



AIR FREIGHT MARKET ANALYSIS November 2017

Air freight volumes post another month of robust growth in Nov.

- Global freight tonne kilometres (FTKs) rose by 8.8% year-on-year in November and remain on track for their fastest full year of growth since 2010.
- The upward trend in seasonally adjusted (SA) volumes has slowed over the past six months. However, key indicators of cargo demand indicate that FTK growth is carrying momentum into the first half of 2018.
- Int'l FTK growth rose in year-on-year terms in most regions in Nov, and stayed in double-digit territory in Africa.
- Freight capacity grew by 4.0% year-on-year in Nov, lagging demand growth for the 16th month in a row.

Another robust month of FTK growth in November

Year-on-year growth in industry-wide freight tonne kilometres accelerated to 8.8% year-on-year in November, up from 5.8% in October. The result confirmed industry reports of buoyant activity during the traditional period of strong demand seen every Q4.

Having risen by 9.7% in year-on-year terms over the first 11 months of 2017, air freight volumes remain on track for their fastest full year of growth since the post-crisis rebound in 2010. Putting this into context, the current pace of growth is around three times the ten-year average growth rate of 3.3%.

The SA upward trend in volumes has moderated...

Having said that, the upward trend in SA FTKs clearly slowed during the second half of last year. Over the past six months SA air freight volumes have trended upwards at an annualized rate of around 4%, well

down on the double-digit pace seen in late-2016 and early-2017. (See Chart 1.)

As we have noted before, this surge in growth followed by a moderation is consistent with signs that the global restocking cycle peaked in early-2017, and the related cyclical upturn – in which air freight tends to outperform world trade volumes – looks to have run its course.

...but growth is carrying momentum into H1 2018

Notwithstanding this recent easing in the FTK growth trend, a number of the fundamental indicators of air freight demand continue to suggest that annual FTK growth will remain supported in H1 2018.

Take, for example, the new export orders component of the global manufacturing Purchasing Managers' Index (PMI). Having tracked sideways during much of 2017, the indicator climbed close to a seven-year high during Q4 2017. (See Chart 2.)

Chart 1 – FTK levels

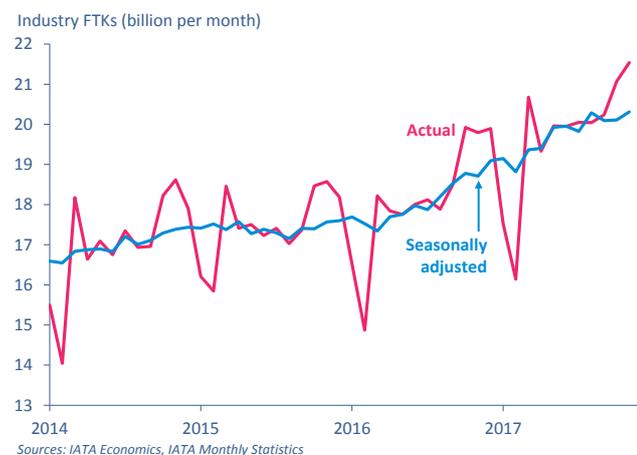
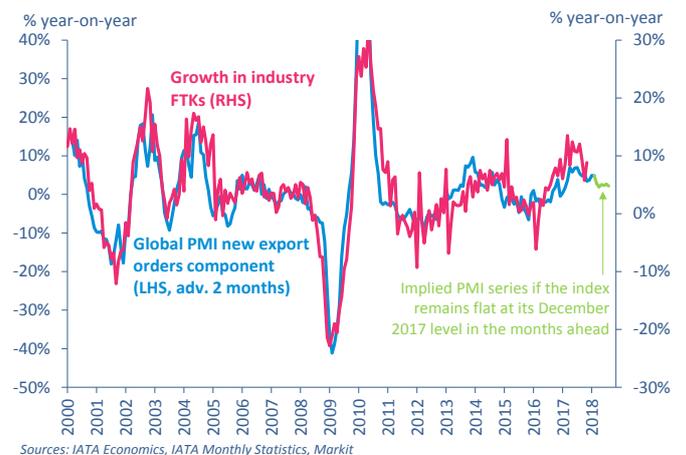


