



Air Cargo Market Analysis

July 2020

Air cargo recovery continues amid improving economic activity

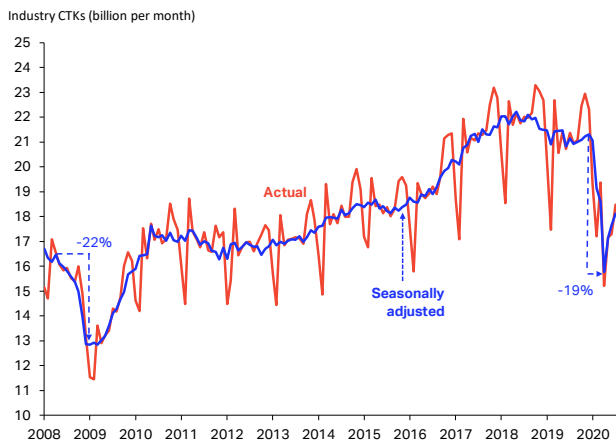
- Industry-wide cargo tonne-kilometres (CTKs) declined by 13.5% year-on-year in July. CTKs adjusted for seasonality grew 2.6% month-on-month in July, similar to the pace of improvement seen in June (3.0%).
- Despite growing uncertainty in COVID-19 developments, economic activity continued to recover in July. Indicators such as manufacturing output and new export orders are improving. July's CTK performance is weaker than expected based on economic activity. But new export orders – a leading indicator for air cargo – show that CTKs should continue to improve in the coming period.
- This divergence between economic activity and air cargo is partly due to the shortage of air cargo capacity. Total available cargo tonne-kilometres (ACTKs) fell by 31.2% year-on-year in July, a small improvement from June (33.4%).
- While most regions are on an upward swing – at different paces, international cargo volumes in Latin America deteriorated in June and July amidst challenging economic and health conditions.

Pace of recovery in CTKs in line with that of June

Industry-wide cargo tonne-kilometres (CTKs) dropped 13.5% year-on-year in July 2020, the slowest decline since February, when COVID-19 was still mostly impacting Asia.

In seasonally adjusted (SA) terms, global CTKs grew 2.6% month-on-month in July. The pace of recovery in July was in line with that of June – SA CTKs had increased by 3.0% in monthly terms compared to May 2020 (Chart 1).

Chart 1: CTK levels, actual and seasonally adjusted



Sources: IATA Economics, IATA Monthly Statistics

Amongst the main regions, North America was the outlier, as it supplied a positive contribution to industry-wide year-on-year growth (0.7 ppt), supported by strong US e-commerce demand. This

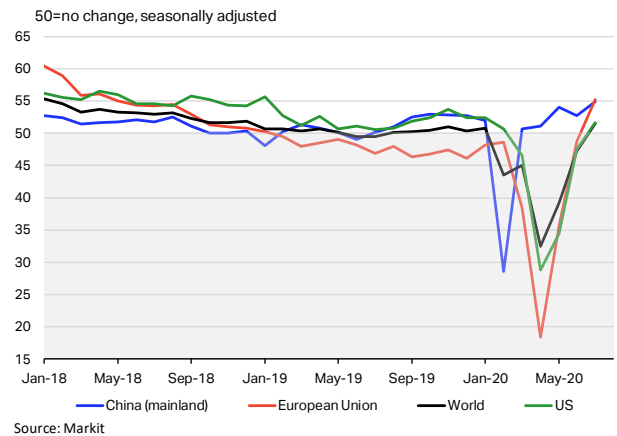
was however largely offset by negative contributions from Asia Pacific (6.1 ppts) and Europe (5.2 ppts).

Manufacturing data points to stabilizing demand...

The COVID-19 pandemic continued to worsen in July, with the 7-day moving average number of new cases reported globally rising from ~180'000 at the beginning of the month to ~260'000 at the end. Having said that, impacted economies refrained from reinstating large-scale lockdowns. Economic activity has been able to restart, with retail sales and industrial production showing robust recoveries in many key countries.

The manufacturing output component of the Purchasing Managers' Index (PMI) also suggests conditions are improving for air cargo (Chart 2).

