



AIR FREIGHT MARKET ANALYSIS

July 2017

Freight growth remained robust in July, but nearing cyclical peak

- Global freight tonne kilometres (FTKs) posted double-digit annual growth for the 4th time in 5mths in July (11.4%).
- The robust growth in freight volumes since early-2016 has been consistent with the typical pattern seen during upturns in the economic cycle. However, indicators suggest that the upturn in FTK growth may be nearing a peak.
- African airlines posted the fastest int'l FTK growth rate in July, alongside robust growth for the major regions.
- FTKs grew by more than three times the pace of capacity in July, which resulted in the load factor rising sharply.

Another month of double-digit FTK growth...

Industry-wide FTKs grew by 11.4% year-on-year in July, up slightly from 11.2% in June, and well ahead of the five and ten-year average rates (4.2% and 3.1%, respectively). Annual FTK growth has now been in double-digit territory for four of the past five months.

...echoed in buoyant manufacturer export orders

The resurgence in air freight demand over the past year or so has been set against a stronger global economic and trade backdrop. The turnaround in trade conditions has been most visible in rising trends in the new export orders components of manufacturing purchasing managers' indices (PMIs) in the world's major exporters since early 2016. (See Chart 1.) Meanwhile, data from the Netherlands CPB show that global trade volumes grew by 4.1% in H1 2017 compared to the same period in 2016. This was the strongest first half of a year for world trade since 2011.

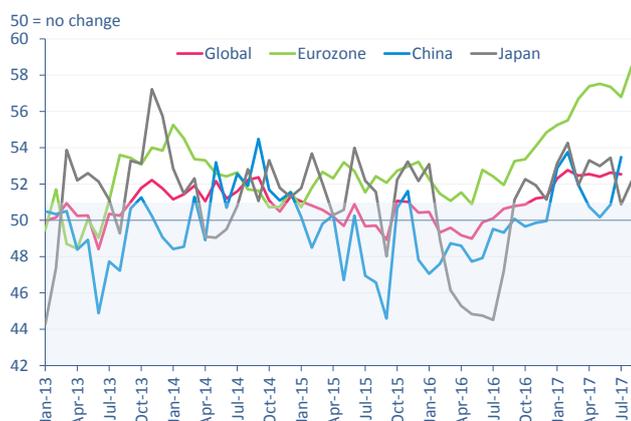
More generally, the recent outperformance of air freight relative to wider world trade has also reflected factors specific to the air transport industry, particularly the ability of air freight to allow firms to restock quickly at the start of upturns in the economic cycle. As we have noted before, the increase in the SA trend in industry-wide FTKs coincided with a sharp decline in the (US) inventory-to-sales ratio during 2016.

More mixed signs are emerging, however

The strong finish to 2016 and start to 2017 for freight volumes looks set to underpin robust year-on-year growth in FTKs for this year as a whole. In fact, we judge that the risks to our current forecast of 7.5% growth in FTKs for 2017 still lay to the upside.

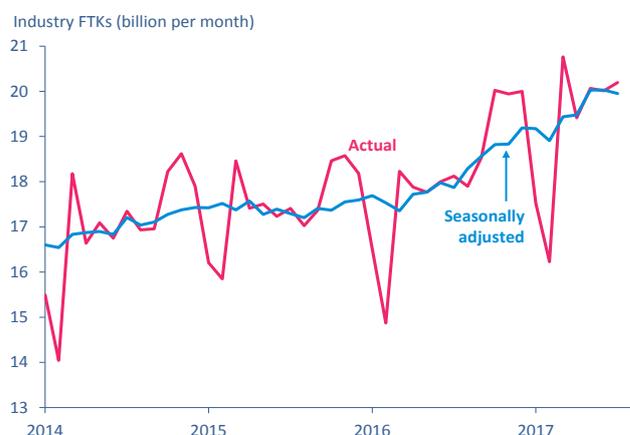
That said, we are starting to see some more mixed signs, which suggest that the upturn in FTK growth maybe be nearing a peak. Indeed, having risen strongly in month-on-month terms in May, SA FTKs

Chart 1 – Selected new export orders components of manufacturing PMI indices



Source: Markit

Chart 2 – FTK levels



Sources: IATA Economics, IATA Monthly Statistics

Air freight market overview - July 2017

	World share ¹	July 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%	11.4%	3.7%	3.0%	43.7%	10.6%	3.6%	2.8%	44.6%
International	86.7%	12.9%	4.3%	3.6%	47.8%	11.8%	3.8%	3.5%	48.8%

¹% of industry FTKs in 2016

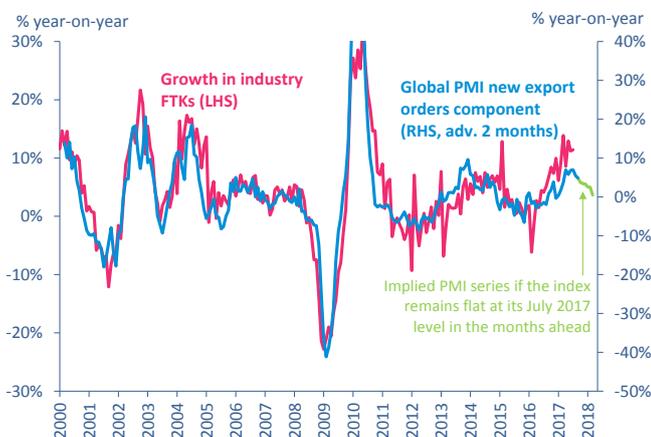
²Year-on-year change in load factor

³Load factor level

were flat in June, and *fell* in July for just the second time in twelve months. (See Chart 2.)

