



Cargo Chartbook

Q1 2019

Cargo volumes falling as headwinds mount

- Air freight tonne kilometres (FTKs) declined by 0.9% in the three months ended January – the weakest performance since early 2016.
- The recent moderation and now fall in freight demand reflects the increasing headwinds from the weakness observed in global trade and a number of the key air freight demand drivers.
- Cargo yields (including fuel and other surcharges) have moved broadly sideways in recent months, increasing by a modest 0.4% year-on-year in January 2019. The industry expects yields to decline further over the coming 12 months.

Market developments

- Industry-wide freight tonne kilometers (FTKs) fell by 0.9% year-on-year in the three months ended January 2019 – a sharp slowdown compared to the double-digit growth rates observed in around mid-2017.
- FTKs also trended downwards in seasonally adjusted (SA) terms on this occasion.
- The slowdown in FTK growth has been broad-based across all regions and on most of the major international markets. Only routes between North America and Europe continue to trend upwards, albeit modestly.

Market drivers

- As noted [previously](#), some of the softness in freight demand was to be expected following the temporary surge in activity from the global inventory restocking cycle, which drove FTKs volumes up strongly in 2017. However, this does not appear to fully explain the extent of weakness in the most recent FTK outcomes.
- There has been an ongoing softening in key demand drivers, with both business and consumer confidence trending downwards for around a year now. Further, the new export orders component of the global manufacturing PMI is pointing to the likelihood of further falls in air freight volumes in the coming months.
- Against a backdrop of ongoing trade protectionism measures, world trade growth has also weakened, echoing the slowing demand in FTKs.

Capacity, costs and yields

- The industry-wide freight load factor has trended downwards since mid-2017 or so. Air cargo yields (including fuel and other surcharges) increased by a modest 0.4% in year-on-year terms in Jan 2019, down from the double-digit growth rates seen between mid-2017 and mid-2018.
- Notwithstanding the moderation in yields, daily utilization rates of large freighter aircraft remain elevated at around 11 hours per day – rates last seen in 2012. The increased utilization of freighter aircraft will continue to help to reduce average costs, and to help to offset the ongoing upward pressure on operating costs.

Heads of cargo negative about yields

- When surveyed in early January, airline heads of cargo were positive about the outlook for freight volumes, but less so about cargo yields over the next twelve months. The last two quarterly surveys have seen an abrupt change in sentiment towards the year-ahead yield outlook as trade tensions continue to rise.

Chart 1 – IATA survey of heads of cargo

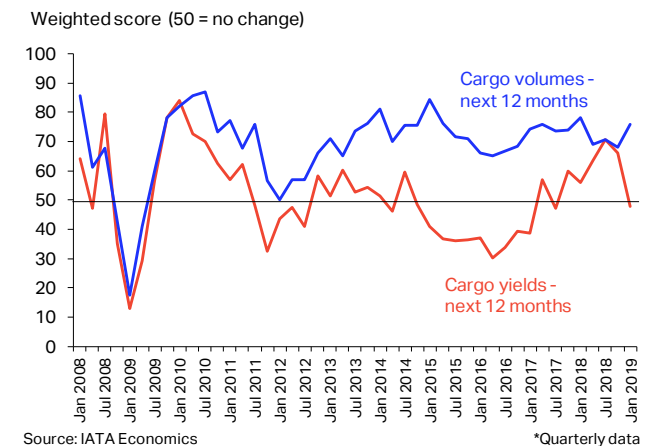


Table 1 – Key data overview

Rolling 3 month periods (unless specified otherwise)	% year- on-year	% quarter- on-quarter
Industry-wide FTKs¹	-0.9%	-1.7%
North America-Asia ²	0.8%	-1.6%
Asia-Europe ²	-0.2%	-0.2%
Europe-North America ²	2.8%	1.6%
Within Asia (int'l) ²	-4.4%	-2.9%
International Freight Tonnes²	1.3%	0.1%
Metric tonnes flown in 3m ended Dec 2018:		11.2m
World trade volumes²	1.5%	-0.9%
Global container throughput¹	3.4%	0.5%
	<u>Level³</u>	<u>5-yr avg</u>
Global PMI new export orders	49.4	51.1

