

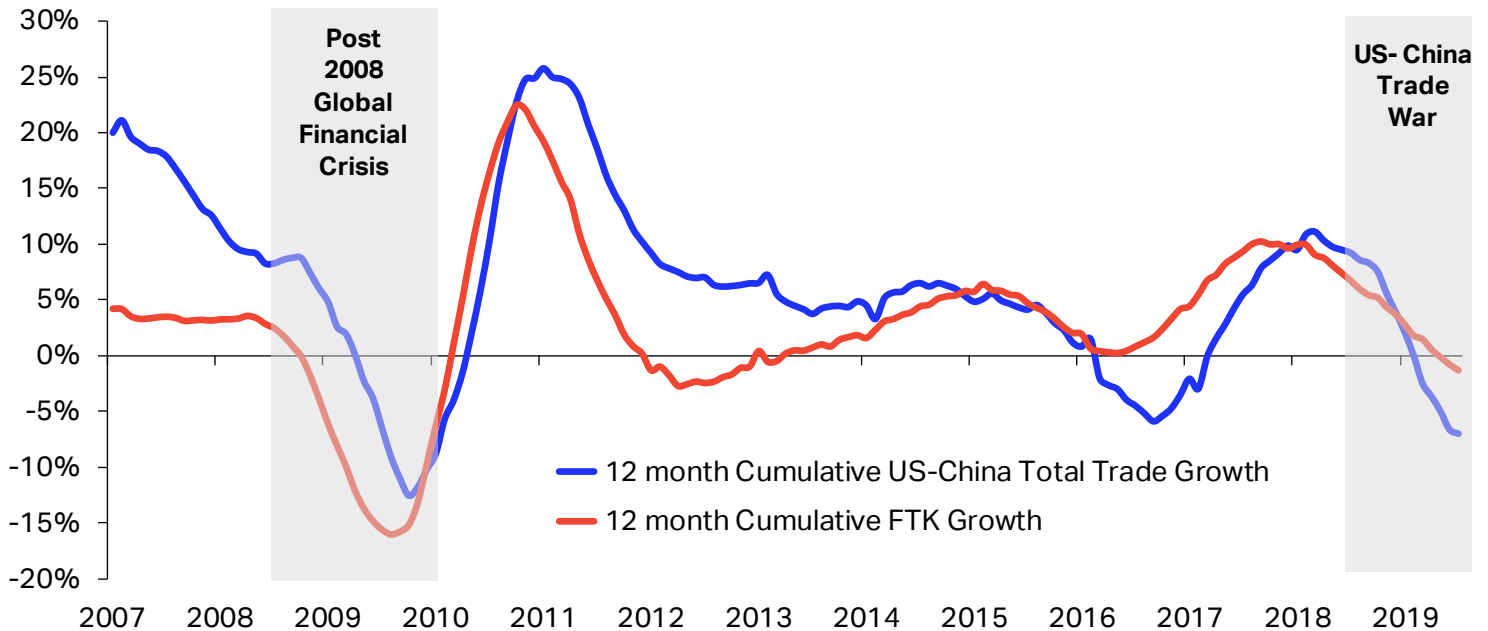


## IATA Economics' Chart of the Week

06 September 2019

### Intensified trade tensions pose downside risk for air cargo

#### US-China Total Trade vs Air Freight Growth



Source: IATA, Refinitiv Datastream

On September 1<sup>st</sup>, a new set of tariffs became effective in the latest escalation of US-China trade war. These latest measures could potentially affect air freight more than the past actions as ~35-40% of the value of listed goods now subject to the tariff impost is transferred by air cargo. This puts further risks to the air cargo outlook, which has already been weakening since the start of the trade war in September 2018.

As we noted in our latest [briefing note](#), air freight volumes declined by 3.5% in the first seven months of this year compared to the same period a year ago. At a regional level, Asia-Pacific, which has largest share (~35%) of global FTKs, experienced the sharpest decline, largely as a consequence of the trade war.

From today's chart, we see that total trade (total value of exports and imports) between US and China has been losing momentum as trade tensions persist and growth has turned negative since the end of 1Q19. Indeed, trade is currently at its lowest point since the global financial crisis a decade ago. Although only one third of total trade between the US and China is carried by air, there is a clear relationship between US-China trade and developments in global air freight. In addition, the ongoing trade conflicts impact internationally-oriented manufacturing sectors and have a contagion effect through integrated global supply chains which leads to a broader global trade and economic slowdown.

Leading economic indicators also confirm the likely continuation of weakness in global trade. While the global PMI index remains in contractionary territory, this month the new export orders measure deteriorated in all the world's major exporting nations for the first time since 2009. With further tariff increases coming into effect in the remainder of the year, along with growing concerns about global economic growth, we expect that the recent downward trend in air cargo will continue in coming months. Although an intensified trade war was not in our base case scenario, with current developments we now expect 2019 to be the first year since 2009 that the global air freight market shrinks.

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