

Cargo business slowing but still in good shape

- Annual growth in air freight tonne kilometres (FTKs) dropped to 2.8% in the three months ended October. While seasonally adjusted (SA) FTKs continue to rise, the growth rate still lags behind that seen during most of 2017.
- The moderation is consistent with slowdowns in FTK growth seen at the end of the global inventory restocking cycles in the past. Trade war tensions between the US and China continue to weaken wider momentum in world trade.
- Cargo yields grew at a solid pace in the third quarter despite the downward heading load factor. Oil prices, accounting for ~ 25% of airlines' operating costs, moved substantially lower in October, ending the long-term upward trend.

Market developments

- Industry-wide freight tonne kilometers continued to trend modestly upwards in seasonally adjusted (SA) terms during the three months ended October. That said, the latest quarter-on-quarter growth was the slowest in more than two years.
- All told, industry-wide freight volumes increased by 2.8% year-on-year in the three months ended October – a slowdown compared to the double-digit growth rates seen in mid-2017.
- In broad terms, annual FTK growth has continued to slow across the key international markets. Routes to/from North America continue to trend upwards, albeit modestly.

Market drivers

- The slowdown in FTK growth over the past year or so is consistent with the typical pattern seen after inventory-led upturns in the past. Having said that, key demand drivers have softened since start-2018, including consumer confidence and the new export orders component of the global manufacturing PMI.
- Protectionism measures remain a downside risk to global trade, whose growth eased for the second consecutive quarter. Nevertheless, FTK demand is likely to continue to be supported by fast-growing areas such as e-commerce.

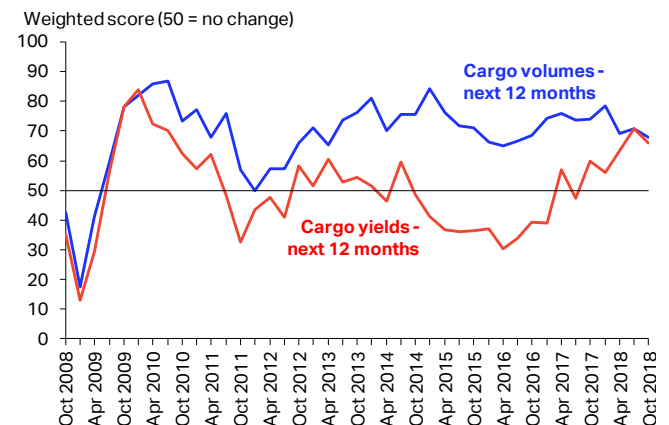
Capacity, costs and yields

- The industry wide FTK load factor has trended downwards over the past year or so, which moderated the growth in cargo yields. Nonetheless, yields in Oct 2018 were still 10% higher than a year ago. Although oil prices trended upwards in recent years, they have fallen by more than 30% since early October on growing concerns of global oversupply.
- Daily utilization rates of large freighter aircraft also remain elevated at around 11 hours per day – rates last seen in 2012. Increased utilization of freighter aircraft will continue to help to reduce average costs, and to help to offset ongoing upward pressure on operating costs.

Heads of cargo upbeat about yields

- The majority (52%) of Heads of Cargo surveyed in early October expected volumes to increase over the year ahead, although this was down from 58% in the previous quarter. As for yields, the story is positive: 56% of our respondents expect them to increase, the highest proportion since January 2010.

Chart 1 – IATA survey of heads of cargo



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	2.8%	0.6%
North America-Asia ²	1.5%	0.6%
Asia-Europe ²	0.3%	0.8%
Europe-North America ²	1.6%	-0.1%
Within Asia (int'l) ²	-2.1%	-1.1%
International Freight Tonnes²	3.4%	0.9%
Metric tonnes flown in 3m ended Sept 2018:		10.8m
World trade volumes²	3.5%	1.3%
Global container throughput¹	2.1%	0.0%
	<u>Level³</u>	<u>5-yr avg</u>
Global PMI new export orders	49.8	51.2

