



CARGO CHARTBOOK

Q2 2018

Best of upturn is behind us, amid a softening in demand drivers

- Year-on-year growth in air freight tonne kilometres (FTKs) slowed to 4.0% in the three months ended April, with freight volumes now having broadly tracked sideways in seasonally adjusted (SA) terms over the past six months.
- The best of the upturn in air freight demand is now well behind us, and it is important to note that wider momentum in world trade also looks to be slowing in the face of a pick-up in protectionist measures. Strong consumer confidence and bottlenecks in global supply chains should continue to lend support to air freight demand in the near term. But business surveys currently point to annual FTK growth slowing further in Q3 2018.
- The upward trend in cargo yields has moderated since the start of the year. However, the ongoing increase in daily freighter aircraft utilization should help to reduce average costs and to partly offset the impact of rising fuel prices.

Market developments

- Industry-wide FTKs grew by 4.0% year-on-year in the three months ended April – a reasonably solid pace but well below the double-digit annual rates seen during the middle of 2017.
- Moreover, the bulk of this growth reflects gains seen during the middle of last year too. In fact, FTKs recently fell in SA quarter-on-quarter terms for the first time in two years.

Market drivers

- The slowing trend in air freight demand has been echoed in other trade measures such as containerized trade. This suggests that wider momentum in world trade is weakening in the face of rising protectionist measures.
- Ongoing economic momentum, particularly strong consumer confidence, and further signs of bottlenecks in global supply chains, should continue to support demand for air freight in the near term.
- However, with the inventory re-stocking cycle now having run its course, the period of air freight outperformance looks to be behind us. All told, business surveys are consistent with annual FTK growth of just under 2% in Q3 2018.

Capacity, costs and yields

- The less favorable supply and demand dynamics that have developed over the past six months or so mean that the upward trend in cargo yields has slowed from that seen in H2 2017. Nonetheless, carry-over effects mean that cargo yields were still 16.2% higher in May than they were a year ago.
- Moreover, daily utilization rates of large freighter aircraft have continued to trend upwards, having recently risen above 11 hours per day for the first time since 2012. Increased utilization of freighter aircraft will help to reduce average costs, and to partly offset upward pressure on operating costs from rising fuel prices.

Heads of cargo slightly more cautious than before

- When surveyed in early-April, airline Heads of cargo were positive about the outlook for freight volumes over the year ahead, albeit slightly less than they were in the previous survey. Our respondents remained positive about the outlook for cargo yields, with the weighted-average score rising to its highest level in almost eight years. (See Chart 1.)

Chart 1 – IATA survey of heads of cargo

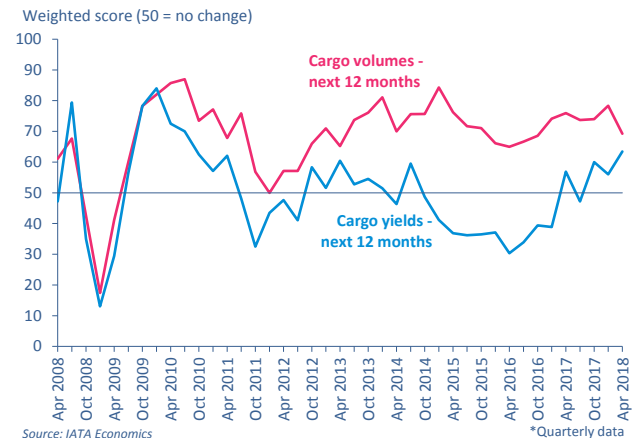


Table 1 – Key data overview

Key data overview - rolling 3 month periods

Rolling 3 month periods (unless specified otherwise)	% year-on-year	% quarter-on-quarter
Industry-wide FTKs¹	4.0%	-0.7%
North America-Asia ¹	4.7%	-0.8%
Asia-Europe ¹	2.2%	-1.1%
Europe-North America ¹	6.7%	2.2%
Within Asia (int'l) ¹	3.4%	-2.2%
Industry-wide Freight Tonnes²	5.1%	-0.3%
World trade volumes¹	3.8%	-0.6%
Global container throughput³	3.0%	-1.1%
Global PMI new export orders	Level ⁴ 51.1	5-yr avg 51.3

