



# AIR FREIGHT MARKET ANALYSIS

October 2017

## Air freight volume growth makes a robust start to Q4

- Global freight tonne kilometres (FTK) rose by 5.9% year-on-year in October – the first month of the traditional strong period for demand seen every Q4. Industry-wide FTK growth remains well above its five and ten-year average rates.
- Reports from the industry indicate that freight demand has been very strong in November too, amid tight supply conditions. However, our data continue to suggest that the current FTK *growth* cycle peaked earlier this year.
- International FTK growth slowed in year-on-year terms in all regions in October with the exception of Africa.
- Year-on-year capacity growth lagged behind that of demand in October for the 15<sup>th</sup> month in a row.

### A robust start to Q4 for FTK growth...

Industry-wide freight tonne kilometres grew by 5.9% year-on-year in October – the first month of the traditional period of strong demand seen every Q4.

As has consistently been the case over the past year or so, the latest growth rate was some way above its five and ten year average rates (4.6% and 3.2%, respectively). Moreover, reports from the industry indicate that demand and yield conditions have been very strong in November too. All told, air freight volumes remain on course for their strongest year of growth since the post-crisis rebound in 2010.

### ...although the strong SA trend has moderated

That said, the October data added to signs that the cycle in air freight growth peaked earlier in the year. Indeed, October's growth rate was less than half of that in March (13.4%), and was the slowest since January.

More generally, the upward trend in SA cargo volumes has clearly eased over the past six months or so. (See Chart 1.)

### The FTK growth cycle may have peaked...

As we have argued for some time, the passing of the cyclical growth peak has been well signaled by industry drivers, particularly the new export orders component of the global Purchasing Managers' Index (PMI).

To be clear, this indicator remains well above the notional 50-mark that indicates growing export order books, which is consistent with further increases in global trade volumes. However, as Chart 2 shows, the fact that the PMI component is currently trending broadly sideways is consistent with the moderation in FTK *growth* that we are currently seeing.

Developments in the inventory-to-sales ratio in the US have also been signaling a slowing in year-on-year

Chart 1 – FTK levels

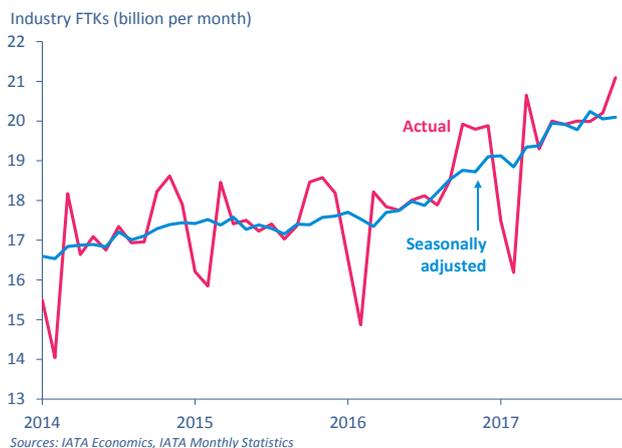
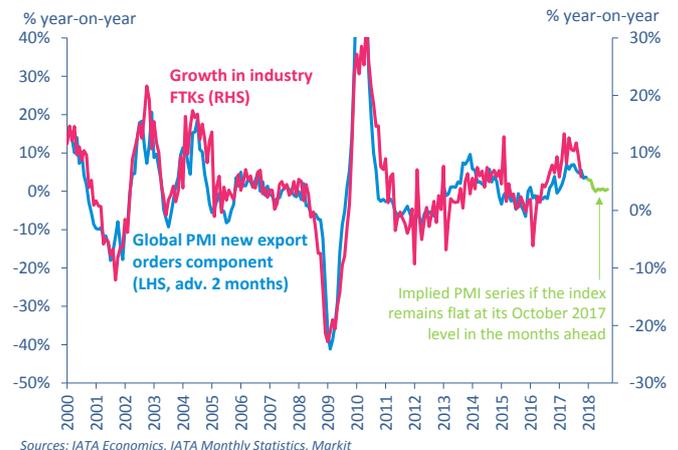


