



# AIR FREIGHT MARKET ANALYSIS

## February 2017

### Strong start to 2017 for freight growth, but grounds for caution?

- Global freight tonne kilometres (FTKs) grew by 8.4% year-on-year in February – consistent with annual growth of more than 12% after allowing for the fact that 2016 was a leap year.
- Air freight has gained market share over the past year, alongside a recovery in world trade conditions...
- ...but the recent drop in seasonally adjusted (SA) FTKs sounds a note of caution regarding the outlook.
- The freight load factor has risen in recent months, driven by ongoing moderation in capacity growth.

#### Leap year effects are distorting the data...

Global FTKs grew by 8.4% year-on-year in February. However, the data are distorted by the fact that 2016 was a leap year. Adjusting for the one fewer day in February this year, we estimate that the 'underlying' FTK growth rate was even stronger at around 12% – almost four times its five-year average rate (3.0%).

Asia Pacific and European airlines once again accounted for the bulk (c.75%) of the annual change in industry-wide FTKs. (See Chart 1.) However, Latin American carriers detracted from annual FTK growth for the 25<sup>th</sup> time in 27 months.

#### ...but strong annual growth in FTKs in early-2017

The timing of Chinese New Year can complicate year-on-year comparisons at this time of year, but annual FTK growth clearly made a strong start to 2017. Global FTKs were 7.2% higher in year-on-year terms in

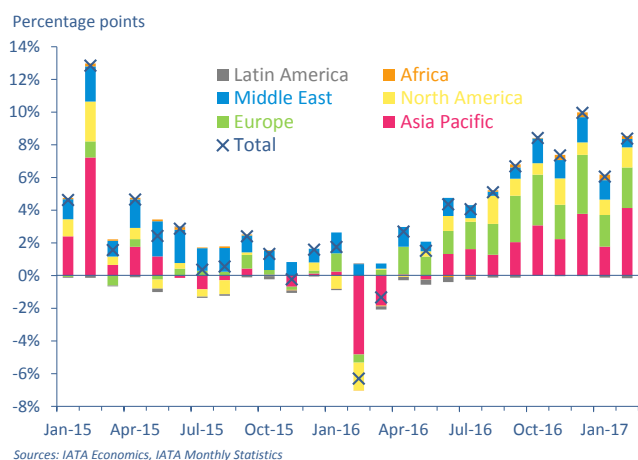
January and February combined, which we estimate is consistent with 9.0% adjusting for the leap year.

The current strength in the annual FTK growth rate is partly flattered by the combination of the weak start and the strong finish to 2016. While conscious of the data disruption at this time of year, the decline in SA FTK levels in recent months gives pause for thought, and is something that we will monitor closely in the coming months.

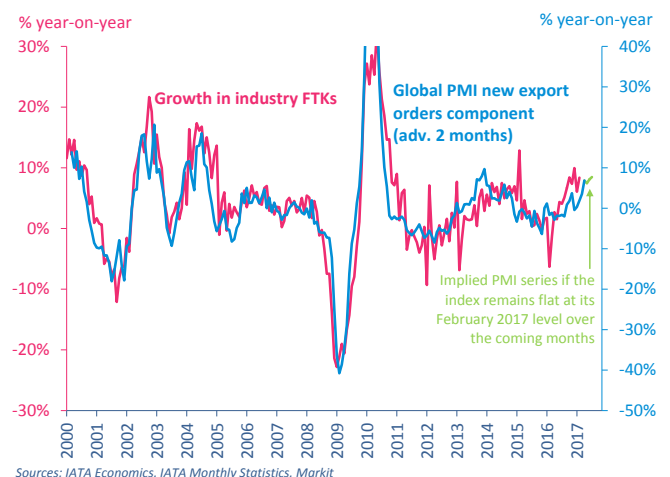
#### World trade conditions have improved

However, the current strong annual FTK growth rate ties in with growing signs of a recovery in world trade conditions in recent months. The new export orders component of the global purchasing managers' index (PMI) remains close to a six-year high, underlining the health of global manufacturers' export order books. At current levels, the PMI measure is consistent with ongoing solid FTK growth in H1 2017. (See Chart 2.)

