

Air Freight Market Analysis

June 2019

Air cargo volumes weaken further, outlook remains clouded

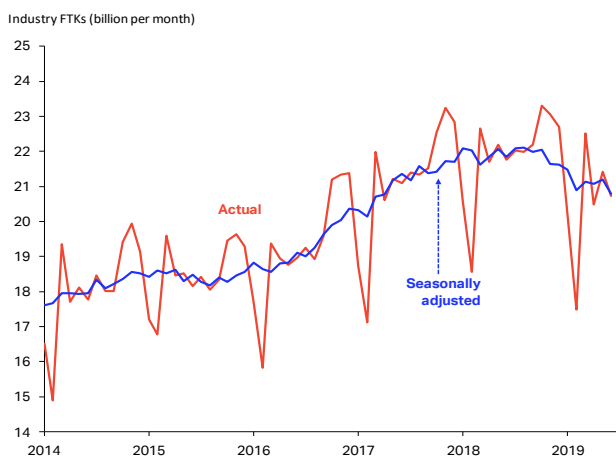
- Industry-wide freight tonne kilometres (FTKs) fell by 4.8% year-on-year in June; the 8th consecutive month of negative annual growth.
- The weakness in air freight volumes compared with a year ago remains broad-based across regions, with the largest falls coming from the Middle East and Asia Pacific. Africa was the only region to record positive year-on-year growth this month.
- Growth in industry-wide capacity lifted somewhat in June to a still moderate 2.6% year-on-year. The freight load factor is 3.5 percentage points lower than its level of a year ago.

Air cargo volumes weaken in June

Annual growth in air freight tonne kilometres (FTKs) declined by 4.8% in year-on-year terms in June, down from a fall of 3.5% in May. This marks the 8th consecutive month of year-on-year decline in air freight volumes.

Over recent months, the seasonally-adjusted series (which removes the regular seasonal fluctuations in the data) showed signs of a stabilization in air cargo performance – indeed a modest upward trend had started to become apparent in the three months to May. This nascent recovery has been unwound in the latest data (Chart 1).

Chart 1: FTK levels, actual and seasonally adjusted



Sources: IATA Economics, IATA Monthly Statistics

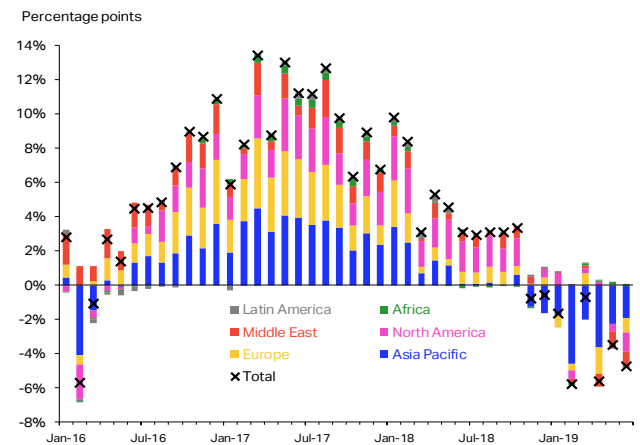
Additional tariff increases in the ongoing US-China trade dispute, which came into effect on 1 June are likely to have contributed to this month's outcome,

along with further signs of moderation in the global macroeconomic backdrop.

Looking at the first half of the year in aggregate, air freight volumes are 3.6 % lower than their level over the same period a year ago. As we noted [recently](#), the outcomes over the year to date mean that our forecast for zero average growth in 2019 looks optimistic.

Once again this month, the contribution to the weak year-on-year growth outcome was broad-based, with all regions apart from Africa (which accounts for just 1.7% of total global FTKs) in decline (Chart 2).

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



Sources: IATA Economics, IATA Monthly Statistics

The main contributors continue to be the larger freight regions of Asia Pacific and North America which together account for around 3 percentage points of the current year-on-year decline.

