

Strong air cargo revenues as both demand and yields rise

- Industry-wide cargo tonne-kilometres (CTKs) improved over the three months to October 2020 (a 7.2% gain quarter-on-quarter vs a 0.6% fall in the previous quarter). Despite that, CTKs are still significantly (8.6%) below volumes registered over the same period in 2019. Asia-Nth America remains the strongest region, driven by e-commerce flows.
- Most drivers of air cargo have continued to improve in recent months, with new export orders and business confidence growing at a robust pace despite renewed COVID outbreaks in major economies, this is reflected in a lower inventory-to-sales ratio.
- Despite that, the recovery in CTKs has been hampered by the lack of bellyhold cargo capacity. Cargo yields have started to rise again, and are expected to remain high during the cargo peak season, providing a crucial source of revenues for airlines.

Market developments

- Industry-wide cargo tonne-kilometres (CTKs) continued to improve at a robust pace in the three months to October 2020. Volumes expanded by 7.2% quarter-on-quarter, with a strong rise in seasonally adjusted CTKs.
- However in the same period, CTKs were still down 8.6% year-on-year. This has also prevented air cargo to recover the market share of global trade it lost to ocean trade earlier in 2020.
- The Asia-Nth America trade has been the most resilient during the crisis, driven by e-commerce flows between China and North America. In the three months to October, traffic was up 4.2% year-on-year.

Market drivers

- Among the key drivers of air cargo, business confidence and new export orders have continued to expand in recent months. Consumer confidence also improved, but lagged behind the other two metrics, highlighting the divergence between the manufacturing and service sectors and concerns about unemployment.
- The inventory-to-sales ratio has also fallen significantly in the past few months as demand picked up. While this would normally be very supportive of air cargo, the lack of capacity limits the recovery in CTKs.

Capacity, costs and yields

- Between January and October 2020, industry-wide available cargo tonne-kilometres (ACTKs) fell by 24.5% year-on-year, while CTKs declined by only 12.4% in the meantime.
- Cargo capacity continues to be impacted by the lack of belly capacity – as international passenger traffic did not improve much lately. Regions with the most capacity have performed better in terms of flown volumes.
- Cargo yields started to increase again in October as the cargo peak season starts, leading to record-high cargo revenues which provide welcome support to overall airlines revenues.

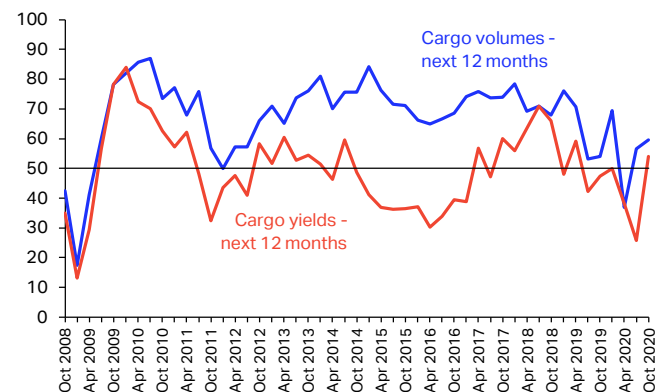
Heads of cargo are upbeat about the outlook

- When surveyed in early-October 2020, respondents to IATA's Business Confidence Survey were increasingly

- optimistic about the outlook. Close to half of them expected cargo demand to grow over the coming year.
- With the capacity crunch expected to disappear only slowly, around 1/3 of surveyed airlines thought that cargo yields would continue raising. Almost half of them anticipated no change from currently elevated levels.

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
Industry-wide CTKs¹	-8.6%	7.2%
North America-Asia ¹	4.2%	2.9%
Asia-Europe ¹	-17.0%	3.4%
Europe-North America ¹	-20.3%	19.1%
Within Asia (int'l) ¹	-23.7%	8.9%
International Cargo Tonnes²	-10.4%	12.0%
Metric tonnes flown in 3m ended Sep 2020:		9.3m
World trade volumes²	-4.2%	12.5%
Global container throughput¹	3.3%	7.5%
	Level³	5-yr avg
Global PMI new export orders	51.6	49.5

