



# AIR FREIGHT MARKET ANALYSIS

June 2018

## Air cargo volumes continue their modest uptrend, amid rising risks

- The slowdown in annual freight tonne kilometre (FTK) growth in June may partly reflect the impact of disruption at Nippon Cargo. In any case, the key point is that FTKs are continuing to trend upwards at a relatively modest pace.
- Following robust annual growth in the first half of 2018 (4.7%), we continue to expect FTKs to increase by around 4% in the year as a whole. However, rising trade tensions pose downside risks to the wider outlook.
- Once again, annual growth in freight capacity exceeded that of demand in June, leading to a fall in the load factor.

### Potential distortion in FTK growth rate in June...

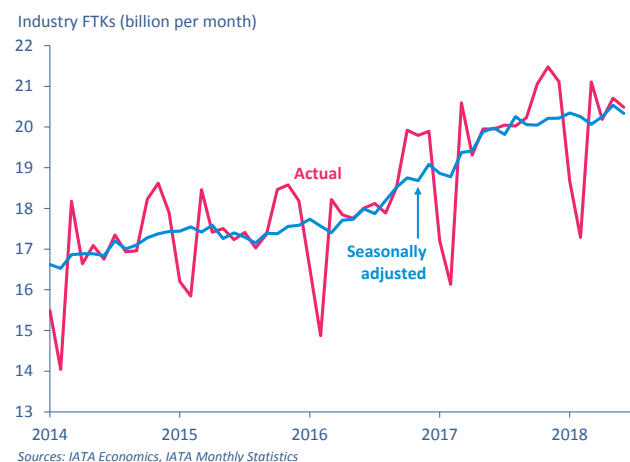
Year-on-year growth in industry-wide FTKs slowed to 2.7% in June, down from 3.8% in May and almost half the five-year average FTK growth rate (5.1%).

The latest growth outcome may have been distorted in part by the grounding of the entire Nippon Cargo fleet for much of the month. It is difficult to know for certain how much of the affected demand was carried by other operators, but we estimate that the disruption could conceivably have reduced industry-wide annual FTK growth by up to 0.5 percentage points in June.

### ...but this does not change the broader picture

In any case, given that Nippon Cargo resumed services in early-July, any impact is likely to be reversed in the July data. Moreover, even if the 'true' pace of FTK growth in June was just over 3%, the key point is that air freight volumes have continued to trend upwards at a more moderate pace than was the norm during the first half of last year. (See Chart 1.)

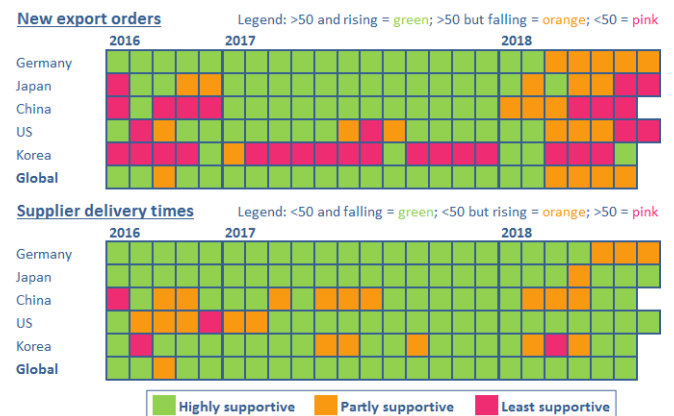
**Chart 1 – FTK levels**



As we have noted before, the slowdown in the upward trend relative to that seen during 2016 and 2017 mainly reflects the fact that the inventory re-stocking cycle, had largely run its course by the end of last year.

Moreover, the loss of momentum in air freight demand is also consistent with the broad-based moderation in manufacturing firms' export order books since the start of 2018. (See Chart 2.) The breadth of the deterioration across the major trading nations is indicative of a structural slowdown in global trade conditions rather than an isolated blip.

**Chart 2 – FTK demand heat-map (monthly data from manufacturing PMIs, selected countries)**



All told, the new export orders component of the global manufacturing Purchasing Managers' Index (PMI) recently fell to its lowest level since July 2016, and is now just above the 50-mark that corresponds to rising export orders. At current levels, the indicator is consistent with annual FTK growth staying around its current pace into Q3 2018. (See Chart 3, overleaf.)