Air freight market overview - June 2019

	World share ¹	June 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%	-4.8%	2.6%	-3.5%	45.4%	-3.6%	2.7%	-3.0%	46.3%
International	87.5%	-5.4%	1.2%	-3.5%	50.5%	-4.3%	2.0%	-3.4%	51.4%

¹% of industry FTKs in 2018

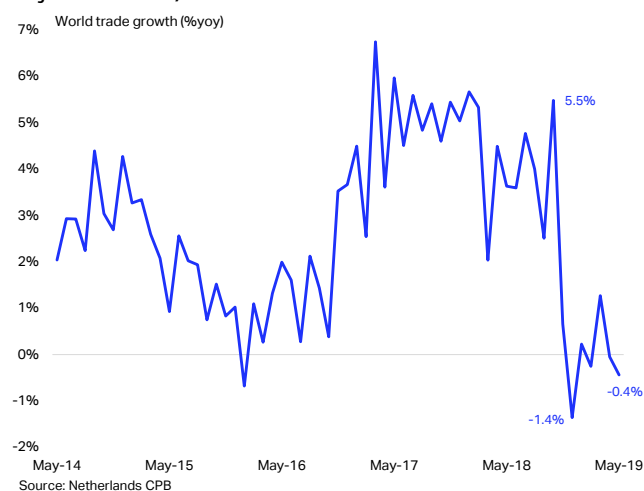
²Year-on-year change in load factor

³Load factor level

Highlighting the impact of the US-China trade dispute, over the first half of the year, US goods exports to China are down 18% compared with the first half of 2018 while goods imports from China are down more than 12% (Source: US BEA, census basis).

Globally, the performance of world trade has continued to languish, slipping back into negative year-on-year growth in the latest available data (May). World trade volumes are currently 0.4% lower than a year ago (Chart 3).

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

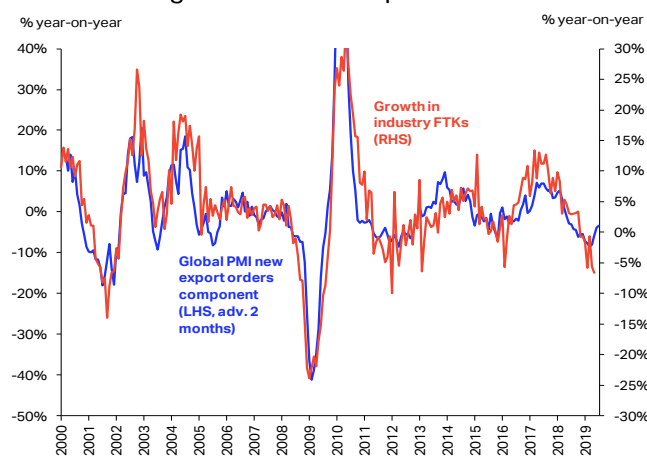


We noted last month that there were tentative indications of a thawing in trade relations between the US and China; recent developments have, however, cast renewed doubt over this. The risk of further deterioration in global trade remains a key risk to the outlook for air cargo.

Key leading indicators remain soft

The new export orders component of the global Purchasing Managers' Index (PMI) – which has shown a close relationship with FTK growth over an extended period – is currently 3.2% lower in year-on-year terms (Chart 4).

Chart 4: FTK growth vs. new export orders

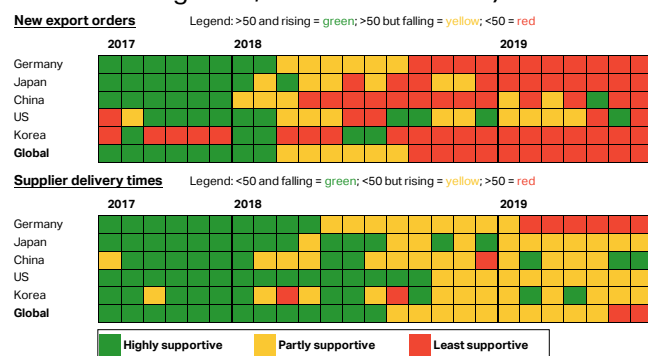


Although year-on-year growth in new export orders has been negative for 16 consecutive months now, the series appears to have troughed in the early months of this year.

