



Air Freight Market Analysis

January 2019

Air cargo volumes begin 2019 on a weak note

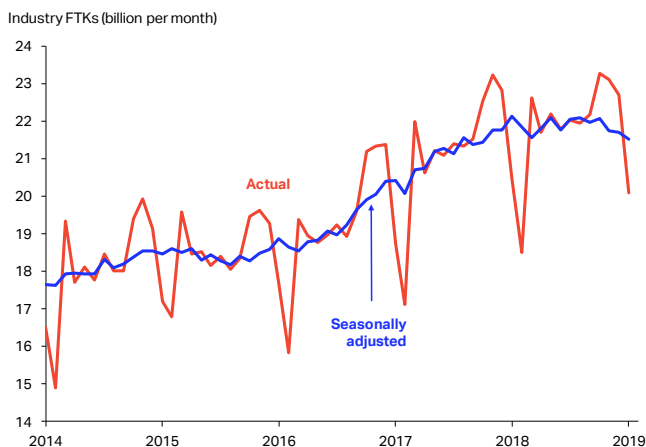
- Industry-wide freight tonne kilometres (FTKs) began the new year 1.8% lower than their level of January 2018. This represents the slowest annual rate of growth in around 3 years.
- Air freight capacity has shown solid growth over the past 12 months, rising by 4.0% in year-on-year terms. The freight load factor is now a sizeable 2.7 percentage points lower than a year ago.
- A slowing in freight demand growth was expected in 2018 following the temporary boost from the inventory restocking cycle in 2017, however the industry is also feeling the impact of the increasing headwinds to freight demand from the softness in global trade and economic indicators.

Air cargo volumes are falling

Industry-wide FTK growth started 2019 where it ended last year, on a soft note. Air cargo volumes in January were 1.8% lower than their level of a year ago. This marked the 3rd consecutive month of negative year-on-year growth, and is the slowest pace in three years.

We are mindful that the start of the year can bring more than the usual volatility. We could find no evidence that the two-week difference in the timing of the Chinese New Year in February affected the growth rates. The emerging trend in the data is clear. In seasonally-adjusted terms – where we try to remove the regular data volatility – seven of the past 12 months have recorded a decline.

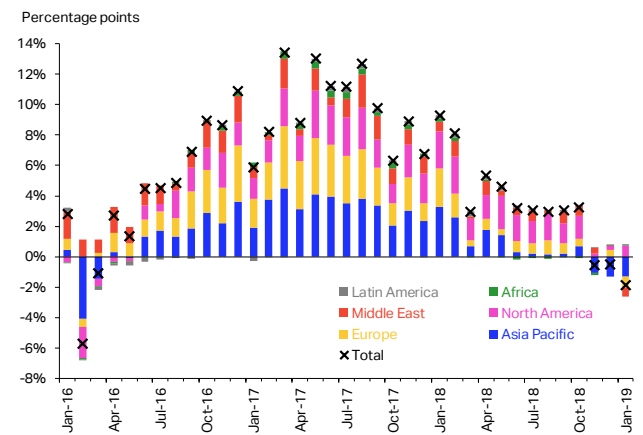
Chart 1: FTK levels, actual and seasonally adjusted



Sources: IATA Economics, IATA Monthly Statistics

We have noted previously that some of this softness was to be expected following the temporary surge in activity from the global inventory restocking cycle, which drove a very strong rate of FTK growth in 2017. However, this does not appear to explain the extent of the recent weakness in FTK outcomes. At a regional level the deterioration in growth outcomes is widespread (Chart 2).

Chart 2: Regional contributions to FTK growth



Sources: IATA Economics, IATA Monthly Statistics

Signs of weakness in trade and leading indicators...

The loss of upwards momentum and subsequent declines in the seasonally adjusted FTK series from around mid-2018 also reflects the increasing headwinds to freight demand from the weakness observed in global trade and economic indicators and some of the key air freight demand drivers.

