

Air Cargo Market Analysis

May 2021

Air cargo trends higher and outperforms global goods trade

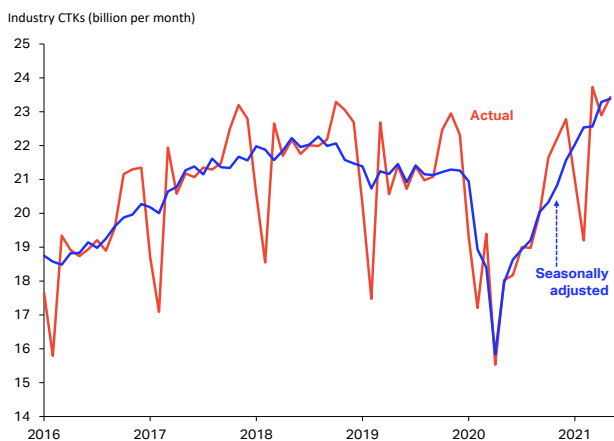
- Air cargo continued to perform well in May 2021, as industry-wide cargo tonne-kilometres (CTKs) rose by 9.4% compared to pre-crisis levels in May 2019. That said, that was a slowdown from the 11.3% growth rate seen in April, with month-on-month growth in seasonally adjusted traffic (0.4%) also decelerating.
- Supply chain conditions and economic activity are supportive of air cargo, helping it post a fifth consecutive month of overperformance versus global goods trade. But there are signs of a stabilization in growth in manufacturing output in some key economies, as consumption shifts from goods to services.
- Air cargo capacity continues to slowly improve despite the lack of international passenger traffic. Having said that, the market remains tight, with no clear decline in cargo load factors.

Global air cargo trended higher in May...

May was another month of strong air cargo performance, but a moderate slowdown was apparent in the pace of growth. Indeed, industry-wide cargo tonne-kilometres (CTKs) increased by 9.4% in May 2021 versus pre-crisis levels in May 2019. This was down from 11.3% in April 2021 versus 2019.

Moreover, seasonally adjusted CTKs – which smooth out seasonal variations in volumes – rose by 0.4% month-on-month in May. This is the 13th consecutive month of rising levels, but it marks a slowdown from the 3.2% gain seen in April (**Chart 1**).

Chart 1: CTK levels, actual and seasonally adjusted



Sources: IATA Economics, IATA Monthly Statistics

Airlines in all regions but Latin America contributed positively to the headline growth rate of 9.4%. Once again, North American airlines supplied the most, at 4.6 percentage points. But it is worth noting that the slowdown in growth was reflected in all the regions

Air cargo market overview - May 2021

To aid understanding, the table includes both % comparisons with pre-crisis 2019 months and 2020 months.

	World share ¹	May 2021 (% ch vs the same month in 2019)				May 2021 (% year-on-year)			
		CTK	ACTK	CLF (%-pt) ²	CLF (level) ³	CTK	ACTK	CLF (%-pt) ²	CLF (level) ³
TOTAL MARKET	100.0%	9.4%	-9.7%	10.0%	57.2%	30.0%	26.7%	1.5%	57.2%
International	85.5%	10.4%	-11.1%	12.7%	65.0%	33.3%	18.0%	7.5%	65.0%

¹% of industry CTKs in 2020

²Change in load factor vs same month in 2019

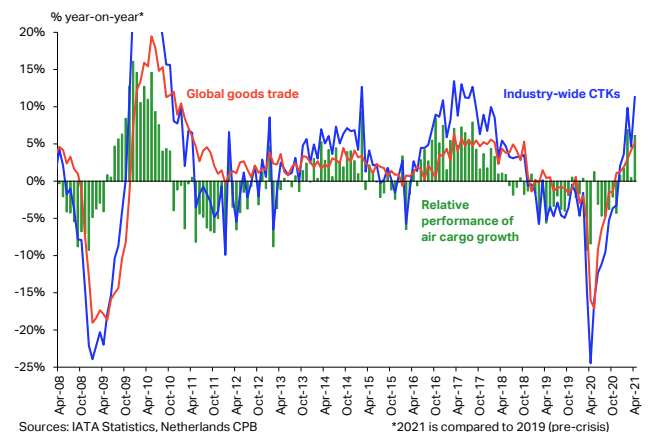
³Load factor level

except Latin America, where growth performance improved significantly in May.