Chart 2 – FTK growth vs. global new export orders



### Air freight market overview - October 2017

	World share <sup>1</sup>	October 2017 (% year-on-year)				% year-to-date			
		FTK	AFTK	FLF (%-pt) <sup>2</sup>	FLF (level) <sup>3</sup>	FTK	AFTK	FLF (%-pt) <sup>2</sup>	FLF (level) <sup>3</sup>
<b>TOTAL MARKET</b>	<b>100.0%</b>	<b>5.9%</b>	<b>3.7%</b>	<b>1.0%</b>	<b>46.9%</b>	<b>9.7%</b>	<b>3.8%</b>	<b>2.4%</b>	<b>44.6%</b>
International	86.7%	6.0%	3.6%	1.1%	51.2%	10.6%	4.0%	2.9%	48.6%

<sup>1</sup>% of industry FTKs in 2016

<sup>2</sup>Year-on-year change in load factor

<sup>3</sup>Load factor level

FTK growth rates from those seen over the past year or so. The inventory-to-sales ratio for the US fell sharply during 2016 as the restocking cycle gathered pace, but it has now tracked sideways since the end of last year. Unless we see a further downward leg in the ratio, this too is consistent with the ongoing moderation in year-on-year FTK growth into 2018.

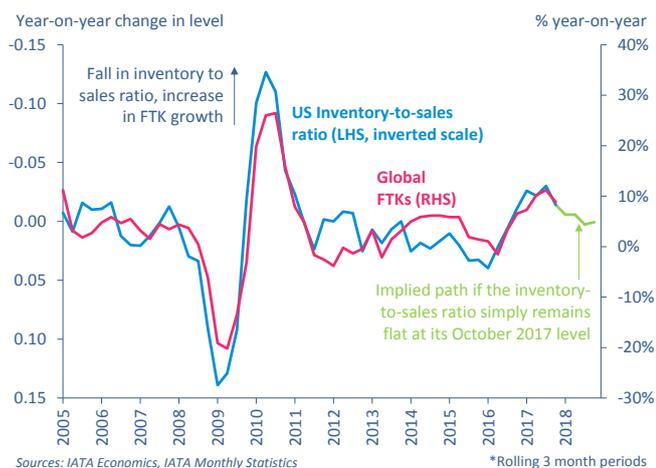
**...but the upward trend in freight volumes is expected to continue into 2018**

Notwithstanding these developments, going into next year the cyclical drivers of freight demand appear relatively supportive of continued increases in freight volumes. In fact, factors such as the long-awaited pick-up in investment in Europe, as well as reports of strong growth in international e-commerce flows look set to help underpin freight demand in the near term.

As history shows, it is not unusual for freight volumes to continue to rise even after the peak of the growth cycle. Indeed, periods in which freight volumes have fallen typically only occur alongside wider shocks to global economic and trade conditions, such as that seen following the dot-com boom in the early-2000s and after the global financial crisis.

In the absence of such a global shock, it seems reasonable to expect that air freight volumes will build on a very strong 2017 with another year of solid growth in 2018. Although unlikely to repeat the particularly strong growth performance of this year, a growth rate broadly in line with, or a little above, the five-year average pace across 2018 as a whole would still be a robust outcome.

**Chart 3 – FTK growth vs. inventory-to-sales ratio**



**Capacity and demand trending upwards together**

Available freight tonne kilometres (AFTKs) grew by 3.7% year-on-year in October, with the industry-wide load factor coming in 1.0 percentage point higher than a year ago.

The SA upward trend in demand outstripped that of capacity during most of 2016 and early-2017. Industry anecdotes indicate ongoing tight supply conditions during the current strong period of demand. However, having slowed in recent months, demand over the past six months or so has been rising at a broadly similar rate to capacity.

**Int'l FTK growth slowed in all regions except Africa**

International FTKs grew by 6.0% year-on-year in October, down from 10.3% in September. (See Chart 4.) This was the slowest pace since August 2016. All regions saw a deceleration in year-on-year growth except Africa, which topped the international FTK growth chart for the 12<sup>th</sup> month in a row.