**Chart 1 – Contributions to year-on-year growth by airline region of registration**



**Chart 2 – Air freight growth vs. global new export orders**



#### Air freight market overview - February 2017

	World share <sup>1</sup>	February 2017 (% year-on-year)				% year-to-date			
		FTK	AFTK	FLF (%-pt) <sup>2</sup>	FLF (level) <sup>3</sup>	FTK	AFTK	FLF (%-pt) <sup>2</sup>	FLF (level) <sup>3</sup>
<b>TOTAL MARKET</b>	<b>100.0%</b>	<b>8.4%</b>	<b>-0.4%</b>	<b>3.5%</b>	<b>43.5%</b>	<b>7.2%</b>	<b>1.3%</b>	<b>2.3%</b>	<b>42.7%</b>
International	86.7%	8.7%	-0.1%	3.9%	47.8%	7.8%	1.3%	2.8%	46.7%

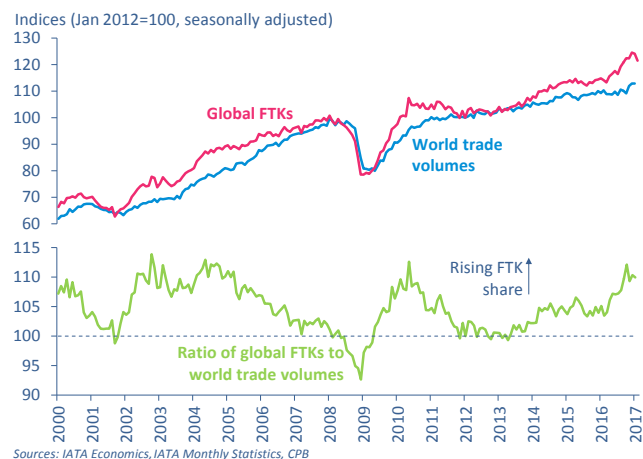
<sup>1</sup> % of industry FTKs in 2016

<sup>2</sup> Year-on-year change in load factor

<sup>3</sup> Load factor level

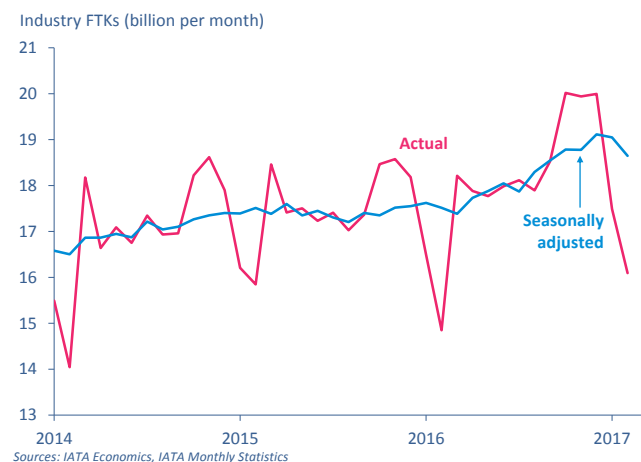
More generally, traditional drivers for air freight have also been strong recently, including a pronounced pick-up in semi-conductor material shipments during the final quarter of 2016. Such factors have seen air freight's share of world trade rise sharply since the middle of last year. (See Chart 3.) The increasing importance of niche areas such as pharmaceuticals and cross-border e-commerce offer opportunities for air freight, and may yet help it to de-couple from wider world trade conditions.

**Chart 3 – Global FTKs and world trade volumes**



That said, history shows that periods of FTK outperformance do not persist indefinitely. Indeed, while it is too early to know for certain if the upward trend in freight traffic has stopped, the recent declines in FTKs in SA terms suggests that the period of outperformance of FTK growth versus world trade volumes may be over. (See Chart 4.) Meanwhile, despite the mini-recovery in global trade conditions, the broader rise in protectionist rhetoric suggests that the trade backdrop is likely to remain weaker than it used to be.

