

### Cargo volumes stabilized into the year-end, ahead of COVID-19

- In the three months ended January 2020, cargo tonne kilometres (CTKs) fell by 1.7% in year-on-year terms. While remaining a weak outcome, some signs of tentative improvement were evident in the recent monthly data as seasonally adjusted traffic volumes continued to gradually recover from the trough in Q2 2019.
- The stabilization in growth outturns came amidst a trade war truce between the US and China – including the signing of the phase 1 deal – which also positively impacted global export orders and business confidence. However the COVID-19 outbreak has severely impacted global supply chains and air cargo through businesses and factory closures and travel restrictions.
- Only the initial COVID impact on air transport is evident in the current traffic data, although an indication of what the upcoming data may bring is apparent in some of the subsequent leading indicators of activity and developments in oil and jet fuel prices.

#### Market developments

- In the three months to January, industry-wide cargo tonne kilometres (CTKs) decreased by 1.7% year-on-year. Nonetheless, seasonally adjusted CTKs have been trending modestly upward in recent months, continuing the gradual recovery since the trough in Q1 2019.
- Africa was the only region to record positive annual growth in CTKs this quarter, although some modest improvement in recent air cargo volume data is more broadly evident.
- While year-on-year growth rates on the major trade lanes showed some improvement in the past quarter, the main cargo hubs posted weak outcomes in January.

#### Market drivers

- Toward the end of the year and in early January, business and consumer confidence improved on the back of warmer US-China trade talks. This was also reflected in higher trade volumes in emerging economies and a lower inventory-to-sales ratio, both of which are positive for air cargo.
- Starting at the end of January, however, the COVID-19 outbreak disrupted supply chains and forced factories and businesses to shut down. This impacted business confidence and new export orders and will be reflected in air cargo outcomes over coming months.

#### Capacity, costs and yields

- The challenging context for air cargo demand in 2019 saw airlines moderate industry-wide capacity growth. However, despite this slowdown capacity growth still exceeded growth in demand, which pushed load factors down in year-on-year terms across all regions.
- Monthly average oil and jet fuel prices fell substantially in January vs December. In part this reflected concerns about the impact of COVID-19 on global economic (and air transport) demand.

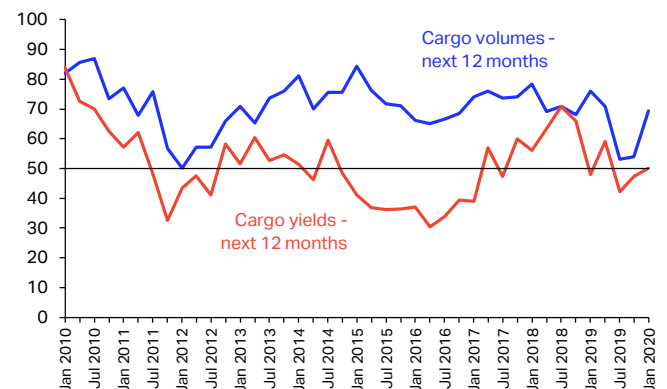
#### Heads of cargo were optimistic about volumes

- When surveyed in early January, a majority of airline heads of cargo were expecting demand to improve over the coming year, notably on the back of a more favourable world trade environment.

- The outlook for cargo yields in 2020 also improved moderately, with the weighted score reaching the 50-mark, the level associated with improving future yields.
- However, with the survey taking place prior to the impact of COVID-19 becoming apparent, we would expect this outlook to be revised down next quarter.

