

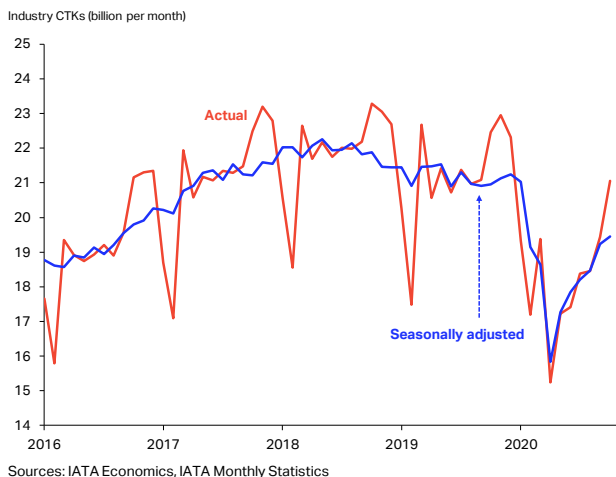
Air cargo volumes picked up for another month

- Air cargo continued to recover although the pace of improvement softened modestly compared with September. Industry-wide cargo tonne-kilometres (CTKs) fell by 6.2% year-on-year versus 7.8% fall in the previous month. North American airlines showed the strongest outcome, with CTKs up 6.2% compared with a year ago.
- The near-term outlook is upbeat since Q4 is a peak season for air cargo and demand drivers are supportive. Cargo volumes are expected to fall by 12% in 2020 as a whole and recover to pre-crisis levels in 2021.
- Industry-wide load factor reached a record high level for October amidst ongoing shortage of cargo capacity.

Cargo volumes picked up for another month

Air cargo continued to recover from the low point of the crisis. Industry-wide cargo tonne-kilometres (CTKs) fell by 6.2% year-on-year in October, compared with 7.8% annual decline in September. In month-on-month terms, volumes picked up by 1.1% and reached 2016 levels (blue line in Chart 1).

Chart 1: CTK levels, actual and seasonally adjusted

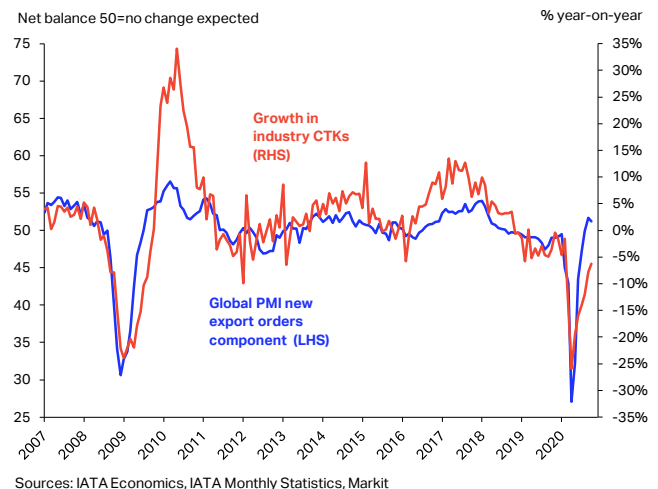


The pace of recovery in global air cargo eased modestly compared with the previous month. Performance of North American airlines softened slightly to 6.2% year-on-year following the strong rebound (8.6% year-on-year) in the previous month. Also, ongoing recovery of airlines in the Middle East lost pace. Nevertheless, expectations for the year-end developments remain upbeat. Fourth quarter is typically a peak season for air cargo business amidst popular e-commerce events such as Black Friday and Christmas.

Key demand drivers show positive developments

Operating conditions remain supportive for air cargo. Robust manufacturing PMI results for October indicate that manufacturing sector has been largely unimpacted by the resurgence of COVID-19 in Europe and North America. New Export Orders component of the Manufacturing PMI – a leading indicator of air cargo demand – has been above the 50-mark in the past two months (Chart 2), indicating that CTKs should continue to recover.

Chart 2: CTK growth vs. global new export orders



Other key demand drivers have also been supportive. Global goods trade has been rebounding solidly and is expected to expand by 7.2% in 2021, on top of 9.2% decline in 2020 according to the World Trade Organization. Global economic activity remains below 2019 levels in most markets, but Q3 GDP results are much better versus Q2. Moreover, Global Composite PMI for October indicates that economic recovery will continue also into Q4 – despite the virus resurgence.

