



AIR FREIGHT MARKET ANALYSIS

April 2018

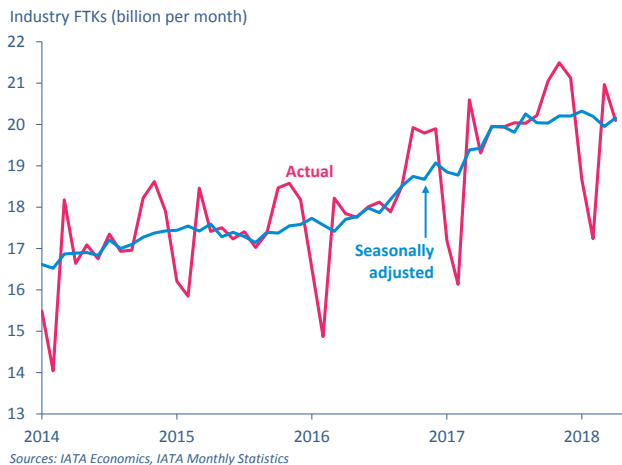
Air freight volumes have continued to trend sideways

- Year-on-year growth in industry-wide freight tonne kilometres (FTKs) recovered to 4.1% in April, having fallen to a 23-month low of 1.8% in March.
- We continue to expect FTKs to grow in the region of 4% in 2018. However, with volumes now having trended sideways in seasonally adjusted terms for the past eight months, the risks appear to be more on the downside.
- Annual growth in freight capacity exceeded that of demand in April for just the second time in 21 months.

Annual FTK growth recovered somewhat in April...

Having fallen to a 23-month low of 1.8% in March, year-on-year growth in industry-wide FTKs recovered to 4.1% in April. This outcome reflected a pick-up in freight volumes in seasonally adjusted (SA) month-on-month terms in April, and broadly reversed the corresponding decline seen in March. (See Chart 1.)

Chart 1 – FTK levels



...but traffic has continued to trend sideways

Nonetheless, the mixed demand picture since the end of last year means that the increase in April was just the second rise on a month-on-month basis since December.

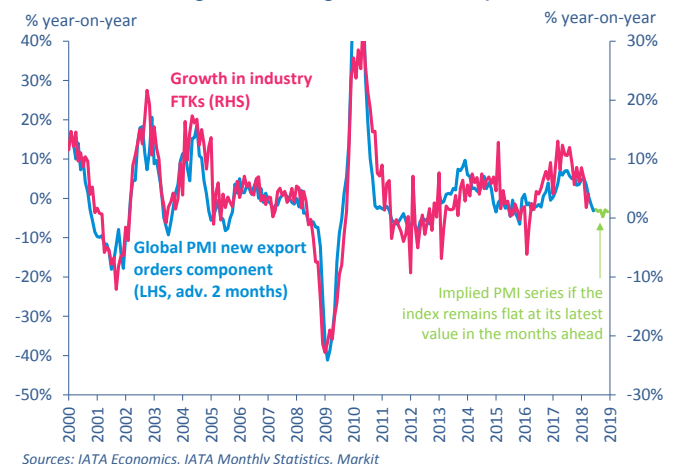
Indeed, the bigger picture is that FTK volumes have now trended broadly sideways in SA terms since August last year. Unless we see a pick-up in the seasonally adjusted demand trend in the coming months, the implication is that the annual FTK growth rate will slow once again towards mid-2018.

Air freight demand drivers have softened...

The current moderation in air freight demand momentum largely reflects the fact that the inventory re-stocking cycle, which helped to boost freight demand last year, looks to have now run its course. As we have noted before, having fallen between the start of 2016 and the end of 2017, the inventory-to-sales ratio in the US has risen so far in 2018.

The moderation in air freight demand is also consistent with the latest signs from the new export orders component of the global manufacturing Purchasing Managers' Index (PMI), which has proven to be a very good leading indicator for air freight in the past. While the series remains above the 50-mark that is notionally consistent with rising export orders, it fell in April to its lowest level since October 2016, and is currently pointing to annual FTK growth remaining in low single-digit territory in the coming months. (See Chart 2.)