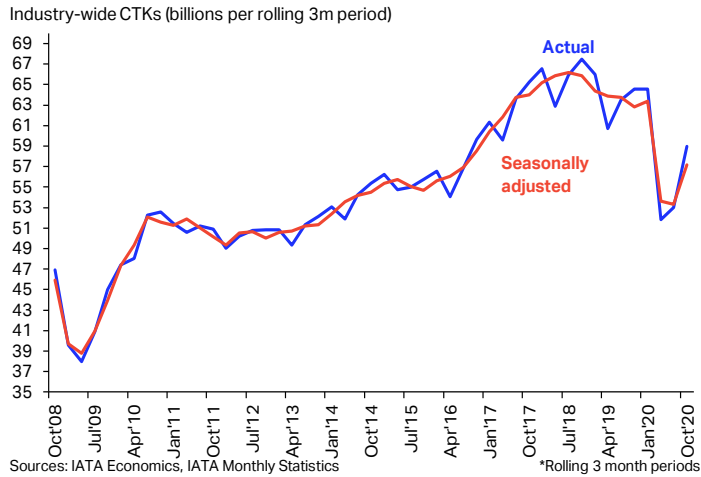
¹ 3m ended Oct 2020

² 3m ended Sep 2020

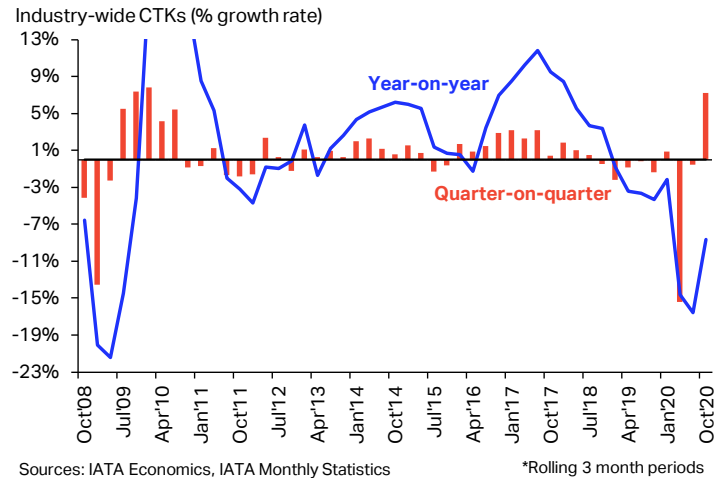
³ Average of 3m ended Nov 2020

Market developments

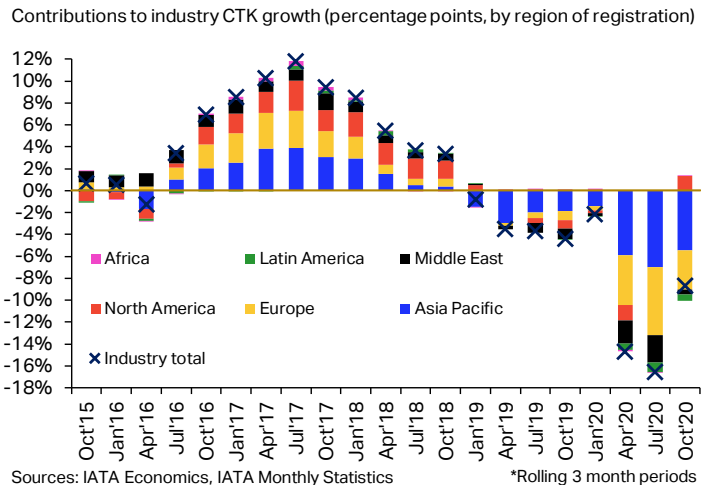
1. In the three months ended October 2020, industry-wide CTKs – seasonally adjusted or not – improved significantly compared to Q3. This has been driven by the V-shaped recovery in economic activity and manufacturing in particular.



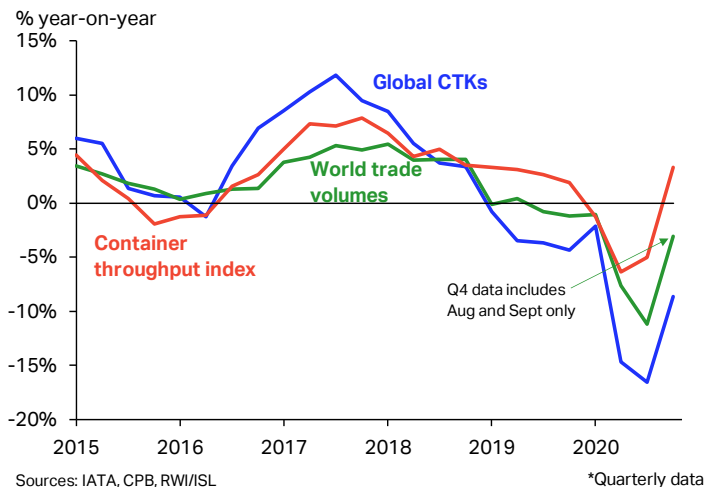
2. Correspondingly, the quarter-on-quarter growth rate rose to 7.2%, the highest value since the post-GFC rebound in early 2010. That being said, global CTKs remain down in year-on-year terms (8.6%), due to issues such as the lack of capacity.