**Chart 4 – FTK levels**



**The freight load factor has increased in 2017 so far**

The SA upward trend in capacity has moderated in recent months, with available freight tonne kilometres

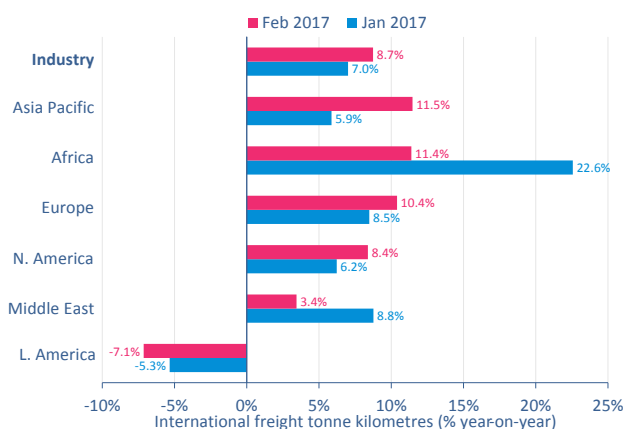
(AFTKs) having grown by just 1.3% year-on-year in 2017 to date (3.0% adjusting for the leap year).

As a result, the industry-wide load factor has increased by 2.3 percentage points so far this year to date compared to the same period in 2016.

**International FTK growth slightly ahead of the total**

International FTK growth accelerated to 8.7% year-on-year in February (12.6% allowing for the leap year effect). (See Chart 5.) There was a general outcome across the regions of freight traffic actually falling in SA terms in Feb, although it is too soon to say whether this is a start of a trend or just volatility in the data.

**Chart 5 – International FTK growth by airline region of registration**



**Asia Pacific tops the international growth chart**

The biggest region in terms of international FTKs flown – Asia Pacific – posted the fastest year-on-year growth rate in February (11.5%; more than 15% adjusting for the leap year). Notwithstanding a decline in FTKs in SA terms in February, the SA trend for freight traffic has strengthened considerably since early-2016. Volumes recently reached levels last seen in the aftermath of the global financial crisis in 2010.

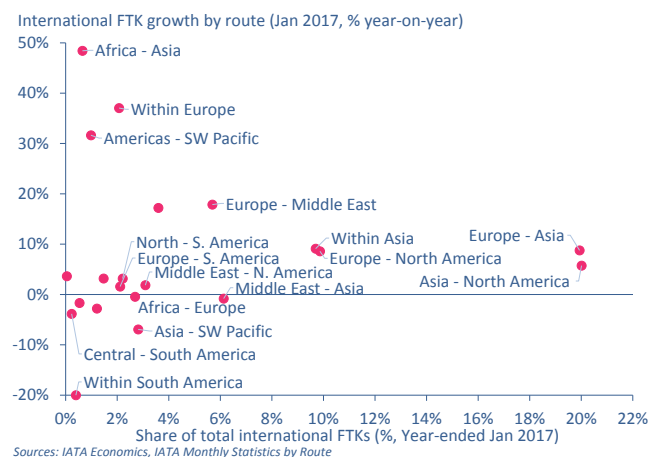
Business surveys in most of Asia continue to point to healthy order books for the region's exporters. Meanwhile, conditions on the main freight lanes to, from and within the region have strengthened considerably over the past six months. International FTKs within the region have trended upwards strongly since early 2016, with growth of 9.1% year-on-year in January (the latest month of data available – see Chart 6, overleaf). Moreover, having trended downwards in SA terms between 2010 and the start of 2016, traffic on the Europe to Asia route has turned around, and recently climbed to its highest level since early-2012.

**Weaker euro is helping European airlines**

The SA trend in international FTKs flown by European carriers fell for the second month in a row in February.

However, following the strong upward trend in traffic during much of 2016, international FTKs grew by 10.6% in year-on-year terms in February (more than 14% adjusting for the leap year). The region's robust performance continues to be helped in part by the ongoing weakness in the euro, which is visible in very healthy order books for European exporters, particularly in Germany. In addition to strong conditions on the trade lane to and from Asia, traffic is also growing strongly across the Atlantic; SA freight volumes on the route recently reached levels last seen in early-2011.

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



### Robust start to 2017 for North American carriers

North American airlines posted annual FTK growth of around 12% year-on-year after adjusting for the leap year in 2016. FTKs on the trade lane to and from Asia increased by 5.7% year-on-year in January. The further strengthening in the US dollar over recent months should help to support US inbound air freight during 2017, although it is likely to continue to keep outbound flows under pressure. Freight capacity in the region has barely grown in year-on-year terms in 2017, which has helped to lift the freight load factor by 3.5 percentage points compared to the same period in 2016.