Chart 2 – FTK growth vs. global new export orders



Air freight market overview - April 2018

	World share ¹	April 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%	4.1%	5.1%	-0.5%	44.8%	5.1%	5.5%	-0.2%	44.5%
International	87.4%	4.9%	5.4%	-0.3%	48.7%	5.7%	6.4%	-0.3%	48.3%

¹ % of industry FTKs in 2017

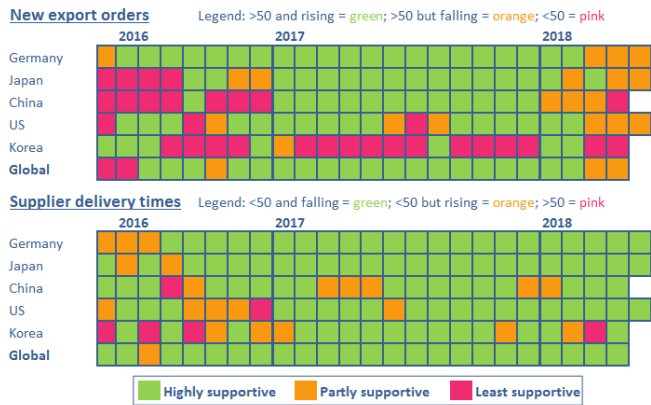
² Year-on-year change in load factor

³ Load factor level

...and point to wider weakness in world trade

The latest developments in the global PMI series reflect a broad-based moderation in export order books for manufacturing firms across the major exporting countries in the world. (See the top panel in Chart 3.)

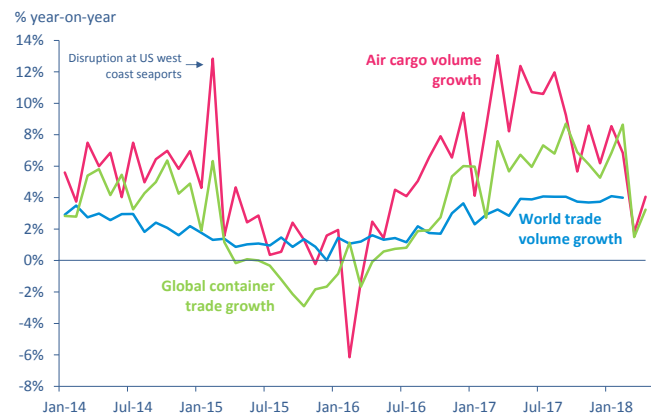
Chart 3 – FTK demand heat-map (monthly data from manufacturing PMIs, selected countries)



Sources: IATA, Markit, Thomson Reuters Datastream

Meanwhile, it is interesting to note that growth in global containerized trade has also slowed in tandem with air freight in recent months. (See Chart 4.) Taken together, both of these factors suggest that wider momentum in world trade growth may be weakening alongside the recent pick-up in protectionist measures and rhetoric. As we noted in a recent research [note](#), the latest developments in air freight suggest that it is prudent to be cautious about the wider outlook for world trade.

Chart 4 – Selected trade indicators



Solid FTK growth still expected in 2018 as a whole

There is still a long way to go this year, and we continue to expect industry-wide FTKs to grow in the region of 4% in 2018 as a whole. Following the very strong growth performance seen in 2017, this would still be a robust outcome for the air freight segment. Nonetheless, this would need air freight volumes to resume their upward SA trend in the coming months, and the risks to the outlook appear to be tilted to the downside.

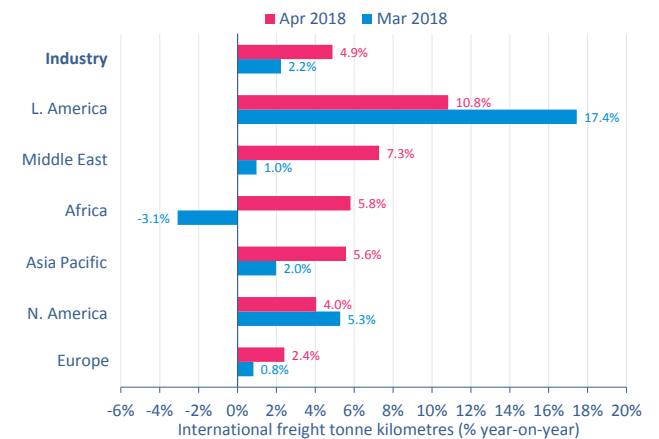
Capacity is growing faster than demand

Available freight tonne kilometres (AFTKs) grew by 5.1% year-on-year in April, down from 6.3% in the previous month. The upward trend in SA FTKs has fallen below that of AFTKs over the past eight months or so. April was just the second time in 21 months in which the annual pace of capacity growth has exceeded that of demand. As a result, the industry-wide freight load factor fell by 0.5 percentage points compared to April 2017.

