



AIR FREIGHT MARKET ANALYSIS

March 2018

Boost to air freight from the re-stocking cycle has run its course

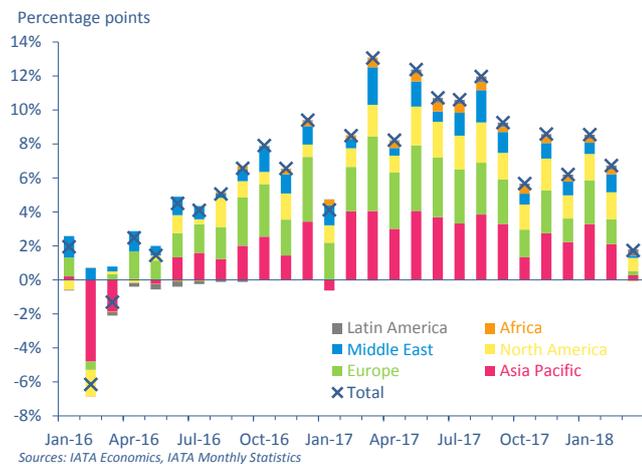
- Annual growth in industry-wide freight tonne kilometres (FTKs) slowed to a 22-month low of 1.7% in March.
- We would caution against reading too much into the softening in seasonally adjusted (SA) volumes in recent months as yet; we continue to expect FTKs to grow in the region of 4-5% in 2018. However, the boost from the inventory re-stocking cycle looks to have run its course, alongside a slower upward trend in FTK volumes.
- Annual growth in air freight capacity exceeded that of demand for the first time in 20 months in March.

FTK growth slowed significantly in March...

After a robust start to the year, the industry-wide FTK growth rate slowed to just 1.7% year-on-year in March, down from a robust 6.7% in February. (See Chart 1.)

This month's outcome represents the slowest pace of annual growth since the early part of 2016. Nonetheless, FTKs grew by 5.4% year-on-year in Q1 as a whole. With the exception of Latin America, each region saw a slowing in year-on-year FTK growth this month, with annual growth turning negative in Africa.

Chart 1 – FTK growth and regional contributions



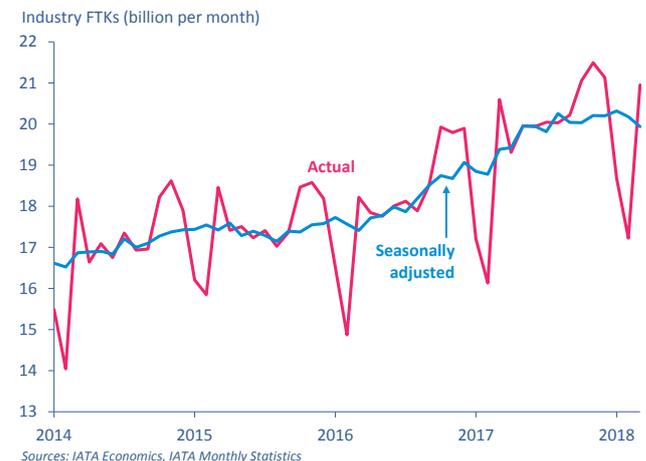
...in line with a slowing in the traffic trend

While the slowdown in annual growth was quite abrupt this month, the change in trend of seasonally-adjusted (SA) FTKs has been apparent for some time. After rising at a double-digit annualized pace between 2016 and mid-2017, the upward SA FTK trend slowed to a 4% annualized rate in late-2017, and FTK volumes have *fallen* in the last couple of months. (See Chart 2.)

We would caution against reading too much into these latest months' data as yet. Given the typical volatility inherent in the monthly data, such events are not unprecedented (we saw a similar decline in Jan-Feb 2017, for example). Moreover, the underlying global trade backdrop remains supportive. Indeed, while noting some clear near-term downside risks, the International Monetary Fund (IMF) modestly upgraded its forecasts for international trade growth in 2018 and 2019 in its latest *World Economic Outlook*.

Nonetheless, even if FTKs were to reverse March's month-on-month SA fall in the April data, the bigger picture is that the recent period of air freight outperformance looks to be firmly behind us.

Chart 2 – FTK levels



Leading indicators have moderated

This mainly reflects the fact that the boost to air freight demand from the inventory re-stocking cycle – which helped air freight to grow more than twice as fast as wider global goods trade in 2017 – now looks to have

Air freight market overview - March 2018

	World share ¹	March 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%	1.7%	4.4%	-1.2%	46.4%	5.4%	5.3%	0.0%	44.5%
International	87.4%	2.2%	5.1%	-1.4%	50.5%	6.0%	6.5%	-0.3%	48.3%

