



AIR FREIGHT MARKET ANALYSIS

December 2017

Air freight volumes post their strongest year of growth since 2010

- Industry-wide freight tonne kilometres (FTKs) rose by 9.0% in 2017. Air freight outperformed global goods trade by the widest margin since 2010, driven by the restocking cycle and buoyant demand for manufactured exports.
- Indicators remain consistent with year-on-year FTK growth remaining at solid rates during H1 2018. However, freight volumes have trended sideways in seasonally adjusted (SA) terms since August.
- International FTK growth accelerated in annual terms in all regions compared to 2016, most notably in Africa.
- Demand grew three times faster than capacity in 2017, which drove a further recovery in the freight load factor.

Strongest year for air freight growth since 2010...

Industry-wide FTKs grew by 9.0% year-on-year in 2017 as a whole, up from 3.6% in 2016 and the strongest calendar-year of growth since 2010.

The result was set against a broader pick-up in world trade conditions over the past 18 months or so. Indeed, 2017 was also the strongest year of global goods trade growth since 2011.

...outperforming world trade by a large margin

That said, FTKs grew more than twice as fast as global trade volumes during the year as a whole – the widest margin of outperformance since 2010. (See Chart 1.)

This outperformance largely reflects an improved business environment for manufacturing businesses, who enjoyed buoyant demand for their exports, linked to the global restocking cycle and a long-awaited pick-up in investment. On average, we estimate that every

1-point year-on-year increase in the new export orders component of the global manufacturing Purchasing Managers' Index (PMI) is consistent with annual air freight growth outperforming its world trade counterpart by around 0.9 percentage points. Given the magnitude of the increase in the PMI seen last year, this factor explains around half of air freight's outperformance relative to global goods trade in 2017.

A number of factors are likely to be contributing to the remainder of the outperformance, including recent strong increases in consumer confidence, along with the impact that growing sectors such as e-commerce and pharmaceuticals are having on air freight growth.

Volumes are trending sideways in SA terms...

Looking more closely at the latest monthly outcome, year-on-year FTK growth slowed to 5.7% in December. This is still a respectable result above the five-year average of 4.7%, but it is less than half the annual

Chart 1 – FTK and global goods trade growth

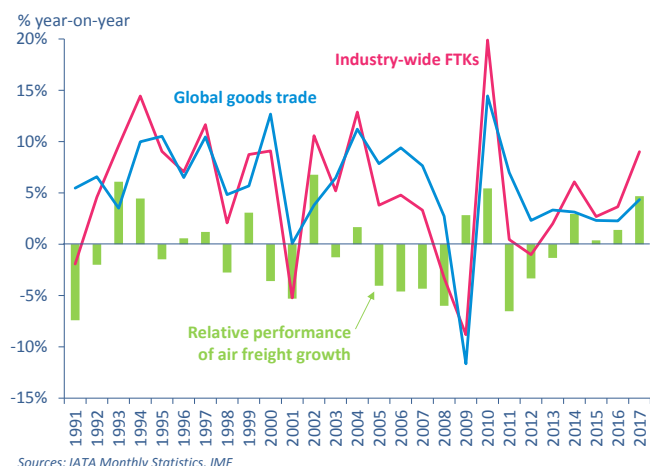
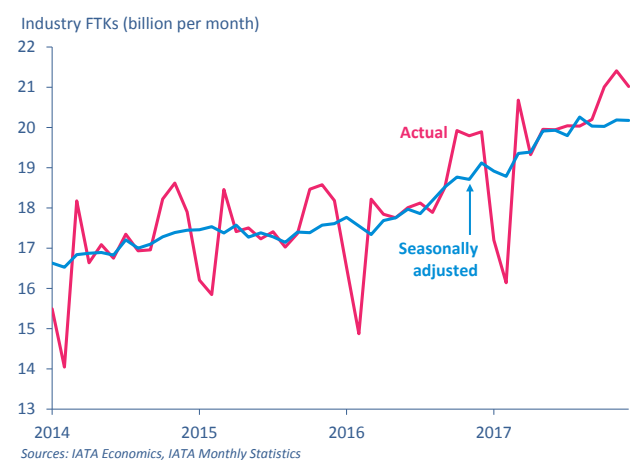


