



AIR FREIGHT MARKET ANALYSIS

December 2016

Strong December data round out a solid 2016 for air freight

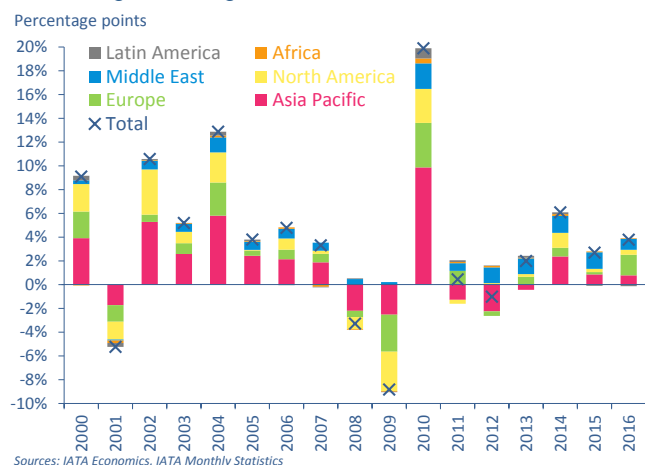
- Global air freight tonne kilometres (FTKs) grew by a solid 3.8% in 2016, following a strong second half of the year.
- European carriers posted the fastest FTK growth (for the first time ever), ahead of airlines from the Middle East.
- Business surveys point to near-term momentum for air cargo in early-2017, but the wider trade outlook is uncertain.
- Freight load factor eased in 2016 as a whole, but has risen strongly in seasonally adjusted terms in recent months.

Solid FTK growth in 2016 as a whole

Annual growth in global FTKs increased to 9.8% in December – its fastest pace since February 2015 during the disruption at US west coast seaports. All told, industry-wide FTKs grew by a solid 3.8% in 2016, nearly double its five-year average pace (2.0%).

For the first time since our series began in 1990, European airlines posted the fastest calendar-year FTK growth rate (7.6%), and thus accounted for around half of the industry-wide increase. (See Chart 1.) Middle Eastern airlines posted the second-fastest annual growth rate (6.9%), ahead of carriers from Africa, Asia Pacific and North America who saw more modest increases (around 2-3% year-on-year). By contrast, Latin American carriers' freight volumes fell for the second year in a row (-4.2%).

Chart 1 – Contributions to calendar-year FTK growth by airline region of registration



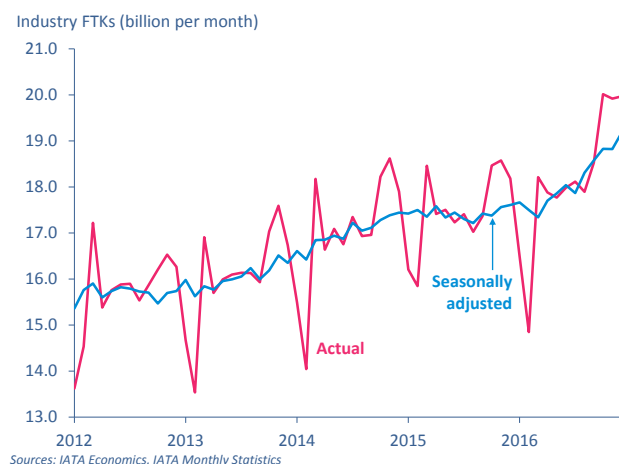
Exporters are reporting healthy order books

The solid expansion in air freight in 2016 mainly reflects a strengthening in the upward trend for seasonally-adjusted (SA) freight traffic during the second half of the year. (See Chart 2.) This coincided with a steady and ongoing rise in the new export orders component of the global purchasing managers' index (PMI) over the same period, pointing to healthy order books for global manufacturing exporters. The new export orders component reached a fresh 26-month high in December (the latest data available at the time of writing). If sustained at its current level, the indicator is consistent with ongoing solid FTK growth in early-2017. (See Chart 3, overleaf.)

