



AIR FREIGHT MARKET ANALYSIS

October 2018

Cargo volumes trending higher at a moderate rate into Q4

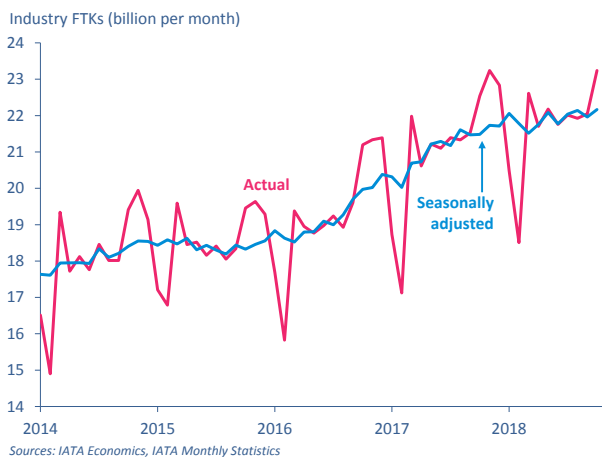
- Industry-wide freight tonne kilometres (FTK) grew by 3.1% year-on-year in October. As we have argued before, the current period of moderate FTK growth is consistent with the typical pattern seen after inventory restocking cycles.
- Freight volumes have continued to trend upwards into the traditional period of strong demand during the final quarter of the year. Nonetheless, demand drivers, including consumer confidence, have softened since early-2018.
- The industry-wide load factor fell in annual terms for the eighth month in a row in October. Following the recent moderation in the demand trend, capacity is once again trending upwards at a faster annualized pace.

Ongoing moderate uptrend in freight volumes...

Industry-wide FTKs increased by 3.1% year-on-year in October – the first of the traditional months of strong demand at the end of the year – up from a (revised) 29-month low of 2.5% reached in September.

As we have noted before, the moderation in year-on-year FTK growth that we have seen over the past year or so is typical of the pattern after inventory restocking cycles in the past. Air freight volumes grew much faster than global goods trade in 2017 as firms turned to the speed afforded by air freight to restock inventory levels quickly. However, FTK growth is on track to underperform that of global goods trade in 2018.

Chart 1 – FTK levels



Air freight volumes have continued to trend upwards moderately in seasonally adjusted (SA) terms into the final quarter of the year. For example, FTKs have risen at an annualized rate of just under 4% over the past six months. (See Chart 1.) This reflects support from a

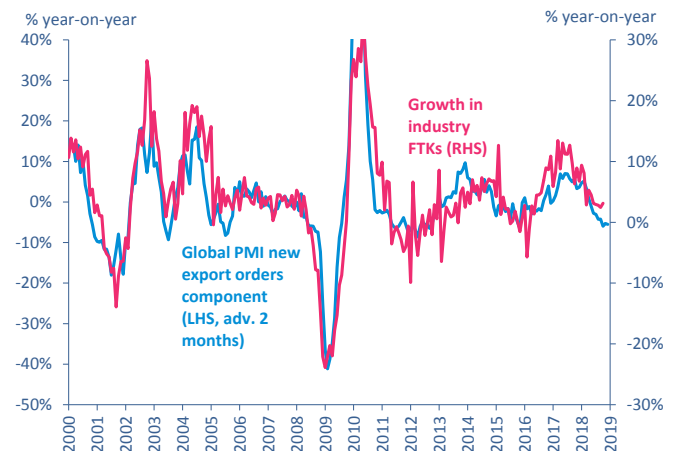
number of factors including solid investment growth and fast-growing areas such as e-commerce.

...alongside a softening in the demand backdrop

That said, we have continued to see a softening in other key demand drivers. This includes consumer confidence, which remains elevated by historical standards but has fallen since early-2018.

Moreover, the new export orders component of the global manufacturing Purchasing Managers' Index (PMI) has also fallen since the start of the year and remains in territory normally associated with declining export orders. This series has proven to be a reliable leading indicator of industry-wide FTK growth in the past, and at current levels appears to rule out a sharp pick-up in annual FTK growth anytime soon. (See Chart 2.) Country-level data indicate that the weakness has been broad-based across the world's major exporting countries. (See Chart 3, overleaf.)