### Easing in Middle East cargo growth has continued

International FTKs flown by Middle Eastern airlines grew by 3.4% year-on-year in February (an

'underlying' pace closer to 7%). The upward trend in SA traffic remains solid and conditions on the segment-based routes to and from Europe have remained strong over the past few months. However, FTK growth has eased from the double-digit rates that were the norm over the past decade, alongside a slowdown in network expansion by the region's major carriers.

### Ongoing weakness in L.American int'l FTKs

Latin American airlines' international traffic fell by 7.1% year-on-year in February (around 3% allowing for the impact of the leap year). The annual growth rate has now been in negative territory for 25 out of the last 27 months. Having recovered partly during H2 2016, the region's SA traffic trend has started to trend downwards again over the past four months. FTKs remain around 14% lower than their peak in late-2014. The mini-recovery in the 'Within South America' market has also reversed in recent months, with FTKs flown on the route falling by 20.1% year-on-year in January. However, the region's airlines have managed to adjust capacity, which has limited the impact on the region's (comparatively low) load factor.

### Strong growth in African FTKs so far in 2017

International FTKs flown by African carriers have grown by more than 18% in year-on-year terms so far this year to date. This has been helped by very strong growth on the trade lane to and from Asia; although just a small route, FTKs between Asia and Africa jumped by 48% in January on the back of rapid long-haul expansion and increased direct services between the continents. The wider pick-up in demand has helped the region's SA load factor to rise in recent months; after falling by five percentage points in 2016 compared to the previous year, the load factor has risen by 2.8 percentage points so far in 2017 compared to the same period in 2016.

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 5<sup>th</sup> April 2017

## Air freight market detail - February 2017

	World share <sup>1</sup>	February 2017 (% year-on-year)				% year-to-date			
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<b>TOTAL MARKET</b>	<b>100.0%</b>	<b>8.4%</b>	<b>-0.4%</b>	<b>3.5%</b>	<b>43.5%</b>	<b>7.2%</b>	<b>1.3%</b>	<b>2.3%</b>	<b>42.7%</b>
Africa	1.6%	10.6%	1.0%	2.2%	25.1%	16.2%	3.6%	2.6%	23.9%
Asia Pacific	37.5%	11.8%	2.0%	4.3%	49.3%	7.8%	3.7%	1.9%	49.4%
Europe	23.5%	10.5%	1.4%	3.9%	47.7%	9.6%	2.4%	3.0%	45.7%
Latin America	2.8%	-4.9%	-7.2%	0.8%	32.4%	-4.5%	-4.3%	-0.1%	30.3%
Middle East	13.9%	3.4%	-1.7%	2.2%	44.5%	6.0%	0.9%	2.1%	43.2%
North America	20.7%	5.8%	-3.1%	3.0%	35.8%	5.1%	-1.6%	2.3%	35.4%
<b>International</b>	<b>86.7%</b>	<b>8.7%</b>	<b>-0.1%</b>	<b>3.9%</b>	<b>47.8%</b>	<b>7.8%</b>	<b>1.3%</b>	<b>2.8%</b>	<b>46.7%</b>
Africa	1.6%	11.4%	0.9%	2.4%	25.8%	16.9%	3.6%	2.8%	24.6%
Asia Pacific	33.3%	11.5%	2.3%	4.5%	54.6%	8.4%	3.3%	2.6%	54.3%
Europe	23.0%	10.4%	0.4%	4.5%	49.3%	9.4%	1.3%	3.5%	47.3%
Latin America	2.4%	-7.1%	-9.1%	0.8%	38.4%	-6.2%	-6.3%	0.0%	36.7%
Middle East	13.9%	3.4%	-0.6%	1.7%	44.6%	6.1%	1.8%	1.8%	43.4%
North America	12.6%	8.4%	-2.9%	4.4%	42.3%	7.2%	-1.8%	3.5%	41.5%

<sup>1</sup>% of industry FTKs in 2016      <sup>2</sup>Year-on-year change in load factor      <sup>3</sup>Load 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

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