CARGO CHARTBOOK 2015 Q3

Key points

- Modest gains in global economic growth expected in 2015 but vulnerabilities in emerging markets present downside risks
- On aggregate, the cargo market has shrunk this year compared to the levels achieved at the end of 2014
- Inventory overhang in US and a drop in semi-conductor shipments point to weakness in key air freight demand drivers
- Reduced freighter aircraft utilization and plunging load factors are other indications of underlying demand weakness
- Relative to oil prices, yields have held up but lower load factors and aircraft utilization may compromise profitability

Economic Outlook & Traffic Performance

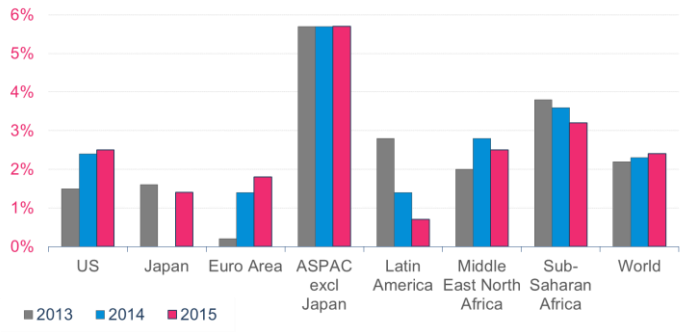
Modest gains in global economic growth are expected in 2015 despite lower growth in the first half of 2015 compared to the second half of 2014 (1). Air freight expanded July YtD 2015 compared to July YtD 2014, sustained by recovery in advanced economies. However, cargo markets have shrunk this year compared to the level achieved at the end of 2014.

International air freight traffic has expanded by 3.2% in 2015 compared to the same period (July YtD) in 2014. The last available data point indicates that July volumes decreased by 0.6% compared to a year ago, which gives rise to concerns (2). However, with about half of the negative growth in July explained by traffic to and from Europe this drop may be reflective of a dampening of short-term sentiments rather than sustained underlying trends as June and July coincided with a pinnacle of the EU sovereign debt crisis.

In advanced economies the upturn has continued but at a weaker pace than expected. The US is healthy with solid GDP growth and unemployment levels at 7 year lows, further supporting assertions that weak Q1 performance is explained by severe weather rather than underlying weakness. A timid expansion endures in the Eurozone, aided by a continuation of accommodative monetary policy and loose bank lending standards (3). Similarly aggregate PMI data is signaling expectations for expansion in Japan and sustained growth in the UK.

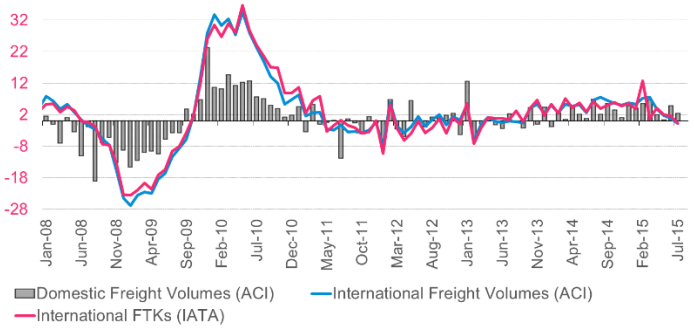
Convulsions in major emerging markets, with the exception of India, have dampened global performance. They were induced by a bouquet of factors with lower commodity prices pushing Brazil into recession and eroding confidence, drops in oil and gas revenue and sustained sanctions keeping Russia trapped in recession while falling investment and financial volatility have fueled concerns about prospects for a hurried deceleration in China.

