



AIR FREIGHT MARKET ANALYSIS

May 2018

Air freight volumes look to have resumed a modest uptrend

- Annual growth in industry-wide freight tonne kilometres (FTKs) slowed to 4.2% in May, from 5.2% in April, although the upward trend in freight demand has recovered in recent months from a weak start to the year.
- The best of the upturn in air freight demand is well behind us, and the underlying world trade backdrop looks to be weakening. However, after a very strong 2017, we still expect FTKs to increase by around 4% in 2018.
- Annual growth in freight capacity exceeded that of demand in May once again, driving a decline in the load factor.

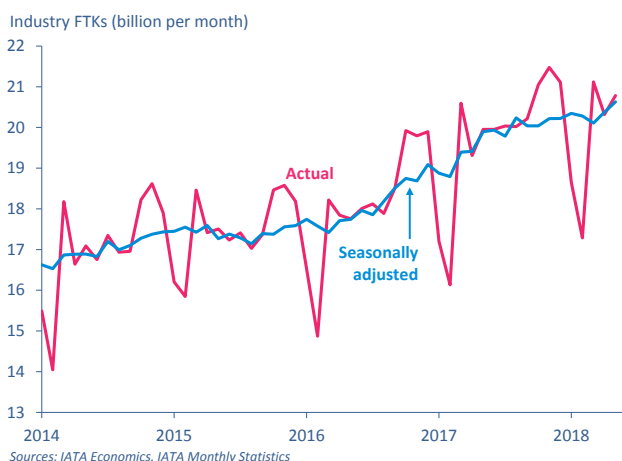
Annual FTK growth falls below its 5-year average...

Year-on-year growth in industry-wide FTKs slowed to 4.2% in May, from 5.2% in April. In a clear sign of the recent moderation in the upward demand trend, May was just the second month in two years in which annual FTK growth has lagged behind its five-year average pace (currently 5.1%).

...although volumes have picked up in SA terms

Having said that, seasonally adjusted (SA) FTKs picked up in month-on-month terms for the second consecutive month in May. (Note that the slowdown in the year-on-year growth rate in May is due to the comparison with an even larger month-on-month increase this time last year.) SA FTKs are now broadly in line with where they would have been had the moderate upward trend in late-2017 been sustained. (See Chart 1.)

Chart 1 – FTK levels



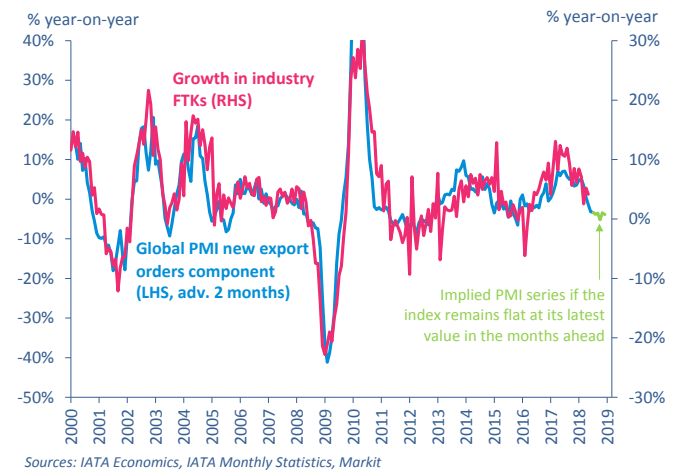
We will monitor closely as to whether this marks the start of a new upward trend in demand. However, as

we have noted before, the key point is that demand momentum is currently much weaker than it was a year ago. Indeed, FTKs have risen at an annualized rate of around 4% over the past six months or so – around one-third as fast as the pace seen during mid-2017.

The drivers of air freight demand have softened...

This moderation in air freight demand momentum largely reflects the fact that the inventory re-stocking cycle has now run its course. The inventory-to-sales ratio in the US – a key indicator of the inventory cycle – bottomed out in December 2017 and has trended upwards modestly since.

