CARGO CHARTBOOK 2015 Q4

Key points

- Air cargo performance in 2015 has been weak. The market has shrunk from levels seen at the end of 2014.
- Looking ahead to Q4 and 2016, air cargo demand will likely continue to come under strain but a sustained recovery in the Eurozone – a key market – can be a source of optimism.
- In-service payload capacity for widebody freighters increased by 2.2% in Q3 largely on account of new deliveries.
- Relative to jet fuel prices – a key cost –yields have held up but performance has varied by trade lane and direction.

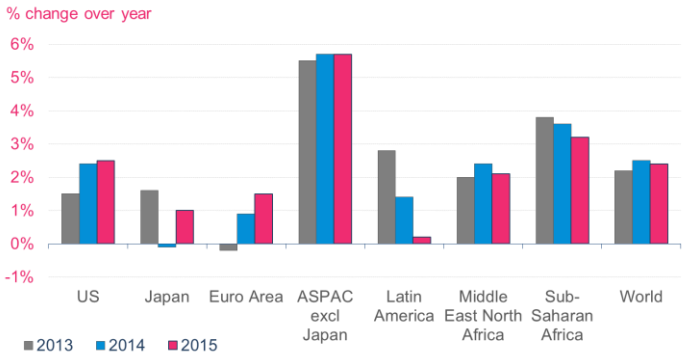
Economic Outlook & Traffic Performance

Expectations for higher global economic growth in 2015 have eroded (1). Air cargo performance in 2015 has been weak. Compared to last year the year-to-October growth in FTKs was just 2.6%. But even these modest growth figures understate the headwinds faced in 2015. These small gains in volumes over the year are explained by the surge in activity in Q1 due to switching towards air cargo because of the US West Coast seaport backlog and recalls in the US for Japanese auto-parts. October data point to year-on-year growth of just 0.5% in FTKs, which is below the levels seen in December 2014 – the month when world trade peaked (2).

A tough global economic environment and feeble world trade have subdued air cargo demand. Emerging markets have struggled – a slowdown in China has sent commodity exporters wobbling. Advanced economies continue to expand at a healthy pace although slower than expected. Even if growth in air cargo volumes outperforms world trade, the weak economic recovery combined with structural changes in world trade have subdued growth potential in 2015.

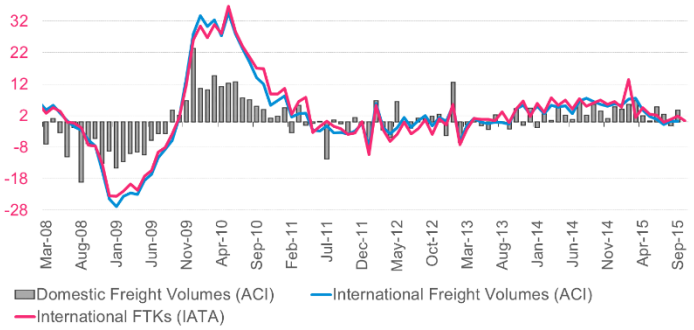
Looking ahead to Q4 and 2016, air cargo demand will continue to come under strain but a stronger recovery in the Eurozone – a key market – can be a source of optimism. The global economy is facing increased uncertainty with three key factors weighing on global outlook: (i) US Fed looking to normalize monetary policy – while other major currencies likely to ease further – paving the way for further tightening in US bank credit conditions (3) (ii) China's economy embarking on a multi-year rebalancing (iii) the decade-long commodity super cycle appears to be over.

