



AIR FREIGHT MARKET ANALYSIS

August 2018

Cargo volumes trending upwards modestly, amid mixed drivers

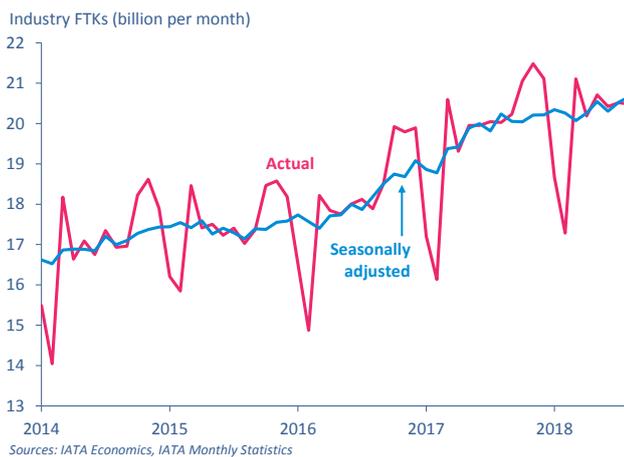
- Industry-wide freight tonne kilometres (FTK) grew by 2.3% year-on-year in August – an unchanged pace from July. The recent slowdown in FTK growth is typical with the pattern normally seen following inventory-led upturns.
- Freight volumes are currently trending upwards at a 4% annualized rate, helped by strong levels of consumer confidence and an ongoing upturn in the global investment cycle. Nonetheless, other demand drivers have become more mixed since the start of 2018, particularly the health of manufacturer firms' export order books.
- The industry load factor fell in annual terms for the sixth month in a row, although yields appear to be holding up.

The recent slowdown in FTK growth is typical of that following an inventory-led upturn...

Industry-wide FTKs increased by 2.3% year-on-year in August – unchanged from the rate in July and less than half the five-year average pace (5.1%).

As we have noted before, the main factor behind the slowdown in annual FTK growth since mid-2017 has been a much-reduced boost from the inventory restocking cycle. Recall that growth in air freight volumes outpaced that of global goods trade by a wide margin last year as firms turned to air freight from other modes of transport to restock inventory levels quickly. Amid signs that the inventory restocking cycle peaked in late-2017, the slowdown in FTK growth is a typical pattern, consistent with similar periods in the past.

Chart 1 – FTK levels



Despite the slowing in annual FTK growth, it is important to note that freight volumes have continued to trend upwards in seasonally adjusted (SA) terms

during 2018, with FTKs currently rising at a 4% annualized rate. (See Chart 1.) Admittedly, this is well below the double-digit rates of 2016/17, but is still faster than the average pace over the past decade. The upward trend is being supported by factors including strong levels of consumer confidence, an ongoing upturn in global investment, as well as demand in fast growing areas such as e-commerce.

...but demand drivers have become more mixed

That said, other demand drivers of air freight have become more mixed since the start of the year – particularly a weakening in the health of manufacturing firms' export order books. While the new export orders component of the global manufacturing Purchasing Managers' Index (PMI) is still just above the 50-mark that is consistent with growing orders, at current levels, the indicator suggests that annual FTK growth is unlikely to pick up strongly soon. (See Chart 2.)

Chart 2 – FTK growth vs. global new export orders



Air freight market overview - August 2018

	World share ¹	August 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%	2.3%	4.5%	-0.9%	42.2%	4.0%	4.8%	-0.3%	44.1%
International	87.5%	2.2%	4.5%	-1.0%	45.7%	4.2%	5.0%	-0.4%	47.9%