Air cargo market overview - October 2020

	World share ¹	October 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%	-6.2%	-22.6%	10.0%	57.6%	-12.4%	-24.5%	7.5%	53.9%
International	86.8%	-7.5%	-24.8%	12.3%	65.7%	-13.7%	-25.3%	8.0%	59.3%

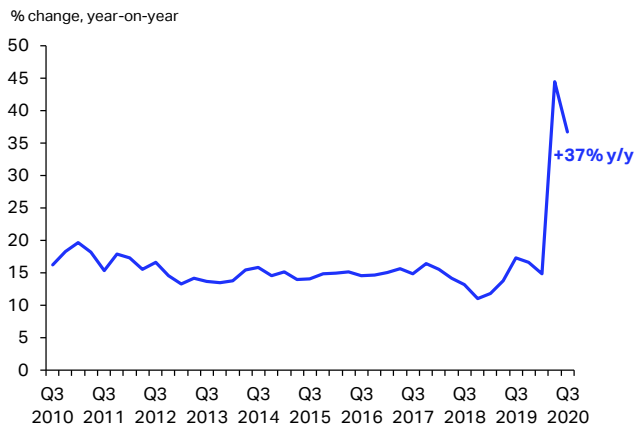
¹% of industry CTKs in 2019

²Year-on-year change in load factor

³Load factor level

The rising popularity of online shopping also plays an increasing role in air cargo recovery, since 80% of cross-border e-commerce is transported by air. COVID-19 has resulted in restrictions on movement and closed stores, which in turn led customers to live their lives online, including shopping. A clear example is the US, where online sales more than doubled since the pandemic started (Chart 3).

Chart 3 – US e-commerce, % year-on-year

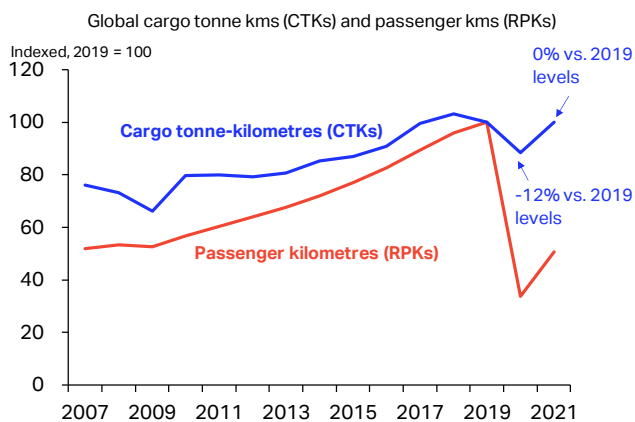


Source: US Department of Commerce

Outlook for air cargo is positive

The [near-term outlook](#) for the industry reflects that operating environment has been more supportive for air cargo than for passenger business. Global CTKs are expected to contract by 11.5% year-on-year in 2020 compared with a dramatic 66% decline in passenger volumes (Chart 4). The story will be similar in 2021. Improving economic backdrop and the essential role of air cargo in distribution of COVID-19 vaccine could push CTKs back to 2019 levels. On the other hand, RPKs are expected to remain ~50% below the pre-COVID-19 outbreak.

Chart 4: CTK and RPK short-term forecast



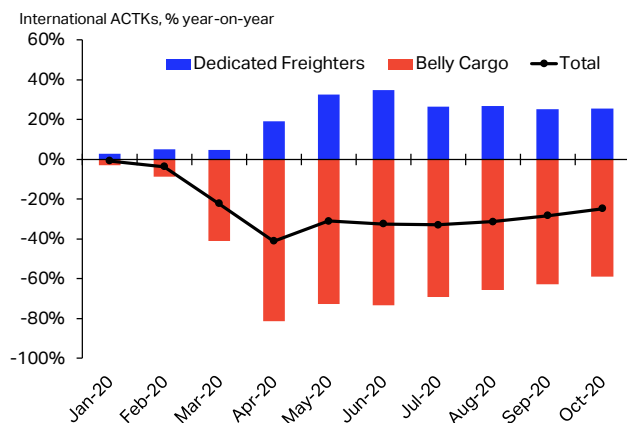
Source: IATA Economics

Despite the upbeat expectations, there is still a lot of uncertainty around the virus developments. If the new waves of COVID-19 significantly impact the recovery in economic activity and business confidence, the CTK rebound might be interrupted.

Cargo capacity is still in shortage...

