



# Air Freight Market Analysis

September 2019

## Another year-on-year fall, but freight volumes are levelling off

- Growth in industry-wide air freight tonne kilometres (FTKs) remains weak, declining by 4.5% in annual terms in September. The decline was widespread, with annual freight volumes falling in all regions except Africa.
- In seasonally adjusted terms, global FTKs have trended broadly sideways in the past few months. However, with escalating trade tensions, geopolitical and economical risks, and weak new export orders, drivers remain soft.
- Air freight capacity continued to grow modestly, up 2.1% year-on-year in September. Given the weakness in demand, the freight load factor is 3.2 percentage points lower than its level of a year ago.

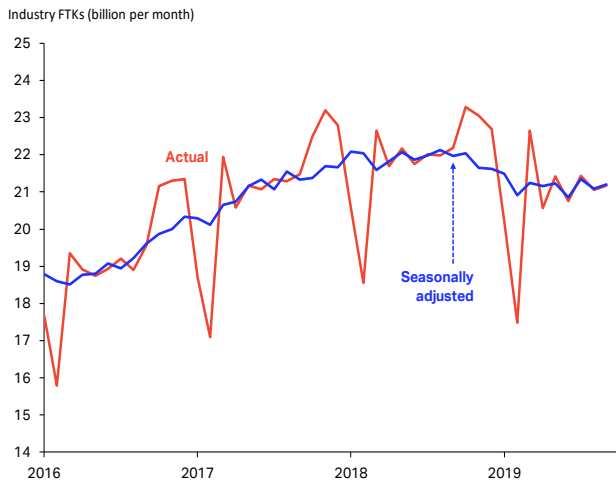
### Another month of broad-based weakness

Growth in industry-wide freight tonne kilometres (FTKs) remained negative in September, with volumes down a sizeable 4.5% year-on-year. This closely follows a 4.2% fall in FTKs in August.

In seasonally adjusted (SA) terms, the level of FTKs lifted slightly on a month-on-month basis, continuing the broadly sideways trend in freight volumes that emerged around March.

Since then, the annualized growth rate in SA levels has been close to zero, after an annualized decline of 8.5% between Q3 2018 and Q1 2019 (Chart 1).

**Chart 1:** FTK levels, actual and seasonally adjusted



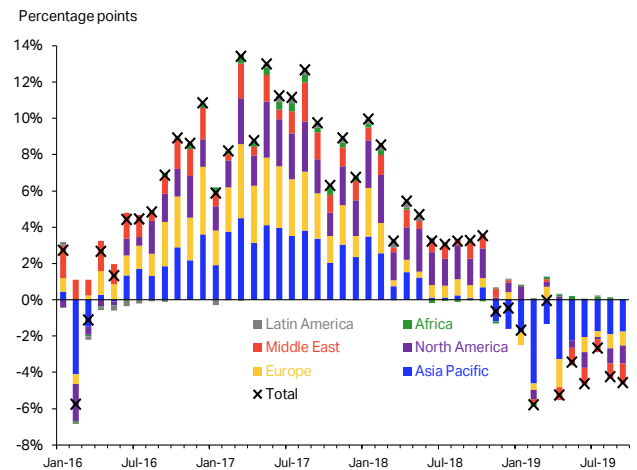
Sources: IATA Economics, IATA Monthly Statistics

Notwithstanding the ongoing weakness in the year-on-year (and year-to-date) growth outcome, removing the regular seasonal volatility in the monthly data gives a different perspective to recent developments. It

clearly illustrates the fact that most of the decline in air freight volumes occurred in late 2018 and early 2019, with the downward trend having plateaued since that time. If the current trend is continued in the monthly outcomes, the year-on-year growth rate will return to positive territory in the early part of next year.

As has been the case for a number of months, most regions contributed to the negative year-on-year growth outcome. While Africa made a small positive contribution, Asia Pacific accounted for 1.8ppts of the overall decline, and the Middle East, North America and Europe for ~1ppt each. Latin America also made a minor negative contribution (Chart 2).

**Chart 2:** Regional contributions to y-o-y FTK growth



Sources: IATA Economics, IATA Monthly Statistics

### Escalation in trade wars and weak new export orders

The global backdrop for air freight is still one of uncertainty and, at best, only weakly supportive forward indicators.

