



AIR FREIGHT MARKET ANALYSIS

June 2017

Air freight growth posts its strongest first half-year since 2010

- Global freight tonne kilometres (FTKs) grew by 10.4% year-on-year in H1 2017 – its strongest start in 7 years.
- Industry drivers continue to indicate that the best of the cyclical growth upturn may now have passed. Nonetheless, the strong upward trend in seasonally adjusted (SA) freight traffic has reasserted itself.
- African airlines topped the int'l FTK growth chart in H1 2017, alongside robust growth for the major regions.
- The upward trend in demand has continued to outpace that of capacity, which is supporting the SA load factor.

A strong first half of the year for freight demand...

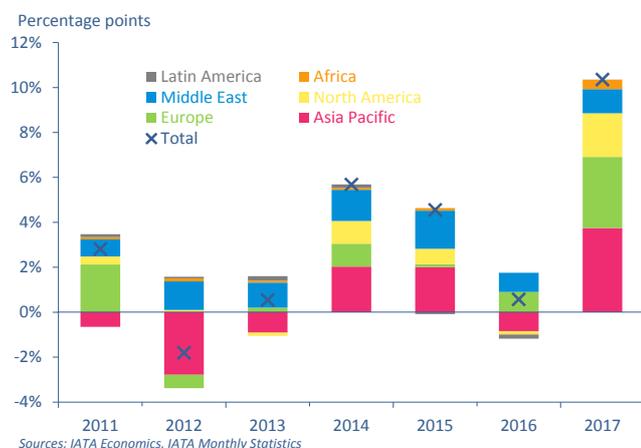
Year-on-year growth in global FTKs slowed to 11.0% in June, down from 12.7% in May, but remained well ahead of the five-year average pace (3.9%).

All told, industry-wide FTKs grew by 10.4% in annual terms during the first half of the year (H1 2017) – the strongest first half of a year since the rebound from the global financial crisis (GFC) in 2010. Airlines registered in Asia Pacific and Europe accounted for two-thirds of the annual increase in FTKs flown during the period, alongside solid contributions from North American and Middle Eastern carriers. (See Chart 1.)

...alongside ongoing upward trend in SA volumes

Having risen strongly in SA month-on-month terms in May, freight volumes tracked sideways in June. The bigger picture is that freight volumes have continued the strong upward trend that began in mid-2016. (See Chart 2.)

Chart 1 – Contributions to annual FTK growth in the first half of each year by airline region of registration



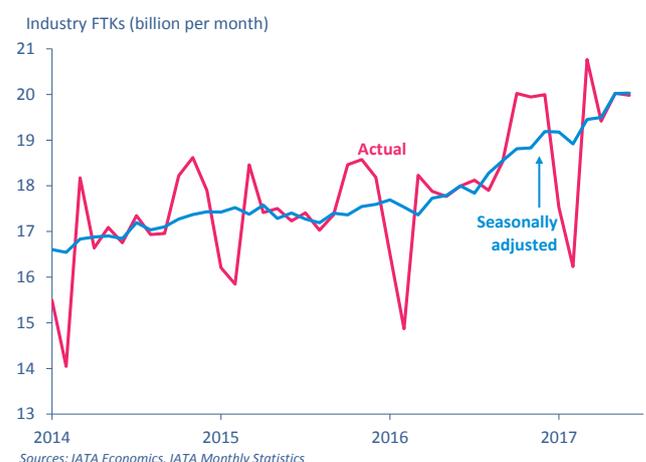
The stronger economic and trade backdrop...

The resurgence in air freight demand over the past year or so has been set against a stronger global economic and trade backdrop.

This is particularly evident in signs of growing order books for global manufacturers: indeed, the new export orders component of the global purchasing managers' index (PMI) remains close to a six-year high and crucially above the notional 50-mark that indicates rising orders. In fact, at current levels, the measure is consistent with year-on-year FTK growth remaining robust, in the region of 8%, during Q3 2017. (See Chart 3, overleaf.)

