

Air cargo traffic recovers slowly amid insufficient capacity

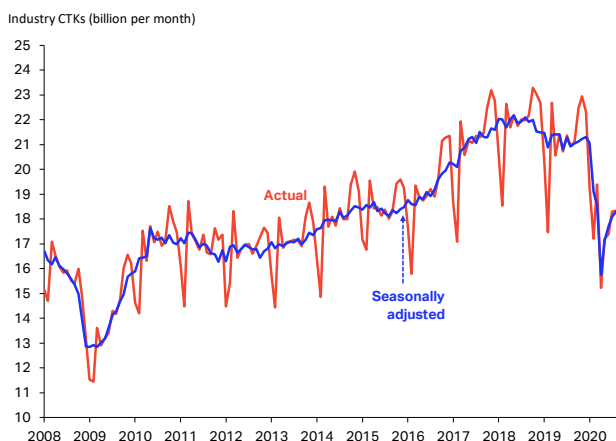
- Industry-wide cargo tonne-kilometres (CTKs) fell by 12.6% year-on-year in August. Seasonally adjusted volumes are on a soft upward trend but remain far below 2019 levels. International cargo demand improved in all the regions.
- Timely indicators of economic activity – such as manufacturing new export orders – have displayed robust signs of recovery in recent months, despite elevated global new cases of COVID-19.
- The rebound in cargo volumes has been slower than expected based on those metrics. This is mostly because air cargo capacity remains insufficient, with industry-wide available cargo tonne-kilometres (ACTKs) declining by 29.4% in August. International belly capacity is still scarce, and airlines have not been able to raise dedicated freighters capacity as much as needed.
- Air transport has also lost market share of global trade due to competition from cheaper ocean trade, a typical pattern during downturns but not what is usually experienced at the start of an economic upturn.

Air cargo traffic remains weaker than in 2019...

Air cargo continued to slowly improve in August, with industry-wide cargo tonne-kilometres (CTKs) down 12.6% year-on-year, compared to 14.4% in July. Even though August 2019 had been a soft month amidst global trade tensions, air cargo demand remains far from its 2019 levels.

Seasonally adjusted (SA) CTKs rose in August for the fourth consecutive month (1.1% month-on-month). The pace of the improvement has however regularly slowed over time, from an 8.8% month-on-month increase in May (Chart 1).

Chart 1: CTK levels, actual and seasonally adjusted



Sources: IATA Economics, IATA Monthly Statistics

As in July, North America was the exception among the main regions, as it provided a positive contribution of 0.4 percentage point (ppt) to industry-wide year-on-

year growth. Asia Pacific and Europe continue to drive most of the industry-wide decline.

...but the year-end may be stronger

Looking ahead, while seasonality has been muted so far since the start of the crisis, the standard peak season for air cargo will start in the coming weeks and may provide some support to volumes.

Indeed, the relatively robust recovery observed in certain indicators of economic activity is likely to continue backing demand. Product launches – such as the delayed iPhone 5G, the PlayStation 5 or even a hypothetical vaccine – may also contribute to a stronger end to the year.

Economic activity continues to recover...

Global new cases from COVID-19 remained elevated throughout August, at the highest levels since the start of the pandemic. Key indicators of economic activity however improved.

Indeed, global manufacturing output and business confidence PMIs have continued trending north in August, implying robust month-on-month (m-o-m) improvements in the underlying metrics. Additionally, indicators such as the OECD's Composite leading indicator (CLI) and Manpower's [Employment Outlook Survey](#) both point to improving conditions in the coming quarter.

The new export orders component of the global manufacturing PMI – historically a consistent leading indicator for global CTK growth – also points to

Air cargo market overview - August 2020

	World share ¹	August 2020 (% year-on-year)				% year-to-date			
		CTK	ACTK	CLF (%-pt) ²	CLF (level) ³	CTK	ACTK	CLF (%-pt) ²	CLF (level) ³
TOTAL MARKET	100.0%	-12.6%	-29.4%	10.6%	54.8%	-14.0%	-24.8%	6.7%	53.0%
International	86.8%	-14.0%	-31.6%	12.5%	61.3%	-15.2%	-25.0%	6.7%	57.9%