Chart 2 – FTK levels



Air freight market overview - December 2017

	World share ¹	December 2017 (% year-on-year)				2017 calendar year (% year-on-year)			
		FTK	AFTK	FLF (%-pt) ²	FLF (level) ³	FTK	AFTK	FLF (%-pt) ²	FLF (level) ³
TOTAL MARKET	100.0%	5.7%	3.3%	1.1%	46.8%	9.0%	3.0%	2.5%	45.5%
International	87.4%	6.5%	4.6%	0.9%	50.9%	9.9%	3.9%	2.7%	49.3%

¹% of industry FTKs in 2017

²Year-on-year change in load factor

³Load factor level

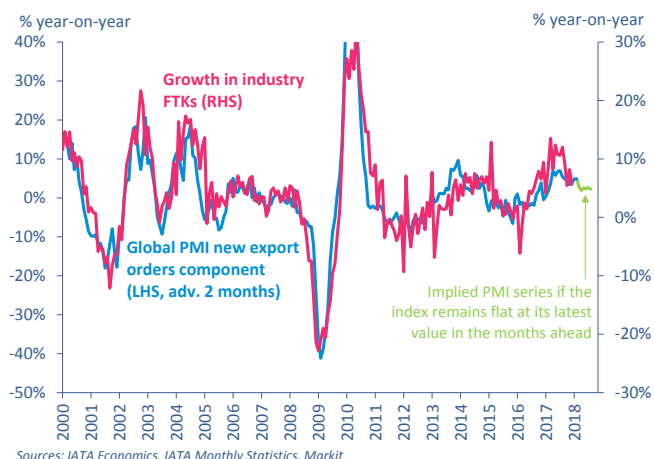
growth rates seen during the middle of last year. Moreover, it is important to note that the robust year-on-year growth rates seen in the final third of the year stem from the upward trend in volumes seen in the first 8 months of last year; in fact, freight volumes have now trended sideways in SA terms since August. (See Chart 2, previous page.)

This clear change in the SA trend is visible in all of the three major freight-flying regions, and ties in with signs that the global restocking cycle has now run its course. We will of course continue to monitor these developments closely in the coming months.

...but annual growth rates to remain solid in H1'18

In any case, the shape of developments last year means that year-on-year FTK growth will remain supported at solid rates during the first half of 2018. This is consistent with the picture from key leading indicators of air freight demand, notably the new exports orders component of the global manufacturing PMI mentioned earlier. (See Chart 3.)

Chart 3 –FTK growth vs. global new export orders



All told, we expect industry-wide FTK growth in 2018 as a whole to come in close to its five-year average pace in the region of 4.5%. After the very strong growth performance seen in 2017 this would be a robust outcome.

Cargo demand grew 3x faster than capacity in 2017

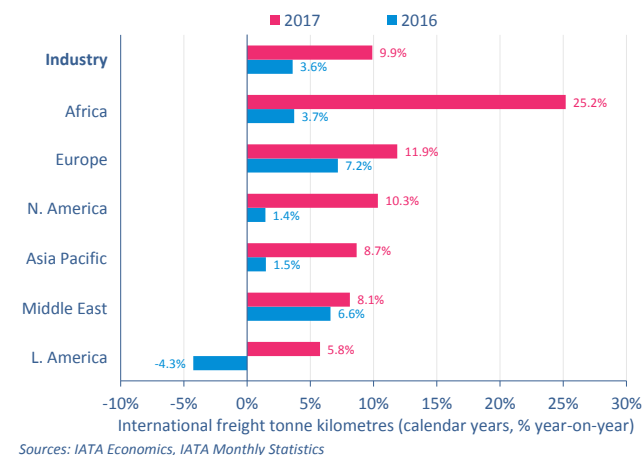
Available freight tonne kilometres (AFTKs) grew by 3.0% year-on-year in 2017 – the slowest full-year rate since 2012 and just one-third of the corresponding pace of demand. As a result, the industry-wide load factor rose by 2.5 percentage points relative to 2016.

That said, given the pause in the upward trend in SA FTKs during the final third of 2017, AFTKS are now trending upwards marginally faster than demand. This has seen the SA freight load factor fall back slightly in recent months.

International FTK growth rose in all regions in 2017

International FTKs grew by 9.9% year-on-year in 2017 as a whole, up from 3.6% in 2016. (See Chart 4.)

