Air Freight Market Analysis

December 2019

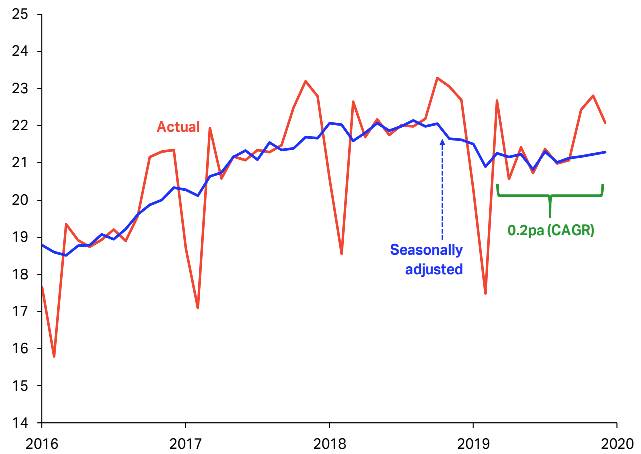
Air freight volumes down 3.3% in 2019; 1st decline since 2012

- Industry-wide freight tonne kilometres (FTKs) contracted by 3.3% in 2019. This is the first year of declining freight volumes since 2012 and the weakest outcome since the Global Financial Crisis (GFC) in 2009.
- International trade tensions resulted in only weak growth in global goods trade (+0.9%) in 2019 and were a key factor behind the decline in air freight volumes.
- Available freight tonne kilometres (AFTKs) increased by a moderate 2.1% in 2019, leading to a 2.6 percentage point fall in the load factor.
- International FTKs contracted in all regions except Africa in 2019.

Freight volumes end the year on a weak note…

In December, industry-wide freight tonnes kilometres contracted by 2.7% year-on-year. However, looking through the regular monthly volatility, the seasonally adjusted (SA) freight volume data has confirmed the modest upward trend noted previously (Chart 1).

Chart 1: FTK levels, actual and seasonally adjusted



Sources: IATA Economics, IATA Monthly Statistics

…underperforming global goods trade in 2019

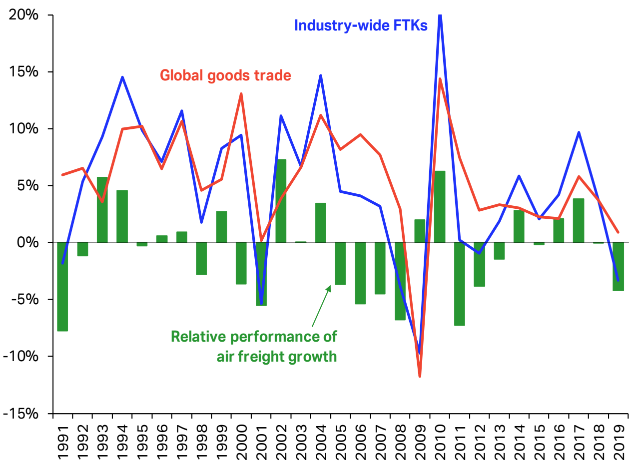
Total air freight volumes decreased by 3.3% in 2019 as a whole, compared with 2018. This is the first decline in annual FTKs since 2012 and the weakest outcome since the GFC in 2009.

Global trade wars and slowing demand have impacted all forms of trade, with global goods trade expanding by a subdued 0.9% year-on-year in 2019 – here too, the weakest outcome since 2009 (Chart 2).

Various factors contributed to the underperformance of air cargo this year, compared with global trade outcomes. A number of manufacturing sectors, where air freight is relied upon for the timely distribution of spare parts and high-value inputs – experienced weak demand conditions. Indeed, some manufacturing-intensive economies reported weak GDP growth mainly on account of that sector. Highlighting this, the new export orders component of the global manufacturing PMI – a reliable leading indicator of air freight demand – trended in territory associated with deteriorating conditions throughout the year.

More generally, softer business and consumer confidence – reflecting the less supportive global macroeconomic and policy backdrop – also contributed to the subdued annual air freight outcome.

