

# Air Freight Market Analysis

May 2019

## Air cargo volumes still soft, on broad-based regional weakness

- Industry-wide freight tonne kilometres (FTKs) fell by 3.4% over the year to May. In seasonally adjusted terms, the level of FTKs ticked up modestly for the third consecutive month, suggesting that we may be past the low point of this cycle, although the recovery remains tentative at this stage. The weakness in freight volumes compared with a year ago remains broad-based across regions, with Asia Pacific and Middle East most affected.
- In response, airlines have slowed the rate of growth in capacity to just 1.3% year-on-year but the load factor is still 2.3 percentage points lower than a year ago.
- Tentative signs of a thawing in US-China trade relations are welcomed, but the near-term risks to air freight growth remain tilted to the downside.

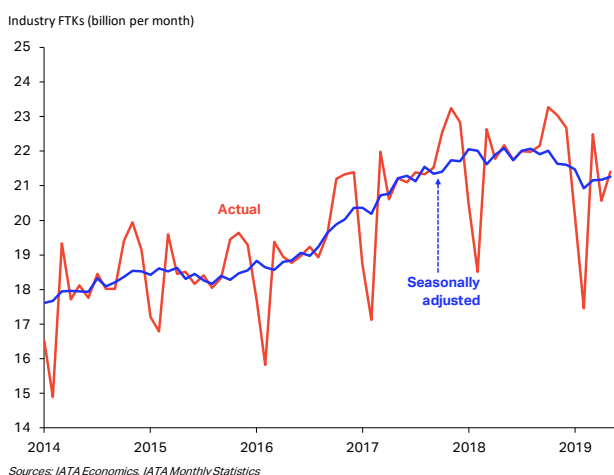
### Air cargo volumes continue to languish

Annual growth in industry-wide in air freight tonne kilometres (FTKs) remained in negative territory in May, down 3.4% compared with their level of a year ago.

This is a modest improvement from April, which saw FTKs slip by 5.6% in year-on-year (y-o-y) terms, suggesting that while the market remains weak, it is not collapsing.

In fact, when the effect of the regular seasonal fluctuations are removed from the data, the level of industry-wide FTKs (Chart 1) is showing tentative signs of having passed the low-point of the current cycle. The recent increases have been modest, however, with the recovery remaining fragile.

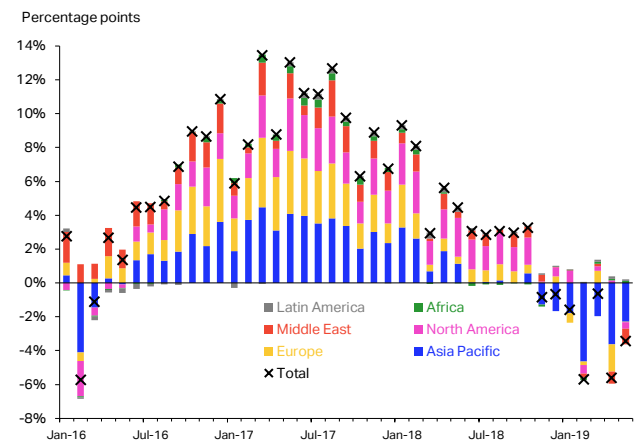
**Chart 1:** FTK levels, actual and seasonally adjusted



The weakness in freight volumes compared with a year ago remains broad-based. As was the case in April, Africa and Latin America contributed positively to the industry-wide year-on-year FTK growth result.

These positive contributions were more than offset by the underperformance in larger regions – notably Asia Pacific – resulting in the observed 3.4% decrease (Chart 2) in the industry-wide outcome.

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



As we have noted previously, the air cargo market continues to face headwinds from the rise in trade tensions globally and the weakness in world trade volumes. Over the past year, world trade has risen by just 0.1% (Chart 3).

On a positive note, from the recent G20 talks it appears that US-China trade relations have thawed somewhat and negotiations will recommence shortly.

