



Air Freight Market Analysis

July 2019

Air cargo volumes remain weak, trade tensions dent outlook

- Industry-wide freight tonne kilometres (FTKs) declined by 3.2% year-on-year in July reflecting the widespread softness in world trade and a number of economic indicators.
- The weakness in air freight volumes remains broad-based across regions in July. While the largest falls came from Asia Pacific and the Middle East, Africa went against the trend to record double-digit year-on-year FTK growth.
- Growth in industry-wide air freight capacity increased to 2.6% year-on-year in July, but is still well below the average monthly pace (5.3%) in 2018. With capacity continuing to outpace demand, the freight load factor has eased by 2.7 percentage points over the past twelve months.

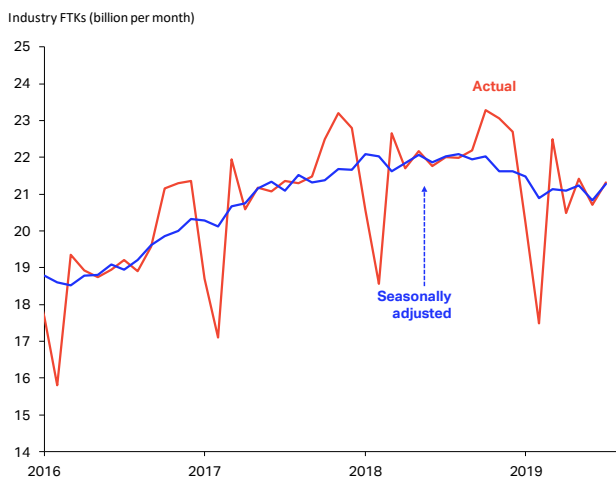
Air cargo volumes remained weak in July

Annual growth in air freight tonne kilometres (FTKs) remained in negative territory in July, down by 3.2% in year-on-year terms. This is the 9th consecutive month of year-on-year decline in air freight volumes.

The seasonally-adjusted series (which removes the regular seasonal fluctuations in the data) showed month-on-month improvement in July, but it follows a fall of comparable magnitude in June. Indeed, FTKs remain 3.4% lower than their level in July 2018. Hence, this month's rise cannot be viewed as an indication of trend change (Chart 1).

Indeed, new tariff increases in the ongoing US-China trade dispute together with the temporary disruption to Hong Kong airport operations increase the chances of a weaker data outturn in August.

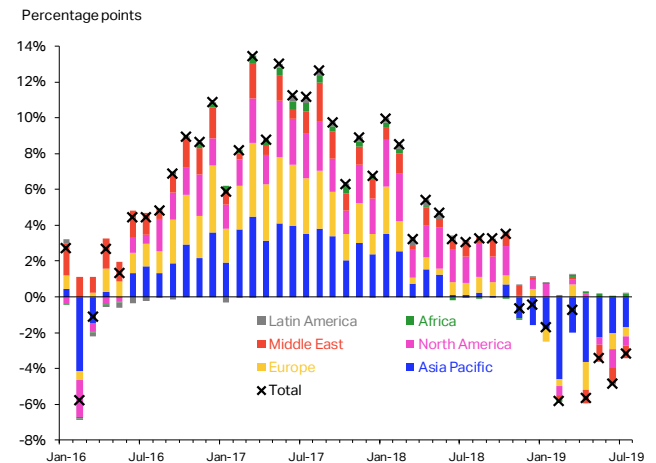
Chart 1: FTK levels, actual and seasonally adjusted



Sources: IATA Economics, IATA Monthly Statistics

Once again, the regional contribution to the decline in FTKs was broad-based. All regions except for the smallest regions of Latin America and Africa (with shares of 2.9% and 1.8% of total global FTKs, respectively) posted a decline this month (Chart 2).

Chart 2: Regional contributions to y-o-y FTK growth



Sources: IATA Economics, IATA Monthly Statistics

Asia Pacific, which has a ~35% share in global FTKs, again accounted for the bulk of the annual decline in industry-wide FTKs. 1.7 percentage points (approximately half) of the current 3.5% year-on-year decline came from Asia Pacific alone. The other large regions of North America and Europe (60% of global FTKs combined) each accounted for 0.5 percentage points of the current year-on-year decline.