Chart 2 – FTK growth vs. new export orders



Air freight market overview - October 2018

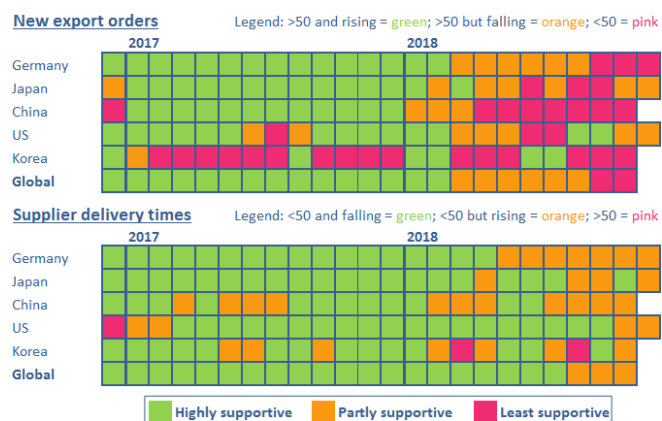
	World share ¹	October 2018 (% year-on-year)				% year-to-date			
		FTK	AFTK	FLF (%-pt) ²	FLF (level) ³	FTK	AFTK	FLF (%-pt) ²	FLF (level) ³
TOTAL MARKET	100.0%	3.1%	5.4%	-1.1%	50.4%	4.3%	5.4%	-0.5%	48.9%
International	87.4%	3.0%	4.6%	-0.9%	56.4%	4.4%	5.4%	-0.5%	54.2%

¹ % of industry FTKs in 2017

² Year-on-year change in load factor

³ Load factor level

Chart 3 – FTK demand heat-map (monthly data from manufacturing PMIs, selected countries)



Sources: IATA, Markit, Thomson Reuters Datastream

Capacity and demand trending upwards together

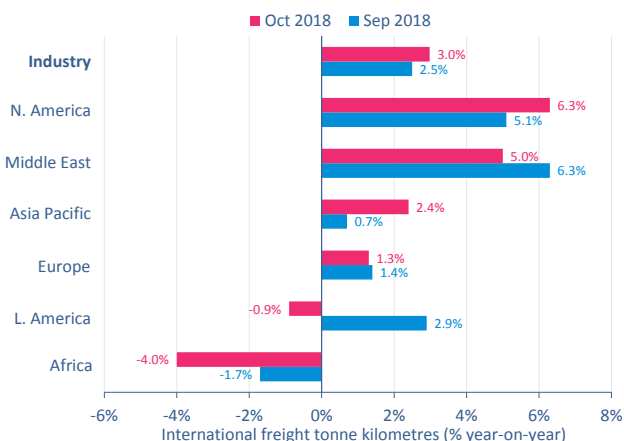
Available freight tonne kilometres (AFTKs) rose by 5.4% year-on-year in October. Annual capacity growth outpaced that of demand for the eighth month in a row, which resulted in the industry load factor falling by 1.1 percentage points relative to October 2017.

Freight capacity has now risen at an annualized rate of 6% over the past six months – around two percentage points faster than demand.

Modest pick-up in international FTK growth

International FTKs grew by 3.0% in year-on-year terms in October, up from 2.5% in September. (See Chart 4.)

Chart 4 – International FTK growth



Sources: IATA Economics, IATA Monthly Statistics

Solid growth for the North American grouping...

Airlines based in North America topped the international FTK growth chart in October (6.3% year-on-year, up from the 26-month low of 5.1% in September). The strength of consumer spending and the wider US economy has supported FTK growth for North American airlines over the past year or so.¹

¹ IATA recently revised its freight statistics, part of which included broadening the concept of what is considered 'scheduled' cargo. These revisions had a modest impact on overall industry growth, but resulted in particularly marked upward revisions for the North America regions.

...alongside pick-up in the trend in the Middle East

Meanwhile, year-on-year growth in international FTKs flown by Middle Eastern airlines slowed to 5.0% in October, from 6.3% in the previous month. Nonetheless, the bigger picture is that the SA demand trend has recently shown further signs of improvement, with SA traffic now having trended upwards at a 10% annualized rate over the past six months. This has been helped by improvements on key markets between the Middle East and Europe and Asia.

Ongoing sideways trend in Asia Pacific FTKs...