¹ 3m ended Jan 2019

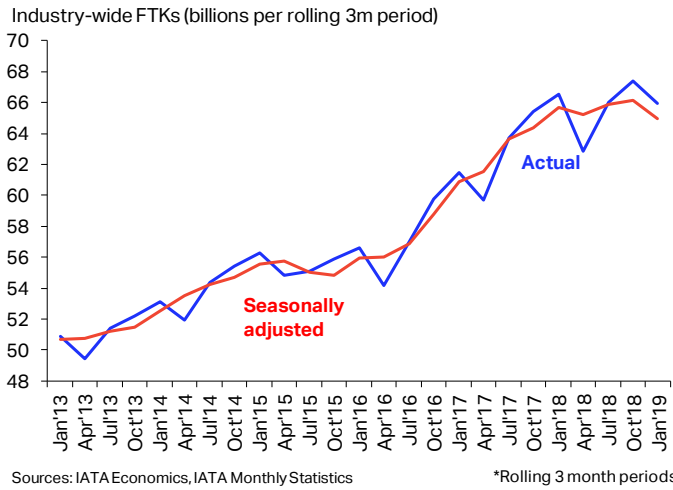
² 3m ended Dec 2018

³ Average of 3m ended Feb 2019

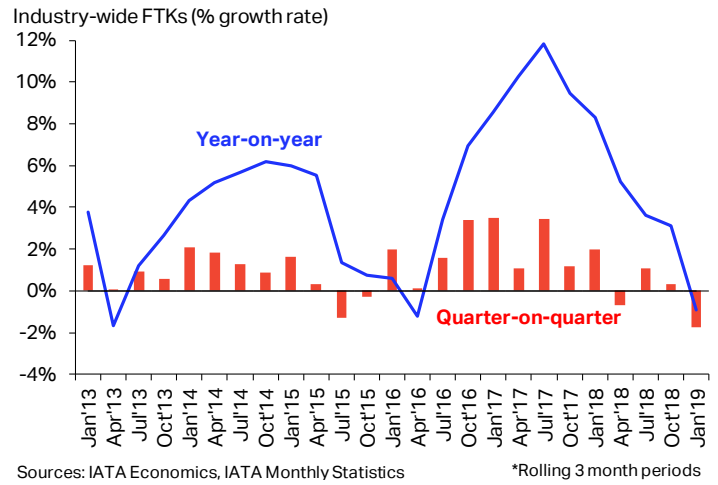
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 11th March 2019

Market developments

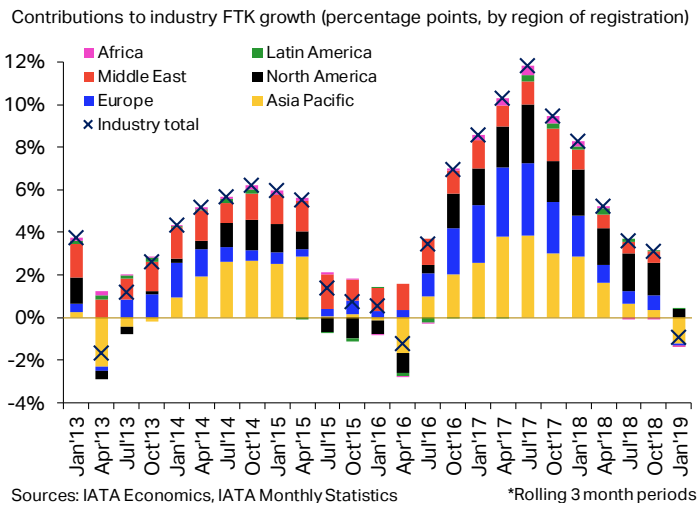
1. Having moderated over the past year or so, the upward trend in industry-wide seasonally adjusted (SA) air freight tonne kilometers (FTKs) turned downwards over the three months ended January 2019.



