

Air Cargo Market Analysis

February 2021

Strong air cargo growth continues

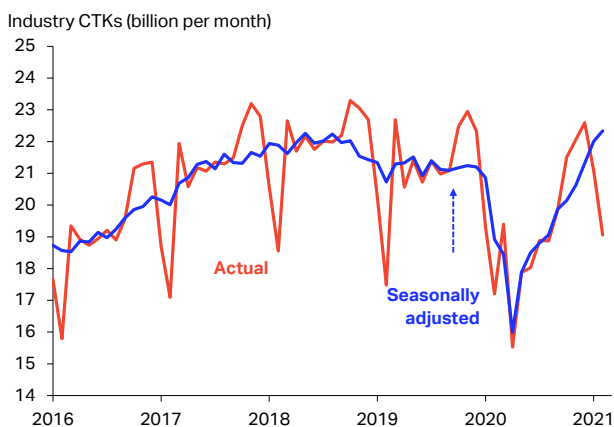
- Air cargo continued to expand strongly in February. Industry-wide cargo tonne-kilometres (CTKs) rose by 9% compared with February 2019, an improvement on the 4.1% expansion in January. In month-on-month terms, cargo volumes picked up by 1.5%.
- Increasing demand for air cargo services is being driven by the 'V-shaped' economic recovery. Also, air cargo has been gaining share in global goods trade over other modes of transport – a pattern typical during the recession recovery cycle.
- Industry-wide cargo capacity continued to trend sideways in February due to the grounding of passenger aircraft. Cargo load factors remained elevated, at 57.5% for the industry.

Cargo volumes rose sharply for another month

Air cargo volumes increased further in February, supported by the wider economic recovery. Industry-wide cargo-tonne kilometres (CTKs) expanded by 9% compared with February 2019, a comparison used because this is the situation before the pandemic. In month-on-month terms, CTks picked up by 1.5% and returned to levels last seen in 2018 before air cargo business started to be adversely impacted by the US-China trade war (Chart 1). So this has been a strong performance.

Note that the cargo time series have been revised by the inclusion of a number of airlines' freighter traffic.

Chart 1: CTK levels, actual and seasonally adjusted



Sources: IATA Economics, IATA Monthly Statistics

The industry-wide CTK outcome hides differences across regions. While cargo volumes flown by carriers based in North America and Africa have been hovering well above the pre-crisis levels for many months now, Asia Pacific, Middle Eastern, and European airlines

Air cargo market overview - February 2021

To aid understanding, the table includes both % comparisons with pre-crisis 2019 months and 2020 months.

| | World share ¹ | February 2021 (% ch vs the same month in 2019) | | | | February 2021 (% year-on-year) | | | |
|---------------------|--------------------------|--|---------------|-------------------------|--------------------------|--------------------------------|---------------|-------------------------|--------------------------|
| | | CTK | ACTK | CLF (%-pt) ² | CLF (level) ³ | CTK | ACTK | CLF (%-pt) ² | CLF (level) ³ |
| TOTAL MARKET | 100.0% | 9.0% | -14.9% | 12.6% | 57.5% | 10.8% | -10.3% | 10.9% | 57.5% |
| International | 85.8% | 9.6% | -13.7% | 13.6% | 64.2% | 10.4% | -10.2% | 12.0% | 64.2% |

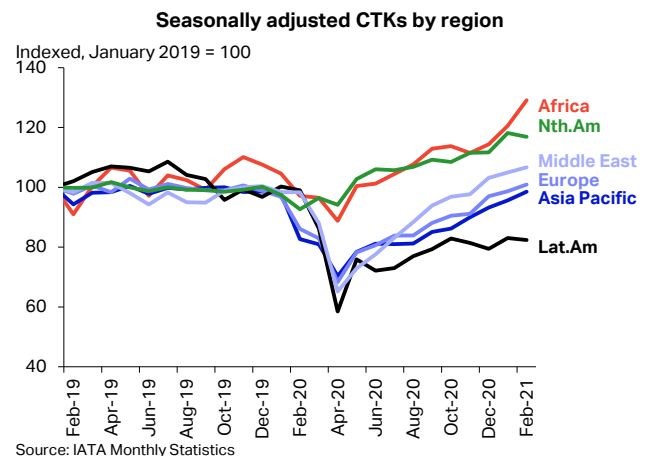
¹% of industry CTKs in 2020

²Change in load factor vs. the same month in 2019

³Load factor level

reached (or got close to) 2019 levels only recently. In contrast, CTks of Latin American carriers continue to significantly lag behind the rest of the industry, showing little improvement since Q4 2020 (Chart 2).

