



Air Freight Market Analysis

November 2019

Annual global freight volumes decline but pressures are easing

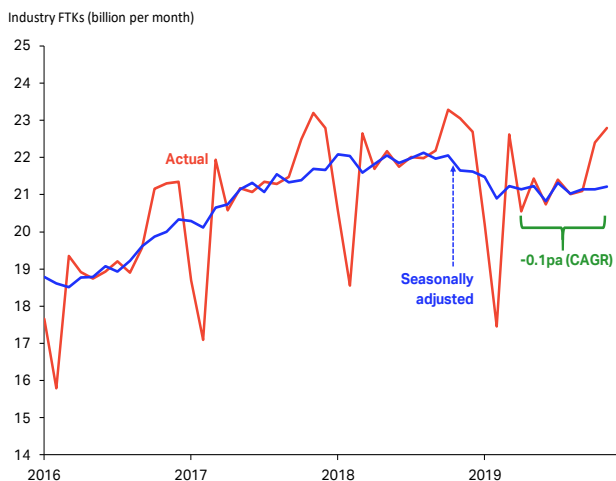
- Industry-wide freight tonne kilometres (FTKs) fell by 1.1% over the year to November, the 13th consecutive month of year-on-year decline. Seasonally adjusted (SA) volumes moved slightly higher this month but remained on the broadly sideways trend observed since the first quarter of 2019.
- The larger European market was the main positive contributor to this month's year-on-year growth improvement (+0.6ppts), followed by Africa (+0.3ppts). All of the remaining regions contracted, with Asia Pacific accounting for the bulk of the industry-wide decline (-1.3ppts).
- With air freight capacity continuing to outpace demand, the freight load factor eased by 2.0 percentage points over the past twelve months.

Easing downward pressure on air freight

Industry-wide freight tonne kilometres (FTKs) continued to decrease in November compared to the level of a year ago. At -1.1%, this was, however, the best year-on-year rate of change since March 2019 (-0.1%). Despite remaining negative, the modest improvement in the growth rate coincides with a seasonally busy month for air cargo, with the growing importance of large e-commerce sales events such as Singles' Day and Black Friday.

Seasonally adjusted (SA) FTKs lifted slightly for the third consecutive month in November. However, it is not strong enough to fundamentally change the broadly sideways trend observed since Q1 2019. Indeed, the annualized growth rate of the March-Nov. period continues to hover around zero (Chart 1).

Chart 1: FTK levels, actual and seasonally adjusted

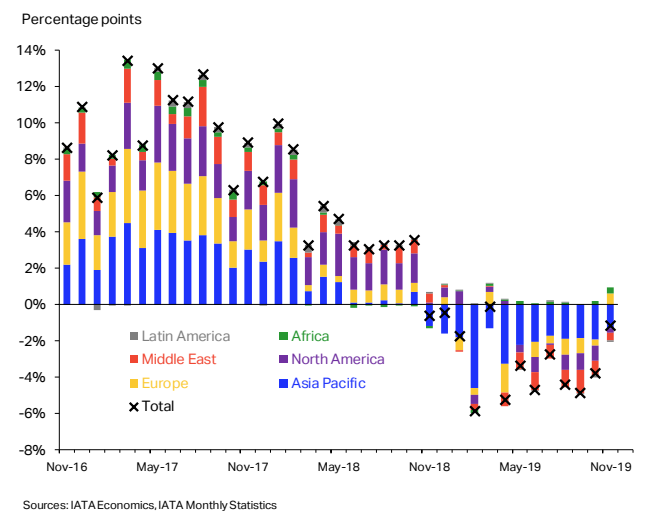


As we noted before, most of the decline in global air freight volumes happened in Q4 2018 and early-2019, FTKs have stabilized since then. As a result, we could expect to record positive year-on-year growth rates again in the near future.

Strong growth contribution from Europe

This month's slowdown in the rate of FTK contraction came on the back of robust performance from European airlines (23% of global FTKs) which contributed (0.6ppts) to the industry-wide FTK growth for the first time in eight months. As was the case throughout most of 2019, FTKs recorded by airlines from Africa (1.6% FTK share) also contributed positively to the overall performance, albeit by a more modest 0.3ppts (Chart 2).

