

Weak air freight in face of tariff battles and shrinking trade

- Demand for air freight has been dragged down by fall in world trade following a series of tariff increases.
- Annual growth in industry-wide air freight kilometres (FTKs) remained negative at -3.8% in the three months ended July – the weakest performance for two consecutive quarters since early-2012. With freight capacity increasing 1.8% over the same period, the modest downward trend in the load factor has continued.
- Cargo yields including fuel and surcharges continue to ease and are currently 7.8% lower compared to July 2018.

Market developments

- Air freight remains under severe pressure with year-on-year growth down 3.8% in the three months ended July. This represents the second weakest industry outcome in more than seven years.
- The annual decline in volumes has been broad based across the regions, most notably in Asia-Pacific, followed by the Middle-East and North America. The only exception were the smaller Africa and Latin America markets that each have less than 3% share of industry FTKs.
- All of the key international freight routes recorded negative year-on-year growth in the three months ended June. In particular, Within Asia market has seen annual cargo volumes down almost 10% as supply chain linkages spread the trade war damage beyond China.

Market drivers

- Tariff increases between the US and China, along with signs of a slowing global economy continue to weigh upon global and regional air freight developments.
- Falling business and consumer confidence, partly but not entirely linked to weak trade, bring additional downward pressure on air cargo in the near-term.

Capacity, costs and yields

- With capacity growing against falling demand, the industry-wide freight load factor has followed the downward trend in the quarter ending July.
- On the other hand, the utilization of large freighters (revised series) has remained elevated and relatively constant over the same period. Jet fuel prices have been volatile since end-2018, but, on the positive side, have generally decreased compared to 2018.
- Cargo yields have continued to fall during the year. Yields including fuel and other surcharges are now down 7.8% year-on-year.

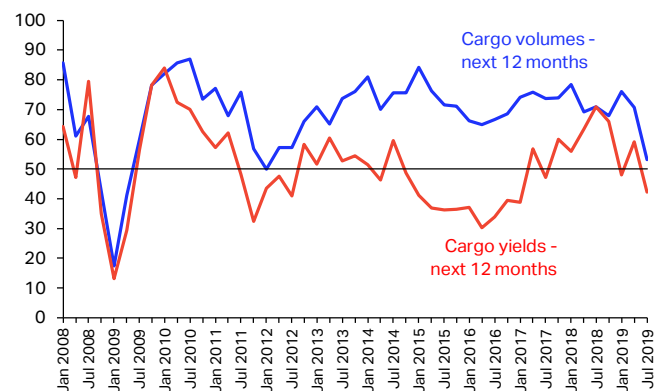
Heads of cargo more negative about volumes

- After a period of escalation in the trade war, only 34% of respondents of the July Business Confidence Survey expected cargo traffic volumes to increase in the coming twelve months. This led to a strong fall in the weighted score.
- In parallel, 41% of surveyed airlines' heads of cargo were expecting deteriorating cargo yields in the next twelve months, up from 23% in April. Consequently, the

weighted score ventured into the area associated with deteriorating aggregate yield outlook for the second time this year.

Chart 1 – IATA survey of heads of cargo

Weighted score (50 = no change)



Source: IATA Economics

*Quarterly data

Table 1 – Key data overview

Rolling 3 month periods (unless specified otherwise)	% year-on-year	% quarter-on-quarter
Industry-wide FTKs¹	-3.8%	0.3%
North America-Asia ²	-5.8%	0.3%
Asia-Europe ²	-2.7%	-1.2%
Europe-North America ²	-5.0%	-3.9%
Within Asia (int'l) ²	-9.7%	0.0%
International Freight Tonnes²	-5.7%	-2.0%
Metric tonnes flown in 3m ended Jun 2019:		10.2m
World trade volumes²	-0.4%	-0.7%
Global container throughput¹	2.3%	1.5%
	<u>Level³</u>	<u>5-yr avg</u>
Global PMI new export orders	48.2	50.8