Chart 2: Seasonally adjusted CTks by region



As mentioned in the previous note, cargo growth rates early in the year tend to be distorted by different timing of the Chinese New Year, which fall either in January or February. To get a more complete picture of the strength of air cargo demand, we combined January and February data together and compared it with the same two months in the pre-crisis period (i.e. 2019). This resulted in a still robust 6.4% CTK growth rate.

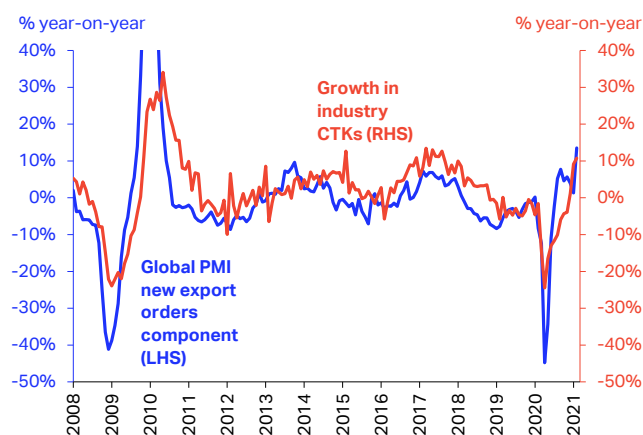
Key drivers continue to support cargo demand

The macroeconomic drivers remain supportive of air cargo demand. The global manufacturing sector has been largely unimpacted by new virus spikes in early 2021 and continues to expand at a robust pace as

indicated by global Manufacturing PMI at 53.9 in February (anything above 50 means increase vs. the previous month).

New export orders component of the Manufacturing PMI – a leading indicator of CTK demand in the past – picked up compared with January and points to further air cargo improvement. Note that over the course of 2020, the relationship between the two metrics weakened and CTKs lagged new export orders. However, the latest data show that the relationship has been restored again (Chart 3).

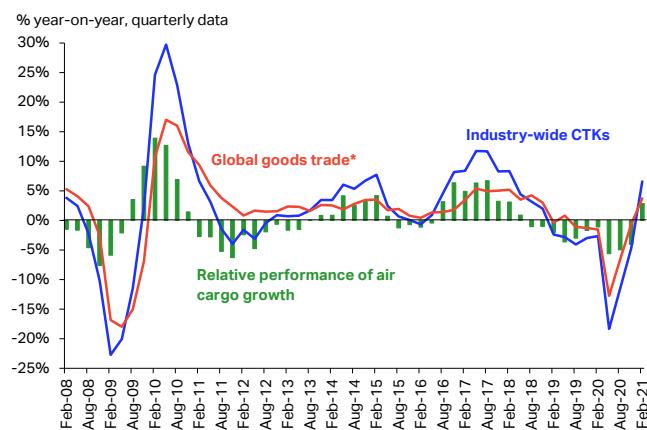
Chart 3: CTK growth vs. global new export orders



Sources: IATA Economics, IATA Monthly Statistics, Markit

Pandemic-related supply chain disruptions and resulting delivery delays continue to benefit air cargo. In February, average supplier delivery times lengthened to the second-largest extent in the manufacturing PMI survey history. This means that companies might prefer planes as their preferred mean of transport to help recover some of the lost time out of their production processes. The blockage of the Suez Canal this March will further exacerbate the supply chain bottlenecks and might be reflected in next month's data on some routes since air and ocean compete for certain goods.

Chart 4: Relative performance of air cargo growth



Sources: IATA Statistics, Netherlands CPB *average of monthly data. Feb 2021 excluded

Another supportive factor is that the global economy is currently in the recovery period of the economic

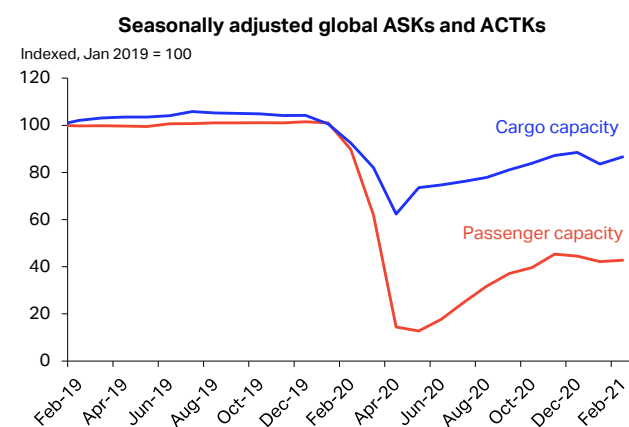
cycle when companies typically turn to air cargo to get inventory, and production going as quickly as possible to meet the rebounding demand for goods.