Despite remaining negative, the growth rate for export orders has been slowly improving for the past five months. If the historical relationship with FTKs holds, the latest developments could mean some modest upside potential for air cargo in the months ahead.

At this stage, however, there are no clear turning points being signalled in the country-level data. For the world's major exporting nations (Chart 5), the new export orders measure generally remains weak, with no indication of any sustained improvement across the key countries.

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



Capacity growth increases, but remains modest

Annual growth in Available Freight Tonne Kilometers (AFTKs) increased somewhat in June to a moderate 2.6% year-on-year, up from 1.4% in May.

In seasonally-adjusted terms, the level of AFTKs has flattened considerably over the past 6-8 months after a sustained period of robust growth. This shows one of the ways airlines have responded to the weaker demand environment.

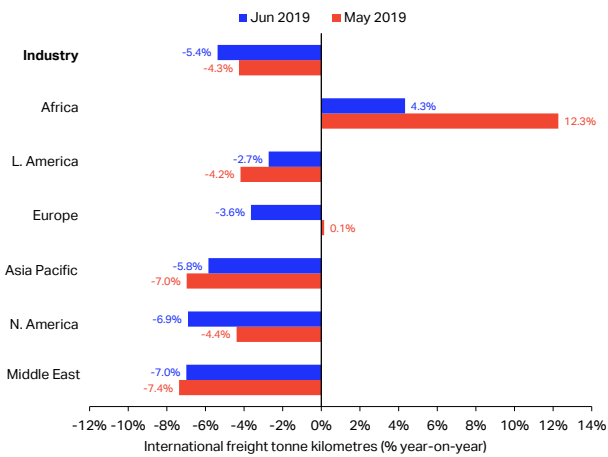
Nonetheless, with demand falling, even the moderate growth in industry-wide capacity means that the freight load factor has also eased. The load factor is currently down a solid 3.5 percentage points on its level of a year ago.

International FTK growth weaker than overall industry

Given the weakness in world trade outcomes observed since the second half of 2018, it is unsurprising that the international air freight market continues to show weaker growth than the overall industry-wide outcome.

International FTKs are currently a sizeable 5.4% lower than their level of June 2018, down from a fall of 4.3% last month (Chart 6, over). This latest result extends the run of consecutive negative year-on-year growth to eight months.

Chart 6: International FTK Growth



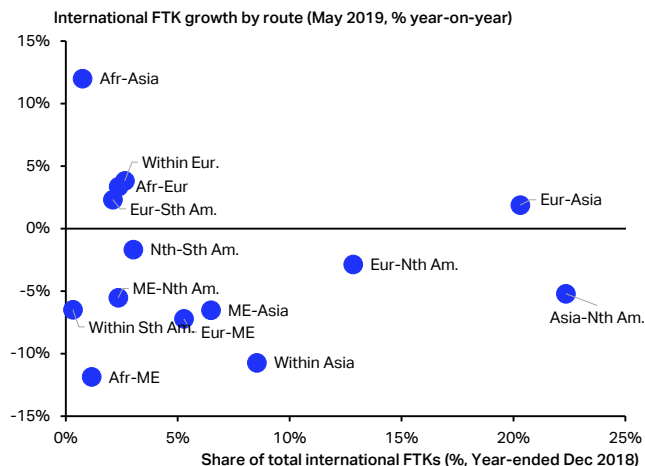
Sources: IATA Economics, IATA Monthly Statistics

Africa the only region with positive y-o-y growth

Despite its small share of the global market, Africa was the only region where international air cargo volumes were higher this month compared with their level of a year ago. International FTKs were up 4.3% year-on-year, with the latest route area data (May 2019) showing a strong, double-digit performance on routes between Africa and Asia in particular – up an even 12.0% year-on-year (see Chart 7).

At the same time, the African market has seen a strong increase in capacity, with AFTKs up 17% year-on-year – in stark contrast to the capacity developments in all other regions over this period.

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



Source: IATA

Nth America & Middle East the weakest performers...

Airlines from both the Middle East and North America have seen air cargo volumes fall significantly, by around 7% over the past year.

