



AIR FREIGHT MARKET ANALYSIS September 2016

Robust FTK growth in September, boosted in part by one-off factors

- Global air freight tonne kilometres rose by 6.1% year-on-year in September 2016 – the fastest pace since Feb’15.
- The upward trend in (seasonally adjusted) air freight has strengthened of late, aided in part by one-off factors...
- ...but while a pick-up in new export orders offers encouragement, the wider world trade backdrop remains weak.
- The seasonally-adjusted freight load factor remains at a historically low level, but has increased in recent months.

Strongest month of FTK growth since Feb 2015...

Annual growth in global air freight tonne kilometres (FTKs) accelerated to 6.1% year-on-year in September 2016 – its fastest pace since the disruption seen at US west coast seaports during February 2015.

European and Asia Pacific airlines both registered strong growth (12.6% and 5.5% year-on-year, respectively) and accounted for more than 80% of the annual increase in industry-wide FTKs. (See Chart 1.) By contrast, Middle East traffic growth fell to its slowest pace since July 2009, and Latin American carriers saw volumes contract in annual terms for the seventh month in a row.

...boosted by one-offs and robust new export orders

The seasonally-adjusted trend for FTKs has strengthened considerably over the past two months. (See Chart 2.) The strong pick-up in September in particular may relate

in part to a number of one-off factors, including the rushed replacement of Galaxy Note 7 devices during the month. There may also have been some boost to traffic following the collapse of the Hanjin shipping company at the end of August, although any boost could be most visible in the October and November data as and if freight forwarders turn to air cargo during the peak product launch season.

More generally, the improvement in the FTK trend has coincided with a turnaround in the new export orders component of the global purchasing managers' index (PMI) in recent months. (See Chart 3, overleaf.) Encouragingly, this relates to a broad-based pick-up amongst large exporting nations, with Germany's reading sustaining high levels for the past four months and the latest readings from the big exporters in Asia also coming in strong. This continues to offer encouragement for air freight over the months ahead.

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

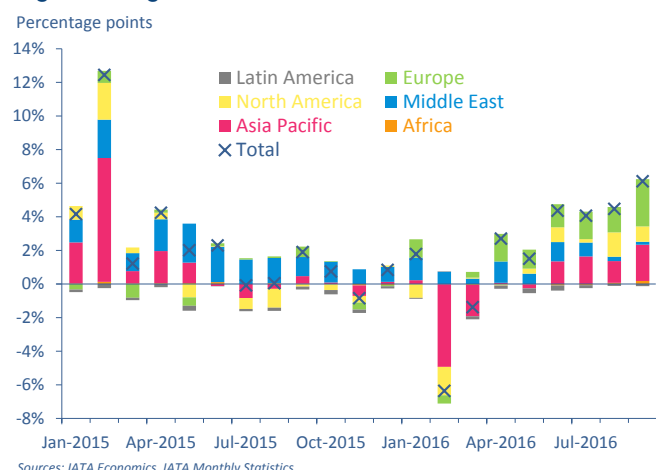
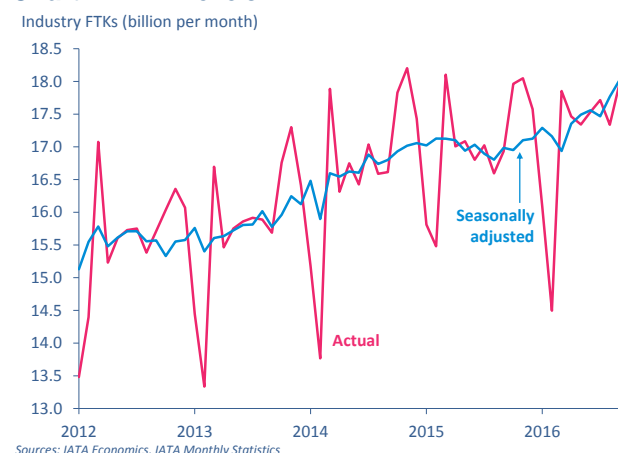