1. Forecast for GDP growth



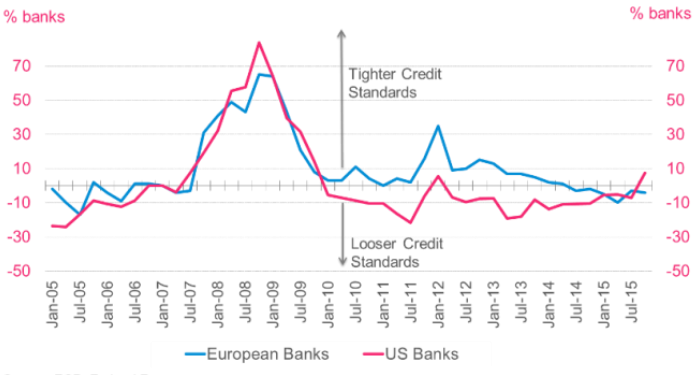
Source: EIU Viewswire

2. Freight traffic growth



Source: IATA, ACI

3. Bank credit conditions



Source: ECB, Federal Reserve

Demand Environment and Drivers

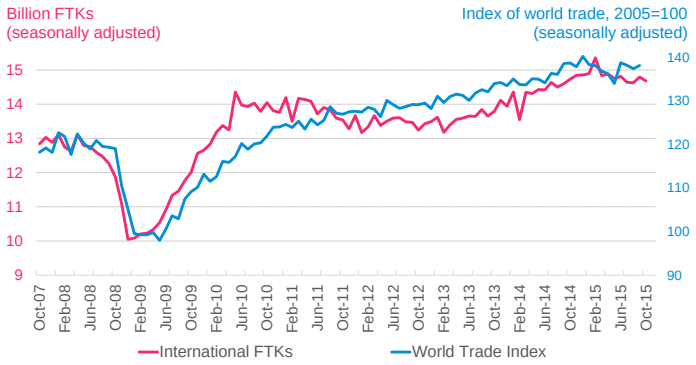
Global trade growth has been weak in 2015, September levels were down by 1.5% from their December 2014 peak. Compared to last year the year-to-September growth was just 1.5% (4). Weakness in global trade is explained by both cyclical and structural factors. Evidence suggests cyclical factors, driven by demand weakness in major trading economies, do not fully explain the trade slowdown and structural factors, such as slowing pace of trade liberalization, may explain as much as half of the global trade slowdown. Therefore, the relationship between industrial production and world trade growth should not be expected to recover to pre-2000s ratios once cyclical factors have abated.

Manufacturing PMI stayed in expansionary territory in October, but was slightly lower compared to a month ago (5). With the decrease driven almost entirely by emerging markets with Brazil experiencing the steepest declines. Advanced economies weakened slightly but continued to remain comfortably in expansionary territory.

The increase in the business inventories to sales ratio may be a contributing factor to weakness already observed in FTKs. The continuing build-up of US inventories suggests that even if a higher than expected acceleration in economic activity was to materialize it may not significantly stimulate air cargo volumes as inventory overhang threatens to subdue air cargo growth prospects (6).

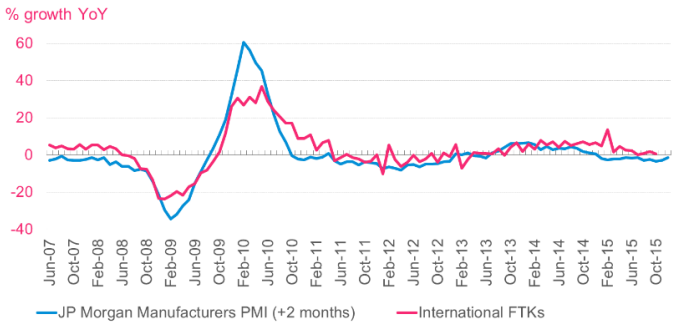
The decrease in semi-conductor shipments has been pronounced and points to weaker demand drivers in the short term (7). A potential cause for concern for medium term demand is a weakening in consumer confidence (8). Although the lagged impact of lower oil prices may still serve as stimulus to consumer spending.