### Air freight market overview - June 2018

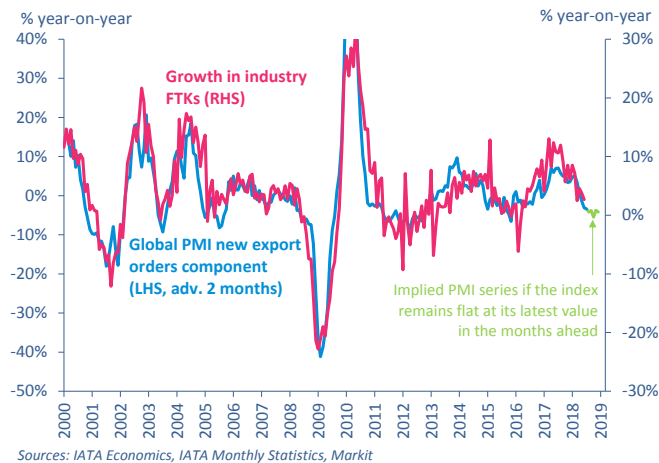
	World share <sup>1</sup>	June 2018 (% year-on-year)				% year-to-date			
		FTK	AFTK	FLF (%-pt) <sup>2</sup>	FLF (level) <sup>3</sup>	FTK	AFTK	FLF (%-pt) <sup>2</sup>	FLF (level) <sup>3</sup>
<b>TOTAL MARKET</b>	<b>100.0%</b>	<b>2.7%</b>	<b>4.1%</b>	<b>-0.6%</b>	<b>44.3%</b>	<b>4.7%</b>	<b>5.1%</b>	<b>-0.2%</b>	<b>44.7%</b>
International	87.5%	2.7%	4.3%	-0.8%	48.2%	5.0%	5.6%	-0.3%	48.5%

<sup>1</sup>% of industry FTKs in 2017

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

<sup>3</sup>Load factor level

**Chart 3 – FTK growth vs. global new export orders**



**The balance of risks lies to the downside**

Industry-wide FTKs grew by 4.7% in annual terms in the first half of the year and we continue to expect them to grow in the region of 4% in 2018 as a whole. Nonetheless, this outlook will require FTKs to continue to trend upwards broadly in line with their current annualized rate. All told, we judge the risks to our forecast to lie slightly on the downside.

More generally, with the best of the cyclical upturn now well behind us, the key question is how strong the structural backdrop for air freight growth is – especially in the context of rising trade protectionism measures. For now, the direct risks to air freight from tariffs appear relatively contained, but there are clearly risks if tensions continue to escalate – particularly to the extent that firms move to ‘reshore’ production and consolidate global supply chains. We will continue to monitor the situation closely as it develops.

**Capacity is increasing faster than demand**

Available freight tonne kilometres (AFTKs) grew by 4.1% year-on-year in June, down from 5.1% in the previous month. The industry-wide load factor fell by 0.6 percentage points compared to June 2017, and capacity is currently trending upwards in SA terms at a faster pace than demand.

**A further slowing in international FTK growth**

As is the case for industry-wide volumes, the slowdown in annual international FTK growth in June, to 2.7% from 3.7% in May, may also have been affected by the disruption at Nippon Cargo. (See Chart 4.)

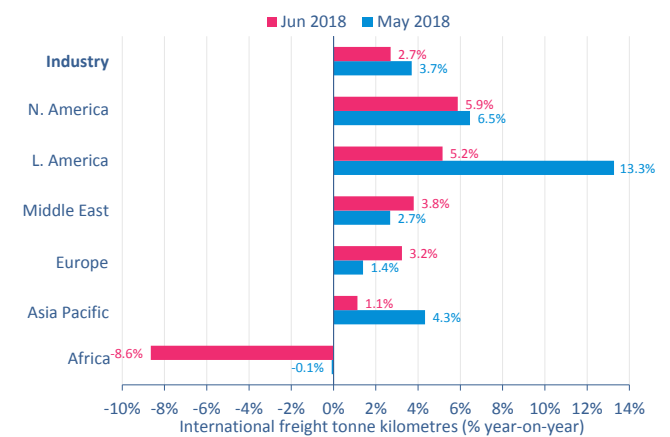
**North American FTKs find broad-based support...**

North American airlines topped the international FTK growth chart for the first time in nearly two years in June, with annual growth of 5.9%.

Air freight volumes have risen sharply for the region’s carriers in SA terms in the last few months, alongside robust growth in the US economy and a stronger US

dollar (which looks to be boosting inbound air shipments). Reports of a sharp pick-up in bottlenecks in manufacturing supply chains in the US in recent months may also be benefiting air freight demand.

**Chart 4 – International FTK growth**

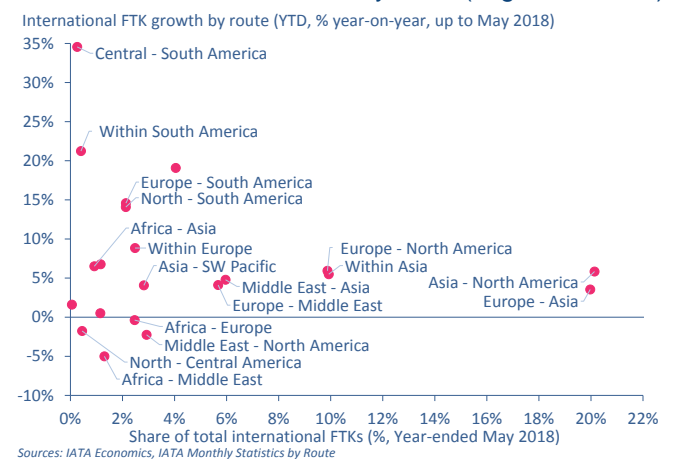


**...but L.American traffic has lost some momentum**

Annual growth in international FTKs flown by carriers based in Latin America slowed to an eight-month low of 5.2% in June, from 13.3% in May. However, after a volatile few years, this was still well above the five-year average pace (1.6%).

