



## **Ctrack Transport and Freight Index shows transport industry feeling the pinch**

After a few months in the sunshine the Freight and storage industry is again in the doldrums. The Ctrack Transport & Freight Index (The Ctrack TFI) typically is a good indication of the overall trend in the economy as transportation is a good indication of what is happening in the goods sector.

Indeed, some signs were already indicating a slower growth trend in transportation in the last month. However, it seems that the world economy slowing down has impacted not just South Africa's international facing transport sectors but has now reached rail and pipelines too.

Only two Transport and freight sub-sectors recorded positive growth, road freight sub-sector which grew with 2,5% and rail with an increase of 0,2%. Rarely would only two freight sectors show a positive year on year growth rate, but considering both a slower domestic economy and a far weaker international trade environment land freight is in an unusually relatively stable position.

The international environment at present however is impacting most South African international facing freight transport subsectors. Sea and Air freight have for months been in decline as the

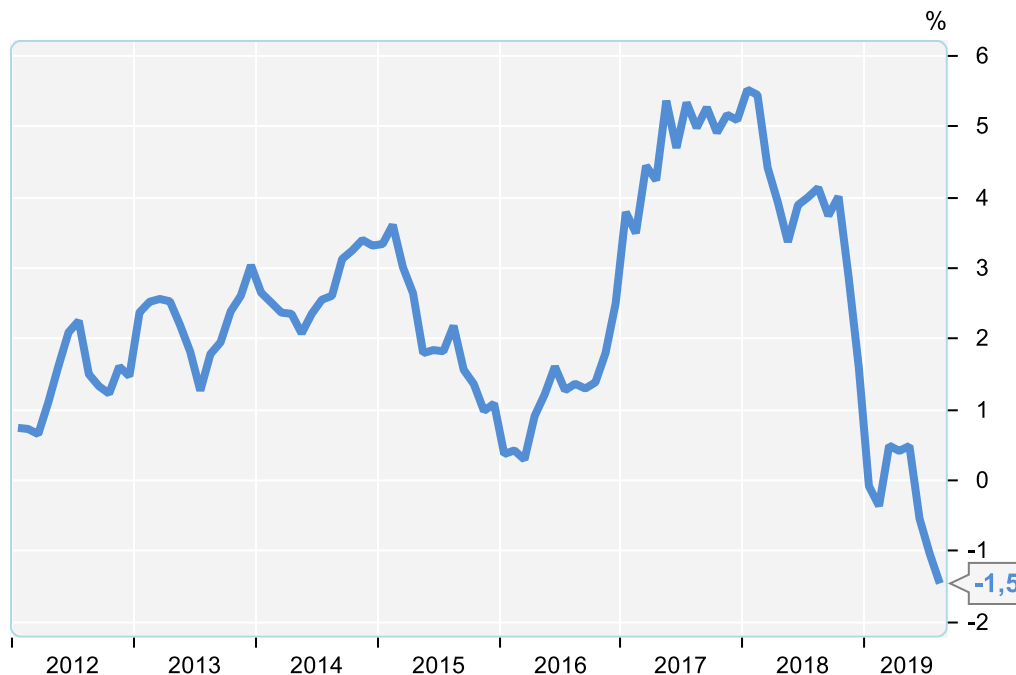
### [Global trade volumes are shrinking as both Brexit and the Trade wars](#)

The unpredictable trade war between the US and China that last year provided a welcome boost to American trade to China has this year had the reverse effect while EU economies are slowing with both German and British economies shrinking.

World Trade, according to the Dutch Economic bureau CPB indicates that world trade volumes declined with 1,5% on a year ago for the three month to August 2019 compared to the same period a year ago. On this basis the decline in world trade is the steepest since November 2009!

Graph1: World Trade monitor from CPB

### World trade monitor: Trade volume change on year ago



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#### The Ctrack Transport and Freight Index reflects a weaker economy

The South African; Ctrack Transport and Freight Index recorded a decline of 0,7% in the three months to September compared to the same period a year ago. The Ctrack TFI reflects a far weaker South African economy than just a quarter ago when all indications were that growth was back in full swing.