4. World trade in goods and air FTKs



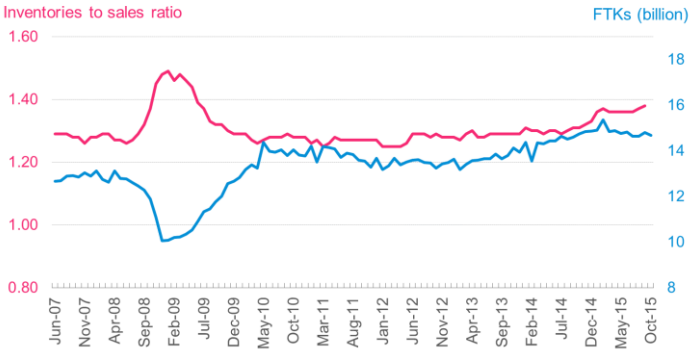
Source: Netherlands CPB, IATA

5. Purchasing Managers confidence survey & air freight demand



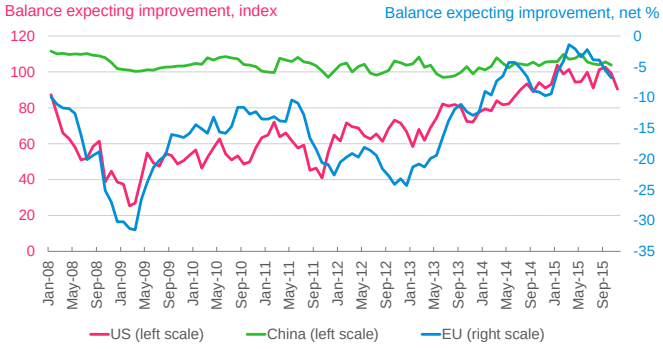
Source: IATA, Markit/JP Morgan

6. Total business inventories to sales ratio & FTKs



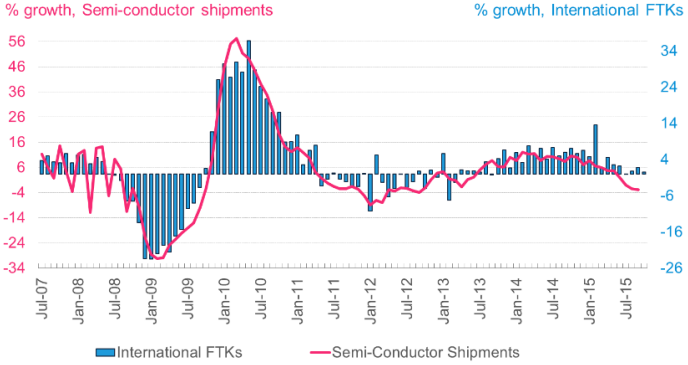
Source: IATA, US Census Bureau

8. Consumer confidence



Source: DatasStream

7. Semi-conductor shipments & air freight



Source: IATA, SIA

Capacity and Competition

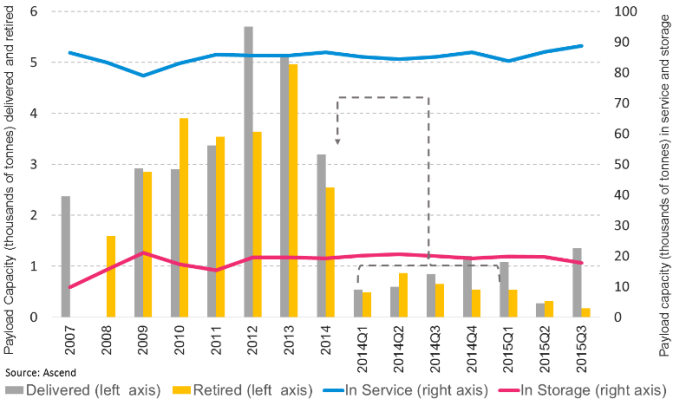
In-service payload capacity for widebody freighters increased for the third consecutive quarter. The increase is explained by a reduction of in-storage capacity and delivery of new aircraft. In-storage capacity remains at levels comparable to historical highs but has slightly reduced as some aircraft have been brought back in service. Q3 saw a significant increase in delivery of new widebody freighter capacity. Furthermore, the pace of retirement of older aircraft has continued to slow, with retirements in Q3 coming nearly to a complete halt. The combination of these factors has meant that in-service widebody freighter payload capacity grew by 2.2% in Q3 compared to Q2 (9).

In Q3, integrators and cargo-only operators each took delivery of about 35% of the new widebody freighter payload capacity. Mixed fleet operators, those offering both passenger and cargo-only services, took delivery of the remaining 30% (10). Non-integrator deliveries were concentrated in the Middle East and North Asia, with no new widebody freighter capacity being delivered to operators registered in the Americas.

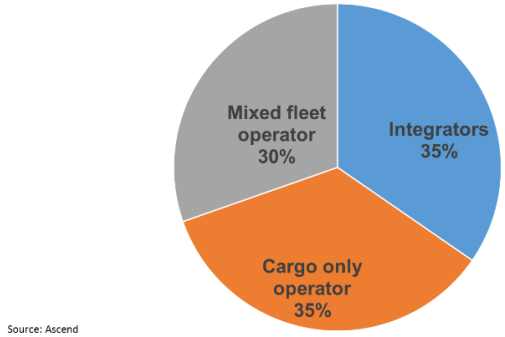
International freight load factors have deteriorated as capacity addition has outstripped traffic growth by 3.6% percentage points over the nine months of 2015. This can also be observed by looking at performance on major trade lanes where despite negative growth rates (11) capacity continued to exceed growth in FTKs.

