

Air Cargo Market Analysis

June 2020

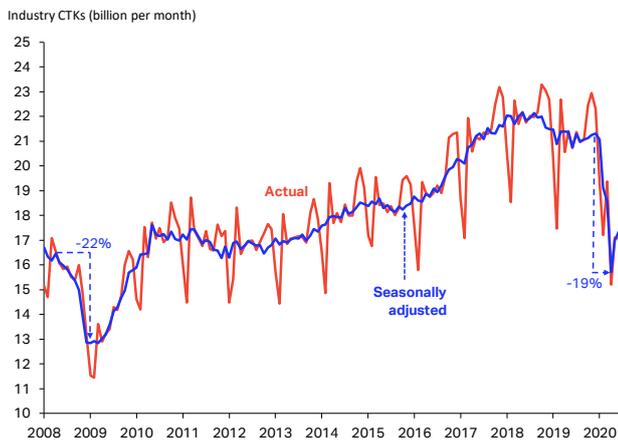
Air cargo continued to recover in June, but at a slow pace

- Industry-wide cargo tonne-kilometres (CTKs) declined by 17.6% year-on-year in June, after falling 20.1% in May. Seasonally adjusted global CTKs also lifted moderately for the second consecutive month.
- Cargo demand in June was softer than would normally be suggested by manufacturing output and new export orders, which were stabilizing in most parts of the world in June. That relative underperformance was driven by air freight losing market share of total world trade in recent months, as buyers are turning to cheaper but slower means of transport.
- Available cargo tonne-kilometres (ACTKs) fell 34.1% year-on-year in June) resulting in the cargo load factor rising 11.5ppts year-on-year. As for April and May, the industry-wide load factor is close to record high levels.
- North America led the recovery this month, with international CTKs down 8.8% annually, versus 13.2% in May. Europe and the Middle East also posted improvements, but the decline in CTKs accelerated in the other regions.

CTKs continue to recover in June, at a slow pace...

In June, industry-wide cargo tonne-kilometres (CTKs) contracted by 17.6% in year-on-year terms, a modest improvement from the 20.1% fall in May. Six months into 2020, year-to-date volumes have decreased 14.5% compared to the Jan-Jun 2019 period. Seasonally adjusted (SA) global CTKs rose 2.2% in month-on-month terms in June. A peak-to-trough comparison shows that the COVID-19 impact on SA cargo volumes is similar to the GFC impact (Chart 1).

Chart 1: CTK levels, actual and seasonally adjusted



Sources: IATA Economics, IATA Monthly Statistics

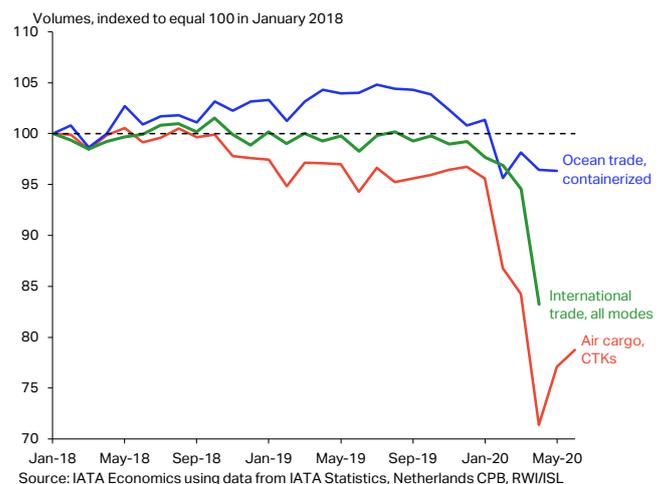
The year-on-year fall continues to be driven by Asia Pacific, Europe, and to a lesser extent, the Middle East. In total, these regions accounted for 16.4ppts of the 17.6% year-on-year decline.

...partly due to air losing share of world trade...

While the improvement in air cargo volumes seen in May continued into June, its pace appears slightly slower than expected. Some of the relevant drivers (see next section) are exhibiting stronger recoveries, and strict lockdowns have ended in most parts of the world, reducing supply chain congestion.

This relative softness is consistent with air transport losing world trade market share to ocean and rail transport, a typical pattern during downturns. Despite an initial rush towards air freight for urgent PPE and medical shipments, buyers have generally turned to cheaper but slower means of transport (Chart 2).