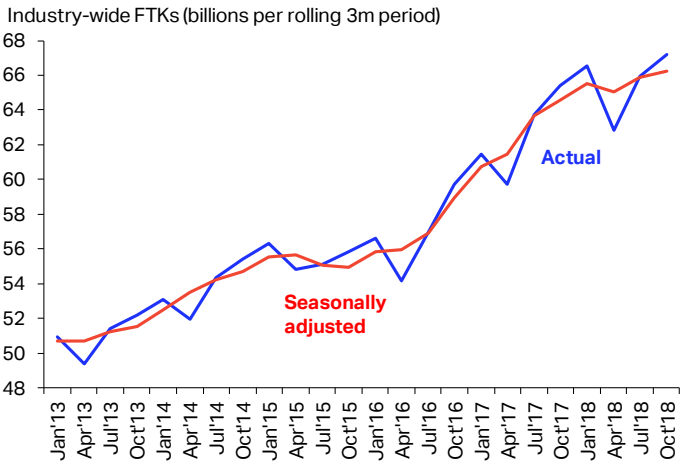
¹ 3m ended Oct 2018

² 3m ended Sep 2018

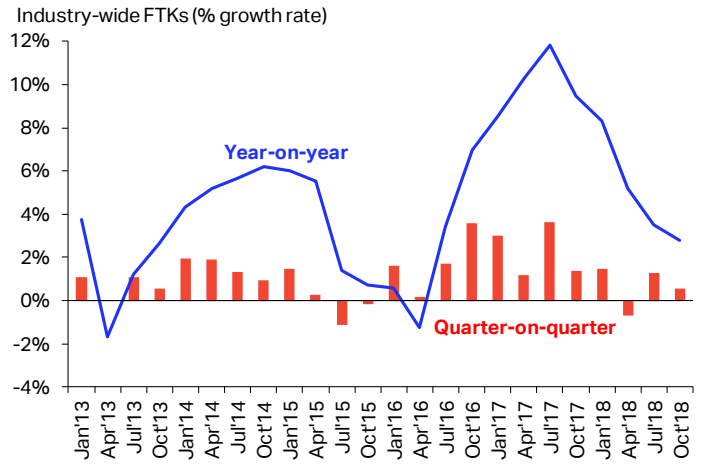
³ Average of 3m ended Nov 2018

Market developments

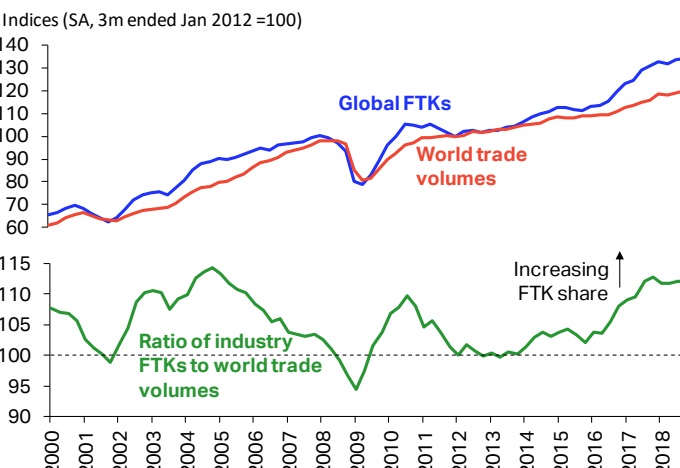
1. Seasonally adjusted freight tonne kilometers (FTKs) continued to increase during the three months ended October. However, as we have noted before, the upward trend in demand has moderated over the past year or so.



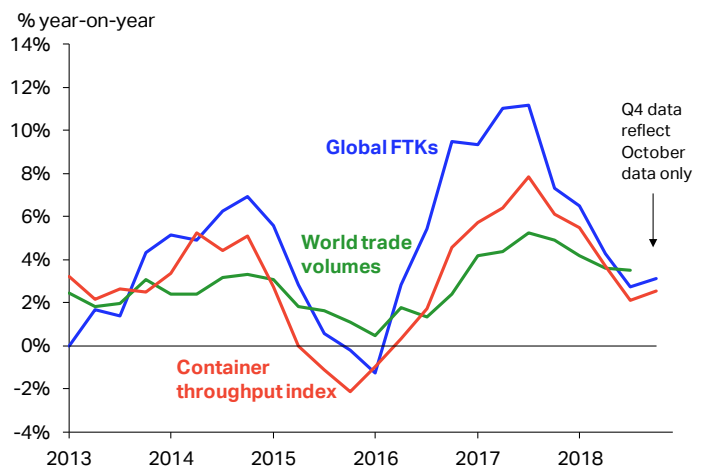
2. Indeed, FTKs have risen at a 4% annualized rate over the past six months – well below the double-digit growth seen in mid-2017. In annual terms, the FTKs growth slowed to a moderate 2.8% in the three months ended October.