Overall, in the first seven months of the year air freight volumes, were 3.5% lower than their level over the same period a year ago. With further tariff increases

Air freight market overview - July 2019

| | World share ¹ | July 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% | -3.2% | 2.6% | -2.7% | 45.0% | -3.5% | 2.2% | -2.7% | 46.3% |
| International | 87.4% | -3.8% | 2.3% | -3.2% | 49.9% | -4.2% | 1.8% | -3.2% | 51.3% |

¹% of industry FTKs in 2018

²Year-on-year change in load factor

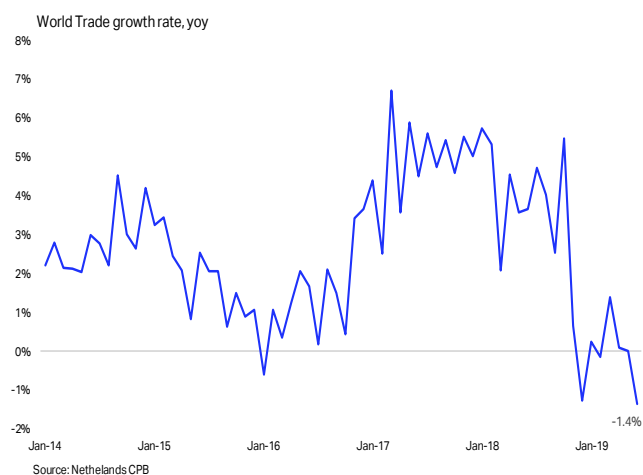
³Load factor level

scheduled to come into effect, leading to a more pronounced impact of the US-China trade war in the remainder of the year, 2019 could be the first year since 2009 that the global air freight market shrinks.

Persistent weakness in trade and leading indicators

The current moderation in annual FTK growth rate is consistent with growing signs of a deterioration in world trade and economic indicators. According to the latest (June) data, world trade volumes are currently 1.4% lower than a year ago (Chart 3) after a short-lived improvement in recent months.

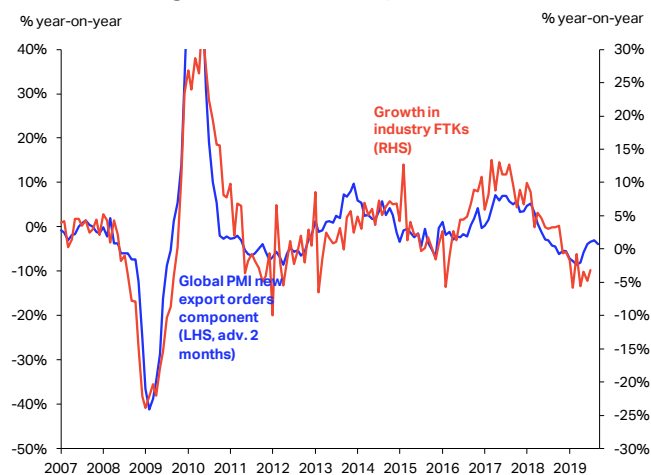
Chart 3: Growth in world trade volumes (seasonally-adjusted data)



In the first seven months of 2019 trade volumes between US and China fell by 14% compared to the same period of 2018, highlighting the impact of the intensified trade dispute between the two countries.

The new export orders component of the global Purchasing Managers' Index (PMI), which is a reliable leading indicator of FTK movements, has been below 50-mark (the region that shows that export orders are deteriorating) for the last 11 months and eased further in July (Chart 4).

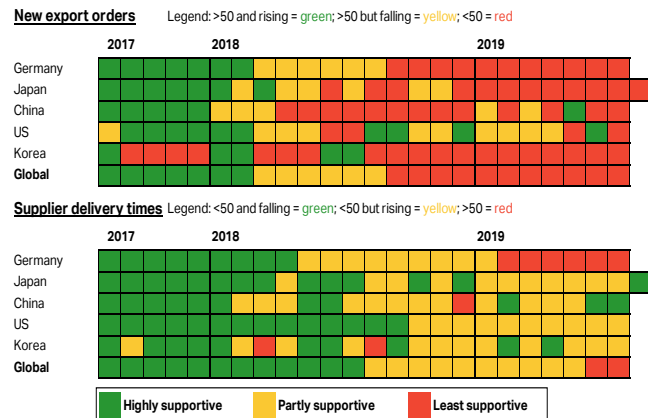
Chart 4: FTK growth vs. new export orders



Sources: IATA Economics, IATA Monthly Statistics, Markit

At the country level, the new export orders data reaffirm that the weakness has been broad-based across all of the world's major exporting nations (Chart 5).

