



AIR FREIGHT MARKET ANALYSIS

May 2017

Another strong month, but has the cyclical growth peak passed?

- Global freight tonne kilometres (FTKs) grew by 12.7% year-on-year in May, up from 8.7% in April.
- Having made a mixed start to 2017 in seasonally adjusted (SA) terms, freight volumes grew strongly in May compared to April. That said, industry drivers suggest that the best of the cyclical upturn may have passed.
- International FTKs grew at a double-digit annual pace in May in all regions except Latin America.
- Demand growth outpaced that of capacity in May, lifting the SA load factor to its highest level since July 2014.

Year-on-year FTK growth accelerates in May...

Global FTKs grew by 12.7% year-on-year in May, up from 8.7% in April. This pace is more than three times the five-year average growth rate (3.8%). As has been the case in recent months, airlines registered in Asia Pacific, Europe, and North America accounted for the bulk of the annual increase in freight volumes. (See Chart 1.)

Industry-wide FTKs have now grown by 10.2% in annual terms so far this year to date. Allowing for the extra day in February 2016 owing to the leap year, this is equivalent to annual growth of just under 11%. All told, it is the strongest start to the year since the rebound from the global financial crisis (GFC) in 2010.

...helped by a strong rise in monthly volumes

After a mixed start to 2017 in SA terms, May saw strong month-on-month growth in FTKs for all the major regions. Volumes are now back in line with the

strong upward trend that began in early-2016. (See Chart 2.) This lays the groundwork for very strong year-on-year growth in FTKs in 2017 as a whole.

The economic and trade backdrop has improved...

The robust recent performance of air freight has been set against a stronger global economic and trade backdrop. The new export orders component of the global purchasing managers' index (PMI) remains close to a six-year high level, and is indicative of growing export order books for global manufacturers. 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 the ability of air cargo to allow firms to restock quickly at the start of pick-ups in the economic cycle. Indeed, the pick-up in annual FTK growth since early-2016 has

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

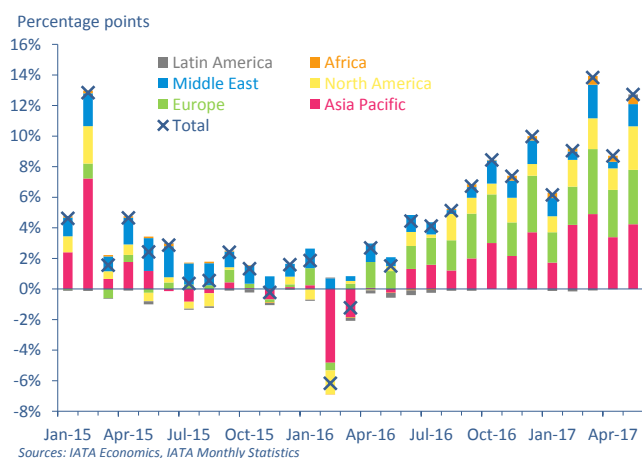
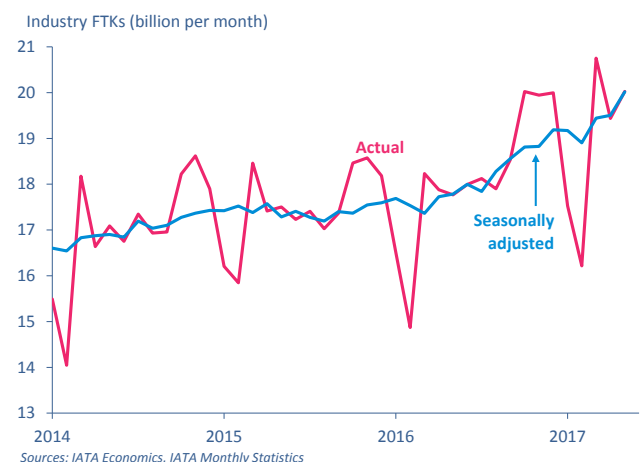


Chart 2 – FTK levels



Air freight market overview - May 2017

	World share ¹	May 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%	12.7%	5.2%	3.0%	45.2%	10.2%	3.4%	2.8%	44.7%
International	86.7%	14.0%	5.1%	3.9%	49.3%	11.4%	3.5%	3.5%	48.9%

¹% of industry FTKs in 2016

²Year-on-year change in load factor

³Load factor level

coincided with a sharp decline in the (US) inventory-to-sales ratio between May and December 2016. (See Chart 4.)