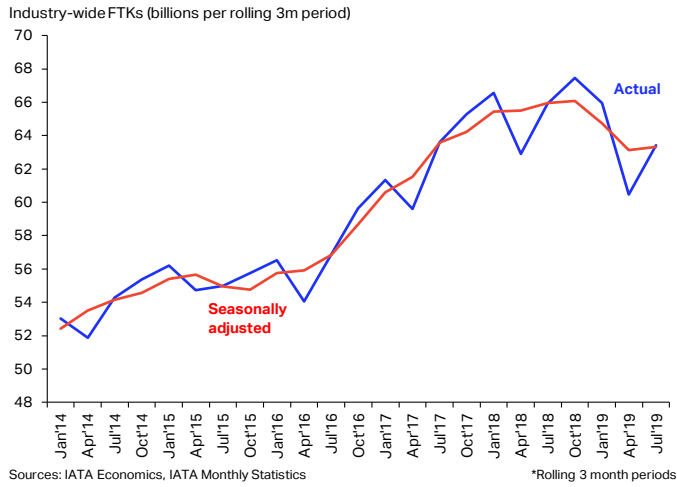
¹ 3m ended Jul 2019

² 3m ended Jun 2019

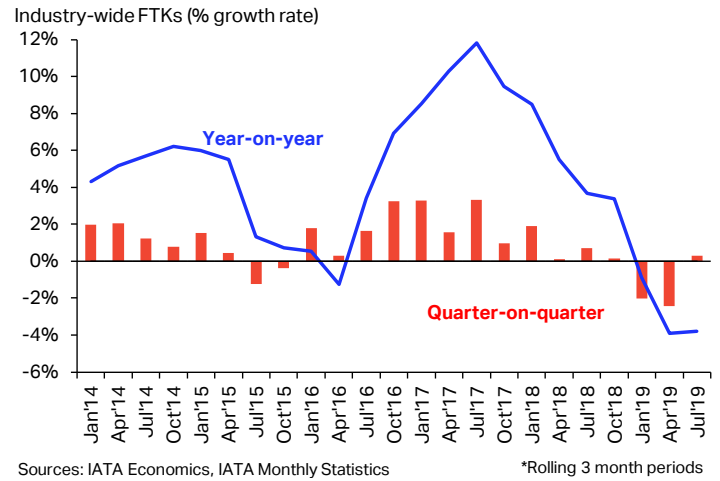
³ Average of 3m ended Aug 2019

Market developments

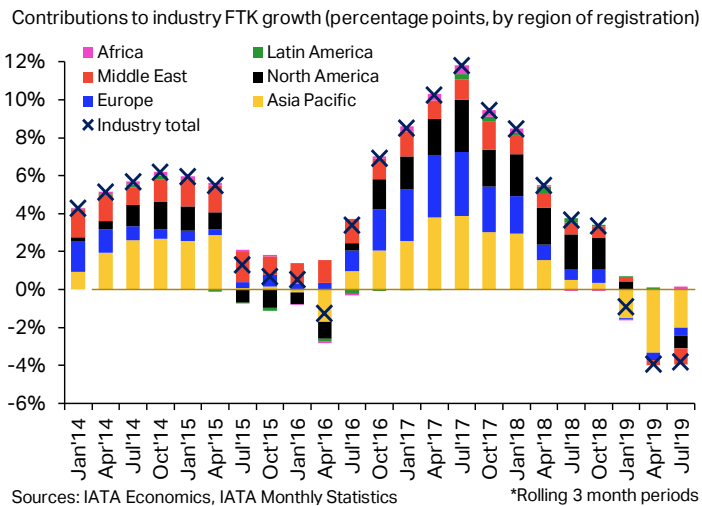
1. In the three months ended July 2019, both the seasonally-adjusted (SA) and non-SA level of FTKs recovered modestly, following a strong fall in the three months to April. The trend over the past year is still on the downward path.



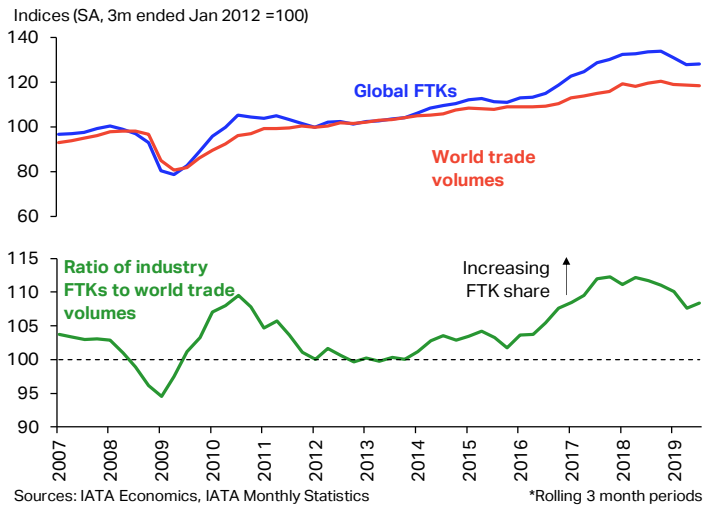
2. The stabilization in SA levels was associated with a 0.3% quarter-on-quarter growth rate, the best outcome since the three months to July 2018. That said, the annual growth rate of non-SA levels remained just above -4%.