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



Sources: IATA, Markit, Thomson Reuters Datastream

This has been the case since the last quarter of 2018, but June is the first time since February 2009 that new export orders are below the 50-mark in all the key countries. This indicates a possible structural slowdown in the underlying trend rather than a temporary weakening.

In July, Germany recorded its steepest drop in new export orders since 2009 indicating the outlook for German economy remains bleak following the negative GDP growth figure in 2Q19. Similarly, in South Korea new export orders fell at their fastest rate in the last six years, indicating a fragile outlook for one of the world's key air cargo markets.

Capacity growth still modest

Industry-wide capacity, measured by available freight tonne kilometres (AFTKs), increased by a moderate 2.6% year-on-year in July, which was somewhat higher than the average pace of the past three months (1.4%).

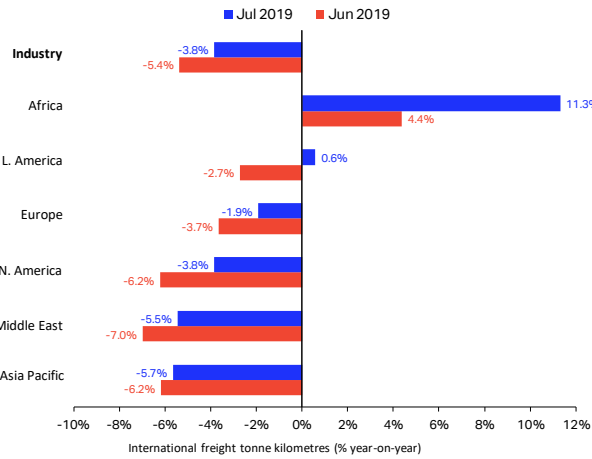
This marks the 9th consecutive month in which annual capacity posted growth while demand declined. As a result, the freight load factor is currently down a solid 2.7 percentage points compared to its level of a year ago.

International FTK growth softer than overall industry

The international air freight market, which is 87% of total global FTKs, continued to underperform the overall industry-wide outcome.

Following a sharp year-on-year decline of 5.4% in June, international FTKs were 3.8% below their level in July 2018 (Chart 6).

Chart 6: International FTK Growth



Sources: IATA Economics, IATA Monthly Statistics

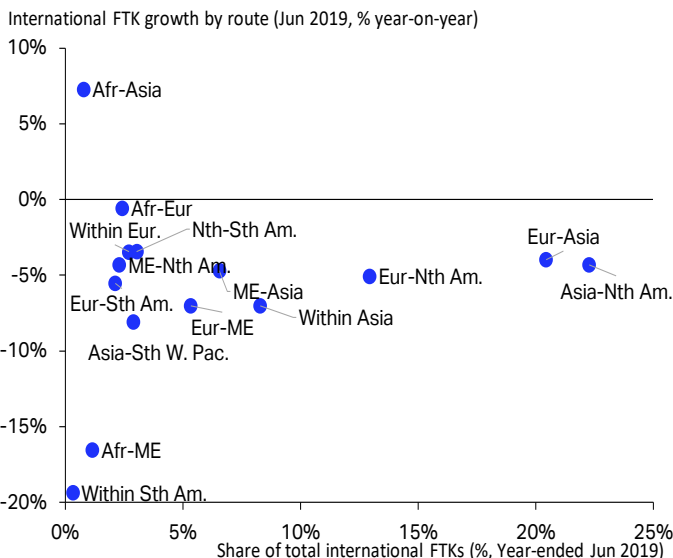
Having said, that international freight capacity has increased (up 2.3% yoy) at a slower pace than the global aggregate as airlines adjust their capacity growth in response to declining demand. As a result the international freight load factor fell by 3.2 percentage points over the past year.

Africa showed the strongest y-o-y growth

Regional performance generally remained weak in July. International air cargo volumes in the biggest markets deteriorated. Only the smaller markets, such as Africa and Latin America posted growth compared to the prior year.

Africa was the standout region again this month, recording a double-digit increase in cargo volumes over the past year, at 11.3%. The strong recent outcomes observed for the Africa region are, in part, related to the strong inbound investment flows, especially from Asia Pacific. Evidencing this, note the strong performance at a route-area level for cargo flows between these two regions (Chart 7).

Chart 7: International FTKs by route (segment-based)



Sources: IATA Economics, IATA Monthly Statistics by Route

On the capacity side, AFTKs in Africa also grew very strongly, up 17% year-on-year. As a result, and despite the rapid pace of FTK growth, the load factor eased by 1.8 percentage points over the past year.

