

## Air freight declines against softer market backdrop

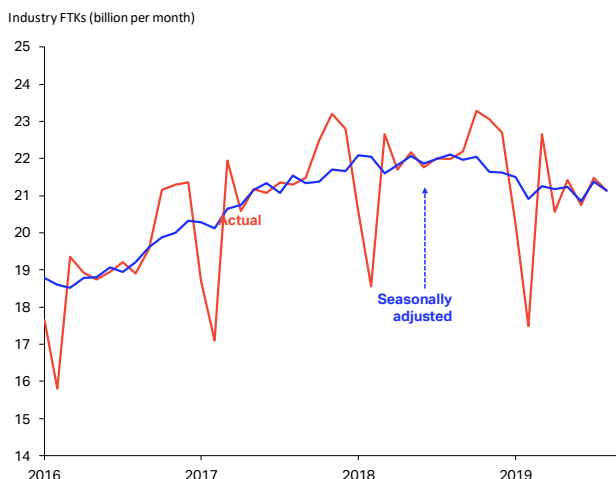
- Industry-wide air freight tonne kilometres fell by 3.9% year-on-year in August – a faster speed of decline compared to the previous month. As argued before, the industry continues to face headwinds from weakening global trade and softness in a number of key economic indicators.
- The deterioration in air freight has been broad-based across the regions in August except for Africa that expanded at a solid pace. As was the case for the past nine months, Asia Pacific was the main contributor to the industry decline.
- Industry-wide air freight capacity increased by 2% compared to a year ago. With capacity rising against contracting demand, the industry-wide air freight load factor dropped by 2.7 percentage points compared to a year ago.

### Another month of weakness in air freight

Downward pressure on air cargo intensified in August with industry-wide air freight kilometres (FTKs) down 3.9% year-on-year compared to the 2.4% annual contraction observed in July. Global air freight volumes have been falling in annual terms for ten consecutive months now – the longest period since the global financial crisis in 2008.

Following a modest uptick in July, the seasonally adjusted volume (cleared of the seasonal component of the data) returned to the sideways trend observed over recent months. Indeed, the annualized growth rate has been close to zero between April and August, which indicates that the size of the cargo market has stabilized, but at a level 4.4% smaller than mid-2018.

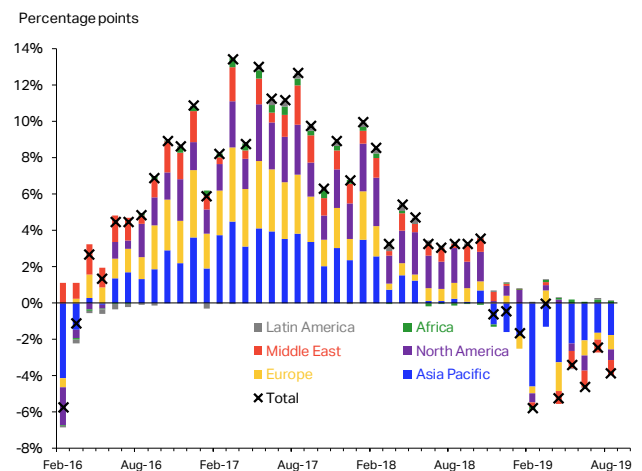
**Chart 1:** FTK levels, actual and seasonally adjusted



Sources: IATA Economics, IATA Monthly Statistics

Shrinking global trade, political uncertainties and weakness in some of the key macroeconomic indicators – particularly the new export orders component of the manufacturing PMI – continue to weigh on this month's outcome. With the latest wave of trade tariffs between the US and China coming into effect in early September, the outlook for air freight remains downbeat in the near term.

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



Sources: IATA Economics, IATA Monthly Statistics

The FTK contraction has been broad-based across the regions with the ongoing exception of the smaller Africa and Latin America markets (growth just above zero for the latter). As was the case last month, the large Asia Pacific region has been the main contributor to the decline, accounting for almost a half of the overall contraction. The Middle East and Europe followed, each with ~0.9ppt negative contributions.

