

CARGO E-CHARTBOOK

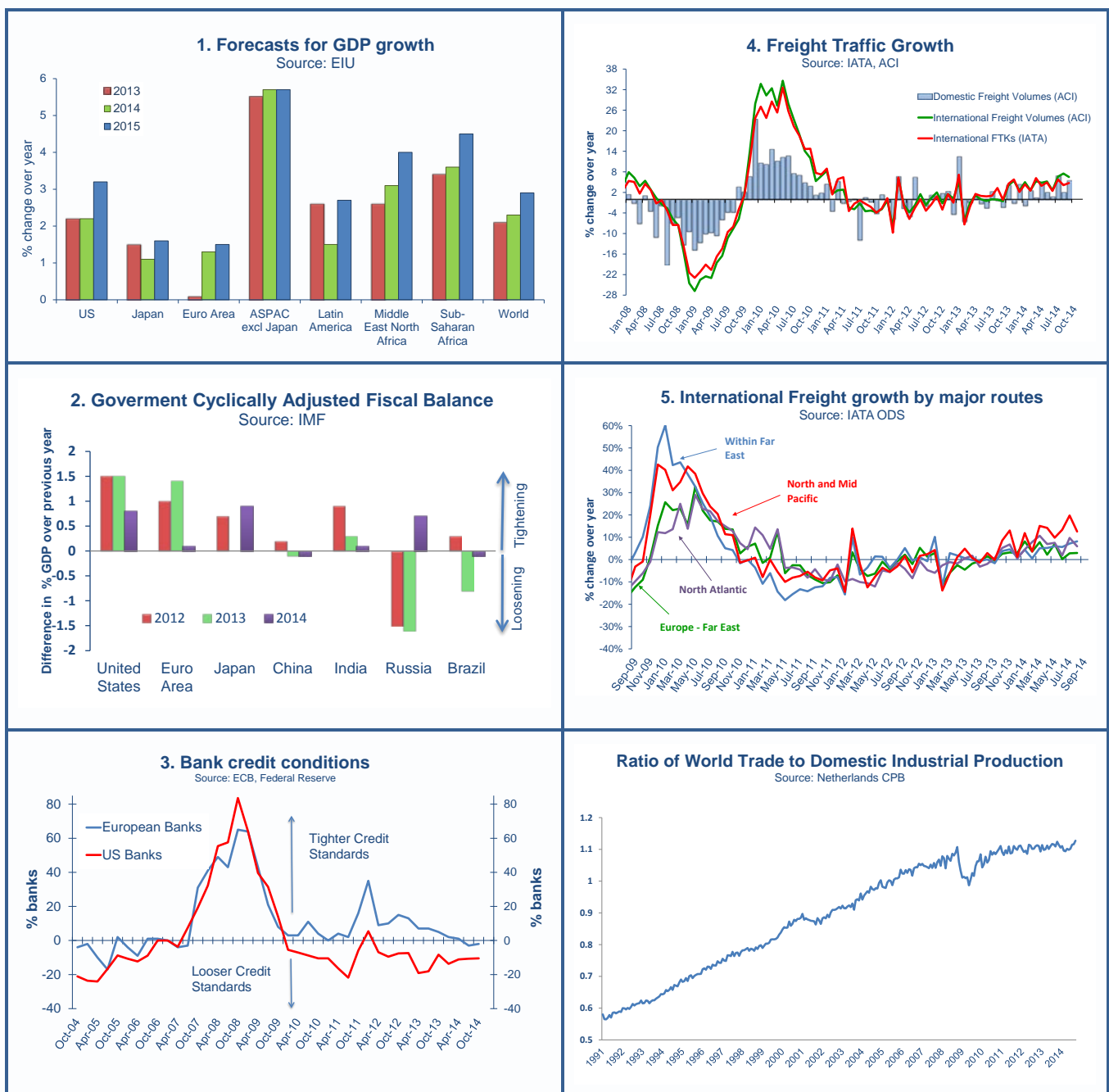
OVERVIEW

Q4 2014

- ✦ Air freight volumes continue to show solid gains on a year ago, supported by improving growth in trade in some regions, but weakness in load factors and yields continues to place downward pressure on financial performance. Emerging Asia trade volumes have seen continual increase over the past 6 months and in the US, optimism about the economic outlook is the highest it has been since the recession. These developments have supported growth in demand for air-freighted commodities like semi-conductors. However, in Europe consumer confidence and trade activity have weakened due to the Russia-Ukraine crisis. Moreover, there has been no increase in global business confidence for the past several months, which casts doubts over the strength of the global economic upturn and prospects for continued trade growth. There have been notable declines in jet fuel prices since mid-2014 which should help reduce airline costs. But yields continue to decline slowly, putting a strain on financial performance. Yields could weaken further as new aircraft deliveries come into service in 2015. Cargo heads surveyed in October do not expect to see any improvement in yields during the year ahead, but they do anticipate continued growth in demand.
- ✦ **Economic Situation** – the global economic outlook for 2015 is for stronger growth than what is expected for 2014 overall, with notable improvements being anticipated in the US, Latin America and the Middle East/North Africa (page 2).
- ✦ **Traffic Growth** – traffic volumes are up 4-5% on a year ago, supported by solid growth in trade in some regions. Further growth could be dampened by trends in production which continue to suggest a shift toward domestic activity (page 2).
