

Air Freight Market Analysis

October 2019

Stable cargo volumes point to a weak start to the peak season

- Industry-wide freight tonne kilometres (FTKs) decreased by 3.5% in October 2019 compared to a year ago. This represents the 12th consecutive month of annual decline.
- Recent monthly cargo volume outcomes have been stable in seasonally adjusted terms, amidst a thawing in US-China trade talks and tentative indications of modest improvement in some leading indicators. Nonetheless the air freight market remains weak and the outlook uncertain.
- International FTKs are currently 4.0% lower than their year ago levels, with considerable disparity across regional performance. Africa leads the way, with year-on-year growth of almost 13%. Annual growth is negative across all other regions, with the largest air cargo region, Asia Pacific, showing FTKs down 6% vs a year ago.

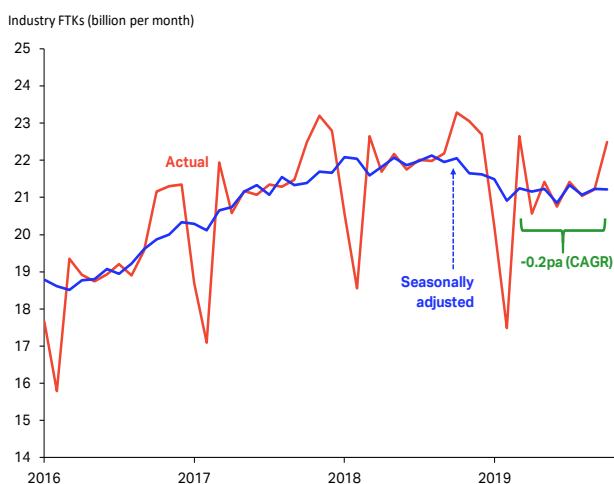
A weak start to the freight peak season...

For the start of the traditional peak season in air freight – which corresponds to a number of key sales events (Singles Day, Black Friday, Cyber Monday) and the rush to deliver products before the end-of-year holidays – industry-wide freight tonne kilometres (FTKs) decreased by 3.5% in October 2019 versus a year ago.

While not as bad as last month's 4.4% decline, the global air freight market remains weak; this is the twelfth consecutive month of falling annual volumes.

Removing seasonal fluctuations from the data shows that industry-wide FTK volumes are maintaining the broadly sideways trend of the past seven months or so. Monthly cargo volumes have stabilized, but are yet to show clear signs of recovery (Chart 1).

Chart 1: FTK levels, actual and seasonally adjusted



Sources: IATA Economics, IATA Monthly Statistics

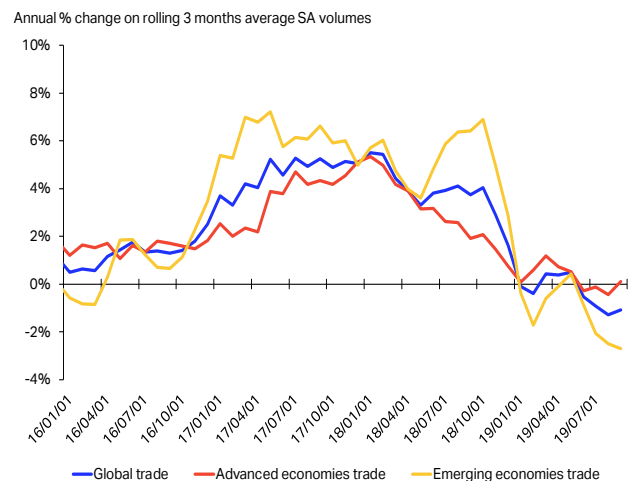
Overall, air freight volumes look set to record a year-on-year decline in 2019 and the worst annual outcome since the global financial crisis.

...but key drivers show some signs of stabilization

Against this weak and uncertain backdrop for air cargo, there are some tentative indications of modest improvement or stabilization amongst some of the key demand drivers. It remains to be seen whether these will be more than transitory developments.

