



AIR FREIGHT MARKET ANALYSIS

November 2018

Air cargo volumes lost momentum towards the end of 2018

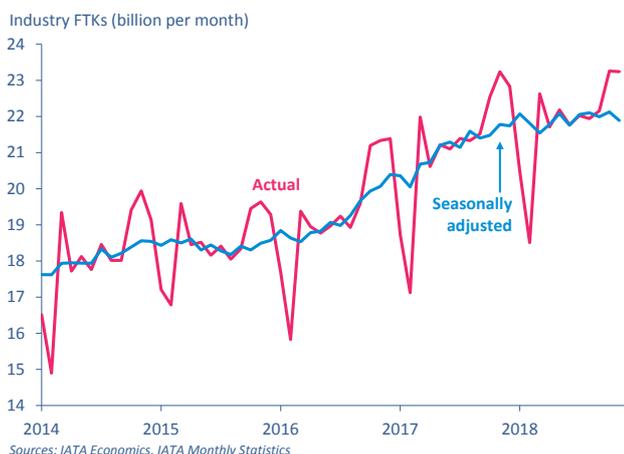
- Having posted annual growth of 3.2% in October, industry-wide freight tonne kilometres (FTK) were unchanged in year-on-year terms in November.
- The slowdown in freight demand growth in 2018 has been consistent with the typical pattern following inventory restocking cycles in the past. However, the loss of upward momentum in recent months appears to illustrate the increasing headwinds to freight demand from renewed signs of weakness in global economic activity.
- With capacity still trending higher, the industry-wide load factor fell by 2.2 percentage points relative to Nov' 2017.

Air cargo volumes lost momentum in late-2018...

Industry-wide FTKs were unchanged in year-on-year terms in November – the slowest growth rate since March 2016. All told, FTKs increased by 3.9% in annual terms over the first 11 months of 2018, compared to 10.0% over the same period a year ago.

Much of the moderation in FTK growth that we have seen over the past year or so has reflected the typical pattern seen after inventory restocking cycles in the past. Recall that air freight volumes grew much faster than global goods trade during 2017 as firms turned to the speed afforded by air freight to restock their inventory levels quickly.

Chart 1 – FTK levels



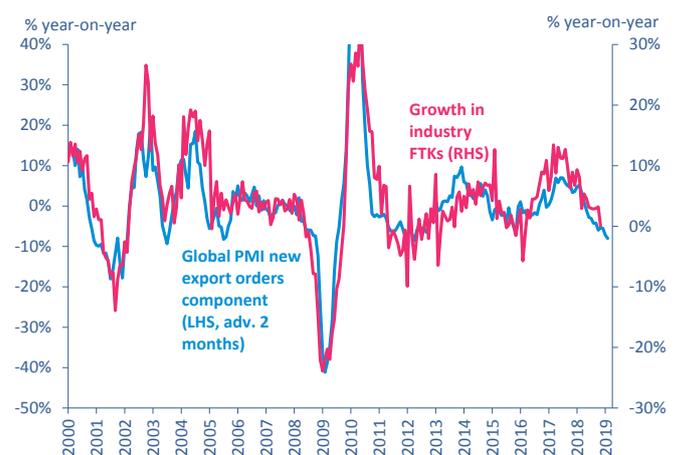
However, the loss of upward momentum in the seasonally adjusted (SA) FTK series towards the end of 2018 appears to illustrate the increasing headwinds to freight demand from renewed signs of weakness in global economic activity and key demand drivers.

...amid growing signs of weakness in the global economy and key demand drivers

These are perhaps most evident in the new export orders component of the global manufacturing Purchasing Managers' Index (PMI), which has proven to be a reliable leading indicator of industry-wide FTK growth in the past. The series has now fallen in month-on-month terms in 10 of the last 11 months, and has been below the 50-mark (ie, territory normally associated with falling export orders) since September.

At current levels, the indicator continues to suggest that annual FTK growth is unlikely to pick up sharply anytime soon. (See Chart 2.) The country-level data that underlie the global series show that the weakness has been broad-based across major exporters since the middle of 2018. (See Chart 3, overleaf.)