- ✦ **Demand Environment** – for air cargo is mixed. World trade volumes have shown solid gains in some regions. But there has been no further increase in business confidence over recent months, casting doubts over the strength of the global economic upturn and further growth in trade (page 3).
- ✦ **Demand Drivers** – are mostly positive but show regional divergence. In China, consumer confidence remains stable and at post-recession highs in the US, but European consumers have become more pessimistic over recent months. Capital spending intentions of companies in the UK and Japan remain positive on balance, but have weakened slightly in Japan compared to Q2 (page 3).
- ✦ **Capacity** – load factors remain weak but aircraft utilization rates have improved, despite some increases in the freighter fleet. Looking ahead, however, aircraft deliveries are set to increase by 6% in 2015 compared to 2014, which could place downward pressure on aircraft utilization (page 4).
- ✦ **Competition** – air freight rates are stable but show no improvement on a year ago. Sea freight rates are also flat on a year ago, despite strong growth in container shipping in most regions (page 4).
- ✦ **Revenue and Yields** – air freight yields continue to decline slowly, consistent with persisting weakness in load factors, keeping downward pressure on cargo business financial performance (page 5).
- ✦ **Costs** – jet fuel prices have fallen significantly over recent month, now down 36% compared to the mid-year peak. Nominal wage rates continue to fall in Europe and China, but have been on the rise in the US (page 5).
- ✦ **Profitability outlook** – consistent with some improvement in demand conditions in Q4 compared to H1, heads of cargo surveyed in October expect stronger growth in traffic over the next 12 months, but no change in yields (page 5).