**Chart 1 – IATA survey of heads of cargo**

Weighted score (50 = no change)



Source: IATA Economics

\*Quarterly data

**Table 1 – Key data overview**

Rolling 3 month periods (unless specified otherwise)	% year-on-year	% quarter-on-quarter
<b>Industry-wide CTKs<sup>1</sup></b>	<b>-1.7%</b>	<b>1.4%</b>
North America-Asia <sup>2</sup>	-2.0%	-0.2%
Asia-Europe <sup>2</sup>	-0.2%	0.8%
Europe-North America <sup>2</sup>	-3.2%	2.0%
Within Asia (int'l) <sup>2</sup>	-3.4%	0.2%
<b>International Cargo Tonnes<sup>2</sup></b>	<b>-1.5%</b>	<b>1.3%</b>
Metric tonnes flown in 3m ended Dec 2019:		11m
<b>World trade volumes<sup>2</sup></b>	<b>-0.7%</b>	<b>-0.4%</b>
<b>Global container throughput<sup>1</sup></b>	<b>-0.6%</b>	<b>-1.7%</b>
	<u>Level<sup>3</sup></u>	<u>5-yr avg</u>
<b>Global PMI new export orders</b>	47.9	50.4

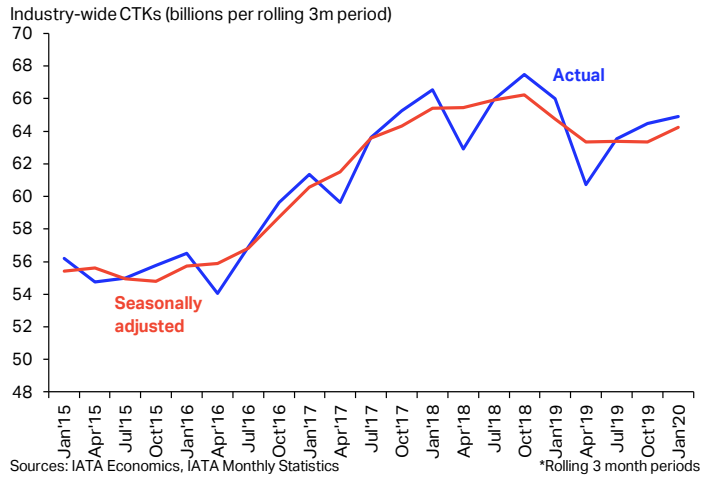
<sup>1</sup> 3m ended Jan 2020

<sup>2</sup> 3m ended Dec 2019

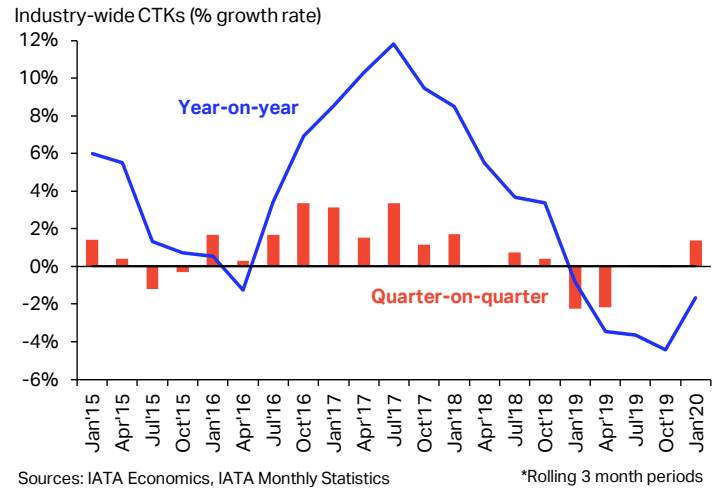
<sup>3</sup> Average of 3m ended Feb 2020

