



# Air Freight Market Analysis

February 2019

## Air cargo volumes fall further in February

- Industry-wide freight tonne kilometres (FTKs) for February were 4.7% below their level of February 2018; the slowest annual rate of growth in three years.
- In contrast to demand, air freight capacity has grown moderately over the past 12 months, rising by 2.7% in year-on-year terms. Consequently, the freight load factor is currently 3.5 percentage points lower than a year ago.
- Latin America was the only region to register a positive year-on-year rate of FTK growth this month.
- The negative impact of the softness in global trade and economic indicators is becoming increasingly evident in the recent air freight outcomes. Ongoing trade tensions continue to weigh upon the industry.

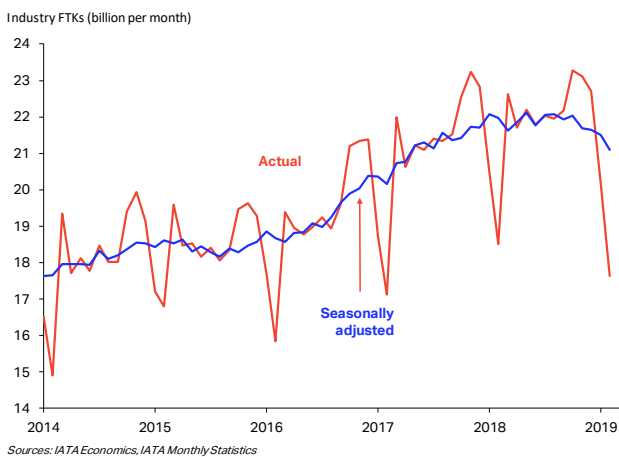
### Air cargo volumes continue to fall

Industry-wide FTK growth maintained its weak start to 2019 in the latest data. Air cargo volumes in February were a sizeable 4.7% lower than their year-ago level.

This marked the 4<sup>th</sup> consecutive month of negative year-on-year growth, and is the slowest pace in three years. Although February typically delivers a soft outcome, the outsized nature of this month's decline is clear (Chart 1).

In seasonally-adjusted (SA) terms, where we adjust for the regular monthly data volatility, the level of FTKs has fallen by around 4.5% over the past six months, following a period of relative stability.

**Chart 1: FTK levels, actual and seasonally adjusted**



SA FTKs are now clearly trending downwards and have returned to levels last seen in the middle months

### Air freight market overview - February 2019

	World share <sup>1</sup>	February 2019 (% year-on-year)				% year-to-date			
		FTK	AFTK	FLF (%-pt) <sup>2</sup>	FLF (level) <sup>3</sup>	FTK	AFTK	FLF (%-pt) <sup>2</sup>	FLF (level) <sup>3</sup>
<b>TOTAL MARKET</b>	<b>100.0%</b>	<b>-4.7%</b>	<b>2.7%</b>	<b>-3.5%</b>	<b>44.7%</b>	<b>-3.1%</b>	<b>3.8%</b>	<b>-3.2%</b>	<b>44.8%</b>
International	87.4%	-4.9%	2.7%	-4.0%	50.0%	-3.6%	3.3%	-3.6%	49.6%

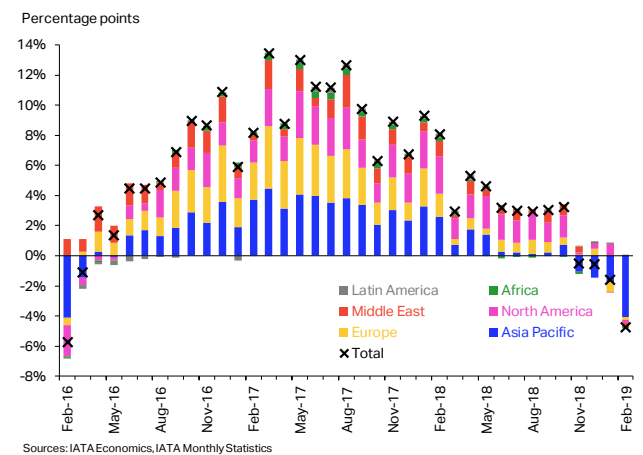
<sup>1</sup>% of industry FTKs in 2018

<sup>2</sup>Year-on-year change in load factor

<sup>3</sup>Load factor level

of 2017. The deterioration in freight demand over the recent period has been broad-based, across all regions (Chart 2).

