



AIR FREIGHT MARKET ANALYSIS

July 2018

Little sign of change in the moderate uptrend in air cargo volumes

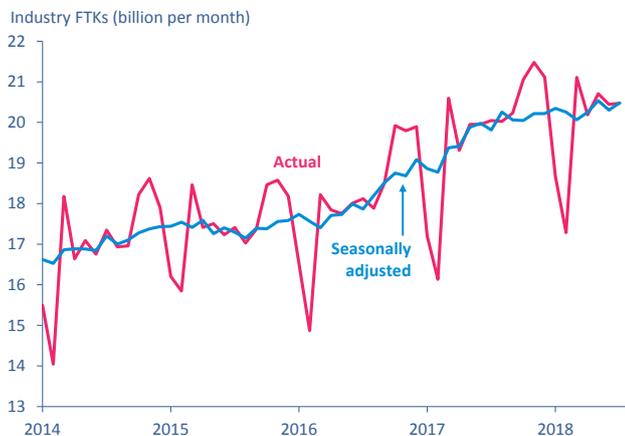
- Annual growth in freight tonne kilometres (FTK) fell to 2.1% in July – its slowest pace since May 2016. There has been little sign of any change in the moderate upward trend in seasonally adjusted (SA) demand.
- The risks to our forecast of 4.0% FTK growth in 2018 now lie slightly on the downside. More generally, prospects going into 2019 will depend on the extent that potential headwinds from trade protectionism can be counteracted by opportunities from fast-growing areas such as e-commerce.
- Annual growth in freight capacity exceeded that of demand in July for the fourth time in five months.

Ongoing moderate uptrend in freight volumes...

Year-on-year growth in industry-wide FTKs fell to 2.1% in July – its slowest pace since May 2016 and well below the five-year average FTK growth rate (5.1%).

As was the case last month, the latest data may have been distorted at the margin by the disruption at Nippon Cargo, which persisted into early-July. Nonetheless, the bigger picture is that there has been little sign of any change in the moderate uptrend in air freight volumes that has now been in place since mid-2017. (See Chart 1.)

Chart 1 – FTK levels



Sources: IATA Economics, IATA Monthly Statistics

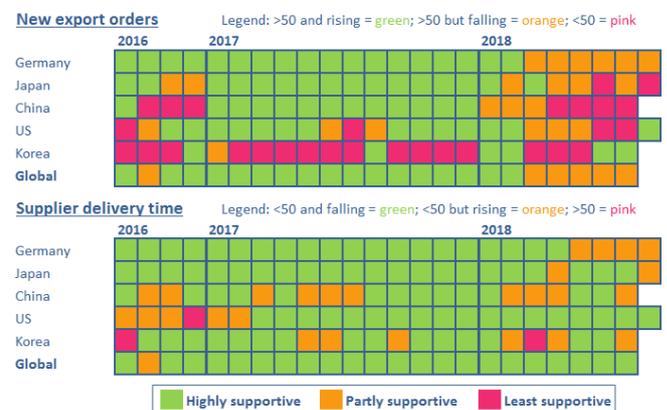
...as the inventory cycle has run its course

As we have noted before, the moderation in the SA FTK trend mainly reflects the fact that the inventory restocking cycle – which underpinned the strong period of growth in 2016 and early-2017 – had largely run its course by the end of last year. (Recall that air freight typically gains market share from slower transport

modes during periods when firms need to restock inventory levels quickly.)

Reduced momentum in air freight demand has also been consistent with ongoing signs of a broad-based weakening in manufacturing firms' export order books since the start of 2018. The new export orders component of the manufacturing Purchasing Managers' Index (PMI) climbed back into positive territory in the US in August, but the picture is less positive in Asia and Europe. (See the upper panel of Chart 2.)

Chart 2 – FTK demand heat-map (monthly data from manufacturing PMIs, selected countries)



Sources: IATA, Markit, Thomson Reuters Datastream

*August 2018 data are flash estimates

Moreover, with the key exception of the US, manufacturers in Asia and Europe have also started to report reduced pressure on supplier delivery times too, which typically means that manufacturers have less need for the speed afforded by air freight. (See the lower panel of Chart 2.) That said, given that the supply-chain constraints look to have been most acute

Air freight market overview - July 2018

	World share ¹	July 2018 (% year-on-year)				% year-to-date			
		FTK	AFTK	FLF (%-pt) ²	FLF (level) ³	FTK	AFTK	FLF (%-pt) ²	FLF (level) ³
TOTAL MARKET	100.0%	2.1%	3.8%	-0.7%	42.7%	4.3%	4.8%	-0.2%	44.4%
International	87.5%	1.9%	3.6%	-0.8%	46.5%	4.5%	5.2%	-0.3%	48.3%