# Market developments

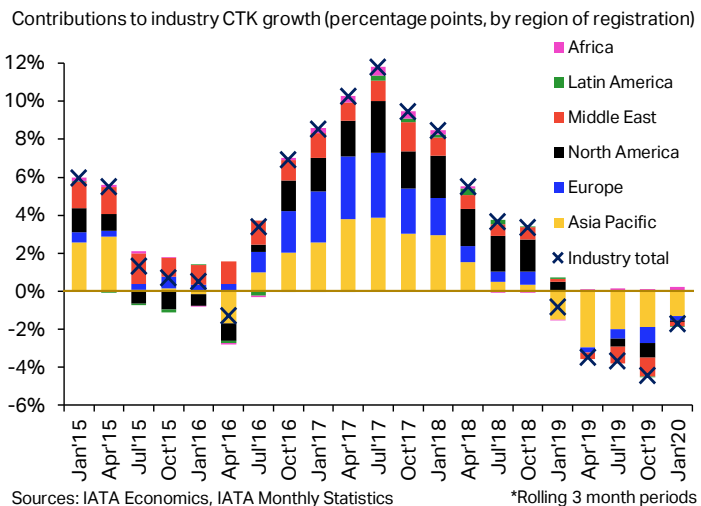
1. The trend in seasonally adjusted (SA) cargo tonne kilometres (CTKs) rose modestly in the three months to January 2020. While volumes (SA and actual) have improved since Q2 2019, the COVID-19 outbreak will bring renewed downward pressure.



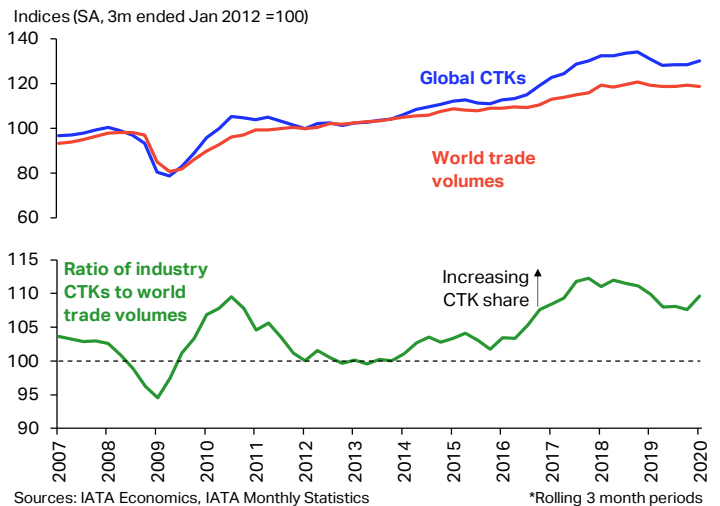
2. The US-China trade war truce helped stabilize the context for air cargo at the end of 2019, as shown by the 1.4% quarter-on-quarter growth rate in SA CTKs. That recent gain drove an improvement in the year-on-year growth outcome.



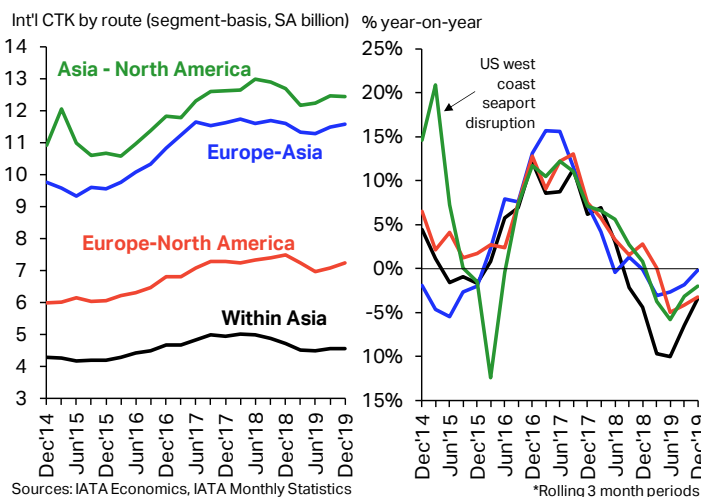
3. Africa was the only region to record positive annual growth (up 12.5% year-on-year) in the three months to January 2020. Other regions saw improvement in the sense of lesser declines (ie a smaller subtraction from industry-wide annual growth).