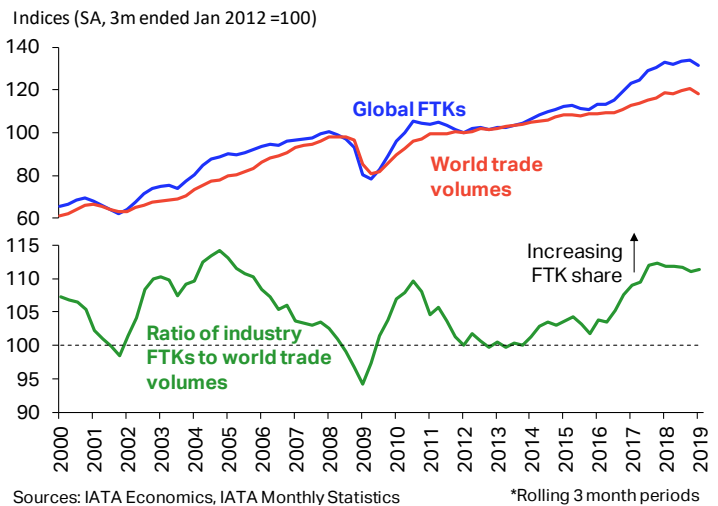
2. Indeed, quarter-on-quarter SA FTK growth slumped to a rate last observed in October 2011, while the year-on-year freight demand growth *declined* by 0.9% over the past three months – the slowest pace in around three years.



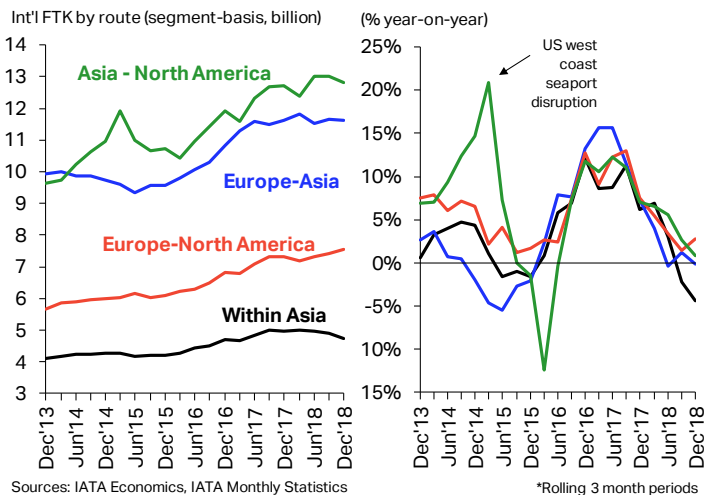
3. The recent year-on-year growth moderation and this quarter's decline has been broad-based across regions. The slowdown compared to the previous 3-month period was driven mostly by airlines based in Asia-Pacific and North America.



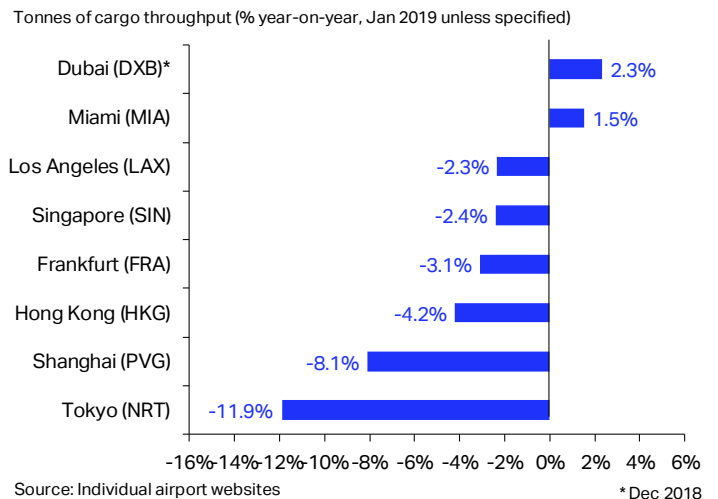
4. The moderation in SA FTKs has come alongside a similar trend in global trade volumes. As a result, having increased between 2016 and mid-2017, the ratio of air freight to world trade volumes has been generally unchanged recently.



5. Traffic demand has weakened on three of the four major international segment-based trade lanes. The main exception was Europe-North America, where year-on-year FTK growth increased for the first time since September 2017.