Lower load factors are in part expected as carriers optimize operations under lower oil prices. However, the synchronized dip in both freighter utilization and load factors, may also point to underlying weakness in the demand environment (12). Ocean container yields have plunged due to overcapacity, weak demand but also lower costs – this may, on the margin, put pressure on some air freight operators (13).

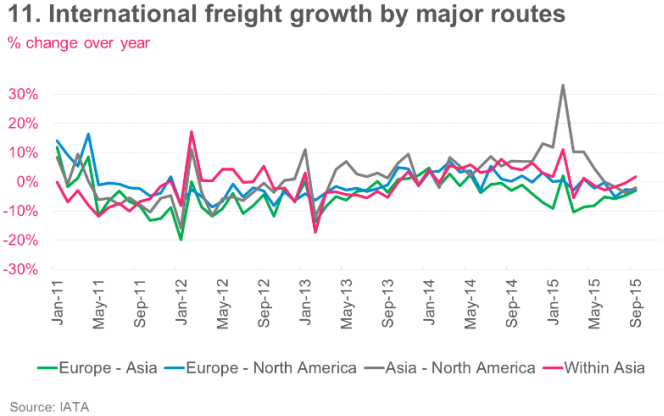
9. Widebody freighter payload capacity



10. Payload delivery - widebody freighters 2015 Q3

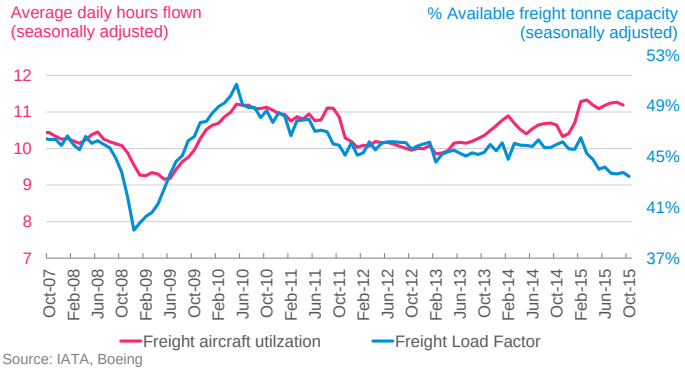


11. International freight growth by major routes



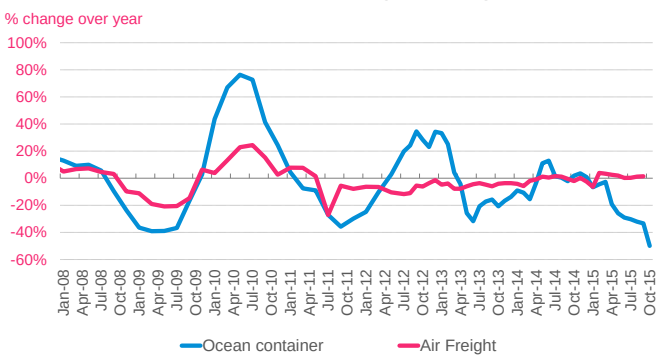
Source: IATA

12. Freight load factor & freighter aircraft utilization



Source: IATA, Boeing

13. Ocean container and air freight rate growth



Source: Drewry, IATA CASS

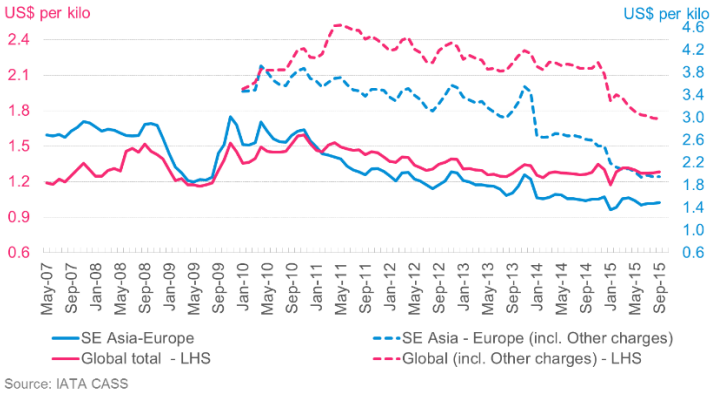
Revenues, costs and profits

At an industry level air cargo yields have largely stayed flat in Q3 although a gradual downward slide in yields continues when including other charges (14). On average, globally, 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). Falling yields in 2015 will be less harmful to profitability as jet fuel prices have abated (16).

