



Air Freight Market Analysis

April 2019

Air cargo volumes fall as market outlook remains soft

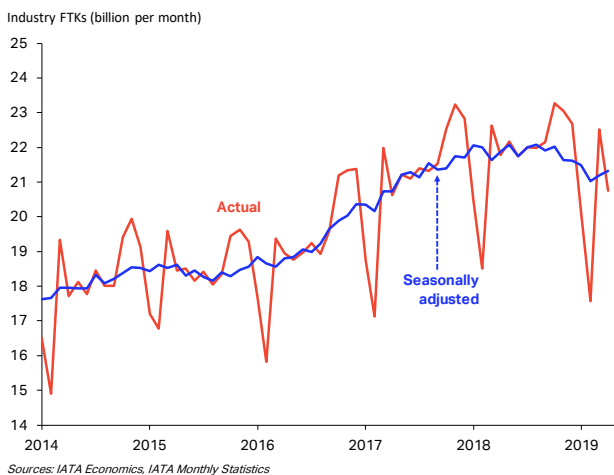
- Industry-wide freight tonne kilometres (FTKs) for April fell by 4.7% compared with their level of a year ago. The monthly outcomes have shown significant volatility over the first half of 2019, although in seasonally adjusted terms, the figures appear to have stabilized.
- At the same time, air freight capacity continues to grow moderately, up 2.6% year-on-year, meaning that the freight load factor is currently 3.5 percentage points lower than a year ago.
- All regions experienced a deterioration in year-on-year FTK growth this month, with the weakest outcomes seen in Europe, the Middle East and Asia Pacific.
- Headwinds continue to confront air freight growth, with leading indicators pointing to further near-term weakness.

Air cargo volumes fall as market outlook remains soft

Industry-wide FTK growth fell again this month, with annual growth remaining in negative territory. FTKs are currently 4.7% lower than their year-ago level, after seeing unchanged year-on-year growth last month (Chart 1).

As we have noted previously, the freight data have particularly volatile in 2019 to date. The timing of both Chinese New Year and Easter have contributed to these outcomes, clearly evident in the 'actual' (unadjusted) data series shown on Chart 1.

Chart 1: FTK levels, actual and seasonally adjusted



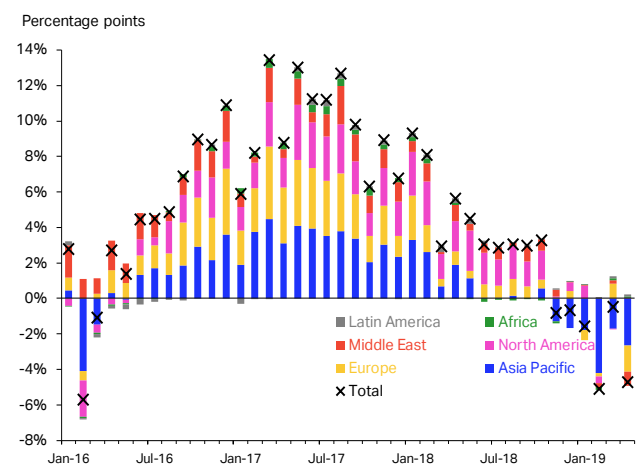
With that in mind, the seasonally-adjusted (SA) series shown above is designed to remove the impact of such regular variations. On this basis, and despite also showing a slight uptick this month, air freight

volumes are down 2.5% over the past year, remaining at around their level of mid-2017. Since their most recent peak in August 2018, freight volumes are down more than 3%.

This month is the second consecutive improvement in SA levels after the trough in February. Even so, the US-China trade dispute has continued to weigh upon the world trade outcomes and outlook, evidenced by the weakness in recent activity out of important air freight hubs such as Hong Kong and Shanghai.

The small positive contributions to annual FTK growth from Africa and Latin America in April were more than offset by worsening performances in the other larger regions (Chart 2).