¹ % of industry FTKs in 2017

² Year-on-year change in load factor

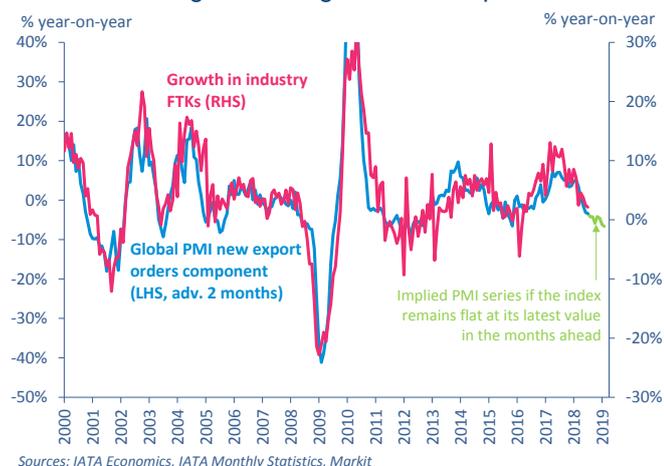
³ Load factor level

in heavy capital goods, which are unlikely to be transported by air, it is unclear as to how much this factor actually supported air freight growth in the recent past. It follows that an easing in these constraints may not on its own present too much of a headwind on the way down.

The balance of risks lie to the downside

All told, the new export orders component of the global PMI is now just above the 50-mark that corresponds to rising export orders. At current levels, the indicator suggests that annual FTK growth could slow further over the coming months. (See Chart 3.)

Chart 3 – FTK growth vs. global new export orders



Industry-wide FTKs have grown by 4.3% in annual terms in the first seven months of the year and the risks to our forecast of 4.0% growth in 2018 as a whole now lie slightly on the downside.

More generally, the broader question is how strong the structural backdrop for air freight growth will be going into 2019. This will depend in large part on the extent that potential headwinds from protectionism can be counteracted by opportunities from fast-growing areas such as e-commerce. We recently published a note looking at the risks from a global trade war ([link](#)), but we will continue to monitor the situation as it develops.

Capacity continues to rise faster than demand

Available freight tonne kilometres (AFTKs) grew by 3.8% year-on-year in July, down slightly from 3.9% in June but faster than the corresponding annual demand growth rate for the fourth time in five months.

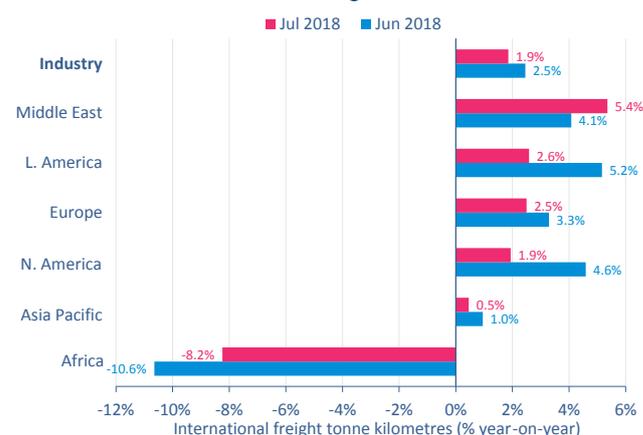
As a result, the industry-wide load factor fell by 0.7 percentage points compared to July 2017, and capacity is continuing to trend upwards in SA terms at a faster pace than demand.

Another decline in international FTK growth

In keeping with the industry-wide figure, year-on-year growth in international FTKs also slowed to a 26-month

low in July (1.9%, down from 2.5% in the previous month). (See Chart 4.)

Chart 4 – International FTK growth



Tentative signs of a pick-up in the Middle East...

Middle Eastern airlines posted the fastest annual international FTK growth rate for the first time in more than two years (currently 5.4%, from 4.1% in June). That said, while there are tentative signs of an upturn in the SA traffic trend, the latest annual growth rate was still well below the average seen over the past five years (9.4%).

...amid similar signs in Europe

European airlines flew 2.5% more international FTKs in July 2018 relative to July 2017 – well down on the five-year average annual FTK growth rate (5.6%). That said, despite the moderations seen in manufacturers' export order books in the region since the start of 2018, air freight volumes look to have resumed their upward trend in the past few months. We will continue to monitor developments closely in the coming months.