Chart 2: Growth in global goods trade and FTKs



Sources: IATA Monthly Statistics, IMF

Air freight market overview - December 2019

	World share [1]	December 2019 (% year-on-year)				% 2019			
		FTK	AFTK	FLF (%-pt)[2]	FLF (level)[3]	FTK	AFTK	FLF (%-pt)[2]	FLF (level)[3]
TOTAL MARKET	***100.0%***	**-2.7%**	**2.8%**	**-2.7%**	**46.7%**	**-3.3%**	**2.1%**	**-2.6%**	**46.7%**
International	*86.8%*	-3.3%	2.2%	-2.9%	51.9%	-3.9%	1.6%	-3.0%	51.8%

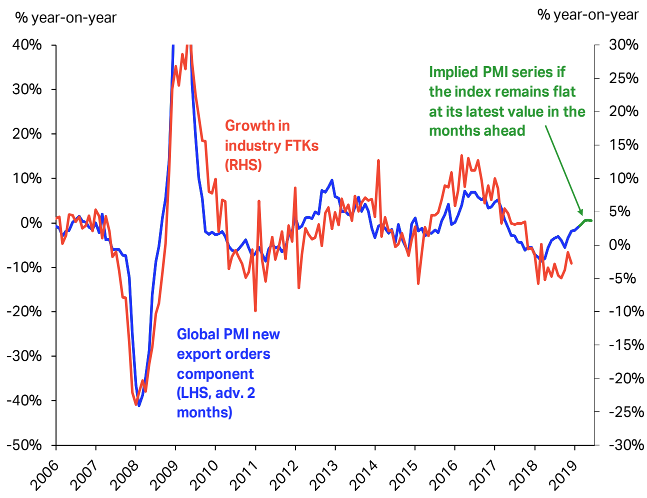
[1]% of industry FTKs in 2019 [2]Year-on-year change in load factor [3]Load factor level

Unsupportive conditions seen in 2019 are stabilizing

Reflecting many of the factors noted previously, growth in global GDP in 2019 is estimated to have also been the slowest since the GFC. Having said that, economic activity appears to have stabilized towards the end of the year, and economic conditions are forecast to generally improve moderately in 2020.

One indicator that provided such signs of stabilization is the new export orders component of the global manufacturing PMI. Year-on-year growth in the index has recovered in the past 3 months or so – albeit remaining at levels less supportive of air freight, as noted above. If the index was to remain at its current level in the coming few months, the resulting PMI annual growth rates would be consistent with modestly improving growth in global FTKs (Chart 3).

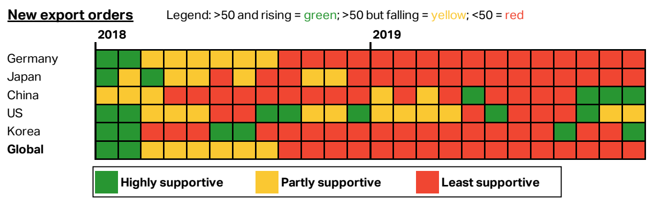
Chart 3: FTK growth vs. new export orders



Sources: IATA Economics, IATA Monthly Statistics, Markit

Country-level new export orders data point to mixed conditions among the world's largest manufacturing economies, with an improved environment for air freight in China, South Korea and the US (Chart 4). Note that this survey precedes the Coronavirus outbreak in China, which is likely to impact these data, given airport and factory closures and travel restrictions more recently put into place.

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



Sources: IATA, Markit, Thomson Reuters Datastream

For 2020, industry-wide FTKs are forecast to grow by 2.0%, mostly on the back of a recovery in world trade. As above, the health situation in China will impact the forecasts, although at this stage it is impossible to estimate exactly how; the duration and geographic spread of the outbreak will be critical to understanding its impact.

A wedge between demand and supply growth in 2019

In December, available freight tonne kilometres (AFTKs) expanded by 2.8% year-on-year, slightly above the growth outcome for 2019 as a whole (2.1%).

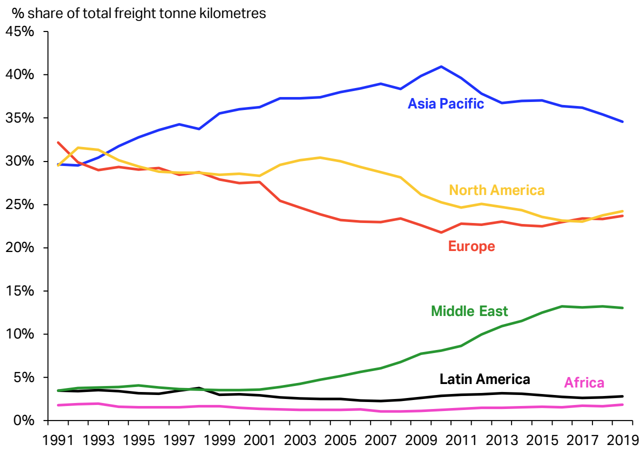
This has driven the load factor down by 2.7 ppts in Dec. 2019 vs Dec. 2018, in line with the change of 2019 versus 2018 (-2.6 ppts). Although airlines adjusted capacity growth to slowing demand, they were unable to narrow the growth rate differential which persisted for much of the year.