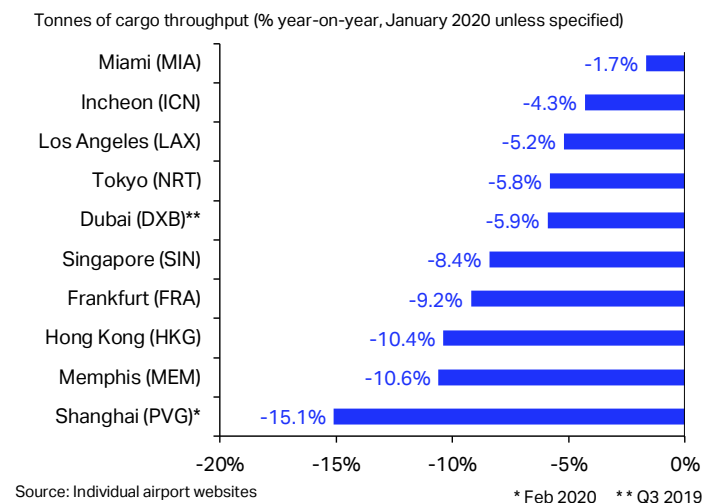
4. The stabilization seen in drivers of air freight in the three months to January 2020 was not reflected in SA world trade volumes, which continued their recent sideways trend. This pushed the ratio of air cargo to world trade volumes upwards.



5. The stabilization in cargo demand was also apparent in the major trade lanes. Year-on-year growth rates improved – but remained negative – in the three months to December. SA trends continued to recover from the trough earlier in 2019.

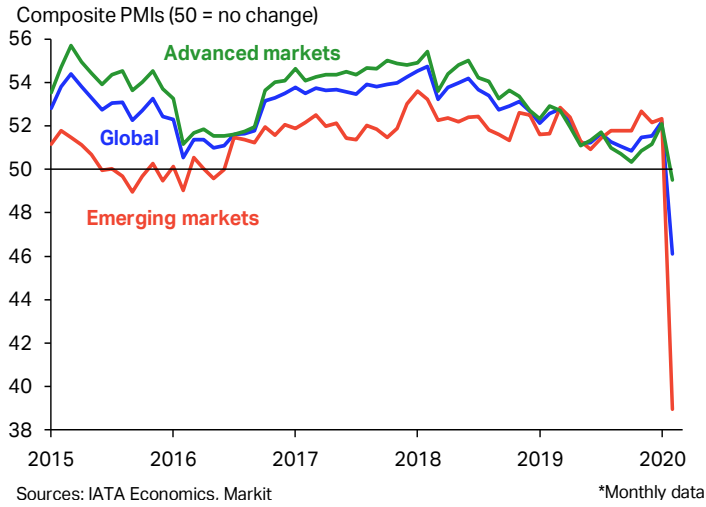


6. At the end of January, global supply chains were impacted by containment measures related to COVID-19, in particular in China with factory closures and an extended Lunar New Year break. This reduced the cargo throughput growth at the key air freight hubs.