### Air freight market overview - September 2019

	World share <sup>1</sup>	September 2019 (% year-on-year)				% year-to-date			
		FTK	AFTK	FLF (%-pt) <sup>2</sup>	FLF (level) <sup>3</sup>	FTK	AFTK	FLF (%-pt) <sup>2</sup>	FLF (level) <sup>3</sup>
<b>TOTAL MARKET</b>	<b>100.0%</b>	<b>-4.5%</b>	<b>2.1%</b>	<b>-3.2%</b>	<b>46.4%</b>	<b>-3.5%</b>	<b>1.9%</b>	<b>-2.6%</b>	<b>46.3%</b>
International	87.4%	-5.0%	1.7%	-3.6%	51.0%	-4.2%	1.7%	-3.1%	51.1%

<sup>1</sup>% of industry FTKs in 2018

<sup>2</sup>Year-on-year change in load factor

<sup>3</sup>Load factor level

September saw another escalation in the trade dispute between the US and China. On 1 September, the US applied additional tariffs on US\$125bn of Chinese goods, to which China retaliated with tariffs on US\$75bn of US goods. Further increases scheduled for October have been postponed. South Korea and Japan also imposed stricter trade controls on each other in August-September, with this action being supported through consumer boycotts.

Growth in the new export orders component of the Purchasing Managers' Index (PMI) remained negative this month, despite a slight improvement. Export orders have historically been a reliable leading indicator of growth in global FTKs (Chart 3), although a modest gap between the two has opened in recent months.

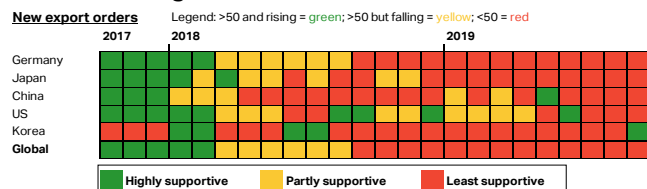
**Chart 3: FTK growth vs. new export orders**



Sources: IATA Economics, IATA Monthly Statistics, Markit

At the country level, the new export orders measure across the world's key exporting countries generally remains weak (Chart 4). The improvement in the indicator for South Korea will need to be confirmed in coming months, especially in light of the trade tensions with Japan noted above.

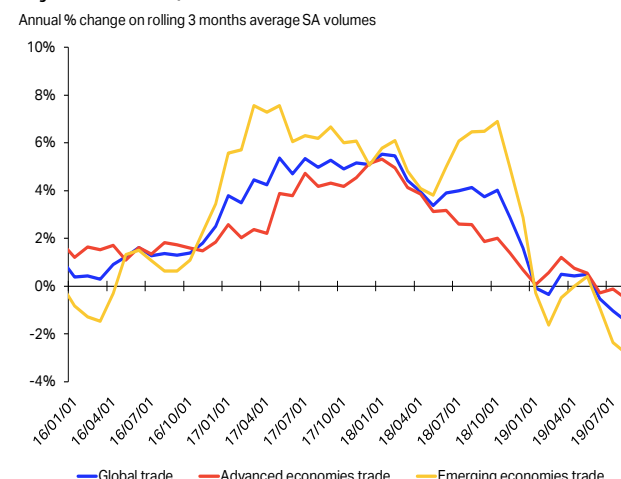
**Chart 4: FTK demand heat-map (monthly data from manufacturing PMIs, selected countries)**



Sources: IATA, Markit, Thomson Reuters Datastream

Taken together, it is unsurprising that this backdrop has been reflected in weaker trade volumes. Trade volumes have been declining in year-on-year terms for the past three months across both advanced and emerging economies, with the latter having been particularly impacted (Chart 5).

**Chart 5: Growth in world trade volumes (seasonally-adjusted data)**



Source: Netherlands CPB

**Divergence in demand and capacity trends**

Turning to capacity, industry-wide available freight tonne kilometres (AFTKs) increased by a modest 2.1% over the year to September, broadly in line with the August outcome (2.2%).