Annual growth in the rolling 3-month average of trade volumes improved slightly in September both at the global level and for advanced economies. For the latter it was the first positive growth outcome since May – albeit only just – at 0.1% (Chart 2).

Chart 2: Growth in world trade volumes (seasonally-adjusted data)



Source: Netherlands CPB

Air freight market overview - October 2019

	World share ¹	October 2019 (% year-on-year)				% year-to-date			
		FTK	AFTK	FLF (%-pt) ²	FLF (level) ³	FTK	AFTK	FLF (%-pt) ²	FLF (level) ³
TOTAL MARKET	100.0%	-3.5%	2.2%	-2.8%	47.7%	-3.5%	2.0%	-2.7%	46.4%
International	87.4%	-4.0%	1.6%	-3.1%	53.4%	-4.1%	1.7%	-3.1%	51.3%

¹% of industry FTKs in 2018

²Year-on-year change in load factor

³Load factor level

One of the positive developments in recent months has been an apparent thawing in the tone of the US-China trade negotiations. Scheduled US tariff increases were delayed, and additional tariff exclusions were implemented on 31 October for US\$300bn of goods. Although this position could change rapidly, for now, this is good news for the world trade and air cargo outlooks.

Another positive indication over the past six months or so has come from the new export order component of the global manufacturing PMI. New export orders have historically been a reliable leading indicator of air freight volumes, allowing for a lag for production (Chart 3).

While remaining weak (export orders are still almost 2% lower than their level of a year ago), the October growth outcome was the best result since early 2018, continuing the recovery (ie the upward trend) in the indicator since March.

In turn, this has opened up a clear divergence with industry FTK performance. While periods of divergence between the two series are not unusual, based on the enduring historical relationship, we may see a modest improvement in air freight volumes over coming months.

Chart 3: FTK growth vs. new export orders

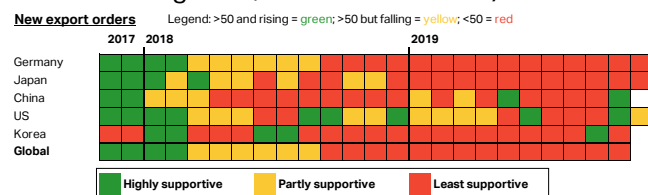


Sources: IATA Economics, IATA Monthly Statistics, Markit

At the individual country level, new export orders remain weak across many of the world's leading exporting nations, including Germany, Japan and Korea.

Cautious signs of a modest improvement were, however, observed in the data for both China and the US in October. This may, in part, be a reflection of the above-mentioned thawing in trade negotiations between the two countries (Chart 4).

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



Sources: IATA, Markit, Thomson Reuters Datastream

Capacity growth continues to outpace that of demand

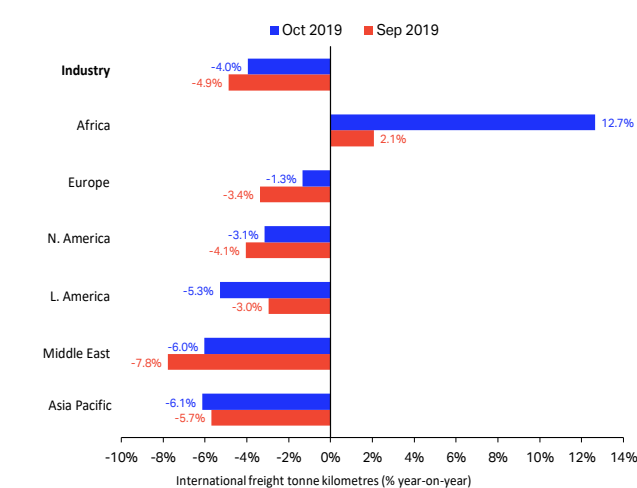
Airlines have continued to exercise restraint in terms of capacity growth, with available freight tonnes kilometres (AFTKs) expanding by 2.2% year-on-year in October, down slightly from the 2.6% increase in September.

However, with demand falling over the past year, even moderate capacity growth has adverse implications for the freight load factor, which is now down a hefty 2.8ppts compared with its level of October 2018.

