

AIR FREIGHT MARKET ANALYSIS

DECEMBER 2015

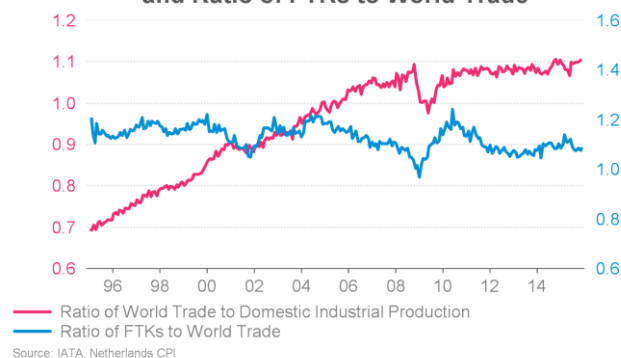
KEY POINTS

- ➔ Air freight volumes expanded 2.2% in 2015 overall, a slower rate of growth than in 2014. Air freight experienced notable weakness during the first half of 2015, but more recent months' data show that earlier declines have bottomed out and there has been some modest improvement, consistent with developments in world trade.
- ➔ The first chart below shows that air freight volumes declined gradually throughout H1 2015, mainly reflecting weakness in Asia. More recently, however, we have seen international trade stabilize, and FTKs are now higher than the low point in August.
- ➔ All the major regions recorded weakness in air freight traffic in 2015. European carriers, for example, recorded a small decline in 2015 overall, contracting 0.1% compared to 2014. Although economic conditions showed some improvement in the Eurozone, trade (mostly exports) was subdued and hampered demand for air freight.
- ➔ Asia Pacific airlines saw some expansion in air freight volumes, albeit at a slow rate of 2.3% in 2015 overall. Carriers in the region experienced declines in air freight throughout H1 2015, consistent with significant falls in trade to/from Asia. However, the recent trend in monthly volumes for Asia Pacific airlines suggests that the earlier declines have bottomed out, consistent with a slight pick-up in export growth in some Asian nations.
- ➔ Carriers in the Middle East, by contrast, continued to see strong growth in 2015, with expansion of 11.3% compared to 2014. Airlines in this region have benefited from network expansion into emerging markets like Africa, and have been supported by solid growth in local economies, despite some slowdown due to the fall in oil prices.
- ➔ Load factors declined in 2015 and during some periods of the year reached lows not seen since 2009. For the year overall, average air freight load factors were 44.1%, compared to 45.7% in 2014. Much of the decline was owing to weakness in demand, but continued growth in capacity also contributed.
- ➔ The outlook for air freight and world trade remains fragile, but there are now some more signs that earlier declines in FTKs have bottomed out. Indicators in the Eurozone are looking better and globally, export orders have improved slightly. That said, it is too early to know whether this cautiously positive development will be sustained, as the global economy remains fragile.

Air FTKs and World Trade Volumes



Ratio of World Trade to Domestic Industrial Production and Ratio of FTKs to World Trade



Year on Year Comparison

	Dec 2015 vs Dec 2014			2015 vs. 2014		
	FTK	AFTK	FLF	FTK	AFTK	FLF
International	0.7%	6.6%	47.4%	2.5%	6.4%	47.6%
Domestic	1.4%	6.2%	30.8%	0.1%	4.6%	29.6%
Total Market	0.8%	6.5%	43.9%	2.2%	6.1%	44.1%

FTK: Freight-Tonne-Kilometers; AFTK: Available Freight Tonne Kilometers; FLF: Freight Load Factor; All Figures are expressed in % change Year on Year except FLF which are the load factors for the specific month.

Month on Month Comparison

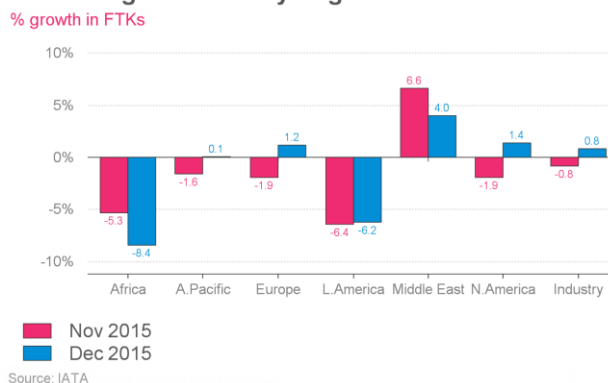
	Dec 2015 vs. Nov 2015		
	FTK	AFTK	FLF pt
International	0.2%	2.4%	-1.0%
Domestic	-0.4%	0.9%	-0.4%
Total Market	0.1%	2.1%	-0.9%

Data are seasonally adjusted. All figures are expressed in % change MoM except, FLFpt which are the percentage point difference between load factors of two months.

