

Air Cargo Market Analysis

January 2020

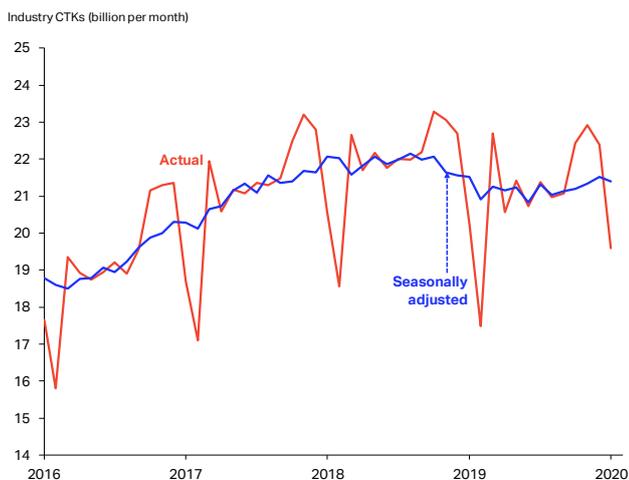
Challenging time for air cargo in the period ahead...

- Industry-wide air cargo tonne kilometres contracted by 3.3% year-on-year in January, about a 2 percentage points faster pace of decline compared to the previous month. Seasonally adjusted volumes also ticked down amidst a softer performance from European and Middle Eastern carriers.
- The timing of the Chinese New Year holiday along with the progress in the US-China trade negotiations helped to postpone the bulk of the negative impact of the coronavirus on air cargo till February.
- With capacity growing against contracting demand, the industry-wide cargo load factor eased by 1.9 percentage points over the past twelve months.

Air cargo started the year on the soft note

Industry-wide air cargo tonne kilometres (CTKs) declined by 3.3% year-on-year in January compared to the 1.4% annual contraction in the previous month. The underlying seasonally adjusted (SA) air cargo volumes also eased (Chart 1), driven by a softer performance of European and Middle Eastern carriers.

Chart 1: CTK levels, actual and seasonally adjusted



Sources: IATA Economics, IATA Monthly Statistics

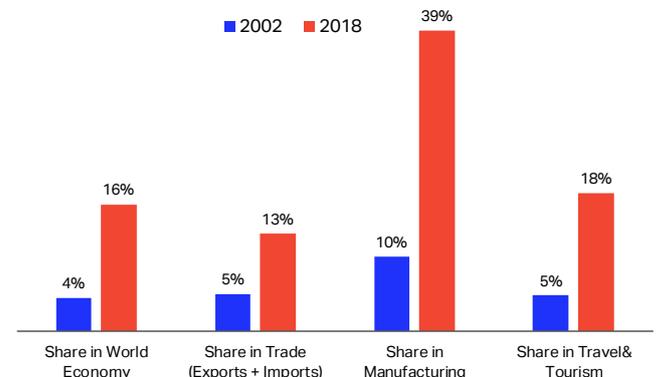
Challenging times for air cargo business ahead...

We will have to wait for February data to see the full impact of the coronavirus on air cargo business. Spreading quickly from China to the rest of the world, COVID-19 has led to travel restrictions, factory shutdowns, disrupted supply chains as well as mounting economic damage to affected countries. However, the main disruptions from the virus started only after the closure of the Wuhan airport in China in

late-January. The period initially coincided with the Chinese New Year holidays, when offices and factories in the country are typically closed, and with positive progress in the US-China trade negotiations. As a result, the impact of the virus on CTKs did not materialize immediately. Indeed, despite another month of the year-on-year contraction, the SA volumes for Asia Pacific carriers ticked up in January.

Drawing parallels with historical health outbreaks to understand the COVID-19 impact might be misleading. Prior to the SARS outbreak, China (where the disease originated) had a 5% share in global trade and a 10% share in the global manufacturing sector (Chart 2). These shares have increased sharply over the years to about 13% and 39%, respectively. As a result, the SARS experience could underestimate today's effect on trade, including air cargo.