More generally, the recent outperformance of air freight relative to wider world trade has also reflected air freight-specific factors, notably the ability of the industry to allow firms to restock quickly at the start of pick-ups in the economic cycle. Indeed, the strong

Chart 2 – FTK levels



Air freight market overview - June 2017

	World share ¹	June 2017 (% 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%	11.0%	5.2%	2.4%	45.0%	10.4%	3.6%	2.7%	44.8%
International	86.7%	12.0%	5.3%	2.9%	49.1%	11.5%	3.7%	3.4%	48.9%

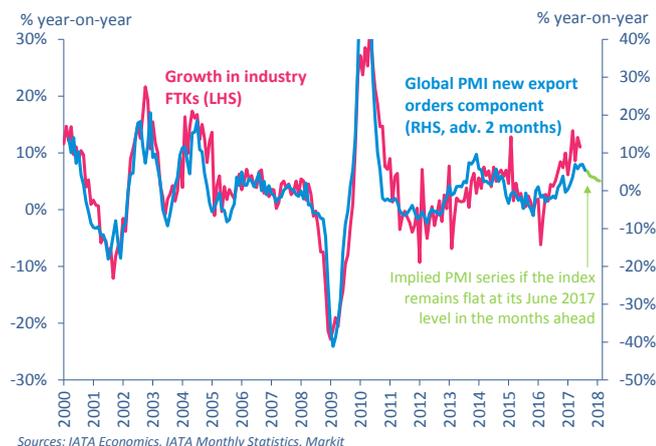
¹% of industry FTKs in 2016

²Year-on-year change in load factor

³Load factor level

upward trend in industry-wide FTKs has coincided with a sharp decline in the (US) inventory-to-sales ratio between May and December 2016.

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



...will support a very strong year for freight growth

As we have noted before, recent developments in both of these indicators suggest that the best of the cyclical upturn in air freight may now have passed. Indeed, while business surveys still indicate growing export orders, the new export orders component of the global manufacturing PMI has broadly tracked sideways since March. Unless we see further gains in global manufacturers’ export order books, this is consistent with a moderation in year-on-year air freight growth towards the end of the year. (Again, see Chart 3.) Moreover, although the inventory-to-sales ratio remains lower than it was a year ago, it has stopped falling. This too is consistent with the current period of strong year-on-year FTK growth starting to moderate over the second half of 2017 and into 2018.

Nonetheless, the strong finish to 2016 and start to 2017 for freight volumes both lay the groundwork for robust year-on-year growth in FTKs this year as a whole. In fact, the risks to our current forecast of 7.5% growth in FTKs for 2017 as a whole lie to the upside.

SA freight load factor holds on to gains in June

Available freight tonne kilometres (AFTKs) rose by 5.2% year-on-year in June, and by 3.6% in H1 2017.

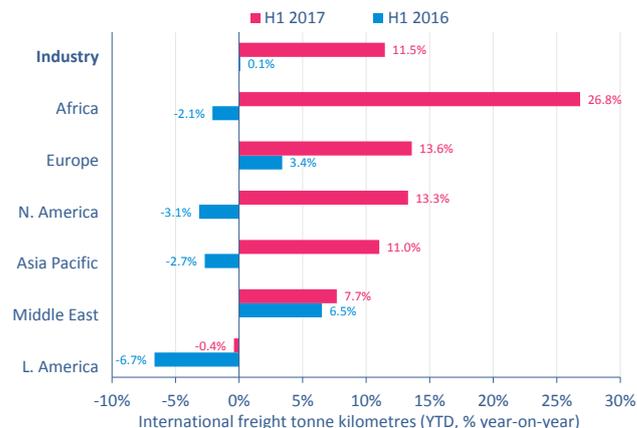
The upward trend in demand has outstripped that in capacity over the first half of the year. As a result, the industry-wide load factor has risen by around four percentage points in SA terms since its low-point in early-2016. The SA load factor in June remained close to its highest level in two and a half years.

Wide spread in international FTK performance

International FTKs grew by 12.0% year-on-year in June, and by a similar rate during H1 2017 as a whole. This was a marked turnaround in year-on-year freight

growth compared to H1 2016, during which international FTKs barely grew. (See Chart 5.)

