

Air cargo recovery goes on despite stalling of 'headline' growth

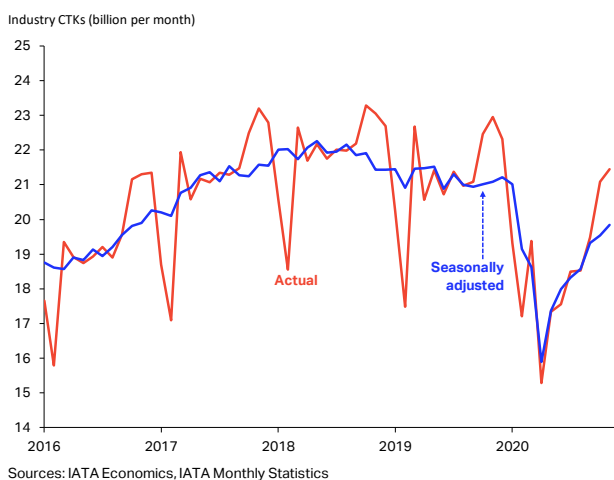
- The recovery in 'headline' year-on-year growth stalled in November, as industry-wide cargo tonne-kilometres (CTKs) fell by 6.6% year-on-year, after declining by 6.2% in October. But that was entirely due to the comparison with a stronger monthly rise in November last year. In seasonally adjusted terms however, CTKs grew by 1.6% month-on-month, continuing the increases seen since the April low point. Current monthly gains point to cargo volumes returning to 2019 levels around March 2021.
- While most drivers related to manufacturing and economic activity remain broadly supportive, lockdowns and surging new COVID cases have impacted CTKs in November. The lack of capacity – with available cargo tonne-kilometres (ACTKs) down 20.0% in November – also suggests there is demand that cannot be met.
- With the lack of capacity, cargo load factors were at all-time high levels for the month of November. The combination of high and growing cargo yields with resilient demand also means that air cargo revenues are currently exceptionally elevated, providing support to airlines at a time when passenger revenues have collapsed.

Soft growth outcome but ongoing SA recovery

Industry-wide cargo tonne-kilometres (CTKs) fell by 6.6% year-on-year in November 2020. The growth performance was broadly unchanged compared to October (a 6.2% decline), and this represents the first month without an improvement since April. The soft growth outcome this month can be attributed to a strong month of November 2019, when the impact of the US-China trade war was starting to wane.

Moreover, seasonally adjusted (SA) cargo volumes continued to climb back and gained 1.6% month-on-month in November. This is in line with the monthly growth rate of October (1.1%). For both metrics, the rebound had decelerated slightly in October (Chart 1).

Chart 1: CTK levels, actual and seasonally adjusted



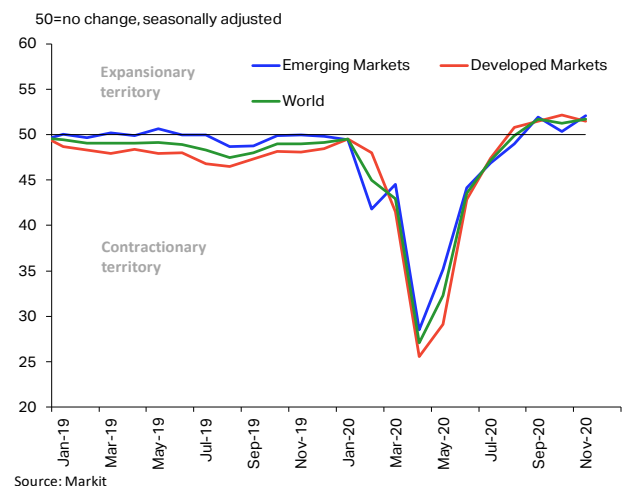
While the pace of the recovery has weakened, current month-on-month gains point to SA CTKs returning to 2019 monthly levels around March or April 2021.

Standard drivers remain mostly supportive...

Most timely indicators continue to point to ongoing economic recovery in November.

For example, new export orders – which have historically tended to co-move with CTKs – have also benefitted from the rebound in demand. In both developed and emerging markets, they have trended above the 50-mark associated with monthly improvements, since Q3 2020 (Chart 2).