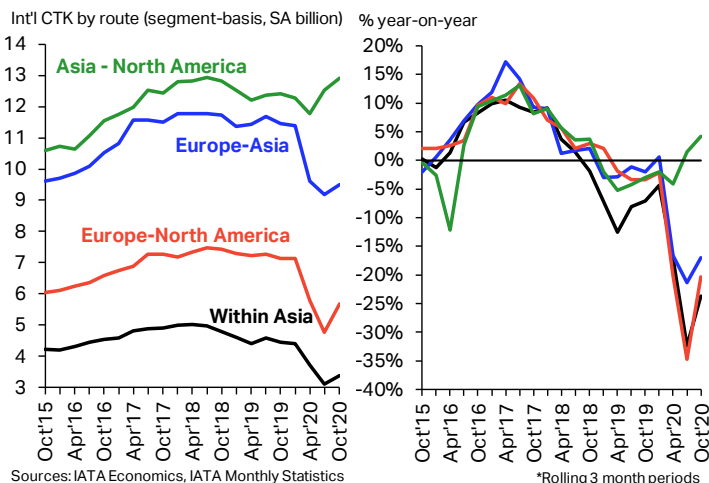
3. Some regions posted positive annual growth rates in the three months to October. Africa's contribution to the industry growth rate was marginally positive, while North America contributed 1.3 percentage points, the most since late 2018.



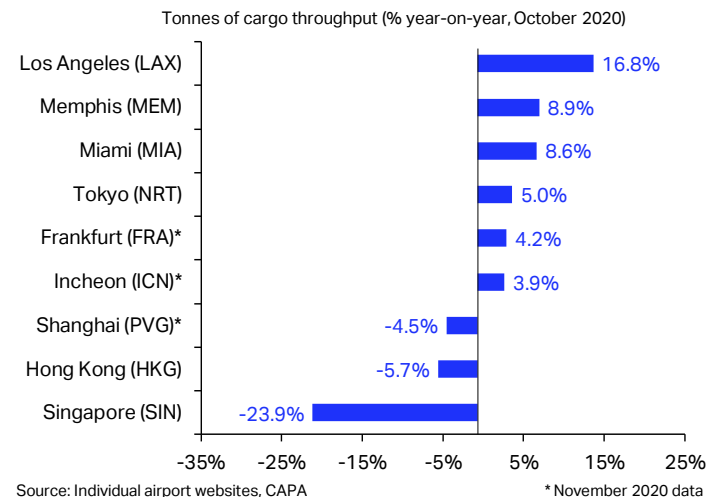
4. The V-shaped recovery in manufacturing activity allowed world goods trade to rebound strongly in August and September. That said, air cargo did not yet make up the market share it lost to ocean trade at the start of the downturn. Both trended parallelly in Q4.



5. Air cargo traffic improved on all the largest trade routes in the three months to October. Nevertheless, the Asia-Nth America trade lane – which already started to recover in Q3 – remains the only one up in year-on-year terms (4.2%).

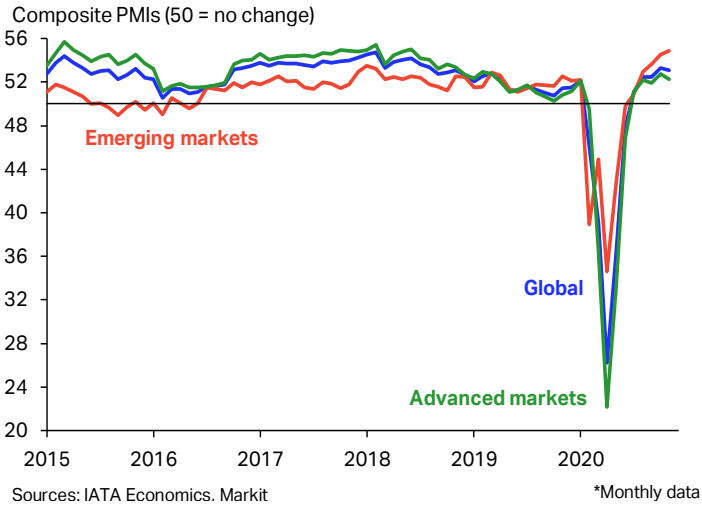


6. There was an overall improvement in the performance of the largest cargo-hubs in October and November. US airports continue to post strong growth amid robust e-commerce and PPE flows, with traffic in NRT, FRA and ICN also rose year-on-year.