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



Air freight market overview - November 2019

	World share ¹	November 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%	-1.1%	2.9%	-2.0%	49.6%	-3.4%	2.1%	-2.6%	46.7%
International	87.4%	-1.2%	2.4%	-2.0%	55.6%	-4.0%	1.7%	-3.1%	51.7%

¹% of industry FTKs in 2018

²Year-on-year change in load factor

³Load factor level

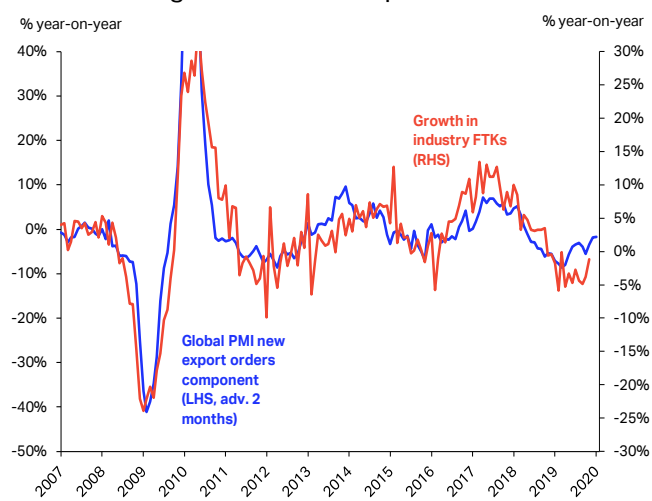
Of the remaining regions, Asia Pacific, which has the largest share of global FTKs (~35%), accounted for the bulk of the annual decline (-1.3ppts), followed by the Middle East (-0.4ppts).

Key drivers remained stable...

The slower speed of year-on-year decline in industry-wide FTKs along with the stabilization in SA freight volumes came on the back of positive developments in the US-China trade war negotiations. The progress has been shown most recently by talks of the 'phase one deal' between the two countries, which includes tariff exclusions and the delay of additional tariffs (to be approved in the middle of January).

The new export orders component of the global Purchasing Managers' Index (PMI) – a reliable leading indicator of FTKs – remained about 2% below its level of a year ago. However, this still represents one of the best results recorded in the past two years. Therefore, if the historical relationship holds, we might expect further improvement in air freight growth in the coming months.

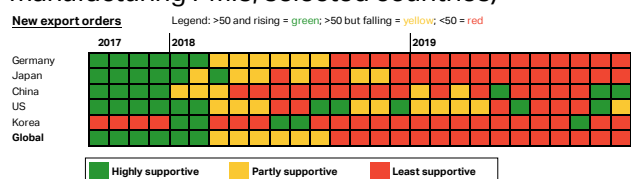
Chart 3: FTK growth vs. new export orders



Sources: IATA Economics, IATA Monthly Statistics, Markit

The annual decline in new export orders at the global level was reflected by ongoing underperformance across some of the world's key exporting countries. That said, the PMI component remained in the territory associated with expansion in China and the US.

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



Sources: IATA, Markit, Thomson Reuters Datastream

The industry-wide load factor continues to decrease

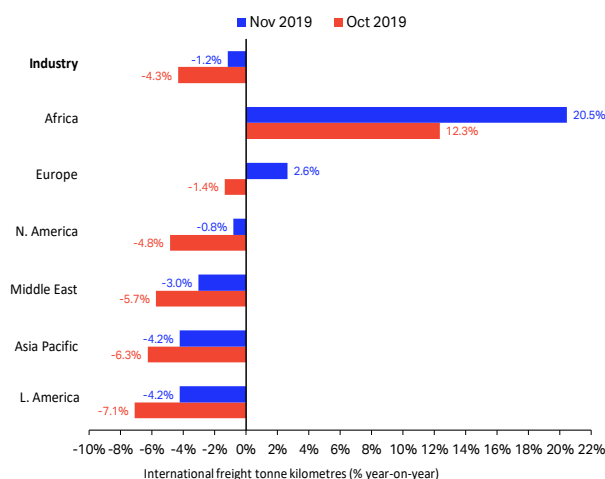
Year-on-year growth in industry-wide available freight tonne kilometres (AFTKs) lifted slightly in November, at 2.9% versus 2.2% the month before. As air freight capacity growth remained above demand growth, the industry-wide load factor has fallen by a sizeable 2.0ppts compared to a year ago.