¹ 3m ended Apr 2018

³ 3m ended May 2018

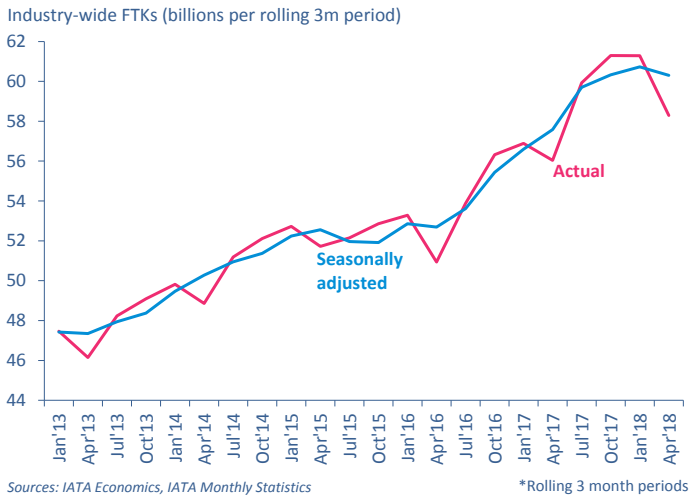
² 3m ended Mar 2018

⁴ Average of 3m ended May 2018

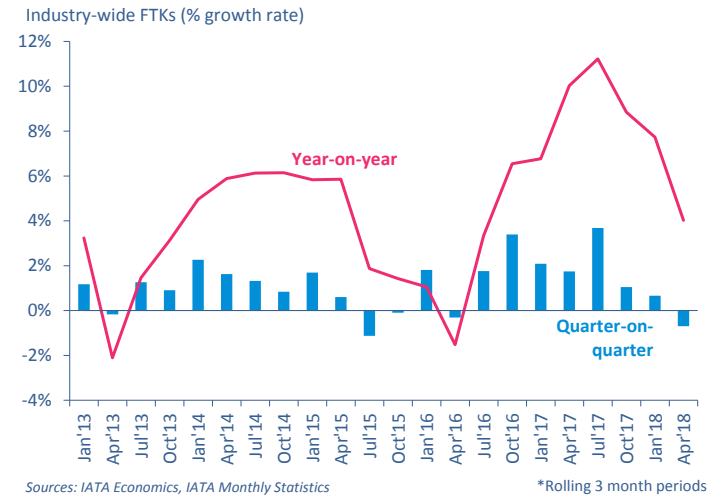
David Oxley
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 28th June 2018

Market developments

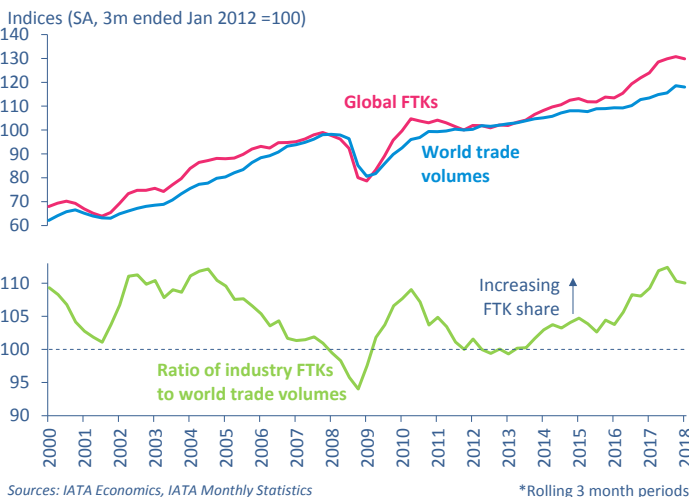
1. The strong upward trend in seasonally adjusted (SA) air freight tonne kilometres (FTKs) that was in place during much of 2016 and 2017 is now firmly behind us. SA FTKs have broadly trended sideways over the past six months or so.