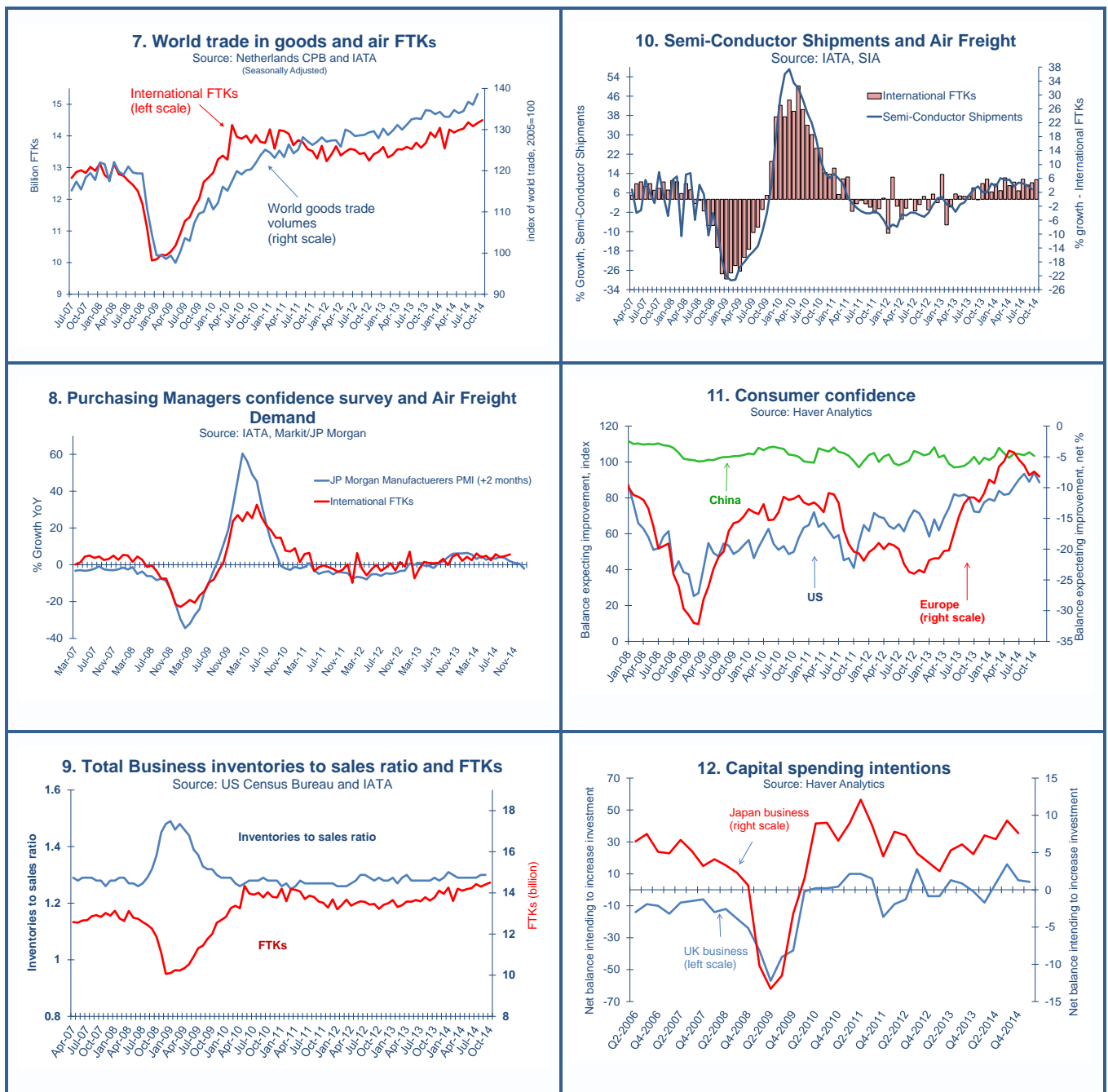
Economic Outlook & Traffic Growth

- Expectations for global economic growth are improving. The global economic outlook for 2015 is for stronger growth than what is expected for 2014 overall, with notable improvements being anticipated in the US, Latin America and the Middle East/North Africa.
- Despite recent impacts of the Russia-Ukraine crisis on the Eurozone recovery, the region is also expected to see some improvement in 2015 compared to 2014. But the US is expected to grow much more strongly than Europe, supported partly by looser bank lending standards (3). Nonetheless, tightening fiscal policy in both the US and Europe will ensure that growth remains well below that of emerging market economies.
- Air freight volumes remain 4-5% above year ago levels, supported by cyclical improvements in economic growth. However, stronger economic growth in 2014 has not generated the expansion of international trade that it would have done in the past, as production has been on-shored. Although the relationship between trade and industrial production appears to be improving in terms of trade, that is mostly a result of a slowdown in domestic production rather than a notable acceleration in trade growth (6).