Chart 4 – International FTK growth by airline region of registration



African carriers were in a league of their own in H1

The turnaround in growth was the most pronounced for African airlines; having fallen in year-on-year terms in H1 2016, international FTKs surged by nearly 27% year-on-year in the first half of this year. This pick-up has been helped by a jump in traffic between Africa and Asia; while still a small market, FTKs flown on the route surged by more than 60% in the first five months of 2017 (the latest data available) compared to the same period last year. (See Chart 5, overleaf.) Admittedly, the very strong upward trend in total international FTKs in SA terms has slowed in recent months; volumes rose at an annualized rate of around 6% in Q2. However, year-on-year FTK growth looks set to remain comfortably in double digits for the rest of 2017.

Double-digit growth for European airlines in H1

International FTKs flown by European airlines increased by 13.6% year-on-year in H1 2017, up from 3.4% in the same period of 2016. There continues to be little sign of any slowdown in the strong SA trend.

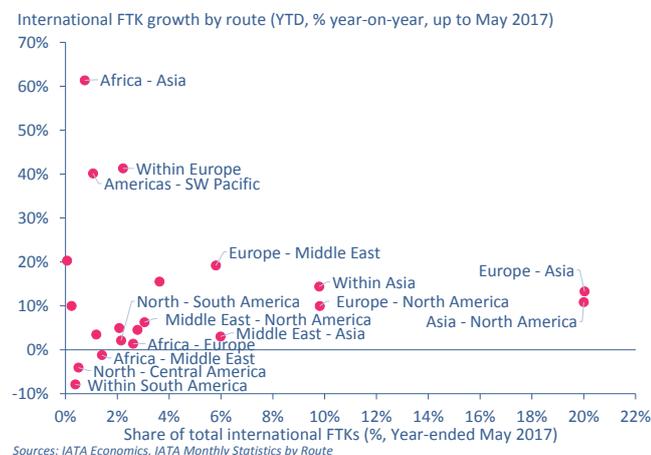
This performance has coincided with a period of strong growth in order books for European exporters, whose competitiveness has been helped by weakness in the euro. The region’s airlines are benefiting from strong demand on the biggest market segments to and from the region (Asia and North America). Meanwhile, the very strong growth in international FTKs flown within the region (>40% so far this year-to-date) appears to be linked to big gains by carriers such as Turkish Airlines. (Again, see Chart 5, overleaf.)

Hangover from seaport disruption in H1 2016...

Carriers based in North America and Asia Pacific both registered year-on-year declines in international FTKs in H1 2016 – a consequence of the strong boost to air

freight seen during the period of disruption at seaports on the US west coast early in the previous year. Both regions saw strong turnarounds in FTK growth in H1 2017 compared to the same period last year.

Chart 5 – International FTK growth by route (% year-to-date, segment basis)



...gives way to robust growth in H1 2017 for Asia Pacific and North American airlines

Indeed, international FTKs flown by North American airlines rose by 13.3% year-on-year in H1 2017, and the upward trend in SA terms is very positive; SA FTK volumes surged by an annualized rate of more than 30% during Q2. While the US dollar has fallen back since the start of the year, broader strength in the currency is continuing to support US inbound air freight. On the other hand, the strong dollar is also keeping outbound flows under pressure.

Meanwhile, international freight volumes flown by Asia Pacific airlines – the biggest region in terms of international FTKs flown – also rose at a double-digit annual pace in H1 2017 (11.0%). In SA terms, volumes are now around 4% higher than they reached in the rebound following the GFC. Demand growth so far in 2017 has been strongest on international routes within Asia as well as between Europe and Asia, with year-to-date FTK growth in the region of 13-15% in both cases. (See Chart 5.)