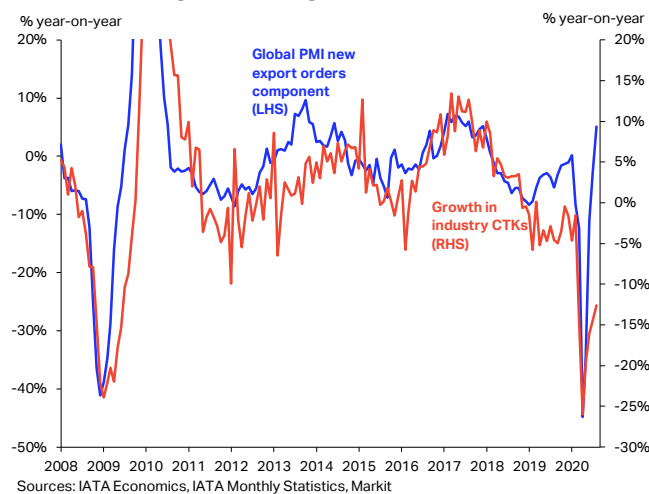
¹% of industry CTKs in 2019

²Year-on-year change in load factor

³Load factor level

improving economic conditions. While it remains below the 50-mark associated with month-on-month growth, the index rose by ~5% year-on-year (yoy), its best performance since late 2017 (Chart 2).

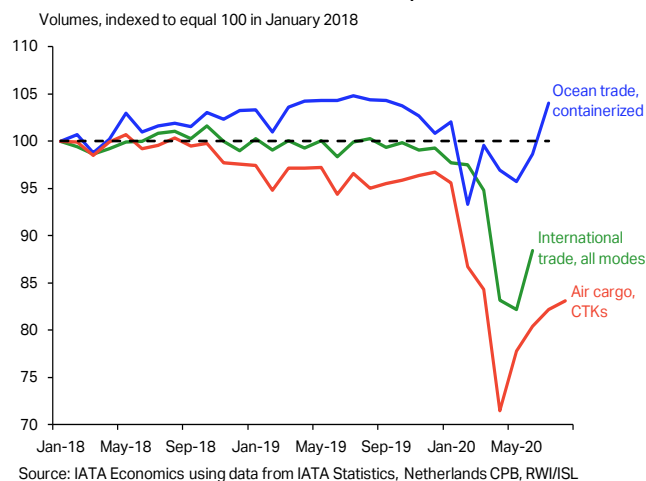
Chart 2: CTK growth vs. global new export orders



Despite those positive signs, improvements in air cargo demand growth have been slow since May. One explanation is that air freight typically tends to lose market share of global trade at the start of downturns, as shippers turn to cheaper but slower ocean transport. Air cargo would then rebound, when businesses need to rapidly refill inventories amid rising demand.

Chart 3 confirms this initial part of this pattern for the current crisis. But the latest data (June for global trade) does not point to a clear improvement in the market share of air transport so far.

Chart 3: Market share of air transport in world trade



... but air cargo capacity is still insufficient...

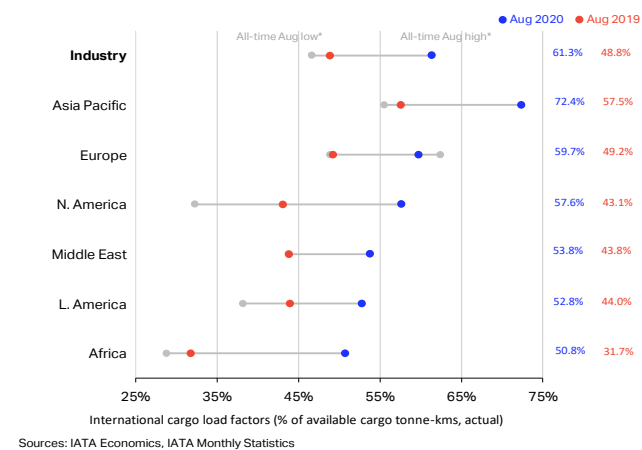
The recovery in air cargo capacity has progressed at a similar pace as demand in the past few months. In August, industry-wide available cargo tonne-kilometres (ACTKs) fell 29.4% yoy, up from a 31.8% decline in July. SA ACTKs increased by 2.7% m-o-m.

The industry-wide cargo load factor increased by 10.6ppts year-on-year in August, compared with a

11.4ppts raise in July. In SA terms, load factors have eroded slightly since the heights seen in April, but remain close to all-time highs.

International load factors were the highest for any month of August at the industry level and for all regions except Europe (Chart 4).