Demand Environment & Drivers

- The demand environment for air cargo is mixed. World trade volumes have recovered after weakness earlier in the year (7), showing solid gains over recent months, mostly a result of more goods moving to/from Emerging Asia. Business confidence continues to signal expansion in manufacturing activity, but lack of further improvement over recent months means levels are now below those of a year ago (8). This casts doubts over the strength of the global economic upturn and further gains in trade. On the positive side, there has been no change in inventory to sales ratios (9) suggesting businesses still have no immediate need to reduce their use of air cargo.
- Demand drivers remain positive overall, but are showing signs of regional divergence. In China, consumer confidence remains broadly stable, and in the US optimism about the economic outlook is the highest it has been since the recession. By contrast, European consumers have become more pessimistic over recent months, reflecting the adverse impacts of the Russia-Ukraine crisis (11). Nonetheless, demand drivers remain improved on a year ago, and this continues to support stronger demand for air-freighted commodities, as indicated by expansion in semi-conductor shipments (10). Capital expenditure intentions of companies in the UK and Japan remain positive on balance, but have declined slightly in Japan (12).

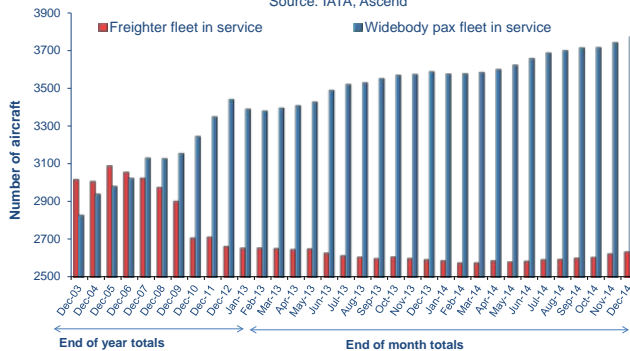


Capacity & Competition

- Aircraft utilization rates have started to show solid improvement, but air freight load factors are hovering around a weak rate of 45% (14). There has been some increase in the freighter fleet over recent months, but a majority of the capacity expansion has been coming through the passenger business (13). Looking ahead, aircraft utilization rates will continue to be challenged by fleet expansion, with an expected 6% increase in 2015 of deliveries of new twin-aisle aircraft with belly hold capacity (15).
- Air freight rates are stable but have not improved on a year ago (17). Demand for Asian goods moved by air remains stable – there has been no growth on this key air freight market when compared to the pre-crisis peak (16). Sea freight rates are also broadly in line with a year ago, despite growth in container shipping over recent months in all regions except the Middle East (18).

13. Cargo fleet composition

Source: IATA, Ascend

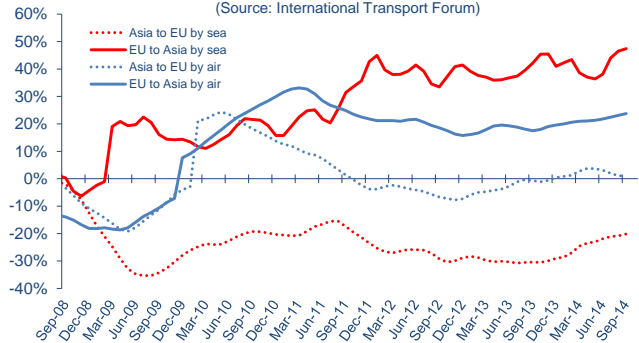


16. EU28 Trade with Asia

% change from pre-crisis peak June 2008

Seasonally adjusted monthly data in tonne

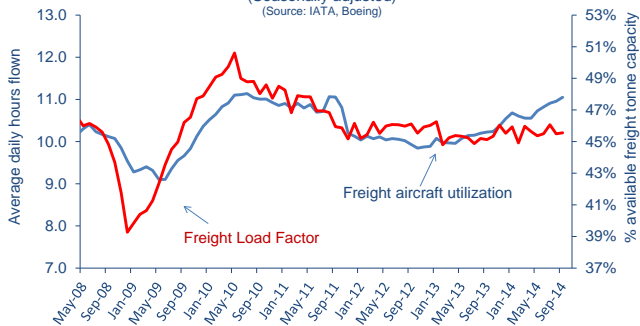
(Source: International Transport Forum)