Chart 2: Manufacturing output component of PMIs



Source: Markit

Air cargo market overview - July 2020

	World share ¹	July 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%	-13.5%	-31.2%	11.5%	56.4%	-14.1%	-24.2%	6.2%	52.8%
International	86.8%	-15.5%	-32.9%	12.9%	62.7%	-15.3%	-24.1%	6.0%	57.5%

¹% of industry CTKs in 2019

²Year-on-year change in load factor

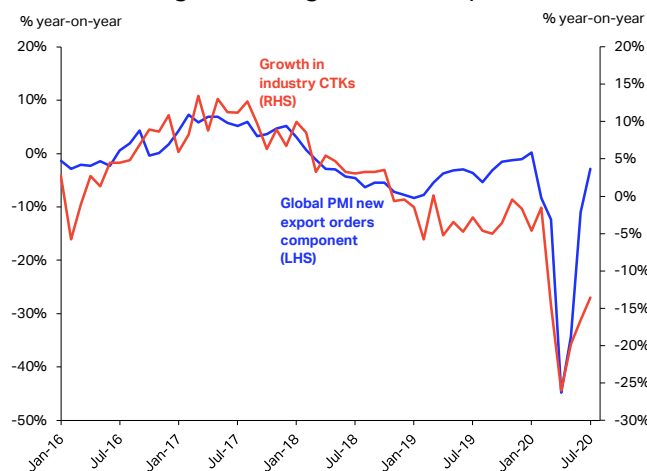
³Load factor level

Indeed, the global PMI returned above the 50-line consistent with month-on-month growth in output and GDP. Output also rose in many key exporting economies, such as China, the US and Germany.

In line with those improvements, the new export orders component of the global manufacturing PMI rebounded to a 2.8% annual rate of decline in July, up from close to 45% in April.

Historically, growth in this PMI has been a reliable leading, or at least coincident, indicator of growth in industry-wide CTKs (Chart 3).

Chart 3: CTK growth vs. global new export orders



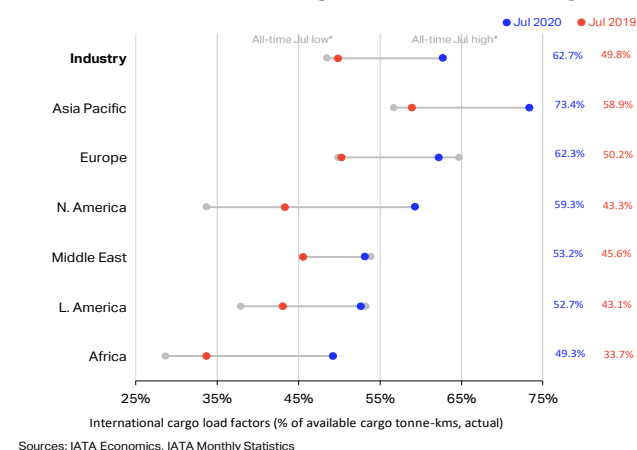
The recovery in air cargo demand has been relatively slow so far, considering the developments in new export orders and other indicators of production. While the historical correlation between both series still points to improving CTK growth in the 2-3 months ahead, supply constraints are likely to have contributed to those different paces.

... but supply constraints are slow to improve

Capacity showed only minor signs of growth in July, as industry-wide available cargo tonne-kilometres (ACTKs) fell 31.2% year-on-year (yoy), up from 33.4% in June. SA ACTKs grew 3.2% month-on-month (m-o-m).

The industry-wide cargo load factor increased 11.5 pts in July 2020 compared to the same month a year ago. Both at the industry level and for several regions (APAC, N. America and Africa), load factors were at record-high levels for any month of July. For most regions, they have however slightly come off the heights seen earlier in the pandemic (Chart 4).