**Chart 2: Regional contributions to yoy FTK growth**



### Weakness in trade and leading indicator outcomes...

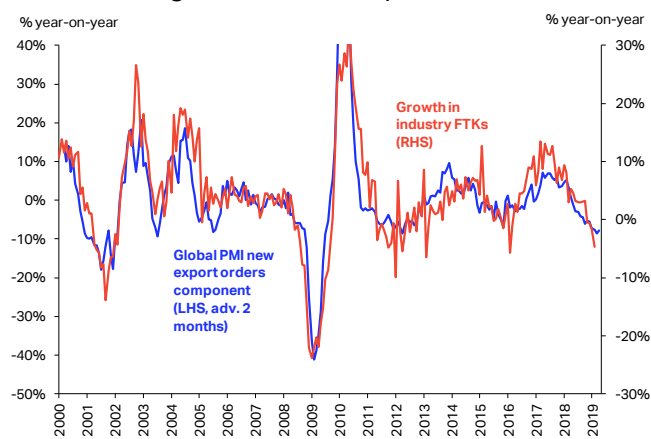
We have noted previously that a pull-back in FTK growth was to be expected following the temporary boost to air freight demand from the global inventory restocking cycle, which delivered near double-digit growth in 2017.

However, the growth declines being observed currently go well beyond that effect, reflecting the increasing headwinds to freight demand from the weakness observed in global trade and economic indicators as well as a number of the key air freight demand drivers.

One of the more reliable leading indicators that we monitor closely is the new export orders component of the global manufacturing Purchasing Managers' Index (PMI).

As Chart 3 shows, developments in new export orders have provided a steady and enduring guide to near-term air freight outcomes.

**Chart 3: FTK growth vs. new export orders**



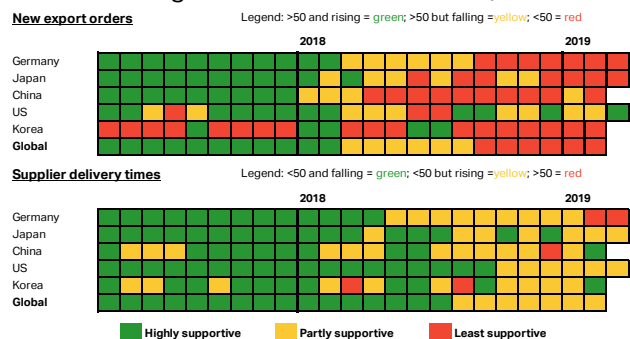
Sources: IATA Economics, IATA Monthly Statistics, Markit

In month-on-month terms, the PMI series has increased only once in the past 14 months and has been below the key 50-mark (ie within the area normally associated with falling export orders) since September.

At current levels, the indicator continues to suggest that annual FTK growth is likely to remain subdued over the coming months at least.

The latest country-level export orders data which underpin the global PMI series show that the weakness has been widespread across the world's major exporting nations – with the exception of the US – since around the middle of 2018 (Chart 4).

**Chart 4: FTK demand heat-map (monthly data from manufacturing PMIs, selected countries)**



Sources: IATA, Markit, Thomson Reuters Datastream

### Capacity growth is still outpacing demand

Industry-wide capacity, measured by available freight tonne kilometres (AFTKs), increased by a moderate 2.7% year-on-year in February. This represents the slowest rate of annual growth since February 2017.

Even so, annual capacity growth has now outpaced that of demand for each of the past ten months, with the growth differential steadily widening over this period.

For February 2019, the industry-wide freight load factor is 3.5 percentage points lower than its year-ago level.