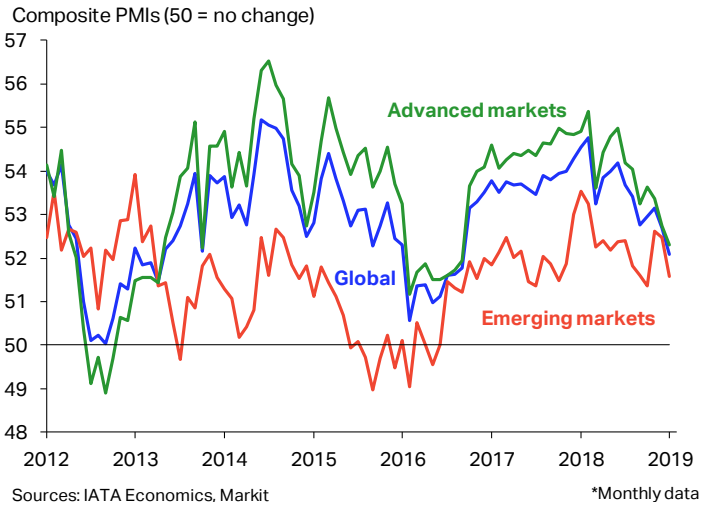


6. Of the key airports, only Dubai and Miami saw – albeit modest – an increase in cargo output in January 2019. Tokyo and Shanghai were the key underperformers this month, with volumes down by 12% and 8% vs a year ago, respectively.

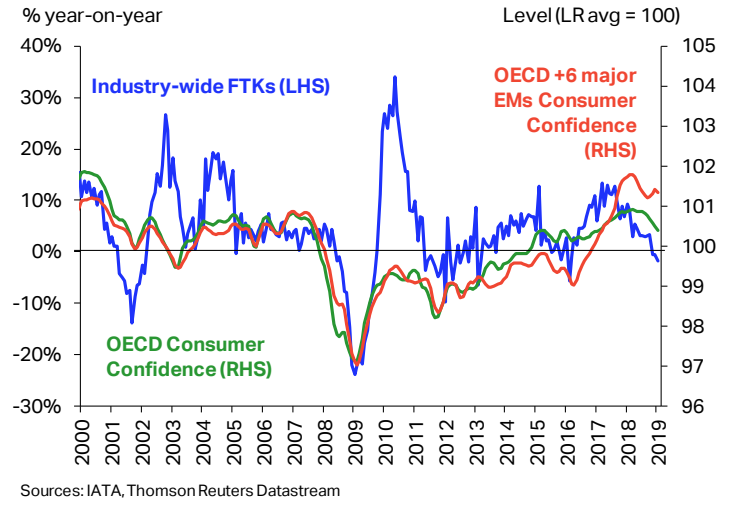


Market drivers

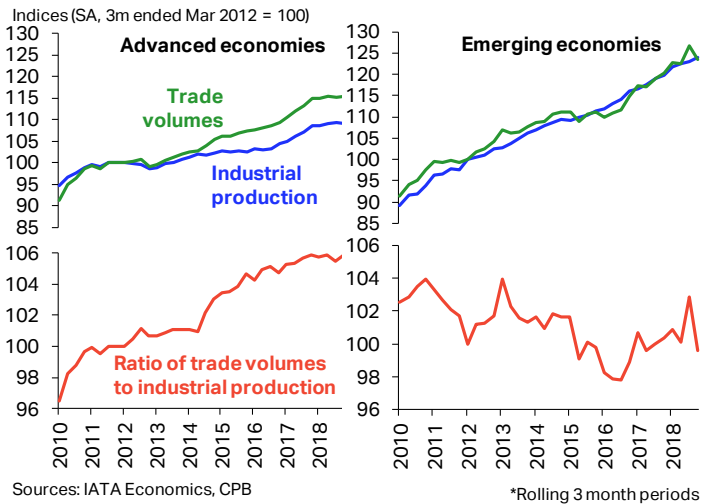
7. Business confidence has been trending lower for both emerging and (especially) advanced markets since the beginning of 2018, reflecting increasing concerns about the future of the global economic expansion.



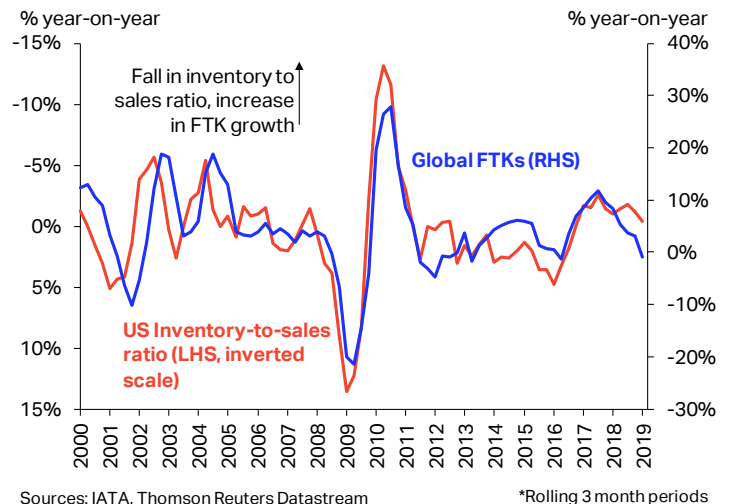
8. Consumer confidence in the OECD and key emerging market economies has followed a similar pattern to business sentiment, falling back since the start of the year. That said, it remains at elevated levels by historical standards.