1. Forecast for GDP growth



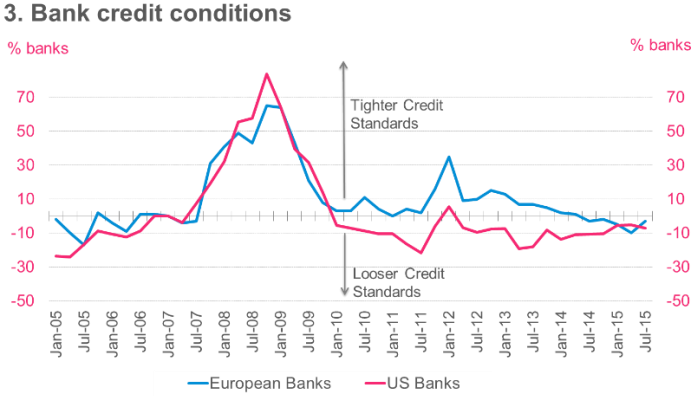
Source: EIU Viewswire

2. Freight Traffic Growth



Source: IATA, ACI

3. Bank credit conditions



Source: ECB, Federal Reserve

Demand Environment and Drivers

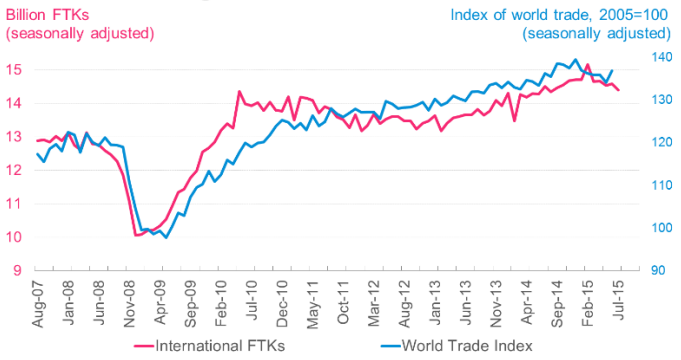
The distribution of risks remains on the downside and a confluence of risk factors, particularly in emerging markets, can lead to much weaker economic performance. Beyond concerns of a slowing China and lower commodity prices, emerging markets may also be adversely impacted by a strengthening of the US dollar (causing balance sheet and funding strains for dollar debtors) and impacted by increased danger of disruptive asset price and financial market volatility in the event of capital flow reversals. Crucially, there are a number of air freight specific indicators that point to continued challenges in the demand environment with several key drivers showing signs of weakness.

Growth in global trade has not materialized in 2015 but trajectories have continued to resemble FTK growth (4). It remains to be seen how this relationship will hold in a multi-speed global economy where a larger share of growth in 2015 is expected to come from advanced economies.

Manufacturing PMI slowed in August for the third consecutive month (5) with the decrease driven almost entirely by emerging markets. Advanced economies weakened slightly but continued to remain in expansionary territory.

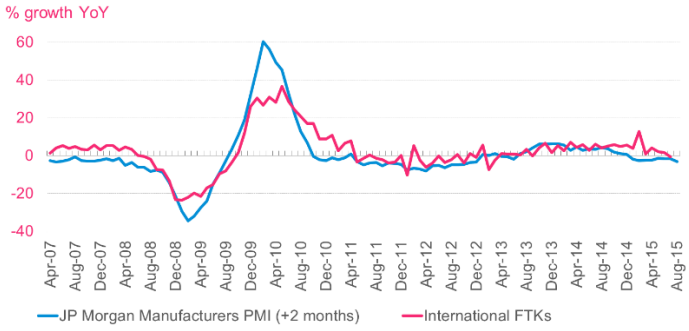
The continued build-up of inventories in the US creates head winds for air freight operators and will likely continue to adversely impact air freight demand over the short term (2-3 months) (6). The decrease in semi-conductor shipments further point to weakening in demand drivers in the short term (7). Nevertheless, in the medium term (3-9 months), air freight demand could be favorably supported by strengthening in consumer confidence (8) which has potential to be further boosted by the lagged impact of lower oil prices.

