



AIR FREIGHT MARKET ANALYSIS September 2017

September data suggest FTKs have passed the cyclical growth peak

- Year-on-year growth in global freight tonne kilometres slowed to a 5-month low of 9.2% in September, but remained well ahead of its five and ten-year average growth rates.
- The wider global trade backdrop remains robust, but the September data add to signs that the pick-up in air freight growth has passed its cyclical peak. The upward trend in seasonally-adjusted (SA) freight volumes eased in Q3.
- International FTK growth slowed in year-on-year terms in all regions in September compared to August.
- Cargo demand has continued to outstrip supply, however, which is boosting the industry-wide load factor.

Another robust month of annual FTK growth...

Industry-wide freight tonne kilometres (FTKs) grew by 9.2% in September, down from 11.6% in August.

This pace of growth was still well ahead of the five and ten-year average rates (4.4% and 3.2%, respectively). Moreover, when looking across the three months to September as a whole, FTKs posted their strongest year-on-year growth in Q3 since 2010. As we have noted before, the risks to our current forecast of 7.5% growth in FTKs for 2017 as a whole lie on the upside.

...although some more mixed signs emerging

However, September's annual growth rate was the slowest since April, and the upward trend in SA cargo volumes has eased. FTKs grew at a 6% annualized rate between Q2 and Q3 – still a respectable pace but well below the 14-15% annualized rates seen during Q2 and Q4 2016, for example. (See Chart 1.) In fact,

while SA FTKs rose strongly in month-on-month terms in August, September's decline means they have now fallen on this basis in three of the past four months.

FTK growth looks to have passed its cyclical peak

More generally, the continued slowdown in the year-on-year FTK growth rate adds to signs that cargo growth may have passed its cyclical peak.

To be clear, the new export orders component of the global Purchasing Managers' Index (PMI) remains well above the 50-mark that indicates growing export orders. This is consistent with other signs of an ongoing cyclical pick-up in wider global trade volumes.

However, as Chart 2 shows, industry-wide FTK growth is strongly correlated with year-on-year *changes* in the PMI component rather than its level. This reflects the tendency of air freight to outperform during upturns in the economic and restocking cycle. The implication is

Chart 1 – FTK levels

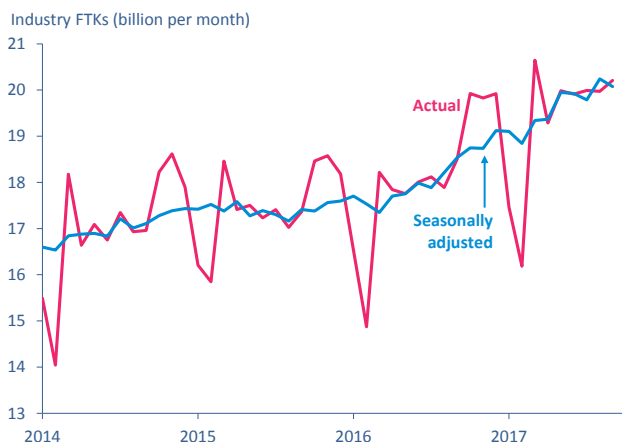
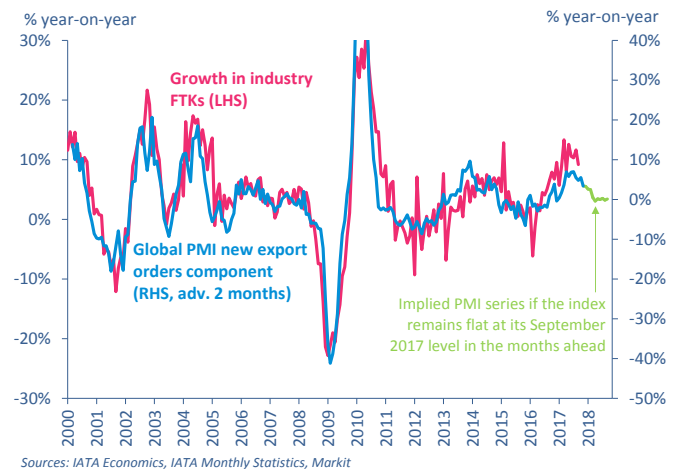


Chart 2 – FTK growth vs. global new export orders



Air freight market overview - September 2017

	World share ¹	September 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%	9.2%	3.9%	2.2%	45.5%	10.1%	3.6%	2.6%	44.4%
International	86.7%	10.3%	4.4%	2.6%	49.1%	11.1%	3.9%	3.2%	48.4%

¹% of industry FTKs in 2016

²Year-on-year change in load factor

³Load factor level

that we would need to see even *further* rises in the PMI export orders measure to avoid a continued moderation in FTK growth into 2018. The fact that the inventory-to-sales ratio in the US has now stopped falling also supports this assessment.

The pick-up in the global trade backdrop will provide stronger tailwinds for air freight than we have seen in previous years. However, we expect FTK growth in 2018 as a whole will be somewhat slower than the robust growth seen this year.

