



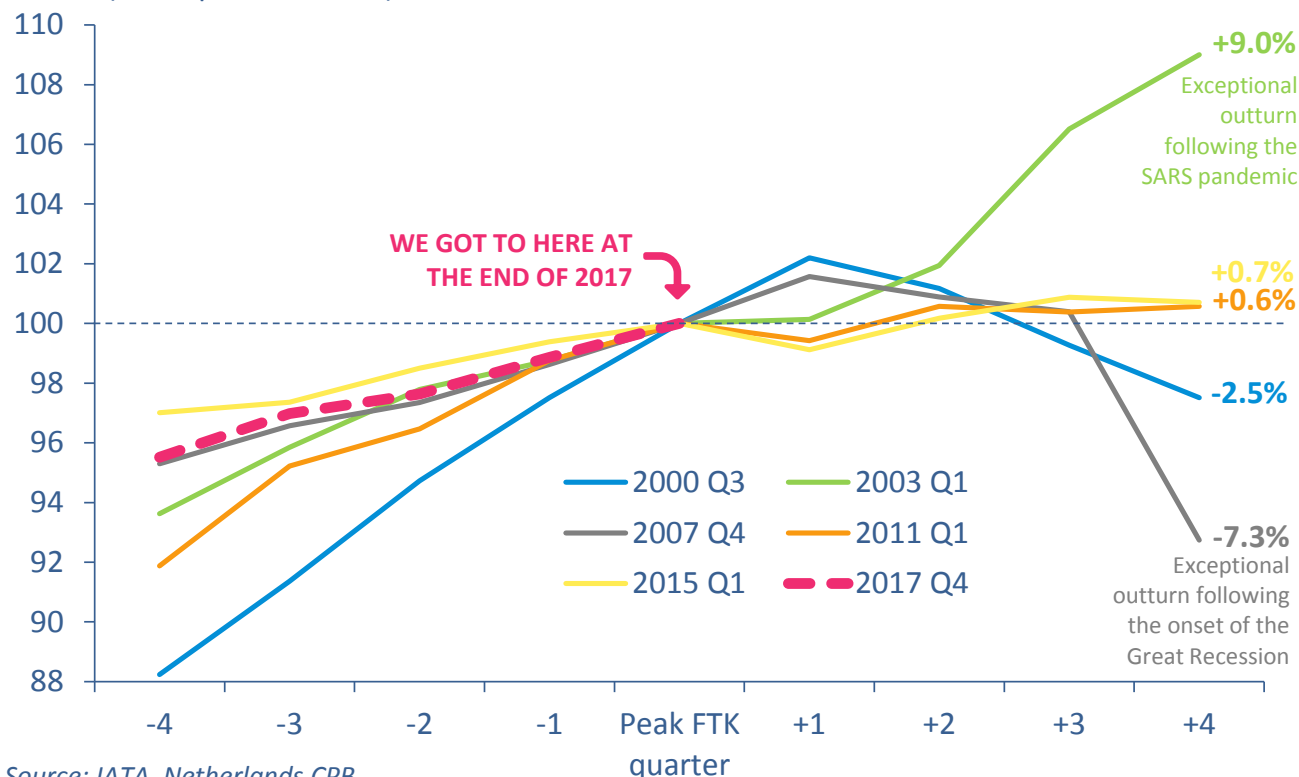
IATA ECONOMICS' CHART OF THE WEEK

4 MAY 2018

IS AIR FREIGHT INDICATING A TURNING POINT FOR WORLD TRADE?

World goods trade volumes around the time of previous peaks in air freight demand

Indices (Peak quarters = 100)



Source: IATA, Netherlands CPB

- Industry-wide freight tonne kilometres (FTKs) were broadly flat in seasonally adjusted terms in Q1 2018 – the first time in more than two years in which they have failed to post positive quarterly growth. Turning points in freight volumes have proven to be a useful and timely **indicator** of global goods trade flows in the past. Will they be a bellwether again this time?
- The five previous episodes in which FTKs have peaked have seen a wide range in trade performance over the course of the following year. Most positively, the SARS-related FTK peak seen in 2003 Q1 was associated with a large, but ultimately short-lived, impact on trade (as well as economic activity and passenger volumes) during the first half of the year; global goods trade volumes subsequently recovered to be 9% higher in year-on-year terms by Q1 2004. In contrast, the 2007 Q4 peak was associated with a very sharp decline in trade volumes following the onset of the global financial crisis.
- Putting these two perhaps atypical episodes to one side, the other instances may be more illustrative for the current situation. Global goods trade continued to rise in the quarter immediately following the FTK peak in mid-2000, but trade declined over the following quarters as economic recession took hold. Meanwhile, although global goods trade managed to increase over the four quarters after the FTK peaks at the starts of 2011 and 2015, the pace of trade growth was slower in both cases in the year following the FTK peak than in the 12 months preceding it.
- The IMF recently upgraded its forecasts for world trade growth in 2018 and 2019, but were vocal in acknowledging the downside risks to their near-term outlook. If global trade flows were to follow a similar, comparatively benign path to those seen after the FTK peaks in early-2011 and 2015, this would be consistent with full-year global goods trade growth more in the region of 2% in 2018 – less than half the IMF's current forecast. While this is not our forecast, given the rising risks from protectionism, today's chart suggests that it is prudent to be cautious about the trade outlook.

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