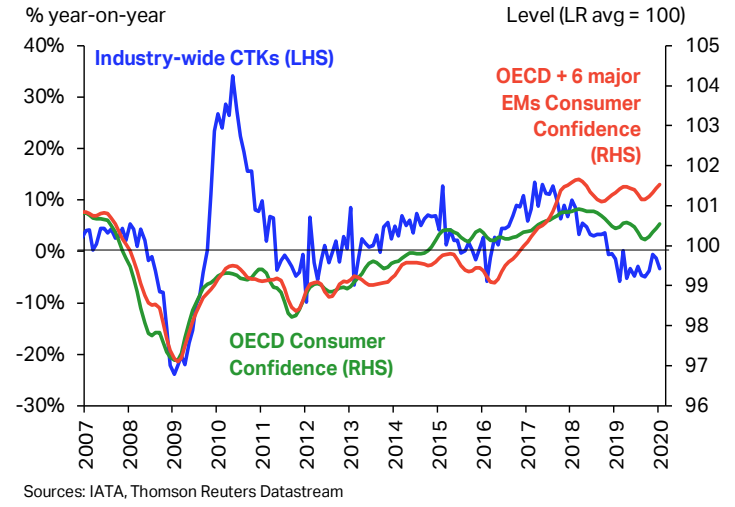


# Market drivers

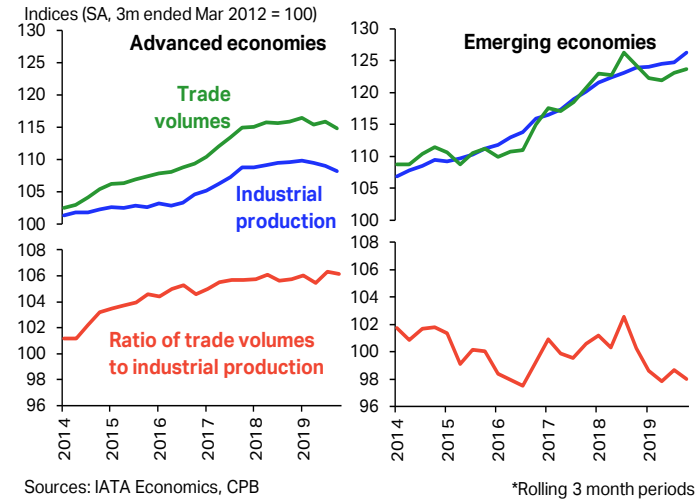
7. Into the year-end and in January, business confidence recovered from the falls observed in early 2019, supported by the US-China trade war truce. In February however, confidence collapsed due to disruptions caused by COVID-19.



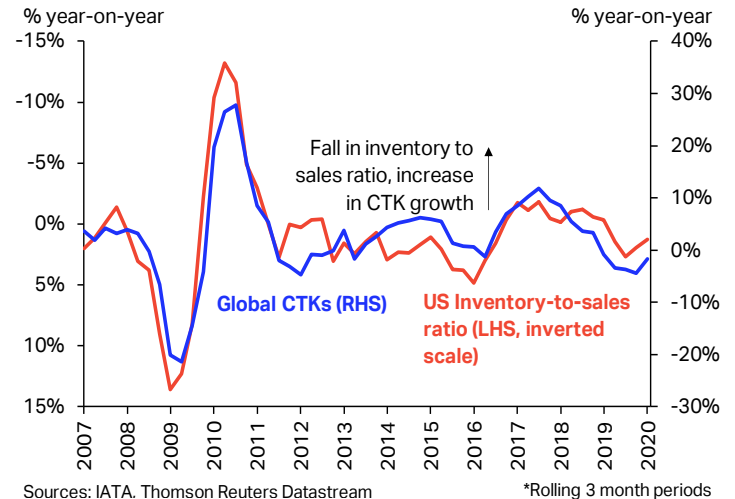
8. Ahead of the COVID-19 impact, consumer confidence also improved during the four months to January. The improvement in sentiment was more pronounced in the large emerging markets, including China. .



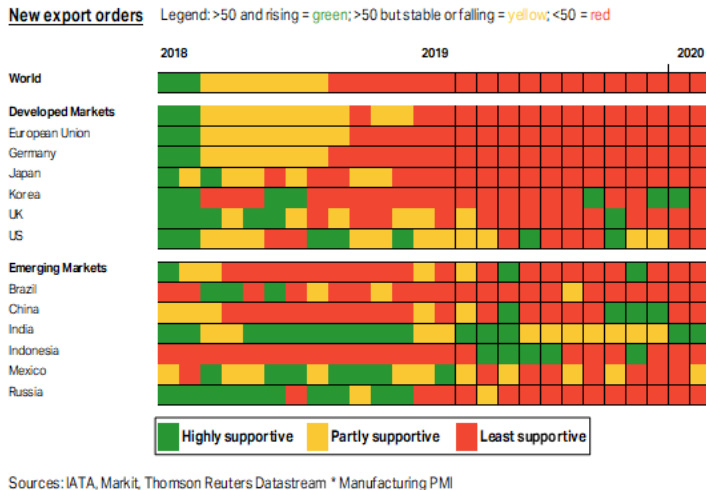
9. Trade volumes and economic activity started falling during the second half of 2018. Since Q3 2019, trade volumes have stabilized in emerging markets, but growth in global trade volumes overall remains weak (-0.7% annually in Q4 2019).



