



# AIR FREIGHT MARKET ANALYSIS

## December 2018

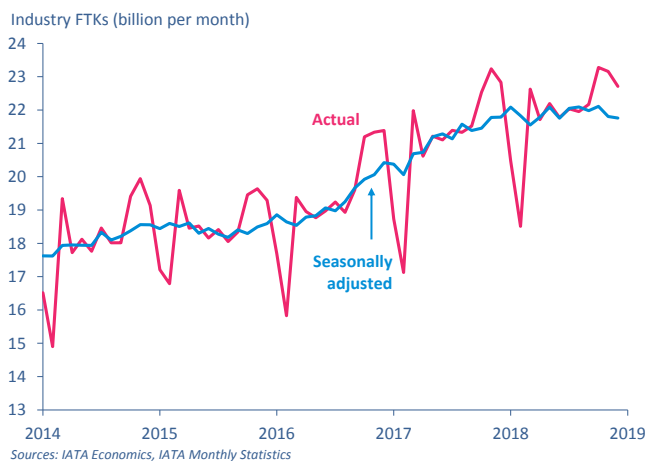
### Air cargo volumes end 2018 on a soft note

- Industry-wide freight tonne kilometres (FTKs) ended 2018 0.5% lower than their level of December 2017; the slowest annual growth rate since early-2016.
- For the year as a whole, FTKs increased by 3.5% in 2018, down from 9.7% in 2017. With capacity increasing faster than demand, the 2018 freight load factor fell by 0.9pp compared with 2017.
- While a slowdown in freight demand growth was expected following the boost from the inventory restocking cycle in 2017, there are indications that the data are also reflecting the impact of the increasing headwinds to freight demand from renewed signs of weakness in global trade and economic indicators.
- We expect cargo volumes to increase by 3.7% in 2019; the risks to this forecast appear tilted to the downside.

#### Air cargo volumes lost momentum in late-2018...

Industry-wide FTKs ended 2018 on a soft note, with year-on-year cargo volumes down 0.5% compared with their level of December 2017; the slowest annual growth rate since March 2016. After drifting sideways for a number of months through the middle of 2018, the seasonally-adjusted FTK series has stepped down a notch more recently (Chart 1).

**Chart 1 – FTK levels**



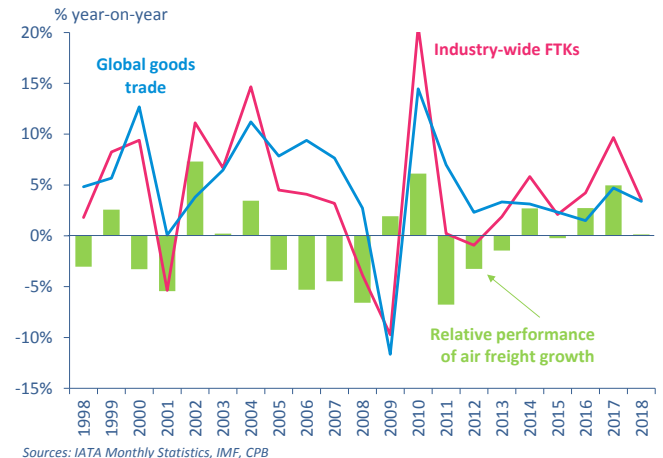
For the year as a whole, FTKs increased by a moderate 3.5% in 2018. This was down from a well above-trend pace of 9.7% in 2017 and was also a little weaker than our forecast (4.1%) for the year.

#### ...partly due to the global inventory cycle unwind...

As we have noted previously, the easing in FTK growth observed over the course of 2018 primarily reflects the

typical pattern seen after inventory restocking cycles in the past. Recall that air freight volumes grew much faster than global goods trade during 2017 as firms turned to the speed afforded by air freight to restock their inventory levels quickly. That relative outperformance was unwound in 2018 despite a moderation in the growth of global goods trade (Chart 2).

**Chart 2 – Growth in global goods trade & FTKs**



#### ...but also reflecting growing signs of weakness in global trade and key demand drivers

Having said that, the loss of upwards momentum in the seasonally adjusted FTK series in the latter months of 2018 appears to also be partly an indication of the increasing headwinds to freight demand from renewed signs of weakness in global trade and economic indicators and some of the key demand drivers.