Regional traffic shares; recent trends maintained

The overall softness in FTK growth has had little impact on the regional FTK shares, with the trend of recent years being broadly maintained (Chart 5).

Asia Pacific has retained the largest share of FTKs, at 34.6% in 2019, easing further from a peak of 40.9% in 2010. The share of freight traffic increased modestly for both North America and Europe, to 24.2% and 23.7%, respectively. For Middle East carriers, the traffic share was steady at 13%, notwithstanding some of the challenges faced by major airlines in the region over the course of the year. The two smaller regions of Africa and Latin America saw their shares lift marginally, to 1.8% and 2.8%.

Chart 5: Regional shares of total FTKs

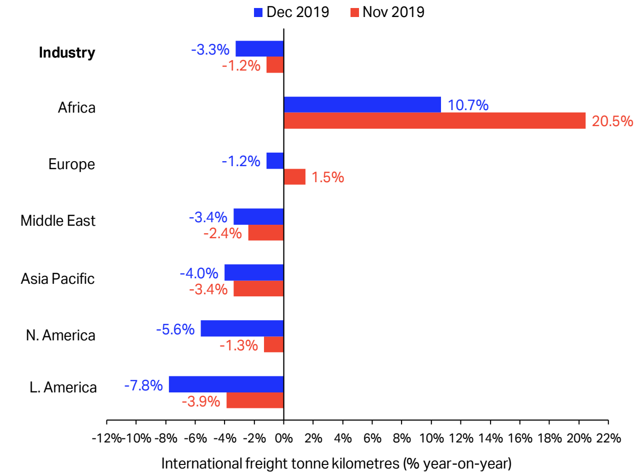


Source: IATA Monthly Statistics

International FTK volumes fell in most regions in 2019

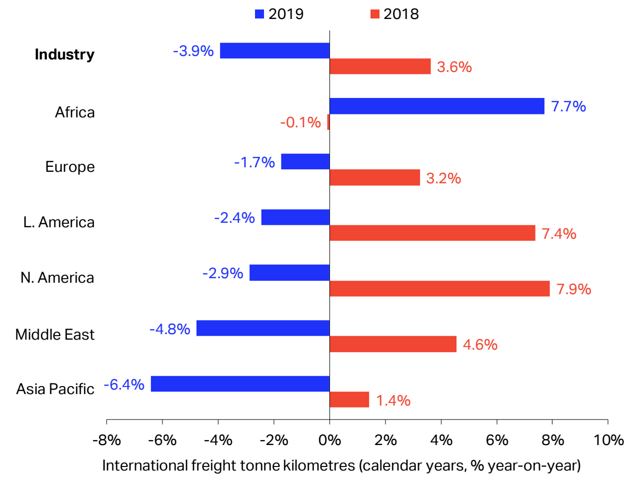
International FTKs contracted by 3.3% year-on-year in December 2019, with growth softening in all regions (Chart 6). International FTKs for 2019 as a whole were weaker, falling by 3.3% annually. On this measure, volumes contracted in all regions with the exception of Africa (Chart 7).

Chart 6: International FTK Growth (monthly)



Sources: IATA Economics, IATA Monthly Statistics

Chart 7: International FTK Growth (yearly)



Sources: IATA Economics, IATA Monthly Statistics

Africa delivers the strongest growth in 2019…

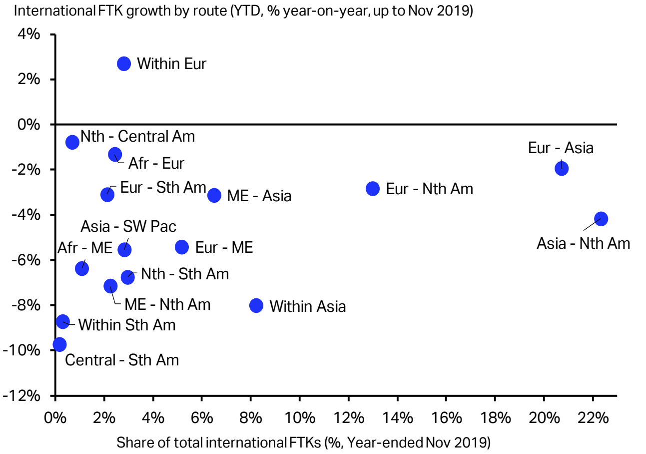
International freight volumes for African carriers grew by a robust 7.7% in 2019, stepping up from -0.1% in 2018. In year-on-year terms to December, Africa recorded a brisk double-digit growth rate of 10.7%. Over the year, air cargo volumes have been supported by strong capacity growth and investment linkages with Asia.