Capacity growth still lagging behind, though

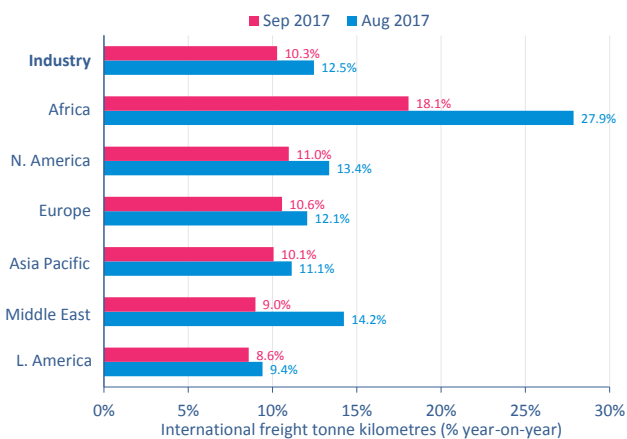
Despite the recent easing in the upward FTK trend, demand has continued to outpace additions to capacity. Available freight tonne kilometres (AFTKs) grew by 3.9% year-on-year in September – less than half the corresponding pace of FTK growth.

As a result, the September load factor came in 2.2 percentage points higher than a year ago, while the SA measure remained close to a three-year high.

Deceleration in int'l FTK growth in all regions

International FTKs grew by 10.3% year-on-year in September, down from 12.5% in August. (See Chart 3.) All regions saw a deceleration in year-on-year growth compared to August.

Chart 3 – International FTK growth by airline region of registration



Sources: IATA Economics, IATA Monthly Statistics

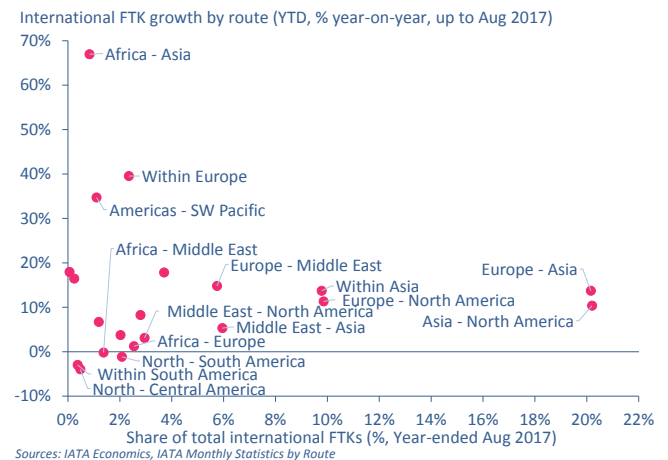
African airlines' continue to set the pace

African airlines topped the international FTK growth chart once again in September, with annual growth of 18.1%. Despite slowing from August, this was still more than twice the five-year average pace (8.9%). The pick-up in African airlines' freight volumes has been helped by a surge in traffic between Africa and Asia; while still a comparatively small market, FTKs flown on the segment have surged by more than 67% in the first eight months of the year. (See Chart 4.)

Nonetheless, the stellar upward SA trend in total international traffic that started in the middle of last

year flattened off in Q3. Moreover, given the timing of the upturn last year, the year-on-year comparison for annual growth rates will become increasingly less favorable over the coming months.

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



Sources: IATA Economics, IATA Monthly Statistics by Route

Weaker dollar helping to rebalance US trade

North American airlines posted the second-fastest FTK growth rate in September (11.0% year-on-year). This was a deceleration from August, but was still more than two-and-a-half times the five-year average pace (4.2%). Having risen strongly in Q2, the SA traffic trend flattened off during the third quarter, however.

The strength of the US dollar over recent years has helped to support inbound air freight volumes to the US: the latest data from the US Census Bureau show that import volumes coming into the US by air grew by 12.0% year-on-year in the first eight months of 2017, compared to a slower 6.6% rise in exports.

However, there are signs that the decline in the dollar since the start of the year is helping to rebalance trade flows. Indeed, exports by air from the US grew by 12.7% in August 2017 relative to the same month a year ago, compared to slower growth of 7.4% for imports by air.

Robust growth for European airlines...

European airlines saw a similar-sized increase in year-on-year freight traffic as their North American counterparts (10.6%). Also similar to the case in North America, the current pace of growth for European airlines is much faster than its five-year average rates.

Exporters in the region appear to have so far shrugged off any headwinds from the recent appreciation of the euro; indeed, German manufacturers, for example, are currently reporting that their export order books are growing at their fastest pace in more than seven years. Freight demand remains strong on the biggest market segments to/from Asia and across the Atlantic.

Volumes on the former segment look to have been boosted by increased trade stemming from economic stimulus measures adopted by China.