International FTK growth improved in all the regions

The year-on-year decline in international FTKs was similar to that of global volumes, at -1.2%. Nevertheless, this represents, a significant improvement over the 4.3% fall recorded in October.

This improvement was broad-based across all regions, despite only Europe and Africa posting positive annual growth (Chart 5).

Chart 5: International FTK Growth



Sources: IATA Economics, IATA Monthly Statistics

Growth accelerates in Africa...

International FTK volumes of airlines based in Africa rose by a swift 20.5% in November 2019 compared to the same period a year ago, the strongest outcome in more than two years. In consequence and despite a strong increase in freight capacity (AFTKs were up 14.9% y-o-y), the international load factor for the region lifted by 1.9ppts in November.

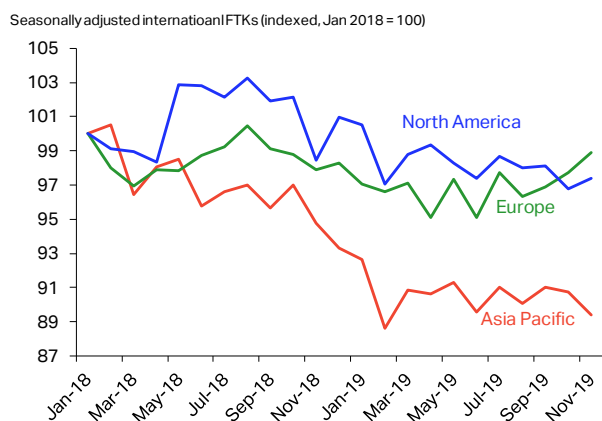
As we have noted on previous occasions, most of the recent freight performance in Africa is driven by the Asia-Africa market and reflecting the strength of foreign investment into the region.

Signs of recovery in Europe...

International air freight volumes of European airlines increased by 2.6% vs a year ago – the first positive outcome in six months – which contributed the most to the improvement in the overall industry-wide growth rate.

SA FTKs for Europe trended sharply upwards for another month (Chart 6, over).

Chart 6: SA international FTKs, largest markets

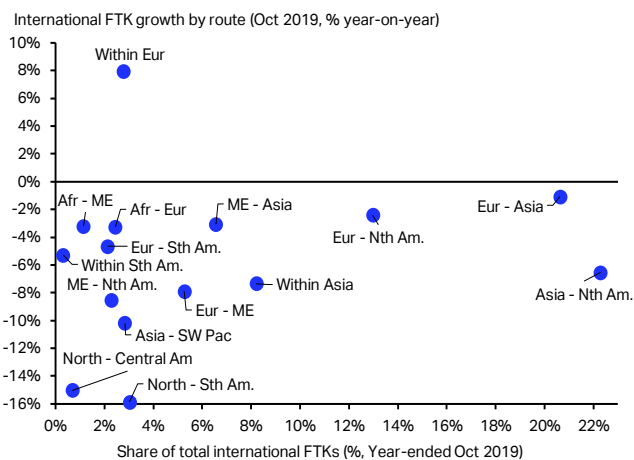


Source: IATA Economics, IATA Monthly Statistics

Based on the latest available data (October 2019), the performance was been driven by a robust outcome for the Within Europe market, where a number of key economies reported a more supportive economic backdrop in Q3 compared with Q2.

A stabilization in the annual decline in the larger Europe-Asia and a slower pace of contraction in Europe-North America markets have also created less of a drag on recent growth outcomes.

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



Sources: IATA Economics, IATA Monthly Statistics by Route

Better outcome also in North America...