However, international yield performance has varied significantly by trade lane and direction (17). For example, the average yields this year on the North/Mid-Pacific trade lane eroded more aggressively on traffic originating from Asia compared to traffic originating in North America. On the Europe-Asia trade lane, yields were slashed by nine percentage points more than the fall in global industry yield performance.

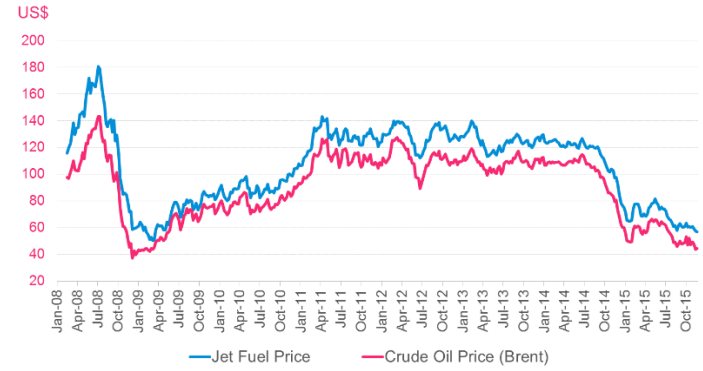
An increase in widebody freighter payload capacity (see above) and continued deliveries of belly capacity will put downward pressure on yields. IATA survey of heads of cargo confirms the concerns over yield performance for the year ahead (18).