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

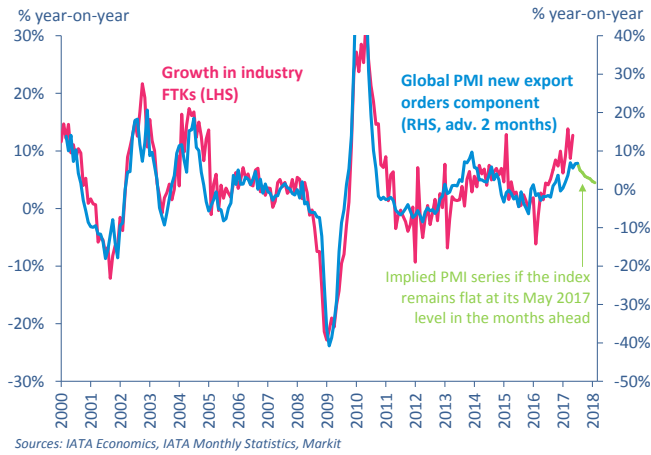
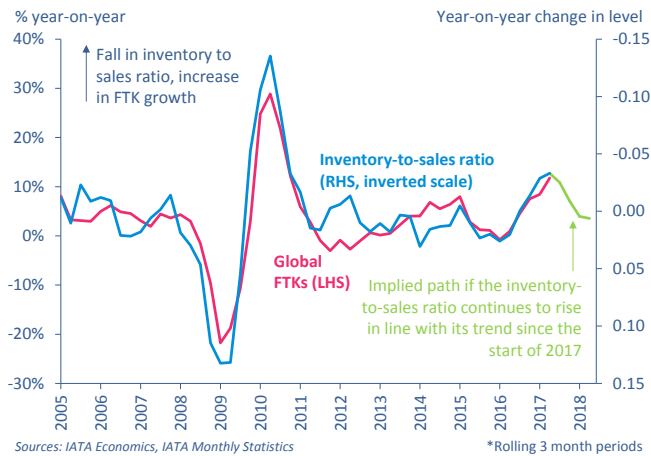


Chart 4 – Air freight growth vs. inventory-to-sales ratio



...but have we passed the cyclical growth peak?

That said, recent developments in both of these indicators suggest that the best of the cyclical upturn in air freight may now have passed. Indeed, while the new export orders component of the global manufacturing PMI is still consistent with growing export orders, the measure has fallen slightly since it peaked in February. Unless we see further gains in manufacturing export order books, the measure is consistent with air freight growth moderating 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 and is currently rising modestly. As shown in Chart 4, this is also consistent with year-on-year FTK growth starting to moderate from its current pace over the second half of 2017. (Again, see Chart 4.)

Freight load factor rises further

Available freight tonne kilometres (AFTKs) rose by 5.2% year-on-year in May. AFTKs have been trending

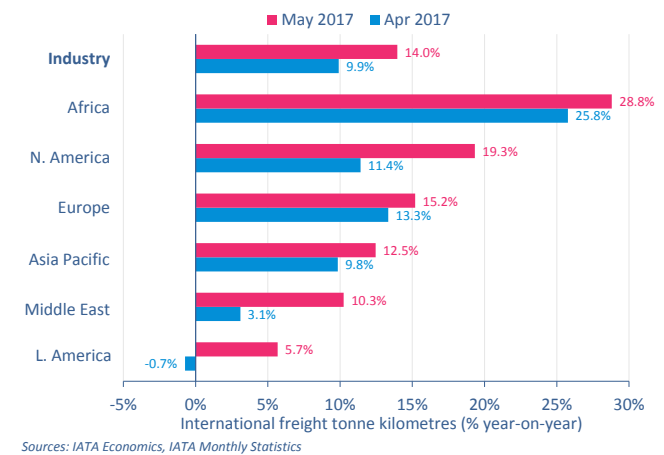
upwards at a reasonably steady annualized rate in the region of 6.5% over the past year or so.

