



# AIR FREIGHT MARKET ANALYSIS

## February 2018

### Strong start to 2018 for FTK growth, but upward trend has eased

- Industry-wide freight tonne kilometres (FTKs) rose by a robust 7.7% year-on-year in Jan and Feb combined – the strongest start to a year on this basis, which adjusts for potential Lunar New Year distortions, since 2015.
- Annual FTK growth remains on track for a solid H1 2018. However, as we have noted before, the upward trend in seasonally adjusted (SA) demand has slowed and leading indicators have softened in recent months.
- Africa posted the fastest rate of annual international FTK growth for the 17<sup>th</sup> time in 18 months.
- Demand grew faster than capacity for the 19<sup>th</sup> month in a row, but it is now trending up more slowly than capacity.

#### FTK growth off to its best start to a year since 2015

Industry-wide FTKs increased by 6.8% year-on-year in February, down from 8.5% in the previous month.

The changing timing of Lunar New Year can distort annual FTK growth rates during January and February, so it is good practice to consider both months together to get a clearer view of the strength of demand at the start of each year. The latest data indicate a strong start to 2018 for annual growth: FTKs flown in January and February combined were 7.7% higher than in the same period of 2017 – the strongest start to a year on this basis since 2015.

#### Air freight has outperformed in recent years...

Demand for air freight has benefited in recent years from a stronger global trade backdrop, as well as an inventory restocking cycle. The latter factor helped air freight growth to outperform global goods trade in 2017 by the widest margin since 2010. That said, while year-

on-year FTK growth rates remain robust, there are increasing signs that the best of the upturn for air freight is now behind us.

#### ...but the upward trend has slowed since mid-2017

This is perhaps most apparent in the change in trend in SA FTKs since the middle of last year. Having risen at a double-digit annualized rate between late-2016 and mid-2017, industry-wide FTKs have now trended upwards at an annualized pace of just 3% since September. (See Chart 1.) Unless the trend accelerates over the coming months, the year-on-year FTK growth rate is set to fall back below its five-year average (5.0%) in May.

More generally, the moderation in the SA FTK trend ties in with a softer picture from leading indicators, particularly the new export orders component of the global manufacturing Purchasing Managers' Index (PMI). As shown in Chart 2, this measure remains

Chart 1 – FTK levels

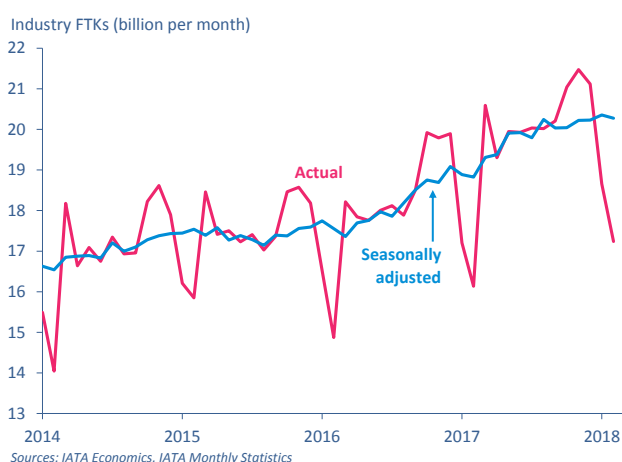
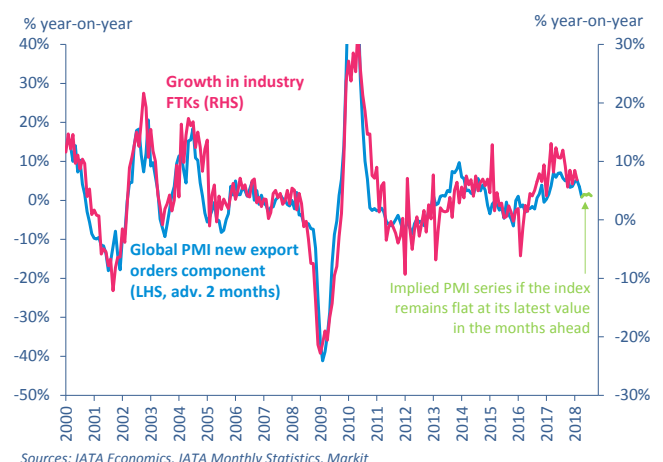