Chart 2 – FTK growth vs. global new export orders



The loss of momentum is also evident in the new export orders component of the global manufacturing Purchasing Managers' Index (PMI) too, which is a very good leading indicator for air freight. While the series remains just above the 50-mark that is consistent with growing export order books, it recently fell to a 21-month low, and is currently consistent with annual FTK

Air freight market overview - May 2018

	World share ¹	May 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%	4.2%	6.2%	-0.9%	44.6%	5.3%	6.2%	-0.4%	44.5%
International	87.5%	4.2%	6.5%	-1.1%	48.1%	5.7%	6.9%	-0.5%	48.2%

¹% of industry FTKs in 2017

²Year-on-year change in load factor

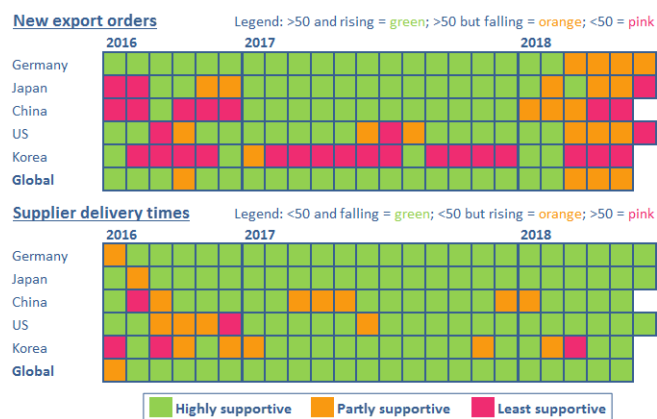
³Load factor level

growth slowing further into Q3 2018. (See Chart 2, previous page.)

...alongside signs of weakness in world trade

The moderation in manufacturing export orders has been broad-based across the major trading nations and points to a structural slowdown in underlying trade conditions rather than a blip. (See Chart 3.)

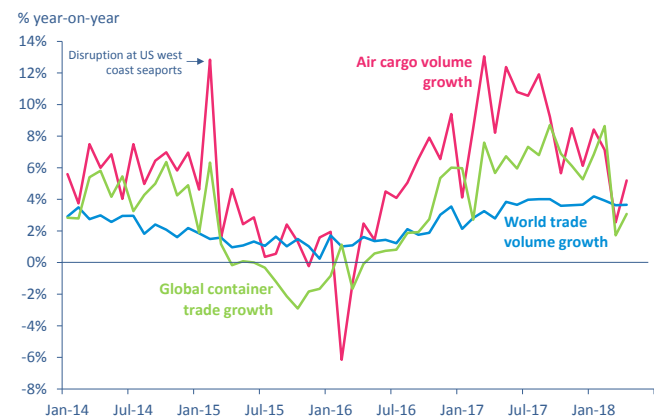
Chart 3 – FTK demand heat-map (monthly data from manufacturing PMIs, selected countries)



Sources: IATA, Markit, Thomson Reuters Datastream

Indeed, the fact that growth in global containerized trade has also slowed suggests that world trade conditions may be weakening in the face of the recent pick-up in protectionist measures. (See Chart 4.)

Chart 4 – Selected trade indicators



Sources: IATA Monthly Statistics, Netherlands CPB, RWI/ISL

Solid FTK growth still expected in 2018 as a whole

On balance, we continue to expect industry-wide FTKs to grow in the region of 4% in 2018 as a whole, helped in part by ongoing signs of bottlenecks in supply chains. (Again, see Chart 3.) 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.

Capacity is growing faster than demand

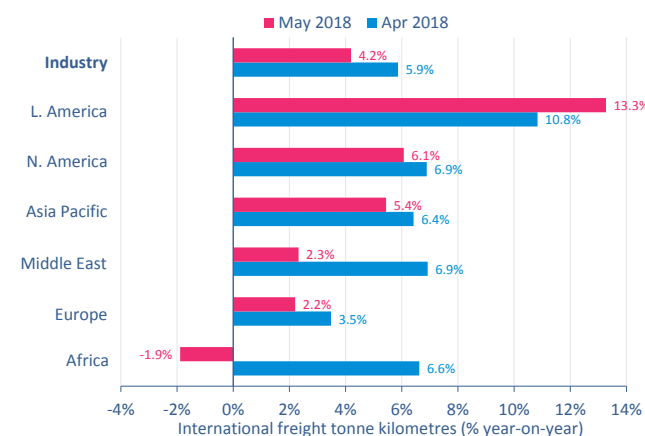
Available freight tonne kilometres (AFTKs) grew by 6.2% year-on-year in May, broadly unchanged from 6.1% in the previous month. The annual pace of

capacity growth has now exceeded that of demand for four months in a row, and the industry-wide load factor fell by 0.9 percentage points relative to May 2017.

Slowdown in international FTK growth

Year-on-year growth in industry-wide international FTKs slowed to 4.2% in May, from 5.9% in April. (See Chart 5.)