Chart 2 – FTK growth vs. global new export orders



Air freight market overview - November 2017

	World share ¹	November 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%	8.8%	4.0%	2.2%	49.1%	9.7%	3.1%	2.7%	45.4%
International	86.7%	9.0%	5.1%	1.9%	53.2%	10.5%	3.9%	2.9%	49.2%

¹% of industry FTKs in 2016 ²Year-on-year change in load factor ³Load factor level

Moreover, other factors including the long-awaited pick-up in investment in Europe, buoyant consumer confidence, as well as reports of strong growth in international e-commerce flows, are also expected to continue. Each of these factors should help to further underpin demand for air freight in the near term.

All told, while the drivers of freight demand suggest that a repeat of the particularly strong growth seen in 2017 is unlikely in 2018, industry-wide FTKs still look set for a solid year of growth.

We expect industry-wide FTK growth to come in close to its five-year average pace in the region of 4.5% in 2018 as a whole. This would be a robust outcome following-on from the very strong performance in 2017.

Capacity & demand now trending upwards together

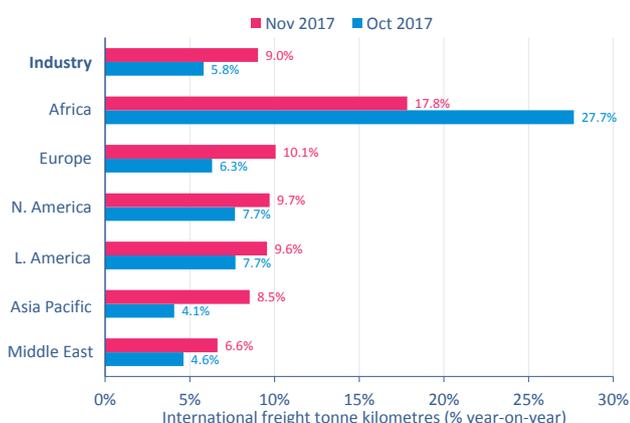
Available freight tonne kilometres (AFTKs) grew by 4.0% year-on-year in November – the 16th consecutive month in which (year-on-year) demand growth has outpaced that of capacity. As a result, the industry-wide load factor increased by 2.2 percentage points compared to November 2016.

The upward trend in demand outstripped that of capacity during most of 2016 and early-2017. However, given the moderation in the upward trend in FTKs in recent months, demand and capacity have now been trending upwards at broadly similar rates over the past six months or so.

Int'l FTK growth rose in all regions except Africa

International FTKs grew by 9.0% year-on-year in November, up from the 14-month low of 5.8% in October. (See Chart 3.)

Chart 3 – International FTK growth by airline region of registration



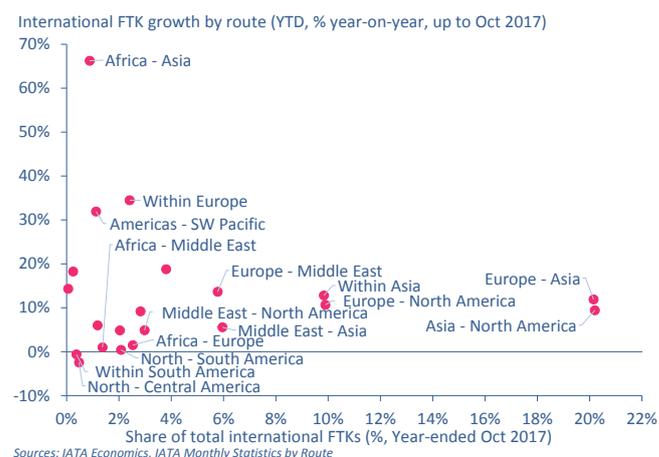
Africa tops the growth chart for the 13th month...