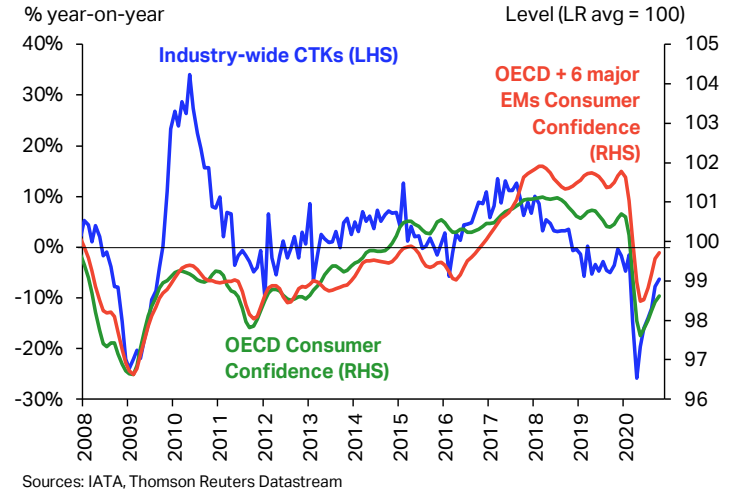


Market drivers

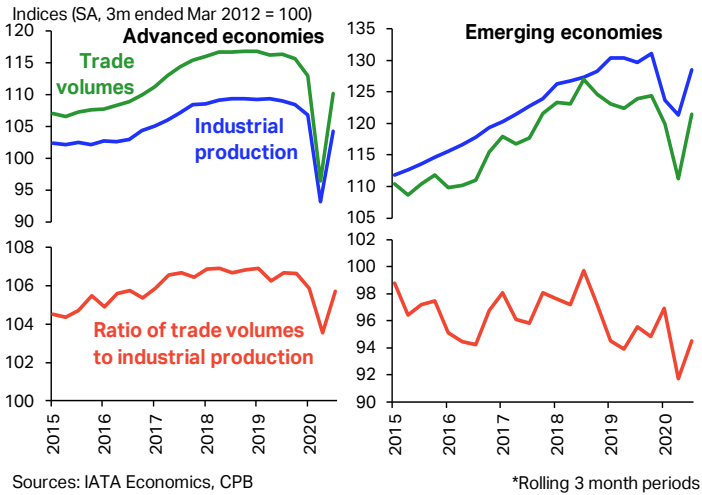
7. Business confidence continued to evolve in expansionary territory in the past few months, in line with a strong rebound in manufacturing activity. However, renewed COVID outbreaks have weighed on confidence in advanced markets in November.



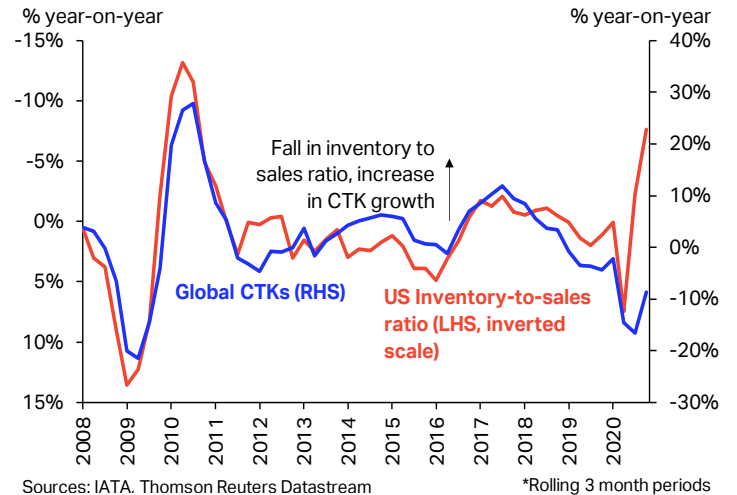
8. While consumer confidence has not recovered as strongly, it was still improving as of October. In the major EMs, confidence fell more than in the OECD in Q1-Q2, but also rebounded stronger, driven by a return to normal conditions in China.