### Air freight market overview - August 2019

	World share <sup>1</sup>	August 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>-3.9%</b>	<b>2.0%</b>	<b>-2.7%</b>	<b>44.6%</b>	<b>-3.3%</b>	<b>1.9%</b>	<b>-2.5%</b>	<b>46.3%</b>
International	87.4%	-4.6%	1.5%	-3.1%	49.1%	-4.0%	1.7%	-3.0%	51.1%

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

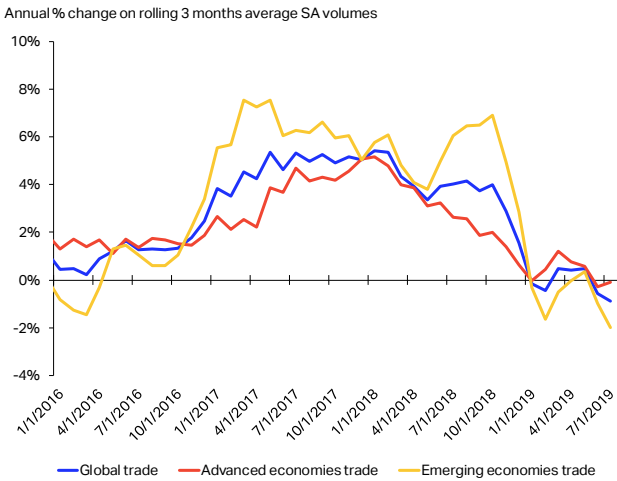
<sup>2</sup>Year-on-year change in load factor

<sup>3</sup>Load factor level

### Ongoing weakness in the key leading indicators

Development in global economic and trade indicators continues to be less supportive for air freight demand. Based on the latest July data, world trade volumes were almost 1% below their level of a year ago, reflecting the ongoing US-China trade war and rising political uncertainties world-wide.

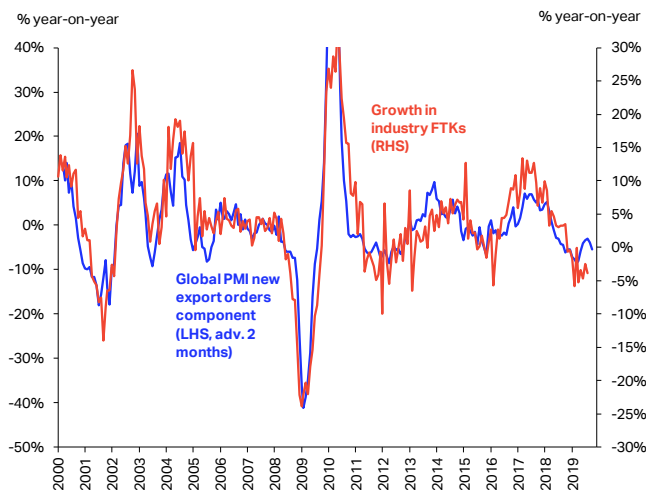
**Chart 3: Growth in world trade volumes (seasonally-adjusted data)**



Source: Netherlands CPB

Trade growth in emerging countries has been underperforming that of advanced economies throughout 2019, partly due to higher sensitivity of the emerging countries to trade tensions, rising political instability and sharp currency depreciation in some of the key markets.

**Chart 4: FTK growth vs. new export orders**



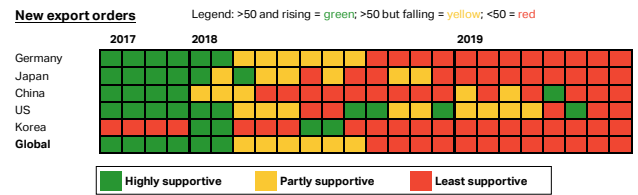
Sources: IATA Economics, IATA Monthly Statistics, Markit

The new export orders component of the global Purchasing Managers' Index (PMI), which has proved to be a good leading indicator for air freight, fell further into the territory associated with contraction in new business. At current levels, the indicator implies that

the pressure on freight volumes is unlikely to ease in the near term.

Weakness in the manufacturing sector has been broad-based; the new export orders component remains below the 50-mark for the second consecutive month across the major trading nations, which confirms the structural weakness in the underlying trade conditions.