International FTK growth remains weak in Oct...

International air freight volumes have fallen by 4% over the past year. While this represents a modest improvement over the 4.9% decline recorded in September, growth is clearly still very weak (Chart 5).

Chart 5: International FTK Growth



Sources: IATA Economics, IATA Monthly Statistics

However, we have seen some signs of nascent improvement in terms of favourable growth momentum on several key international freight routes in Q3, another tentative sign of stabilization in the air freight industry.

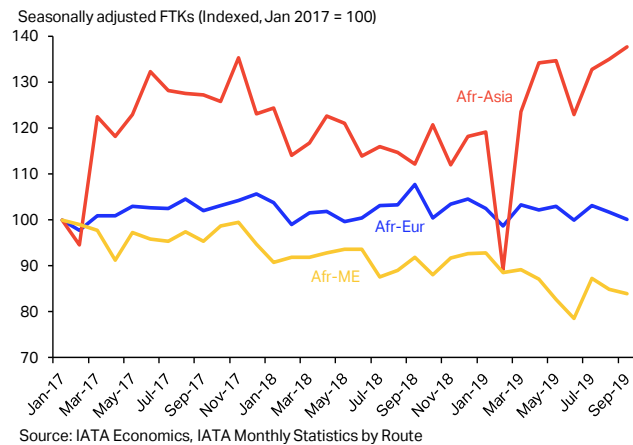
Africa tops the growth ranking once more...

Airlines registered in Africa saw their international FTKs surge by 12.7% in annual terms in October, the strongest growth outcome for the region since early 2018. Broadly speaking, SA freight volumes in the region have been on an upward trend since Q4 2018.

As discussed previously, this trend is underpinned, in part, by large-scale foreign investment, in particular from Asia, which creates new business and trade opportunities. This is also reflected in the specific Africa-Asia route-level data where freight volumes were up 23% annually in September.

Africa-Asia accounts for much of the recent growth in the region's FTK outcomes, despite being a smaller market than, say Africa-Europe (Chart 6).

Chart 6: International Africa SA FTKs – selected routes

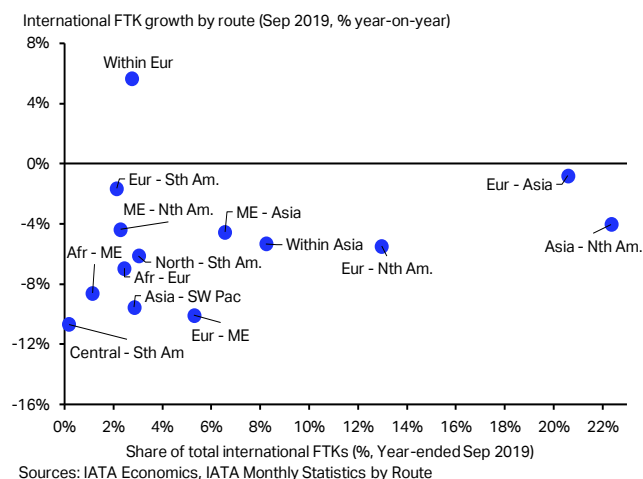


...and growth picks up in Europe

International FTKs flown by European airlines declined by 1.3% in October compared to a year ago. While this is the best outcome since May 2019, the air cargo market remains very soft.

The largest routes to/from the region saw year-on-year falls in traffic in September (latest available data at the route area level), but international FTKs for the Within Europe market grew by a solid 5.6% (Chart 7). Better-than-expected economic activity in Q3 in several large economies in the region has helped to support traffic in this market over recent months.