Chart 2 – FTK growth vs. global new export orders



#### Air freight market overview - February 2018

	World share <sup>1</sup>	February 2018 (% year-on-year)				% year-to-date			
		FTK	AFTK	FLF (%-pt) <sup>2</sup>	FLF (level) <sup>3</sup>	FTK	AFTK	FLF (%-pt) <sup>2</sup>	FLF (level) <sup>3</sup>
<b>TOTAL MARKET</b>	<b>100.0%</b>	<b>6.8%</b>	<b>5.6%</b>	<b>0.5%</b>	<b>44.4%</b>	<b>7.7%</b>	<b>4.9%</b>	<b>1.1%</b>	<b>43.9%</b>
International	87.4%	7.7%	6.6%	0.5%	48.3%	8.4%	6.5%	0.9%	47.5%

<sup>1</sup>% of industry FTKs in 2017

<sup>2</sup>Year-on-year change in load factor

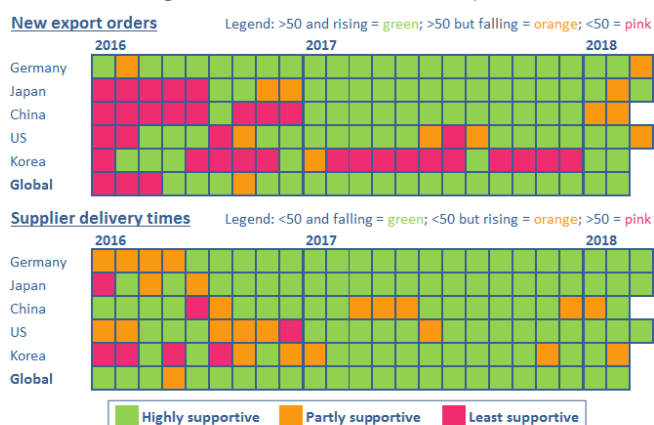
<sup>3</sup>Load factor level

consistent with positive year-on-year FTK growth in H1 2018, albeit at less stellar rates than we saw during the middle of 2017 (broadly in the region of 4.5-5%).

### Demand drivers are shifting away from their highly supportive levels

It is worth noting that the new export orders component of the manufacturing PMI has softened in a number of key exporting countries in recent months, perhaps partly reflecting heightened concerns of a trade war. While the series generally remain above the notional 50-mark that is consistent with increasing demand for manufactured goods exports, order books in some countries – notably Germany, China, and the US – are no longer growing as quickly as they were a year ago. (This is represented by a shift from green to orange in the top panel of the heat-map shown in Chart 3 in recent months.) Given that demand for air freight tends to be the strongest at the *start* of economic and trade upturns, this further illustrates the gradual shift in the demand drivers away from the highly supportive levels that were in place throughout 2017.

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



Sources: IATA, Markit

### Solid FTK growth expected in 2018 as a whole

Despite the moderation, we continue to expect industry-wide FTKs to grow in the region of 4.5% in 2018 as a whole. Following the very strong growth performance seen in 2017 this would still be a robust outcome. (Note that carry-over effects from last year mean that even if FTKs were to just trend sideways in SA terms from their current level over the rest of 2018, this would still be consistent with 3% FTK growth over the year as a whole relative to 2017.)

Nonetheless, the recent pick-up in protectionist measures and the prospects of a global trade war arguably mean that the risks to the broader trade outlook are on the downside. This is an issue that we will continue to monitor closely in the months ahead.

### Demand trend has fallen below that of capacity

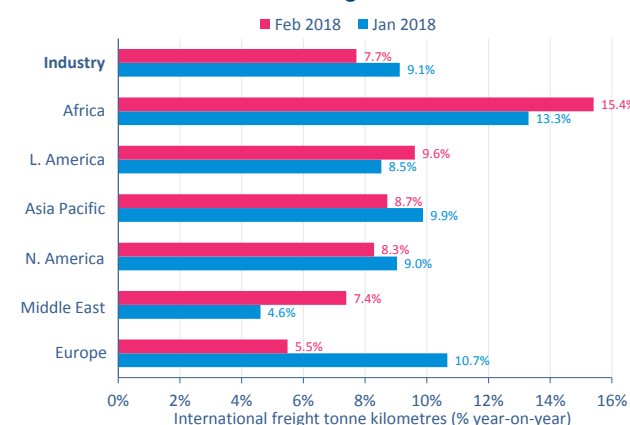
Available freight tonne kilometres (AFTKs) grew by 5.6% year-on-year in February 2018, and by 4.9% in Jan-Feb combined. As a result, the industry-wide load factor rose by 0.5 and 1.1 percentage points respectively in annual terms over each period.