Chart 2: Market share of air transport in world trade



Source: IATA Economics using data from IATA Statistics, Netherlands CPB, RWI/SL

Air cargo market overview - June 2020

	World share ¹	June 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%	-17.6%	-34.1%	11.5%	57.3%	-14.5%	-23.2%	5.3%	52.3%
International	86.8%	-19.9%	-33.9%	10.7%	61.3%	-15.5%	-22.8%	4.9%	56.7%

¹% of industry CTKs in 2019

²Year-on-year change in load factor

³Load factor level

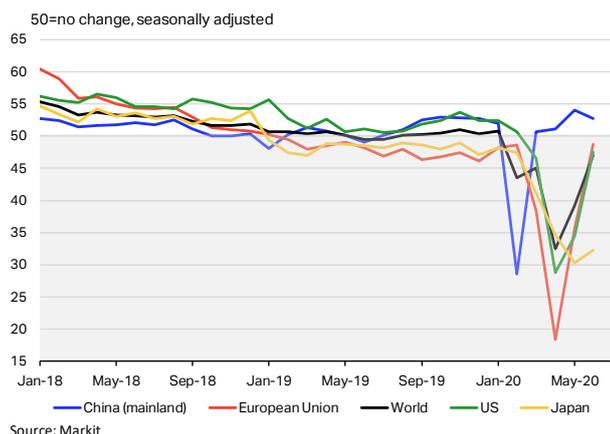
This pattern is expected to revert as global demand for goods recovers, with firms turning to air transport to rapidly refill their inventories.

...and despite stabilizing manufacturing demand

COVID-19 remained highly prevalent in many regions of the world in June. But most strict lockdowns were lifted throughout the world around the end of May, allowing manufacturing activity to restart. The global manufacturing output Purchasing Managers' Index (PMI) consequently rebounded to its highest level since January (Chart 3).

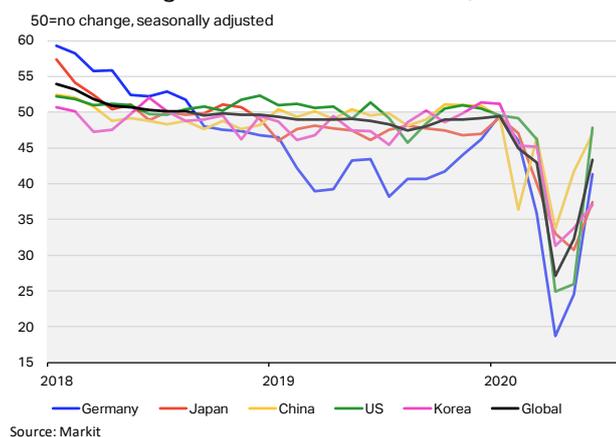
This recovery was widespread across numerous key economies, with the PMI for China trending above the 50-line consistent with growing output for the fourth consecutive month. The aggregated index for Emerging Markets also returned to expansionary territory in June, together with the UK and Italy (not on the chart).

Chart 3: Manufacturing output component of PMI, selected countries



The global new export orders component of the manufacturing PMI rose by around 11 points in June compared to May, the strongest monthly increase in the series, which started in 1999. The main exporting economies followed similar paths (Chart 4).

Chart 4: New export orders component of manufacturing PMI, selected countries)



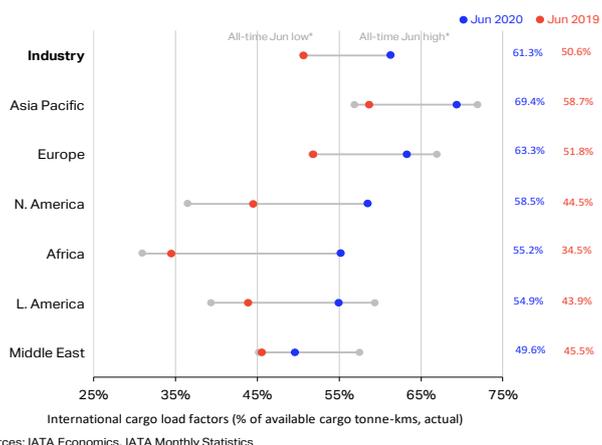
Changes in manufacturing PMIs have historically been strongly correlated with CTK growth – albeit with a few months lag in more normal times – highlighting the current divergence between the two variables at present as a result of the pandemic.