In the opening months of 2017, the upward trend in demand was broadly matching that of supply. However, the jump in FTKs in May far exceeded that of capacity. All told, the industry-wide load factor has now risen by four percentage points in SA terms since its low-point in early-2016, and is currently at its highest level since July 2014.

International FTK growth outpaces the total again

International FTK growth jumped to 14.0% year-on-year in May, from 9.9% in April. (See Chart 5.) Year-on-year growth accelerated from the previous month in all regions, and grew at double-digit paces in all cases except Latin America. With the exception of Africa, all regions saw strong month-on-month gains in SA FTKs.

Chart 5 – International FTK growth by airline region of registration



Continued strong growth for both Asia Pacific...

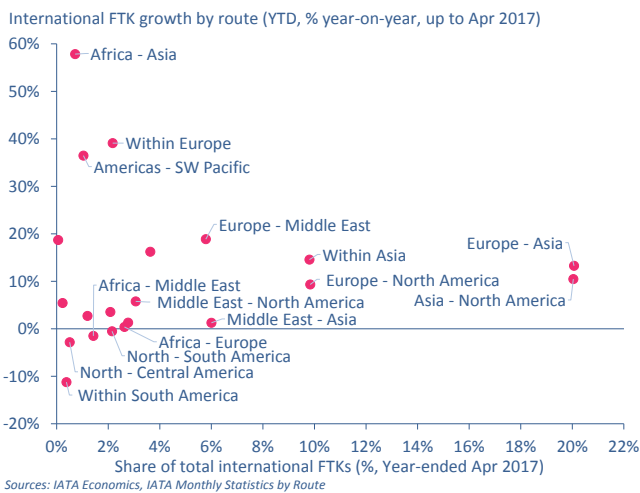
Asia Pacific is the biggest region in terms of international FTKs flown, and air freight is a key part of the business models of many airlines based there. International freight volumes grew by 12.5% year-on-year in May, up from 9.8% in April. In SA terms, volumes are now around 3% higher than they reached 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 6, overleaf.)

It is worth noting that business surveys from the region have become more mixed on the health of exporter order books in the region. Conditions remain very strong in Taiwan, for example, but have eased in both Japan and China since the start of the year. This is in keeping with the picture from industry-wide indicators mentioned earlier.

...and European airlines

International freight volumes flown by European airlines grew by 15.2% year-on-year in May, with such airlines also benefiting from strong demand on the Europe-Asia market. By contrast to the situation in Asia, however, there is little sign of an easing in the growth of European exporters' order books, with indicators still close to six-year highs. As we have noted before, this is helped by the ongoing weakness in the euro. FTK volumes on the other key market for the region's carriers – between Europe and North America – have grown by 9.3% in annual terms so far this year-to-date. (Again, see Chart 6.)

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



Middle East growth recovers into double digits

Year-on-year growth in international FTKs flown by Middle Eastern airlines jumped to 10.3% in May, having dipped to 3.1% in April. The recent volatility in year-on-year growth rates relates more to volatile monthly developments last year. Indeed, volumes are currently trending upwards at solid rate in SA terms, and have increased by 8.5% so far this year to date.

As we have noted before, the performance of the major segment-based routes to and from the Middle East has diverged: FTKs flown to and from Europe have grown by nearly 19% so far this year, but traffic to and from Asia has grown by just over 1% over the same period. (Again, See Chart 6.) However, the pick-up in year-on-year growth on the former mainly relates to a surge in volumes seen during the final third of 2016; it is worth noting that this increase has paused over the past four months or so.

Another strong month for North American FTKs

North American airlines posted annual FTK growth of 19.3% year-on-year in May – the fastest pace since

August 2010. Having jumped in April, SA FTK volumes rose sharply once again on a monthly basis in May. As we have noted before, the strength of the US dollar is continuing to support US inbound air freight. (Data from the US Census Bureau show that imports by air from China, for example, increased by 14% year-on-year in April.) On the other hand, the strong dollar is also keeping outbound flows under pressure.