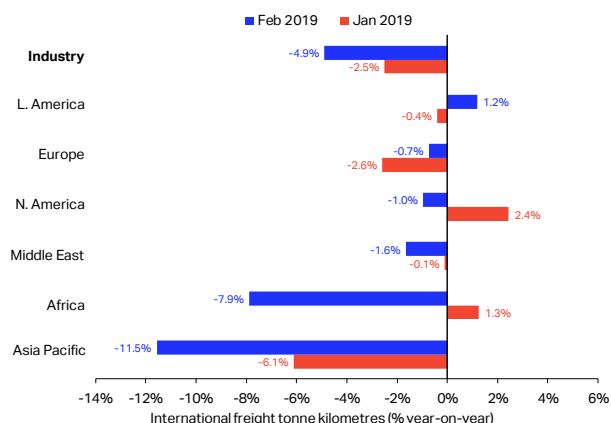
### International FTK growth weakens further in February

The international air freight market (approximately 87% of total global FTKs) is currently performing slightly weaker than the overall industry-wide outcome. International FTKs for February are 4.9% lower in year-on-year terms, softening further from a decline of 2.5% in the year to January.

International freight capacity has grown in line with the global aggregate (2.7%yoy) and so the international freight load factor has fallen a little further over the past year, by an even 4 percentage points).

The widespread weakness in air freight demand over the past year is clear from Chart 5, where only Latin America is (just) showing a positive year-on-year rate of growth.

**Chart 5: International FTK growth**



Sources: IATA Economics, IATA Monthly Statistics

### Asia Pacific airlines register a double-digit decline

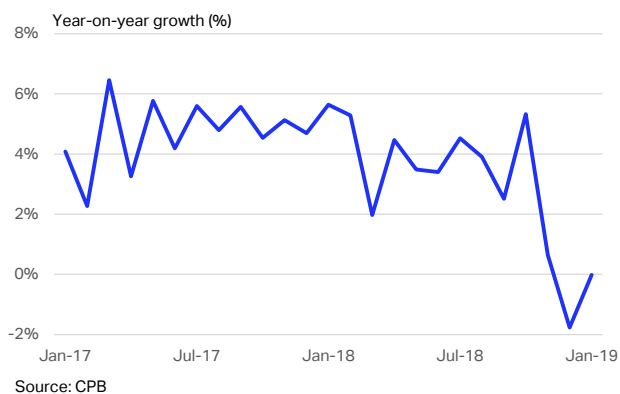
As a result of being located in the world's main manufacturing and assembly hub, airlines based in Asia Pacific transport the largest share of total international FTK traffic, at 31.5% in 2018.

FTKs flown by AsiaPac airlines have fallen by a very substantial 11.5% over the past year. Consequently, this region alone is responsible for around 75% of the overall industry-wide fall over the past year.

Ongoing trade tensions which are now being reflected in lower trade growth outcomes (Chart 6, over) along with some indications of a slowing in the Chinese economy are factors impacting the recent outcomes for the region. Annual FTK growth has now been negative for four consecutive months.

With cargo typically accounting for a larger part of an airline's operations in this region compared with elsewhere, sustained weakness in air freight demand will weigh heavily on the overall performance of AsiaPac carriers.

**Chart 6: World trade volumes (SA, % change, monthly data)**



**Africa volumes also fall substantially...**

African carriers also saw a considerable decline in FTKs this month, compared with a year ago; freight volumes are down almost 8% year-on-year.

The African market is much smaller than Asia Pacific (1.5% of total international FTKs in 2018) and the data can be more volatile, as we have seen in recent months. Looking through this, 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 around 25% higher than their level of three years ago.

**...with more modest declines elsewhere...**

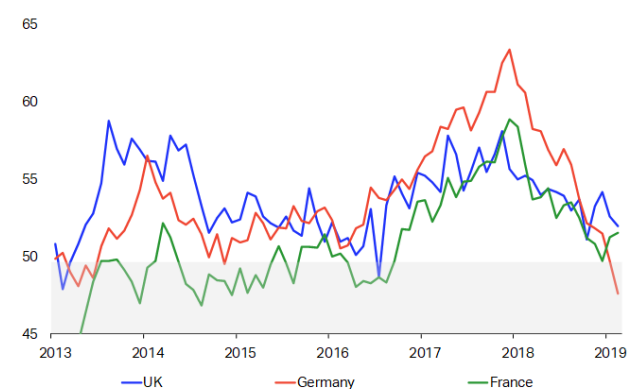
Year-on-year growth also declined this month for airlines in Europe, North America and the Middle East, albeit by a considerably smaller magnitude than that observed in either Asia Pacific or Africa.