### Air freight market overview - May 2019

	World share <sup>1</sup>	May 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>-3.4%</b>	<b>1.3%</b>	<b>-2.3%</b>	<b>46.8%</b>	<b>-3.3%</b>	<b>2.4%</b>	<b>-2.7%</b>	<b>46.5%</b>
International	87.5%	-4.0%	0.3%	-2.3%	52.1%	-3.9%	1.6%	-3.0%	51.7%

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

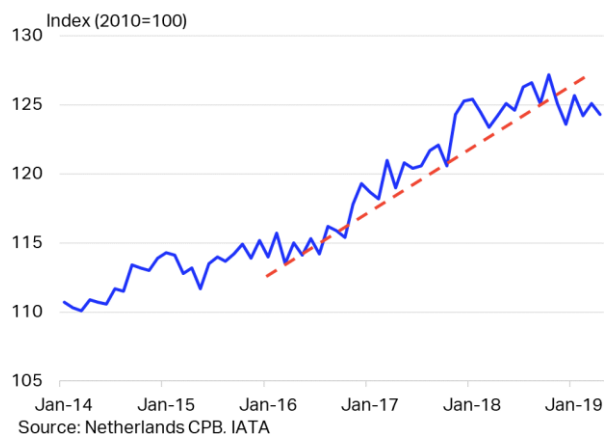
<sup>2</sup>Year-on-year change in load factor

<sup>3</sup>Load factor level

This follows the end-June announcement of President Trump cancelling the planned 25% tariff on an additional \$300bn worth of Chinese goods.

While both are positive developments, markets remain cautious about whether this shift will be permanent and it will take some time for these to be reflected in either economic activity or air freight developments.

**Chart 3: World trade volumes (SA, monthly data)**

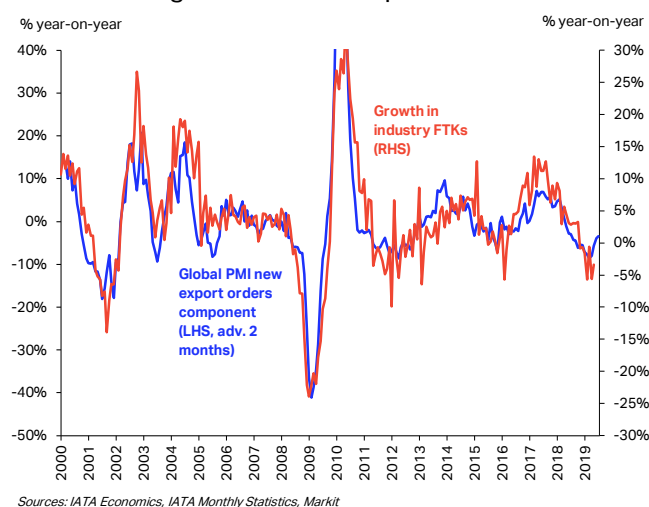


**Key leading indicators remain soft**

The new export orders component of the global Purchasing Managers' Index (PMI) has shown a close relationship with FTKs over an extended period (Chart 4). This indicator has now seen negative year-on-year growth rates for 15 consecutive months and the index has been below the 50 mark (the region typically associated with deteriorating new export orders) since September 2018.

The rate of the decline is slowing, however, suggesting that a modest upturn in industry-wide FTK growth may be in prospect in the coming months.

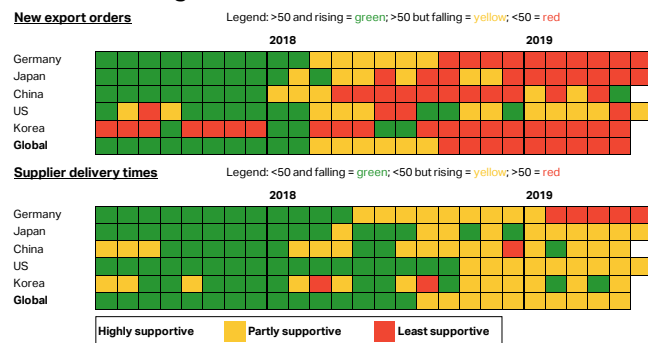
**Chart 4: FTK growth vs. new export orders**



At the country level (Chart 5), the new export orders measure across the world's major exporting nations broadly remains weak. Signs of improvement in the indicator for China and the US in the latest data will need to be confirmed in coming months. The supplier

delivery times indicator is not yet showing signs of improvement.