...and is growing faster than goods trade

The latest data shows global goods trade grew by 5.2% in April 2021 versus April 2019. This is a robust pace, but slower than that of CTKs (11.3%). In fact, this is the fifth consecutive month during which CTKs overperformed overall trade. The last such cycle ended in early 2018, and another period of air cargo overperformance during the post-GFC rebound in 2009-2010 lasted roughly 18 months (**Chart 2**).

Chart 2: Growth performance of CTKs versus total goods trade



Sources: IATA Statistics, Netherlands CPB

*2021 is compared to 2019 (pre-crisis)

Periods during which CTKs grow faster than other modes of transport are typical at the start of economic upturns. They are often explained by inventory restocking cycles, and both cycles usually cover the same periods.

Indeed, air cargo becomes attractive when businesses have low inventories and are faced with rising demand as the economy restarts. In that case, the speed of air cargo provides a strong competitive advantage.

Currently, air cargo also benefits from exceptionally congested container supply chains. Global shipping schedule delays rose significantly, to an extent equivalent to an implied 8.6% loss of capacity on the available fleet in April 2021 (c.2% prior to the pandemic in 2019), according to Sea-Intelligence. Further pressures were added more recently by slowed-down operations in key Chinese ports.

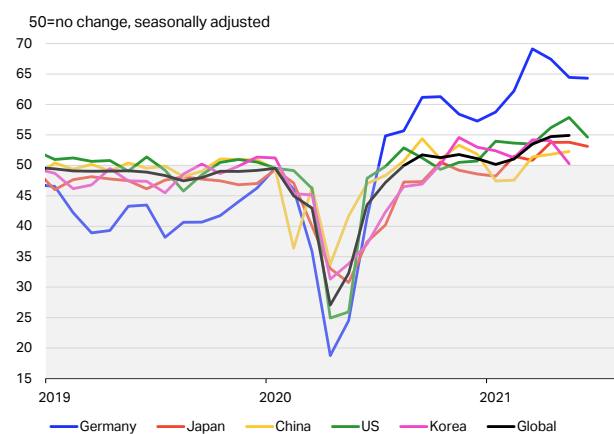
A consequence is that the price of air cargo relative to that of container shipping has fallen significantly, even if air transport has not been exempted from its own disruptions. Per kg of chargeable weight, air cargo was more than 12 times more expensive than ocean shipping prior to the crisis, but this has fallen to a ratio of 6 in May 2021, adding to the [competitive advantage of air cargo](#).

The shift from goods to services may impact air cargo

Most other drivers of air cargo are currently supportive. World trade and industrial production rose by respectively 0.5% and 0.2% month-on-month in April. Purchasing managers indices (PMIs) show that business confidence, manufacturing output and new export orders are growing at a rapid pace in most economies.

Having said that, there are signs of a moderate deterioration in manufacturing PMIs in recent months, notably in emerging markets, while advanced economies in Europe and North America are faring better. In particular, data show activity in key manufacturing economies such as China and South Korea has stabilized somewhat after the initial recovery from the crisis, as illustrated by new export orders (**Chart 3**).

Chart 3: New export orders component of manufacturing PMI, selected countries



This is partly explained by the shift in consumption from goods to services, as restaurants, hotels and entertainment reopen, and consumers return outside. Indeed, PMIs for services business activity have improved faster than PMIs for manufacturing output since March-April in both developed and advanced economies as well as at the global level.

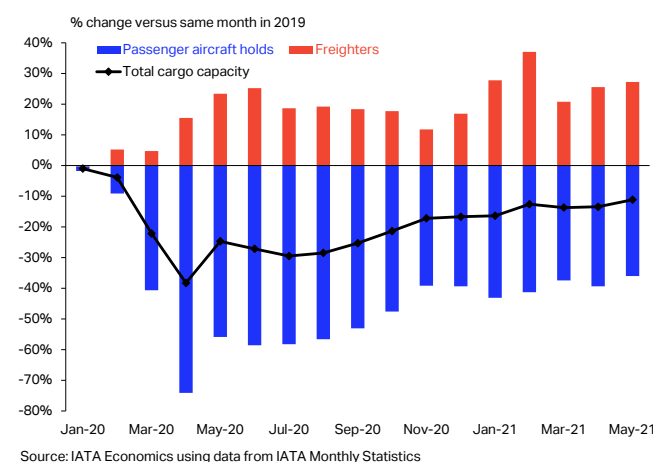
Air cargo capacity continues to improve slowly...