Strong 2016 peak season continued into December

The latest months' data indicate that the strong 2016 peak season for the industry continued into December. Some

Chart 2 – FTK levels



Air freight market overview - December 2016

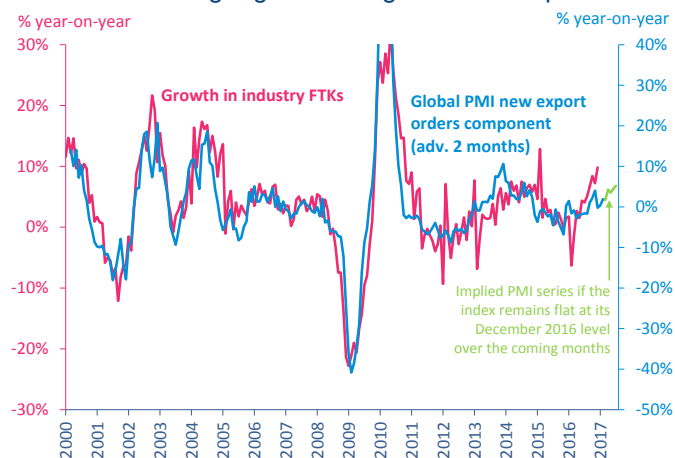
	World share ¹	December 2016 (% year-on-year)				2016 calendar year			
		FTK	AFTK	FLF (%-pt) ²	FLF (level) ³	FTK	AFTK	FLF (%-pt) ²	FLF (level) ³
TOTAL MARKET	100.0%	9.8%	3.2%	2.8%	46.1%	3.8%	5.3%	-0.6%	43.0%
International	86.7%	11.0%	4.3%	3.0%	50.4%	3.8%	5.4%	-0.7%	46.7%

¹% of industry FTKs in 2016

²Year-on-year change in load factor

³Load factor level

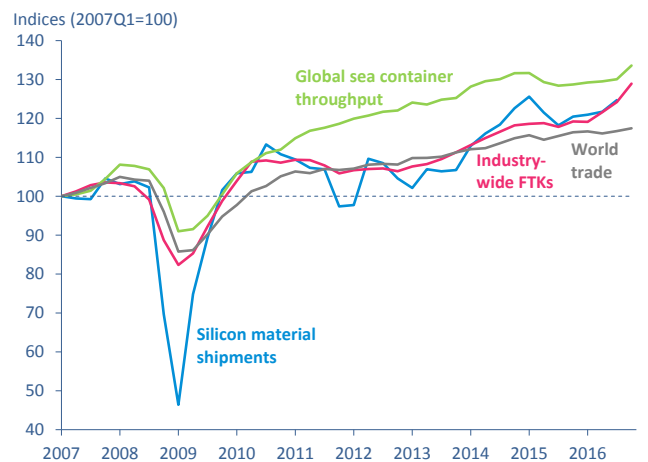
Chart 3 – Air freight growth vs. global new export orders



Sources: IATA Economics, IATA Monthly Statistics, Markit

have suggested that this could relate to the comparatively early timing of Chinese New Year in 2017 causing shippers to bring forward shipments ahead of the usual shutdown in factories. More generally, though, the strong end to 2016 corresponds with other positive signs, including a rise in semi-conductor material shipments during Q3, which are an important demand driver for air freight, as well as uptick in sea container throughput during the final months of the year. (See Chart 4.)

Chart 4 – Selected trade indicators



Sources: IATA Monthly Statistics, SEMI, RWI/ISL, CPB *Seasonally-adjusted quarterly data

Looking ahead, it remains unclear as to whether the recent momentum for air cargo is a start of a sustained, stronger growth trend or a potential false dawn. There are a number of competing drivers. On the one hand, the industry is reporting strong growth in areas such as cross-border e-commerce and pharmaceuticals, which are expected to continue to offer opportunities for air freight in 2017 and beyond. On the other hand, though, wider weakness in world trade conditions remains an ongoing concern. Moreover, the recent pick-up in populist and protectionist political rhetoric means that we may now have passed ‘peak trade openness’, which is likely to

reduce tailwinds for global trade and air cargo in the years ahead. (For previous analysis on this subject, see [here](#).)

In any case, air freight ended 2016 on a positive note, and this will provide a useful base for year-on-year growth rates during early-2017. In fact, even if seasonally-adjusted traffic was to remain flat at its current level throughout 2017, year-on-year growth in FTKs would still come in at around 5.5% for the year as a whole.

