

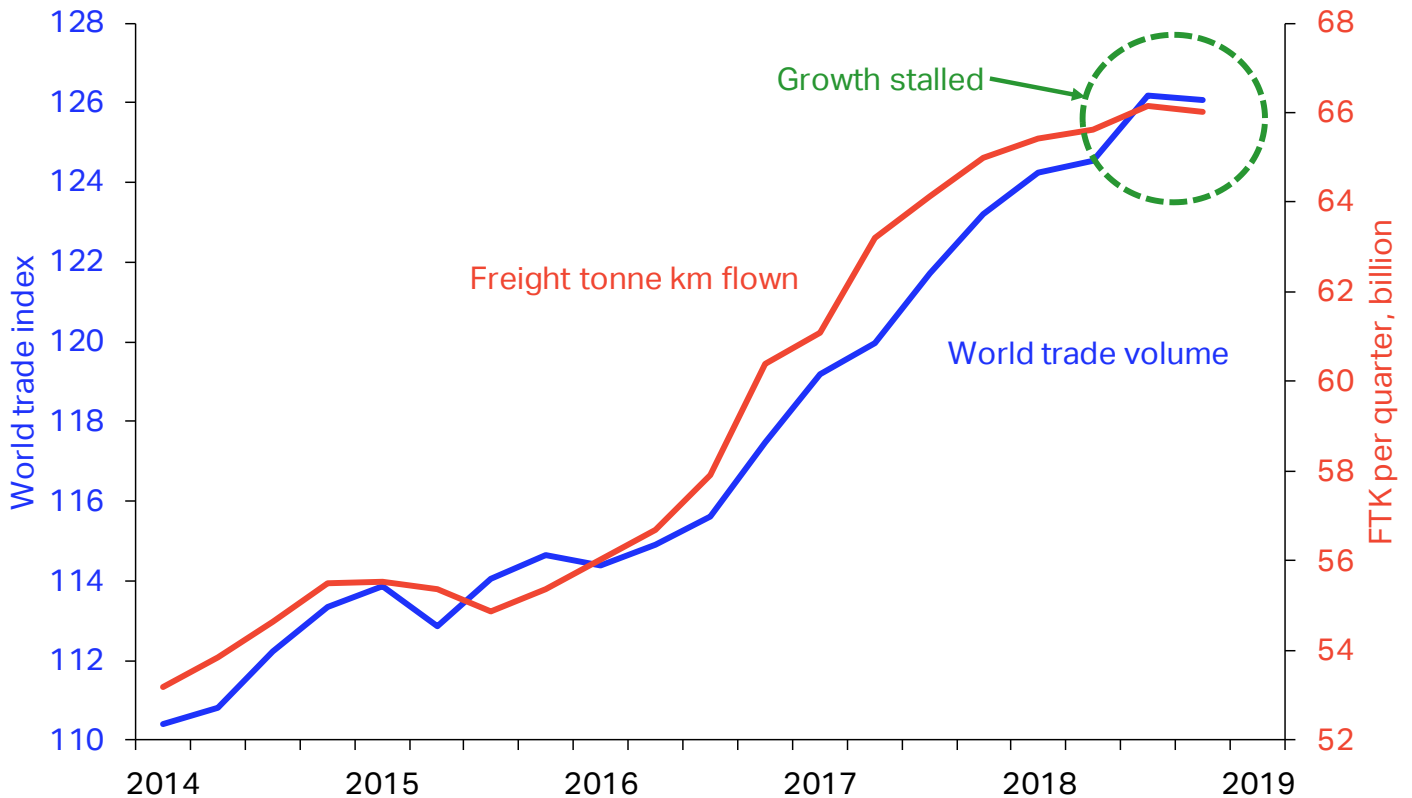


IATA Economics' Chart of the Week

1 February 2019

World trade problems cause growth in air cargo to stall

World trade volume and air freight tonne km flown



Source: IATA Statistics, Netherlands CPB

- In the final quarter of 2018 air freight tonne kilometers flown abruptly stopped growing. Air cargo grew strongly from late 2016 and during 2017, as shippers turned to air freight to rapidly restock their inventories, having been caught out by the strength of the economic upturn. Air cargo volumes then slowed sharply last year, when the inventory restocking cycle reached its end as businesses once more had comfortable levels of inventory and switched to slower but cheaper modes of transport. As a result, having gained share of world trade in 2017, air cargo started to lose share in 2018. This can be seen by the relative slopes of the lines in the chart. So far that was a typical restocking cycle. Nothing to worry about. We had expected underlying growth trends to then resume.
- However, that changed in the fourth quarter of 2018 when not only was air cargo depressed by the end of the restocking cycle, but overall world trade stopped growing. Industrial production and GDP continued to expand in the fourth quarter. The stalling of world trade reflects not weaker demand, but border frictions.
- The ongoing Brexit saga this past week is one manifestation of wider populist political pressures that have damaged cross-border trade and supply chains. Another is the tariff war between the US and China. The US threatens to more than double tariffs to 25% on \$200 billion of Chinese imports on March 2nd. Unless these wider world trade problems are resolved our forecast for 3.7% FTK growth this year is now looking rather optimistic.

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IATA Economics
economics@iata.org