An additional advantage for air cargo is that the capacity crunch – which created significant headwinds for volumes carried – is slowly unwinding. This makes it easier for carriers to meet demand, although the exact magnitude of the impact is unclear.

Indeed, industry-wide available cargo tonne-kilometres (ACTKs) were down 9.7% in May 2021 versus May 2019, after a 10.4% decline in April. SA ACTKs climbed 0.8% month-on-month in May, the fourth consecutive month of improvement.

International ACTKs were down 11.1% compared to pre-crisis values in May 2021, also on a moderate upward trend. Both passenger aircraft and dedicated freighters contributed to improvements in May, although international passenger traffic – and bellyhold capacity – remain limited (**Chart 4**).

Chart 4: Int'l belly cargo and freighter capacity growth



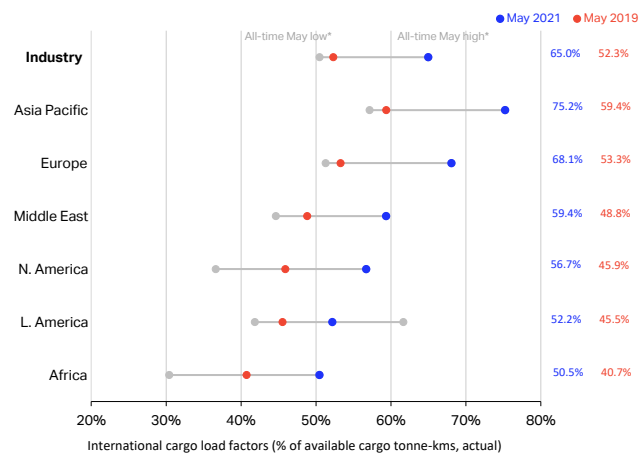
Many airlines continue to operate 'passenger-freighters', which are included in passenger aircraft holds in the above. But those operations are costly and complex to operate, and there is anecdotal evidence some services may be discontinued in the near term, as international long-haul passenger traffic restarts and some exemptions allowing to transport cargo in the main cabin of passenger aircraft are lifted.

... but load factors remain at elevated levels

Cargo load factors continue to trend far above their pre-pandemic levels. In May 2021, the industry-wide cargo load factor was at 57.2%, 10.0 percentage points (ppts) above May 2019. While the SA total load factor is below its peak of more than 60% reached in January, a clear downward trend has yet to emerge.

The international load factor was at 65.0% in May 2021, a new record-high for any month of May. Most regions posted a similar performance (**Chart 5**). With the SA international load factor only slightly off its all-time high of April 2021 (66.8%), it is too early to say that the market is relaxing.

Chart 5: Cargo load factors by region



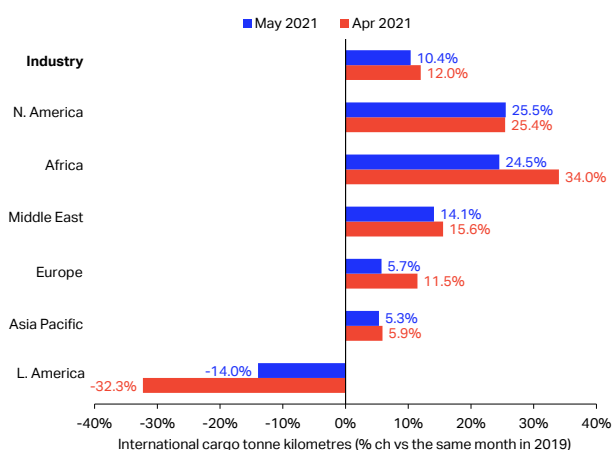
Sources: IATA Economics, IATA Monthly Statistics

CargoS data show that global air cargo rates including surcharges were up more than 90% in May 2021 versus May 2019, while air cargo revenues rose more than 70% over the same period.

Small slowdown in int'l CTKs growth on many markets

International CTKs grew 10.4% in May 2021 versus the same month in 2019, after a 12.0% growth rate in April. While the contraction eased significantly in Latin America, growth stabilized or moderated in the other regions (**Chart 6**).