**Chart 5: FTK demand heat-map (monthly data from manufacturing PMIs, selected countries)**



Sources: IATA, Markit, Thomson Reuters Datastream

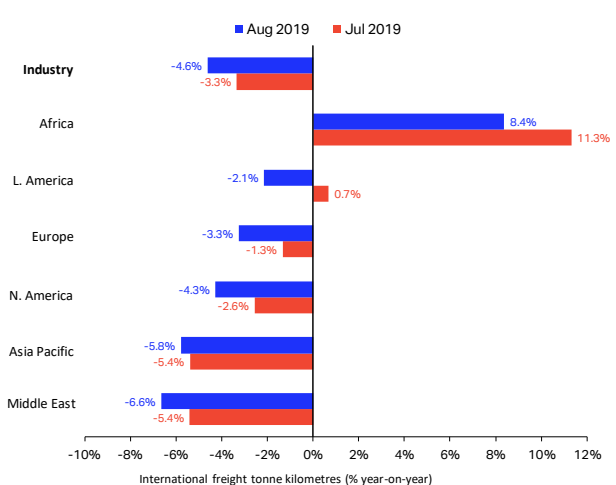
### Slower capacity growth against contracting FTKs

Available freight tonne kilometres (AFTKs) rose by 2% year-on-year in August, down from 3.2% in the previous month. Although airlines have been cutting back on capacity growth to adjust for declining freight demand, the industry-wide freight load fell further compared to the previous month and is currently 2.7 percentage points below the level seen a year ago.

### International growth follows the industry result

Consistent with the industry outcome, downward pressure on international air cargo intensified in August with FTKs down 4.6% year-on-year compared to the 3.3% decline observed in the previous month.

**Chart 6: International FTK Growth**



Sources: IATA Economics, IATA Monthly Statistics

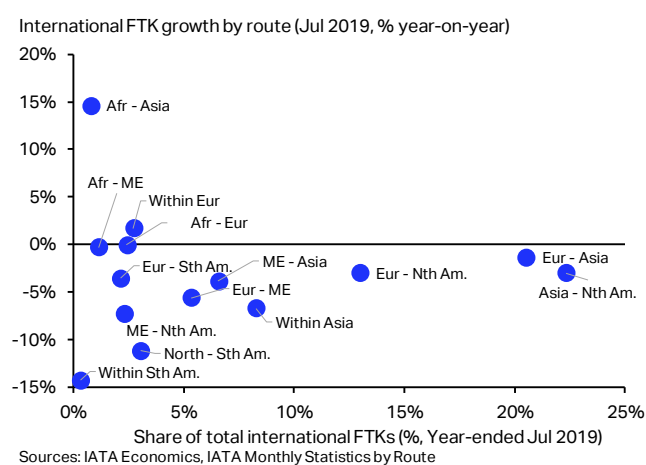
Airlines also continue to slow expansion in their air cargo capacity at the international level; AFTKs are currently up modest 1.5% in annual terms, well below the average ~5% monthly growth observed over the

course of 2018. The international air freight load factor fell by ~3 ppt over the past year to 49.1%.

### Africa remains the strongest performer

Year-on-year growth in international FTKs either eased or declined further across all regions this month, most notably in Europe, Africa and Latin America. Despite that, Africa continues to top the FTK growth chart for another month, supported by robust outcomes from Asia-Africa trade lanes (see Chart 7 with data until July 2019). This has been partly a result of large-scale investments from key Asia Pacific economies including China which recently confirmed a further US\$60bn investment into the continent.

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



### Middle East was the weakest region...

With freight volumes down by 6.6% compared to August 2018, Middle Eastern carriers posted the largest contraction in international FTKs of all regions. Slowing global trade, along with geopolitical risks and airlines' structural changes continue to weigh on the region's weaker performance observed since Q4 2018. Additional pressure comes from the high oil price volatility which leads to economic uncertainty among some of the region's key oil-reliant markets.

### ...followed by the largest Asia Pacific market

International FTKs were down 5.8% vs a year ago for Asia Pacific carriers, marking the 10<sup>th</sup> consecutive month of contracting air freight in the region. Mounting trade tensions along with the slowdown in Chinese economy continue to be the main drivers behind the contraction. Additional pressure this month came from the temporary shutdown of Hong Kong International Airport – the largest cargo hub in the world – which affected both passengers and belly cargo. Of the key international routes for the region,

Within Asia has been the key underperformer over the year-to-date (July) with volumes down by almost 10%.