¹ % of industry FTKs in 2017

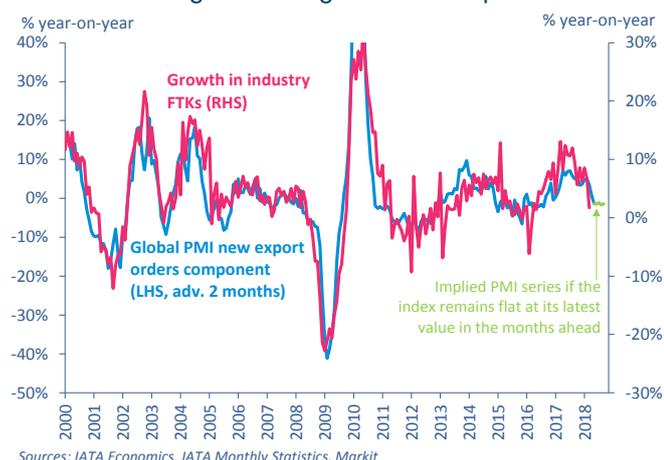
² Year-on-year change in load factor

³ Load factor level

run its course. Indeed, having trended downwards between the start of 2016 and the end of last year, the US inventory-to-sales ratio has risen so far in 2018.

Moreover, the current slowdown in FTK growth slowdown is also consistent with the latest signs from the global manufacturing Purchasing Managers' Index (PMI). As shown in Chart 3, the indicator is currently pointing to annual FTK growth of around 2.5%, down from around 7.5% just a few months ago.

Chart 3 – FTK growth vs. global new export orders



As shown in the top panel of Chart 4, there has been a broad-based softening in new export orders in recent months. Manufacturers in Germany, Japan, and the US are currently reporting a slower pace of growth in their export order books than they saw a year ago. Meanwhile, manufacturing firms in South Korea and China are reporting *falling* export orders (indicated by the pink shading in the heat-map).

Chart 4 – FTK demand heat-map (monthly data from manufacturing PMIs, selected countries)



While difficult to pinpoint a specific cause for this change in sentiment, the softening is likely to have been compounded, at least in part, by the increasing concerns of a trade war between China and the US over recent months.

Solid FTK growth still expected in 2018 as a whole

Notwithstanding the moderation in both FTK growth and some of the leading indicators, we continue for now to expect industry-wide FTKs to grow by around 4-5% in 2018 as a whole. Following the very strong growth performance seen in 2017 – which was bolstered by the global inventory re-stocking cycle – this would still be a robust outcome for the air freight segment. (Note that even if FTK volumes were to trend sideways in SA terms over the rest of the year, carry-over effects mean that this would still be consistent with full-year growth in the region of 1-1.5%.)

However, given the recent rise in protectionist rhetoric and measures, the risks to the outlook for air freight growth are tilted to the downside.

Demand growth has fallen below that of capacity

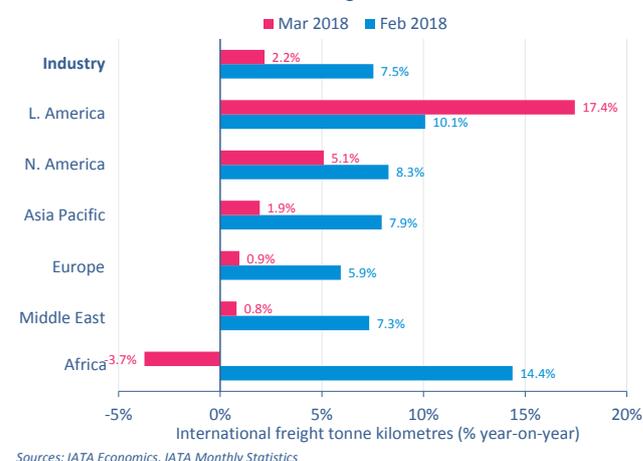
Available freight tonne kilometres (AFTKs) grew by 4.4% year-on-year in March, down from 6.3% last month. We have previously noted that the trend growth rate of FTKs has fallen to below that of AFTKs, but this month marks the first time in 20 months that the annual pace of capacity growth has exceeded that of demand.

Over the past year the industry-wide freight load factor (FLF) has fallen by a sizeable 1.2 percentage points. That said, in part, this reflects an unusually strong load factor performance from a year ago; the FLF actually increased by 2.4 percentage points this month compared with the outcome for February.

International FTK growth also slowed this month

At the global level, international FTK growth also eased substantially in March, down more than 5 percentage points to a moderate 2.2% year-on-year, from 7.5% in February. (See Chart 5.)

Chart 5 – International FTK growth



Latin America the only region where growth lifted...

Year-on-year growth in international FTKs flown by Latin American airlines increased to 17.4% year-on-year in March, from 10.1% last month. Latin America

was the only region to record a lift in the annual rate of international FTK growth on this occasion.

The latest outcome represents a continuation of the recovery in freight volumes for the region's airlines over the past 18 months or so. In part, this, reflects the improved economic outcomes in the continent's largest economy, Brazil.

...followed (at some distance) by North America

International FTKs flown by North American airlines increased by a solid 5.1% year-on-year in March. In broader terms, however, the trend in SA FTKs for the region continues to move sideways, as it has done since the middle of 2017.