Trade tensions with China have, of course, been a key part of the story for the North American carriers, with FTKs down more than 5% on routes to and from Asia over the past year. However, pointing to the broader global trade and macroeconomic story, FTKs are also lower on routes to/from Europe, Sth America and the Middle East.

Widespread declines are also evident for the Middle East, with cargo volumes for the Europe and Asia Pacific markets both down by 7.2% and 6.5% year-on-year respectively. In seasonally-adjusted terms, declines have been evident for the Middle East region since the latter part of 2018, with geopolitical tensions also contributing to the recent weak performance.

Asia Pacific continues to underperform the industry

International FTKs for the Asia Pacific airlines are 5.8% lower than their year-ago level; a slight improvement on last month, but still a very weak outcome.

As with North America, the China-US trade tensions are an important factor contributing to the recent weakness in air cargo performance. However, it is not the entire explanation.

Given the close economic relationships between countries within Asia Pacific, the performance of the Chinese economy, in particular, has wider implications for the region. Highlighting this, FTKs for the Within Asia market have fallen by more than 10% over the past year, weighing upon the overall regional performance. Modest growth in air cargo volumes to/from Europe (up 2% year-on-year) has partly offset the weakness in other key Asia Pacific markets.

More modest declines in Europe and Latin America

FTKs have also declined over the past year for both Europe and Latin America, although the declines – while still sizeable – have not been as severe as that for other regions. FTKs are down 3.6% and down 2.7% over the past year for Europe and Latin America, respectively.

Air cargo volumes between the two regions has held up relatively well, increasing by 2.3% over the past year. Notwithstanding the weakness in German export orders discussed above, freight traffic for the Within Europe market has also been a positive, with FTKs a solid 3.8% higher on this market compared with a year ago.

The same cannot be said for the Within South America market, however, where FTKs are down a hefty 6.5% year-on-year. Recent economic outcomes in a number of key Latin American countries – including Brazil and Argentina – have contributed to this recent weaker performance and are likely to continue to weigh upon the air freight market in the near-term. Underscoring this, the IMF has recently downgraded its GDP growth forecast for the region to just 0.6% for 2019.

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 7 August 2019

Air freight market detail - June 2019

	World share ¹	June 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%	-4.8%	2.6%	-3.5%	45.4%	-3.6%	2.7%	-3.0%	46.3%
Africa	1.7%	3.8%	16.6%	-4.0%	32.4%	3.9%	12.2%	-2.9%	36.9%
Asia Pacific	35.3%	-5.4%	1.8%	-4.0%	52.2%	-7.4%	0.2%	-4.2%	51.0%
Europe	23.4%	-3.6%	2.8%	-3.3%	49.8%	-1.9%	5.2%	-3.8%	51.6%
Latin America	2.7%	-1.0%	4.6%	-1.9%	33.7%	1.0%	8.4%	-2.4%	32.3%
Middle East	13.3%	-7.0%	2.7%	-4.6%	44.0%	-3.5%	2.1%	-2.7%	46.0%
North America	23.7%	-4.6%	1.9%	-2.6%	38.2%	-0.6%	2.5%	-1.2%	40.0%
International	87.5%	-5.4%	1.2%	-3.5%	50.5%	-4.3%	2.0%	-3.4%	51.4%
Africa	1.6%	4.3%	17.0%	-4.0%	32.8%	4.3%	12.5%	-2.9%	37.6%
Asia Pacific	31.3%	-5.8%	0.1%	-3.7%	58.8%	-8.1%	-1.1%	-4.4%	57.4%
Europe	23.0%	-3.6%	2.7%	-3.4%	51.6%	-1.9%	4.8%	-3.6%	53.4%
Latin America	2.3%	-2.7%	1.7%	-1.9%	42.2%	-0.8%	8.5%	-3.8%	40.4%
Middle East	13.3%	-7.0%	1.1%	-3.9%	45.1%	-3.5%	1.5%	-2.4%	46.7%
North America	15.9%	-6.9%	-1.0%	-2.9%	44.8%	-2.1%	1.5%	-1.8%	47.2%

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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