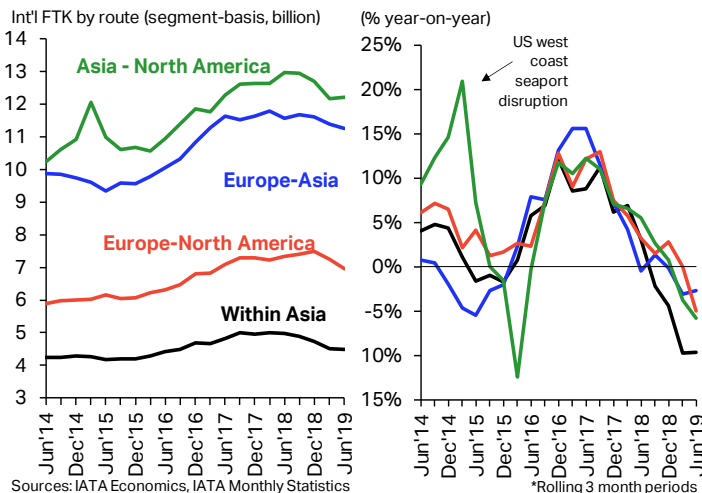
3. Most regions contributed to the negative year-on-year growth rate. Latin America and Africa were the sole exceptions, but they were outweighed by the declines in the other, larger regions, notably Asia Pacific.



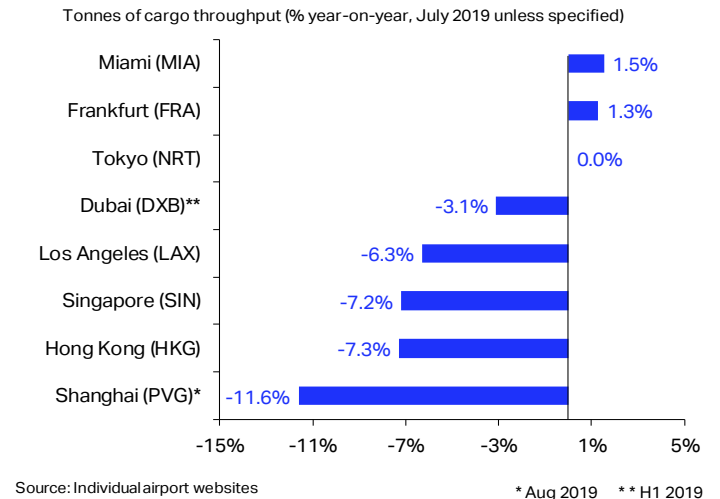
4. Amidst escalating trade wars, world trade volumes are still on a downward trend. SA FTK volumes have however rebounded slightly in the three months to July 2019, leading to a slight increase in the ratio of air freight to world trade volumes.



5. Air cargo demand remains under pressure on the four major international segment-based trade lanes. Within Asia was the key underperformer (-10% year-on-year), followed by Asia-North America that recorded the largest fall in volumes since 2016.

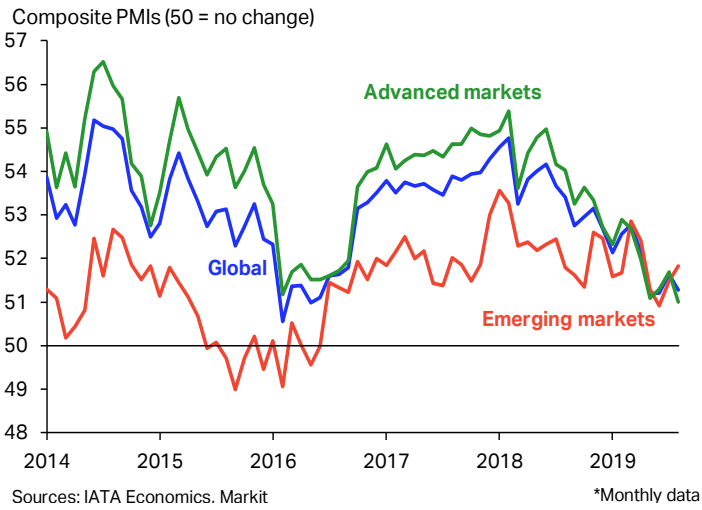


6. Not surprisingly, cargo throughput has been declining across most of the key freight airports, particularly in Asia. Miami and Frankfurt were the only outliers in July 2019, recording a modest annual growth of around 1.5%.