14. Freight load factor and freighter aircraft utilization

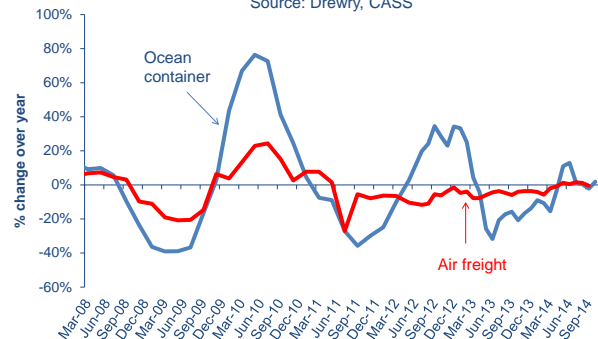
(Seasonally adjusted)

(Source: IATA, Boeing)



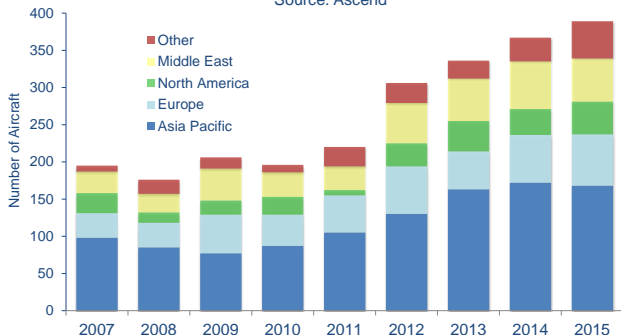
17. Ocean container and air freight rate growth

Source: Drewry, CASS



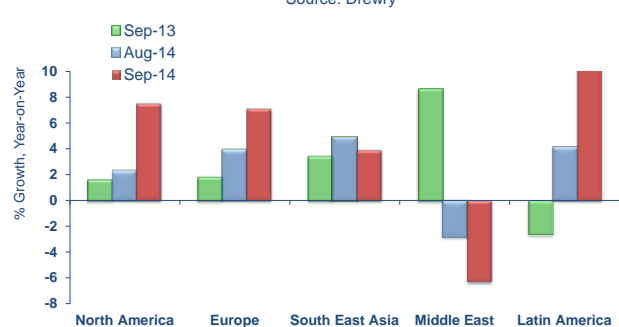
15. Twin Aisle Aircraft Deliveries by Airline Region