The lack of capacity remains one of the key challenges to faster recovery in air cargo. Belly cargo capacity comes back only slowly since airlines have been adjusting their flight schedules to new travel restrictions (Chart 5). Dedicated freighters have increased capacity and utilization rates but it has not been enough to offset the overall capacity decline. Industry-wide available cargo-tonne kilometres (ACTKs) fell by 22.6% year-on-year – little improvement on the 25.5% annual fall in September.

Chart 5: Int'l belly cargo and freighter capacity growth



Source: IATA Monthly Statistics

At the regional level, North American airlines showed the smallest capacity contraction (ACTKs down 16.4% year-on-year) followed by African carriers (-20.2%yoy). In contrast, the Latin America region reported the weakest result for another month (-32%yoy).

Load factors remained elevated in October

The industry-wide cargo load factor (CLF) reached a new maximum for October at 57.6% since demand continued to outpace the recovery in capacity. Load factors were elevated also at the regional level. European airlines posted the best result, at 65.1%.

International CTKs improve further

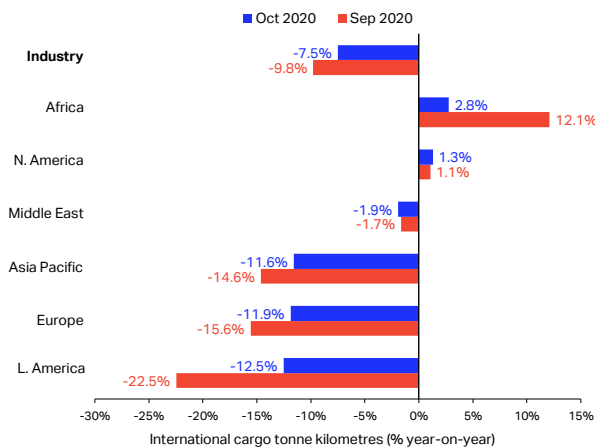
International air cargo continued its gradual recovery in line with the industry-wide outcome. International CTKs declined by 7.5%yoy vs. a 9.8%yoy fall in September (Chart 6). Most regions showed improvement in CTKs. However, there was no change in the Middle East while brisk growth in the smaller Africa region turned into a more moderate pace.

African carriers post the best CTK performance

Notwithstanding the softer year-on-year expansion, Africa continues to lead the CTK growth chart. The region's international cargo volumes rose by 2.8% – down from 12.1% in September but in line with August. The main culprit behind the slowdown was the Asia-Africa market where CTK growth decelerated by 19ppts, to +4% year-on-year. Outsized volatility

typical for this small market might partly explain the weakness.

Chart 6: International CTK growth



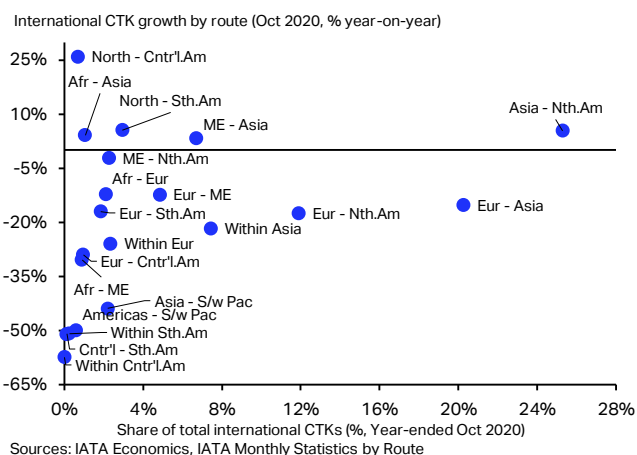
Sources: IATA Economics, IATA Monthly Statistics

North American expands for another month

International CTKs flown by North American carriers increased by 1.3% year-on-year – in line with the expansion in the previous month. The larger North America-Asia market has been a key contributor to the region’s rebound in international volumes (Chart 8) due to a strong US demand for Asian goods. CTk growth in the region’s domestic market decelerated slightly from September (although it remained robust) which partly explains the slower CTk recovery at the global level this month.

Rising popularity of e-commerce in the US and smaller capacity declines have been main drivers behind the region’s outperformance compared to the rest of the industry.

