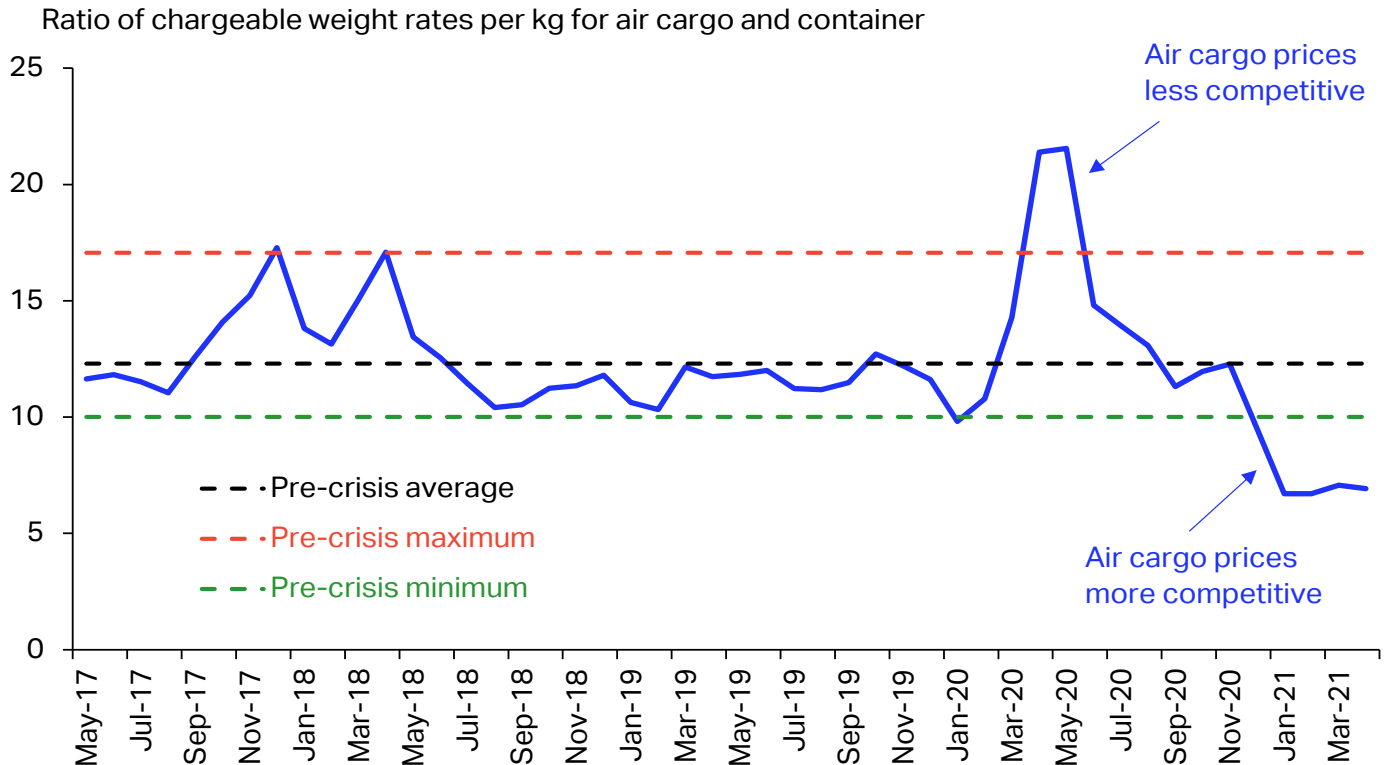




IATA Economics' Chart of the Week

28 May 2021

Competitive advantage of air cargo: Not only speed but also price



Source: Boeing, IATA CargoIS, Freightos Baltic Index

- Supply chain disruptions have been among the key stories during the pandemic. Congestion and lack of capacity have led to large increases in shipping prices. But for businesses, the different modes of transport are not always perfect substitute. They have different characteristics, and their prices diverge accordingly. Air cargo, for example, allows fast shipping but had been roughly 12 times more expensive than ocean trade in the 2-3 years prior to the crisis. The ratio shown on the chart compares air cargo and ocean freight rates per kg of chargeable weight, assuming 9 tonnes per 40-foot container.
- Since mid-2017, the ratio of prices had been trending in the range of 10 and 17. It spiked in Q2 2020, due to the grounding of the passenger fleet and strict lockdowns at that time – air fares were roughly 85% above pre-crisis values in Q2. While air cargo fares remained elevated, container fares have increased strongly since then, and were more than three times higher than pre-crisis levels in April 2021. As a result, relative price of air cargo vs ocean declined, supportive for air mode of transport. In Q1 2021, air cargo has grown 5.6% compared to Q1 2019, while container throughput increased by 6.1%. In contrast, in Q2 2020, when air cargo fares were close to 20 times those of containers, air cargo was relatively weaker. (CTKs down 17.5% year-on-year in Q2, container throughput down 7.8%).
- Air cargo also tends to overperform other means of transport at the start of an economic upturn due to restocking cycles, when businesses turn to air to rapidly refill inventories as demand rises. But with strong consumer demand and the lack of container capacity expected to continue until late 2021 at the earliest, air cargo is likely to remain a viable alternative to container shipping for some businesses. The upshot is that air cargo is likely to continue to perform well compared to other modes for most of 2021.

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