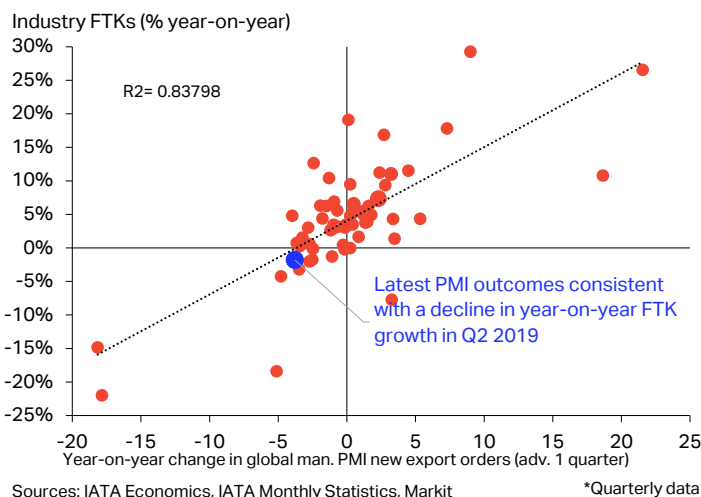
9. The pick-up in air freight demand in recent years has coincided with a stronger global economic and trade backdrop. The recent signs of moderation in global trade and economic activity seem to be driven mostly by developments in emerging economies.



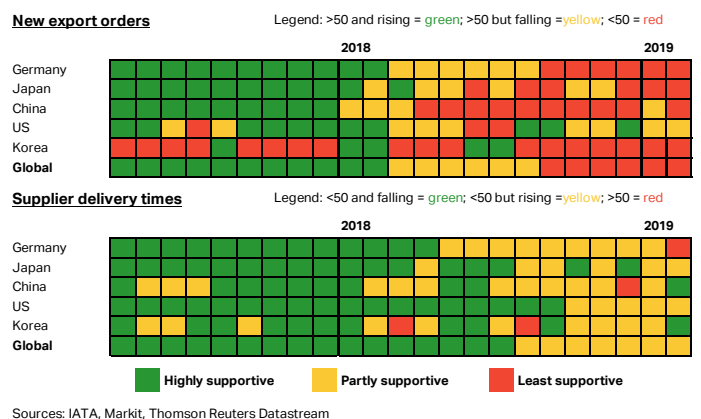
10. The end of the pronounced global inventory restocking cycle in late 2017 started off the upward trend in the inventory to sales ratio. With businesses having more stock available, demand for air-freight demand started to show signs of moderation.



11. Meanwhile, the new export orders component of the global manufacturing PMI remains below the 50-mark, consistent with deteriorating business conditions and is currently indicating a decline in FTK growth over the next quarter.

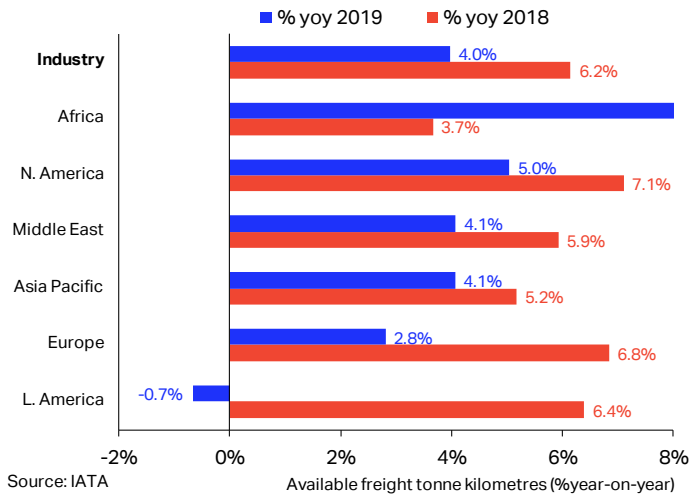


12. The weakening in new export orders has been broad-based for the world's major exporters since around the middle of 2018 and is consistent with a slowdown in wider momentum in world trade growth and key demand drivers.