Chart 2: Change in China's economic importance



Source: IATA Economics using data from the IMF WEO, UN, WTTTC

Air cargo market overview - January 2020

	World share ¹	January 2020 (% year-on-year)				% 2019			
		CTK	ACTK	CLF (%-pt) ²	CLF (level) ³	CTK	ACTK	CLF (%-pt) ²	CLF (level) ³
TOTAL MARKET	100.0%	-3.3%	0.9%	-1.9%	45.0%	-3.2%	2.2%	-2.6%	46.7%
International	86.8%	-3.4%	0.2%	-1.8%	48.4%	-3.8%	1.8%	-3.0%	51.8%

¹of industry CTKs in 2019

²Year-on-year change in load factor

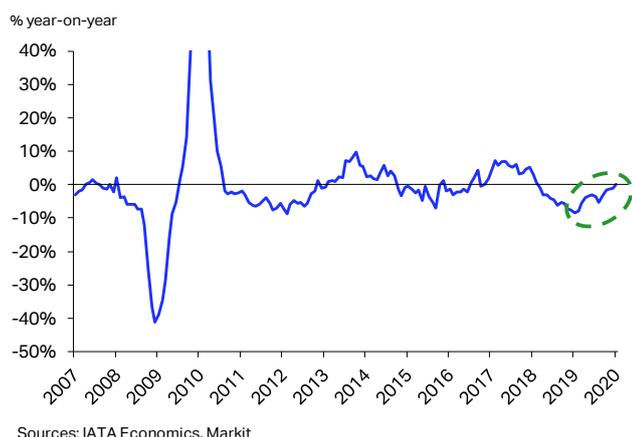
³Load factor level

Operating backdrop was improving ahead of the coronavirus outbreak...

The global operating conditions for air cargo business were stabilizing ahead of the coronavirus disruptions in late-January. Following more than two years of trade tensions, the United States and China signed a phase one trade agreement in the middle of the month. As a result, the trade tariffs between the two countries should decrease and new tariffs be postponed, easing pressure on international trade flows, particularly between Asia and North America.

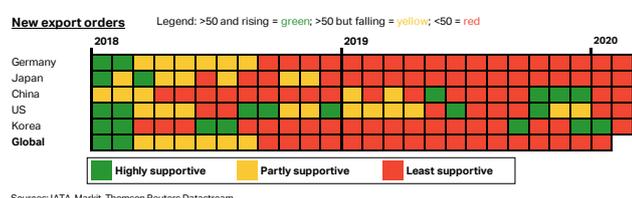
The latest surveys were pointing to an improvement in exporter strength at the global level; year-on-year growth in the new export orders component of the global Purchasing Managers' Index – a useful leading indicator of global CTK growth in the past – stabilized in January (~0% growth) after almost two years of contraction (Chart 3).

Chart 3: Global new export orders component of PMI



These positive developments along with the later timing of the Chinese New Year holiday helped to counter the negative impact of the coronavirus on the air cargo business in January. However, the downward pressure on volumes has significantly increased since then. Factory shutdowns in China have been weighing on the country's manufacturing sector and had spillover effects on production elsewhere in the world which rely on Chinese parts and components. The impact has been broad-based from the automobile industry, luxury goods to semiconductors that are typically shipped by air.

Chart 4: CTK demand heat-map (monthly data from manufacturing PMIs, selected countries)



Indeed, manufacturing export order books have been falling in response to the virus across major manufacturing economies (Chart 4). The falls were particularly large in China (the lowest reading since the Global Financial Crisis) and South Korea, based on the latest available data.

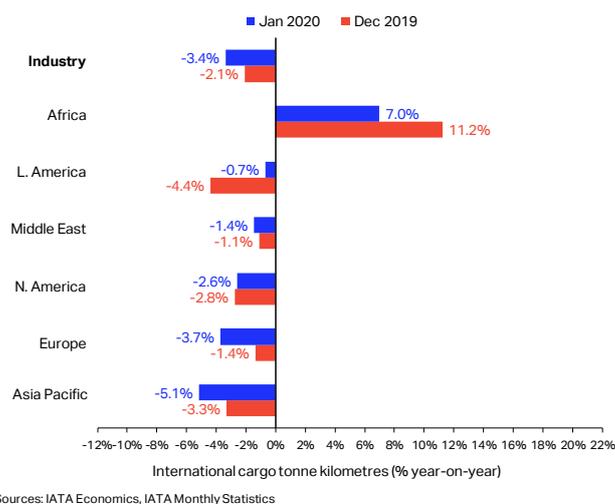
The industry-wide load factor continues to decrease