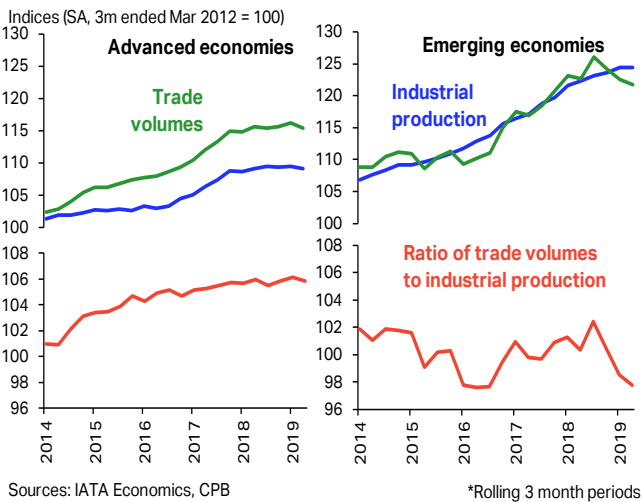


Market drivers

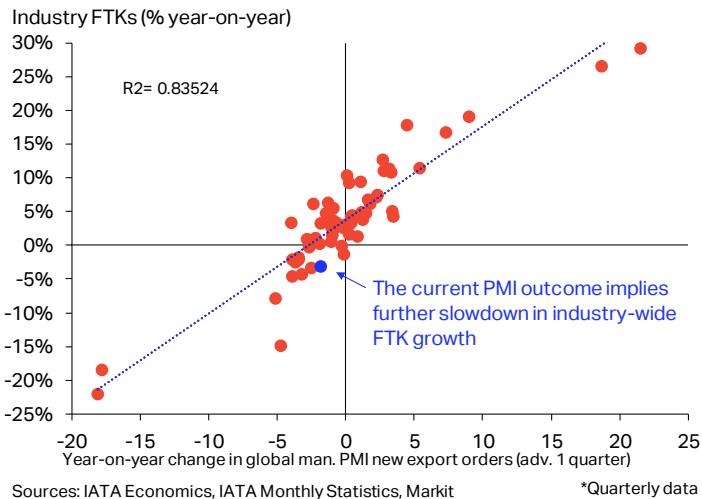
7. After a slowdown in H1 2019, business confidence has stabilized in the summer months, with a moderate recovery in emerging markets. Global sentiment remains dragged down by trade war escalation and mounting global economic risks.



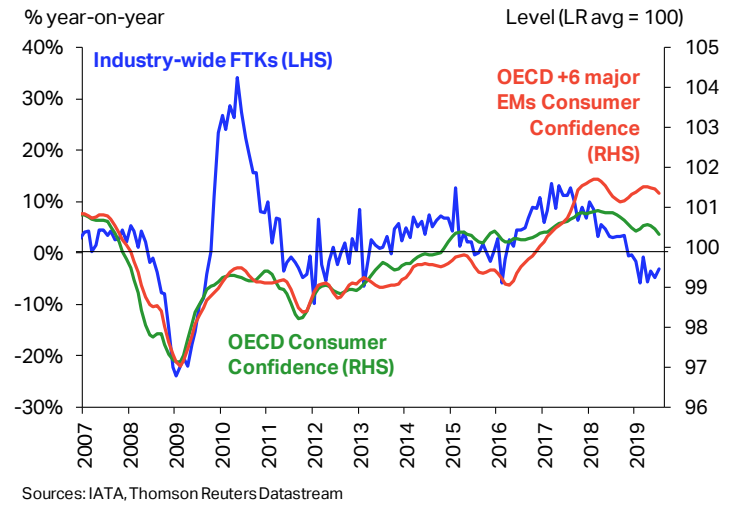
9. In 2018, trade volumes and industrial production grew faster in emerging economies than in advanced markets. This has stopped recently, with both groups of countries seeing a slowdown in trade on account of global trade tensions.