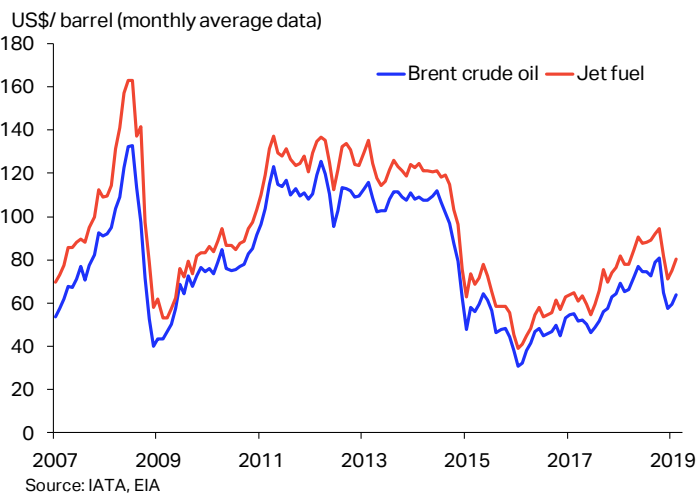


Capacity, costs, and yields

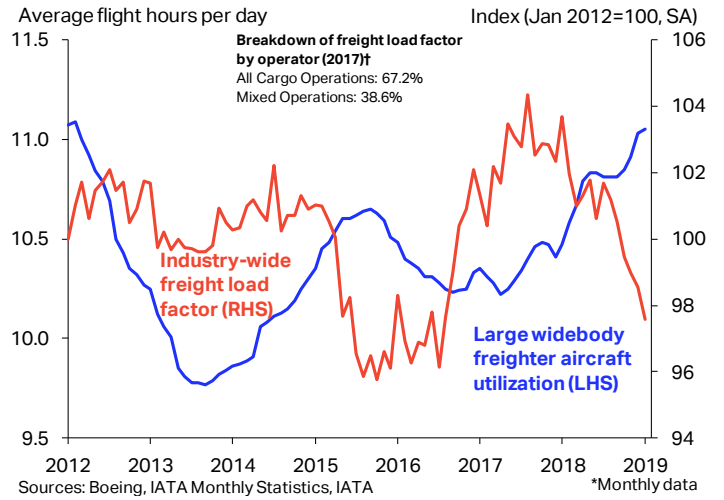
13. Year-on-year growth in available freight tonne kilometres started 2019 on a soft note, slowing in all regions except Africa and falling in Lat.Am vs Jan 2018. However, capacity has been generally outperforming freight demand over the past year or so.



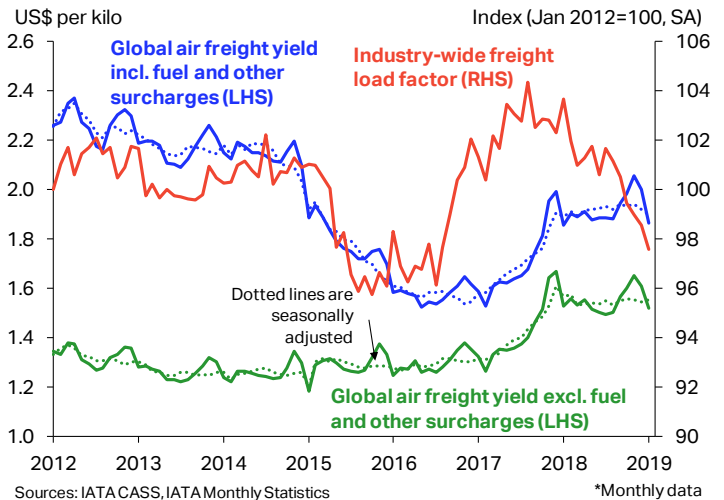
15. Having trended higher for almost 3 years, oil and jet fuel prices fell sharply during the last quarter of 2018. Most recently however, they have picked up again following the agreement of OPEC countries to impose a new wave of supply cuts.



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



16. Cargo yields have trended broadly sideways recently, indicating less favorable supply and demand dynamics. Yields, including fuel and other surcharges, rose by 0.4%yoy in Jan 2019, down from the double-digit rates of late 2017 & into 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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