Air freight market overview - January 2019

	World share ¹	January 2019 (% year-on-year)				2018 calendar year (% year-on-year)			
		FTK	AFTK	FLF (%-pt) ²	FLF (level) ³	FTK	AFTK	FLF (%-pt) ²	FLF (level) ³
TOTAL MARKET	100.0%	-1.8%	4.0%	-2.7%	45.1%	3.5%	5.4%	-0.9%	49.1%
International	87.4%	-3.0%	2.6%	-2.8%	49.6%	3.6%	5.3%	-0.9%	54.5%

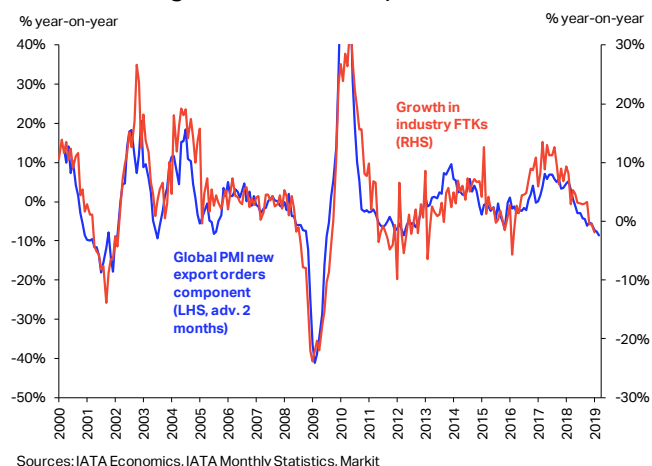
¹% of industry FTKs in 2018

²Year-on-year change in load factor

³Load factor level

One of the indicators we consistently refer to, given its enduring reliability for identifying movements in FTK growth, is the new export orders component of the global manufacturing Purchasing Managers' Index (PMI) (Chart 3).

Chart 3: FTK growth vs. new export orders

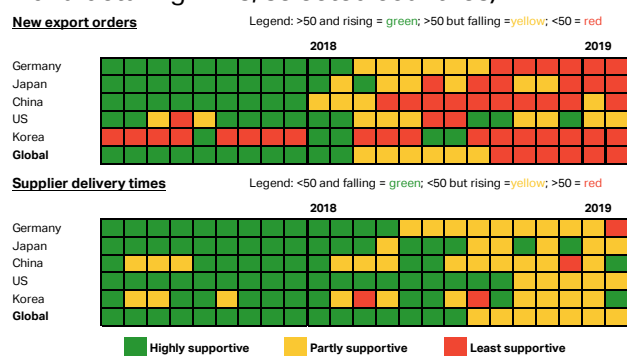


In month-on-month terms, the PMI series has increased only once in the past 13 months and has been below the key 50-mark (ie within the area normally associated with falling export orders) since September.

At current levels, the indicator continues to suggest that annual FTK growth is unlikely to pick up anytime soon, and may weaken further in the near-term.

The country-level data that underlie the global PMI 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)



Having said that, the US is looking better; the US PMI has shown a supportive outcome for export orders in one of the last three months. Business confidence also remains elevated in the US, with both continuing to reflect a generally sound domestic economic backdrop.

Capacity growth is still outpacing demand

Industry-wide capacity, measured by available freight tonne kilometres (AFTKs), increased by a solid 4.0%

year-on-year in January. This marks the 11th consecutive month in which annual capacity growth has outpaced that of demand, with the growth differential steadily widening over this period.

For January 2019, the industry-wide freight load factor is 2.7 percentage points lower than its year-ago level.