Moreover, the air freight demand indicators that we monitor closely are becoming less supportive for freight growth, particularly business confidence. To be clear, the new export orders component of the global PMI remains close to a six-year high and, crucially, is still well above the notional 50-mark that indicates growing export order books. (Again, see Chart 1.) However, the indicator has broadly tracked sideways so far this year. Given the strong relationship between year-on-year *changes* in the indicator and industry-wide FTK growth, recent developments are consistent with a moderation in year-on-year air freight growth towards the end of the year. (See Chart 3.)

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



Sources: IATA Economics, IATA Monthly Statistics, Markit

Moreover, although the inventory-to-sales ratio in the US remains lower than it was a year ago, it has now stopped falling. This too is consistent with the current period of strong year-on-year FTK growth starting to moderate over the second half of 2017 and into 2018.

Capacity growth lagged far behind demand in July

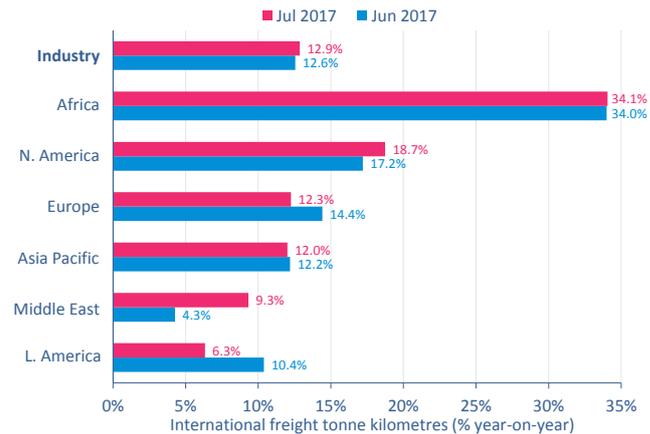
Available freight tonne kilometres (AFTKs) rose by 3.7% year-on-year in July – less than one-third of the corresponding pace of FTK growth. The July load factor came in at 43.7% – three percentage points higher than where it stood in July 2016.

Having outstripped that of capacity during much of H1 2017, the SA trend in FTKs has lagged behind AFTKs in recent months. As a result, the industry-wide load factor has fallen slightly in SA terms since May. Nonetheless, the SA load factor remains close to a two-and-a-half year high, nearly four percentage points above its low-point in early-2016.

Robust internat’l FTK growth in the major regions

International FTKs grew by 12.9% year-on-year in July, up slightly from 12.6% in June. (See Chart 4.)

Chart 4 – International FTK growth by airline region of registration



Sources: IATA Economics, IATA Monthly Statistics

Another stellar month for African airlines

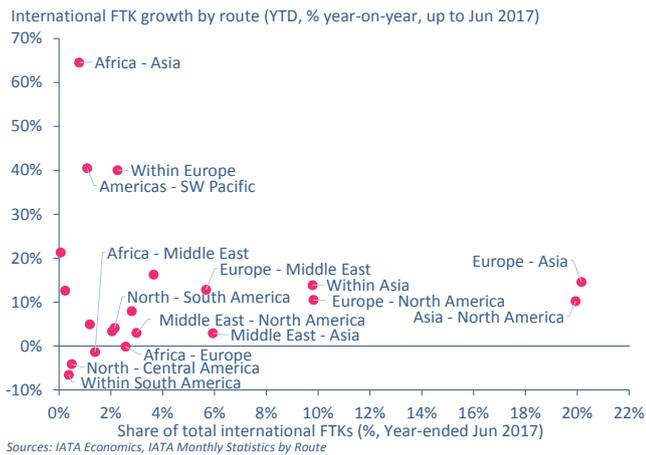
International FTKs flown by African airlines surged by 34.1% year-on-year in July – broadly unchanged from June’s pace and the second fastest monthly rate in seven years. FTKs fell slightly in SA terms in July. However, given the jump in traffic over the past year or so, even if volumes simply remain unchanged in SA terms over the final five months of 2017, the annual growth rate would be expected to remain in double-digit territory for the rest of the year. The wider pick-up in African airlines’ freight volumes has been helped by a surge in traffic between Africa and Asia; although still a small market, FTKs flown on the route jumped by nearly 80% year-on-year in June and 65% in the first half of the year (the latest data available, see Chart 5, overleaf.)