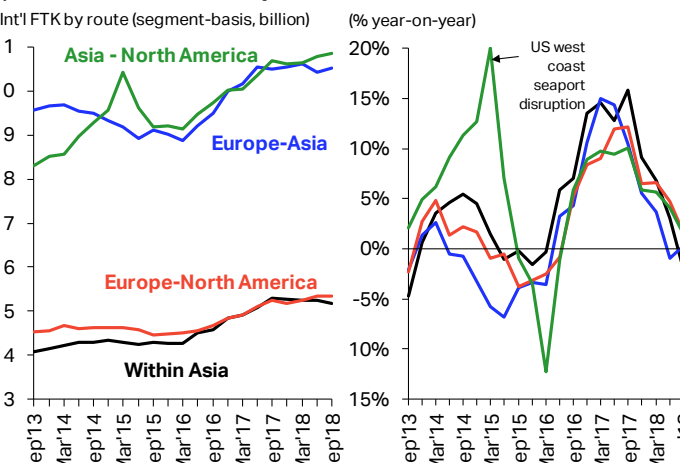
3. FTKs grew faster than global goods trade volumes between 2016 and the peak of the inventory restocking cycle. However, in the recent period the growth rate of world trade and industry-wide FTKs has broadly converged.



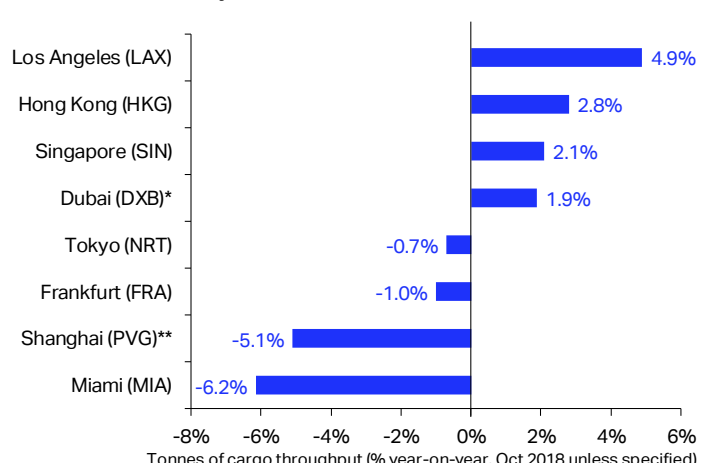
4. In a similar pattern to air freight, year-on-year growth in containerized trade looks to be stabilizing in the fourth quarter. Having peaked in Q3 2017, trade growth has softened amid rising trade war tensions.



5. Annual FTK growth has slowed on the key international markets, with Within-Asia falling into negative growth territory in Q3. Routes to/from North America continue to trend upwards, albeit modestly.

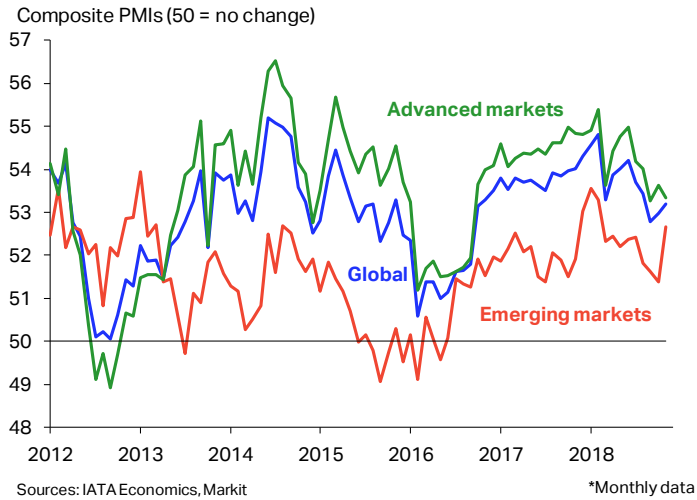


6. Performance continues to vary across key airports with Los Angeles being the strongest performer in October (4.9% annual growth), By contrast, cargo output fell in number of cases, most notably in Miami (-6.2%).