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



**Despite capacity cuts, load factors continue to ease**

Airlines have responded to the period of weakness in freight demand partly through reducing capacity in the market. The easing trend in industry-wide capacity observed over the past few months continued in May. Growth in available freight tonne kilometers (AFTKs) slowed to just 1.3% in May 2019 compared to May 2018.

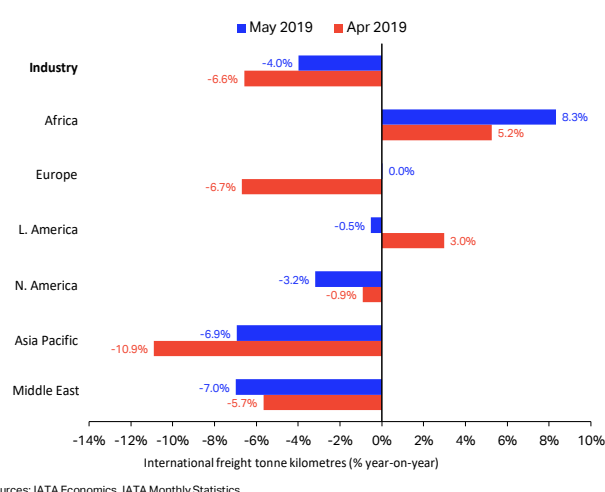
While this represents a relatively modest increase, the growth of supply is still around 5 percentage points higher than that of demand growth. Consequently, the industry-wide freight load factor maintained the downward trend seen in the last 13 months, and is currently a substantial 2.3 percentage points below its level of a year ago.

**International FTK growth softer than overall industry**

As was the case last month, the international air freight market (~87% of the total) underperformed the overall industry outcome. International FTKs are an even 4.0% lower than in May 2018 (Chart 6), compared with a 3.4% decline in the total.

This is the 7<sup>th</sup> consecutive month of negative year-on-year growth in international cargo volumes.

**Chart 6: International FTK growth**



International FTKs have also grown more slowly than the industry-wide outcome, up just 0.3% in year-on-year terms. The load factor for the international market is down 2.3 percentage points, in line with developments in the total market.

#### Asia Pacific & Middle East the weakest performers...

Amidst the implementation of a new round of tariffs on US-China trade in mid-May, international FTKs flown by airlines based in Asia Pacific fell by around 7% year-on-year in May, after a revised 11% decrease in April.

Middle Eastern carriers experienced a decrease in international FTKs of similar magnitude this month (-7%), down from -5.7% in April.

Despite the similar outcome on this occasion, it is worth noting that seasonally adjusted international FTKs in Asia Pacific have been rising modestly since February 2019, whereas the same measure in the Middle East has been on a downward trend since October 2018- this comes as carriers in the region look to cut capacity and adjust toward long-term sustainable route activities.

The effect of the US-China trade war has clearly had an impact on the regional growth in Asia Pacific. This is despite evidence suggesting that production lines had shifted within the region to try to counter the adverse effects of the rising trade tensions between China and the US.

#### North America stays in negative territory...

Following on from the weak Asia Pacific numbers, airlines based in North America have also seen their international freight volumes deteriorate by 3.2% year-on-year. This is the weakest outcome since early 2016.

Even though the market held up well until the beginning of the year, a downward trend has recently become apparent in the second largest international market (accounting for 16% of total global freight volumes).

#### ...while Latin America slides

After three consecutive months of international freight growth, Latin America returned to negative year-on-year growth in May. International FTKs are currently 0.5% below their level of May 2018.

This weak performance in international markets is at odds with a moderately positive growth outcome in total FTKs flown by the Latin American airlines, which are up 2.7% year-on-year, indicating that the region's domestic markets are performing more strongly than their international counterparts.