Africa was the only region to see a deceleration in the annual international FTK growth rate in November (to 17.8%, from 27.2% in October). Nonetheless, this was still the 13th month in which the annual growth rate has

been in double-digit territory, and was enough for the region to top the international FTK growth chart again.

As we have noted previously, the growth in African airlines' freight volumes has been helped by a strong upward trend in freight traffic between Africa and Asia. This comes on the back of 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 have surged by more than 67% in year-on-year terms in the first ten months of the year. (See Chart 4.)

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



...alongside an ongoing recovery in Latin America

Airlines based in Latin America flew 9.6% more international FTKs in November 2017 compared to a year ago – well ahead of the five-year average growth rate (0.9%). In SA terms, FTKs are currently back to levels last seen in late-2014, helped by the ongoing recovery in the continent's largest economy, Brazil.

It is worth noting, however, that international capacity growth for both African and Latin American airlines accelerated sharply in November. As a result, the two regions were the only ones to see declines in their freight load factors compared to November 2016.

Ongoing solid trend for Middle Eastern traffic

Airlines based in the Middle East posted the slowest year-on-year growth in international FTKs for the second time in three months (6.6%, compared to the five-year average of 10.3%).

That said, the November figure was an improvement from 4.6% in October. Moreover, the bigger picture is that SA FTKs flown by Middle Eastern carriers has continued to trend upwards at a healthy annualized rate of 8-10% during the second half of 2017.

Freight loads have increased substantially on the market segment to and from the Middle East to North

America in recent months, reflecting a fall in capacity flown on the route.

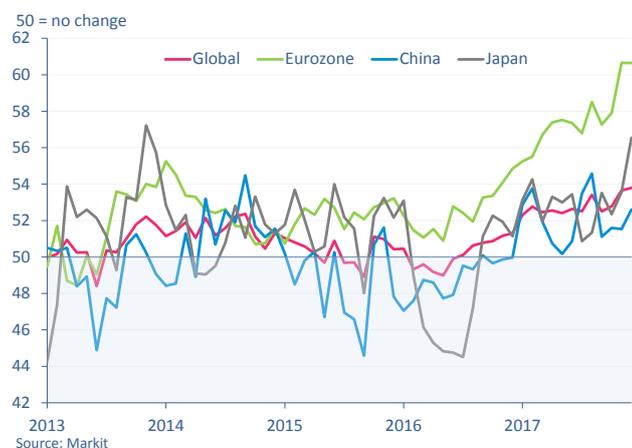
Robust growth, but moderating trend, in Europe

European airlines posted double-digit annual growth in international FTKs for the ninth time in ten months in November (10.1%, up from 6.3% in the previous month, and well above the five-year average of 4.9%).

It is important to note that the current robust year-on-year growth rate mainly reflects strong gains in SA volumes seen during H1 2017. As with the industry-wide FTK series, the upward trend in international volumes flown by European airlines has moderated during the second half of the year.

Nonetheless, manufacturing exporters in the region have continued to report strong demand for their exports, despite headwinds from a strong euro. In fact, manufacturers in the eurozone are currently reporting that their export order books are growing at their fastest pace on record. (See Chart 5.) This highly supportive backdrop is likely to continue to underpin demand for air freight growth for the region's carriers into 2018.

Chart 5 – 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, for whom air freight is an important part of their business models. (Recall that the region's airlines fly nearly 40% of all international FTKs.)

Year-on-year FTK growth remains robust, at more than twice its five-year average pace (8.8% in November, compared to 3.3%). As in the case of Europe, though, this again largely reflects the strong gains seen during H1 2017; SA volumes have trended sideways over the past six months.