4. World trade in goods and air FTKs



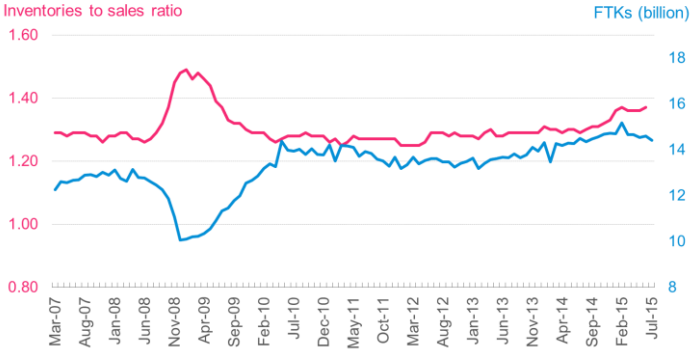
Source: Netherlands CPB, IATA

5. Purchasing Managers confidence survey & Air Freight Demand



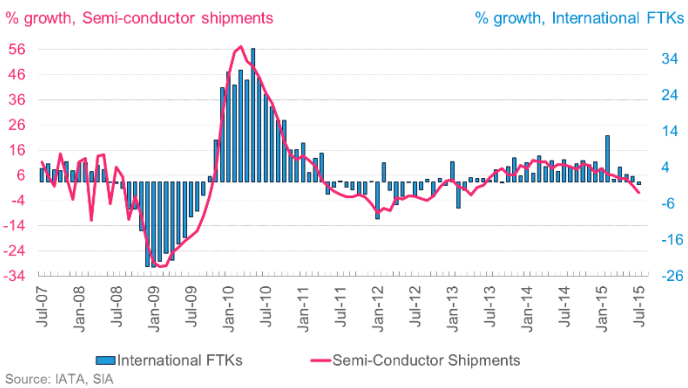
Source: IATA, Markit/JP Morgan

6. Total Business inventories to sales ratio & FTKs



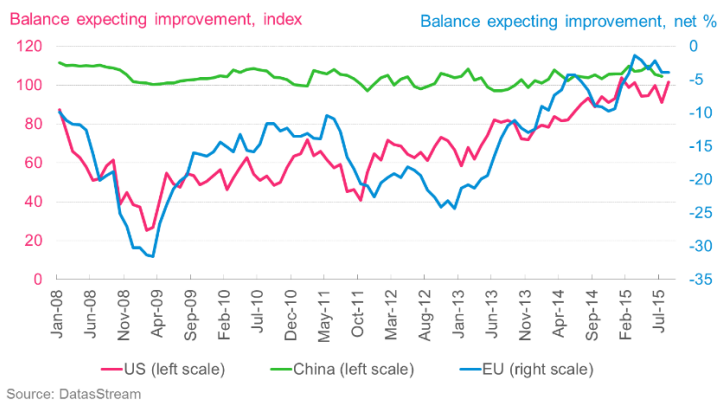
Source: IATA, US Census Bureau

7. Semi-Conductor Shipments & Air Freight



Source: IATA, SIA

8. Consumer confidence



Source: DataStream

Capacity and Competition

Deliveries of wide body freighter capacity have in most years been matched by retiring of older wide body freighter aircraft. Although in aggregate terms there has still been a net increase in wide body freighter capacity. The capacity challenge is further exacerbated by the developments on delivery of passenger aircraft. In 2015, for every one tonne of hull capacity added by a wide body freighter three tonnes will be added by wide body passenger aircraft (9).

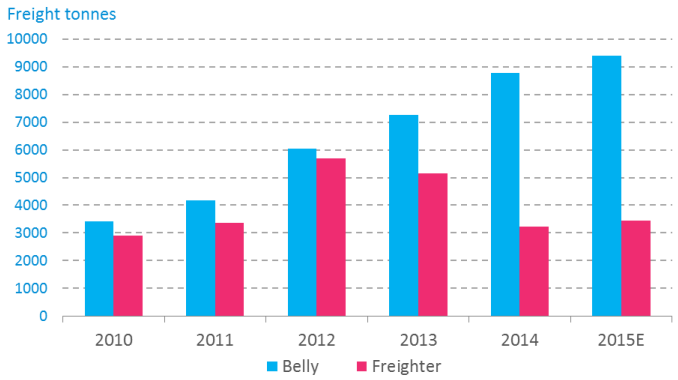
Since the 2015 Q2 Chartbook the number of aircraft due for delivery in 2016 has decreased by 24, of which 16 were scheduled to be delivered in the Asia region (10).