Chart 2 – FTK growth vs. new export orders



This weakness is echoed in other key demand drivers for air freight, notably consumer confidence, which

Air freight market overview - November 2018

| | World share ¹ | November 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% | 0.0% | 4.3% | -2.2% | 51.5% | 3.9% | 5.5% | -0.7% | 49.1% |
| International | 87.4% | 0.0% | 4.0% | -2.3% | 57.5% | 4.0% | 5.4% | -0.7% | 54.5% |

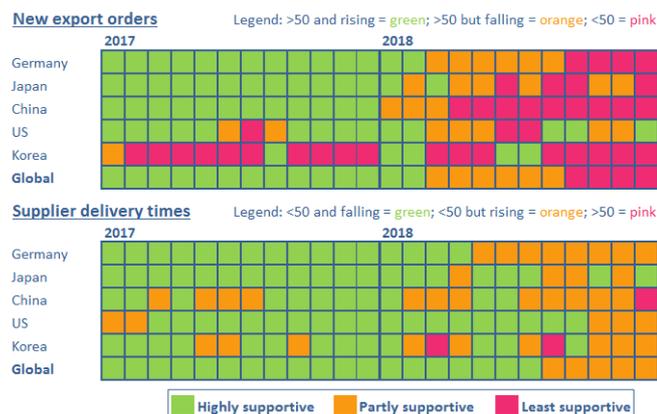
¹ % of industry FTKs in 2017

² Year-on-year change in load factor

³ Load factor level

remains elevated by historical standards but has fallen back since the middle of last year.

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



Sources: IATA, Markit, Thomson Reuters Datastream

All told, we expect industry-wide FTKs to grow by 3.7% in 2019 as a whole, supported in part by fast-growing areas such as e-commerce. However, we will continue to monitor demand developments closely over the coming months.

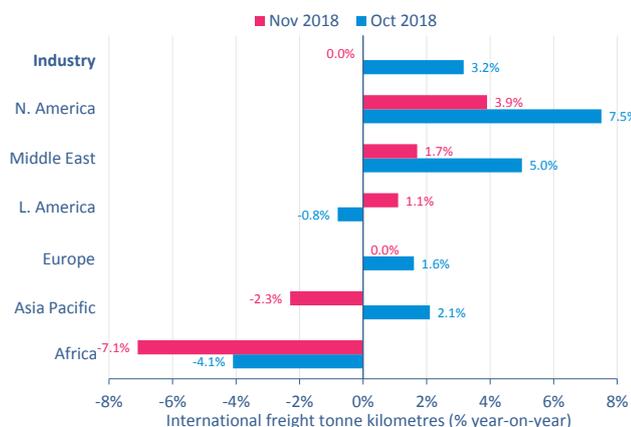
Capacity growth outpacing that of demand

Available freight tonne kilometres (AFTKs) rose by 4.3% year-on-year in November – the ninth consecutive month in which annual capacity growth has outpaced that of demand. As a result the industry-wide freight load factor fell by 2.2 percentage points relative to November 2017.

International FTK growth also falls to zero in Nov...

International FTKs were also unchanged in year-on-year terms in November, down from annual growth of 3.2% in October. (See Chart 4.)

Chart 4 – International FTK growth



Sources: IATA Economics, IATA Monthly Statistics

International FTK growth also falls to zero in Nov...

Demand momentum has weakened for all the major regions, most notably in Asia Pacific. Indeed, international FTKs flown by airlines based in the region *fell* in year-on-year terms in November for the first time

since March 2016 (when the data were distorted by comparison with the boost to demand associated with the strikes as seaports on the west coast of the US in early-2015). The key point is that FTKs have trended sideways in SA terms in a reasonably narrow band since mid-2017.

North American airlines top the growth chart...

Airlines based in North America topped the international FTK growth chart in November for the sixth consecutive month (3.9% year-on-year). The strength of consumer spending and the wider US economy has supported FTK growth for North American airlines over the past year or so.¹ However, more than half of this annual growth reflects gains made in Q2 2018; SA volumes have been trending downwards at a 4% annualized pace since the middle of last year.