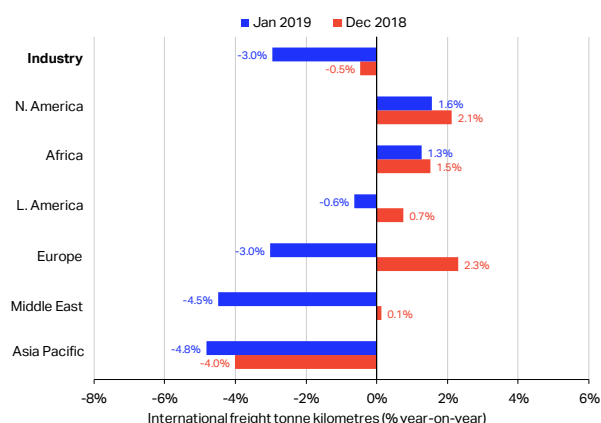
International FTK growth moderates further in Jan

The international air freight market (~87% of the total) is currently underperforming the industry-wide outcomes. International FTKs for January are an even 3.0% lower in year-on-year terms, compared with the 1.8% fall in the overall industry figure.

Having said that, international freight capacity has increased more slowly (2.6%yoy) than the global figure, and so the international freight load factor has fallen by a similar amount compared with January 2018 (down 2.8 percentage points).

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



North America growth modest, but still leads the way

Airlines based in North America were the strongest performers in January, despite recording growth in international FTKs of just 1.6% year-on-year. In fact, only two regions registered a positive yoy growth rate on this occasion (Africa being the other). This is the 8th consecutive month that North America has led the regional ranking.

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.

Asia Pacific and Middle East airlines underperform...

The fortunes of the Asia Pacific and Middle East carriers were similar this month, and unfortunately not in a positive way; FTK growth was down almost 5% in year-on-year terms for both.

For the former, air cargo typically accounts for a larger part of the airline's business operations than is the case in other regions, due to the Asia Pacific's role as the global manufacturing hub. Consequently, this weakness may deliver additional challenges to the financial performance for airlines in the region over the coming period.

Ongoing trade tensions and indications of some slowing in the Chinese economy, are also likely to weigh upon air freight outcomes for the Asia Pacific airlines.

For the Middle East carriers, the 4.5% year-on-year decline in FTKs represents the first negative growth outcome since the period immediately following the global financial crisis. After signs of an improvement in SA volumes in Q3 2018, the past three months have seen the upwards trend pause and now show tentative signs of turning down. Softer growth outcomes or declines are apparent across all of the region's key air cargo markets.

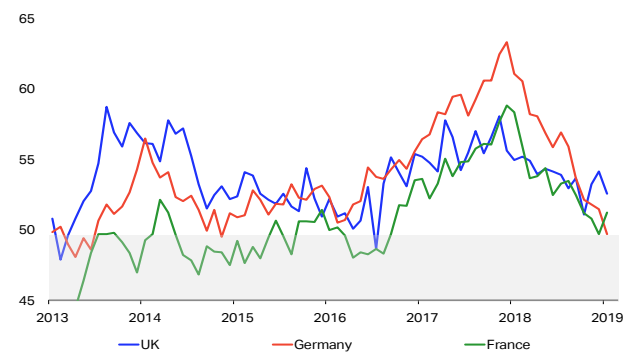
...and Europe isn't doing much better

FTK growth for the European airlines slipped into negative territory in January, with freight volumes currently an even 3.0% lower than their level of a year ago. This is the first time the annual growth rate has been negative for the European international market in three years.

The weakening in the recent performance is consistent with the signals given by the German export orders data noted above as well as the easing in business confidence (Chart 6) in the region. The ongoing lack of clarity around Brexit and broader concerns regarding global trade tensions are likely to be contributing to these outcomes.

Chart 6: European business confidence – measured by manufacturing PMIs

50=no change, seasonally adjusted



Notwithstanding the weak outcome on this occasion, in SA terms, the trend in international FTKs for the European airlines over the past year has clearly been sideways rather than down and, to date, there is little clear indication of any loss of momentum.

Latin America returns to negative growth territory...