The recovery in freight volumes in the region has lost some momentum in recent months alongside disruption caused by strikes in the continent’s largest economy, Brazil. Nonetheless, smaller routes within the region have seen annual double-digit growth in international FTKs so far this year. (See Chart 5.)

**Chart 5 – International FTKs by route (segment-based)**



**European freight volumes are trending sideways**

European airlines flew 3.2% more international FTKs in June 2018 relative to the same month a year ago – well down on the five-year average annual FTK growth rate (5.6%).

FTKs have now tracked sideways over the past six months, which is consistent with a moderation in manufacturers’ export order books in the region, as well as recent signs of an easing in the acute supply

chain bottlenecks that have affected the region over the past year or so.

### Moderate uptrend in Asia Pacific freight volumes...

As the largest air freight-carrying region – accounting for around one-third of the global total – Asia Pacific is most exposed to any impact from rising trade tensions.

International FTK growth in the region slowed to a 17-month low of 1.1% in June, although this mainly reflected the comparison with a surge in freight traffic a year ago rather than a marked change in the current trend. The bigger picture is that freight volumes are still trending upwards, albeit at a comparatively moderate pace of around 3-4% on an annualized basis.

### ...as well as for airlines based in the Middle East

Meanwhile, annual growth in international FTKs flown by Middle Eastern carriers rose to 3.8% in June, from 2.7% in May. However, this is well below the five-year average pace (9.5%) and in a similar case to Asia

Pacific, the upward trend in international FTK volumes has continued to remain modest (volumes have trended upwards at a 2% annualized rate over the past six months).

### African int'l FTKs continue their downward trend

Having surged by 25% in 2017 as a whole, international FTKs flown by African airlines fell in July at the fastest annual pace in nearly nine years (-8.6%). FTKs have now trended downwards in SA terms at an annualized pace of almost 20% over the past six months, which reflects weaker demand conditions on all the main markets to/from the continent, particularly to/from Europe and the Middle East. (Again, see Chart 5, previous page.)

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 9<sup>th</sup> August 2018

### Air freight market detail - June 2018

	World share <sup>1</sup>	June 2018 (% 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>2.7%</b>	<b>4.1%</b>	<b>-0.6%</b>	<b>44.3%</b>	<b>4.7%</b>	<b>5.1%</b>	<b>-0.2%</b>	<b>44.7%</b>
Africa	1.9%	-8.5%	-1.4%	-1.9%	24.9%	3.0%	0.6%	0.6%	26.5%
Asia Pacific	36.9%	1.5%	5.2%	-2.0%	54.5%	4.6%	6.8%	-1.1%	53.7%
Europe	24.2%	3.3%	5.4%	-0.9%	44.6%	4.1%	5.0%	-0.4%	46.2%
Latin America	2.7%	5.9%	-5.7%	4.1%	37.2%	10.1%	0.0%	3.3%	36.0%
Middle East	13.7%	3.8%	4.5%	-0.3%	43.7%	4.3%	5.1%	-0.4%	44.0%
North America	20.6%	3.8%	3.4%	0.1%	35.8%	5.3%	4.5%	0.3%	36.3%
<b>International</b>	<b>87.5%</b>	<b>2.7%</b>	<b>4.3%</b>	<b>-0.8%</b>	<b>48.2%</b>	<b>5.0%</b>	<b>5.6%</b>	<b>-0.3%</b>	<b>48.5%</b>
Africa	1.8%	-8.6%	0.4%	-2.5%	25.0%	2.9%	2.2%	0.2%	26.7%
Asia Pacific	33.1%	1.1%	4.7%	-2.1%	59.5%	5.1%	7.3%	-1.2%	58.1%
Europe	23.7%	3.2%	5.5%	-1.0%	46.3%	4.0%	5.2%	-0.5%	47.7%
Latin America	2.3%	5.2%	-2.0%	2.8%	40.8%	10.9%	2.0%	3.3%	41.5%
Middle East	13.7%	3.8%	4.6%	-0.3%	43.8%	4.2%	5.2%	-0.4%	44.0%
North America	12.9%	5.9%	3.7%	0.9%	42.0%	6.6%	4.9%	0.7%	42.7%

<sup>1</sup>% of industry FTKs in 2017

<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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