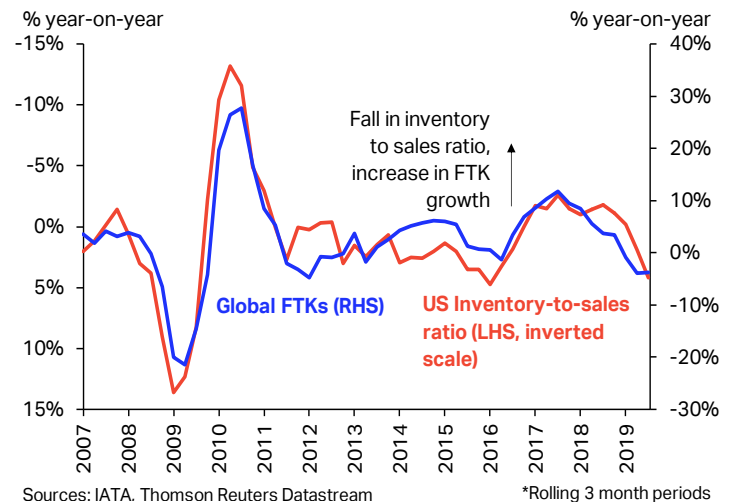
11. New export orders component of the global manufacturing PMI eased further below the 50-mark in the third quarter. Based on the long-term statistical relationship between this variable and FTKs, global air freight growth is expected to be weak in Q4.



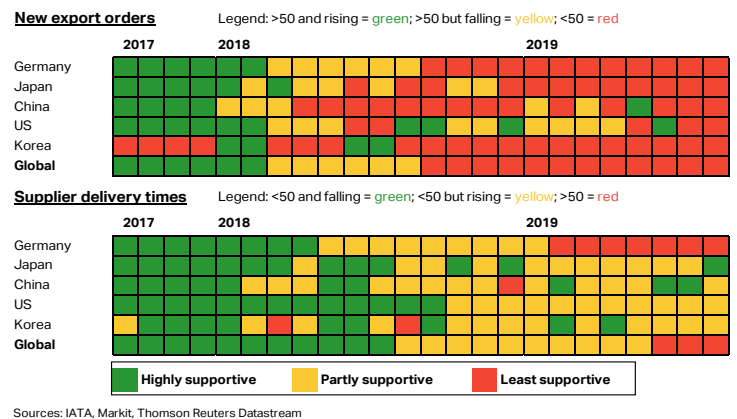
8. Although consumer confidence remains elevated in historical terms, it has eased over the recent months across both OECD and emerging markets and is putting an additional downward pressure on the demand for air freight goods.



10. The previous inventory restocking cycle ended in late 2017. The inventory-to-sales ratio has risen since then, meaning businesses do not have to turn to air freight to restock their goods. This corresponds with slowdown in global FTK growth.

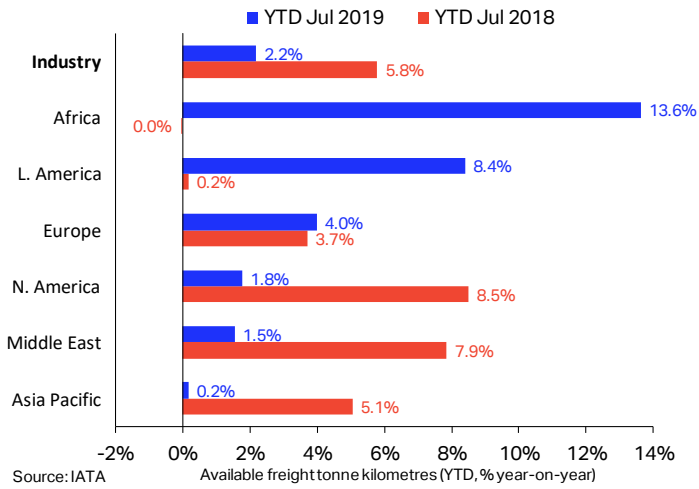


12. Consistent with the recent trade war escalation, new export orders are now diminishing in most major trading economies. Bottlenecks in supply chains are still moderate, as for the past months, preventing higher demand for the faster air transport.