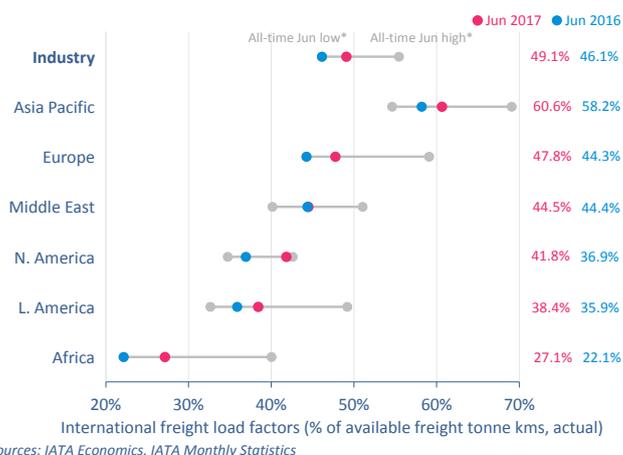
Exporters from the region have continued to report more mixed conditions for their order books. Export orders have improved in Indonesia in recent months, for example, and remain very strong in Taiwan, but the picture is weaker in Japan and China; in fact, the latest indication from the former shows that Japanese manufacturers’ export order books have stopped growing. There remains little sign of any slowdown in the SA trend for freight volumes, but the more mixed picture from business surveys add to signs that the wider cyclical growth peak may have passed.

Unspectacular, but solid, Middle East traffic trend

International FTKs flown by Middle Eastern airlines grew by 7.7% year-on-year in H1 2017, a moderate acceleration from the 6.5% rate seen in the same period of 2016. Year-on-year FTK growth fell to 3.7% in June – well below the five-year average pace (10.8%) – but this was distorted by the strength of conditions this time last year; given the shape of monthly developments, we expect year-on-year FTK growth rates to accelerate in the coming months.

The key point is that international freight volumes flown by Middle Eastern carriers have continued to trend upwards at a solid rate of around 10% in annualized terms since early-2017. However, the region’s carriers have not seen the strong pick-up in the SA traffic trend that has been apparent in the major regions over the past year or so. Amid strong competition from other regions’ carriers, particularly on the Asia-Europe route, the Middle Eastern was the only region not to see a notable year-on-year increase in the freight load factor in June. (See Chart 6.) All told, the region’s share of total international FTKs flown fell in H1 2017 for the first time in 17 years.

Chart 6 – Freight load factors by region



Sharp pick-up in L.American FTK growth

The difficult economic and political operating environment is continuing to weigh on Latin American freight volumes. Admittedly, international FTKs flown by Latin American airlines rose by 10.5% year-on-year in June – the fastest pace since November 2010. But while FTKs rose robustly in SA terms during Q2, the recent pick-up in year-on-year growth mainly reflects volatility in month-to-month traffic flows a year ago rather than pointing to a sustained upward trend in FTKs. Tellingly, SA freight volumes remain around 10% lower than their 2014 peak.

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 2nd August 2017

Air freight market detail - June 2017

	World share ¹	June 2017 (% 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%	11.0%	5.2%	2.4%	45.0%	10.4%	3.6%	2.7%	44.8%
Africa	1.6%	31.6%	7.6%	4.8%	26.5%	25.9%	11.2%	2.9%	25.1%
Asia Pacific	37.4%	10.1%	7.8%	1.1%	55.5%	10.1%	4.8%	2.5%	53.6%
Europe	23.5%	14.3%	6.1%	3.3%	45.9%	13.6%	5.4%	3.4%	47.1%
Latin America	2.8%	9.8%	2.9%	2.1%	33.5%	0.3%	-0.6%	0.3%	32.3%
Middle East	13.9%	3.7%	2.2%	0.6%	44.4%	7.6%	1.5%	2.5%	44.7%
North America	20.7%	12.7%	3.0%	3.1%	36.2%	9.3%	1.5%	2.6%	36.3%
International	86.7%	12.0%	5.3%	2.9%	49.1%	11.5%	3.7%	3.4%	48.9%
Africa	1.6%	32.2%	7.8%	5.0%	27.1%	26.8%	11.8%	3.1%	25.7%
Asia Pacific	33.3%	11.1%	6.6%	2.5%	60.6%	11.0%	4.3%	3.6%	58.9%
Europe	23.0%	14.4%	6.0%	3.5%	47.8%	13.6%	4.8%	3.7%	48.6%
Latin America	2.4%	10.5%	3.2%	2.5%	38.4%	-0.4%	-3.0%	1.0%	37.8%
Middle East	13.9%	3.7%	3.4%	0.1%	44.5%	7.7%	2.6%	2.1%	44.8%
North America	12.6%	17.4%	3.6%	4.9%	41.8%	13.3%	1.8%	4.3%	42.6%

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](#).

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