Chart 4: International cargo load factors by region



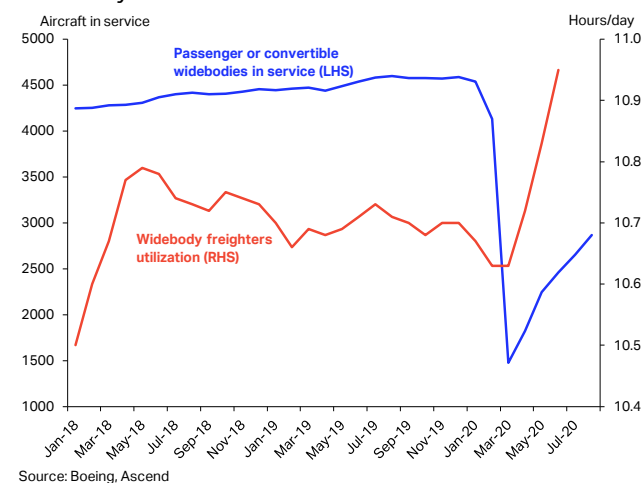
Despite elevated utilization, freighters are insufficient

The ongoing capacity crunch continues to be driven by the lack of international passenger traffic. In July, international belly cargo capacity was down 70.5% year-on-year, a modest progress from the nadir of the crisis in April (-82.5%).

The number of widebodies – the main aircraft type for bellyhold cargo – in service in the passenger fleet has been rising since March. However, the widebody fleet size was still down 42% in year-on-year terms in July.

In the meantime, airlines have sought to grow their freighters fleet and optimize their utilization. In June, daily utilization of widebody freighters rose to its highest level since the series started in 2012, at close to 11 hours/day (Chart 5). In parallel, freighters ACTKs were up 28.8% year-on-year in July.

Chart 5: Passenger widebody in service, freighters widebody utilization



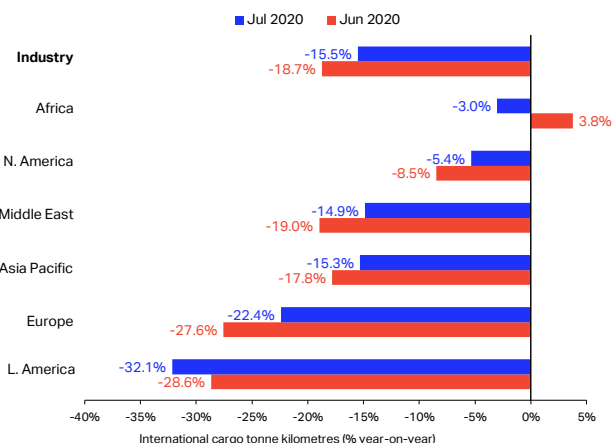
Operational and financial constraints mean that in most markets, freighters are insufficient to fully compensate for the loss of belly capacity. The capacity crunch resulted in record-high yields in April and May.

With the slow return of capacity, yields have slightly moderated, and stabilized in July, with rates rising in certain markets at the end of the month.

International demand recovery remains patchy

International CTKs decreased 15.5% yoy in June, a modest improvement from the month before (18.7%), in line with the industry-wide outcome. While the four largest regions recorded small improvements, Africa and Latin America worsened (Chart 6).

Chart 6: International CTK growth

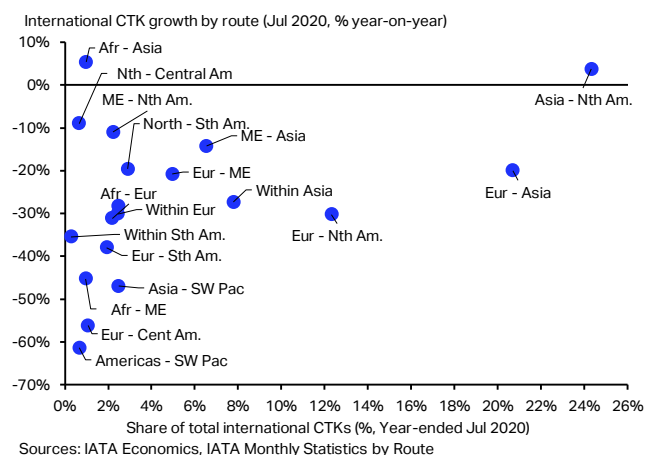


Sources: IATA Economics, IATA Monthly Statistics

Airlines in Africa top the int'l growth chart...

International CTKs of African airlines declined an even 3.0% yoy in July, down from a revised 3.8% growth rate in June. This marks the third consecutive month during which that region was the most resilient, driven by the Africa-Asia trade route (Chart 7).