International freight load factors have deteriorated by 3.2 percentage points over the first seven months of 2015 and in year-on-year comparisons the deterioration in July was 7.4 pp. This can also be observed on major trade lanes where despite negative growth rates (11) capacity continued to exceed growth in FTKs. With Asia – Europe experiencing the steepest fall of 6.2 pp over the first seven months of 2015 followed by a 4.2 pp decline in Europe-North America.

The increase in freighter aircraft utilization in 2014 was initially in response to stronger cargo demand. Subsequently lower jet fuel prices reduced variable costs of operations and have increased the relative importance of maximizing the use of the aircraft assets. This in part contributed to the drop in load factors for cargo only operation by nearly a percentage point in 2014. However, since March the synchronized dip, in both freighter utilization and load factors, point to underlying weakness in the demand environment (12).

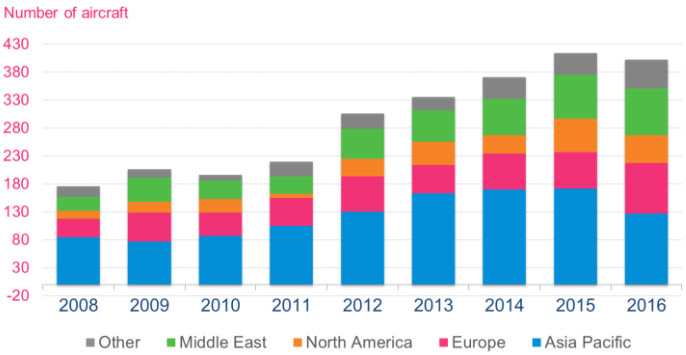
The spread between ocean and air freight has continued to persist and can further put pressure on some air freight operators (13).