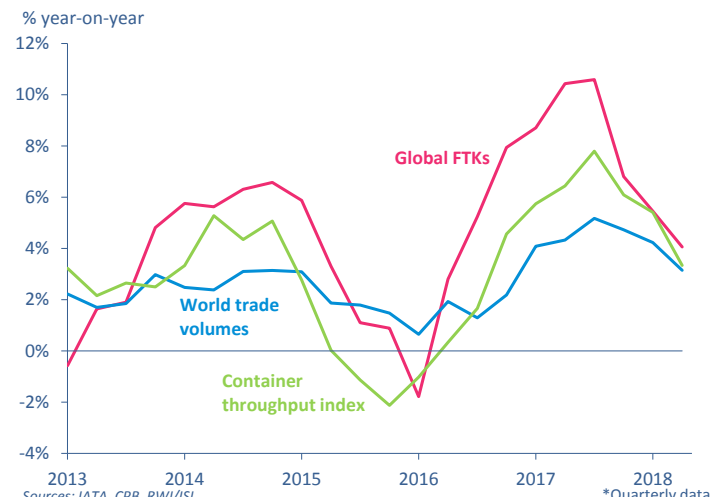
2. Year-on-year growth in FTKs slowed to an 18-month low of 4.0% in the three months ended April, with the bulk of this increase reflecting gains seen in mid-2017. Freight volumes recently fell in quarterly terms for the first time in two years.



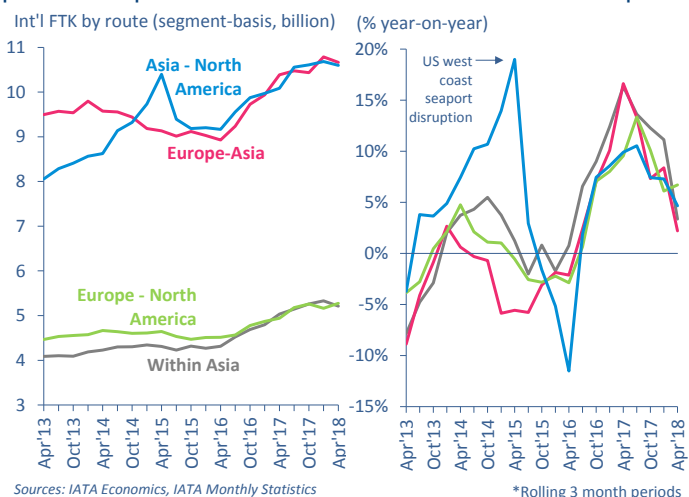
3. The sideways trend in FTKs has come alongside a continued moderate increase in global trade volumes. As a result, air freight's share of world trade has fallen, in line with the typical pattern at the end of inventory re-stocking cycles.



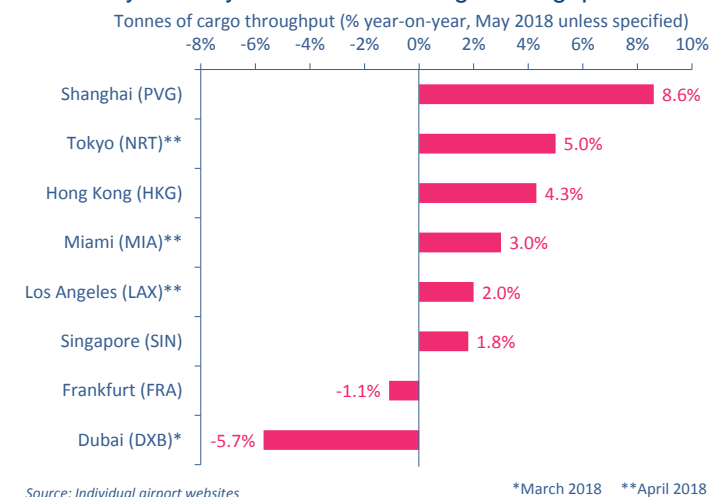
4. It is worth noting that growth in global containerized trade has also slowed in recent months. All told, it appears that wider momentum in world trade growth is weakening alongside a pick-up in protectionist rhetoric and measures.



5. Year-on-year FTK growth slowed to low single-digit territory on the key international routes in early-2018. Three of the four major routes saw freight volumes fall in SA quarter-on-quarter terms in the three months ended April.

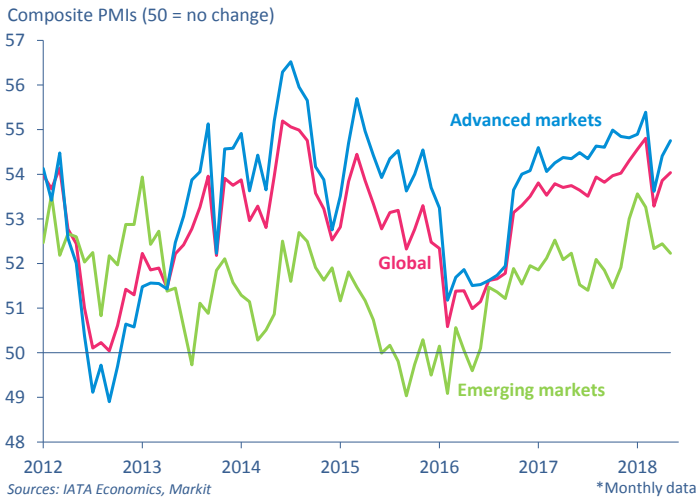


6. There has continued to be a wide range in cargo throughput performance at an airport level. Shanghai posted the fastest growth in May (8.6%), but Frankfurt and Dubai both saw year-on-year declines in cargo throughput.