SA load factor has rebounded from early-2016 low

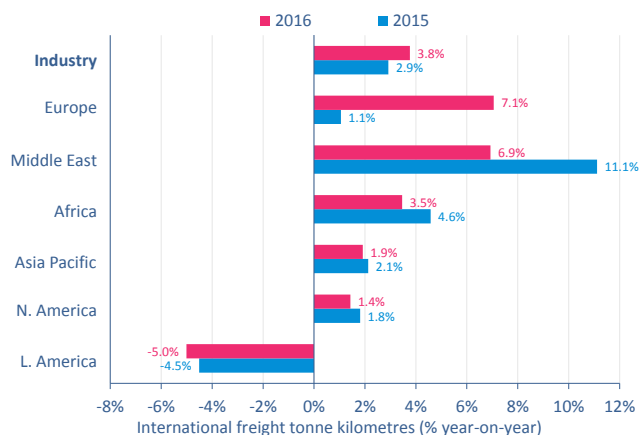
Industry-wide freight capacity increased by 5.3% year-on-year in 2016 as a whole, and the load factor fell by 0.6 percentage points compared to 2015.

But the SA upward trend in capacity moderated in 2016 from that in recent years, and coupled with the rising trend in demand has driven a rebound in the seasonally-adjusted industry-wide load factor. Indeed, the SA load factor has risen by three percentage points since its recent low in early-2016. This has helped to support freight rates during the second half of the year.

European airlines top the growth chart in 2016

International FTKs rose by 11.0% year-on-year in December, up from 7.2% in November. Overall, they grew by 3.8% in 2016 as a whole. (See Chart 5.)

Chart 5 – International FTK growth by carrier region of registration



Sources: IATA Economics, IATA Monthly Statistics

European airlines posted the fastest international FTK growth of all regions in calendar-year 2016 (7.1% year-on-year) – up from 1.1% in 2015 and the region’s fastest pace since the post-GFC rebound in 2010. The SA trend in traffic remains very strong, and mirrors similar developments on the key air trade lanes between Europe and Asia and across the Atlantic. All told, the region’s robust performance is set against a backdrop of healthy order books for the region’s exporters (as indicated by the ongoing strength in the new export orders component of

the German PMI), and helped in part by the ongoing weakness in the euro.

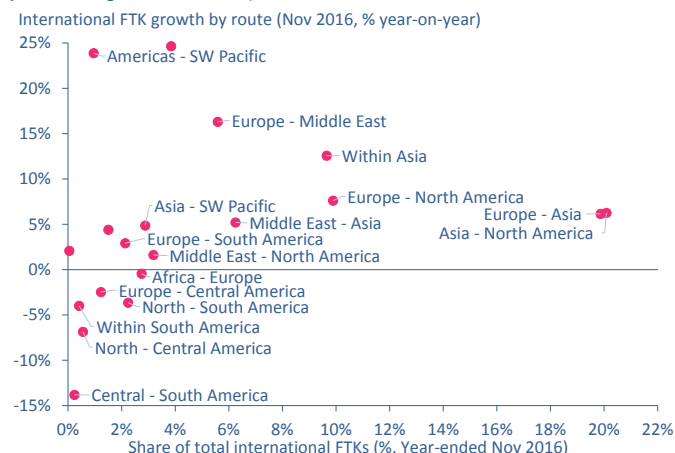
Middle Eastern growth has stepped down a gear

Middle Eastern airlines saw international traffic rise by 11.3% year-on-year in December, and posted the second-fastest growth in 2016 as a whole (6.9%). Following a weak patch during Q3, the upward trend in SA traffic has picked up in recent months. But the bigger picture is that growth stepped down a gear last year, particularly on the trade routes to and from the Middle East between Asia and Europe. Indeed, the 6.9% growth seen last year was the regions' slowest pace since 2009, and was well below the 12% average growth rate seen over the past decade.

Ongoing strength in Asia Pacific business surveys

Asia Pacific airlines' international traffic rose by 1.9% in 2016, slightly below the 2.1% increase seen in 2015. The result was partly affected by the unfavorable annual comparison following the boost from disruption at US west coast seaports in early 2015. However, the bigger picture is that the SA trend for freight traffic has strengthened considerably since early-2016; 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. At a route level, the main (segment-based) freight lanes out of and within the region are performing well. Having trended downwards in SA terms between 2010 and the start of 2016, traffic on the Europe to Asia route has risen strongly since Q1. Moreover, international traffic within the Asia region has also trended upwards strongly since early 2016, with growth of 12.6% year-on-year in November (the latest month of data available – see Chart 6).