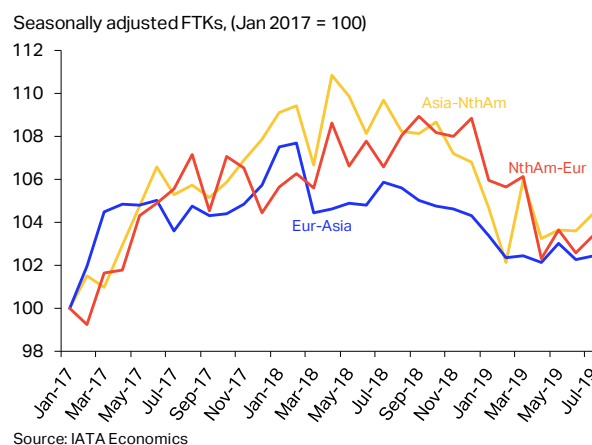
### Further slowdown also in Europe and North America

The downward pressure on international FTKs intensified in August for North American and European airlines which recorded a 4.3% and 3.3% year-on-year contraction, respectively.

The decline in Europe has reflected softer regional economic outcomes and weaker support from new export orders in some of the key countries, notably Germany. In North America, carriers continue to face headwinds from the US-China trade war and falling business confidence.

Following a downward trend for over a year or so, freight volumes have stabilized recently on the largest international trade lanes for both North America and Europe. The FTKs on the routes are currently well below the levels seen in mid-2018. The volume decline has been most notable on Asia-NthAm routes, where the SA are down ~5% compared to their level in July 2018 (Chart 8).

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



### Growth turns negative for Latin America carriers

After a modest 0.7% growth in July, FTKs declined by 2.1% year-on-year for carriers based in Latin America. The weakness in air cargo observed since Q4 2018 comes against a backdrop of low economic growth, compounded by the China-US trade war and, in some cases, political and geopolitical instability. Recent currency volatility in key economies has also contributed to the challenges in the current business environment.

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 9<sup>th</sup> October 2019

## Air freight market detail - August 2019

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Africa	1.6%	8.0%	17.1%	-2.5%	30.2%	5.3%	14.1%	-2.9%	34.9%
Asia Pacific	35.4%	-5.0%	2.3%	-4.0%	51.6%	-6.4%	0.3%	-3.7%	51.7%
Europe	23.3%	-3.3%	3.3%	-3.3%	47.7%	-2.1%	4.0%	-3.1%	50.6%
Latin America	2.7%	0.1%	-2.9%	1.1%	37.2%	1.2%	7.0%	-2.0%	35.0%
Middle East	13.2%	-6.7%	-0.8%	-2.7%	43.5%	-4.1%	1.2%	-2.5%	46.0%
North America	23.8%	-2.4%	1.3%	-1.5%	37.7%	-0.6%	0.8%	-0.5%	39.8%
<b>International</b>	<b>87.4%</b>	<b>-4.6%</b>	<b>1.5%</b>	<b>-3.1%</b>	<b>49.1%</b>	<b>-4.0%</b>	<b>1.7%</b>	<b>-3.0%</b>	<b>51.1%</b>
Africa	1.6%	8.4%	17.9%	-2.7%	30.6%	5.7%	14.6%	-3.0%	35.7%
Asia Pacific	31.4%	-5.8%	1.1%	-4.3%	58.0%	-7.1%	-0.7%	-4.0%	58.2%
Europe	22.9%	-3.3%	3.5%	-3.4%	49.5%	-1.9%	3.8%	-3.1%	52.5%
Latin America	2.3%	-2.1%	-6.3%	1.9%	44.0%	-0.8%	5.7%	-2.8%	42.4%
Middle East	13.2%	-6.6%	-0.8%	-2.7%	43.8%	-4.1%	1.0%	-2.5%	46.4%
North America	15.9%	-4.3%	0.3%	-2.1%	43.6%	-2.2%	1.1%	-1.6%	46.3%

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

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

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**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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