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



Sources: IATA Economics, IATA Monthly Statistics by Route

International passenger traffic has also stopped in that region, resulting in a 33.7% yoy decline in ACTKs and a 15.6 ppts increase in cargo load factors.

... shortly followed by North American airlines

Airlines based in North America posted a 5.4% annual decline in international cargo volumes in July.

Route-level data shows that the Transpacific market (Asia-Nth America) has performed better (up 3.7% yoy) than most other markets for the region, particularly the Transatlantic trade lane (Europe-Nth America). This is partly driven by strong Nth American e-commerce demand for products manufactured in Asia.

Transport of goods by air has also been particularly resilient in the domestic US and Canada markets, providing significant support to total volumes for airlines in North America (up 2.9% yoy in July).

Middle East, APAC and Europe on an upward swing...

Airlines registered in the Middle East saw their international CTKs decline by 14.9% yoy in July, up from a decline of 19.0% in June. The more aggressive flying strategies of local carriers contribute to the recovery, with SA int'l CTKs growing 7.2% m-o-m in July, more than the other regions.

Carriers based in Asia posted a 15.3% yoy decline in international cargo demand. After a robust initial recovery in May (10.3% m-o-m), SA volumes are now on a softer slope (up 1.2% m-o-m in July).

European airlines experienced a 22.4% yoy fall in international CTKs in July, up from 27.6% in June. Volumes on most key trade lanes to/from the region remain weak, with the large Europe-Asia market down 20.0% yoy in July, for example. That said, Europe was the only region in which international ACTK growth improved in July (to a modest -37.4% yoy), driven by signs of a recovery in international passenger traffic within the Schengen Area.

... but int'l air cargo double dips in Latin America

International cargo volumes of carriers based in Latin America fell 32.1% yoy in July, down from a 28.6% annual decline in June. After a solid rebound in May, SA CTKs have fallen again in the past two months. In consequence, the international Latin American cargo market is currently smaller than the African one, for the first time in our series – started in 1990.

Brazil, Mexico and other key economies in the region have seen large-scale propagation of the pandemic, compounded by pre-existing economic crises in several large economies. On the other hand, Chapter 11 bankruptcies of some of the largest carriers in the region has not significantly impacted their cargo operations directly.

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 1st September 2020

Air cargo market detail - July 2020

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TOTAL MARKET	100.0%	-13.5%	-31.2%	11.5%	56.4%	-14.1%	-24.2%	6.2%	52.8%
Africa	1.8%	-4.0%	-35.0%	15.8%	48.9%	-3.8%	-13.1%	3.9%	40.3%
Asia Pacific	34.5%	-17.7%	-33.2%	12.0%	63.9%	-16.9%	-28.7%	8.5%	60.2%
Europe	23.6%	-22.0%	-36.5%	11.0%	59.4%	-20.4%	-29.8%	6.9%	58.2%
Latin America	2.8%	-33.2%	-49.2%	11.1%	46.4%	-22.7%	-35.6%	7.0%	41.7%
Middle East	13.0%	-14.9%	-27.3%	7.7%	53.0%	-15.4%	-19.2%	2.2%	48.6%
North America	24.3%	2.9%	-24.4%	13.4%	50.6%	-3.3%	-16.7%	6.4%	46.4%
International	86.8%	-15.5%	-32.9%	12.9%	62.7%	-15.3%	-24.1%	6.0%	57.5%
Africa	1.8%	-3.0%	-33.7%	15.6%	49.3%	-3.0%	-11.3%	3.5%	40.7%
Asia Pacific	30.4%	-15.3%	-32.0%	14.4%	73.4%	-14.4%	-24.4%	7.7%	65.8%
Europe	23.3%	-22.4%	-37.4%	12.0%	62.3%	-20.6%	-29.4%	6.6%	59.8%
Latin America	2.3%	-32.1%	-44.5%	9.6%	52.7%	-21.0%	-32.4%	7.1%	49.3%
Middle East	13.0%	-14.9%	-27.1%	7.6%	53.2%	-15.4%	-18.7%	1.9%	48.9%
North America	16.0%	-5.4%	-30.9%	16.0%	59.3%	-9.5%	-21.4%	7.0%	53.6%

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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