Chart 2: Regional contributions to yoy FTK growth



Air freight market overview - April 2019

	World share ¹	April 2019 (% year-on-year)				% year-to-date			
		FTK	AFTK	FLF (%-pt) ²	FLF (level) ³	FTK	AFTK	FLF (%-pt) ²	FLF (level) ³
TOTAL MARKET	100.0%	-4.7%	2.6%	-3.5%	46.3%	-2.9%	3.0%	-2.8%	46.4%
International	87.5%	-5.4%	1.7%	-3.9%	51.6%	-3.4%	2.3%	-3.0%	51.7%

¹% of industry FTKs in 2018

²Year-on-year change in load factor

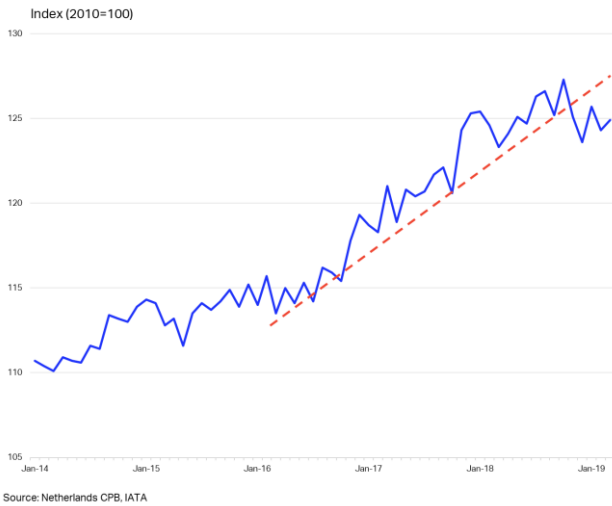
³Load factor level

Despite an uptick, trade volumes remain weak

World trade volumes moved slightly higher this month. But despite this uptick, growth remains below its three-year trend pace, at just 1.3% yoy.

Global trade volumes (Chart 3) have clearly dipped since Q4 2018, breaking the solid upwards trend that had been in place since around mid-2016. Growth in the first quarter of 2019 has stagnated, rising just 0.4% yoy over the same period last year.

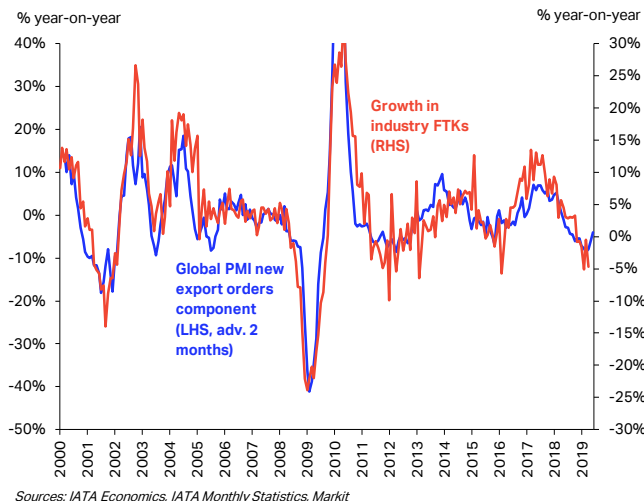
Chart 3: World trade volumes (SA, monthly data)



The latest Purchasing Managers' Index (PMI) figures for new export orders confirm the weakness in world trade. However, the rate of decline in new orders this month (around 4%) is slower than the declines in the first three months of the year, which averaged more than 7%. While a positive development, we are wary of placing too much confidence in a single monthly outcome; the broader story continues to be one of widespread weakness.

In turn, the new export orders measure provides a reliable guide to near-term developments in air freight outcomes (Chart 4).

Chart 4: FTK growth vs. new export orders

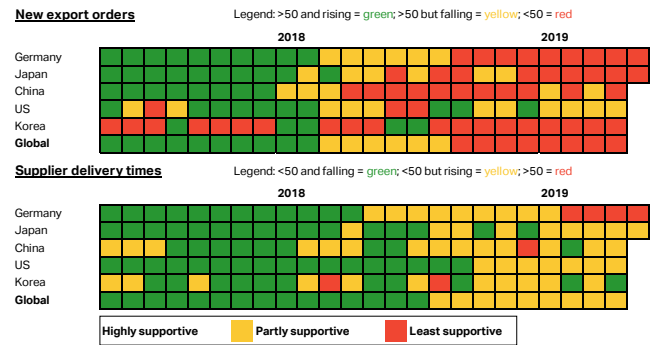


In month-on-month terms, the PMI series has increased only three times in the past 15 months and has been below the key 50-mark (ie within the area normally associated with falling export orders) since September.