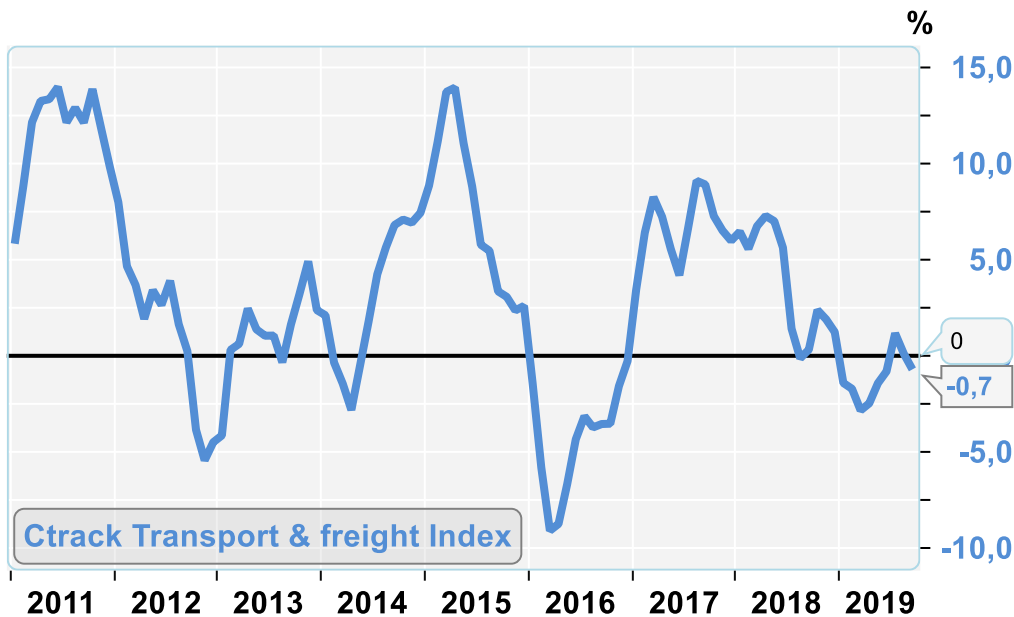
The Ctrack Transport and Freight Index after a short period of growth of about three months has declined again. While the Ctrack FTI is a relatively new measure for the total logistics industry in South Africa it is not alone in recording a slower economy.

The BankservAfrica Economic Transaction Index, the ABSA manufacturing PMI and the Markit total economy PMI all recorded a far weaker quarter in September 2019 than in June 2019. Moreover the slowdown has also been recorded in the Trade Activity Index of the South African Chamber of Commerce and Industry (SACCI) as well as many StatsSA sector reports for August.

The transport sector is a good indication of the trends in the “real economy”. With the real economy we mean the fiscal goods economy which includes industries such as manufacturing, retail, wholesale and the like. The reason is that physical goods have to move from suppliers to producers to customers and the Ctrack Transport & Freight Index.

Graph 2: The Ctrack Transport and Freight Index Percentage change on a year ago.

## Ctrack Transport & Freight Index Change on a year ago for last three months



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The headline Ctrack TFI records changes on a moving three month average compared to the same three month moving average a year ago. (The reason we use a three month moving average is because many of the individual freight sectors are very volatile.)