Year-on-year growth in industry-wide available cargo tonne kilometres (ACTKs) eased to 0.9%, down from 3.8% in December. With capacity expanding against contracting demand, the industry-wide cargo load factor fell by 1.9ppts vs a year ago.

Downward pressure on international CTKs increased...

International CTKs were down by 3.4% year-on-year in January; a 1.9ppts faster pace of contraction compared to that seen in December. The annual growth performance deteriorated across all regions but the Americas where the growth however remained negative (Chart 5).

Chart 5: International CTK growth



The disruptions from the Wuhan virus will negatively impact air cargo developments across all of the key international trade lanes. Markets linked to Asia will be particularly exposed, including the two largest – Asia-Europe and Asia-North America which together account for more than 40% of international segment-based traffic (Chart 6).

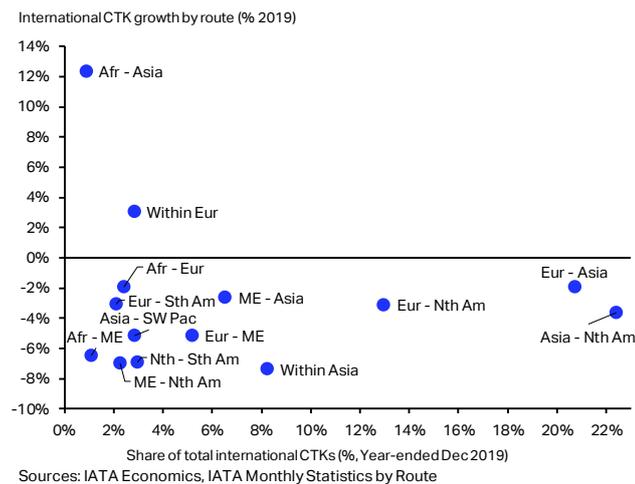
Given the increasing occurrence of the virus also outside of Asia Pacific region, some of the other key markets will be hit, too. This includes the recently robustly performing Within Europe market (2.8% share and 3.0% growth in 2019).

African airlines continue to lead the growth chart...

African carriers topped the international CTK growth chart for the 11th consecutive month amidst solid

growth on the smaller Africa-Asia trade lanes (up 12.4% in 2019). However, the 7.0% expansion in January represented a sharp slowdown from December and also a softer pace compared to H2 2019 (average of 11%). SA air cargo volumes also fell, but the drop did not distort an underlying solid upward trend that emerged in mid-2018. The relatively small size of Africa market (1.8% of the total) helps to explain the larger volatility this month.

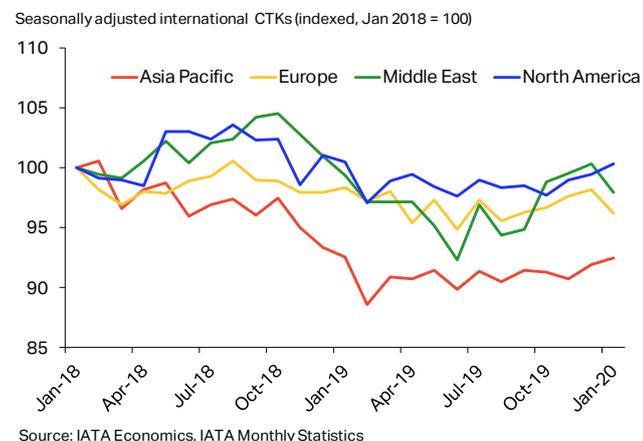
Chart 6: International CTGs by route (segment-based)



Best outcome for Lat.Am carriers since mid-2019

International CTGs reported by Latin American airlines were down 0.7% year-on-year in January, an improvement on the 4.4% decline in December and the best outcome since July 2019. The underlying SA CTGs also ticked up, underpinned by new route connections. That said, the less supportive economic backdrop exacerbated by supply chain disruptions from the COVID-19 outbreak represent a downside risk to demand in the near-term.