Chart 4: International cargo load factors by region



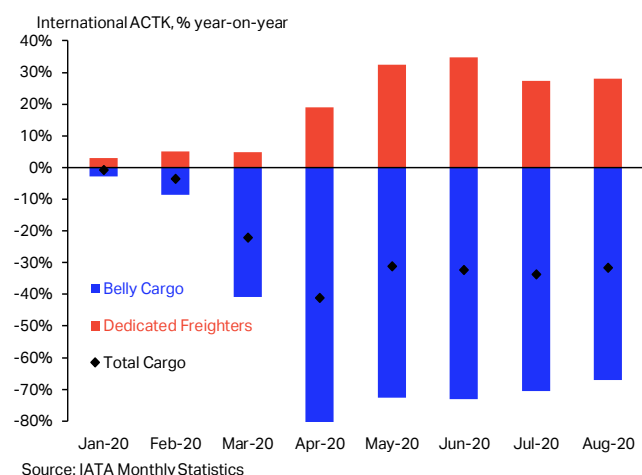
...with a lack of both belly and freighters capacity

Elevated COVID cases in many economies led to weak passenger demand and widespread travel restrictions in August. International passenger travel remains strongly constrained, and international belly cargo capacity was down 67.0% in August, a modest improvement from a 70.5% decline in July.

At close to 11 hours/day, daily widebody freighters utilization is already at its highest level since the series started in 2012. New freighters deliveries have been moderate in the past few months.

Consequently, dedicated freighters ACTKs were up 28.1% yoy in August, above the outcome for July (27.4%), but below June's result of 34.8%. Freighter capacity has eased from its June peak (Chart 5).

Chart 5: International belly cargo and freighter capacity growth



Besides, there are some significant divergences across trade routes, as some of the markets that used to carry most of their freight through passenger

aircraft struggled to switch to freighters. For example, total capacity on the large Europe-Nth America market was down 56% yoy in total in August, with dedicated freighters ACTKs up 8.8% only.

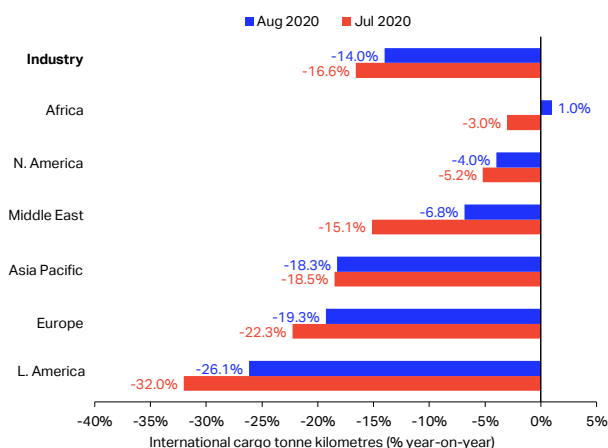
All in all, the cargo capacity crunch observed since April has not resorbed. It continues to limit the recovery in air cargo volumes, despite the recent tentative recovery in economic activity. Any improvement in CTks towards the year-end is likely to be conditional on looser cargo capacity.

International demand follows same trend as industry

International CTks fell by 14.0% year-on-year in August, after a 16.6% decline in July. International SA volumes grew 1.2% m-o-m, and both actual and SA international volumes are on the same – slow – recovery path as industry-wide outcomes. International ACTks dropped 31.6% yoy in August, versus 33.6% in July.

All the regions improved in August compared to July – the first widespread improvement since May (Chart 6).

Chart 6: International CTk growth



Sources: IATA Economics, IATA Monthly Statistics

Air cargo demand in Africa higher than last year...

International CTks of African airlines grew by an even 1.0% year-on-year in August, after the same metric was down 3.0% in July. This is the fourth consecutive month in which the region posts the strongest international demand performance. Dynamic investment flows along the Africa-Asia route continue to drive the regional outcomes.

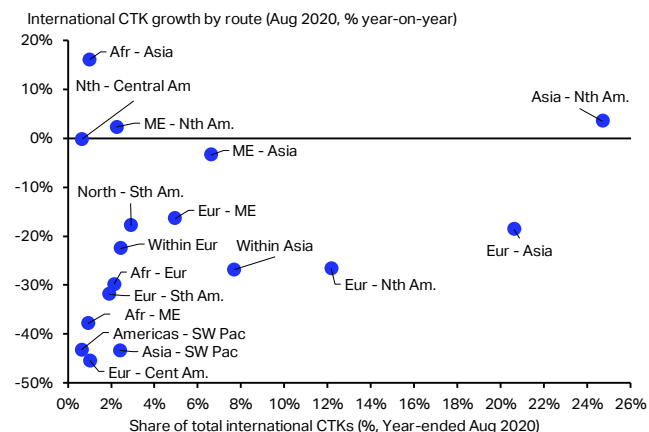
... with Nth America and the Middle East also resilient

Carriers based in North America registered an even 4.0% yoy decrease in international cargo volumes in August, better than a 5.2% fall in July.