Another month of double-digit growth for European airlines

International FTKs flown by European airlines increased by 12.3% year-on-year in July. Annual FTK growth in the region has now been in double-digit territory for nine of the past 11 months. The region’s airlines are benefiting from robust demand on the biggest market segments to and from the region (Asia and North America). Meanwhile, the very strong growth in international FTKs flown within the region (40% year-on-year in H1) relates in large part to gains made by carriers such as Turkish Airlines. (Again, see Chart 5, overleaf.)

The strong upward trend in SA FTKs during the second half of 2016 coincided with a period of buoyant order books for European manufacturers, helped in part by the weakness of the euro. Manufacturers in the region are still reporting growing export order books, but the recent appreciation of the euro since the start of the year may begin to be a headwind for the region’s exporters.

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



Ongoing strength for North American...

International FTKs flown by North American airlines jumped by 18.7% year-on-year in July – nearly five times the five-year average pace. The upward SA trend remains very strong.

The strength of the US dollar over recent years has helped to support inbound air freight volumes to the US: data from the US Census Bureau shows that import volumes coming into the US by air rose by 12.5% year-on-year in H1 2017, compared to a slower 5.4% increase in exports. While the US dollar remains strong by historical standards, its decline since the start of the year is likely to help rebalance trade flows by boosting exports and deterring imports.

...and Asia Pacific carriers

Meanwhile, international freight volumes flown by airlines based in Asia Pacific – the biggest region in terms of international FTKs flown – also rose at a robust annual pace in July (12.0%). Volumes fell slightly in SA terms compared to June, but remained more than 3% higher than the level they reached in the rebound following the global financial crisis. Demand growth has been robust on all the major routes to, from and within the region. (Again, see Chart 5.)

Business surveys continue to indicate widespread variation in the strength of manufacturers’ export order books in the region. Conditions are strongest in Taiwan (where the indicator remains close to a seven-year high), but continues to be consistent with *falling* export orders in Korea. Encouragingly, after a few mixed readings, the latest data showed improving conditions in the major exporters of China and Japan.

Solid, but unspectacular, Middle East traffic trend

International FTKs flown by Middle Eastern airlines grew by 9.3% year-on-year in July 2017, slightly slower than the five-year average pace (10.8%) but faster than the pace of growth seen over the first seven months of 2017 combined (8.0%).

International freight volumes flown by Middle Eastern carriers have continued to trend upwards in SA terms at a solid rate of around 10% in annualized terms since early-2017. However, amid ongoing strong competition from other regions’ carriers, particularly on the Asia-Europe route, Middle Eastern carriers have not seen the strong pick-up in the SA traffic trend that has been apparent in the major regions over the past year or so.

Ongoing volatility in Latin American FTK volumes

International FTKs flown by Latin American airlines increased by 6.3% year-on-year in July. Freight volumes have been volatile in SA terms over the past year, partly reflecting the ongoing challenging economic and political operating environment in parts of the region – notably Brazil. Despite rising strongly in SA terms since March, international FTKs flown by the region’s airlines are only just back to where they stood in October 2016, and are still around 9% lower than their 2014 peak. The region was the only one not to see a sizeable increase in the international freight load factor in July compared to July 2016. (See Chart 6.)

Chart 6 – Freight load factors by region



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 5th September 2017

Air freight market detail - July 2017

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TOTAL MARKET	100.0%	11.4%	3.7%	3.0%	43.7%	10.6%	3.6%	2.8%	44.6%
Africa	1.6%	33.7%	4.5%	4.9%	22.5%	27.2%	10.1%	3.3%	24.7%
Asia Pacific	37.4%	11.0%	6.3%	2.3%	55.0%	10.3%	5.0%	2.6%	53.9%
Europe	23.5%	12.1%	5.5%	2.6%	44.2%	13.3%	5.4%	3.3%	46.6%
Latin America	2.8%	5.8%	4.7%	0.3%	30.6%	1.1%	0.3%	0.3%	32.0%
Middle East	13.9%	9.3%	-0.4%	3.9%	43.6%	7.9%	1.2%	2.8%	44.6%
North America	20.7%	11.9%	1.1%	3.4%	34.9%	9.7%	1.3%	2.7%	36.1%
International	86.7%	12.9%	4.3%	3.6%	47.8%	11.8%	3.8%	3.5%	48.8%
Africa	1.6%	34.1%	4.5%	5.1%	22.9%	28.1%	10.5%	3.5%	25.3%
Asia Pacific	33.3%	12.0%	6.1%	3.2%	60.4%	11.3%	4.5%	3.6%	59.2%
Europe	23.0%	12.3%	5.0%	3.0%	46.1%	13.4%	4.9%	3.6%	48.2%
Latin America	2.4%	6.3%	5.6%	0.2%	35.0%	0.5%	-1.6%	0.8%	37.3%
Middle East	13.9%	9.3%	0.9%	3.4%	43.6%	8.0%	2.3%	2.3%	44.7%
North America	12.6%	18.7%	3.2%	5.4%	40.9%	14.4%	2.2%	4.5%	42.4%

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

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