14. Air freight yields (US$ per kilo)



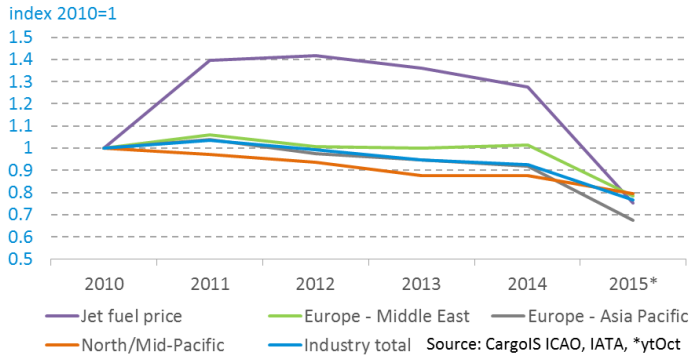
Source: IATA CASS

15. Jet fuel and crude oil price (US$/barrel)

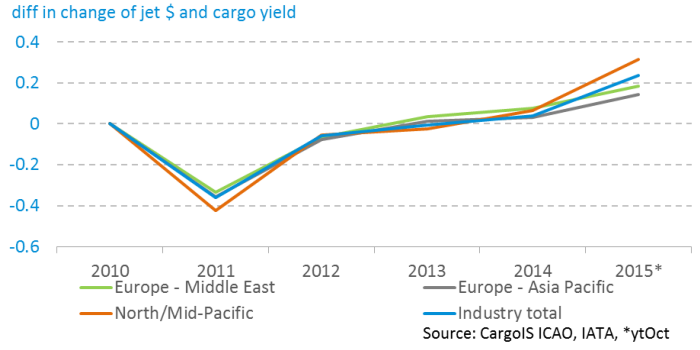


Source: Platts, Oanda, DigitalLook

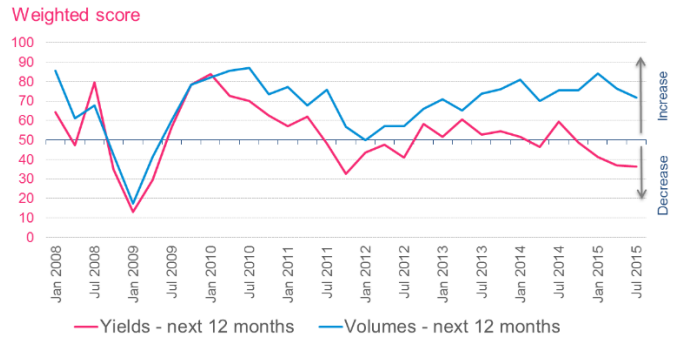
16. Jet fuel price vs cargo yield



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



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					
	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15
Africa - Europe	6.3%	0.9%	1.3%	-1.0%	0.8%	2.5%
Africa - Asia	5.4%	11.5%	-1.3%	-2.5%	-0.1%	-9.3%
Africa - Middle East	0.2%	14.6%	12.8%	12.6%	12.7%	5.2%
Central America / Caribbean - South	-3.9%	-5.9%	-2.0%	-7.6%	-7.8%	16.1%
Europe - Central America / Caribbean	-7.3%	-8.5%	-2.9%	-10.0%	-8.0%	0.2%
Europe - Asia	-8.6%	-8.2%	-5.1%	-5.7%	-4.7%	-3.0%
Europe - Middle East	12.4%	18.9%	22.1%	9.8%	7.2%	9.2%
Europe - North America	1.0%	-2.2%	-0.3%	-5.1%	-2.6%	-2.8%
Europe - South America	1.0%	-7.5%	4.3%	5.3%	3.0%	1.5%
Asia - North America	10.3%	4.6%	0.1%	-1.8%	-3.7%	-1.9%
Asia - Southwest Pacific	8.4%	12.1%	8.2%	3.0%	7.8%	14.1%
Middle East - Asia	7.9%	12.4%	12.9%	8.0%	7.2%	3.0%
Middle East - North America	30.4%	31.5%	16.9%	22.9%	11.5%	-0.4%
North America - Central America /	-10.4%	-2.7%	11.3%	5.2%	-2.8%	-7.4%
North America - South America	-3.4%	-11.5%	-3.8%	-5.8%	0.1%	-1.0%
North / South America - Southwest Pacific	11.7%	9.4%	8.5%	10.5%	11.7%	20.2%
Within Central America	10.5%	10.4%	11.3%	2.0%	1.0%	15.3%
Within Europe	-4.8%	-0.5%	0.7%	8.1%	4.0%	-6.4%
Within Asia	1.2%	-1.3%	-2.8%	-1.6%	-0.4%	1.8%
Within South America	2.5%	-15.9%	-5.9%	-10.8%	-27.6%	-24.0%

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

Origin Region	US$m Q32015	% Growth in Air Freight Revenues, year-on-year					
		2014 Q2	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3
Africa	86	-5%	-4%	11%	15%	9%	4%
Asia Pacific	1384	7%	14%	3%	17%	-8%	-13%
Europe	2270	7%	3%	-6%	-21%	-21%	-20%
Latin America & The Caribbean	368	1%	6%	5%	-4%	-12%	-9%
Middle East & North Africa	127	9%	16%	6%	3%	-4%	-15%
North Asia	1467	23%	17%	6%	-4%	-11%	-14%
North Atlantic & North America	1078	2%	4%	1%	-1%	-9%	-16%

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

Destination Region	US$m Q3 2015	% Growth in Air Freight Revenues, year-on-year					
		2014 Q2	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3
Africa	390	7%	11.1%	8%	-10%	-17%	-21%
Asia Pacific	1538	5%	5.9%	0.1%	-11%	-14%	-17%
Europe	1443	9%	8.7%	-2%	-10%	-15%	-14%
Latin America & The Caribbean	615	12%	-7.7%	-1%	-15%	-18%	-17%
Middle East & North Africa	563	-7%	8.8%	1%	-8%	-10%	-7%
North Asia	644	15%	6.5%	-9%	-17%	-22%	-22%
North Atlantic & North America	1487	5%	19.8%	20%	21%	-6%	-14%

Glossary

- ACI: Airports Council International
- AFTK: Available Freight Tonne Kilometers
- ECB: European Central Bank
- EIU: Economist Intelligence Unit
- CASS: Cargo Accounts Settlement System
- 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

9th December 2015

George Anjaparidze
IATA Economics
anjaparidg@iata.org

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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