Chart 4 shows that the relative importance of air cargo in global goods trade has increased recently - same as was the case during the recovery from the Global Financial Crisis and during the global inventory restocking cycle (2014-2016). Both, the supply chain disruptions and economic recovery likely contributed to this improved performance.

Recovery in cargo capacity impacted by groundings of passenger aircraft

The recovery in air cargo capacity has slowed over the past three months. The spike of COVID-19 cases in some regions resulted in renewed lockdowns on which airlines reacted by the grounding of passenger aircraft. This in turn slowed recovery in belly cargo capacity. Although dedicated freighters' capacity and utilization rates increased over the same period, it was not enough to keep the capacity on the previous recovery path (Chart 5). Industry-wide available cargo tonne-kilometres (ACTKs) were 14.9% lower compared to the same period in February 2019 – little improvement on 16.6% decline in January. In month-on-month terms, ACTKs picked up by 3.6%, partly offsetting fall from the previous month (-5.5%).

Chart 5: Global CTKs and ACTKs, seasonally adjusted



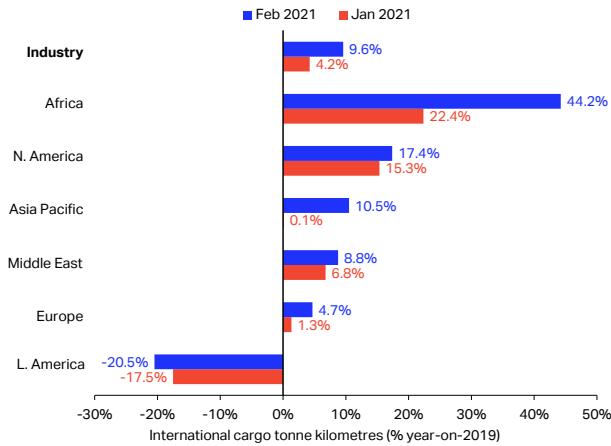
Source: IATA Economics using IATA Monthly Statistics

The industry-wide outcome hides regional differences. While capacity of African and North American carriers returned to pre-crisis levels (ACTKs up 6.6% and 1.9%, respectively vs February 2019), Latin American and Asia Pacific carriers showed ACTKs still down by 30-40% vs. the pre-crisis period. Since global demand grew while the capacity contracted, the industry-wide cargo load factor reached a record high outcome for any month of February in the history of our time series, at 57.5%. At the regional level, Asia Pacific carriers continued to report the highest load factors (69.2%), followed by European carriers (64.1%).

International CTKs picked up for another month

International industry-wide CTKs continued to recover in February, rising by 2.3% month-on-month. When comparing with the pre-crisis levels (Chart 6), the CTKs expansion was unchanged from the previous month (revised). The strong January growth could be, however, attributed to a weak outcome two years ago.

Chart 6: Int'l CTK growth versus the same month in 2019 (airline region of registration basis)

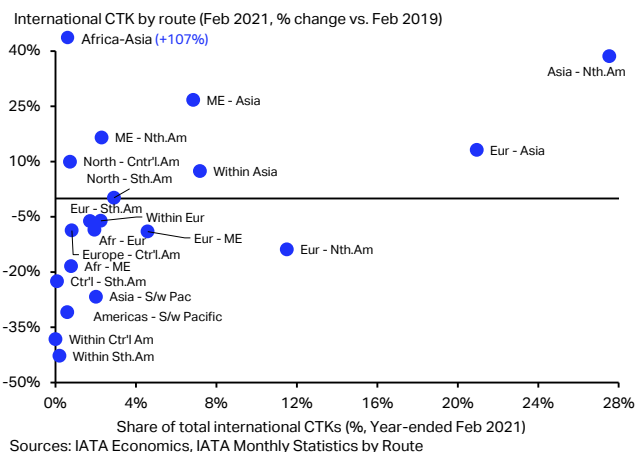


Sources: IATA Economics, IATA Monthly Statistics

The Africa region showed the fastest expansion in Feb

African carriers led the international CTK growth chart, posting a robust 44.2% expansion compared with February 2019. The smaller Africa-Asia trade lanes were the main driver behind the region's outperformance (+107%). Note that the Africa market is relatively smaller compared to the rest of the industry (a 2% CTK share) and therefore even small changes in volumes result in outsized growth volatility.

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



Sources: IATA Economics, IATA Monthly Statistics by Route

North America continues in robust growth

International CTKs flown by North American carriers expanded by 17.4% compared with the pre-crisis levels (Feb 2019), and by 0.9% month-on-month. The region's swift recovery has been supported by improving economic activity and the rising popularity of online shopping amidst lockdown restrictions. Of

the region's key international markets, Asia-Nth.Am has been the strongest performer (+39% vs Feb 2019) due to the robust US demand for goods made in Asia.