That said, the slowdown in the upward trend in SA FTKs means that demand is now currently trending upwards at a slower pace than capacity.

### A mixed picture for international FTK growth

International FTKs grew by 7.7% year-on-year in February, down from 9.1% in January. (See Chart 4.)

**Chart 4 – International FTK growth**



Sources: IATA Economics, IATA Monthly Statistics

### Slower upward trend for European carriers...

Year-on-year growth in international FTKs flown by European airlines slowed to 5.5% in February, almost half the rate seen in the previous month (10.7%). It has been a volatile start to the year for SA volumes, with January's strong SA month-on-month increase being reversed in February; this suggests that the pattern of traffic seen in the opening months of 2018 differed from the usual seasonal pattern.

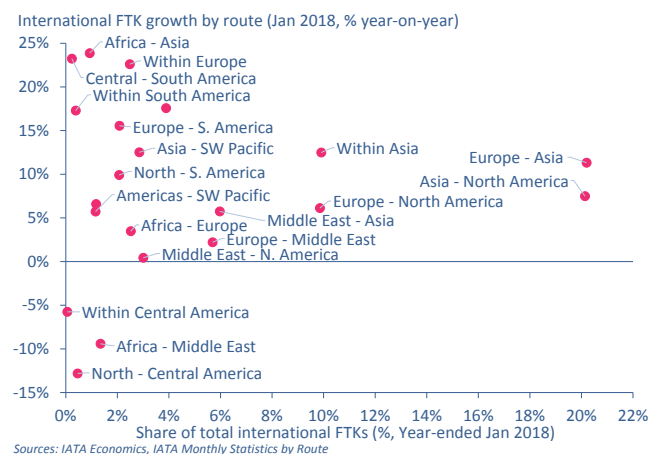
In any case, the story for European carriers is similar to that for the wider industry, with robust year-on-year FTK growth in Jan-Feb combined masking a broader slowdown in the SA traffic trend (currently around 3% on an annualized basis). As noted earlier, it remains to be seen how protectionism, as well as a strong euro, continue to affect trade activity in the region's key exporting country, Germany.

### ...but the trend is holding up better in Asia Pacific

International FTKs flown by airlines based in Asia Pacific grew by 8.7% year-on-year in February, and by 9.3% in the first two months of the year combined. Recent revisions to the data mean that the underlying trend for Asia Pacific carriers is perhaps more positive than it appeared a few months ago; SA FTKs are currently trending upwards at a 6-7% annualized rate – broadly twice as fast as European airlines.

International FTKs flown on the market segment within Asia increased by 12.5% year-on-year in January – the fastest growth of the four largest international routes – followed by the segment from Europe to/from Asia (11.3%). (See Chart 5.) As the largest freight-flying region – airlines based in Asia Pacific fly nearly 37% of global FTKs – the risks from protectionism could impact the region disproportionately.

**Chart 5 – International FTK growth by route (% year-on-year)**



**Middle East FTK growth below its five-year average**

Airlines based in the Middle East flew 6.0% more international FTKs in Jan-Feb 2018 than they did in the same period last year. It was the only region in which FTK growth over the Jan-Feb period was slower than its five-year average growth rate (9.9%).

While freight volumes are continuing to trend upwards in SA terms, the trend has slowed to an annualized rate of around 4% since late-2017. This appears to largely reflect weak conditions on the market segments to/from Europe and North America. (Volumes on the former have trended downwards at a double-digit annualized rate over the past five months.) Middle Eastern airlines are the only region to have seen an annual decline in their freight load factor so far in 2018.

**N. American traffic is continuing to trend sideways**

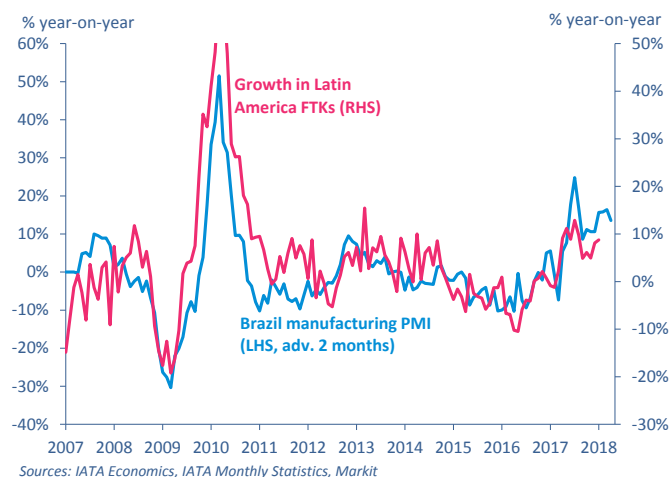
International FTKs flown by North American airlines increased by a robust 8.3% year-on-year in February, and by 8.7% in the first two months of the year. That said, the robust annual growth rates stem in large part from SA gains seen in the first half of 2017; in fact, SA FTKs have trended sideways since June. While year-on-year FTK growth rates will remain supported over the next two months, unless the SA trend picks up, annual growth will fall sharply from May onwards.