…while Asia Pacific bore the brunt of the decline

Asia Pacific is one of the world's main manufacturing and distribution regions. Both international trade tensions and the global growth slowdown weighed heavily on regional air freight volumes in 2019, with FTKs falling by a substantial 6.4%.

Asia-Nth America traffic fell 4.1% in the year-to-November while Within Asia FTKs were down a sizeable 8% (Chart 8). Some thawing in trade relations, including the phase 1 agreement, is a positive development for the year ahead. However, as noted above, the Coronavirus outbreak will impact near-term market developments.

Chart 8: International FTKs by route (segment-based)



Sources: IATA Economics, IATA Monthly Statistics by Route

A challenging year for North America too…

Airlines based in North America also felt the impact of the trade tensions, with freight volumes falling by 2.9% in 2019. Cooling US economic activity in the latter part of the year has also been a factor, with FTKs contracting by 5.6% in year-on-year terms in December – the weakest monthly growth outcome for the region since early 2016.

Europe experienced a moderate fall in traffic

European airlines saw international freight traffic contract by 1.7% in 2019 – the weakest result since 2012. Softer activity, including in the manufacturing-intensive German economy, combined with ongoing Brexit uncertainty contributed to the 2019 result. That said, recent SA data have begun trending upwards, suggesting we may have moved beyond the trough. Despite a solid performance form the Within Europe market, FTKs are still down 1.2% year-on-year in Dec.

Volumes in L. America fell amid various headwinds…

International FTKs fell by 2.4% for Latin American carriers in 2019, in contrast to the hefty 7.4% growth in 2018. Social unrest and economic difficulties in several key countries in the region – in particular during the second half of the year – led to the weakest outcome since 2015. International air freight volumes are down 7.8% year-on-year in Dec.

…with some signs of improvement for the Middle East

International FTKs for ME airlines fell by 4.8% in 2019. Supply chains were disrupted by developments in both Asia and Europe and weak global trade. Airline restructuring in the region also played a part in driving the weaker freight outcome. That said, 2H19 has shown improvement; year-on-year FTKs are down 3.4% in Dec, comparing favourably with a decline of almost 10% earlier in the year.

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5th February 2020

Air freight market detail - December 2019

	World share [1]	December 2019 (% year-on-year)				% 2019			
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TOTAL MARKET	***100.0%***	**-2.7%**	**2.8%**	**-2.7%**	**46.7%**	**-3.3%**	**2.1%**	**-2.6%**	**46.7%**
Africa	*1.8%*	10.3%	10.0%	0.1%	36.8%	7.4%	13.3%	-2.0%	35.5%
Asia Pacific	*34.6%*	-3.5%	2.8%	-3.4%	51.9%	-5.7%	1.1%	-3.8%	52.2%
Europe	*23.7%*	-1.1%	4.9%	-3.2%	53.0%	-1.8%	3.4%	-2.8%	51.7%
Latin America	*2.8%*	-5.3%	-3.1%	-0.7%	30.0%	-0.4%	4.7%	-1.8%	35.0%
Middle East	*13.0%*	-3.4%	1.9%	-2.6%	47.0%	-4.8%	0.7%	-2.7%	46.6%
North America	*24.2%*	-3.4%	2.1%	-2.2%	39.5%	-1.5%	1.6%	-1.2%	39.6%
International	***86.8%***	**-3.3%**	**2.2%**	**-2.9%**	**51.9%**	**-3.9%**	**1.6%**	**-3.0%**	**51.8%**
Africa	*1.8%*	10.7%	10.5%	0.1%	37.6%	7.7%	13.8%	-2.1%	36.2%
Asia Pacific	*30.4%*	-4.0%	2.4%	-3.8%	57.8%	-6.4%	0.0%	-4.0%	58.7%
Europe	*23.3%*	-1.2%	5.2%	-3.5%	54.3%	-1.7%	3.3%	-2.7%	53.4%
Latin America	*2.3%*	-7.8%	-6.7%	-0.4%	36.3%	-2.4%	2.3%	-2.1%	43.0%
Middle East	*13.0%*	-3.4%	1.9%	-2.6%	47.4%	-4.8%	0.6%	-2.6%	47.0%
North America	*16.0%*	-5.6%	-1.1%	-2.3%	48.0%	-2.9%	1.3%	-2.0%	46.6%

[1]% of industry FTKs in 2019 [2]Year-on-year change in load factor [3]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.

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