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



Sources: IATA Economics, IATA Monthly Statistics by Route

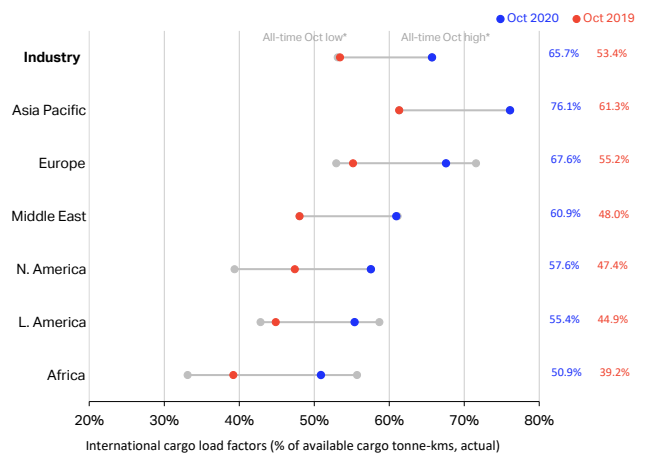
Middle Eastern outcome unchanged from September

Middle Eastern airlines did not show any improvement in year-on-year int’l CTk growth (-1.9%yoy) although that can be partly attributed to a stronger outcome in October last year. Volumes still improved in month-on-month terms (+2.5%), but the gains were lower than in September. The weakness has been largely driven by weaker demand in Africa-Middle East trade lanes.

Asia Pacific shows further improvement

Asia Pacific’s international air cargo volumes picked up for the second consecutive month despite Golden Week holidays (a typically weak period for air cargo business). The recent improvement in volumes has been impacted by rising available capacity in the market. The annual CTk decline eased by 3ppts, to -11.6% while seasonally adjusted volumes picked up by 1.4% month-on-month. The region’s airlines have been reporting the highest international load factor of all regions (Chart 8), which indicates solid appetite for air cargo services. Should the rise in capacity continue, further improvement in CTks is likely.

Chart 8: International cargo load factors by region



Sources: IATA Economics, IATA Monthly Statistics

Europe continues to recover despite second waves

Europe’s international air cargo business seemed to be largely unimpacted by the resurgence of the virus in October. International CTks contracted by 11.9% - a solid improvement on 15.6% fall in September. Cargo capacity also continued its gradual recovery (in contrast with passenger seat capacity). Of the key international markets, to/from Middle East and Africa posted the most resilient outcome (~12%yoy).

Latin America shows the fastest improvement

Although Latin America airlines remained at the bottom of the growth chart, they posted the fastest improvement of all regions. Their international CTks fell by 12.5% year-on-year – half the decline seen in September. The significantly smaller annual fall can be partly attributed to weak outcome in the same period last year. However, improving operating conditions in a number of key markets including Brazil and recovering cargo capacity probably also affected the improvement this month.

Air cargo market detail - October 2020

	World share ¹	October 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%	-6.2%	-22.6%	10.0%	57.6%	-12.4%	-24.5%	7.5%	53.9%
Africa	1.8%	2.2%	-22.5%	12.1%	50.2%	0.3%	-17.2%	7.5%	43.2%
Asia Pacific	34.5%	-12.8%	-23.9%	7.8%	61.7%	-16.7%	-28.5%	8.7%	60.7%
Europe	23.6%	-11.6%	-27.6%	11.8%	65.1%	-18.8%	-30.0%	8.1%	59.1%
Latin America	2.8%	-13.0%	-32.2%	9.8%	44.3%	-22.1%	-36.2%	7.8%	42.9%
Middle East	13.0%	-2.0%	-22.8%	12.8%	60.6%	-11.8%	-21.5%	5.7%	51.9%
North America	24.3%	6.2%	-16.4%	10.6%	49.6%	-0.3%	-16.6%	7.7%	47.1%
International	86.8%	-7.5%	-24.8%	12.3%	65.7%	-13.7%	-25.3%	8.0%	59.3%
Africa	1.8%	2.8%	-20.8%	11.7%	50.9%	1.2%	-15.6%	7.2%	43.7%
Asia Pacific	30.4%	-11.6%	-28.7%	14.8%	76.1%	-14.5%	-26.5%	9.6%	68.2%
Europe	23.3%	-11.9%	-28.0%	12.4%	67.6%	-19.1%	-30.0%	8.3%	61.1%
Latin America	2.3%	-12.5%	-29.1%	10.5%	55.4%	-20.6%	-32.6%	7.6%	50.6%
Middle East	13.0%	-1.9%	-22.7%	12.9%	60.9%	-11.7%	-21.2%	5.6%	52.2%
North America	16.0%	1.3%	-16.6%	10.2%	57.6%	-6.6%	-20.9%	8.3%	54.3%

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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