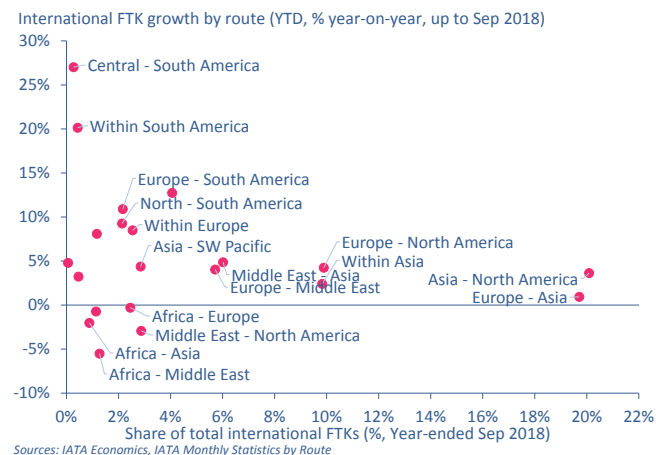
Year-on-year growth in international FTKs flown by airlines based in the region accelerated to 2.4% in October, up from 0.7% in September. Nonetheless, this is still well below the five-year average (4.7%). Moreover, the bigger picture is that FTKs are still trending sideways in SA terms in a reasonably narrow band; while they grew in month-on-month terms relative to September, they remain 1.2% below where they stood at the start of the year.

As we have argued before, as the largest air freight-carrying region – flying around one-third of international FTKs – Asia Pacific is most exposed to any impact from rising trade tensions.

European FTKs growth falls to a 32-month low

Year-on-year growth in international FTKs flown by European airlines fell to 1.3% in October – its slowest pace since February 2016. Wider weakness in European manufacturers' export order books – notably Germany – finally looks to be visible in the air freight data. (Again, see Chart 3.) Indeed, having trended upwards strongly in SA terms across much of 2018, freight volumes fell sharply in month-on-month terms in September and did not bounce back in October.

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



Sources: IATA Economics, IATA Monthly Statistics by Route

L.America FTK growth falls into negative territory...

Annual international FTK growth fell into negative territory for the first time in 11 months in October

(-0.9%, from +2.9% in September). Freight volumes have now fallen in month-on-month terms in four of the past five months, which appears to reflect broad weakness on the region's key markets. Indeed, FTKs flown between South America to/from Europe and North America barely grew in annual terms in September (latest data available).

...thus joining African carriers

Year-on-year growth in international FTKs flown by African airlines remained in negative territory in

October for the seventh time in eight months (-4.0%). The performance reflects weakness on all the main markets to/from the continent. (See Chart 5, previous page.) Nonetheless, having reached a trough in June, FTKs have picked up sharply in SA terms in recent months.

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Air freight market detail - October 2018

	World share ¹	October 2018 (% 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%	3.1%	5.4%	-1.1%	50.4%	4.3%	5.4%	-0.5%	48.9%
Africa	1.7%	-4.2%	5.4%	-3.7%	36.8%	-0.4%	1.9%	-0.9%	37.6%
Asia Pacific	36.1%	1.9%	4.2%	-1.3%	56.9%	2.9%	5.2%	-1.3%	55.5%
Europe	23.4%	1.4%	1.9%	-0.3%	55.8%	3.4%	4.2%	-0.4%	53.7%
Latin America	2.6%	0.3%	3.3%	-1.1%	35.7%	6.6%	1.9%	1.5%	34.4%
Middle East	13.2%	5.0%	8.8%	-1.8%	50.6%	4.4%	6.1%	-0.8%	48.6%
North America	23.0%	6.6%	8.2%	-0.6%	42.0%	7.5%	7.1%	0.2%	40.8%
International	87.4%	3.0%	4.6%	-0.9%	56.4%	4.4%	5.4%	-0.5%	54.2%
Africa	1.7%	-4.0%	8.0%	-4.7%	37.7%	-0.4%	4.2%	-1.7%	38.2%
Asia Pacific	32.0%	2.4%	3.2%	-0.5%	64.5%	3.2%	5.2%	-1.2%	62.1%
Europe	23.1%	1.3%	1.9%	-0.3%	57.6%	3.3%	4.2%	-0.5%	55.4%
Latin America	2.2%	-0.9%	1.6%	-1.2%	47.6%	6.7%	0.2%	2.7%	44.8%
Middle East	13.2%	5.0%	9.1%	-2.0%	51.0%	4.4%	6.3%	-0.9%	49.0%
North America	15.2%	6.3%	6.8%	-0.2%	50.7%	8.5%	7.2%	0.6%	48.3%

¹% of industry FTKs in 2017 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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