The cargo capacity crunch was still present in June...

Industry-wide available cargo tonne-kilometres (ACTKs) fell by 34.1% year-on-year (yoy), broadly unchanged from May's growth result (-34.8%). Similar to May, capacity performance varied across the regions, ranging from a 25.3% annual decline in the Middle East to a 53.5% fall in Latin America.

The industry-wide total cargo load factor remained in record-high territory, rising 11.5ppts yoy in June. At the regional level, North America posted an all-time high international load factor for any month in our series (started in 1990), with the same metric rising in all regions in annual terms (Chart 5). Those elevated load factors indicate that there is still a significant lack of cargo capacity on the market.

Chart 5: International cargo load factors by region

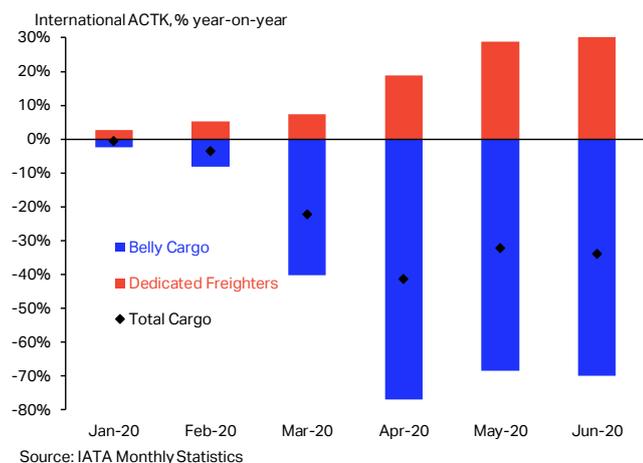


...with belly capacity declining again

FlightRadar24 data points to the number of international flights worldwide falling by close to 81% year-on-year in June, mostly unchanged from May (82%). This did not prevent international belly capacity from easing further in June. Although freighter availability – and daily utilization – remains elevated, global international capacity was lower in June than in May (Chart 6).

The number of international flights increased in July, and the cargo capacity crunch is still expected to unwind in the coming months.

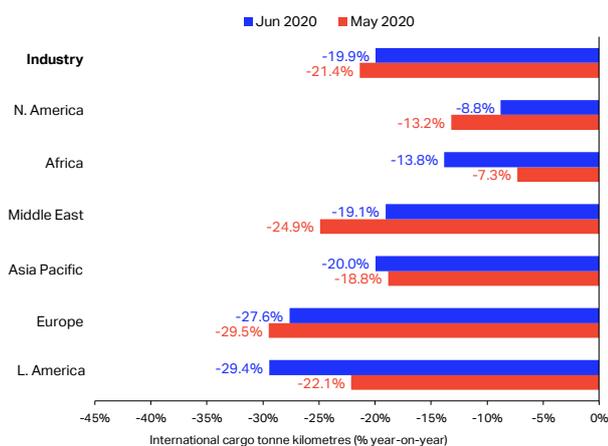
Chart 6: International belly cargo and freighter capacity growth



A modest and uneven recovery in international CTKs

In June, international CTKs contracted by 19.9% yoy. This represents a modest recovery from the 21.4% fall in May, but not all the regions followed the same path. Indeed, the decline in cargo traffic accelerated in Africa, Asia Pacific and Latin America (Chart 7).

Chart 7: International CTK growth



Airlines in Nth America lead the recovery...

International CTKs of airlines registered in North America fell by 8.8% annually in June, up from a 13.2% decline in May. The region is one of the leading contributors to the global recovery, but domestic CTKs have performed significantly better than int'l volumes, as suggested by total volumes almost returning to 2019 levels in June (-0.4% yoy).