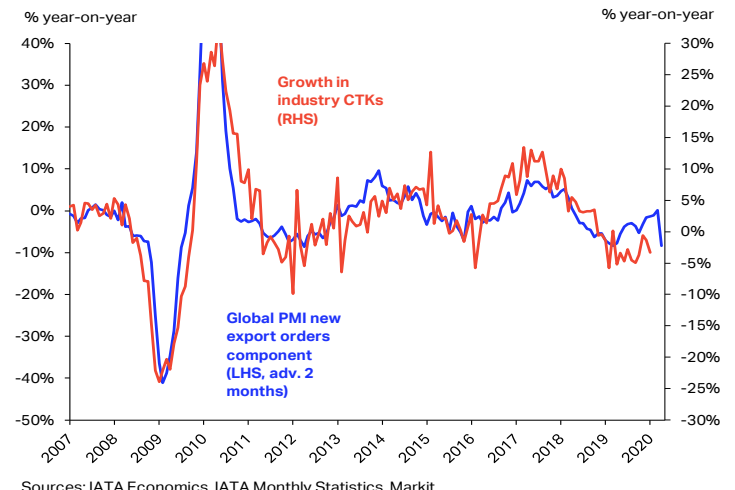
10. The recent signs of stabilization in manufacturing demand prompted a decline in the inventory to sales ratio. In turn, this helped to support the uptick in CTKs as some businesses turned to air freight to rapidly restock.



12. The thawing in US-China trade tensions saw some tentative indications of improved new export orders in some of the major exporting nations – particularly the emerging markets – in late 2019. These were typically shortlived.

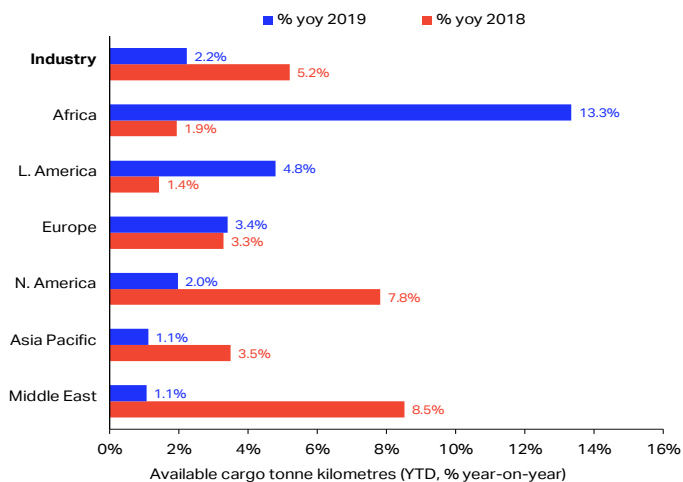


12. The global new export orders index took a similar path, with growth toward the year-end, followed by a sharp drop in January and February. This relationship suggests that annual CTK growth may worsen in coming months.