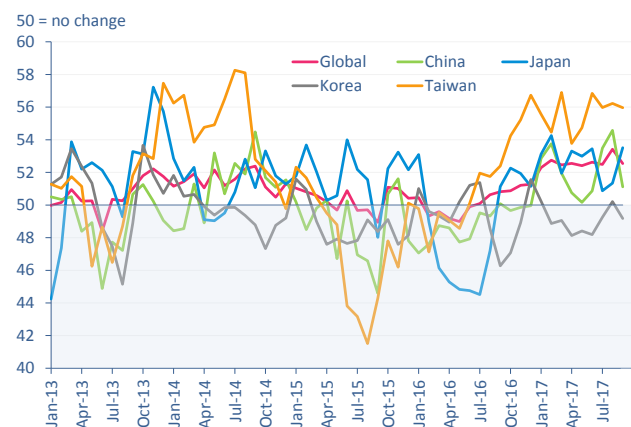
The international market within Europe is much smaller, but has seen faster growth still (40% year-on-year so far in the first eight months of 2017). (Again, see Chart 4.) The strong growth on this market seems to relate in large part to strong growth by carriers such as Turkish Airlines.

...as well as those based in Asia Pacific

International FTKs flown by airlines based in Asia Pacific – who fly nearly 40% of total international volumes – grew by 10.1% year-on-year in September. Cargo demand growth has been strong on all the major routes to, from and within the Asia Pacific region. (Again, see Chart 4.)

The strong upward trend in air freight traffic for Asia Pacific airlines is set against a volatile, but generally strong, backdrop of buoyant export order books for the region’s manufacturers. (See Chart 5.)

Chart 5 – Selected new export orders components of manufacturing PMI indices in the Asia Pacific region



Source: Markit

Export conditions are the strongest in Chinese Taipei, while exporters in the major markets of China and Japan are also continuing to report growing orders.

Ongoing solid trend in Middle Eastern FTKs...

Middle Eastern airlines’ international FTK growth slowed to 9.0% year-on-year in September, from 14.2% in August. The recent volatility seen in the year-on-year growth rate has reflected a short-lived weak patch for demand a year ago rather than a marked change in the current traffic trend. Indeed, the SA international freight traffic flown by Middle Eastern carriers has continued to trend upwards at an annualized rate of around 8% over the past six months.

The key difference for Middle Eastern carriers, however, is that they have not seen the strong pick-up in the SA traffic that other regions have seen over the past year or so. This owes in part to strong competition from other regions’ carriers, particularly on the Asia-Europe route.

...and recovery in Latin American cargo volumes

The recovery in Latin American FTKs continued into Q3, alongside ongoing signs of a corresponding pick-up in the region’s largest economy, Brazil.

The region’s airlines flew 8.6% more international FTKs in September 2017 than they did a year ago. Given the region’s difficulties in recent years, September’s growth rate was well above the five-year average pace (0.1%). In SA terms, FTKs are now back to levels last seen in late 2014.

David Oxley
economics@iata.org
 1st November 2017

Air freight market detail - September 2017

	World share ¹	September 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%	9.2%	3.9%	2.2%	45.5%	10.1%	3.6%	2.6%	44.4%
Africa	1.6%	17.7%	2.6%	3.1%	24.2%	26.3%	8.4%	3.5%	24.9%
Asia Pacific	37.4%	9.3%	5.3%	2.0%	56.2%	9.5%	4.5%	2.5%	54.2%
Europe	23.5%	10.3%	5.6%	2.0%	45.0%	12.9%	5.8%	2.8%	45.5%
Latin America	2.8%	7.6%	5.9%	0.6%	35.2%	2.6%	1.2%	0.4%	32.6%
Middle East	13.9%	8.9%	2.6%	2.6%	44.7%	8.9%	2.2%	2.7%	44.2%
North America	20.7%	7.4%	1.4%	2.1%	37.6%	8.6%	1.2%	2.4%	35.9%
International	86.7%	10.3%	4.4%	2.6%	49.1%	11.1%	3.9%	3.2%	48.4%
Africa	1.6%	18.1%	2.8%	3.2%	24.7%	27.0%	8.9%	3.6%	25.4%
Asia Pacific	33.2%	10.1%	5.1%	2.7%	60.8%	10.3%	3.9%	3.5%	59.3%
Europe	23.0%	10.6%	5.6%	2.1%	46.7%	12.9%	5.4%	3.1%	47.2%
Latin America	2.4%	8.6%	1.1%	2.9%	42.3%	2.4%	-0.7%	1.1%	37.8%
Middle East	13.9%	9.0%	3.5%	2.3%	44.8%	9.0%	3.3%	2.3%	44.3%
North America	12.6%	11.0%	3.2%	3.0%	42.8%	12.0%	1.8%	3.8%	41.8%

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](#).

Get the data

Access data related to this briefing through IATA's Monthly Statistics publication: www.iata.org/monthly-traffic-statistics

IATA Economics Consulting

To find out more about our tailored economics consulting solutions, visit: www.iata.org/consulting

New release alerts

To receive email notifications from IATA Economics, select 'Economic Briefings' from: www.iata.org/optin

Terms and Conditions for the use of this IATA Economics Report and its contents can be found here: www.iata.org/economics-terms
By using this IATA Economics Report and its contents in any manner, you agree that the IATA Economics Report Terms and Conditions apply to you and agree to abide by them. If you do not accept these Terms and Conditions, do not use this report.