The operating backdrop points to robust cargo demand in the near-term. The US\$1,400 stimulus checks to US households will likely further support customer appetite for e-commerce. Moreover, the US inventory levels are well below the average since early-2021 which means that companies might prefer the speed of air cargo to refill their stocks.

Majority of Asia trade lanes well above pre-crisis levels

International CTKs of Asia Pacific carriers were up 10.5% in February vs. the same month in 2019. Seasonally adjusted cargo volumes picked up by 3.1% - the second-fastest improvement amongst regions after Africa. As the main global manufacturing hub, the region has been benefitting from the swift recovery of the global manufacturing sector and economic activity in general. Indeed, all but one of the region's key int'l trade lanes are fully recovered with CTKs well above the pre-crisis levels (Chart 7).

Recovery in the Middle East driven by two int'l markets

International cargo volumes of Middle Eastern carriers rose by 8.8% compared with the pre-crisis period and 6.8% vs. January. Of the region's key international markets, ME-Asia and ME-Nth.Am performed the strongest for another month (up 27% and 17% vs. Feb 2019, respectively).

CTKs in Europe improve despite new lockdowns

European airlines reported a 4.7% international CTK expansion in February 2021 vs. two years ago – up from 1.3% growth in January. In month-on-month terms, CTKs picked up by 2.3%. Although many European countries faced new lockdowns, the region's manufacturing sector was largely unimpacted and remains supportive for air cargo.

Lat. Am CTKs remained deep in contraction territory

Latin America remained the only region with contracting CTKs in February. The local carriers flew 20.5% fewer cargo volumes compared with two years ago and their capacity was still about half of the pre-crisis levels. The weakness has been driven in particular by Within Central and South America markets that shrank by ~40% and outweighed the full recovery on North-Cntrl.Am routes (+10%). The CLFs in the two weak markets were well below the average, which indicates that their slow rebound stems from weak cargo demand rather than the lack of capacity.

Air cargo market detail - February 2021

To aid understanding, the table includes both % comparisons with pre-crisis 2019 months and 2020 months.

| | World share ¹ | February 2021 (% ch vs the same month in 2019) | | | | February 2021 (% year-on-year) | | | |
|----------------------|--------------------------|--|---------------|-------------------------|--------------------------|--------------------------------|---------------|-------------------------|--------------------------|
| | | CTK | ACTK | CLF (%-pt) ² | CLF (level) ³ | CTK | ACTK | CLF (%-pt) ² | CLF (level) ³ |
| TOTAL MARKET | 100.0% | 9.0% | -14.9% | 12.6% | 57.5% | 10.8% | -10.3% | 10.9% | 57.5% |
| Africa | 2.0% | 42.3% | 6.6% | 11.9% | 47.6% | 33.1% | 3.7% | 10.5% | 47.6% |
| Asia Pacific | 32.4% | 7.1% | -29.2% | 23.5% | 69.2% | 9.2% | -13.8% | 14.6% | 69.2% |
| Europe | 22.3% | 4.7% | -13.1% | 10.9% | 64.1% | 10.5% | -8.1% | 10.8% | 64.1% |
| Latin America | 2.4% | -18.4% | -37.8% | 10.2% | 42.9% | -19.8% | -32.0% | 6.5% | 42.9% |
| Middle East | 12.9% | 8.7% | -14.8% | 13.0% | 59.8% | 4.4% | -19.3% | 13.6% | 59.8% |
| North America | 27.9% | 17.1% | 1.9% | 5.9% | 45.3% | 19.3% | -2.2% | 8.2% | 45.3% |
| International | 85.8% | 9.6% | -13.7% | 13.6% | 64.2% | 10.4% | -10.2% | 12.0% | 64.2% |
| Africa | 2.0% | 44.2% | 9.8% | 11.6% | 48.4% | 34.5% | 7.7% | 9.7% | 48.4% |
| Asia Pacific | 29.2% | 10.5% | -23.6% | 23.9% | 77.4% | 8.2% | -16.6% | 17.7% | 77.4% |
| Europe | 22.0% | 4.7% | -12.5% | 10.8% | 65.7% | 10.5% | -7.1% | 10.5% | 65.7% |
| Latin America | 2.0% | -20.5% | -43.0% | 15.8% | 55.8% | -20.1% | -36.8% | 11.7% | 55.8% |
| Middle East | 12.9% | 8.8% | -14.9% | 13.1% | 60.4% | 4.5% | -19.3% | 13.7% | 60.4% |
| North America | 17.6% | 17.4% | 4.4% | 5.9% | 53.2% | 23.0% | 6.7% | 7.0% | 53.2% |

¹% of industry CTKs in 2020

²Change in load factor vs. the same month in 2019

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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