The falls in these three regions were quite tightly clustered on this occasion ranging from -0.7 in Europe (the second largest region for international FTKs accounting for almost 25% of the total in 2018), to an even -1.0% for the North American carriers and a moderate decline of 1.6% in year-on-year terms for the Middle East carriers.

In Europe, the decline is consistent with the signals given by the German export orders data noted above as well as the significant easing in business confidence (Chart 7) in the region. The ongoing lack of clarity around Brexit and broader concerns regarding global trade tensions are also likely to be contributing factors.

**Chart 7: European business confidence – measured by manufacturing PMIs**

50=no change, seasonally adjusted



In North America, this month's outcome was the first negative annual growth rate since mid-2016. The outcome appears at odds with the more upbeat export orders data and we will be monitoring trade developments closely to understand how this situation is likely to play out. A robust US economy which has supported jobs growth and consumer spending has been an important contributor to recent cargo market outcomes for carriers in this region.

For the Middle East carriers, following signs of an improvement in SA volumes in Q2 and Q3 of 2018, a clear downwards trend has established itself over the past six months. Having fallen by around 6.5% from the most recent peak in October 2018, SA FTKs this month returned to levels last seen in September 2017. In the latest route-level data (January), weak outcomes or declines (notably a 9.7% fall in year-on-year FTKs with North America) are apparent across all of the region's key air cargo markets.

**...and an increase in annual freight volumes for Lat.Am**

As noted above, Latin America was the only region to post a positive annual FTK growth rate this month, reversing the modest and short-lived decline observed in the January data.

In SA terms, Latin American airlines also delivered a positive annual FTK growth rate – the first in six months. Having said that, it is premature to think this marks a sound upswing for air cargo; a clear trend in the recent data is yet to assert itself, unsurprising given the ongoing political and economic uncertainty in various parts of the region.

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 3 April 2019

## Air freight market detail - February 2019

	World share <sup>1</sup>	February 2019 (% year-on-year)				% year-to-date			
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Africa	1.7%	-8.5%	6.8%	-6.1%	36.3%	-3.6%	7.6%	-4.2%	35.8%
Asia Pacific	35.5%	-11.6%	-3.7%	-4.2%	47.3%	-7.9%	-0.2%	-4.1%	48.8%
Europe	23.3%	-1.0%	4.0%	-2.6%	53.0%	-1.9%	3.7%	-2.9%	51.4%
Latin America	2.6%	2.8%	14.1%	-3.3%	29.7%	1.5%	7.6%	-1.8%	29.4%
Middle East	13.3%	-1.6%	3.1%	-2.2%	46.6%	-0.9%	3.5%	-2.0%	45.3%
North America	23.6%	-0.7%	7.1%	-3.0%	37.9%	1.5%	7.8%	-2.4%	38.4%
<b>International</b>	<b>87.4%</b>	<b>-4.9%</b>	<b>2.7%</b>	<b>-4.0%</b>	<b>50.0%</b>	<b>-3.6%</b>	<b>3.3%</b>	<b>-3.6%</b>	<b>49.6%</b>
Africa	1.6%	-7.9%	6.3%	-5.7%	37.2%	-3.2%	7.7%	-4.1%	36.6%
Asia Pacific	31.5%	-11.5%	-3.9%	-4.7%	54.5%	-8.6%	-1.5%	-4.3%	55.1%
Europe	23.0%	-0.7%	3.7%	-2.5%	54.7%	-1.7%	3.4%	-2.8%	53.0%
Latin America	2.2%	1.2%	15.6%	-5.4%	37.7%	0.4%	7.8%	-2.8%	37.8%
Middle East	13.3%	-1.6%	3.2%	-2.3%	47.0%	-0.9%	3.6%	-2.1%	45.6%
North America	15.8%	-1.0%	9.5%	-4.6%	44.0%	0.8%	9.8%	-3.9%	44.3%

<sup>1</sup>% of industry FTKs in 2018

<sup>2</sup>Year-on-year change in load factor

<sup>3</sup>Load 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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