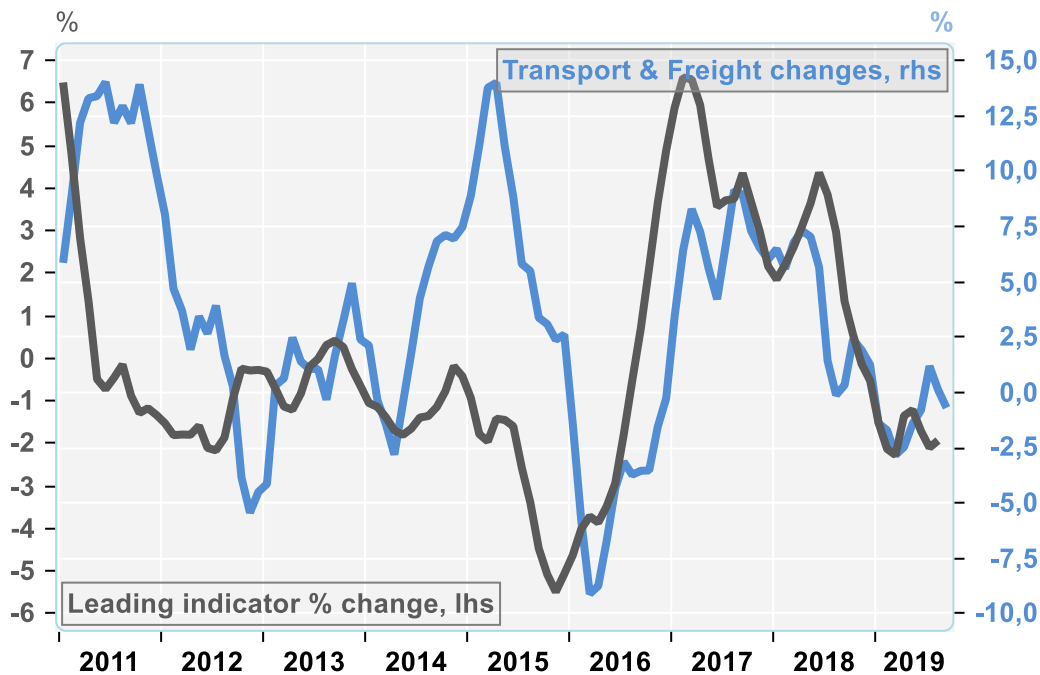
This downturn while not unexpected is not good news for the South African economy and its ability to create work and income for its citizens. Some of the factors are international and there is not a lot that SA can do about them but the weak business confidence as recorded By the BER and RMB needs to be addressed soonest. Capital investment only takes place when business are more confident and sure over the future.

Many factors do impact on confidence but businesses have indicated that the inability of politicians to create certainty is impacting on the stability of the economic environment.

When we compare the Ctrack to the South African Reserve Bank leading indicator there has been a very close relationship for the last few years. The leading indicator seems to be about three to five month ahead of the Ctrack Transport and Freight Index. The leading indicator is estimated to be about 12 to 18 months ahead of the SA economy in total but the goods sector may be feeling the impact earlier than most as exports of goods are very susceptible to International economy trends.

Graph 3: The SARB leading indicator and the Ctrack TFI.

### Leading indicator & the Ctrack TFI % change on year ago



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Furthermore at present the leading indicator points to a slower freight transport environment in the next few months. Operators have to watch and monitor costs and performance in their companies as risks must be contained as much as possible while opportunities may be harder to come by.

Often business that survive in uncertain times become the real champions of the future. This may again be one of the uncertain times in the logistic industry.

#### Performance of the Transport Sub-sectors.

Road freight is very competitive, and prices have barely increased in the last year so some market share gains from both rail and pipelines would have happened as price increases in the other two land freight competitors would have resulted in a shift to road.

The competitive environment in the road freight sector results for example that fuel product that is usually piped to the inland and then distributed for Gauteng to other provinces is now often transported by road to places such as Harrismith and Mbombela as road freighters compete effectively of price.

Also, coal transport to local power stations often now is driven by trucks instead of rail and convey belts to road. Some products that used to travel by rail are sometimes being loaded onto trucks.

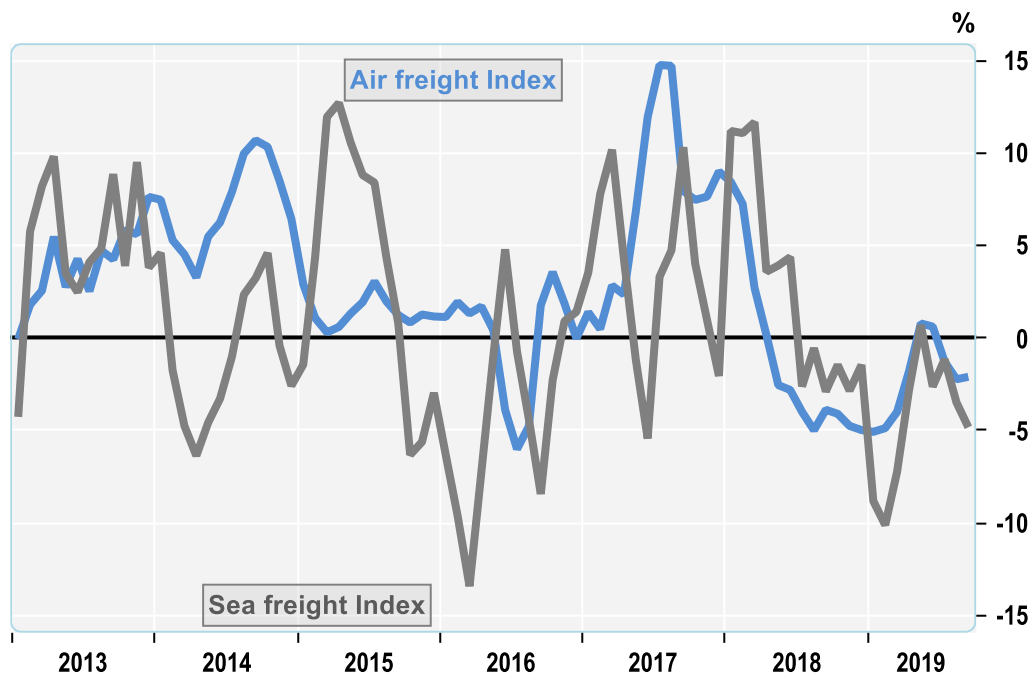
Sea freight and Air freight feel the cold wind of the trade war and the Brexit uncertainty and may do so for many months to come. Container shipping prices are lower in many markets while about 3,5% of container capacity is not being used up from 2% or so a year ago according to Drewry shipping consultants.