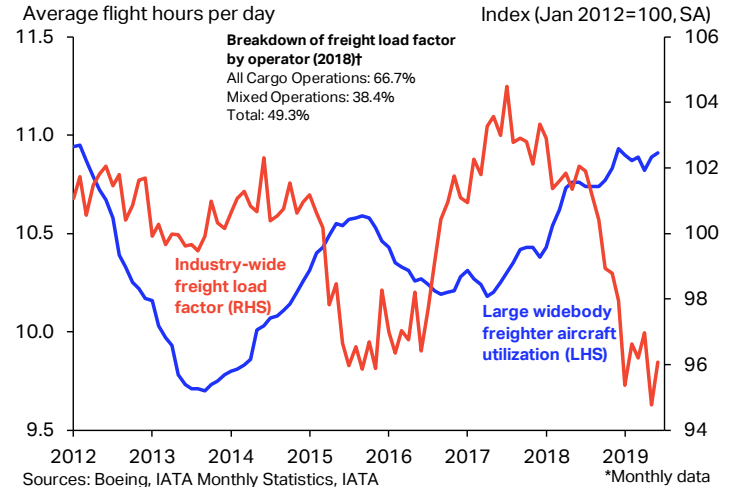


Capacity, costs, and yields

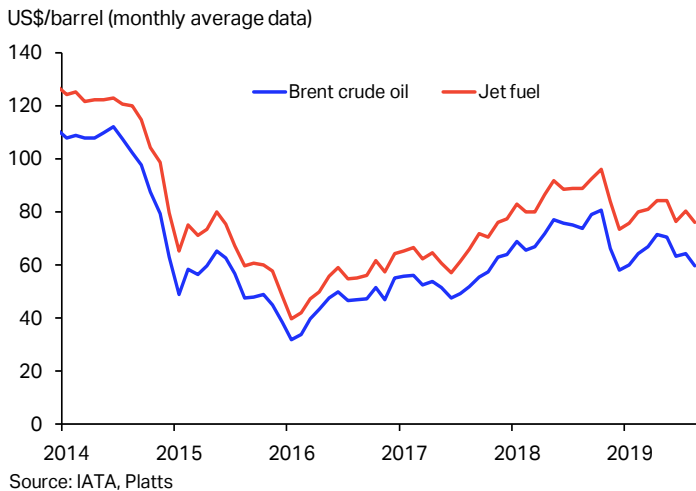
13. The annual growth in total industry AFTKs decreased to 2.2% in 2019 for the Jan-Jul period. This is significantly faster than growth in demand over the same period (-3.5%). Performance varied across the regions, with smaller Africa growing the fastest.



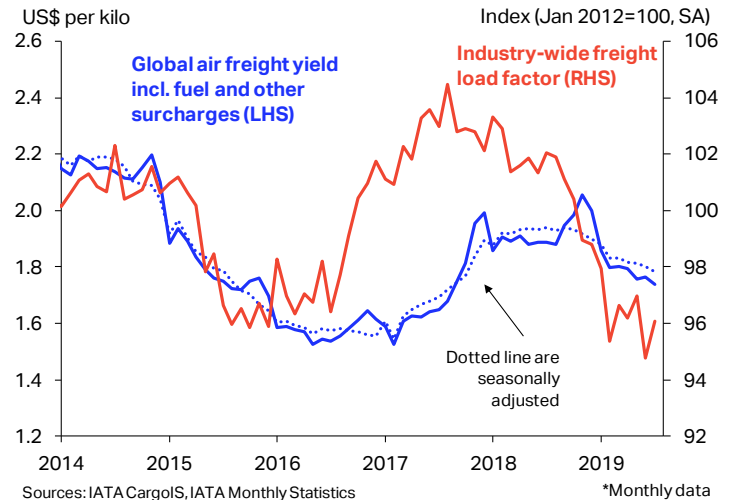
14. After collapsing in end-2018, freight load factors have followed a moderate downward trend since the start of the year. Daily utilization of widebody freighters (revised) has however trended sideways over the same period, just below 11 hours.



15. On a background of increased geopolitical tensions in the Middle East and slowing global demand, oil and jet fuel prices have been volatile in the previous quarters. All told, jet fuel prices are now almost 15% below their level of a year ago.



16. SA cargo yields have continued to trend downward over the three months to July, consistent with a softening in demand. In July 2019, yields including fuel and other surcharges were roughly 7.5% below their level of a year ago.



†All-cargo operations refer to traffic carried out by dedicated cargo aircraft, which by design or configuration, are operating exclusively for the transportation of cargo. Mixed operations refer to traffic operated by aircraft that transport both passengers and cargo.

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