International FTK growth also recovered modestly

Industry-wide international FTKs grew by 4.9% year-on-year in April, up from 2.2% in March. (See Chart 5.)

Chart 5 – International FTK growth



Sources: IATA Economics, IATA Monthly Statistics

Latin America topped the growth chart again...

Annual growth in international FTKs flown by airlines based in Latin America fell to 10.8% in April from 17.4% in March, but the region still topped the annual growth chart for the second month in a row.

Freight volumes have recovered over the past 18 months or so alongside an improvement in economic conditions in the continent's largest economy, Brazil. In SA terms, volumes remain at levels last seen in the second half of 2014.

...followed by airlines based in the Middle East

Middle Eastern carriers posted the second fastest annual growth rate in April (7.3%, up from 1.0% in March). However, the acceleration in the annual growth rate mainly reflected developments a year ago rather than any substantial change in the near-term trend; in fact, international FTK volumes have trended upwards at just a modest annualized rate of just 1-2% over the past six months. All told, this supports signs of a broader moderation in global trade conditions.

The largest freight-carrying regions are seeing freight volumes track sideways...

It is an even more subdued picture for the two largest freight-flying regions, Asia Pacific and Europe.

Admittedly, airlines based in these regions both reported accelerations in year-on-year growth in international FTKs in April relative to March (to 5.6% from 2.0% in the case of Asia Pacific, and to 2.4% from 0.8% for Europe). However, the bigger picture is that both regions have seen air freight volumes trend sideways in SA terms since mid-2017.

As the largest freight-carrying region, Asia Pacific is most exposed to any risks of rising global protectionism or trade wars. Meanwhile, a stronger euro, combined with the softer new export order index for the region's key exporting nation, Germany, pose downside risks for European carriers.

Downward trend in North American volumes

Airlines based in North America saw a deceleration in annual international FTK growth in April (to 4.0%, from 5.3% in March). A downward trend in traffic has emerged since the end of last year and is something we will continue to monitor closely.

The weakening in the US dollar that we saw from the start of 2017 into the start of this year looks to have supported outbound air shipments; according to the US Census Bureau, export volumes from the US by air grew by 11.7% year-on-year in Q1, compared to a corresponding 7.5% increase in imports. (Note that the US dollar has been rising more recently.)

Africa growth jumps back into positive territory

Meanwhile, year-on-year growth in international FTKs flown by African airlines recovered into positive territory in April (+5.8%, from -3.1% in March). Recall that international FTK volumes flown by African airlines surged by 25% last year. However, FTKs have trended down in SA terms since peaking in late-2017 and are currently at levels last seen in the middle of last year.

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 30th May 2018

Air freight market detail - April 2018

	World share ¹	April 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%	4.1%	5.1%	-0.5%	44.8%	5.1%	5.5%	-0.2%	44.5%
Africa	1.9%	5.6%	23.0%	-3.5%	21.3%	7.0%	25.8%	-3.8%	21.8%
Asia Pacific	36.9%	3.9%	6.7%	-1.5%	54.6%	4.7%	5.4%	-0.3%	53.7%
Europe	24.2%	2.4%	4.0%	-0.7%	46.7%	4.7%	4.4%	0.1%	47.1%
Latin America	2.7%	10.6%	-4.6%	5.3%	38.9%	10.7%	0.7%	3.2%	35.6%
Middle East	13.7%	7.3%	4.8%	1.0%	44.4%	4.9%	5.8%	-0.4%	43.8%
North America	20.6%	3.2%	3.4%	-0.1%	35.8%	5.4%	4.5%	0.3%	36.3%
International	87.4%	4.9%	5.4%	-0.3%	48.7%	5.7%	6.4%	-0.3%	48.3%
Africa	1.8%	5.8%	25.4%	-4.0%	21.4%	6.8%	28.4%	-4.4%	21.9%
Asia Pacific	33.1%	5.6%	7.1%	-0.9%	59.1%	6.2%	6.8%	-0.3%	58.0%
Europe	23.7%	2.4%	3.9%	-0.7%	48.2%	4.7%	4.7%	0.0%	48.6%
Latin America	2.3%	10.8%	-3.7%	5.8%	44.4%	11.7%	2.5%	3.5%	41.7%
Middle East	13.7%	7.3%	5.0%	1.0%	44.4%	4.9%	5.9%	-0.4%	43.9%
North America	12.8%	4.0%	2.3%	0.7%	42.7%	6.1%	4.6%	0.6%	43.1%

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.

Further details about the statistics in this publication can be found [here](#).

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