	47.9%	6.4%	6.9%	-0.2%	44.2%
Latin America	2.8%	-0.1%	-1.8%	0.7%	41.2%	-5.2%	-1.6%	-1.4%	36.1%
Middle East	14.0%	9.2%	4.2%	2.1%	46.2%	6.1%	9.0%	-1.2%	42.1%
North America	20.5%	3.7%	0.1%	1.2%	35.3%	1.2%	4.1%	-0.9%	32.2%
International	86.9%	9.2%	4.3%	2.3%	50.5%	2.6%	5.5%	-1.3%	46.1%
Africa	1.5%	7.7%	26.1%	-4.8%	27.9%	0.9%	28.5%	-6.7%	24.7%
Asia Pacific	34.6%	8.0%	4.3%	2.0%	59.9%	0.6%	3.9%	-1.8%	55.4%
Europe	21.9%	13.2%	5.1%	3.5%	49.4%	5.7%	6.4%	-0.3%	45.5%
Latin America	2.5%	0.2%	-2.7%	1.3%	46.2%	-5.7%	-1.4%	-1.8%	39.7%
Middle East	14.0%	9.2%	4.5%	2.0%	46.5%	6.1%	9.1%	-1.2%	42.5%
North America	12.4%	7.2%	1.0%	2.5%	42.9%	0.3%	1.6%	-0.5%	38.3%

¹% of industry FTKs in 2015

²Year-on-year change in load factor

³Load 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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