Asia Pacific continues to be the weakest region...

Ongoing trade tensions and indications of moderating growth in the Chinese economy continues to impact air freight volumes in Asia Pacific. Even with the strong growth on Asia-Africa routes (which is a small market), international FTKs for the Asia Pacific airlines are 5.7% lower compared to their level of a year ago.

In addition, the slowing economic growth in China has implications for other economies in the region. For the Within Asia market, FTKs are down by 7% compared to the previous year. Air cargo volumes to/from Europe, which was more resilient in the previous months, have now fallen by 4.0% in year-on-year terms.

...outcomes remain soft for NthAmerica & Middle East

North America and the Middle East regions continued to post weak growth outturns in July. The air cargo market in North America recorded a year-on-year decline of 3.9%. Although a generally sound economic backdrop in the US supports consumer spending and air passenger demand, trade tensions continue to weigh on cargo market outcomes for carriers in this region. FTKs are down by around 5% on routes to/from Asia in June compared to the previous year.

The Middle East airlines showed the second sharpest drop in freight volumes, after Asia-Pacific, on this occasion, with FTKs down 5.5% year-on-year. The impact of escalated geopolitical tensions as well as the broader slowing in global trade activity and airline restructuring in the region have all played a part in the recent softness.

Europe & Latin America show only modest moves

FTKs for Europe fell by 1.9% over the past year, consistent with the signals given by the new export orders data and heightened recession fears in the region. In addition, ongoing trade tensions and Brexit uncertainty continued to impact air cargo volumes in the region.

In Latin America, cargo volumes grew by 0.6% year-on-year in July, despite relatively soft economic growth forecasts for a number of the region's key economies. While the Brazilian economy recovered in Q2 to avoid recession, concerns regarding the outlook for Argentina & possible spillover effects to elsewhere in the region means that we remain cautious about the sustainability of this month's FTK improvement.

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 5 September 2019

Air freight market detail - July 2019

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|----------------------|--------------------------|----------------------------|-------------|-------------------------|--------------------------|----------------|-------------|-------------------------|--------------------------|
| | | FTK | AFTK | FLF (%-pt) ² | FLF (level) ³ | FTK | AFTK | FLF (%-pt) ² | FLF (level) ³ |
| TOTAL MARKET | 100.0% | -3.2% | 2.6% | -2.7% | 45.0% | -3.5% | 2.2% | -2.7% | 46.3% |
| Africa | 1.6% | 10.9% | 17.0% | -1.8% | 32.3% | 4.9% | 13.6% | -3.0% | 35.8% |
| Asia Pacific | 35.4% | -4.9% | 2.5% | -4.0% | 51.9% | -7.1% | 0.2% | -4.0% | 51.4% |
| Europe | 23.3% | -2.0% | 4.2% | -3.1% | 48.5% | -2.0% | 4.0% | -3.1% | 51.1% |
| Latin America | 2.7% | 3.0% | 2.7% | 0.1% | 35.4% | 1.3% | 8.4% | -2.4% | 34.7% |
| Middle East | 13.2% | -5.5% | 0.2% | -2.7% | 45.3% | -3.8% | 1.5% | -2.6% | 46.3% |
| North America | 23.8% | -2.1% | 1.6% | -1.4% | 37.3% | -0.7% | 1.8% | -1.0% | 39.5% |
| International | 87.4% | -3.8% | 2.3% | -3.2% | 49.9% | -4.2% | 1.8% | -3.2% | 51.3% |
| Africa | 1.6% | 11.3% | 17.7% | -1.9% | 32.8% | 5.3% | 14.0% | -3.0% | 36.6% |
| Asia Pacific | 31.4% | -5.7% | 1.4% | -4.4% | 58.9% | -7.8% | -0.7% | -4.5% | 57.7% |
| Europe | 22.9% | -1.9% | 4.3% | -3.2% | 50.3% | -1.9% | 3.8% | -3.0% | 52.9% |
| Latin America | 2.3% | 0.6% | 2.1% | -0.7% | 43.2% | -0.6% | 7.6% | -3.5% | 42.2% |
| Middle East | 13.2% | -5.5% | 0.2% | -2.7% | 45.6% | -3.8% | 1.3% | -2.5% | 46.8% |
| North America | 15.9% | -3.8% | 0.9% | -2.2% | 43.7% | -2.2% | 0.9% | -1.5% | 46.7% |

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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