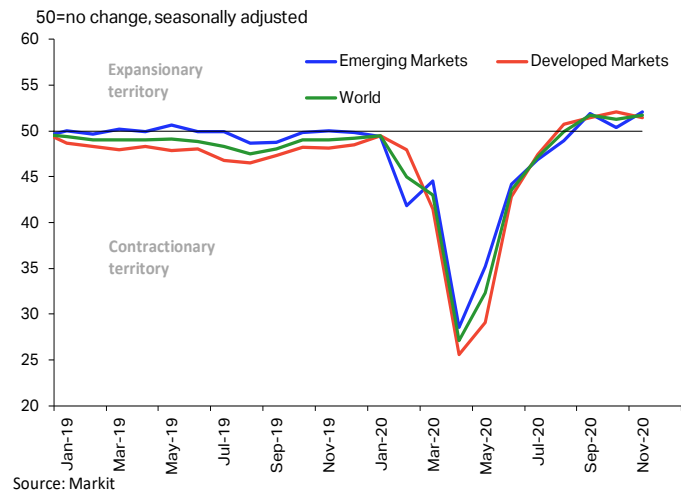
9. During the peak of the COVID-19 crisis, trade volumes fell faster than industrial production due to disrupted supply chains and international air transport. Trade conditions improved since then and trade volumes have rebounded faster.



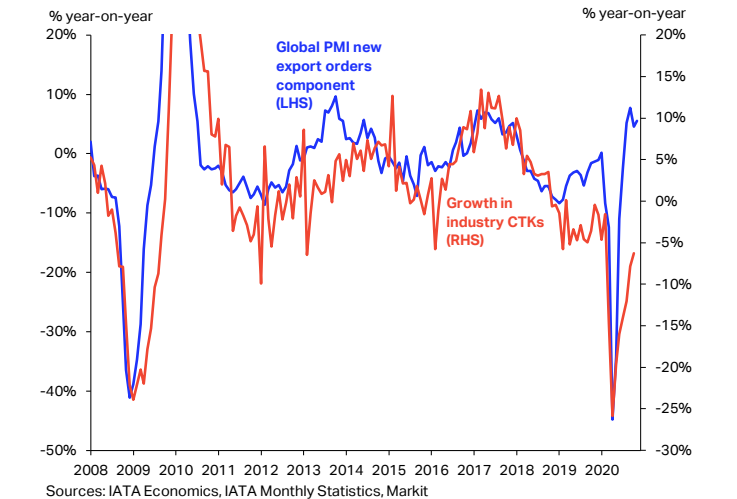
10. After a brief jump in Q2 2020, the inventory-to-sales ratio decrease at a fast pace in the period to October, reflecting the V-shaped recovery in demand for goods. CTKs so far have not grown as fast as expected, partly due to the lack of capacity.



11. After rapidly rebounding from the April trough, new export orders continued to increase in the period to November. Despite new waves of COVID infections in major economies, the manufacturing sector remains more resilient than services.

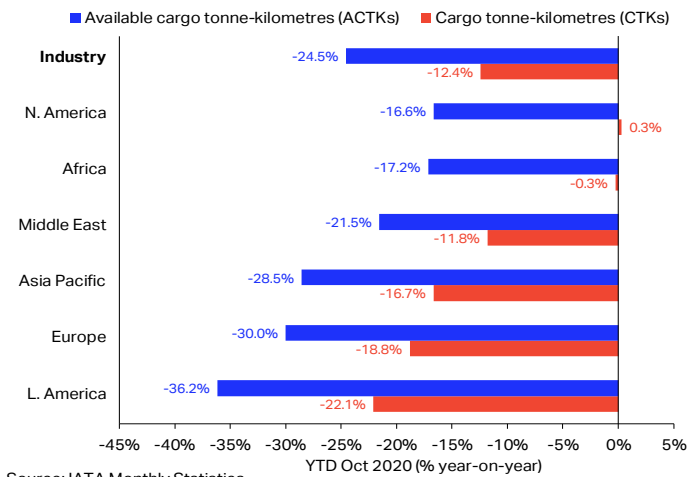


12. On top of trending in expansionary territory, the global new export order PMI is at high levels in historical comparison, up 5.6% year-on-year in November. In normal times, this would point to strong growth in CTKs, but the capacity crunch is limiting that.