The continued weakness is likely to see further subdued annual FTK growth outcomes in coming months.

Furthermore, ongoing escalation in the trade dispute between the US and China is also likely to weigh upon new export orders in the near-term. Uncertainty regarding Brexit, especially with a new British Prime Minister to take office, may result in an increase in export orders as businesses build-up inventory as a precautionary stance, 'just in case'. Any such effect, however, is likely to be temporary and offer only a partial offset to the broader weakness (Chart 5).

Chart 5: FTK demand heat-map (monthly data from manufacturing PMIs, selected countries)



Capacity continues to outpace air freight demand

Industry-wide capacity, measured by available freight tonne kilometres (AFTKs), increased by a moderate 2.6% year-on-year in April.

Over the course of the past year or so, the rate of capacity growth has slowed from a 6-7% year-on-year pace, as airlines have adjusted to the weaker demand environment.

Even so, annual capacity growth has continued to outpace that of demand for the last 12 months. This has put downwards pressure on the freight load factor, which is currently 3.5 percentage points lower than April 2018.

International FTK growth lags overall industry

The international air freight market (which accounts for approximately 87% of total global FTKs) fell slightly faster than the overall industry pace over the year to April, by 5.4%.

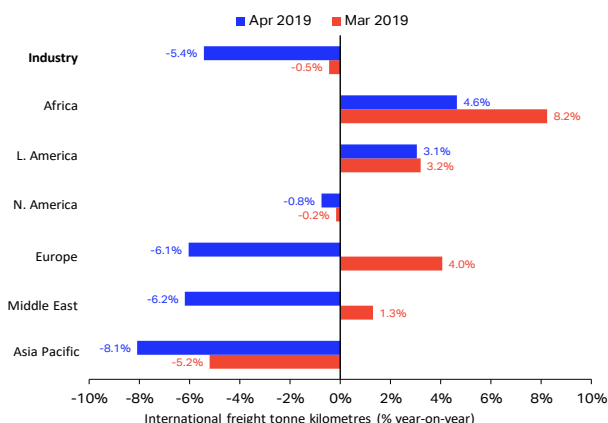
As with the total industry figure, after a relative reprieve in March, growth has returned close to the 5.4% year-on-year fall recorded in February.

Growth in international freight capacity has also lagged that of international demand, which resulted in the international freight load factor falling by 3.9 percentage points over the past year.

Africa and Latin America have maintained positive growth in international FTKs, albeit at a slower pace than that observed last month.

Asia-Pacific and North America have seen their growth trend worsen, and Europe and the Middle East have returned to negative (annual growth) territory (Chart 6).

Chart 6: International FTK growth



Sources: IATA Economics, IATA Monthly Statistics

Asia Pacific remains in contractionary territory...

The strong downward trend in international FTKs flown by Asia Pacific airlines continued in April, for the 6th consecutive month, down 8.1% compared with the level of a year ago.

With the region accounting for around 32% of total international FTKs, this weakness is an important contributor to the weak industry-wide outcome.

As the world's main manufacturing and assembly hub, the latest round of US tariffs will likely negatively impact sentiment and activity in the region further, although the latest escalation is unlikely to have come as a surprise to many.

...while Africa shows continued momentum

As in March, Africa is the strongest performer on the international market segment in April, with FTKs currently up 4.6% year-on-year. The relatively small market size (~1.5% of total international FTKs) helps to explain both the outsized month-to-month volatility and limits the overall contribution of the region to the industry-wide total.

Looking through this volatility, following strong growth in late 2016 and into 2017 which was only partly unwound last year, SA international FTKs for the African carriers are still more than 30% higher than their level of three years ago.

More regions experience deteriorating outcomes...

After a short-lived improvement last month (revised growth of 4%), air freight volumes fell sharply on this occasion, down 6.1% year-on-year in Europe.