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

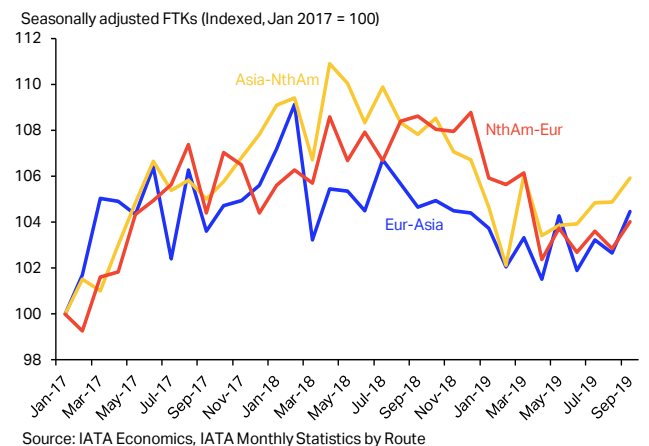


Growth also improves in N. America and Middle East...

Airlines based in North America reported a 3.1% year-on-year fall in their international FTKs in October, up from -4.1% in September.

While annual growth remains in line with that observed in the past 6 months or so, SA volumes are currently trending sideways. In addition, the SA traffic on the largest routes to/from the region is showing a modest upward trend over recent months (Chart 8). Combined with the recent positive signs on the trade front, this may bode well for the performance in coming months.

Chart 8: International SA FTKs – selected routes



In the Middle East, local airlines registered an even 6% annual fall in international FTKs in October. This is in line with the pace of annual growth over the past six months or so. That said, after a significant drop from Q4 2018 to Q2 2019, seasonally adjusted volumes in the region appear to have resumed a modest up-trend.

...but worsens in L America and Asia Pacific

International FTKs for Latin American airlines contracted by 5.3% year-on-year in October. Even though yoy volumes have been falling for seven consecutive months now, this is the worst growth outcome since early 2018. Various social and economic headwinds in key countries of the region are likely to continue to weigh upon business investment and trade – and air cargo volumes – in coming months.

Asia-Pacific lags this month, with international FTKs flown falling by a sizeable 6.1% in October compared to a year ago. SA levels continue evolving on a broadly sideways trend which began around March. Disruptions in Hong Kong – a key air transport hub for the region – continue to impact activity. That said, a brighter trade backdrop and robust economic growth in several key regional economies are positive developments looking forward.

Air freight market detail - October 2019

	<i>World share</i> ¹	October 2019 (% year-on-year)				% year-to-date			
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TOTAL MARKET	100.0%	-3.5%	2.2%	-2.8%	47.7%	-3.5%	2.0%	-2.7%	46.4%
Africa	1.6%	12.6%	13.9%	-0.4%	36.1%	5.7%	13.7%	-2.6%	34.8%
Asia Pacific	35.4%	-5.3%	0.6%	-3.3%	53.9%	-6.2%	0.5%	-3.7%	52.2%
Europe	23.3%	-1.5%	2.8%	-2.3%	53.3%	-2.2%	3.8%	-3.1%	50.8%
Latin America	2.7%	-2.6%	2.3%	-1.9%	36.4%	0.6%	5.6%	-1.8%	35.4%
Middle East	13.2%	-6.0%	0.9%	-3.5%	47.7%	-4.7%	1.0%	-2.8%	46.2%
North America	23.8%	-2.4%	3.1%	-2.2%	39.4%	-1.2%	1.5%	-1.1%	39.4%
International	87.4%	-4.0%	1.6%	-3.1%	53.4%	-4.1%	1.7%	-3.1%	51.3%
Africa	1.6%	12.7%	14.3%	-0.5%	37.1%	6.1%	14.1%	-2.7%	35.6%
Asia Pacific	31.4%	-6.1%	-0.2%	-3.9%	61.3%	-6.9%	-0.5%	-4.0%	58.7%
Europe	22.9%	-1.3%	2.7%	-2.3%	55.2%	-2.1%	3.7%	-3.1%	52.6%
Latin America	2.3%	-5.3%	0.8%	-2.9%	45.6%	-1.6%	3.9%	-2.4%	43.1%
Middle East	13.2%	-6.0%	0.9%	-3.5%	48.0%	-4.7%	0.8%	-2.7%	46.6%
North America	15.9%	-3.1%	1.9%	-2.5%	47.6%	-2.6%	1.5%	-1.9%	46.1%

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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