Air traffic between Africa and the rest of the world is growing at a pace of about 8% but from a very low base. South African internal airfreight however is in decline and like most of the international market SA international air freight is not growing other than to African and Middle Eastern destinations.

Both Air and Sea freight have been relatively weak performers for the best part of two years now. As SA export volumes have not performed and neither have imports the international linked transport sub-sectors are in a massive bind as world trade uncertainty and weak domestic demand hit their ability to grow and expand.

Graph 4: Air and Sea freight changes for the three-month moving average on the same three months a year ago.

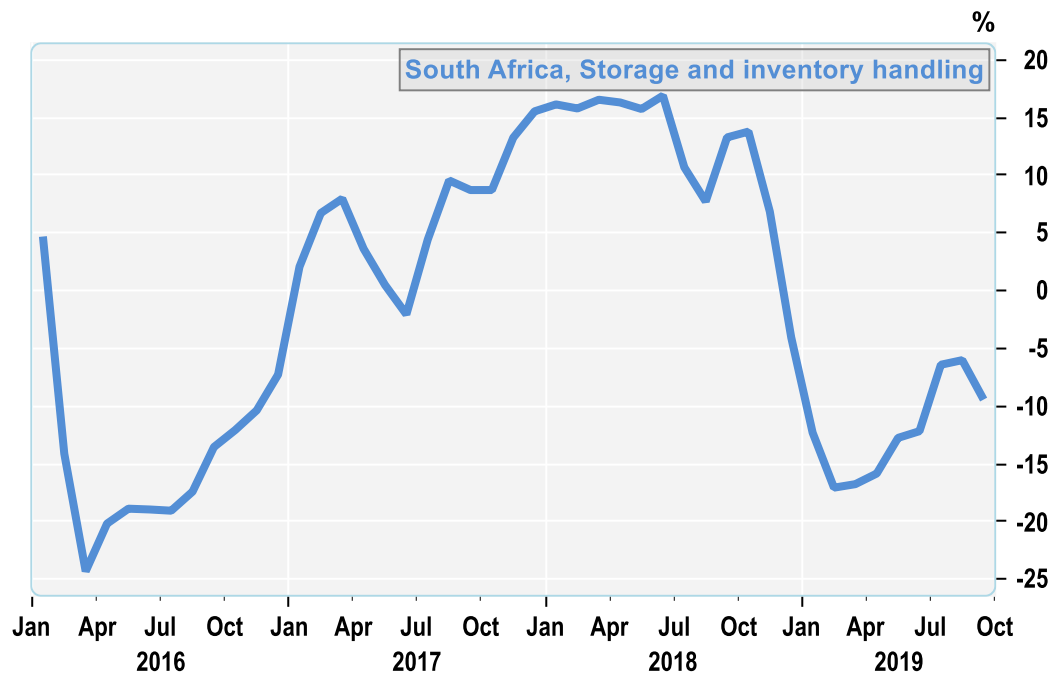
### Air & Sea freight % change last three months on year ago.



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Graph 5: Storage and warehousing sub-sector.