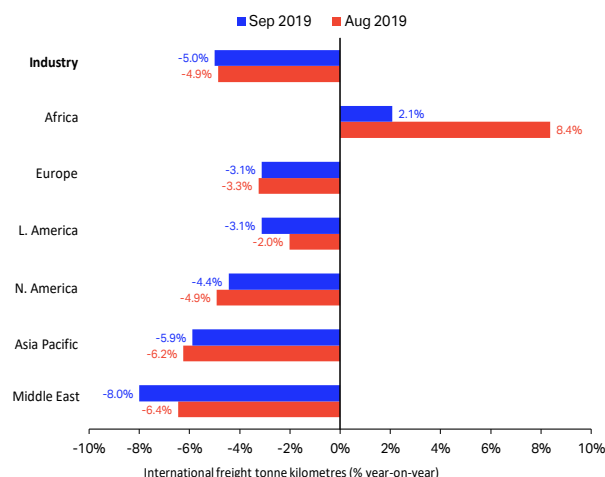
Although airlines have slowed the rate of capacity growth in the market in response to the weaker demand conditions, even modest growth sees capacity continue to outpace demand. As a consequence, September's industry-wide freight load factor was down 3.2ppts on its year-ago level.

**International growth rates are similar to last month**

Annual international FTK growth for September was also in line with that of August, with volumes down 5% and 4.9% year-on-year, respectively.

Falling freight volumes were observed across all regions, except for Africa. For most regions – as for the industry overall – the annual growth rates were comparable to those recorded last month (Chart 6).

**Chart 6: International FTK Growth**



Sources: IATA Economics, IATA Monthly Statistics

### Africa slows but remains in positive territory...

International freight volumes carried by airlines based in Africa increased by 2.1% year-on-year in September. This is down from a brisk 8.4% in August, and is the slowest outcome since February. Africa is the only region to have recorded year-on-year FTK growth in each of the past 4 months.

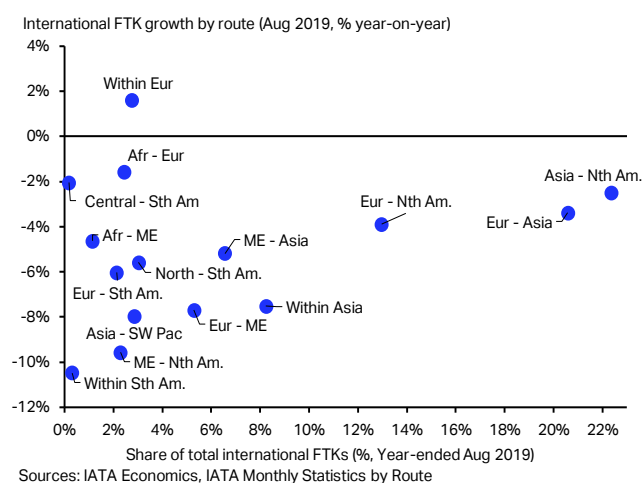
Air freight volumes to/from the region have been supported by foreign investment flows, particularly from the Asia Pacific region, as well as robust economic performance in some key regional economies. That said, monthly air freight outcomes remain volatile due to the relatively small size of the market in that region.

### ...while the Middle East continues to lag the rankings

Growth in international FTKs posted by Middle Eastern airlines deteriorated further this month, with volumes now down 8.0% year-on-year in September. This is the weakest outcome since the Global Financial Crisis, and the sixth consecutive month of falling (y-o-y) volumes.

With escalating trade tensions and the global linkages in supply chains, most of the key routes to and from the Middle East have seen a weak performance in the past few months. The large Europe-Middle East and Asia-Middle East routes were down 8% and 5% respectively in August (latest available data), compared to the year ago period (Chart 7).

**Chart 7: International FTKs by route (segment-based)**



### Europe and Latin America in the top three...

Growth in international FTKs reported by European airlines are down 3.1% year-on-year in September, only a slight improvement on the 3.3% decline in August. Despite the weakness in several key economies including Germany and the UK as well as the ongoing uncertainty around Brexit, seasonally adjusted FTKs in the region appear to have stopped falling, and have trended broadly sideways since Q1.