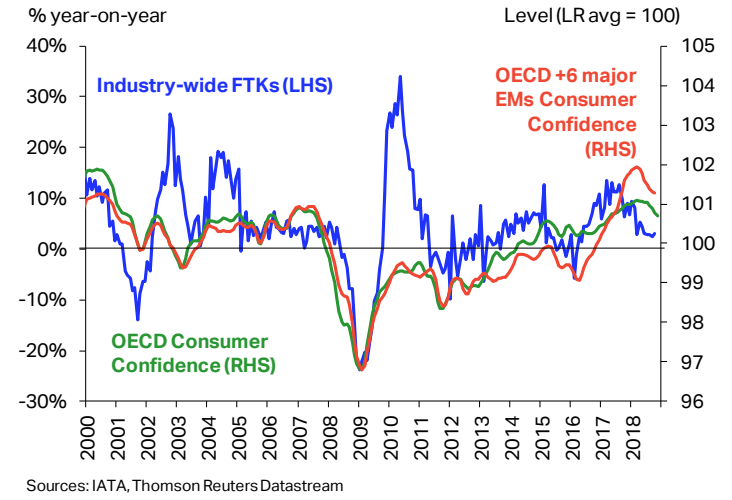


Market drivers

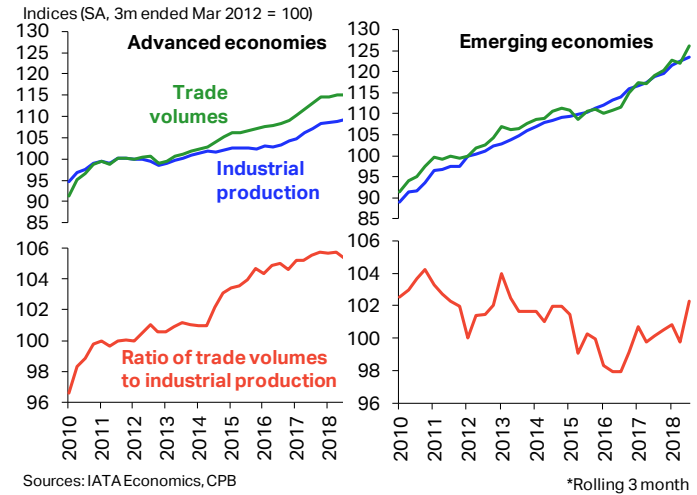
7. Global business confidence has trended downwards since the start of 2018, but remains consistent with solid economic expansion. A recent up-tick in global confidence has reflected a sharp improvement in emerging markets.



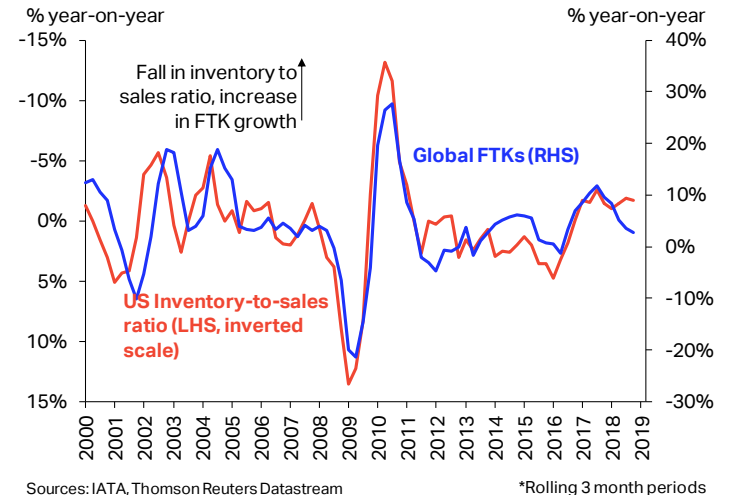
8. Similarly, consumer confidence in the OECD and key emerging market economies has also fallen back since the beginning of the year. However, the key point is that confidence remains high by historical standards.