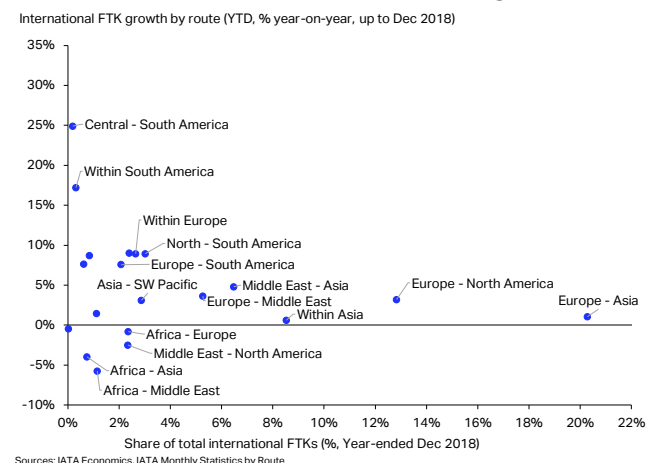
Annual FTK growth for the Latin American carriers remains subdued and returned to negative territory in January. Freight volumes are currently 0.6% lower than their level of a year ago.

As with Europe, in SA terms, the trend in volumes has a distinct sideways appearance that has been in place for around 18 months now.

Notwithstanding the political and economic uncertainty in the region, the latest segment-based route data we have (year to December 2018) highlights a strong performance for a number of markets.

Most notable are the Central-South America and Within South America markets with double-digit growth (Chart 7). FTK growth on routes between North-South America also performed strongly into the year-end.

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



...but African growth remains moderately positive

Following a sustained period of negative annual growth rates, January saw Africa register a second consecutive positive rate. International FTKs are up a modest 1.3% year-on-year.

A steady, if unspectacular, upwards trend in SA outcomes has been in place for around 6 months now, notwithstanding a short-lived pause in late 2018. This is starting to be reflected in the annual calculations.

With a strong surge in freight volumes in late 2016 and into 2017 that was only partly unwound last year, international FTKs for the African carriers are more than 35% higher than their level of three years ago.

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 6 March 2019

Air freight market detail - January 2019

	World share ¹	January 2019 (% year-on-year)				2018 calendar year (%year-on-year)			
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TOTAL MARKET	100.0%	-1.8%	4.0%	-2.7%	45.1%	3.5%	5.4%	-0.9%	49.1%
Africa	1.7%	1.0%	8.2%	-2.5%	35.4%	-0.8%	1.7%	-0.9%	37.8%
Asia Pacific	35.5%	-3.6%	4.1%	-4.0%	50.1%	1.8%	4.9%	-1.7%	55.5%
Europe	23.3%	-3.1%	2.8%	-3.1%	50.1%	3.3%	4.4%	-0.6%	54.3%
Latin America	2.6%	0.0%	-0.7%	0.2%	29.9%	5.9%	3.5%	0.8%	33.9%
Middle East	13.3%	-4.5%	4.1%	-3.8%	42.1%	3.9%	6.2%	-1.1%	48.8%
North America	23.6%	3.3%	5.0%	-0.7%	40.0%	6.4%	6.7%	-0.1%	41.0%
International	87.4%	-3.0%	2.6%	-2.8%	49.6%	3.6%	5.3%	-0.9%	54.5%
Africa	1.6%	1.3%	9.0%	-2.8%	36.2%	-0.6%	3.9%	-1.7%	38.4%
Asia Pacific	31.5%	-4.8%	1.9%	-3.9%	55.5%	2.0%	4.7%	-1.6%	62.1%
Europe	23.0%	-3.0%	2.5%	-2.9%	51.7%	3.3%	4.4%	-0.6%	56.0%
Latin America	2.2%	-0.6%	-2.3%	0.7%	39.2%	5.7%	2.4%	1.4%	43.7%
Middle East	13.3%	-4.5%	4.2%	-3.8%	42.3%	3.9%	6.4%	-1.2%	49.3%
North America	15.8%	1.6%	2.4%	-0.4%	47.5%	7.5%	7.2%	0.1%	48.6%

¹% of industry FTKs in 2018

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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