### South Africa, Storage and inventory handling



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We have updated our storage and warehousing data to include separate indices for international trade, manufacturing as well as domestic trade (retail as well as wholesale are cover).

One cannot fail but to notice that inventory levels are being lowered, probably to save costs. Many retailers are stocking less goods to save both stock costs as well as floor space. (Edcon is a recent case in point where the retailer had closed nearly 40% of store and warehousing space.)

In manufacturing the same savings are taking place as factory owners are squeezed by domestic trade stock level reduction and uncertainty on the export levels in the near term. (At present we exclude raw commodities form the Ctrack Storage index.

The decline of nearly 10% for the three months to September compared to the same three months a year ago is worrisome. But on a positive note in the shorter run the quarter on quarter growth was positive reflect both a high base last year and a lagging performce in the 2<sup>nd</sup> quarter this year when the economy bounced back.

Nonetheless the extreme uncertainty of financial indicators, World trade rules and local weak economic consumer spending ability is hurting the storage and warehouse sector.

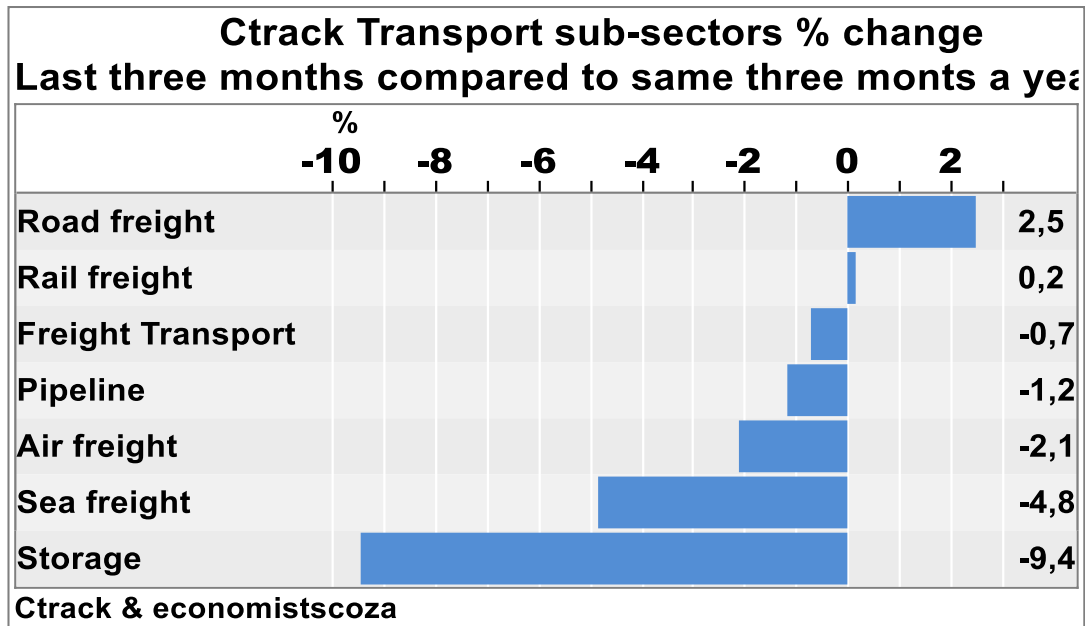
Table 1: The Ctrack Transport Freight Index changes.

Percentage Change between	Rail	Road	Pipeline	Sea	Air	Storage & Handling	Ctrack Transport Freight Index
September: 2019 vs 2018	-1,7%	2,1%	-7,0%	-6,9%	-0,8%	-16,7%	-2,6%
Quarter to Spetember: 2019 vs 2018	0,2%	2,5%	-1,2%	-4,8%	-2,1%	-9,4%	-0,7%

Percentage Change between	Rail	Road	Pipeline	Sea	Air	Storage & Handling	Ctrack Transport Freight Index
September and August 2019	4,6%	0,7%	-5,1%	-8,5%	1,4%	-2,6%	0,2%
3 months to September vs. 3 months to June.	-3,3%	-3,1%	-3,4%	-10,4%	-1,9%	3,7%	-2,8%

Source: Ctrack and economistscoza

Graph 6: The sub-sector performance.



In short the Ctrack Transport and Freight Index shows that in an uncertain world the transport sector is also feeling the pinch particularly from the international trade side as well as the weak spending power of consumers domestically is leading to lower inventory levels.