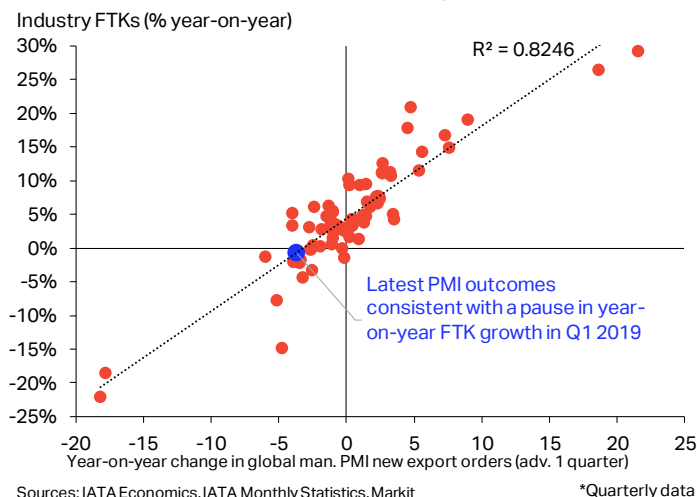
9. The pick-up in air freight demand in recent years has coincided with a stronger global economic and trade backdrop. Recent gains in world trade, however, have been concentrated mainly in emerging economies.



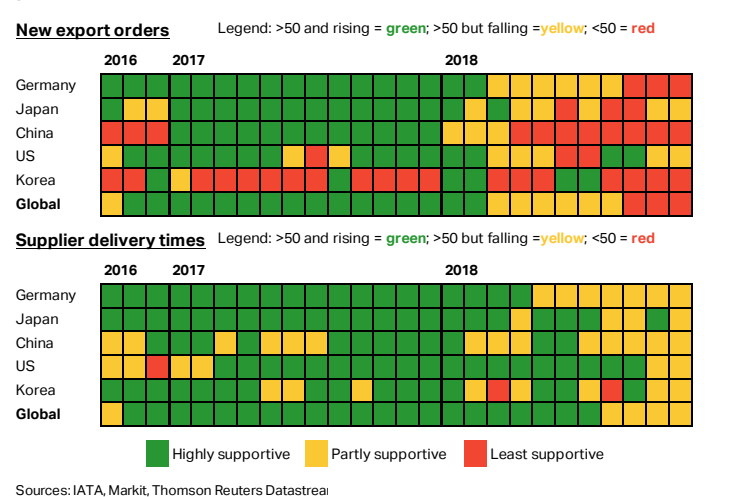
10. The pick-up in demand for air freight during 2016 and 2017 was driven in large part by a pronounced inventory restocking cycle, during which the speed of air freight comes into its own. However, this cycle looks to have run its course.



11. The new export orders component of the global manufacturing PMI fell below the 50% mark in recent months. Given the change in the indicator since last year, it is currently consistent with a pause in annual FTK growth in Q1 2019.

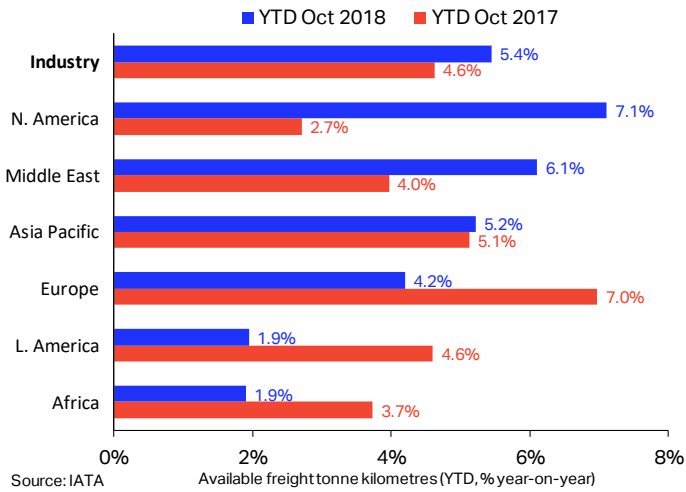


12. The weakening in new export orders has been broad-based across the major trading nations around the world and consistent with a slowdown in wider momentum in world trade growth.

