

# AIRFREIGHT STATE OF THE INDUSTRY

SEPTEMBER 2022

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# Summary

## Demand

- Volumes remain softened but stable; highest drop in Jul '22
- Peak season likely to witness increased volumes in Tech sector; inventories high in most sectors
- Inflation kept playing a major role in global volume movements; reduced purchasing power
- Lower sales and high inventory across most sectors; retail and manufacturing most prominent
- Imports from North America and Europe remain relatively strong for Oceania market
- Improving conditions in sea freight reduced air demand; but challenges in the American sea freight has driven demand into air

## Capacity

- Overall capacity up by **+16% in Sep '22 vs Sep '21 ; month on month improvement continued**
- **PAX capacity continued to improve due to high travel demand**

## Carriers

- CX back on full freighter schedule into AMER, EURO and some destinations into ASPA
- Carriers resumed more flights from Shanghai; some cancellations still happening
- Etihad Cargo with more capacity from this summer across Asia, Africa, Europe from July
- Airspaces closure continues- EU, UK, US among others closed airspaces for Russian airlines and vice-versa; increased transit times

## Jet Fuel

- Prices touched **\$143/Bbl** in Sep '22
- UA/RU situation continued to cause supply disruptions

## Rates

- Rates show signs of softening on most tradelanes. In Jul '22 rates globally were **+23% higher** vs Jul '21; month-on-month reduction continues
- Aggressive spot market expected; surcharges likely to fluctuate with reducing fuel prices

## Regulation/News

- EU awaits a looming energy crisis amidst drought like situation in several countries; Energy and chemical sector companies are likely to get affected
- China continues to be strict on their zero-COVID-19 policy; renewed partial lockdowns or restrictions in the affected China cities of Shenzhen, Guangzhou, and Dalian
- Due to new COVID cases in Chengdu, suspension of US flights have been announced by the Chinese government for September; unlikely to affect capacity-demand balance
- Russia, Ukraine airspaces still remain close; no crystal ball prediction on lifting of imposed sanctions

Source: IATA, Seabury, WorldACD Market Data, DGF Desk Research

# Market Developments

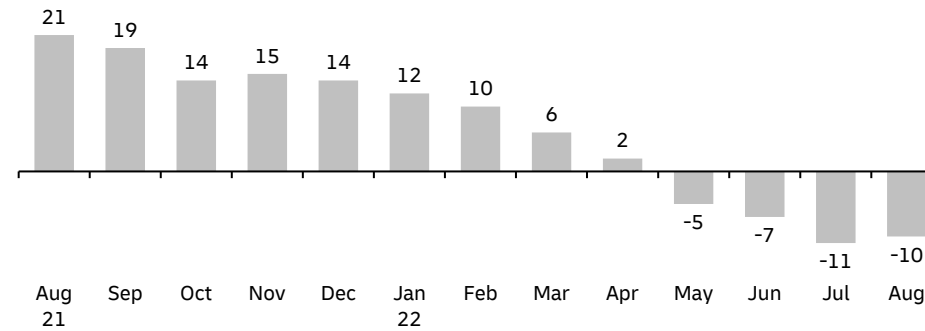
## Economic Outlook

### GDP Growth by Region

	2022F	2023F	2024F	2025F	2026F	CAGR (2022-2026)
EURO	2.02%	0.73%	2.12%	1.78%	1.69%	1.58%
MEA	4.38%	3.36%	3.60%	3.14%	3.15%	3.31%
AMNO	1.64%	1.06%	1.75%	2.13%	2.02%	1.74%
AMLA	2.56%	1.58%	2.55%	2.73%	2.89%	2.44%
ASPA	3.80%	4.12%	4.36%	4.19%	4.18%	4.21%
<b>World</b>	<b>2.75%</b>	<b>2.29%</b>	<b>2.99%</b>	<b>2.93%</b>	<b>2.90%</b>	<b>2.77%</b>