Chart 2 – FTK levels



Air freight market overview - September 2016

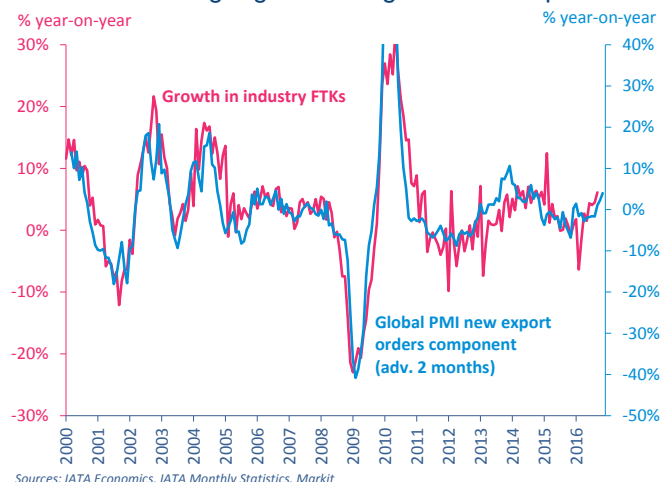
	World share ¹	September 2016 (% year-on-year)				% year-to-date			
		FTK	AFTK	FLF (%-pt) ²	FLF (level) ³	FTK	AFTK	FLF (%-pt) ²	FLF (level) ³
TOTAL MARKET	100.0%	6.1%	4.7%	0.6%	43.7%	2.0%	5.8%	-1.6%	42.2%
International	87.0%	6.4%	4.8%	0.7%	46.9%	1.7%	5.6%	-1.7%	45.4%

¹% of industry FTKs in 2015

²Year-on-year change in load factor

³Load factor level

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



World trade weakness is an ongoing headwind

That said, the underlying weakness of world trade remains an ongoing concern for sustained growth in freight volumes. Data compiled by the Netherlands CPB show that world trade volumes rebounded by 1.5% month-on-month in August, albeit having fallen by 1.1% in July. The bigger picture remains that global trade growth has slowed almost to a standstill and has lagged behind that seen in industrial production so far this year. This is a far cry from the trend in the decades leading up to the global financial crisis when global trade tended to grow around twice as fast as output.

Given the current political environment, any immediate impetus to reinvigorate the stagnation in world trade volumes appears unlikely. Indeed, taking political rhetoric at face value, the future of even existing free-trade arrangements appears under threat. The upshot is that the underlying tailwinds that used to propel global trade and air cargo volumes are likely to be much weaker in the future than they were in the past. As a result, we do not expect air freight volumes to be able to maintain the current rate of growth on a sustained basis.

Load factor (SA) remains low, but has increased

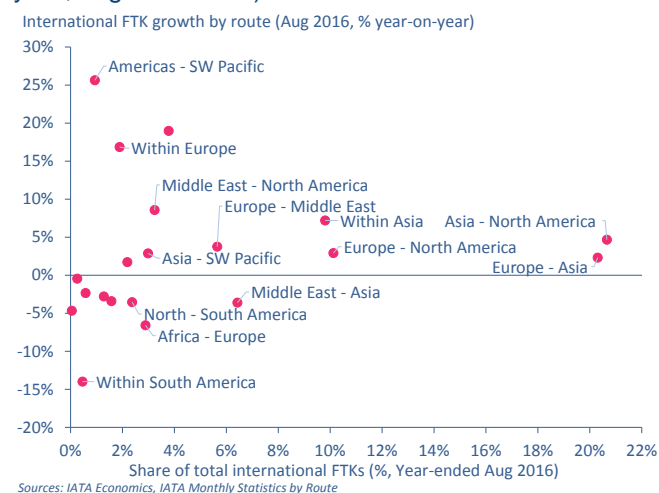
Industry-wide freight capacity increased by 4.7% year-on-year in September. The upward trend in available freight tonne kilometres (AFTKs) has eased in recent months, in part owing to a slowdown in deliveries to the wide-body passenger fleet in 2016 (particularly in Asia Pacific).