**Chart 4 – International FTK growth by airline region of registration**



Sources: IATA Economics, IATA Monthly Statistics

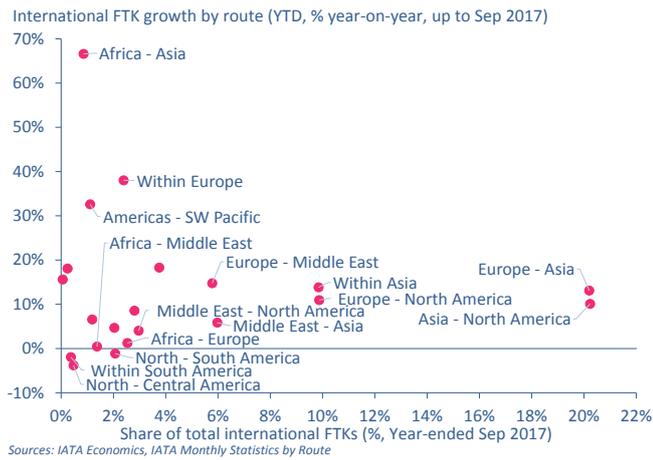
**African airlines' continue to set the pace...**

At 28.5% in October, annual growth in international FTKs flown by African airlines was more than three times its five-year average pace (9.4%). The recent pick-up in African airlines' freight volumes has been helped by a strong upward trend in freight traffic between Africa and Asia; although still a comparatively small market, FTKs flown on the segment have surged by more around 67% in the first nine months of the year. (See Chart 5.)

**...followed by Latin America**

Meanwhile, airlines based in Latin America flew 7.7% more international FTKs in October 2017 compared to a year ago. The recent improvement in demand conditions for the region's carriers has come alongside a corresponding pick-up in the continent's largest economy, Brazil. Given the difficulties seen in the region in recent years, the current pace of growth is nearly nine times its five-year average (0.9%). FTKs are now back to SA levels last seen in late-2014.

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



**Strong growth, albeit flat trend, in North America**

International FTKs flown by North American airlines increased by 6.5% year-on-year in October. This was a slowdown from 10.7% in September, but was still some way ahead of the five-year average pace (4.3%). That said, the current strength in the year-on-year growth rate mainly reflects increases seen during Q2; in fact, volumes in SA terms have trended broadly sideways since May.

The comparative strength of the US economy and 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 US import volumes by air grew by 11.6% year-on-year in the first nine months of 2017, compared to a slower 6.5% rise in exports.

**Robust growth for European airlines**

European airlines once again saw a similar-sized increase in year-on-year freight traffic as their North American counterparts (6.4%). This was a marked slowdown from 10.6% in September, and around one-third of the peak pace seen earlier this year. Nonetheless, October's growth rate was still above the five-year average for the series (4.9%).

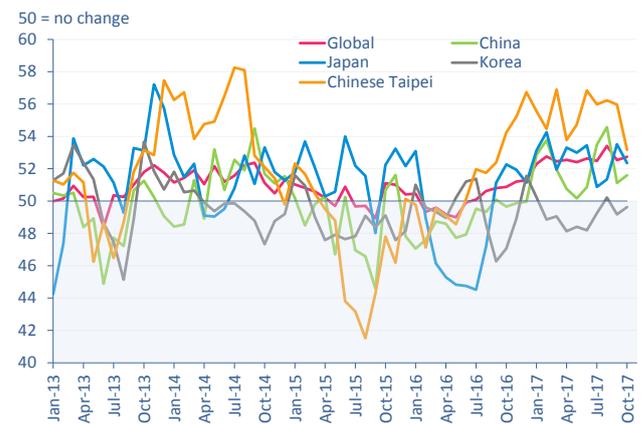
Manufacturing exporters in the region have continued to shrug off headwinds from a strong euro; export order books are still growing at their fastest pace in more than seven years. FTK growth on the biggest market segments to/from Asia and across the Atlantic remains robust (8.6% and 8.1%). Activity on the former market has been boosted by increased trade stemming from economic stimulus measures adopted by China; although FTK volumes on the segment have tracked sideways over the past six months or so, they have held on to the strong gains seen in 2016 and early-2017. By contrast, the upward trend in freight volumes across the Atlantic remains very strong.