Although international volumes decreased, total CTks are up 1.7% yoy, because of a strong domestic performance. This converts into resilient demand for goods manufactured in Asia, with CTks on the large Asia-Nth America route up 3.5% in August compared

to last year (Chart 7). This trend has been apparent since the start of the recovery.

Chart 7: International CTks by route (segment-based)



Sources: IATA Economics, IATA Monthly Statistics by Route

Airlines registered in the Middle East saw international CTks fall by 6.8% yoy in August, a significant improvement from the decline in July (-15.1%). Local airlines have rapidly added capacity after the nadir of the crisis, with international ACTks down 24.2% yoy in August, the best performance across the main regions. Trade routes to and from Asia and Nth America were resilient this month, with CTks respectively down 3.3% and up 2.3% year-on-year.

The recovery in int'l APAC has stopped...

International cargo demand of airlines based in Asia fell 18.3% year-on-year in August, unchanged from the result in July (18.5%). SA international CTks declined in m-o-m terms for the second consecutive time.

The shortage of cargo capacity appears particularly stringent in the region, with international ACTks down 35.0% and load factors up 14.8ppts. Demand is robust on trade lanes between Africa and Nth America, but is weak within Asia and to/from Southwest Pacific.

... but Europe and Latin America improve

International cargo volumes of European airlines dropped by 19.3% annually in August. Improvements have been slow but regular since April (-33.0% yoy). SA volumes are on a soft upward trend, despite a high and growing number of COVID cases

Carriers based in Latin America experienced a 26.1% annual fall in international CTks in August, ending three consecutive months of deterioration. Air trade between Latin America and Nth America – in particular to/from Central America – has compensated weakness in other trade lanes. That said, the recovery in international ACTks remain the slowest among the regions (down 38.5% yoy in August).

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 29th September 2020

Air cargo market detail - August 2020

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		CTK	ACTK	CLF (%-pt) ²	CLF (level) ³	CTK	ACTK	CLF (%-pt) ²	CLF (level) ³
TOTAL MARKET	100.0%	-12.6%	-29.4%	10.6%	54.8%	-14.0%	-24.8%	6.7%	53.0%
Africa	1.8%	-0.2%	-37.9%	19.0%	50.2%	-3.3%	-16.5%	5.6%	41.2%
Asia Pacific	34.5%	-20.1%	-33.5%	10.3%	61.6%	-17.7%	-29.5%	8.7%	60.3%
Europe	23.6%	-18.9%	-32.1%	9.3%	56.8%	-20.2%	-30.0%	7.1%	57.9%
Latin America	2.8%	-27.3%	-43.5%	10.6%	47.8%	-23.2%	-36.7%	7.4%	42.4%
Middle East	13.0%	-6.9%	-24.3%	10.0%	53.5%	-14.4%	-19.9%	3.2%	49.3%
North America	24.3%	1.7%	-23.3%	12.0%	48.9%	-2.3%	-17.2%	7.1%	46.7%
International	86.8%	-14.0%	-31.6%	12.5%	61.3%	-15.2%	-25.0%	6.7%	57.9%
Africa	1.8%	1.0%	-36.9%	19.0%	50.8%	-2.5%	-14.8%	5.3%	41.7%
Asia Pacific	30.4%	-18.3%	-35.0%	14.8%	72.4%	-15.4%	-26.1%	8.4%	66.5%
Europe	23.3%	-19.3%	-33.5%	10.5%	59.7%	-20.4%	-29.8%	7.0%	59.7%
Latin America	2.3%	-26.1%	-38.5%	8.8%	52.8%	-21.6%	-33.1%	7.3%	49.7%
Middle East	13.0%	-6.8%	-24.2%	10.0%	53.8%	-14.3%	-19.5%	3.0%	49.5%
North America	16.0%	-4.0%	-28.2%	14.5%	57.6%	-8.6%	-22.0%	7.9%	54.0%

¹% of industry CTKs in 2019

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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Please note that as of January 2020 onwards, we have clarified the terminology of the Industry and Regional series from 'Freight' to 'Cargo', the corresponding metrics being FTK (change to 'CTK'), AFTK (change to 'ACTK'), and FLF (change to 'CLF'), in order to reflect that the series have been consisting of Cargo (Freight plus Mail) rather than Freight only. The data series themselves have not been changed.

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