Freight loads remain at a historically low level, and this is continuing to put downward pressure on freight yields and revenues. However, given the acceleration in the upward trend for traffic in recent months, the seasonally-adjusted industry-wide load factor has risen by nearly two percentage points since its recent low in early 2016.

Wide spread in route-level performance

The main freight lanes out of Asia are doing well. International traffic within the region has been the strongest of the ‘big-four’ markets so far this year, with traffic up by 7.2% year-on-year in August 2016 (the latest data available; see Chart 4.) The market is set to overtake the Europe-North America market as the third largest in the world by the end of the year.

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



Having trended downwards over the past five years or so, traffic on the Europe to Asia route has also risen in seasonally-adjusted terms in recent months (volumes rose by 2.3% year-on-year in August). The Transpacific market has been 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 4.7% in August, but the seasonally-adjusted trend is flat.

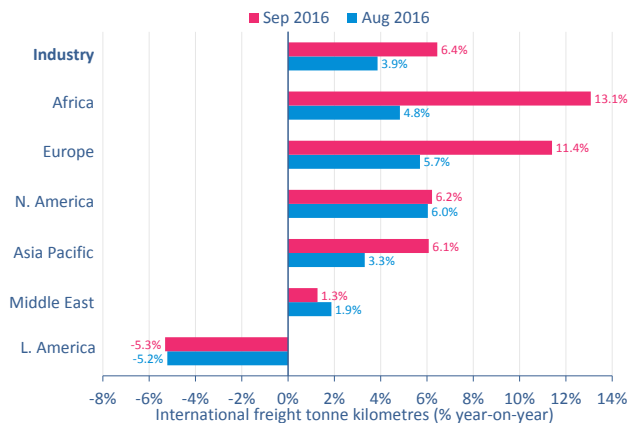
European carriers remain the standout story

Growth in international FTKs accelerated to 6.4% year-on-year in September, up from 3.9% in August. (See Chart 5, overleaf.)

The strong upturn in international traffic flown by European airlines has been the standout story in recent months. FTKs grew by 11.4% year-on-year in August and the upward trend in seasonally-adjusted traffic has strengthened. This is in keeping with a sustained pick-up in the new export orders component of the German PMI. Carrier-level data indicate that cargo-only carriers registered in the region had a good September, 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.)

Chart 5 – International FTK growth by carrier region of registration



Sources: IATA Economics, IATA Monthly Statistics

Carriers based in the Asia Pacific, who fly almost two-fifths of total international FTKs, saw robust growth in September too (6.1% year-on-year). 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 new export orders component of the Chinese PMI recently edged above the 50-mark for the first time in 11 months, while the same measure in the Japanese survey has also risen strongly over the past four months. All told, the upward trend in international seasonally-adjusted volumes has accelerated since March (volumes have grown at an annualized rate of more than 16%.

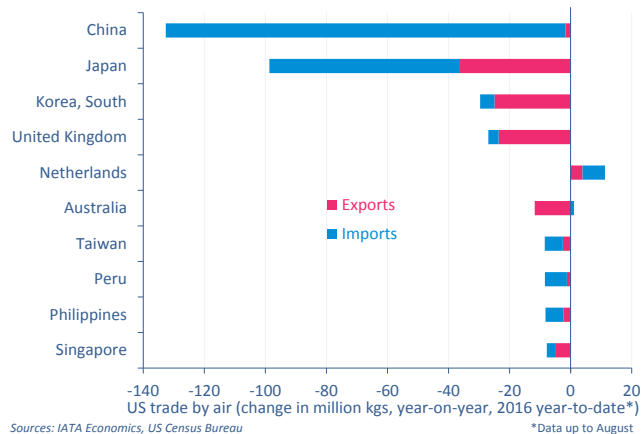
Middle Eastern growth slows to a seven-year low