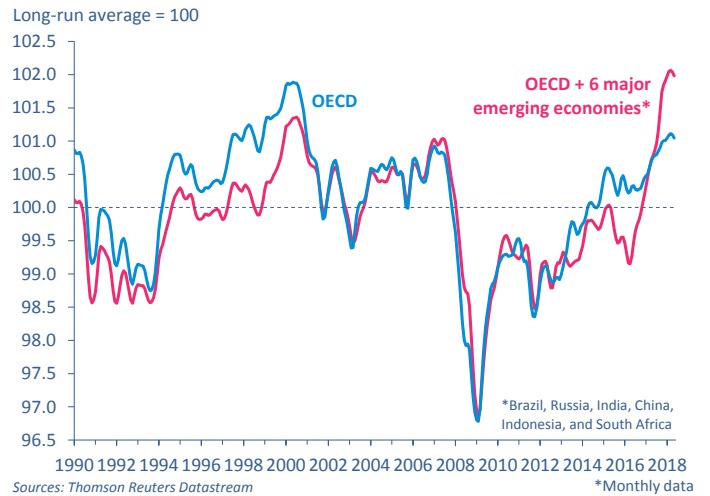


Market drivers

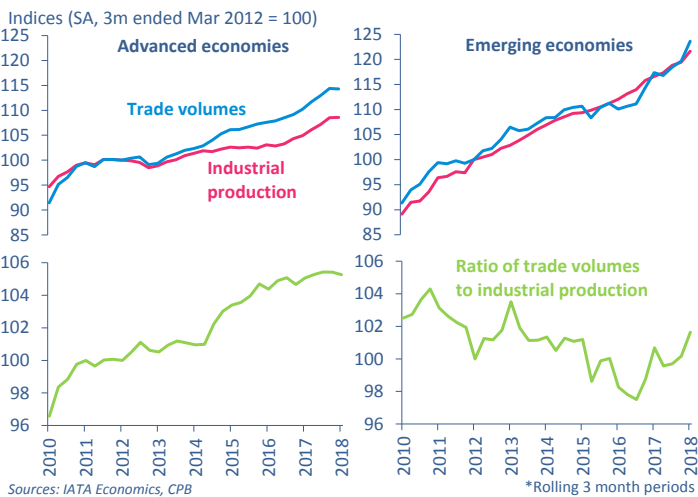
7. Global business confidence has mostly recovered from the falls seen at the start of 2018, driven by a pick-up in advanced markets. The key point is that business confidence remains at elevated levels by historical standards.



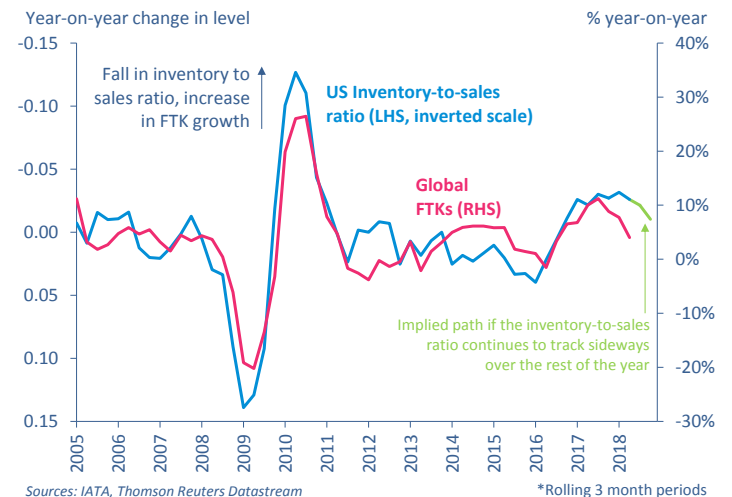
8. The same is true for consumer confidence, which should continue to translate into robust demand for air freighted goods. That said, the latest outcomes suggest that the strong upturn seen in consumer confidence may have peaked.