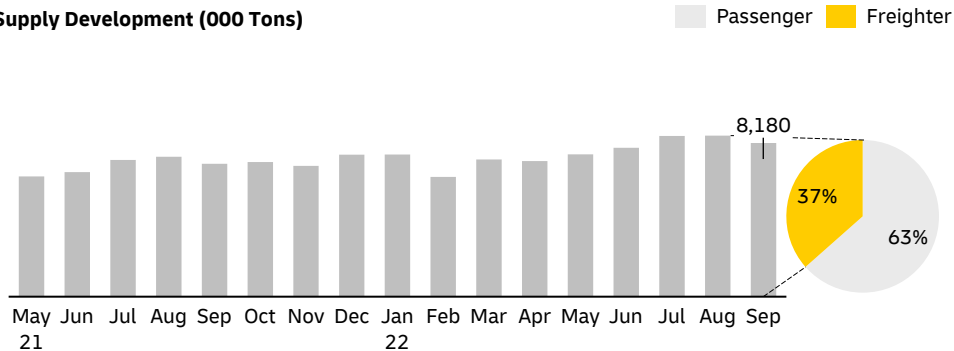
## Demand

### Demand Development in Tons (% change YoY)



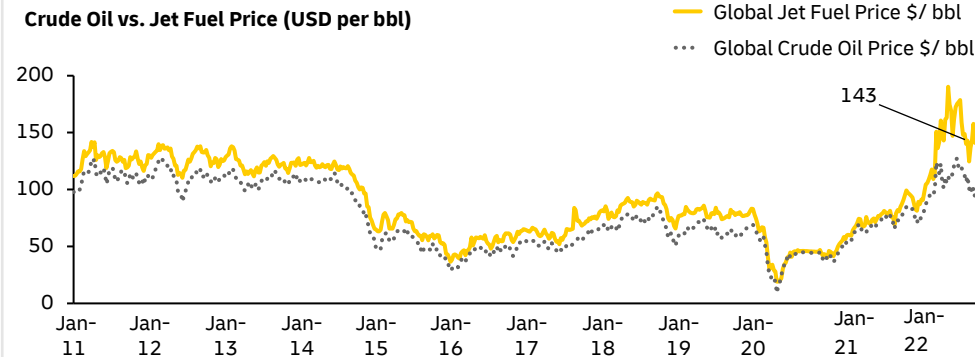
## Supply

### Supply Development (000 Tons)



## Jet Fuel

### Crude Oil vs. Jet Fuel Price (USD per bbl)



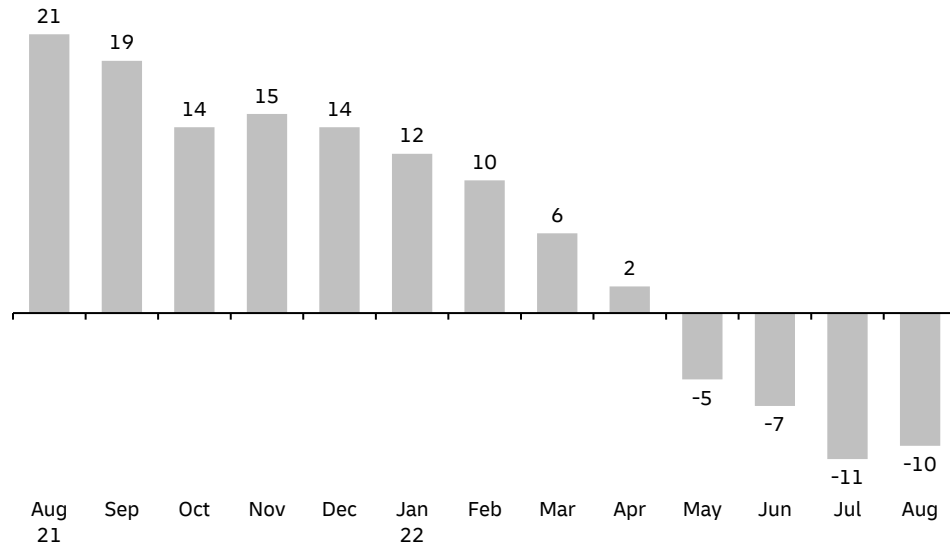
- **World economy** forecasted **to grow by ~3% in 2022**; the crisis and in turn inflation keeping the growth affected
- **Demand** remained low but stable on most tradelanes; now **-10% YoY vs last year in Aug**
- Overall scheduled **capacity -9% in Sep '22 vs Sep '19**; gradual MoM improvements continued- now **+16% higher** than last year
- **Gradual improvement of cargo capacity** is encouraging but jet fuel price hike remain key obstacle to softening of rates to pre-COVID levels
- **Jet fuel** price reduced but remained high reaching **\$143** in Sep '22; oil inventories expected to increase

Source: IHS Markit Group, IATA, Seabury, WorldACD Market Data, Economic Data Factbook, IMF