The weakening in the US dollar over the past year or so appears to be helping to boost demand for air exports. Data from the US Census Bureau show that export volumes from the US by air rose by 10.2% year-on-year in January, outpacing a 7.8% increase in imports by air over the same period.

**Robust FTK growth for Latin America carriers**

Year-on-year growth in international FTKs flown by airlines based in Latin America accelerated to a five-month high in February (9.6%). The upward trend in SA FTK volumes has paused lately. However, the bigger picture is that freight volumes have recovered strongly over the past 18 months or so since reaching a trough in May 2016, helped by a modest recovery in the continent's largest economy, Brazil. (See Chart 6.) FTKs in SA terms are still broadly in line with where they were in late-2014.

**Chart 6 – Latin America FTK growth vs. Brazilian business confidence**



**Africa tops the int'l growth chart once again**

African airlines fly less than 2% of global FTKs but topped the international FTK growth chart in February for the 17<sup>th</sup> time in 18 months. As we have noted before, the strong growth seen in African airlines' freight volumes has partly reflected higher volumes between Africa and Asia, on the back of ongoing foreign investment flows into Africa from the latter. While the surge in traffic looks to have stabilized, FTKs on the market segment were still nearly 24% higher in January 2018 than they were a year ago. (Again, see Chart 5.)

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 4<sup>th</sup> April 2018

## Air freight market detail - February 2018

	World share <sup>1</sup>	February 2018 (% year-on-year)				% year-to-date			
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<b>TOTAL MARKET</b>	<b>100.0%</b>	<b>6.8%</b>	<b>5.6%</b>	<b>0.5%</b>	<b>44.4%</b>	<b>7.7%</b>	<b>4.9%</b>	<b>1.1%</b>	<b>43.9%</b>
Africa	1.9%	15.9%	3.9%	2.9%	28.5%	14.6%	4.0%	2.4%	26.6%
Asia Pacific	36.9%	6.5%	7.2%	-0.3%	51.3%	7.8%	4.6%	1.6%	52.2%
Europe	24.2%	5.7%	3.8%	0.8%	47.5%	8.1%	4.8%	1.4%	46.3%
Latin America	2.7%	8.7%	6.9%	0.6%	33.9%	8.4%	6.4%	0.6%	32.0%
Middle East	13.7%	7.4%	7.6%	-0.1%	44.2%	6.0%	6.8%	-0.4%	42.6%
North America	20.6%	7.3%	4.1%	1.1%	36.7%	7.4%	4.3%	1.1%	36.5%
<b>International</b>	<b>87.4%</b>	<b>7.7%</b>	<b>6.6%</b>	<b>0.5%</b>	<b>48.3%</b>	<b>8.4%</b>	<b>6.5%</b>	<b>0.9%</b>	<b>47.5%</b>
Africa	1.8%	15.4%	6.1%	2.3%	28.6%	14.3%	5.6%	2.0%	26.8%
Asia Pacific	33.1%	8.7%	7.8%	0.5%	56.2%	9.3%	7.1%	1.2%	56.3%
Europe	23.6%	5.5%	4.4%	0.5%	48.8%	8.1%	5.4%	1.2%	47.7%
Latin America	2.3%	9.6%	8.8%	0.3%	39.9%	9.1%	8.7%	0.1%	38.3%
Middle East	13.7%	7.4%	7.6%	-0.1%	44.3%	6.0%	7.1%	-0.5%	42.7%
North America	12.8%	8.3%	6.2%	0.8%	43.0%	8.7%	6.1%	1.0%	42.5%

<sup>1</sup>% of industry FTKs in 2017      <sup>2</sup>Year-on-year change in load factor      <sup>3</sup>Load 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](#).

### Get the data

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