### Air freight market overview - December 2018

	World share <sup>1</sup>	December 2018 (% year-on-year)				2018 calendar year (% change)			
		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>-0.5%</b>	<b>3.8%</b>	<b>-2.1%</b>	<b>48.8%</b>	<b>3.5%</b>	<b>5.4%</b>	<b>-0.9%</b>	<b>49.1%</b>
International	87.4%	-0.4%	3.5%	-2.2%	54.6%	3.6%	5.3%	-0.9%	54.5%

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

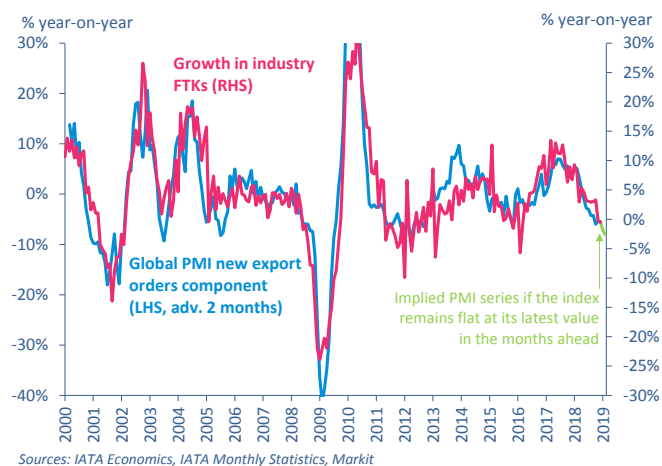
<sup>2</sup> Year-on-year change in load factor

<sup>3</sup> Load factor level

One important leading indicator of industry-wide FTK growth is the new export orders component of the global manufacturing Purchasing Managers' Index (PMI). In month-on-month terms, the series has now fallen in 9 of the last 12 months, and has been below the key 50-mark (ie, into the area normally associated with falling export orders) since September.

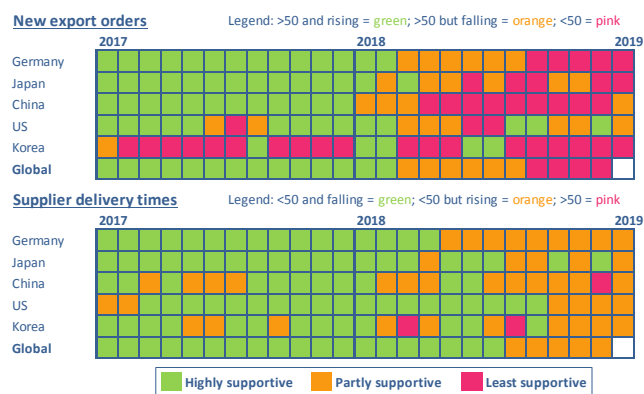
At current levels, the indicator continues to suggest that annual FTK growth is unlikely to pick up sharply anytime soon, and indeed, may soften further in the near-term (Chart 3.).

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



The country-level data that underlie the global series show that the weakness has been broad-based across major exporters since around the middle of 2018 (Chart 4).

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



This weakness is echoed in other key demand drivers for air freight, notably consumer confidence, which although remaining elevated by historical standards, has also moderated since mid-2018.

Notwithstanding the softer-than-anticipated end to 2018, our current forecast is for industry-wide FTKs to grow by 3.7% in 2019 as a whole, supported in part by fast-growing market segments such as e-commerce. However, at this stage, it is fair to say that the risks to

our forecast are tilted to the downside.

**Capacity growth outpacing that of demand**

Available freight tonne kilometres (AFTKs) rose by 3.8% year-on-year in December – the tenth consecutive month in which annual capacity growth has outpaced that of demand. As a result the industry-wide freight load factor fell by 2.1 percentage points relative to December 2017.