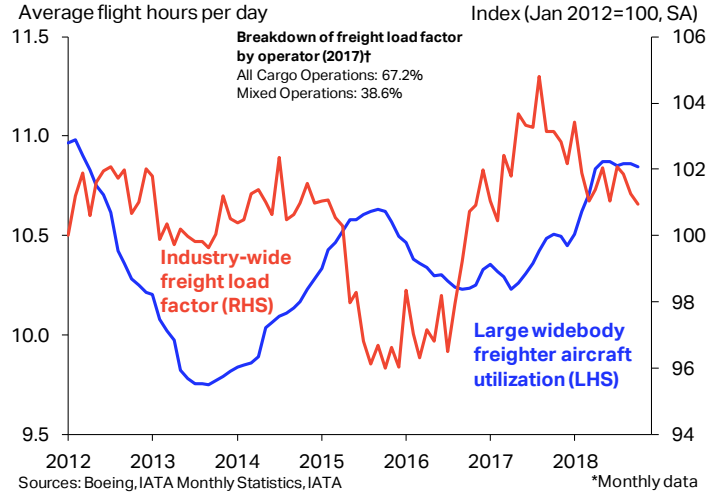


Capacity, costs, and yields

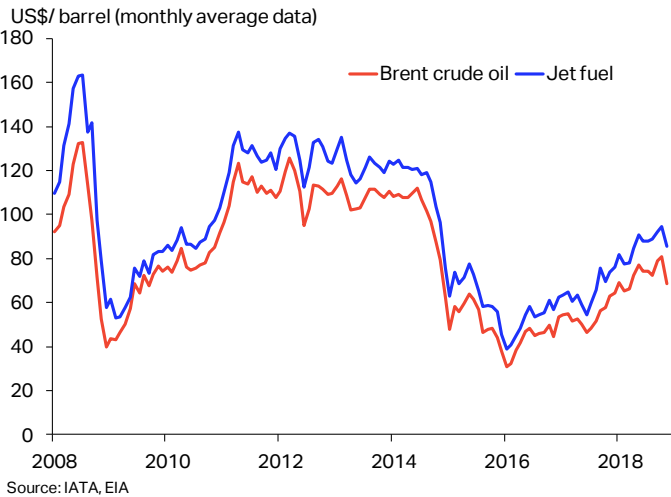
13. So far in 2018, year-on-year growth in industry-wide available freight tonne kilometres (AFTKs) has been almost one percentage point faster than in the same period in 2017. Air freight capacity has grown the fastest in N. America (7.1%).



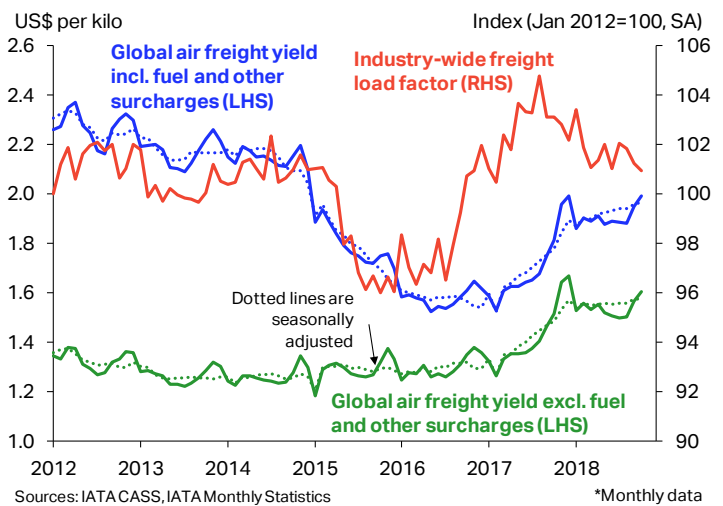
14. As a result, having peaked in mid-2017, the SA freight load factor has continued to ease. However, daily utilization of large widebody freighters has stayed at levels last seen in 2012, at around 11 hours per day.



15. Oil and jet fuel prices have trended upwards in recent years due to supply cuts from the part of Opec countries and Russia. More recently, however, the oil market has been shaken out of its seemingly one-way trend.



16. Despite the downward trend in the industry-wide freight load factor, yields have continued to rise, although more slowly compared to a year ago. The yield including fuel and other surcharges rose by 10% year-on-year in October 2018.



†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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