Source: Ascend



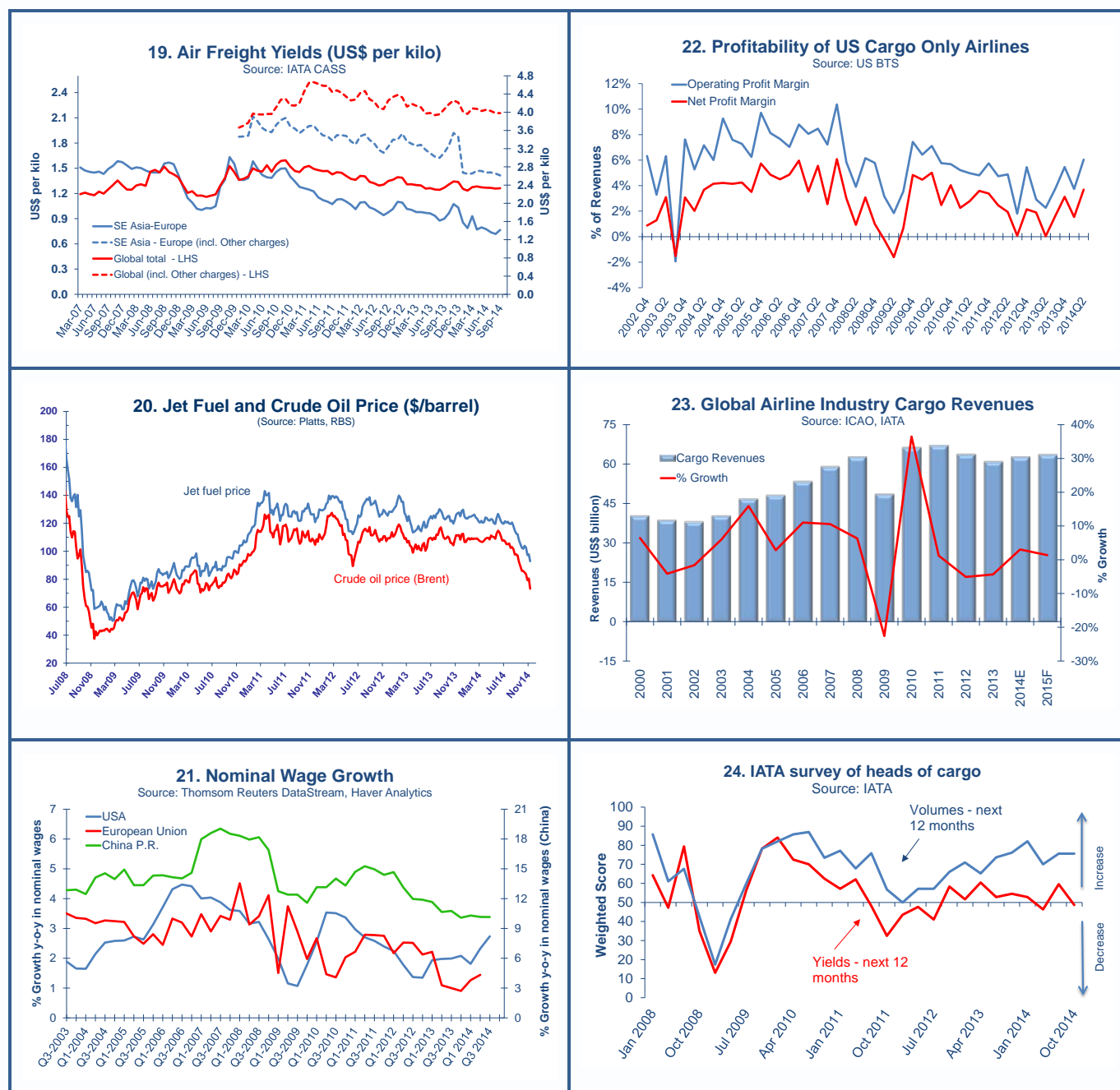
18. Container Shipping Volume Growth by Region

Source: Drewry



Revenues, Costs & Profits

- Air freight yields have started to weaken again after signs of stability during the middle of the year. Air freight yields have been declining steadily since mid-2011 and are now down 2% since that time (19), consistent with continued weakness in load factors. This continues to place downward pressure on cargo business financial performance (22 & 23).
- Crude oil and jet fuel prices have fallen sharply during recent months, now down 36% compared to the mid-year peak. A combination of factors have led to the fall in crude oil prices, including a weakening demand outlook, particularly in Europe, as well as appreciation of the US dollar and increases in supply from the US (20). While nominal wage rates have stabilized in Europe and China, they are showing some increase in the US as a result of improving employment conditions (21).
- Consistent with some improvement in demand conditions in Q4, heads of cargo surveyed in October 2014 expect stronger growth in traffic volumes over the next 12 months, but no change in cargo yields (24).