Chart 2: New export orders component of PMIs



In October (latest data point), global industrial production was down year-on-year by only 1.1% only,

Air cargo market overview - November 2020

	World share ¹	November 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%	-6.6%	-20.0%	8.4%	58.2%	-11.6%	-23.9%	7.5%	54.3%
International	86.8%	-7.7%	-21.3%	9.7%	65.6%	-12.8%	-24.4%	8.0%	59.8%

¹% of industry CTKs in 2019

²Year-on-year change in load factor

³Load factor level

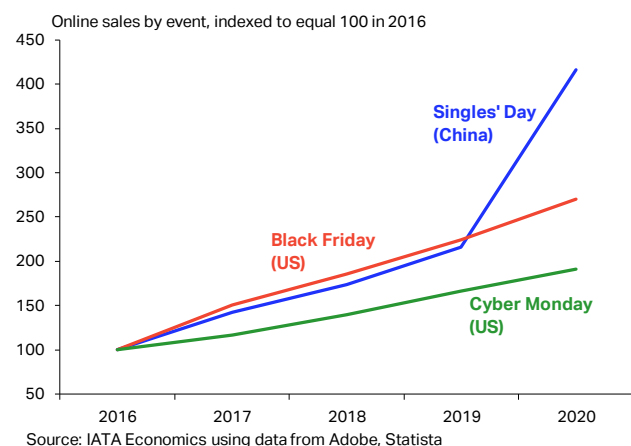
while manufacturing output PMIs were above 50 in most key economies, and up 8.3% year-on-year at the global level in November.

...and peak season shopping days saw strong sales...

November is typically one of the busiest months of the year for air cargo, due to shipments related to the start of the holiday season and important shopping events such as Black Friday and China's Singles' Day.

With the shift towards e-commerce seen during 2020, sales volumes during those events reached record-high levels (Chart 3). While this only represents online sales, overall retail sales for November were also up by roughly 5% in 2020 versus 2019, for both China and the US. This suggests that consumer demand healthy, at least in those two major economies.

Chart 3: Online sales, selected shopping events



New COVID cases have increased over the course of November in many regions, notably in Europe, the US and Latin America. This has led to renewed lockdowns and control measures, impacting economies and supply chains and limiting consumers spending.

That being said, in most cases, lockdowns are focused on services providers. This suggests that the main driver for the slowdown in the recovery of CTGs is the lack of available capacity. Indeed, global container throughput was up 6.3% year-on-year in November, while global goods trade was down only 1.1% in October (latest data point).

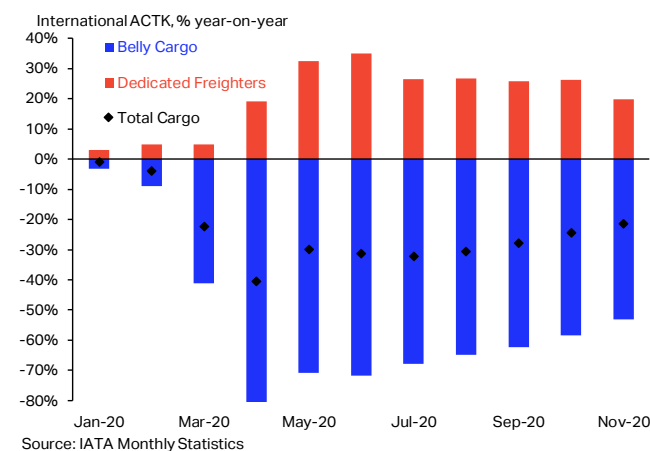
...but cargo capacity limits volumes carried...

Industry-wide available cargo tonne-kilometres (ACTKs) continued to improve at a modest pace, with the year-on-year (yoy) decline moving from 22.4% in October to an even 20.0% in November.

Bellyhold cargo capacity fell by 53.0% yoy in November, a robust gain from October (a 58.4% fall). While actual dedicated freighters ACTKs increased slightly, airlines were unable to match the increase in demand for the peak season due to limited fleet size and a number of specific operating issues such as

flight cancellations at PVG (Shanghai) airport. This led to a decline in the pace of freighter capacity growth – up 20.0% yoy in November vs 26.2% yoy in October – offsetting part of the gains on the belly side (Chart 4).