**Ongoing solid trend for Asia Pacific airlines**

Air freight is a key part of business models for carriers based in Asia Pacific. (The region's airlines fly nearly 40% of all international FTKs.) The broad upward trend in freight volumes remains robust, with FTKs now around 3% higher than the peak reached in the post-crisis rebound in 2010. However, following two small month-on-month declines in FTKs in recent months, the 5.0% year-on-year growth seen in October was the slowest since January.

The upward trend in air freight volumes in Asia Pacific over the past year or so has been set against a favorable backdrop of buoyant export order books for the region's manufacturers. (See Chart 6.) Manufacturers in the major exporting nations of China and Japan, in particular, have continued to report rising demand for their exports, helped by a pick-up in economic activity in Europe.

**Chart 6 – Selected new export orders components of manufacturing PMI indices in the Asia Pacific region**



**Middle East posts the slowest growth again**

Middle Eastern airlines' international FTK growth slowed to 4.7% year-on-year in October, from 9.2% in the previous month. This was the third time in five months that the Middle East posted the slowest growth of all the regions.

That said, and as we have noted before, the recent volatility in the year-on-year growth rate has mainly reflected developments last year rather than a marked change in the current traffic trend. Indeed, SA FTKs flown by Middle Eastern carriers has continued to trend upwards at an annualized rate of 8-10% over the past six months. At the same time, the region's carriers have slowed the upward trend in capacity, which has helped to lift the regional load factor.

David Oxley  
 economics@iata.org  
 1st December 2017

## Air freight market detail - October 2017

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<b>TOTAL MARKET</b>	<b>100.0%</b>	<b>5.9%</b>	<b>3.7%</b>	<b>1.0%</b>	<b>46.9%</b>	<b>9.7%</b>	<b>3.8%</b>	<b>2.4%</b>	<b>44.6%</b>
Africa	1.6%	30.3%	9.2%	4.3%	26.8%	26.7%	8.6%	3.6%	25.1%
Asia Pacific	37.4%	4.4%	3.9%	0.3%	56.0%	8.8%	4.4%	2.2%	54.4%
Europe	23.5%	6.4%	2.5%	1.8%	48.7%	12.1%	5.7%	2.6%	45.8%
Latin America	2.8%	7.2%	4.4%	1.0%	37.5%	5.8%	3.9%	0.6%	33.2%
Middle East	13.9%	4.6%	3.4%	0.6%	47.2%	8.4%	2.4%	2.5%	44.5%
North America	20.8%	6.6%	3.8%	1.0%	37.9%	8.4%	1.6%	2.3%	36.1%
<b>International</b>	<b>86.7%</b>	<b>6.0%</b>	<b>3.6%</b>	<b>1.1%</b>	<b>51.2%</b>	<b>10.6%</b>	<b>4.0%</b>	<b>2.9%</b>	<b>48.6%</b>
Africa	1.6%	28.5%	9.7%	4.0%	27.2%	27.2%	9.0%	3.7%	25.6%
Asia Pacific	33.2%	5.0%	3.4%	0.9%	61.8%	9.6%	3.8%	3.2%	59.6%
Europe	23.0%	6.4%	2.7%	1.7%	50.0%	12.2%	5.3%	2.9%	47.5%
Latin America	2.4%	7.7%	5.7%	0.8%	44.6%	6.2%	3.1%	1.1%	38.5%
Middle East	13.9%	4.7%	4.2%	0.2%	47.3%	8.5%	3.4%	2.1%	44.6%
North America	12.7%	6.5%	3.2%	1.4%	44.6%	11.3%	1.9%	3.6%	42.1%

<sup>1</sup>% of industry FTKs in 2016      <sup>2</sup>Year-on-year change in load factor      <sup>3</sup>Load 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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