Air Freight Routes and Direction

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

| Route Area | % Growth in Freight Tonnes, year-on-year | | | | | |
|-------------------------------|--|--------|--------|--------|--------|--------|
| | Apr-14 | May-14 | Jun-14 | Jul-14 | Aug-14 | Sep-14 |
| Africa - Middle East | 14.2% | 0.6% | 3.4% | 0.5% | 11.3% | 18.2% |
| Europe - Far East | 2.2% | 7.0% | 0.2% | 2.8% | 2.9% | 0.5% |
| Europe - Middle East | -3.1% | -4.3% | -10.8% | -4.0% | 5.5% | 8.8% |
| Within Far East | 5.2% | 6.0% | 5.6% | 7.2% | 8.2% | 4.7% |
| Within Middle East | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Within South America | -9.7% | -3.3% | -7.5% | 2.5% | 3.7% | -5.0% |
| Mid Atlantic | -5.2% | -1.9% | -8.3% | 7.9% | -4.0% | -5.7% |
| Middle East - Far East | 7.2% | 5.5% | 3.4% | 3.9% | 19.5% | 15.8% |
| North Atlantic | 6.9% | 7.5% | 1.9% | 9.7% | 5.9% | 4.0% |
| North America-Central America | 8.7% | -2.8% | -8.5% | -3.0% | 3.8% | -5.2% |
| Europe - Africa | 5.7% | 8.8% | 4.1% | 2.0% | 4.6% | 0.9% |
| North America– South America | -3.2% | 5.4% | -2.2% | 4.3% | 1.2% | -0.5% |
| Far East - Southwest Pacific | -6.9% | -3.8% | -3.8% | -2.7% | -8.1% | -0.9% |
| North and Mid Pacific | 14.2% | 9.8% | 13.3% | 19.8% | 12.6% | 13.8% |
| South Atlantic | 18.3% | 20.6% | 21.4% | 24.3% | 12.7% | 14.9% |
| Within Europe | -4.5% | 1.2% | -4.7% | -4.4% | -0.4% | -0.5% |

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

| Origin Region | US\$m Q3 2014 | % Growth in Air Freight Revenues, year-on-year | | | | | |
|--------------------------------|------------------|--|---------|---------|---------|---------|---------|
| | | 2013 Q2 | 2013 Q3 | 2013 Q4 | 2014 Q1 | 2014 Q2 | 2014 Q3 |
| Africa | 82 | 15% | 14% | -1% | 6% | -5% | -10% |
| Asia Pacific | 1594 | -18% | -14% | -8% | -4% | 7% | 7% |
| Europe | 2841 | 2% | 4% | 6% | 6% | 7% | -2% |
| Latin America & The Caribbean | 404 | -3% | -6% | -2% | 0% | 1% | -9% |
| Middle East & North Africa | 149 | 18% | 17% | 14% | 8% | 9% | 7% |
| North Asia | 1706 | -1% | 13% | 21% | 21% | 23% | 21% |
| North Atlantic & North America | 1290 | -10% | -8% | -4% | -2% | 2% | 5% |

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

| Destination Region | US\$m Q3 2014 | % Growth in Air Freight Revenues, year-on-year | | | | | |
|--------------------------------|------------------|--|---------|---------|---------|---------|---------|
| | | 2013 Q2 | 2013 Q3 | 2013 Q4 | 2014 Q1 | 2014 Q2 | 2014 Q3 |
| Africa | 495 | -3% | -4% | -3% | -1% | 7% | 11% |
| Asia Pacific | 1856 | -7% | -3% | 2% | 4% | 5% | 6% |
| Europe | 131 | -10% | 0% | 8% | 7% | 9% | 0% |
| Latin America & The Caribbean | 1686 | 1% | -1% | -2% | -3% | 12% | 9% |
| Middle East & North Africa | 743 | -1% | 2% | 4% | 6% | -7% | -8% |
| North Asia | 603 | -2% | -5% | 2% | 3% | 15% | 9% |
| North Atlantic & North America | 827 | -4% | 2% | 6% | 10% | 5% | 6% |

Glossary

- ✈ ACI: Airports Council International
- ✈ AFTK: Available Freight Tonne Kilometers
- ✈ European CB: 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

IATA Economics
9th December 2014