Chart 4 – International FTK growth by airline region of registration

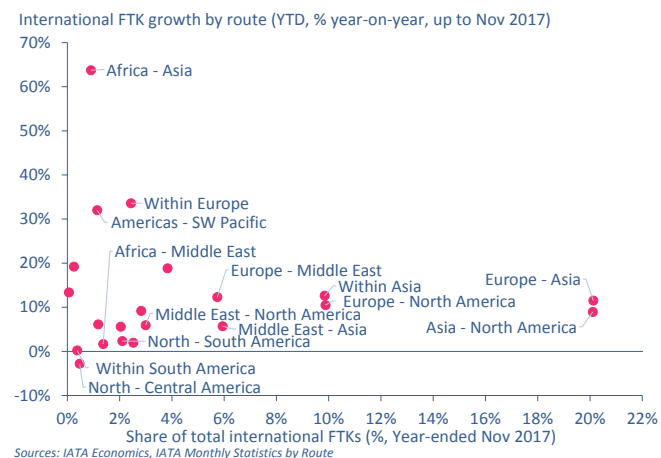


Africa tops the international growth chart...

African airlines topped the international growth chart in 2017 for only the second time in a calendar year since our series began in 1990 (the other time was in 2010 at the time of the post-crisis rebound). Year-on-year FTK growth surged to 25.2%, up from 3.7% in 2016.

As we have noted before, African airlines' freight volumes has been helped by a strong upward trend in traffic between Africa and Asia. This follows an increase in the number of direct services between the two continents on the back of ongoing foreign investment flows into Africa from Asia; FTKs flown on the segment grew by nearly 64% in year-on-year terms in the first eleven months of the year. (See Chart 5.)

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



...as Latin America volumes return to growth

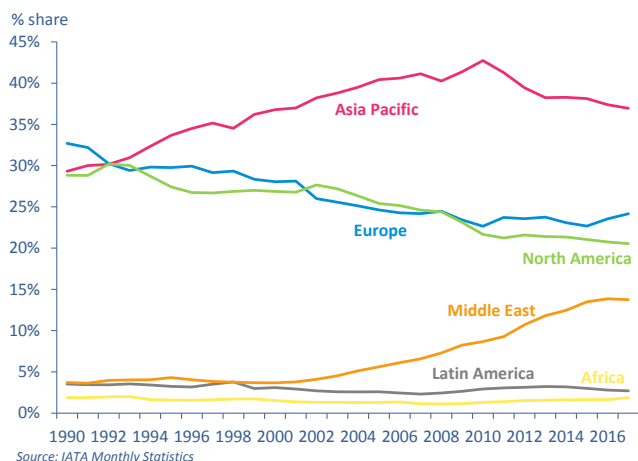
Having fallen in each of the previous two calendar years, international FTKs flown by airlines based in Latin America returned to growth in 2017 (5.8%). This turnaround has been helped by a recovery in the

continent's largest economy, Brazil. In SA terms, FTKs are currently back to levels last seen in late-2014.

Middle East FTK share falls for 1st time since 2000

Year-on-year growth in international FTKs flown by carriers based in the Middle East increased to 8.1% in 2017, from 6.5% in the previous year. The upward trend in SA traffic remained broadly steady at an annualized rate of 8-10% during the second half of 2017. However, having not seen the strong upward trend in traffic that other regions saw in during the first half of the year, the region's share of global FTKs flown fell for the first time in 18 years. (See Chart 6.)

Chart 6 – Breakdown of global FTKs by region



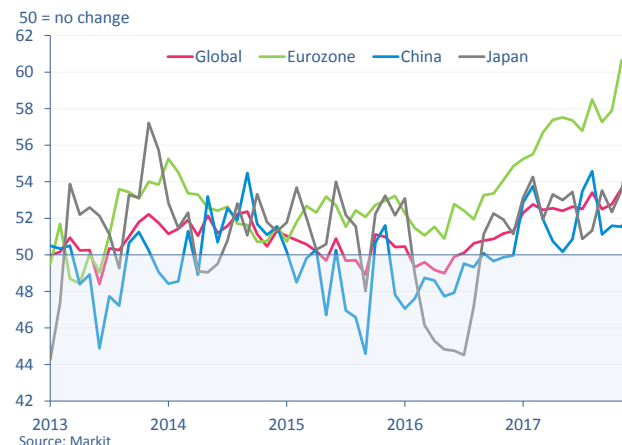
As we have previously noted, freight loads have increased substantially on the market segment to and from the Middle East to North America in recent months, following a fall in capacity flown on the route.