Chart 4: Int'l belly cargo and freighter capacity growth

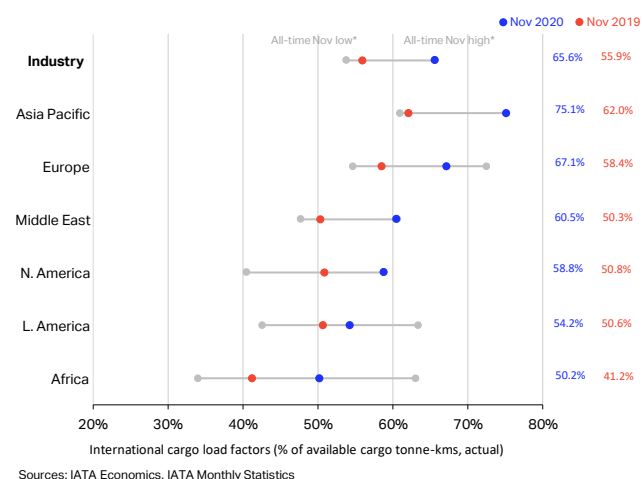


...leading to record-high load factors and revenues

The robust rebound in economic activity and overall suggests there is pent-up demand for air cargo, as has already been the case in recent months. With cargo capacity not being sufficient, this translates into elevated load factors and yields.

Indeed, the industry-wide cargo load factor was up 8.4 percentage points (ppts) and at a record-high value for any month of November in our series. The SA load factor however declined a bit. Among the regions, Asia Pacific, the Middle East and Nth America also posted record-high load factors for November (Chart 5).

Chart 5: International cargo load factors by region

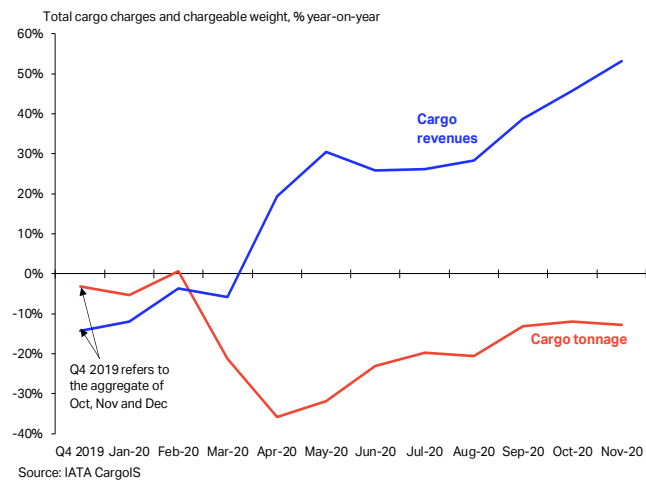


After already increasing in October, air cargo rates have continued to rise in November and are now around 70% higher than last year at the global level.

The combination of recovering cargo volumes – for both CTGs and chargeable weight – and record-high yields translates into exceptional growth in revenues from air cargo, up more than 50% yoy in November according to data from CargoS. This has been caused

by the shortage of cargo capacity and provides crucial support to airlines at a time when passenger revenues have collapsed.

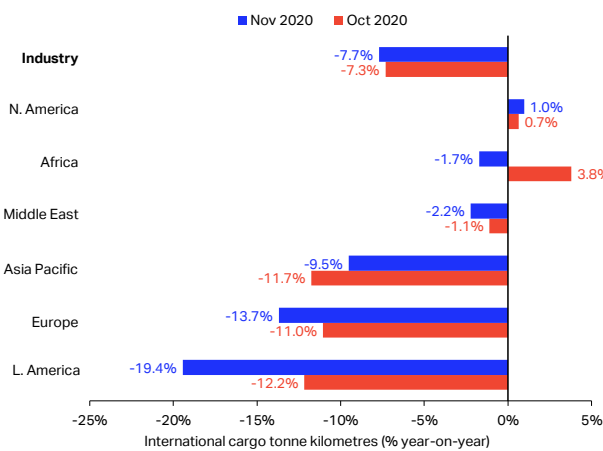
Chart 6: Global cargo tonnage and revenues



International CTKs mirror the total outcome

International air cargo volumes declined by 7.7% yoy in November, a minor deterioration from October's outcome (a 7.3% fall). SA volumes increased in monthly terms. Europe and Latin America – regions that were among the most impacted by renewed COVID outbreaks – drove the growth decline (Chart 7).

Chart 7: International CTK growth



Int'l CTKs increased in North America

Notwithstanding the impact of a new wave of COVID cases in the US, North America was the only region where international CTKs grew in yoy terms in November. The metric was up 1.0%.