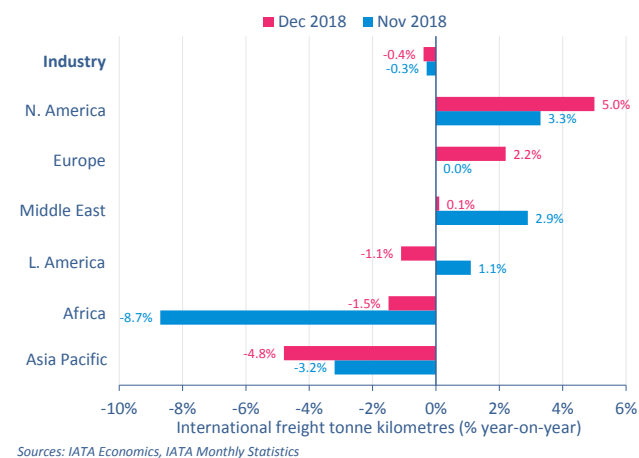
For 2018 overall, AFTKs increased by a solid 5.4%, again outpacing the annual growth in FTKs and resulting in the freight load factor falling by 0.9 percentage points compared with 2017.

**International FTK growth also turns negative in Dec**

Developments in international FTKs broadly matched the performance of the overall market – unsurprisingly, given that they account for more than 85% of the total – with year-on-year growth slipping to -0.4% in December, from a downwardly revised -0.3%yoy in November. For the year as a whole, international FTKs increased by 3.6% in 2018 compared with 2017.

Although demand momentum has clearly softened across all regions since mid-2017, the more recent regional performance is more mixed (Chart 5).

**Chart 5 – International FTK growth**



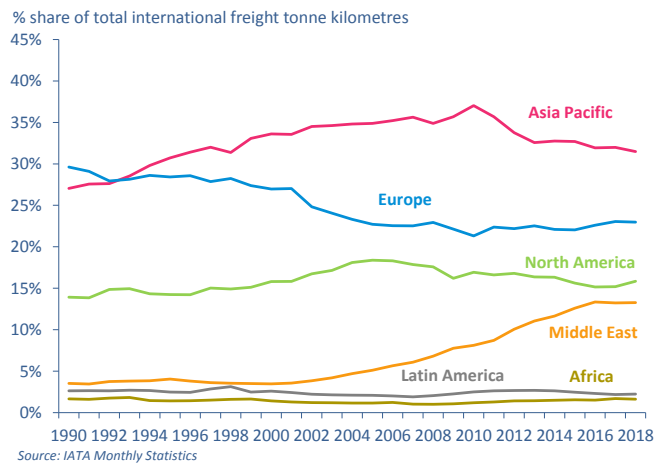
**Nth American airlines again top the growth chart...**

Airlines based in North America were the strongest performers again in December – the seventh consecutive month – with annual international FTK growth of an even 5.0% on this occasion.

A robust performance from the US economy which has supported jobs growth and consumer spending has been an important contributor to recent cargo market outcomes for carriers in this region.

In 2018, the North American carriers increased their share of total international FTKs to 15.8%, up 0.6 of a percentage point.

**Chart 6 – Regional shares of total international FTKs**



**...followed by Europe...**

After slowing for three consecutive months, annual FTK growth for the European airlines recovered to 2.2% in December, up from zero in the previous month.

That said, this lift in the annual growth rate mainly reflects developments from late 2017, rather than any improvement in fortunes in recent months.

Indeed, cargo volumes for the European airlines have been broadly moving sideways for much of the past year, consistent with the softness observed in the order books of the main European manufacturing countries, such as Germany (again, see Chart 4).

The volatility in the European data from early part of 2018 are likely to bring an improvement in the annual growth rate in the next couple of months, without necessarily being accompanied by improved outcomes in coming months.

**Pause in the upward trend for Middle East airlines**

The Middle East was the only other region where year-on-year FTK growth was positive in December, albeit only just, at 0.1%.

The recent upwards trend observed in the data has been reversed somewhat this month but it is too early to be able to confirm whether this is the start of a new downward trend.

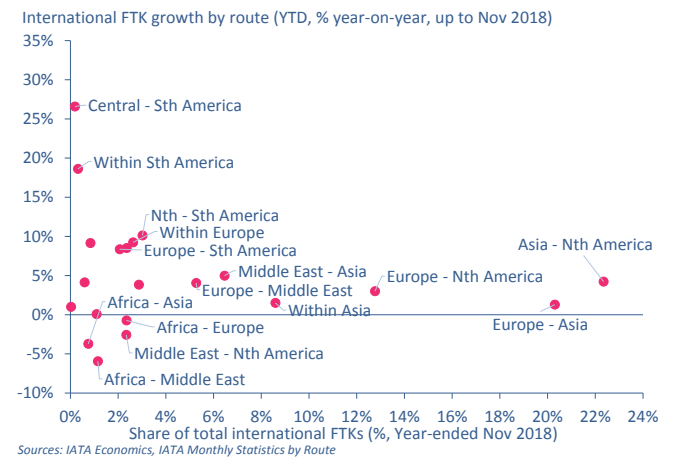
**Latin America returns to negative growth territory**

December saw a return to a negative year-on-year FTK growth for the Latin American carriers, at -1.1%, after a short-lived move into positive territory in November.