By contrast, Middle Eastern airlines' growth slowed for the third consecutive month in September, to its slowest pace since July 2009. The strong upward trend in seasonally-adjusted traffic had already eased over the past year or so, but it has now ground to a halt: in seasonally-adjusted terms traffic in September 2016 was slightly below that seen in January. This turnaround partly relates to weak conditions on the Middle East to Asia market (FTKs fell by 3.6% year-on-year in August). But conditions have weakened on the fast-growing Middle East to North America route too. Air cargo tonnage throughput has fallen in year-on-year terms in both Abu Dhabi and Dubai in recent months (-3.8% year-on-year in the former in September, and -3.1% in the latter in August).

Annual growth in international traffic flown by North American airlines accelerated to 6.2% in September – its fastest pace since the disruption at US seaports in

February last year. The annual growth rate was flattered by the downward trend in volumes seen last year; in seasonally-adjusted terms, volumes are still just below the level seen in January 2015. 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 weakness seen on the Transpacific market. (See Chart 6.)

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



Sources: IATA Economics, US Census Bureau

*Data up to August

African traffic rebounds as L.America drops again

African traffic grew by 13.1% year-on-year in September 2015 – the fastest growth rate in nearly two years. There was a wide spread in performance amongst the region's carriers, and freight capacity grew almost three times faster than demand (35.9% 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 24.6% in September – five percentage points lower than the same month a year ago and just over half the industry average of 46.9%.

International FTKs flown by Latin American carriers have levelled off in seasonally adjusted terms in recent months, but remain more than 14% lower than their October 2014-peak. The 'Within South America' market has been the weakest performing market so far this year (volumes contracted by 14% year-on-year in August). Northbound flows on the larger North-South America route have been helped by the comparative strength of the US economy. (US imports by air from Colombia and Brazil increased by 5% and 13% year-on-year respectively in the first eight months of 2016.) But FTKs flown on the route have still fallen by 6.1% in annual terms so far this year.

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 3rd November 2016

Air freight market detail - September 2016

	World share ¹	September 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%	6.1%	4.7%	0.6%	43.7%	2.0%	5.8%	-1.6%	42.2%
Africa	1.5%	12.7%	34.0%	-4.5%	23.8%	0.0%	28.5%	-6.6%	23.1%
Asia Pacific	38.9%	5.5%	3.4%	1.1%	54.7%	0.0%	3.3%	-1.7%	51.9%
Europe	22.3%	12.6%	6.4%	2.5%	44.9%	5.6%	6.6%	-0.4%	44.0%
Latin America	2.8%	-4.5%	-4.7%	0.1%	37.9%	-5.8%	-0.9%	-1.8%	35.0%
Middle East	14.0%	1.2%	6.2%	-2.0%	41.0%	5.3%	9.6%	-1.7%	40.8%
North America	20.5%	4.5%	2.6%	0.6%	33.9%	0.8%	4.9%	-1.3%	32.7%
International	87.0%	6.4%	4.8%	0.7%	46.9%	1.7%	5.6%	-1.7%	45.4%
Africa	1.5%	13.1%	35.9%	-5.0%	24.6%	0.1%	29.9%	-7.1%	23.9%
Asia Pacific	34.6%	6.1%	4.1%	1.1%	57.6%	-0.2%	3.8%	-2.2%	54.9%
Europe	21.9%	11.4%	5.7%	2.3%	46.3%	4.8%	6.2%	-0.6%	45.2%
Latin America	2.5%	-5.3%	-5.8%	0.2%	41.1%	-6.4%	-1.2%	-2.2%	38.9%
Middle East	14.0%	1.3%	6.2%	-2.0%	41.4%	5.3%	9.7%	-1.7%	41.1%
North America	12.4%	6.2%	0.9%	1.9%	38.6%	-0.6%	1.8%	-0.9%	37.7%

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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