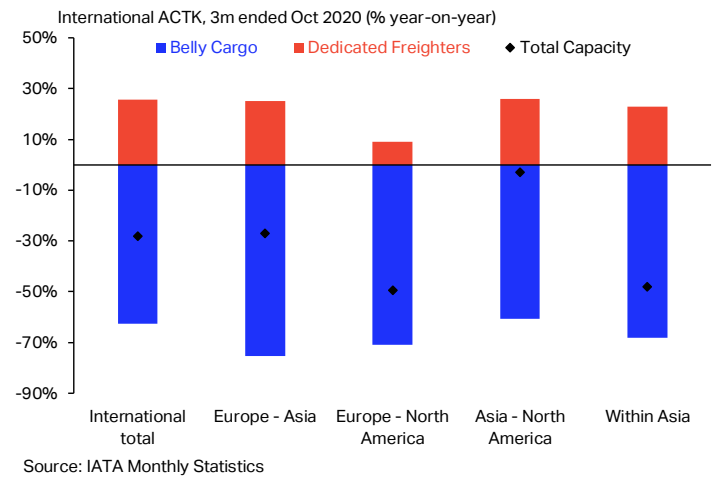


Capacity, costs, and yields

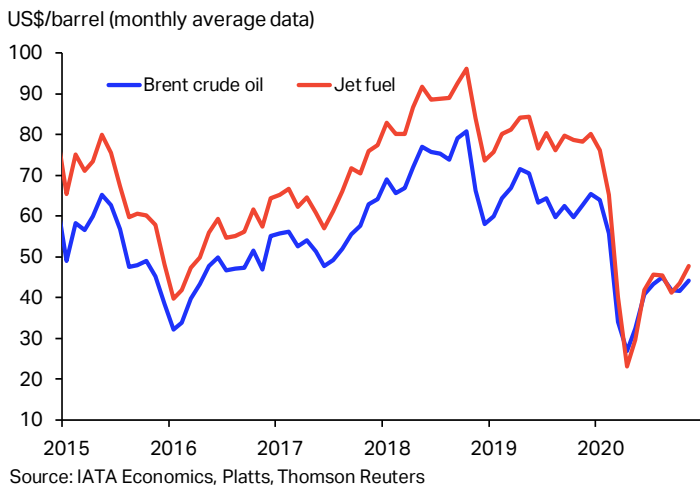
13. Between January and October 2020, industry-wide capacity (ACTKs) declined by 24.5% year-on-year, a much larger decline than that of volumes (12.4%). Among the regions, lower declines in capacity are associated with better CTK performance.



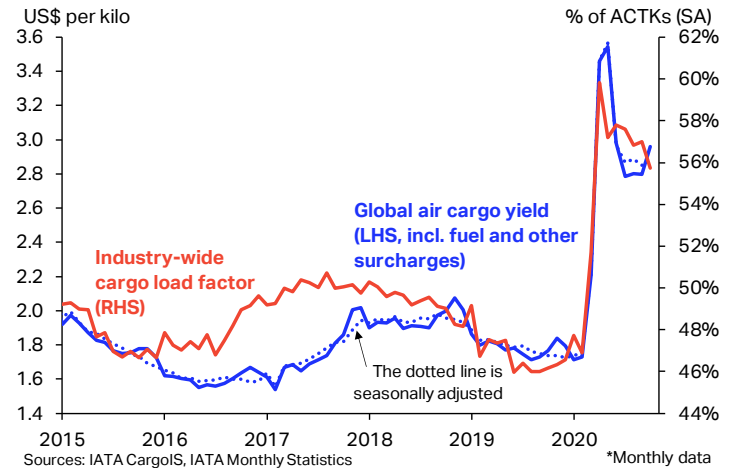
14. Despite the recent new COVID outbreaks, belly capacity has continued to slowly return. As airlines struggle to rise freighters capacity further, space remains scarce, excepted on Asia-Nth America routes where freighters have a larger share of the market.



15. Jet fuel and crude oil prices have continued to grow in the second half of 2020, albeit at a slower pace than in May and June. A modest crack spread has also reappeared, amid stronger demand for air transport.



16. Cargo yields eased somewhat in the middle of the year, as cargo capacity slowly returned. Yields rose again in October however, as demand strengthened at the start of the cargo peak season. Load factors however remain on a downward trend.



†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.

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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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