L.American traffic is now trending sideways

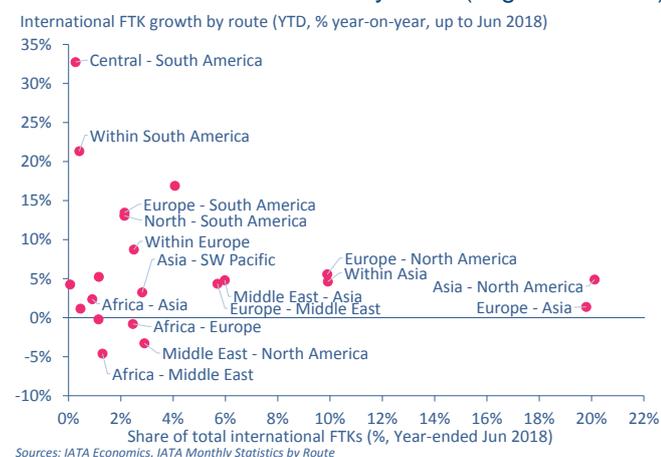
Annual growth in international FTKs flown by carriers based in Latin America slowed to 2.6% in July – half the rate seen in June but still well above the five-year average pace (1.6%). Some of the smaller markets within the region have seen double-digit annual growth in international FTKs so far this year. (See Chart 5, overleaf.) Nonetheless, the recovery in FTKs flown by the region's airlines has paused, with volumes having trended broadly sideways since the start of 2018.

Robust support for N.American freight demand

Year-on-year growth in international FTKs flown by North American carriers fell to 1.9% in July, from 4.6% in June. Air freight volumes flown by the region's carriers have actually risen at a double-digit annualized pace in the last few months (although the monthly gain in July was smaller than a year ago, hence the decline in the annual growth rate this month). Demand is being supported by robust growth in the US economy and a

stronger US dollar, which looks to be boosting inbound air shipments. Meanwhile, as we noted before, reports of a sharp pick-up in bottlenecks in manufacturing supply chains in the US in recent months may also be benefiting air freight demand.

Chart 5 – International FTKs by route (segment-based)



Loss of momentum in Asia Pacific FTKs

Weaker conditions for manufacturing exporters in Asia – particularly Japan and China – have been mirrored in

a decline in Asia Pacific airlines' air freight growth in recent months: international FTK growth in the region slowed to a 0.5% in July – well below the five-year average (4.3%) As the largest air freight-carrying region – accounting for around one-third of the global total – Asia Pacific is most exposed to any impact from rising trade tensions.

African int'l FTKs continue to trend downwards

After a very strong showing in 2017 as a whole, annual growth in international FTKs flown by African airlines fell in July for the fourth time in five months (-8.2%). Having peaked in SA terms at the end of last year, FTKs have now trended downwards at an annualized pace of almost 18% over the past six months, which reflects weaker demand conditions on all the main markets to/from the continent. (Again, see Chart 5.)

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Air freight market detail - July 2018

	World share ¹	July 2018 (% year-on-year)				% year-to-date			
		FTK	AFTK	FLF (%-pt) ²	FLF (level) ³	FTK	AFTK	FLF (%-pt) ²	FLF (level) ³
TOTAL MARKET	100.0%	2.1%	3.8%	-0.7%	42.7%	4.3%	4.8%	-0.2%	44.4%
Africa	1.9%	-8.3%	-0.7%	-1.8%	21.1%	1.0%	0.3%	0.2%	25.6%
Asia Pacific	36.9%	0.9%	3.9%	-1.6%	53.4%	4.0%	6.3%	-1.2%	53.7%
Europe	24.2%	2.6%	4.4%	-0.8%	42.9%	3.9%	4.8%	-0.4%	45.7%
Latin America	2.7%	3.0%	-7.8%	3.6%	34.2%	9.0%	-2.4%	3.8%	36.2%
Middle East	13.7%	5.4%	6.3%	-0.4%	42.8%	4.5%	5.3%	-0.4%	43.8%
North America	20.6%	2.6%	4.0%	-0.4%	34.3%	4.8%	4.3%	0.2%	35.9%
International	87.5%	1.9%	3.6%	-0.8%	46.5%	4.5%	5.2%	-0.3%	48.3%
Africa	1.8%	-8.2%	1.0%	-2.1%	21.2%	1.0%	1.9%	-0.2%	25.8%
Asia Pacific	33.1%	0.5%	2.9%	-1.4%	58.7%	4.4%	6.5%	-1.2%	58.3%
Europe	23.7%	2.5%	4.4%	-0.8%	44.6%	3.8%	5.0%	-0.5%	47.2%
Latin America	2.3%	2.6%	-5.0%	2.8%	37.9%	9.6%	-0.8%	4.0%	41.7%
Middle East	13.7%	5.4%	6.4%	-0.4%	42.9%	4.4%	5.4%	-0.4%	43.9%
North America	12.9%	1.9%	3.2%	-0.5%	39.9%	5.7%	4.5%	0.5%	42.3%

¹% of industry FTKs in 2017 ²Year-on-year change in load factor ³Load 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.

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