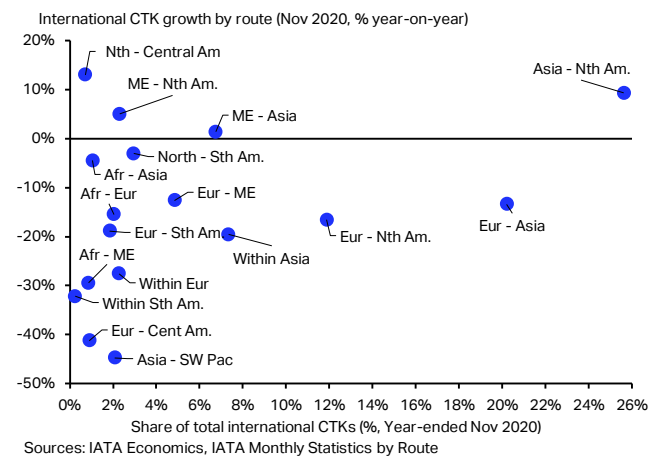
The resilient outcome is driven by a less stringent capacity crunch – international ACTKs were down 12.7% yoy in November, the least among the main regions – as well as by strong traffic on the Asia-Nth America route (9.3% yoy in November).

Carriers in AME report falling international volumes

After three consecutive months of positive year-on-year growth, international CTKs of African carriers fell

by 1.7% yoy in November. This is primarily driven by a soft performance on the Asia-Africa route, down 4.5% yoy (Chart 8). International load factors were the lowest amongst all regions in November.

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



International cargo volumes reported by carriers in the Middle East fell by 2.2% yoy in November, a slight deterioration from October (a 1.1% fall). The lack of international connectivity is hurting airlines in the region, but SA CTKs remain on an upwards trend.

Capacity of Asia Pacific airlines is particularly tight

Asia Pacific airlines registered the most significant improvement of all the regions in November, with international CTKs falling by 9.5% yoy, up from 11.7% in October.

While int'l traffic within the region remains weak (down 19.6% yoy in November), exports toward Nth America and Europe are buoyant, driven by e-commerce and PPE shipments. Capacity is particularly tight on those markets – international ACTKs were down 25.3% yoy – and yields and load factors are currently higher than in the early stage of the pandemic around April.

CTKs deteriorated in Europe and Latin America

European carriers posted a 13.7% yoy decline in international CTKs in November, down from an 11.0% fall the month before, and with widespread weakness over the main trade lanes. This is explained by the impact of lockdowns on consumer demand and business activity, as well as a stringent lack of capacity. International ACTKs fell by 24.9% yoy.

Airlines in Latin America followed a similar path in November, with int'l CTKs falling by 19.4% yoy, after a 12.2% decline in October. As in Europe, the robust traffic recovery of the past few months has reverted in November due to new COVID outbreaks.

Air cargo market detail - November 2020

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TOTAL MARKET	100.0%	-6.6%	-20.0%	8.4%	58.2%	-11.6%	-23.9%	7.5%	54.3%
Africa	1.8%	-2.6%	-20.7%	9.2%	49.6%	0.3%	-17.1%	7.6%	43.7%
Asia Pacific	34.5%	-10.6%	-22.7%	8.5%	63.1%	-16.1%	-28.0%	8.6%	60.9%
Europe	23.6%	-13.4%	-24.9%	8.7%	65.5%	-17.2%	-28.1%	7.8%	59.3%
Latin America	2.8%	-19.2%	-28.4%	5.0%	43.6%	-21.8%	-35.4%	7.5%	43.0%
Middle East	13.0%	-2.3%	-18.7%	10.1%	60.0%	-10.7%	-21.1%	6.2%	52.7%
North America	24.3%	5.0%	-12.8%	8.5%	50.0%	0.1%	-16.7%	8.0%	47.5%
International	86.8%	-7.7%	-21.3%	9.7%	65.6%	-12.8%	-24.4%	8.0%	59.8%
Africa	1.8%	-1.7%	-19.4%	9.1%	50.2%	1.2%	-15.5%	7.3%	44.2%
Asia Pacific	30.4%	-9.5%	-25.3%	13.1%	75.1%	-14.1%	-26.3%	9.7%	68.7%
Europe	23.3%	-13.7%	-24.9%	8.7%	67.1%	-17.4%	-28.0%	7.9%	61.2%
Latin America	2.3%	-19.4%	-24.8%	3.6%	54.2%	-20.5%	-31.9%	7.3%	51.0%
Middle East	13.0%	-2.2%	-18.6%	10.1%	60.5%	-10.6%	-20.8%	6.0%	53.0%
North America	16.0%	1.0%	-12.7%	8.0%	58.8%	-5.9%	-20.2%	8.3%	54.8%

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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