Nonetheless, the favorable backdrop of buoyant export order books for the region's manufacturers is, once

again, expected to support demand for air freight into the new year. Manufacturers in the major exporting nations of China and Japan, in particular, have continued to report rising demand for their exports, helped in part by a pick-up in economic activity in Europe and a continued solid performance from the US. (Again, see Chart 5.)

...and North American airlines

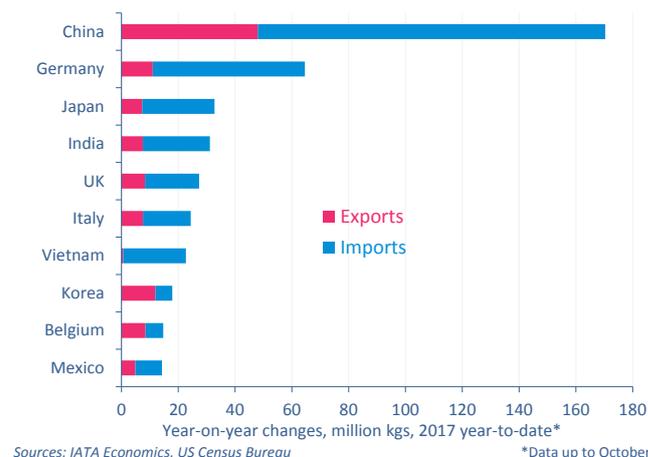
International FTKs flown by North American airlines increased by 9.7% year-on-year in November. This was an acceleration from 7.7% in October, and more than twice the five-year average pace (4.3%).

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. In fact, volumes in SA terms have trended broadly sideways since the middle of last 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.) The latest data from the US Census Bureau show that US import volumes by air grew by 11.6% year-on-year in the first ten months of 2017, compared to a slower 6.7% rise in exports.

As shown in Chart 6, imports by air from China and Germany have increased substantially in year-on-year terms in 2017, which is consistent with the strong demand conditions seen on the air freight market segments across the Atlantic and the Pacific in 2017.

Chart 6 – US trade by air, top-10 increasing trading partners, 2017 year-to-date



Sources: IATA Economics, US Census Bureau *Data up to October

David Oxley
 economics@iata.org
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Air freight market detail - November 2017

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TOTAL MARKET	100.0%	8.8%	4.0%	2.2%	49.1%	9.7%	3.1%	2.7%	45.4%
Africa	1.6%	17.5%	24.0%	-1.4%	25.9%	25.6%	10.0%	3.1%	25.1%
Asia Pacific	37.4%	8.1%	1.2%	3.8%	60.1%	8.6%	1.6%	3.6%	56.1%
Europe	23.6%	9.9%	4.7%	2.4%	50.0%	12.7%	5.8%	2.8%	46.4%
Latin America	2.8%	9.4%	11.1%	-0.6%	36.6%	6.3%	5.1%	0.4%	33.4%
Middle East	13.9%	6.6%	3.1%	1.6%	49.2%	8.3%	2.4%	2.4%	44.9%
North America	20.8%	9.6%	3.9%	2.1%	40.3%	8.3%	1.6%	2.3%	36.5%
International	86.7%	9.0%	5.1%	1.9%	53.2%	10.5%	3.9%	2.9%	49.2%
Africa	1.6%	17.8%	25.2%	-1.6%	26.2%	26.1%	10.5%	3.2%	25.6%
Asia Pacific	33.2%	8.5%	2.8%	3.4%	64.4%	9.3%	3.2%	3.4%	60.2%
Europe	23.0%	10.1%	4.9%	2.4%	51.7%	12.7%	5.5%	3.1%	48.1%
Latin America	2.4%	9.6%	15.1%	-2.1%	42.3%	6.5%	4.7%	0.7%	38.7%
Middle East	13.8%	6.6%	3.8%	1.3%	49.3%	8.3%	3.4%	2.0%	45.0%
North America	12.7%	9.7%	4.7%	2.2%	48.3%	10.8%	1.8%	3.5%	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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