FTKs on routes between North & South America have improved markedly in recent months, and growth moved into double-digits in February (the latest available data), at 14.6% year-on-year. (See Chart 6.)

Africa – growth slips into reverse this month

Having topped the international FTK growth chart for 17 of the previous 18 months, the fortunes of the African airlines underwent a sharp reversal in March. The level of international FTKs for the region's carriers are now 3.7% lower than that of a year ago.

To be fair, although the trend of international FTKs has shown recent moderation, this month's negative growth rate appears mainly to be attributable to an outsized increase in freight volumes from a year ago, rather than a clear decline in recent performance.

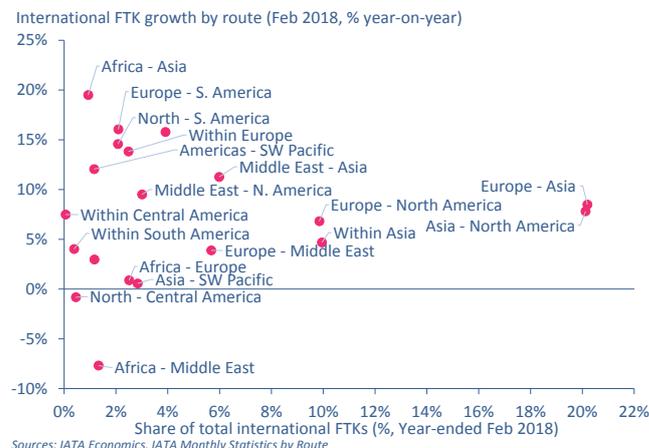
Growth has eased considerably in Asia Pacific...

Growth in international FTKs for the Asia Pacific airlines eased to just 1.9% year-on-year in March, having averaged almost 10% over the past 12 months. Recall that Asia Pacific is the largest region for air freight, accounting for around 37% of total global FTKs and rendering it most exposed to any risks of rising global protectionism or trade wars.

International FTKs flown on the largest air freight market – Europe-Asia – increased by 8.5% year-on-year in February, the fastest growth of the four major

international routes. After a strong, double-digit growth performance last month the Within Asia market eased substantially to 4.7% in February. (Again see Chart 6.)

Chart 6 – International FTK growth by route (% year-on-year)



...and (very) modest growth in Europe and the ME

Year-on-year growth in international FTKs flown by European airlines slowed further in March, to be just 0.9% higher than their level of a year ago. Recent robust growth outcomes have tended to mask a broader underlying slowdown in the SA trend in FTKs – a trend that became more visible this month.

A stronger euro, combined with the softer new export order index for the region's key exporting nation, Germany, highlight some of the risks around the outlook for air freight for the region's carriers.

Growth also slowed for the Middle East carriers, to a similar pace of just 0.8% year-on-year. Amongst the key international routes for the region's airlines, February saw a recovery in annual freight volume growth for the key Asia and North America markets, to 11.3% and 9.5% year-on-year, respectively. The pace of growth for the Europe market has also lifted in recent months, but remains more moderate, at 3.9% in February.

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Air freight market detail - March 2018

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		FTK	AFTK	FLF (%-pt) ²	FLF (level) ³	FTK	AFTK	FLF (%-pt) ²	FLF (level) ³
TOTAL MARKET	100.0%	1.7%	4.4%	-1.2%	46.4%	5.4%	5.3%	0.0%	44.5%
Africa	1.9%	-3.4%	25.0%	-6.6%	22.6%	7.2%	26.9%	-4.0%	21.9%
Asia Pacific	36.9%	0.7%	4.6%	-2.1%	56.1%	4.9%	4.5%	0.2%	53.5%
Europe	24.2%	1.0%	3.4%	-1.2%	49.2%	5.7%	4.5%	0.5%	47.4%
Latin America	2.7%	15.5%	-2.1%	6.0%	39.1%	10.7%	2.2%	2.7%	34.7%
Middle East	13.7%	0.8%	4.9%	-1.8%	45.3%	4.0%	6.2%	-0.9%	43.6%
North America	20.6%	3.9%	3.3%	0.2%	37.4%	6.1%	4.5%	0.6%	36.6%
International	87.4%	2.2%	5.1%	-1.4%	50.5%	6.0%	6.5%	-0.3%	48.3%
Africa	1.8%	-3.7%	27.7%	-7.4%	22.7%	6.9%	29.6%	-4.7%	22.0%
Asia Pacific	33.1%	1.9%	4.9%	-1.7%	60.7%	6.2%	6.2%	0.0%	57.8%
Europe	23.7%	0.9%	3.6%	-1.3%	50.6%	5.6%	4.9%	0.3%	48.8%
Latin America	2.3%	17.4%	-0.6%	6.9%	44.9%	12.0%	4.5%	2.7%	40.8%
Middle East	13.7%	0.8%	4.9%	-1.8%	45.4%	4.0%	6.2%	-0.9%	43.6%
North America	12.8%	5.1%	4.1%	0.4%	45.0%	7.0%	5.3%	0.7%	43.3%

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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