9. Payload capacity added - belly and freighter



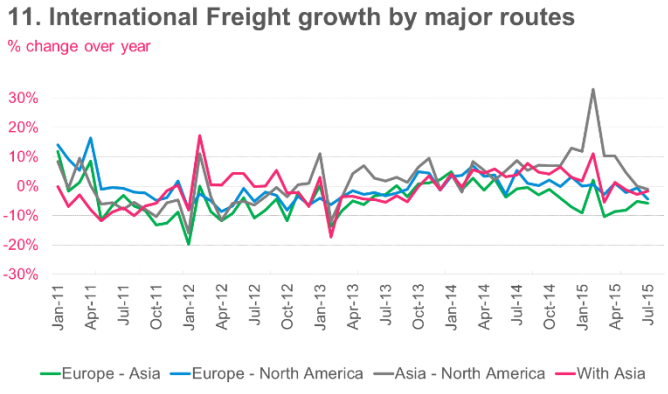
Source: Ascend, IATA

10. Widebody Aircraft Deliveries by Airline Region



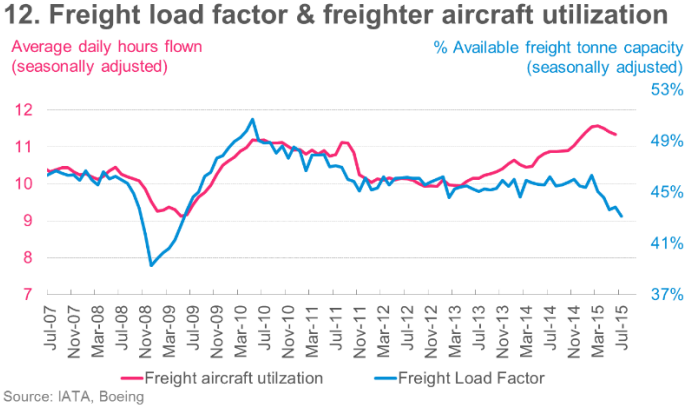
Source: Ascend

11. International Freight growth by major routes



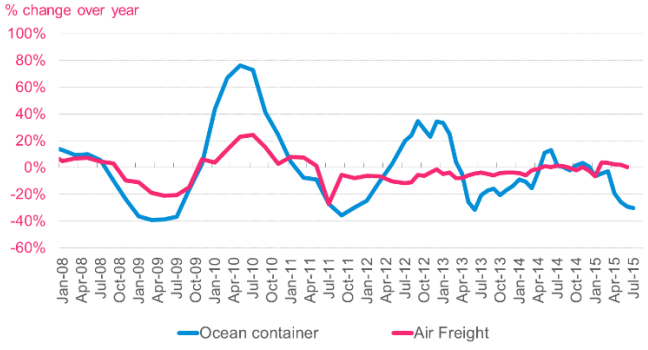
Source: IATA

12. Freight load factor & freighter aircraft utilization



Source: IATA, Boeing

13. Ocean container and air freight rate growth



Source: Drewry, IATA CASS

Revenues, costs and profits

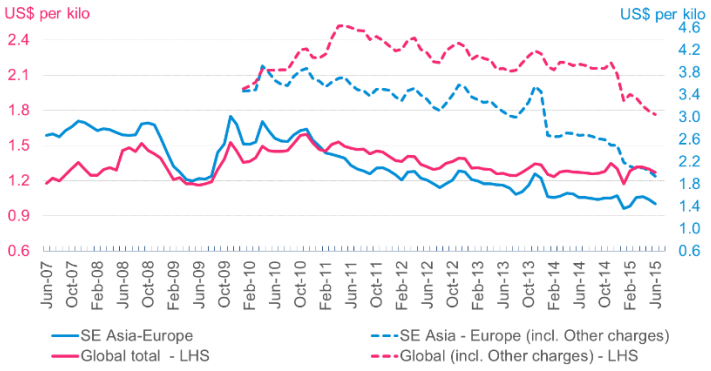
Yield performance has varied significantly by trade lane, direction and service type (14). On average, across all major trade lanes the fall in yields for air cargo (cargo-only and belly) services in 2014 and 2015 have been lower than the fall in jet fuel prices (15).

The relative increase in yields observed in 2011 was lower than the relative increase in the price of jet fuel. Since 2011, on average, yields have been on a downward trajectory while the price of jet fuel has remained high. However, falling yields in 2015 will be less harmful to profitability as jet fuel prices have abated (16).

Netting out the relative changes between the price of jet fuel and yields reveals that we may see improved air cargo profitability (17). However, reduced aircraft utilization and lower freight load factors (as discussed above) may increase unit cost and dilute profitability.

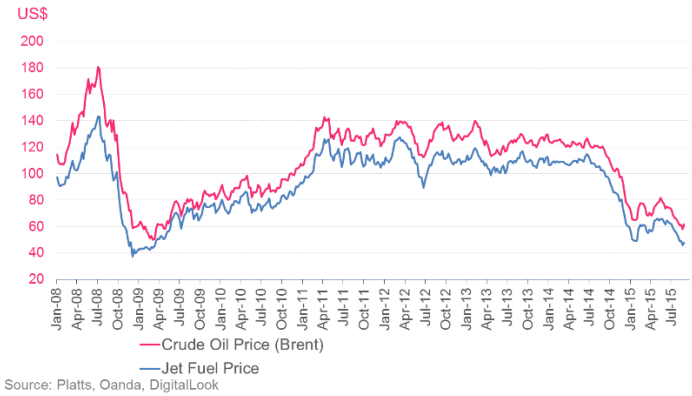
IATA survey of heads of cargo reveals cautious sentiments on yields but is consistent with a stabilization in yields levels observed in recent yield performance (18).