Chart 6: Int'l CTK growth versus the same month in 2019 (airline region of registration basis)



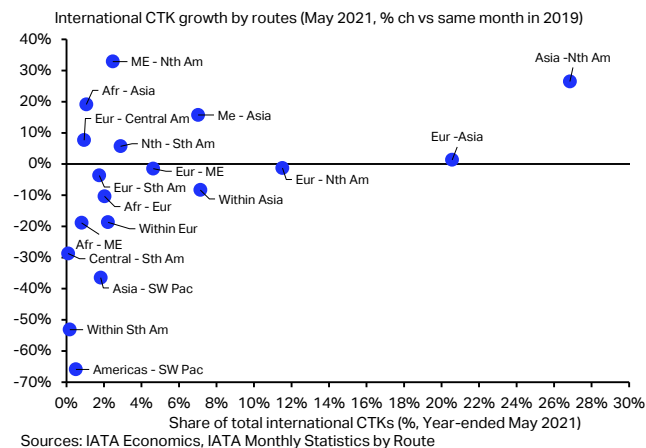
Sources: IATA Economics, IATA Monthly Statistics

Airlines based in **North America** saw growth in their international CTKs remain stable in May at 25.5%. Drivers such as manufacturing output (PMI of 59.6 in May) are very supportive, despite risks from

consumers shifting to the services sector as the pandemic is put under control.

Growth in international CTKs registered by **African** airlines moderated in May to 24.5%, but that was down from a brisk 34.0%. This was mostly driven by a deceleration in the strong trade flows between Africa and Asia, from 29% vs 2019 in April 2021 to 19% in May 2021 (**Chart 7**).

Chart 7: International CTKs by route (segment-based)



Sources: IATA Economics, IATA Monthly Statistics by Route

There was a relatively widespread but moderate slowdown in air cargo growth on many important segment-based trade lanes in May. Routes such as Europe-Asia, Middle East-Asia, Within Europe and Within Asia decelerated. This is coherent with PMIs easing off somewhat in certain manufacturing-intensive countries, such as China and Korea, after a V-shaped rebound from the early stages of the crisis.

The consequence is a small slowdown in international CTKs growth for airlines in the **Middle East, Europe** and **Asia Pacific**. They grew by respectively 14.1%, 5.7% and 5.3% in May 2021 versus May 2019. Given the strongly supportive supply chain dynamics and still robust manufacturing activity and export orders, a more significant slowdown in the near term appears unlikely.

Finally, the main bright spot for air cargo volumes in May came from **Latin America**, where international CTKs carried by airlines in the region were down by 14.0% compared to 2019 in May, a marked rebound from the 32.3% fall a month earlier. SA volumes also rose strongly in May.

In recent months, traffic carried by airlines in the region had been low, as those carriers lost market shares to airlines in North America and Europe. With some of the largest carriers in Latin America still restructuring, it is not clear if May's rebound will be sustained.

Air cargo market detail - May 2021

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TOTAL MARKET	100.0%	9.4%	-9.7%	10.0%	57.2%	30.0%	26.7%	1.5%	57.2%
Africa	2.0%	23.1%	-1.8%	10.1%	50.2%	30.2%	4.9%	9.8%	50.2%
Asia Pacific	32.6%	2.7%	-15.7%	11.6%	64.6%	28.5%	29.0%	-0.2%	64.6%
Europe	22.3%	6.0%	-16.9%	14.1%	65.6%	37.6%	24.6%	6.2%	65.6%
Latin America	2.4%	-14.3%	-23.3%	4.4%	42.3%	19.2%	44.1%	-8.8%	42.3%
Middle East	13.0%	13.9%	-7.5%	11.1%	58.9%	47.9%	21.3%	10.6%	58.9%
North America	27.8%	21.6%	2.0%	7.6%	46.9%	19.9%	28.7%	-3.4%	46.9%
International	85.5%	10.4%	-11.1%	12.7%	65.0%	33.3%	18.0%	7.5%	65.0%
Africa	2.0%	24.5%	0.5%	9.7%	50.5%	30.2%	4.3%	10.0%	50.5%
Asia Pacific	29.1%	5.3%	-16.9%	15.9%	75.2%	28.3%	14.6%	8.0%	75.2%
Europe	21.9%	5.7%	-17.3%	14.8%	68.1%	37.5%	20.1%	8.6%	68.1%
Latin America	2.0%	-14.0%	-24.9%	6.6%	52.2%	10.1%	12.4%	-1.1%	52.2%
Middle East	13.0%	14.1%	-6.1%	10.5%	59.4%	47.7%	20.4%	11.0%	59.4%
North America	17.5%	25.5%	1.6%	10.8%	56.7%	30.6%	21.2%	4.1%	56.7%

¹% of industry CTKs in 2020

²Change in load factor vs same month in 2019

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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