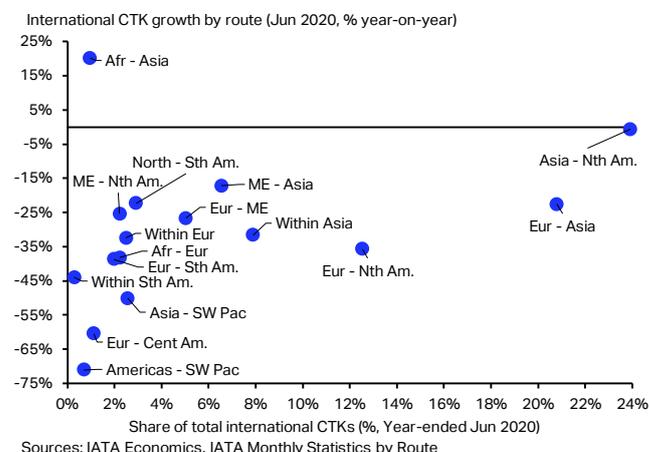
International volumes were supported by the strong integrator fleets available in the region, and the large fiscal support to firms and consumers (around \$2.2tn in the US alone with the CARES Act).

... but the fall in CTKs accelerates in Africa...

African airlines reported a 13.8% yoy decline in international cargo volumes in June, up from a 7.3% fall in May.

The Asia-Africa trade lane (Chart 8) continues to grow swiftly (from 3.0% yoy in May to 20.1% in June), but the pandemic became more severe in Africa during June.

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



... with deteriorations in APAC and Latin Am. as well

Airlines based in Asia Pacific saw international CTKs fall by an even 20% yoy in June, slightly below the 18.8% decline experienced in May. The region is impacted by the reduction in PPE shipments by air, but many key regional trade routes (Asia – Nth Am, Africa – Asia, Europe – Asia) remain relatively resilient.

The situation was even more challenging in Latin America, as airlines based in the region were faced with a 29.4% yoy decline in international CTKs, the worst outcome among the regions. International ACTKs fell 43.6% yoy in June – indicating a marked capacity crunch in the region – and most local economies have been deeply impacted by the crisis.

Ongoing recoveries in the Middle East and Europe

International cargo volumes of Middle Eastern airlines contracted 19.1% yoy in June. This marks the second consecutive month of recovery in the region, partly driven by more aggressive operational strategies of local carriers. Indeed, international ACTKs fell 25.8% in June, the best of all the regions.

European airlines posted a 27.6% year-on-year fall in international CTKs in June, an improvement from May (29.7%), but the second worst result among the regions.

International traffic within the region restarted following the decision to reopen borders within the Schengen Area on June 15. That said, routes to the Middle East and Asia posted slightly more robust performances than routes Within Europe (Chart 8).

Air cargo market detail - June 2020

	World share ¹	June 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%	-17.6%	-34.1%	11.5%	57.3%	-14.5%	-23.2%	5.3%	52.3%
Africa	1.8%	-14.8%	-47.4%	20.9%	54.7%	-6.7%	-21.4%	6.9%	43.9%
Asia Pacific	34.5%	-21.6%	-36.1%	11.9%	64.5%	-17.1%	-28.0%	7.8%	59.4%
Europe	23.6%	-27.2%	-41.5%	12.1%	62.0%	-20.1%	-28.1%	5.8%	57.6%
Latin America	2.8%	-33.2%	-52.3%	14.7%	51.2%	-20.9%	-33.3%	6.4%	41.0%
Middle East	13.0%	-19.0%	-25.9%	4.2%	49.4%	-15.5%	-17.8%	1.3%	48.0%
North America	24.3%	-0.4%	-26.9%	13.8%	52.1%	-4.6%	-15.4%	5.2%	45.8%
International	86.8%	-19.9%	-33.9%	10.7%	61.3%	-15.5%	-22.8%	4.9%	56.7%
Africa	1.8%	-13.8%	-46.2%	20.7%	55.2%	-6.0%	-20.0%	6.6%	44.5%
Asia Pacific	30.4%	-20.0%	-32.3%	10.7%	69.4%	-14.7%	-23.2%	6.5%	64.5%
Europe	23.3%	-27.6%	-40.7%	11.5%	63.3%	-20.3%	-27.5%	5.3%	59.0%
Latin America	2.3%	-29.4%	-43.6%	11.1%	54.9%	-19.1%	-30.4%	6.8%	48.8%
Middle East	13.0%	-19.1%	-25.8%	4.1%	49.6%	-15.5%	-17.2%	1.0%	48.2%
North America	16.0%	-8.8%	-30.7%	14.1%	58.5%	-10.4%	-19.8%	5.5%	52.7%

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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