Following a period of relative stability in the level of FTKs, the three previous months had seen a signs of an upturn which was largely unwound on this occasion.

Notwithstanding the political and economic uncertainty in the region, the Within South America market continues to perform strongly, with international FTKs up almost 20% on a year-to-date basis (Chart 7).

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



**Another annual decline for African carriers...**

Although the year-on-year growth in international FTKs flown by African airlines remained in negative territory in December, a sizeable improvement is evident, with growth lifting to -1.5%, from -8.7%yoy in November.

The level of FTKs has been below that of a year previous in nine of the past ten months. This followed a period of very strong growth in 2H16 and into 2017, which peaked at more than 30%yoy in March 2017.

Although international FTKs for the African airlines have moderated from the 2017 highs, it is notable that air cargo volumes are now 50% higher than the most recent trough observed in late 2015. This equates to a double-digit annual growth rate of around 13% over the past three years.

**Asia Pacific the weakest performer this month**

Annual growth in FTKs deteriorated this month for the Asia Pacific airlines. Cargo volumes are now 4.8% lower than their level of a year ago, slipping further from -3.2% in November.

The gain in share of international FTKs by the North American carriers in 2018 noted above has largely come at the expense of the Asia Pacific carriers whose share slipped by 0.5 of a percentage point to 31.5% (Chart 6).

The indications of slowing demand for the region's main exporting countries of China, Japan and Korea (Chart 4) are consistent with the developments observed in air cargo demand over recent months.

Signs of a moderation in economic activity in China, along with ongoing concerns relating to an escalation in global trade tensions continue to weigh on the performance and outlook of the air cargo segment in this region.

IATA Economics  
[economics@iata.org](mailto:economics@iata.org)  
 6 February 2019

## Air freight market detail - December 2018

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Africa	1.7%	-2.2%	4.9%	-2.8%	38.1%	-1.3%	1.0%	-0.9%	37.8%
Asia Pacific	35.4%	-4.5%	2.6%	-4.1%	54.0%	1.7%	5.0%	-1.8%	55.4%
Europe	23.3%	1.9%	3.7%	-1.0%	56.7%	3.2%	4.3%	-0.6%	54.3%
Latin America	2.6%	-0.1%	6.0%	-1.8%	29.1%	5.8%	3.4%	0.8%	33.9%
Middle East	13.3%	0.1%	4.5%	-2.1%	48.8%	3.9%	6.2%	-1.1%	48.8%
North America	23.7%	2.9%	4.5%	-0.6%	41.4%	6.8%	6.8%	0.0%	41.1%
<b>International</b>	<b>87.4%</b>	<b>-0.4%</b>	<b>3.5%</b>	<b>-2.2%</b>	<b>54.6%</b>	<b>3.6%</b>	<b>5.3%</b>	<b>-0.9%</b>	<b>54.5%</b>
Africa	1.6%	-1.5%	6.8%	-3.3%	38.7%	-1.2%	3.2%	-1.7%	38.4%
Asia Pacific	31.5%	-4.8%	1.2%	-3.8%	60.5%	1.9%	4.7%	-1.7%	62.1%
Europe	23.0%	2.2%	3.7%	-0.9%	58.3%	3.2%	4.3%	-0.6%	56.0%
Latin America	2.2%	-1.1%	6.2%	-2.7%	36.4%	5.6%	2.3%	1.4%	43.7%
Middle East	13.3%	0.1%	4.7%	-2.3%	49.2%	3.9%	6.4%	-1.2%	49.3%
North America	15.8%	5.0%	5.3%	-0.1%	50.9%	8.0%	7.2%	0.4%	48.9%

<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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