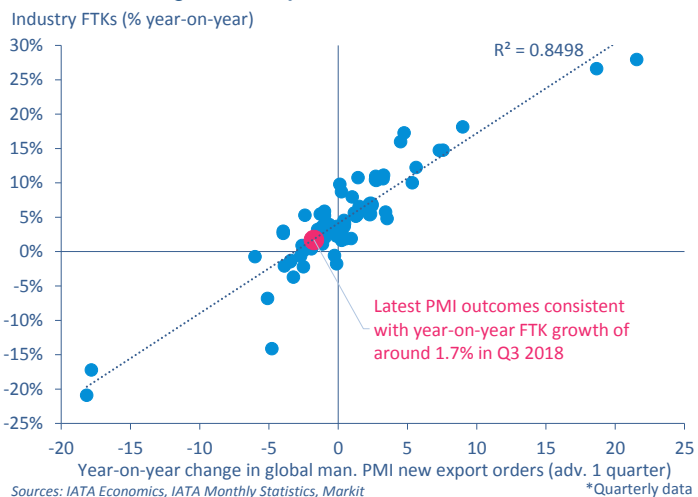
9. The pick-up in air freight demand in recent years has coincided with a stronger global economic and trade backdrop. Recent gains in world trade, however, have been driven solely by developments in emerging economies.



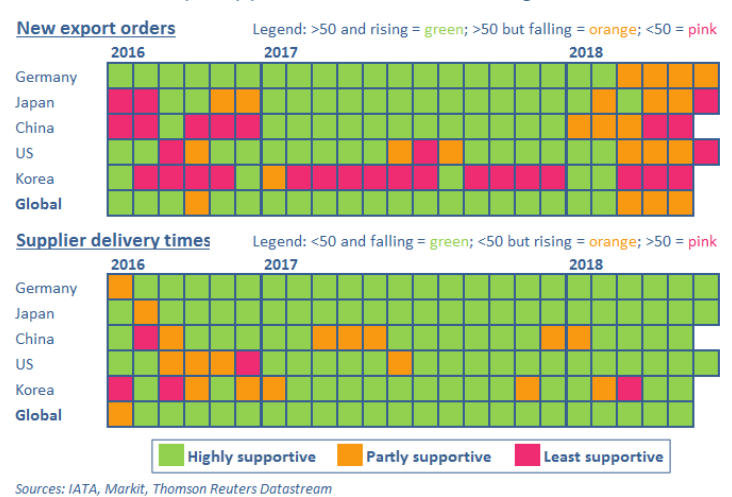
10. The current moderation in air freight demand momentum largely reflects the fact that the inventory re-stocking cycle – which was a key driver of the pick-up in demand last year – now looks to have run its course.



11. Meanwhile, the new export orders component of the global manufacturing PMI recently fell to a 21-month low too. While still consistent with rising orders, the series is pointing to annual FTK growth of just below 2% in Q3 2018.

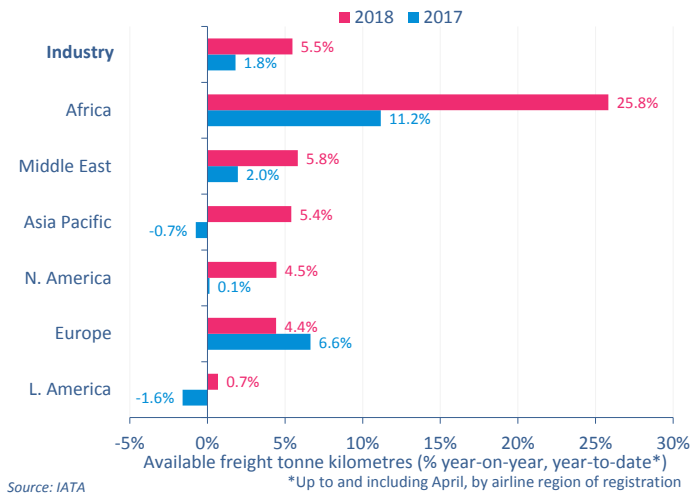


12. The moderation in new export orders has been broad-based across major trading nations since the start of 2018. However, ongoing signs of bottlenecks in supply chains may continue to help support demand for air freight.