The upward SA trend slowed in Europe in H2'17...

European airlines posted the second fastest year-on-year growth rate of all regions in 2017 (11.9%, up from 7.2% in 2016). This is consistent with rising export demand for manufacturing goods made in the region; in fact, manufacturing firms in the eurozone are currently reporting that their export order books are growing at their fastest pace on record. (See Chart 7.)

That said, year-on-year FTK growth slowed to a 16-month low of 5.7% in December and the upward trend in international volumes flown by European airlines slowed to an annualized pace of around 2% during the second half of the year. We will continue to monitor developments in the trend closely in the data from the opening months of 2018.

Chart 7 – Selected new export orders components of manufacturing PMI indices



...It is a similar case for Asia Pacific...

It is a similar story for carriers based in Asia Pacific. (Recall that airlines based in the region fly 37% of all international FTKs.) International FTK growth accelerated to 8.7% in 2017 as a whole, up from 1.5% in 2016. Manufacturers in the major exporting nations of China and Japan reported increased demand for their exports throughout 2017, helped in part by a pick-up in economic activity in Europe and a continued solid performance from the US. (Again, see Chart 5.)

Year-on-year FTK growth slowed to 8.3% in December – in line with the five-year average pace. However, as is the case for European airlines, SA FTK volumes trended sideways over the second half of 2017.

...and North American airlines

North American airlines flew 7.9% more international FTKs in 2017 than they did the previous year. The comparative strength of the US economy and dollar over recent years has helped to support inbound air freight volumes to the US. (The potential boost to activity from the recently agreed tax package may be a further positive in this regard, although this will be offset in part by the recent weakening in the dollar.)

FTK growth remained above its five-year average pace in December (4.1% vs. 3.3%). As with European and Asia Pacific carriers, however, the current strength in the year-on-year growth rate mainly reflects increases seen earlier in 2017. Indeed, volumes in SA terms are currently in line with where they were in July.

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 31st January 2018

Air freight market detail - December 2017

	World share ¹	December 2017 (% year-on-year)				2017 calendar year (% year-on-year)			
		FTK	AFTK	FLF (%-pt) ²	FLF (level) ³	FTK	AFTK	FLF (%-pt) ²	FLF (level) ³
TOTAL MARKET	100.0%	5.7%	3.3%	1.1%	46.8%	9.0%	3.0%	2.5%	45.5%
Africa	1.9%	15.6%	7.9%	2.1%	31.9%	24.8%	9.9%	3.0%	25.7%
Asia Pacific	37.0%	5.6%	2.2%	1.8%	57.1%	7.8%	1.3%	3.4%	56.1%
Europe	24.2%	5.0%	3.2%	0.8%	49.7%	11.8%	5.9%	2.4%	46.4%
Latin America	2.7%	4.9%	11.6%	-2.2%	34.8%	5.7%	3.1%	0.8%	34.2%
Middle East	13.7%	6.3%	4.7%	0.7%	44.3%	8.1%	2.6%	2.3%	44.9%
North America	20.5%	5.4%	2.2%	1.1%	37.1%	7.9%	1.6%	2.1%	36.5%
International	87.4%	6.5%	4.6%	0.9%	50.9%	9.9%	3.9%	2.7%	49.3%
Africa	1.9%	15.8%	8.5%	2.1%	32.6%	25.2%	10.5%	3.1%	26.2%
Asia Pacific	33.1%	6.8%	5.0%	1.0%	60.5%	8.7%	3.0%	3.2%	60.2%
Europe	23.6%	5.1%	3.5%	0.8%	51.0%	11.9%	5.8%	2.6%	48.0%
Latin America	2.3%	4.8%	5.4%	-0.3%	41.4%	5.8%	1.4%	1.7%	40.0%
Middle East	13.7%	6.3%	5.1%	0.5%	44.4%	8.1%	3.6%	1.9%	45.0%
North America	12.8%	7.8%	4.3%	1.5%	44.5%	10.3%	1.9%	3.3%	42.7%

¹% of industry FTKs in 2017 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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