Chart 5 – International FTK growth



Sources: IATA Economics, IATA Monthly Statistics

The recovery in Latin America has continued

Annual growth in international FTKs flown by carriers based in Latin America accelerated to 13.3% in May, from 10.8% in April. As a result, the region topped the annual growth chart for the third month in a row. The recovery in freight volumes over the past 18 months or so has come alongside an improvement in economic conditions in the continent's largest economy, Brazil (notwithstanding the economic disruption seen in the country during May). In SA terms, FTKs finally surpassed the May 2014-peak this month.

Tentative upward trend in Asia Pacific volumes...

As the largest air freight-carrying region, Asia Pacific is most exposed to any risks of rising global protectionism or trade wars. That said, while annual growth in international FTKs for the region's carriers slowed to 5.4% in May, there are tentative signs that the upward trend in traffic is accelerating again. We will continue to monitor developments closely in the coming months.

...amid similar signs for North American airlines

It is a similar picture for airlines based in North America. International FTK growth slowed to 6.1% year-on-year in May, from 6.9% in April, but the upward trend in SA terms looks to be picking up.

There are signs that momentum in the US economy and the stronger US dollar are boosting inbound air shipments. According to the US Census Bureau, year-on-year growth in import volumes to the US by air accelerated to 12.0% in April 2018 from 2.4% in March.

The trend has slowed in the Middle East...

Annual growth in international FTKs flown by Middle Eastern carriers dropped to 2.3% in May, down from 6.9% in April. However, as was the case with last month's acceleration in growth, the slowdown in the annual growth rate in May mainly reflects the shape of developments a year ago rather than any substantial change in the current traffic trend. Indeed, the key point is that international FTK volumes have continued to trend upwards at a comparatively modest pace by the past standards of the region (around one-third of the five-year average pace, for example). All told, this lends support to wider signs of a moderation in global trade conditions.

...and remains moderate for European airlines

European airlines flew 2.2% more international FTKs in May 2018 than they did in the same month a year ago – well down on the five-year average annual FTK growth rate (5.6%).

FTKs have risen in SA terms over the past two months, but the bigger picture is that they have still only risen at a 1.5% annualized rate over the past six months. This performance is echoed in slowdowns in the upward trends on key markets to/from Asia and North America.

African freight volumes continue downward trend

Having surged by 25% in 2017 as a whole, international FTKs flown by African airlines fell in annual terms in May for just the second time in 22 months. SA FTKs have now trended downwards at an annualized pace of 15% over the past six months, which mainly reflects a softening in demand on the markets to/from Asia and the Middle East.

IATA Economics
 economics@iata.org
 4th July 2018

Air freight market detail - May 2018

	World share ¹	May 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%	4.2%	6.2%	-0.9%	44.6%	5.3%	6.2%	-0.4%	44.5%
Africa	1.9%	-2.0%	20.4%	-4.8%	21.2%	5.2%	24.6%	-4.0%	21.7%
Asia Pacific	36.9%	4.9%	7.4%	-1.3%	55.3%	5.6%	7.1%	-0.8%	53.8%
Europe	24.2%	2.3%	6.0%	-1.6%	44.5%	4.5%	5.1%	-0.3%	46.5%
Latin America	2.7%	11.4%	1.5%	3.3%	37.3%	10.9%	3.6%	2.3%	35.0%
Middle East	13.7%	2.4%	3.3%	-0.4%	44.9%	4.3%	5.3%	-0.4%	44.0%
North America	20.6%	5.9%	5.4%	0.2%	36.3%	5.8%	4.8%	0.3%	36.4%
International	87.5%	4.2%	6.5%	-1.1%	48.1%	5.7%	6.9%	-0.5%	48.2%
Africa	1.8%	-1.9%	22.9%	-5.4%	21.3%	5.1%	27.1%	-4.6%	21.8%
Asia Pacific	33.1%	5.4%	8.3%	-1.6%	59.2%	6.4%	7.8%	-0.8%	58.1%
Europe	23.7%	2.2%	5.9%	-1.7%	46.0%	4.5%	5.4%	-0.4%	48.0%
Latin America	2.3%	13.3%	1.2%	4.6%	42.9%	12.0%	4.1%	2.9%	41.2%
Middle East	13.7%	2.3%	3.4%	-0.5%	44.9%	4.3%	5.3%	-0.5%	44.1%
North America	12.8%	6.1%	4.3%	0.7%	42.5%	7.0%	5.1%	0.8%	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.

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