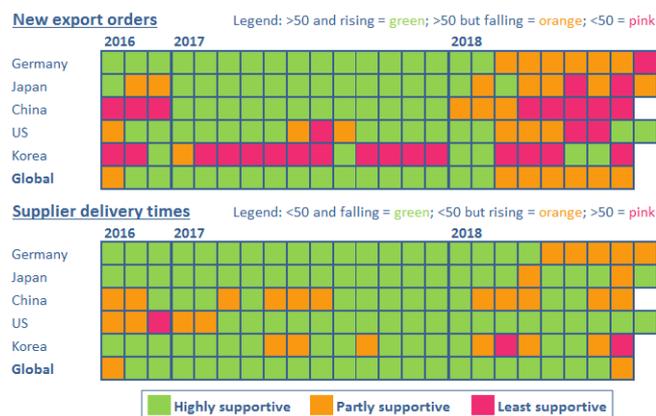
¹ % of industry FTKs in 2017

² Year-on-year change in load factor

³ Load factor level

As shown in Chart 3, the softening in manufacturing export order books has been felt widely across major manufacturing economies since the start of the year. German manufacturers reported declining order books in September for the first time since July 2015.

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



Sources: IATA, Markit, Thomson Reuters Datastream

Trade tensions remain a key unknown

Moreover, as we have noted before, the recent pick-up in trade tensions and protectionist measures highlight the structural risks and headwinds to the underlying global goods trade backdrop. Although we estimate that the direct impacts on air freight from the initial tariffs are relatively small ([link](#)), the recent escalation in trade tensions underlines the risk of potentially larger impacts – both direct and indirect – in the future. We will continue to monitor the situation as it develops.

Capacity and demand trending upwards together

Available freight tonne kilometres (AFTKs) grew by 4.5% year-on-year in August, up from 3.9% in July and faster than the corresponding annual demand growth rate for the sixth month in a row. As a result, the industry-wide load factor fell by 0.9 percentage points compared to August 2017.

That said, capacity and demand are now both currently trending upwards in SA terms at a similar pace, and freight yields appear to be holding up ([link](#)).

Slight pick-up in international FTK growth

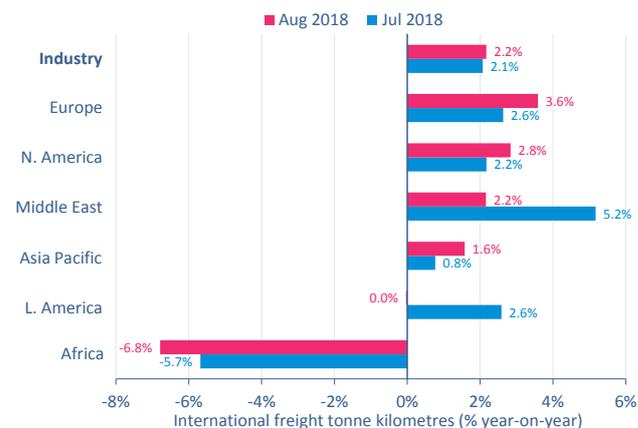
International FTKs grew by 2.2% in year-on-year terms in August, up slightly from 2.1% in July. (See Chart 4.)

European airlines top the int'l growth chart...

Despite signs of increasing weakness in European manufacturers' export order books – particularly Germany – airlines based in Europe posted the fastest annual growth in international FTKs for the first time since October 2016 (3.6%). In fact, air freight volumes have now trended upwards at an 8.0% annualized rate over the past six months. This has been driven by

strong conditions on the Transatlantic market – partly reflecting strong economic momentum in the US – and a pick-up in FTKs flown between Europe and Asia.

Chart 4 – International FTK growth



...followed by carriers based in North America

Stronger economic conditions in the US and strong flows across the Atlantic also appear to be benefiting North American carriers: airlines based in the region flew 2.8% more international FTKs in August than they did in the same period of 2017, with volumes continuing to trend upwards strongly in SA terms. Bottlenecks in manufacturing supply chains in the US also look to be helping to underpin demand for air freight.

Solid, but unspectacular, trend in ME volumes

International FTKs flown by Middle Eastern airlines increased by 2.2% year-on-year in August. This was a slowdown from 5.2% in July, although this mainly reflected volatility in the data a year ago rather than a marked change in the current trend. Indeed, FTKs are currently rising at a 6% annualized rate, helped by pick-ups on the markets to/from Europe and Asia.