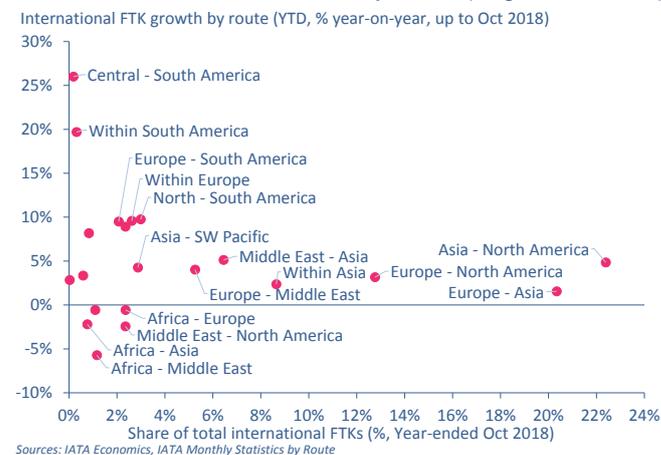
...as European FTK growth stagnates

Year-on-year growth in international FTKs flown by European airlines fell to zero in November, down from 1.6% in the previous month. Traffic is still trending upwards in SA terms but only at a very modest pace. This corresponds with wider weakness in European manufacturers' export order books, particularly in Germany. (Again, see Chart 3.)

Ongoing upward trend for Middle East airlines

International FTKs flown by Middle Eastern airlines rose by 1.7% in November, down from 5.0% in the previous month. Nonetheless, as we have noted before, the annual growth rate is being distorted in part by the weak patch for demand in H1 2018. The bigger picture is that SA traffic has now trended upwards solidly over the past six months or so, helped by improvements in conditions on the key markets between the Middle East and Europe and Asia.

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



Sources: IATA Economics, IATA Monthly Statistics by Route

¹ IATA recently revised its freight statistics, part of which included broadening the concept of what is considered 'scheduled' cargo. These revisions had a modest impact on overall industry growth, but resulted in particularly marked upward revisions for the North America region.

Another annual decline for African carriers...

Year-on-year growth in international FTKs flown by African airlines remained in negative territory in November for the eighth time in nine months (-7.1%). All of the major markets to/from the continent have struggled to post positive growth this year. (See Chart 5, previous page.) Nonetheless, while the total amount of international FTKs flown by African carriers is still around 7% below its mid-2017 peak in SA terms, it is important to note that volumes are around 28% higher than their most recent trough in late-2015; this corresponds to strong annual growth in the region of 9% over the past three years.

...as L.America recovers into positive territory

Annual international FTK growth for Latin American airlines recovered into positive territory in November (+1.1% from -0.8% in October). However, in a similar case to Africa, the key markets to/from the region are showing signs of weakness, particularly between South America and Europe, which contracted in year-on-year terms in October (latest data available).

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 8th January 2019

Air freight market detail - November 2018

| | World share ¹ | November 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% | 0.0% | 4.3% | -2.2% | 51.5% | 3.9% | 5.5% | -0.7% | 49.1% |
| Africa | 1.7% | -7.8% | -7.4% | -0.2% | 39.0% | -1.2% | 1.0% | -0.8% | 37.7% |
| Asia Pacific | 36.1% | -2.3% | 3.1% | -3.1% | 57.2% | 2.3% | 5.0% | -1.5% | 55.6% |
| Europe | 23.4% | -0.2% | 3.1% | -2.0% | 57.9% | 3.3% | 4.4% | -0.6% | 54.1% |
| Latin America | 2.6% | 3.1% | 2.0% | 0.4% | 37.9% | 6.3% | 3.1% | 1.0% | 34.4% |
| Middle East | 13.2% | 1.7% | 7.8% | -3.1% | 51.4% | 4.1% | 6.3% | -1.0% | 48.8% |
| North America | 23.0% | 3.1% | 6.3% | -1.3% | 43.2% | 7.2% | 7.1% | 0.0% | 41.1% |
| International | 87.4% | 0.0% | 4.0% | -2.3% | 57.5% | 4.0% | 5.4% | -0.7% | 54.5% |
| Africa | 1.7% | -7.1% | -5.8% | -0.6% | 39.5% | -1.1% | 3.1% | -1.6% | 38.3% |
| Asia Pacific | 32.0% | -2.3% | 2.5% | -3.2% | 64.2% | 2.6% | 5.0% | -1.4% | 62.3% |
| Europe | 23.1% | 0.0% | 3.2% | -1.9% | 59.6% | 3.3% | 4.4% | -0.6% | 55.8% |
| Latin America | 2.2% | 1.1% | -0.7% | 0.9% | 49.7% | 6.2% | 1.9% | 1.8% | 44.5% |
| Middle East | 13.2% | 1.7% | 8.1% | -3.3% | 51.8% | 4.1% | 6.5% | -1.1% | 49.2% |
| North America | 15.2% | 3.9% | 6.3% | -1.2% | 52.6% | 8.3% | 7.4% | 0.4% | 48.7% |

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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