14. Air Freight Yields (US$ per kilo)



Source: IATA CASS

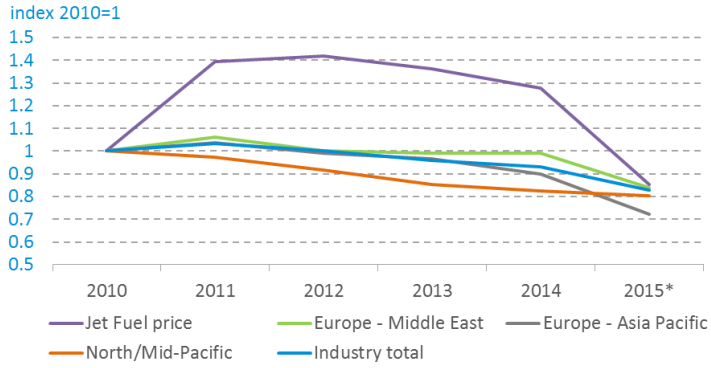
15. Jet Fuel and Crude Oil Price (US$/barrel)



Source: Platts, Oanda, DigitalLook

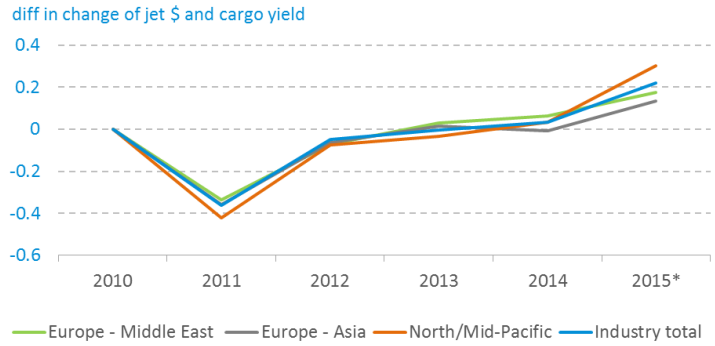
16. Jet fuel price vs cargo yield

Falling cargo yields are less harmful to profitability in 2015



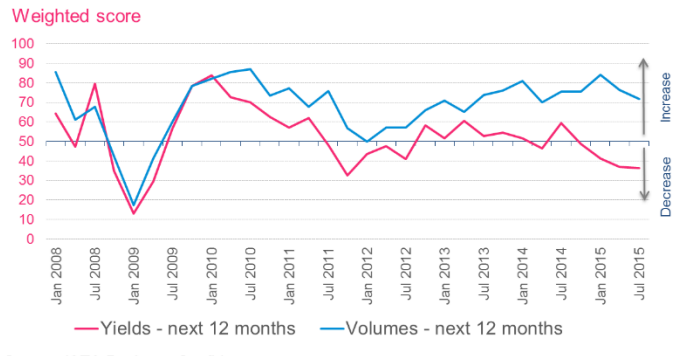
Sources: CargoIS, IATA, ICAO. *year-to-date

17. Change in yields net of jet price (relative differential)



Sources: CargoIS, IATA, ICAO. *year-to-date

18. IATA survey of heads of cargo



Source: IATA Business Confidence

Air Freight Routes and Direction

Table 1. International Freight Volume Growth by Route Area (Source: IATA statistics)