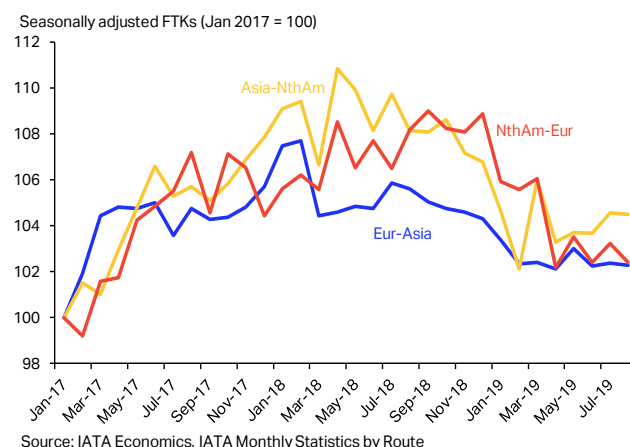
Airlines based in Latin America experienced a 3.1% annual decrease in their international FTK volumes last month, compared with a 2.0% decline in August. Despite recent indications of recovery in the Brazilian economy, deteriorating conditions elsewhere in the region along with the difficult global business backdrop have all contributed to the region's air cargo volumes (in SA terms) easing since early 2019.

### ...and modest improvements in Nth Am. and ASPAC

International FTK volumes for the North American airlines were down 4.4% year-on-year in September. While this is a modest improvement from the 4.9% y-o-y decline in August, cargo volumes in this large market clearly remain weak.

With trade conflicts ongoing and falling new export orders, SA FTK volumes declined in month-on-month terms on both NthAm-Eur and the larger Asia-NthAm routes in September (Chart 8). That said, international SA FTK levels for the region continue to trend sideways, having halted the downward trend that was in place between Q3 2018 and Q1 2019.

**Chart 8: International SA FTKs – selected routes**



Turning to Asia Pacific – the largest region for air freight volumes – international FTKs are a substantial 5.9% lower in September than a year ago. This key global manufacturing and distribution hub has borne the brunt of the weakness in trade and air freight volumes over the past year or so.

Asia Pacific was the first region to post a year-on-year decline in FTKs, dating back to November 2018. More recently, the disruption to airline operations in Hong Kong has created additional challenges for the industry in the region.

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 6<sup>th</sup> November 2019

## Air freight market detail - September 2019

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Africa	1.6%	2.2%	9.4%	-2.3%	32.9%	4.9%	13.6%	-2.9%	34.7%
Asia Pacific	35.4%	-4.9%	2.7%	-4.3%	53.9%	-6.3%	0.5%	-3.8%	52.0%
Europe	23.3%	-3.3%	3.3%	-3.4%	50.1%	-2.2%	3.9%	-3.2%	50.6%
Latin America	2.7%	-0.2%	-2.9%	1.0%	37.9%	0.9%	5.8%	-1.7%	35.3%
Middle East	13.2%	-8.0%	-0.4%	-3.8%	45.9%	-4.5%	1.0%	-2.7%	46.0%
North America	23.8%	-4.2%	1.9%	-2.4%	38.1%	-1.2%	1.0%	-0.9%	39.4%
<b>International</b>	<b>87.4%</b>	<b>-5.0%</b>	<b>1.7%</b>	<b>-3.6%</b>	<b>51.0%</b>	<b>-4.2%</b>	<b>1.7%</b>	<b>-3.1%</b>	<b>51.1%</b>
Africa	1.6%	2.1%	9.7%	-2.5%	33.4%	5.3%	14.0%	-2.9%	35.4%
Asia Pacific	31.4%	-5.9%	0.9%	-4.4%	60.0%	-7.0%	-0.6%	-4.0%	58.4%
Europe	22.9%	-3.1%	3.3%	-3.4%	51.9%	-2.1%	3.8%	-3.1%	52.4%
Latin America	2.3%	-3.1%	-6.8%	1.8%	46.7%	-1.1%	4.2%	-2.3%	42.8%
Middle East	13.2%	-8.0%	-0.5%	-3.8%	46.3%	-4.5%	0.8%	-2.6%	46.4%
North America	15.9%	-4.4%	2.7%	-3.3%	44.0%	-2.6%	1.6%	-1.9%	45.8%

<sup>1</sup>% of industry FTKs in 2018

<sup>2</sup>Year-on-year change in load factor

<sup>3</sup>Load 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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