Total Freight Market



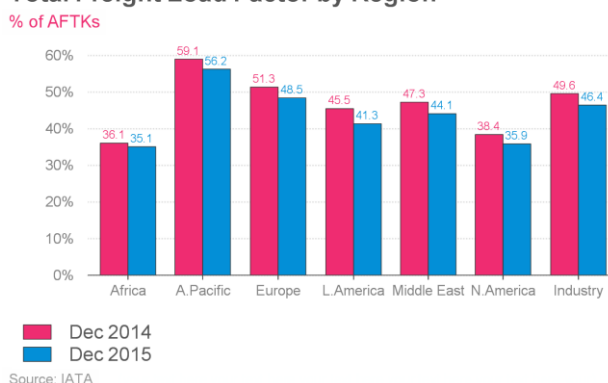
Total Freight Growth by Region



Freight Load Factor on Total Market



Total Freight Load Factor by Region



- ➔ The downward pressure on growth trends has eased in some key regions, but for 2015 overall, all major regions experienced weakness in air freight demand. This includes Asia Pacific, where growth was just 2.3% in 2015 compared to 2014. Carriers in the region experienced declines in air freight throughout H1 2015, consistent with significant falls in trade to/from emerging Asia. Mid-2015 trade data showed a fall in trade activity to/from Emerging Asia of about 8% compared to the end of 2014. However, the fall in trade volumes rebounded in Q3, and the recent trend in monthly FTKs for Asia Pacific airlines suggests that the earlier declines have bottomed out. Much of that is a result of better demand conditions in advanced economies, which are supporting a slight pick-up in export growth in some Asian nations, such as Japan.
- ➔ European carriers recorded a small decline in 2015 overall, contracting 0.1% compared to 2014. Although economic conditions showed some improvement in the Eurozone, trade (particularly exports) was subdued and hampered demand for air freight. Imports, however, have been improving over recent months. This should support air freight demand for local carriers, as well as airlines in other regions serving European markets.
- ➔ For North American carriers, there was a small expansion of 0.1% in 2015 overall. After a temporary boost to air freight demand due to seaport congestion early in 2015, airlines in the region have experienced sustained weakness for much of the year. Recent month-to-month results, including the 0.9% expansion in December compared to November, suggest that weakness in volumes earlier in 2015 has come to a halt. However, most recent readings of exports orders have been very close to indicating contraction, which doesn't bode well for US trade export volumes.
- ➔ Latin American carriers recorded the biggest fall among regions, with FTKs contracting 6.0% in 2015 compared to 2014. With economic and political conditions in key economy Brazil worsening, regional trade activity has been very volatile over recent months. That said, air freight demand on carriers in this region has shown little correlation with trade to/from the region. Rather, it has mirrored the weakening consumer sentiment in the key economies.
- ➔ By contrast, carriers in the Middle East continued to see strong growth in 2015, with expansion of 11.3% compared to 2014. Airlines in this region have benefited from network expansion into emerging markets like Africa, and have been supported by sustained growth in local economies, despite the fall in oil prices. Major economies in the Middle East, including Saudi Arabia and the United Arab Emirates, have seen slowdowns in non-oil sectors (Markit), but the rates of growth remain robust and this should help sustain solid growth in air freight demand for local carriers.
- ➔ African airlines, carrying a small part of worldwide FTKs, recorded expansion of 1.2% in 2015. From the perspective of demand drivers, the underperformance of major economies Nigeria and South Africa during parts of 2015 has been a challenge. However, with trade to/from the region continuing to expand slowly, airlines in the region have seen expansion in FTKs for the year-to-date.

ANNEX

Year on Year Comparison	Dec 2015 vs. Dec 2014			2015 vs. 2014		
	FTK	AFTK	FLF	FTK	AFTK	FLF
Africa	-8.3%	18.9%	28.2%	1.4%	5.6%	31.0%
Asia/Pacific	-0.1%	4.5%	56.8%	2.3%	5.3%	57.4%
Europe	0.9%	7.7%	46.4%	0.1%	4.3%	46.2%
Latin America	-5.3%	-7.2%	45.4%	-6.0%	-1.7%	43.2%
Middle East	3.9%	10.0%	42.1%	11.3%	15.7%	43.2%
North America	1.5%	6.3%	39.6%	0.4%	4.9%	39.1%
International	0.7%	6.6%	47.4%	2.5%	6.4%	47.6%
Africa	-8.4%	17.6%	27.4%	1.2%	5.3%	29.7%
Asia/Pacific	0.1%	4.4%	53.9%	2.3%	5.7%	53.9%
Europe	1.2%	7.3%	45.8%	-0.1%	4.4%	44.9%
Latin America	-6.2%	-1.3%	39.2%	-6.0%	1.8%	38.3%
Middle East	4.0%	9.9%	41.8%	11.3%	15.7%	42.8%
North America	1.4%	6.6%	34.1%	0.1%	3.8%	34.3%
Total Market	0.8%	6.5%	43.9%	2.2%	6.1%	44.1%

FTK: Freight-Tonne-Kilometers; AFTK: Available Freight Tonne Kilometers; FLF: Freight Load Factor;
All Figures are expressed in % change Year on Year except FLF which are the load factors for the specific month.

Month on Month Comparison	Dec 2015 vs. Nov 2015			Market Share
	FTK	AFTK	FLFpt	FTK
Africa	0.7%	7.7%	-1.9%	1.8%
Asia/Pacific	0.0%	1.6%	-0.9%	40.0%
Europe	1.8%	5.4%	-1.6%	25.1%
Latin America	-3.9%	-7.2%	1.5%	2.9%
Middle East	-2.6%	0.8%	-1.5%	16.0%
North America	1.8%	1.8%	0.0%	14.2%
International	0.2%	2.4%	-1.0%	100.0%
Africa	0.7%	7.2%	-1.7%	1.6%
Asia/Pacific	0.0%	1.5%	-0.8%	38.7%
Europe	1.7%	5.1%	-1.5%	21.9%
Latin America	-4.2%	-5.1%	0.4%	2.7%
Middle East	-2.6%	0.8%	0.0%	13.7%
North America	0.9%	1.3%	-0.1%	21.4%
Total Market	0.1%	2.1%	-0.9%	100.0%

Data are seasonally adjusted. All Figures are expressed in % change Month on Month except PLP pt and FLF which are the percentage point difference between load factors of two consecutive months.

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