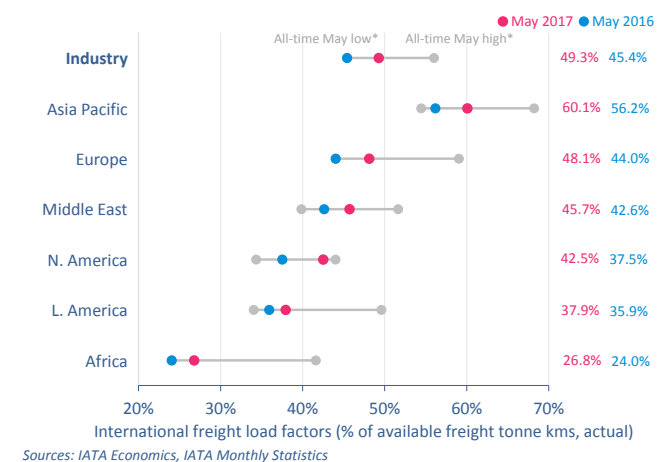
Performance in the smallest regions is diverging

African and Latin American airlines fly a relatively small proportion of global air cargo between them (less than 5% of total international FTKs).

African carriers topped the international growth chart in May for the seventh time in nine months, with volumes up by 28.8% year-on-year in May. That said, in contrast to the other regions, the upward trend in SA FTKs have levelled off in recent months. The market to and from Asia has continued to grow strongly. While still a small route, FTKs have surged by more than 57% so far this year. (Again, see Chart 6.)

The difficult economic and political operating environment has weighed on Latin American freight volumes for some time. Admittedly, international FTKs flown by Latin American airlines rose in year-on-year terms in May at the fastest pace since July 2014. However, this mainly reflected the fact that May was the low-point in SA traffic last year rather than a sustained strong recovery in FTKs. Indeed, while FTKs have risen slightly in SA terms in recent months, they are still some 12% lower than their 2014 peak. The region's airlines have managed to adjust capacity, however, which has at least limited the impact on the region's load factor. (See Chart 7.)

Chart 7 – Freight load factors by region



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Air freight market detail - May 2017

	World share ¹	May 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%	12.7%	5.2%	3.0%	45.2%	10.2%	3.4%	2.8%	44.7%
Africa	1.6%	27.6%	14.7%	2.6%	26.2%	24.8%	11.9%	2.6%	24.8%
Asia Pacific	37.4%	11.3%	6.2%	2.5%	54.7%	9.9%	4.2%	2.8%	53.2%
Europe	23.5%	15.0%	5.7%	3.8%	46.5%	13.4%	5.3%	3.4%	47.3%
Latin America	2.8%	6.7%	7.1%	-0.1%	33.7%	-1.4%	-1.2%	-0.1%	32.1%
Middle East	13.9%	10.2%	1.7%	3.5%	45.6%	8.4%	1.4%	2.9%	44.7%
North America	20.7%	13.9%	4.1%	3.1%	36.4%	8.8%	1.5%	2.4%	36.2%
International	86.7%	14.0%	5.1%	3.9%	49.3%	11.4%	3.5%	3.5%	48.9%
Africa	1.6%	28.8%	15.6%	2.7%	26.8%	25.8%	12.6%	2.7%	25.4%
Asia Pacific	33.3%	12.5%	5.2%	3.9%	60.1%	10.9%	3.7%	3.8%	58.5%
Europe	23.0%	15.2%	5.4%	4.1%	48.1%	13.4%	4.6%	3.8%	48.8%
Latin America	2.4%	5.7%	0.1%	2.0%	37.9%	-2.4%	-4.1%	0.7%	37.6%
Middle East	13.9%	10.3%	2.8%	3.1%	45.7%	8.5%	2.4%	2.5%	44.9%
North America	12.6%	19.3%	5.3%	5.0%	42.5%	13.1%	2.2%	4.1%	42.7%

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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