Chart 6 – International FTK growth by route (% year-on-year, segment-basis)



Sources: IATA Economics, IATA Monthly Statistics by Route

Encouragingly, business surveys in much of the Asia region continue to point to healthy order books for the region's exporters. The new export orders component of Japan's PMI rose to a 19-month high in January 2017, helped by the recent weakening in the yen. Meanwhile, the same measures in Taiwan, Korea, and Vietnam all point to rising export orders too.

North America airline post modest 2016 growth

North American airlines posted annual FTK growth of 1.4% in 2016, down from 1.8% the previous year. The SA trend improved strongly throughout much of 2016, but leveled off somewhat for North American carriers during Q4. Following the boost to traffic seen in 2015 from US west coast seaport disruption and airbag recalls, freight volumes on the key routes to and from Asia look to have fallen by around 2% in annual terms during 2016. Nonetheless, the SA trend on the market has accelerated, with FTKs increasing by 6.2% year-on-year in November. (Again, see Chart 6.) The further strengthening in the US dollar over recent months should help to support inbound air freight during 2017. But the flip-side is that it will continue to keep outbound flows under pressure.

Load factor drops sharply for African airlines in 2016

While volatile on a monthly basis, the upward trend in African carriers' international SA traffic continued during Q4, and such traffic increased by 3.5% in 2016 as a whole. However, international freight capacity surged by 26.4% over the same period, driven by rapid long-haul expansion (particularly by Ethiopian Airlines) and increases by North African carriers. As a result, the African international freight load factor dropped by five percentage points compared to 2015.

Lat. American FTKs fall for the second year in a row

Having fallen by 4.5% in 2015, international FTKs flown by Latin American airlines fell once again in 2016 (-5.0%). The SA trend in traffic has rebounded since early-2016, and levels are now back broadly in line with where they started last year. But FTKs remain around 10% lower than their peak in late-2014. With challenging economic conditions throughout much of the region – not least its biggest economy, Brazil – the 'Within South America' market was the weakest performing market in 2016; freight volumes fell by nearly 20% between Jan-Nov compared to the same period in 2015.

David Oxley
economics@iata.org
 1st February 2017

Air freight market detail - December 2016

	World share ¹	December 2016 (% year-on-year)				2016 calendar year			
		FTK	AFTK	FLF (%-pt) ²	FLF (level) ³	FTK	AFTK	FLF (%-pt) ²	FLF (level) ³
TOTAL MARKET	100.0%	9.8%	3.2%	2.8%	46.1%	3.8%	5.3%	-0.6%	43.0%
Africa	1.6%	13.6%	5.3%	2.2%	29.6%	3.1%	25.5%	-4.8%	22.2%
Asia Pacific	37.5%	9.8%	5.7%	2.1%	55.1%	2.1%	3.6%	-0.8%	52.8%
Europe	23.5%	16.4%	5.9%	4.5%	49.7%	7.6%	6.7%	0.4%	44.5%
Latin America	2.8%	-1.0%	-7.9%	2.6%	36.5%	-4.2%	-2.0%	-0.8%	33.3%
Middle East	13.9%	11.2%	5.9%	2.1%	44.9%	6.9%	8.4%	-0.6%	42.8%
North America	20.7%	3.7%	-1.4%	1.8%	36.3%	2.0%	3.4%	-0.5%	34.3%
International	86.7%	11.0%	4.3%	3.0%	50.4%	3.8%	5.4%	-0.7%	46.7%
Africa	1.6%	14.5%	5.2%	2.5%	30.4%	3.5%	26.4%	-5.0%	22.6%
Asia Pacific	33.3%	10.3%	6.0%	2.3%	59.2%	1.9%	4.1%	-1.2%	57.1%
Europe	23.0%	16.2%	5.2%	4.8%	51.0%	7.1%	6.1%	0.4%	45.8%
Latin America	2.4%	-2.3%	-3.4%	0.5%	40.8%	-5.0%	-1.7%	-1.3%	38.2%
Middle East	13.9%	11.3%	6.4%	2.0%	45.2%	6.9%	8.6%	-0.7%	43.3%
North America	12.6%	6.3%	-1.0%	3.0%	43.4%	1.4%	1.2%	0.1%	39.4%

¹% of industry FTKs in 2016 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. Historical statistics are subject to revision.

Further details about the statistics in this publication can be found [here](#).

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

Terms and Conditions for the use of this IATA Economics Report and its contents can be found here: 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.