Route Area	% Growth in Freight Tonnes, year-on-year					
	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15
Africa - Europe	8.4%	1.3%	6.3%	0.9%	1.3%	-1.0%
Africa - Asia	29.9%	5.0%	5.4%	11.5%	-1.3%	-2.5%
Africa - Middle East	15.2%	12.5%	0.2%	14.6%	12.8%	12.6%
Central America / Caribbean -	-1.1%	11.5%	-3.9%	-5.9%	-2.0%	-7.6%
Europe - Central America /	-6.2%	-1.2%	-7.3%	-8.5%	-2.9%	-10.0%
Europe - Asia	2.1%	-10.4%	-8.7%	-8.2%	-5.2%	-5.8%
Europe - Middle East	9.2%	7.5%	12.5%	18.9%	22.1%	9.8%
Europe - North America	0.6%	-2.9%	1.0%	-2.2%	-0.5%	-4.3%
Europe - South America	-3.8%	4.4%	1.0%	-7.4%	4.3%	5.3%
Asia - North America	33.0%	10.4%	10.3%	4.6%	0.0%	-1.1%
Asia - Southwest Pacific	13.4%	3.7%	8.4%	12.1%	8.2%	4.1%
Middle East - Asia	20.5%	-0.6%	7.9%	12.4%	12.9%	8.0%
Middle East - North America	44.9%	35.1%	30.4%	31.5%	16.9%	22.9%
North America - Central	0.3%	-5.6%	-10.4%	-2.7%	11.6%	6.0%
North America - South America	-7.9%	-9.3%	-3.4%	-11.5%	-3.8%	-4.1%
North / South America -	14.9%	15.5%	11.7%	9.4%	8.5%	20.5%
Within Central America	10.4%	15.0%	10.5%	10.4%	11.3%	2.0%
Within Europe	-14.6%	-9.5%	-4.9%	-0.5%	0.7%	8.1%
With Asia	11.0%	-5.4%	1.2%	-1.3%	-2.8%	-1.6%
Within South America	0.9%	-10.1%	2.5%	-15.9%	-5.9%	-10.8%

Table 2. Outbound CASS Market Revenues (incl. fuel and other surcharges)

Origin Region	US$m Q2 2015	% Growth in Air Freight Revenues, year-on-year					
		2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	2015 Q2
Africa	98	6%	-5%	-4%	11%	15%	9%
Asia Pacific	1454	-4%	7%	14%	3%	17%	-8%
Europe	2285	6%	7%	3%	-6%	-21%	-21%
Latin America & The Caribbean	377	0%	1%	6%	5%	-4%	-12%
Middle East & North Africa	139	8%	9%	16%	6%	3%	-4%
North Asia	1478	21%	23%	17%	6%	-4%	-11%
North Atlantic & North America	1176	-2%	2%	4%	1%	-1%	-9%

Table 3. Inbound CASS Market Revenues (incl. fuel and other surcharges)

Destination Region	US$m Q2 2015	% Growth in Air Freight Revenues, year-on-year					
		2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	2015 Q2
Africa	382	-1%	7%	11.1%	8%	-10%	-17%
Asia Pacific	1573	4%	5%	5.9%	0.1%	-11%	-14%
Europe	1485	7%	9%	8.7%	-2%	-10%	-15%
Latin America & The Caribbean	626	-3%	12%	-7.7%	-1%	-15%	-18%
Middle East & North Africa	597	6%	-7%	8.8%	1%	-8%	-10%
North Asia	654	3%	15%	6.5%	-9%	-17%	-22%
North Atlantic & North America	1601	10%	5%	19.8%	20%	21%	-6%

Glossary

- ACI: Airports Council International
- AFTK: Available Freight Tonne Kilometers
- ECB: European Central Bank
- EIU: Economist Intelligence Unit
- CASS: Cargo Accounts Settlement System
- FT: Financial Times
- FTK: Freight Tonne Kilometers
- PMI: Purchasing Managers Index
- Netherlands CPB: Netherlands Bureau for Economic Policy Analysis
- ODS: Origin-Destination Statistics
- SIA: Semiconductors Industry Association
- US BTS: US Bureau of Transportation Statistics
- M-o-m: Month over month percentage change
- Y-o-y: Year over year percentage change
- YtD: Year to date

17th September 2015

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FURTHER ANALYSIS AND DATA

Access data related to this briefing through the Monthly Statistics publication:

http://www.iata.org/publications/Pages/monthly-traffic-statistics.aspx

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