Airlines based in North America recorded a ~1% annual contraction in international FTKs this month compared with a 5% decline in October – and almost 2ppts better than 2019’s average (-2.6%). That said, part of this month’s growth improvement came on the back of weaker outturn last year (Chart 6).

Indeed, despite a modest uptick on this occasion, the underlying traffic volumes (SA FTKs) continued to trend downwards modestly amidst the ongoing US-China trade war and relatively slower growth in the US economy.

That said, the apparent positive progress in the trade negotiations between the two countries highlighted by the signature of the ‘phase one’ deal this month might provide some impetus to air cargo growth in the period ahead.

Robust SA FTK trend in the Middle East

The pressure on air freight volumes also eased in the Middle East; international FTKs were down 3% year-on-year in November, compared with -5.7% in the previous month and well above year-to-date performance (-5.0%). The monthly SA volumes continue to trend robustly upwards, underpinned by improving performance of the larger Middle East-Asia market.

However, given the escalation in geopolitical tensions in the region in early-January, the downward pressure on international air freight may intensify again in the coming months.

Growth converged in Asia Pacific and Latin America

International FTKs for carriers based in Asia Pacific and Latin America both contracted by 4.2% year-on-year in November – a 2.1ppt and 2.9ppt slower rate of decline, respectively, compared with October.

Despite that, the level of Asia Pacific FTKs (SA) continued to trend sideways in November, amidst trade war tensions between the US and China. In terms of year-on-year growth, the trade war impact is clear; cargo volumes in the larger Asia-NthAm and Within Asia markets are down 6.5-7.5% over the year to October.

In Latin America, SA volumes picked up sharply this month, partly offsetting the fall observed in October. Nonetheless, volumes remained well-below the levels seen in the first half of 2019 on the back of less supportive business conditions in some of the region’s key economies.

International air freight capacity (AFTKs) has contracted by 7% over the past year in the region, outpacing the decline in demand. As a result, the international freight load factor has risen by 1.6ppts vs a year ago – the second best performance (behind Africa) across the regions.

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Air freight market detail - November 2019

	<i>World share</i> ¹	November 2019 (% year-on-year)				% year-to-date			
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TOTAL MARKET	100.0%	-1.1%	2.9%	-2.0%	49.6%	-3.4%	2.1%	-2.6%	46.7%
Africa	1.6%	19.8%	13.7%	2.1%	40.4%	7.0%	13.7%	-2.2%	35.3%
Asia Pacific	35.4%	-3.7%	1.8%	-3.1%	53.8%	-6.0%	0.9%	-3.9%	52.1%
Europe	23.3%	2.6%	4.0%	-0.8%	56.9%	-1.7%	3.8%	-2.9%	51.4%
Latin America	2.7%	-3.4%	-2.3%	-0.5%	40.3%	0.0%	4.7%	-1.7%	35.8%
Middle East	13.2%	-3.0%	2.6%	-2.9%	49.7%	-5.0%	0.6%	-2.7%	46.5%
North America	23.8%	-1.1%	3.3%	-1.8%	41.3%	-1.4%	1.5%	-1.2%	39.5%
International	87.4%	-1.2%	2.4%	-2.0%	55.6%	-4.0%	1.7%	-3.1%	51.7%
Africa	1.6%	20.5%	14.9%	1.9%	41.0%	7.4%	14.2%	-2.3%	36.1%
Asia Pacific	31.4%	-4.2%	0.8%	-3.2%	61.0%	-6.7%	-0.2%	-4.1%	58.8%
Europe	22.9%	2.6%	4.0%	-0.8%	58.5%	-1.6%	3.6%	-2.9%	53.2%
Latin America	2.3%	-4.2%	-7.1%	1.6%	53.0%	-2.0%	2.3%	-1.9%	44.1%
Middle East	13.2%	-3.0%	2.6%	-2.9%	50.0%	-5.0%	0.4%	-2.7%	46.9%
North America	15.9%	-0.8%	2.6%	-1.7%	50.5%	-2.6%	1.5%	-2.0%	46.4%

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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