#### Europe holds up relatively well...

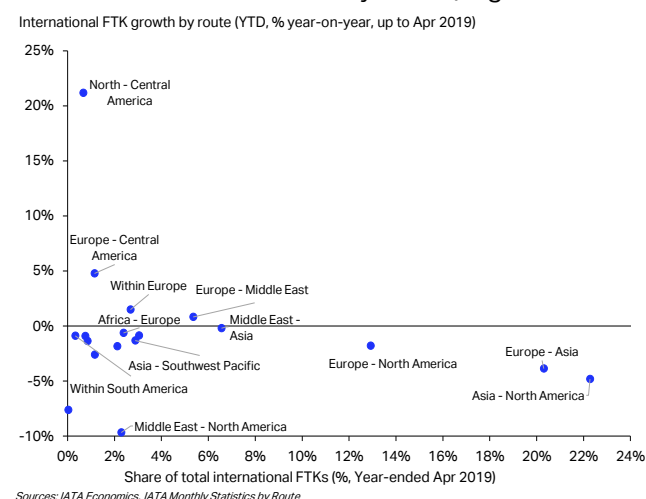
International FTKs for the European carrier are currently unchanged from their year-ago level. This represents a substantial improvement from an annual decline of 6.7% last month.

Nonetheless, SA international volumes, have moved broadly sideways over the past six months or so as moderating regional economic activity and the challenging global trade backdrop has impacted the air cargo market.

At the route area level (Chart 7), freight traffic has deteriorated on the key Europe to North America and Asia routes over the past year, with only modest gains seen for the Europe-Middle East and Within Europe markets.

Chart 7 also shows clearly the impact of the trade war on air freight volumes on the largest single market – Asia-Nth America – where FTKs are down 7.9% year-on-year.

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



#### ...and Africa posts the strongest performance

Airlines in the smaller Africa international market posted a swift 8.3% growth compared to the same period last year, making Africa the strongest performer on that measure for the 3<sup>rd</sup> consecutive month.

In SA terms, international freight volumes for Africa are at a record-high level since the start of our series in 1990. However, we note that both the concentration of products shipped and size of the market (1.6% of total FTKs) still remain relatively small in the global context.

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 3 July 2019

## Air freight market detail - May 2019

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Africa	1.7%	8.0%	13.4%	-1.9%	38.6%	3.1%	11.2%	-2.9%	37.6%
Asia Pacific	35.4%	-6.4%	0.3%	-3.7%	52.0%	-7.8%	0.3%	-4.5%	50.5%
Europe	23.4%	-0.2%	2.5%	-1.4%	51.3%	-1.5%	3.7%	-2.7%	52.1%
Latin America	2.6%	2.7%	6.6%	-1.3%	35.3%	3.0%	10.8%	-2.4%	31.9%
Middle East	13.3%	-6.9%	-1.6%	-2.7%	46.9%	-2.7%	2.0%	-2.2%	46.5%
North America	23.7%	-1.6%	1.4%	-1.2%	39.8%	0.3%	2.2%	-0.8%	40.6%
<b>International</b>	<b>87.5%</b>	<b>-4.0%</b>	<b>0.3%</b>	<b>-2.3%</b>	<b>52.1%</b>	<b>-3.9%</b>	<b>1.6%</b>	<b>-3.0%</b>	<b>51.7%</b>
Africa	1.6%	8.3%	13.7%	-2.0%	39.2%	3.5%	11.4%	-2.9%	38.3%
Asia Pacific	31.4%	-6.9%	-1.4%	-3.5%	58.9%	-8.5%	-1.1%	-4.6%	57.1%
Europe	23.0%	0.0%	2.4%	-1.3%	53.1%	-1.2%	3.3%	-2.5%	53.9%
Latin America	2.2%	-0.5%	7.5%	-3.5%	43.6%	1.3%	12.4%	-4.4%	40.2%
Middle East	13.3%	-7.0%	-3.0%	-2.1%	48.0%	-2.7%	1.6%	-2.1%	47.1%
North America	15.9%	-3.2%	0.0%	-1.5%	46.7%	-0.7%	1.1%	-0.9%	48.3%

<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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