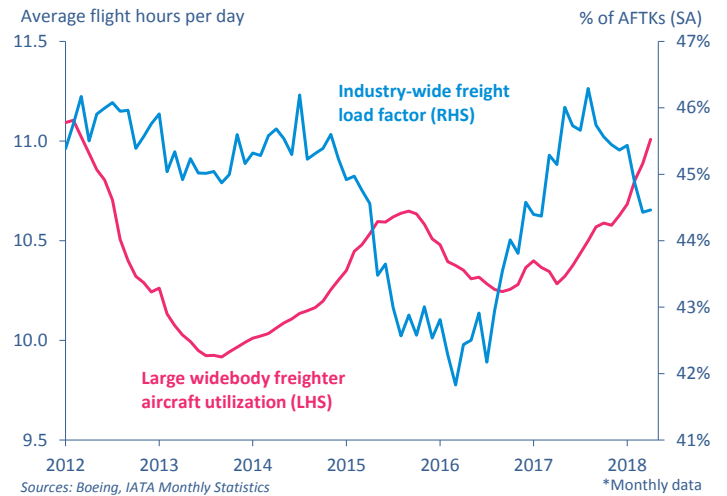


Capacity, costs, and yields

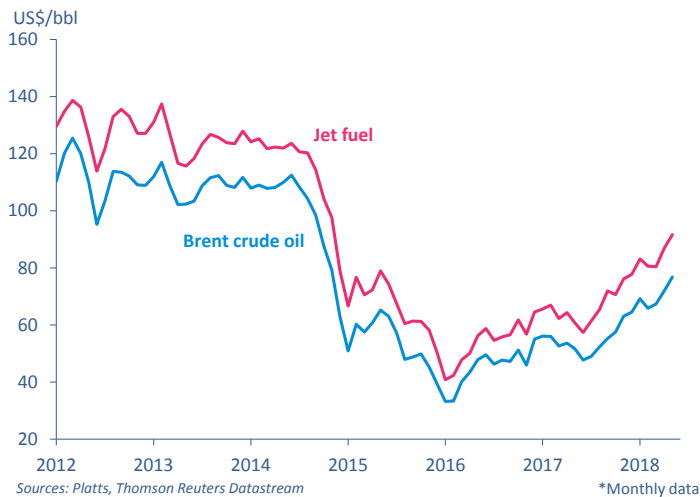
13. Year-on-year growth in industry-wide available freight tonne kilometres (AFTKs) so far in 2018 has been around three times faster than in the same period of 2017. European airlines were the only region to have slowed capacity growth.



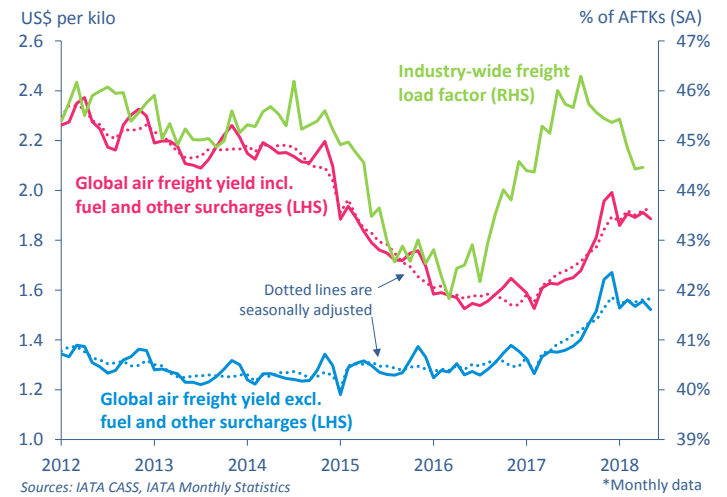
14. This has contributed to the SA freight load factor falling back since mid-2017. However, large widebody freighter utilization has continued to rise, recently exceeding 11 hours per day for the first time since 2012.



15. Robust demand and tighter supply conditions in the oil market recently pushed jet fuel prices above US\$90/bbl for the first time since 2014. While they have fallen modestly since, they remain around 60% higher than a year ago.



16. The cargo yield including fuel and other surcharges rose by 16.2% year-on-year in May 2018. However, less favorable supply and demand dynamics mean that the SA upward trend in yields has slowed from that seen in H2 2017.



Get the data

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