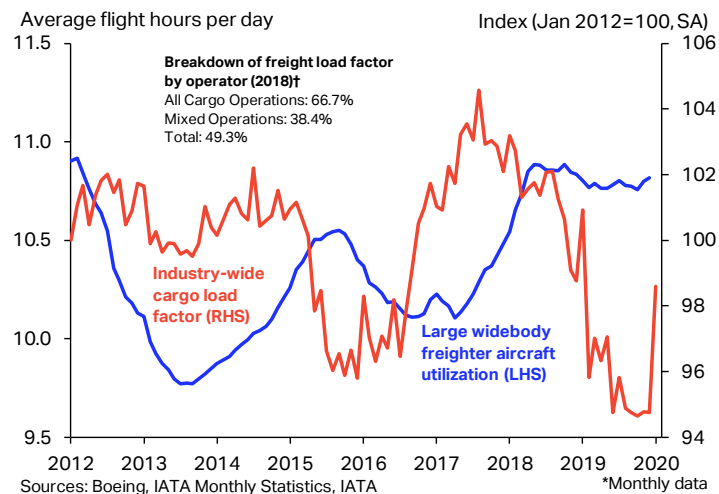


## Capacity, costs, and yields

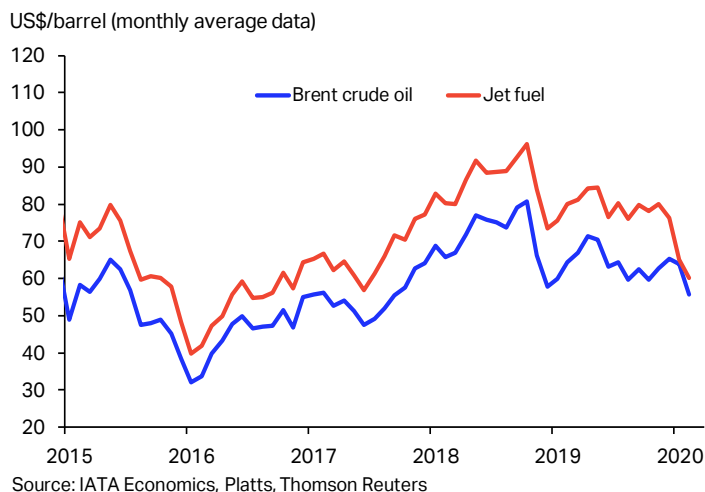
13. Against a weak demand backdrop, growth in industry-wide available cargo tonne kilometres (ACTKs) eased to just 2.2% in 2019, with a mixed performance across regions. Without exception, the cargo load factor declined in all regions.



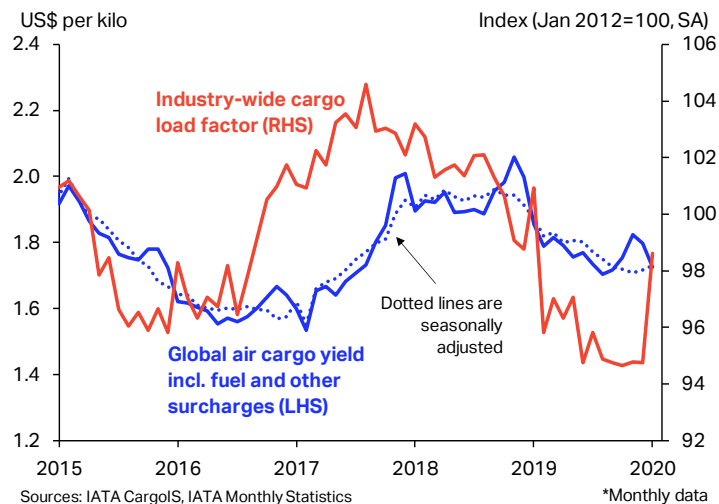
14. Indeed, the industry-wide SA load factor trended at a low level throughout most of 2019, while large widebody freighter utilization remained elevated. The January increase in load factor is unlikely to be sustained due to the impact of COVID-19.



15. With COVID-19 leading to factory and business closures, the crude oil price fell to its lowest level since mid-2017. The collapse in demand for air transport impacted the jet fuel price even more, resulting in the lowest crack spread in our data series (since 2002).



16. Toward the end of 2019, cargo yields improved temporarily on the back of stabilizing air cargo demand. This recovery started to unwind in January as COVID-19 hits global supply chains. In SA terms, cargo yields were stable for the past five months.



†All-cargo operations refer to traffic carried out by dedicated cargo aircraft, which by design or configuration, are operating exclusively for the transportation of cargo. Mixed operations refer to traffic operated by aircraft that transport both passengers and cargo.

### Get the data

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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. The data series themselves have not been changed. Airline individual data retain the FTK metric.

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