The weakness observed in the German export orders data noted above, along with a generally subdued pace of activity in a number of the region's key economies and the ongoing lack of clarity around Brexit are all factors likely to weigh upon air freight outcomes going forward. Further, trade linkages data have suggested that a considerable number of European firms have felt the indirect effects of the US-China trade tensions and the broader downturn in world trade volumes over recent months.

Latin America – which accounts for 2.2% of the total international market – recorded a third consecutive positive annual FTK growth rate this month, with freight volumes currently up a modest 3.1% on their level of a year ago. The outlook for the key Brazil economy is for moderate growth in 2019, although structural imbalances and regional social unrest may pose challenges for air freight over the months ahead.

For North America and the Middle East, the latest outcomes are weaker, with annual growth of -0.8% and -6.2% year-on-year, respectively.

In SA terms, growth in freight volumes for the North American airlines has been easing for much of the past 15 months to 1.9% in April.

As a result, a downwards trend has emerged, despite the solid domestic economic performance and a more accommodative monetary policy stance. Global headwinds are likely to continue to impact air freight outcomes in the coming months, especially with the recent escalation in US-China trade tensions.

For the Middle East carriers, following signs of an improvement in SA air freight volumes in Q2 and Q3 of 2018, a downwards trend has established itself in the period since. While also impacted by the global headwinds, region-specific challenges, including the impact of structural changes in the industry, have contributed to a challenging business environment. Looking at the market-level data (segment basis), freight volumes to and from Europe and Asia Pacific are growing, but a double-digit decline for the key North America market highlights some of the issues facing the region's carriers.

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Air freight market detail - April 2019

	World share ¹	April 2019 (% year-on-year)				% year-to-date			
		FTK	AFTK	FLF (%-pt) ²	FLF (level) ³	FTK	AFTK	FLF (%-pt) ²	FLF (level) ³
TOTAL MARKET	100.0%	-4.7%	2.6%	-3.5%	46.3%	-2.9%	3.0%	-2.8%	46.4%
Africa	1.7%	4.4%	12.6%	-2.9%	37.4%	1.4%	10.8%	-3.4%	37.1%
Asia Pacific	35.4%	-7.4%	-0.1%	-4.1%	51.8%	-7.0%	0.9%	-4.3%	50.4%
Europe	23.4%	-6.2%	4.2%	-5.5%	49.6%	-1.4%	4.6%	-3.2%	52.2%
Latin America	2.6%	5.0%	18.7%	-4.3%	32.5%	3.0%	11.8%	-2.7%	31.2%
Middle East	13.3%	-6.2%	0.7%	-3.4%	45.8%	-1.6%	2.9%	-2.1%	46.3%
North America	23.7%	0.1%	2.5%	-1.0%	40.5%	0.4%	2.4%	-0.8%	40.6%
International	87.5%	-5.4%	1.7%	-3.9%	51.6%	-3.4%	2.3%	-3.0%	51.7%
Africa	1.6%	4.6%	12.9%	-3.0%	38.1%	1.8%	10.9%	-3.4%	37.9%
Asia Pacific	31.4%	-8.1%	-1.0%	-4.5%	58.4%	-7.7%	-0.3%	-4.5%	57.0%
Europe	23.0%	-6.1%	2.9%	-4.9%	51.9%	-1.2%	4.1%	-2.9%	54.0%
Latin America	2.2%	3.1%	20.8%	-6.9%	40.1%	1.8%	13.6%	-4.5%	39.4%
Middle East	13.3%	-6.2%	-0.5%	-2.8%	46.7%	-1.6%	2.7%	-2.1%	46.8%
North America	15.9%	-0.8%	2.0%	-1.3%	48.4%	-0.5%	1.1%	-0.8%	48.7%

¹% of industry FTKs in 2018

²Year-on-year change in load factor

³Load factor level

Note: the total industry and regional growth rates are based on a constant sample of airlines combining reported data and estimates for missing observations. Airline traffic is allocated according to the region in which the carrier is registered; it should not be considered as regional traffic. Historical statistics are subject to revision.

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