Chart 7: SA international CTGs, largest markets



Slightly faster contraction in the Middle East...

International CTGs for Middle Eastern airlines contracted by 1.4% year-on-year, an only moderately faster pace compared to the previous month (-1.1%).

In SA terms, the modest upward trend remained in place despite the fall in volumes this month (Chart 7). The region's improved performance has been supported by recent expansion on the Middle East – Asia routes (data until December). However, this market is important for connecting trade from China to the rest of the world, mainly Europe, and therefore has a large exposure to COVID-19 disruptions.

...while pressure on CTGs eased in North America

North American carriers posted a broadly unchanged pace of annual decline in international CTGs from the previous month (revised), at -2.6%. The seasonally adjusted CTGs trended higher for another month (Chart 7), amidst a more supportive operating backdrop in the US and optimism about the US-China trade negotiations.

European carries underperformed in January

European carriers were one of the weakest performers this month, posting a 3.7% year-on-year decline in international air cargo – more than twice the pace in December (at -1.4%). The underlying SA volumes also went sharply down, disrupting the modest upward trend that emerged since mid-2019 (Chart 7). The rising occurrence of the coronavirus in the region will exacerbate the weakness in both the European economy and manufacturing sector, putting additional pressure on CTGs in the near-term.

Asia Pacific at the bottom of the growth chart..

International CTGs flown by Asia Pacific airlines contracted by 5.1% in January 2020, a 1.8 pts sharper contraction than that seen in the previous month. That said, the underlying SA cargo volumes ticked up (Chart 7) amidst the US-China trade deal progress and stabilization in the manufacturing sector. This along with the late-January timing of the Chinese New Year holidays helped to delay the negative impact of the coronavirus into February.

IATA Economics
economics@iata.org
 4th March 2020

Air cargo market detail - January 2020

	World share ¹	January 2020 (% year-on-year)				% 2019			
		CTK	ACTK	CLF (%-pt) ²	CLF (level) ³	CTK	ACTK	CLF (%-pt) ²	CLF (level) ³
TOTAL MARKET	100.0%	-3.3%	0.9%	-1.9%	45.0%	-3.2%	2.2%	-2.6%	46.7%
Africa	1.8%	6.8%	5.9%	0.3%	35.6%	7.4%	13.3%	-2.0%	35.5%
Asia Pacific	34.5%	-5.9%	0.0%	-3.0%	47.4%	-5.7%	1.1%	-3.7%	52.2%
Europe	23.6%	-3.7%	-3.0%	-0.3%	50.1%	-1.9%	3.4%	-2.8%	51.6%
Latin America	2.8%	1.4%	2.4%	-0.3%	31.1%	-0.2%	4.8%	-1.7%	35.0%
Middle East	13.0%	-1.4%	2.9%	-1.9%	42.6%	-4.6%	1.1%	-2.7%	46.6%
North America	24.3%	-1.3%	3.4%	-2.0%	42.4%	-1.0%	2.0%	-1.2%	39.6%
International	86.8%	-3.4%	0.2%	-1.8%	48.4%	-3.8%	1.8%	-3.0%	51.8%
Africa	1.8%	7.0%	7.8%	-0.3%	36.1%	7.8%	13.8%	-2.0%	36.2%
Asia Pacific	30.4%	-5.1%	0.4%	-3.1%	52.8%	-6.3%	0.0%	-4.0%	58.8%
Europe	23.3%	-3.7%	-3.3%	-0.2%	51.8%	-1.8%	3.3%	-2.8%	53.4%
Latin America	2.3%	-0.7%	0.2%	-0.4%	38.9%	-2.2%	2.4%	-2.0%	43.1%
Middle East	13.0%	-1.4%	2.8%	-1.9%	42.7%	-4.6%	0.9%	-2.7%	47.0%
North America	16.1%	-2.6%	0.9%	-1.6%	45.7%	-2.4%	1.5%	-1.9%	46.6%

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

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