Modest uptrend in Asia Pacific FTKs

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.

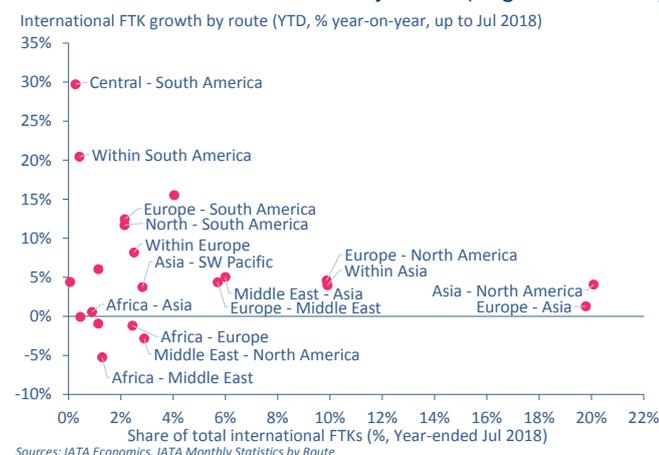
Weaker conditions for manufacturing exporters in the region – particularly Japan and China – have been mirrored in a marked slowdown in the upward traffic trend over the past year or so. This is increasingly visible in the annual FTK comparison: international FTKs grew by 1.6% year-on-year in August – well below the five-year average pace (4.4%).

L.American traffic is now trending sideways

Latin American airlines flew the same number of international FTKs in August 2018 than they did during the same month a year ago. Some of the smaller markets within the region have seen strong growth in international FTKs so far this year. (See Chart 5, over.)

Nonetheless, the broader recovery in international FTKs flown by Latin American airlines from their mid-2016 trough has paused.

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



Ongoing weakness in African FTK growth

Year-on-year growth in international FTKs flown by African airlines remained in negative territory in August for the fifth time in six months (-6.8%). Having peaked in SA terms at the end of last year, FTKs look to have stopped declining in SA terms in recent months, although they remain 8% lower than their recent November 2017 peak. Demand conditions remain weak on all the key markets to/from the continent. (Again, see Chart 5.)

IATA Economics
economics@iata.org
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Air freight market detail - August 2018

	World share ¹	August 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%	2.3%	4.5%	-0.9%	42.2%	4.0%	4.8%	-0.3%	44.1%
Africa	1.9%	-7.1%	6.0%	-2.8%	19.7%	0.3%	1.6%	-0.3%	24.6%
Asia Pacific	36.9%	1.6%	3.4%	-0.9%	53.4%	3.7%	5.9%	-1.1%	53.7%
Europe	24.2%	3.7%	5.2%	-0.6%	42.4%	3.9%	4.8%	-0.4%	45.3%
Latin America	2.7%	1.6%	5.3%	-1.2%	32.9%	8.0%	1.1%	2.2%	34.9%
Middle East	13.7%	2.2%	7.9%	-2.3%	41.4%	4.1%	5.6%	-0.6%	43.5%
North America	20.6%	2.8%	3.2%	-0.1%	34.5%	4.6%	4.1%	0.2%	35.8%
International	87.5%	2.2%	4.5%	-1.0%	45.7%	4.2%	5.0%	-0.4%	47.9%
Africa	1.8%	-6.8%	7.5%	-3.0%	19.8%	0.3%	3.2%	-0.7%	24.8%
Asia Pacific	33.1%	1.6%	2.8%	-0.7%	58.4%	4.0%	6.0%	-1.1%	58.3%
Europe	23.7%	3.6%	4.9%	-0.6%	44.1%	3.8%	4.9%	-0.5%	46.8%
Latin America	2.3%	0.0%	1.5%	-0.6%	36.9%	8.3%	-0.5%	3.3%	41.0%
Middle East	13.7%	2.2%	8.0%	-2.4%	41.4%	4.1%	5.7%	-0.7%	43.5%
North America	12.9%	2.8%	3.2%	-0.1%	39.4%	5.3%	4.3%	0.4%	41.9%

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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