# Demand

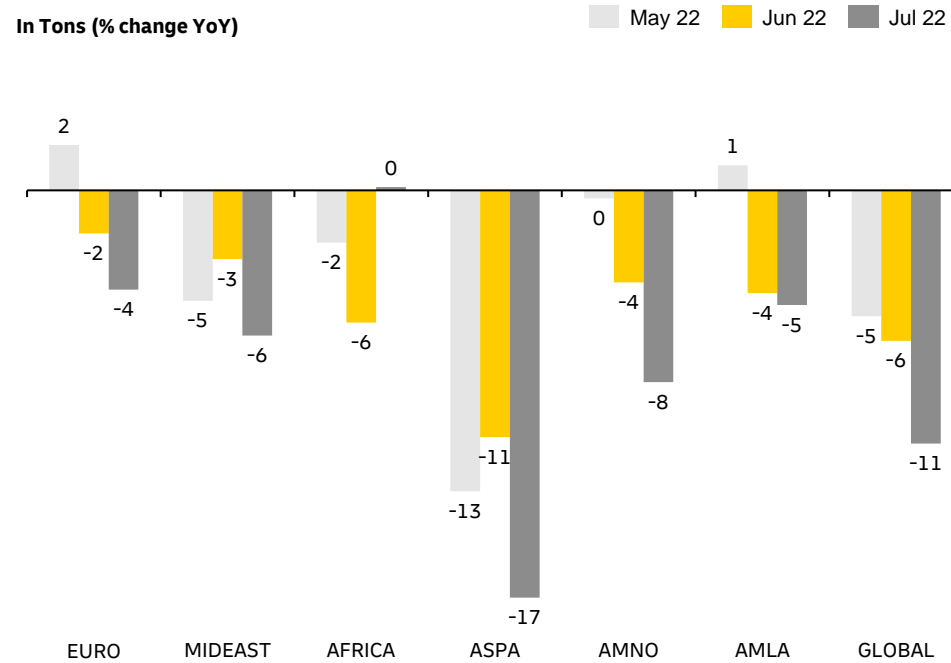
## Global Volume Development

In Tons (% change YoY)



## Regional Volume Development

In Tons (% change YoY)

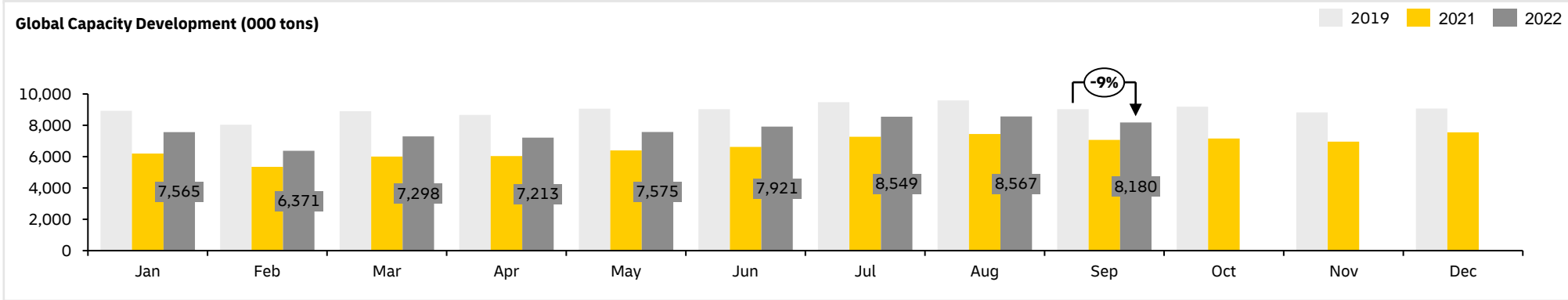


- Demand has softened since Apr this year and remains low; highest drop happened in Jul '22
- **Demand drive remained low mainly due to inflation experience by major economies; export orders are low in emerging economies especially across ASPA**
- **China's manufacturing PMI fell from ~50 in Jul to ~49 in Aug which signaled reduced export orders since May.** Growth was constrained by the power cuts in factories and COVID resurgence
- Peak season likely to witness increase in tech product volumes due to new launches
- **Inventory/Sales ratio** indicates packed inventories low sales which is line with reduced export orders
- Retail and manufacturing **inventories** were record **high** which further slowed down airfreight volumes

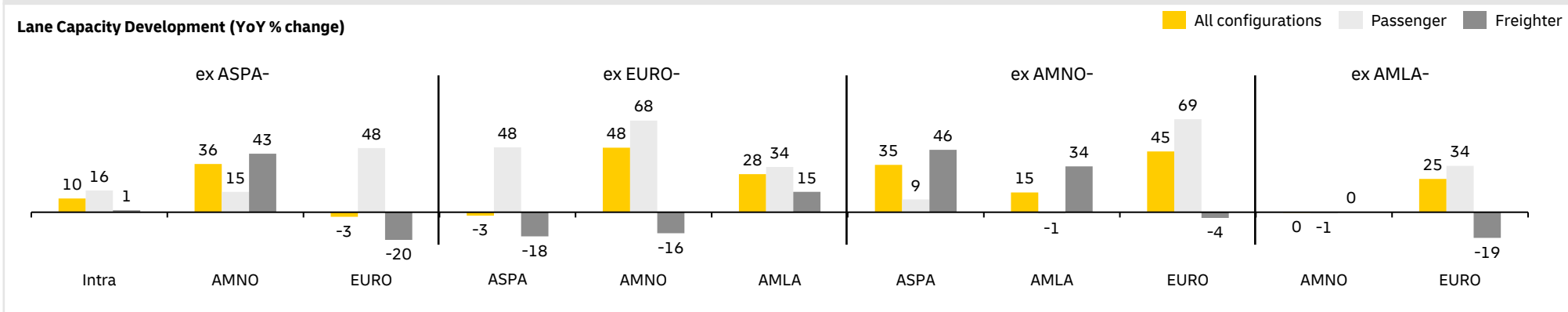
Source: WorldACD Market Data; \* I/S- Inventory to Sales ratio; data available till Aug 22 only on global level

# Supply

## Global Capacity Development



## Trade Lane Capacity Development

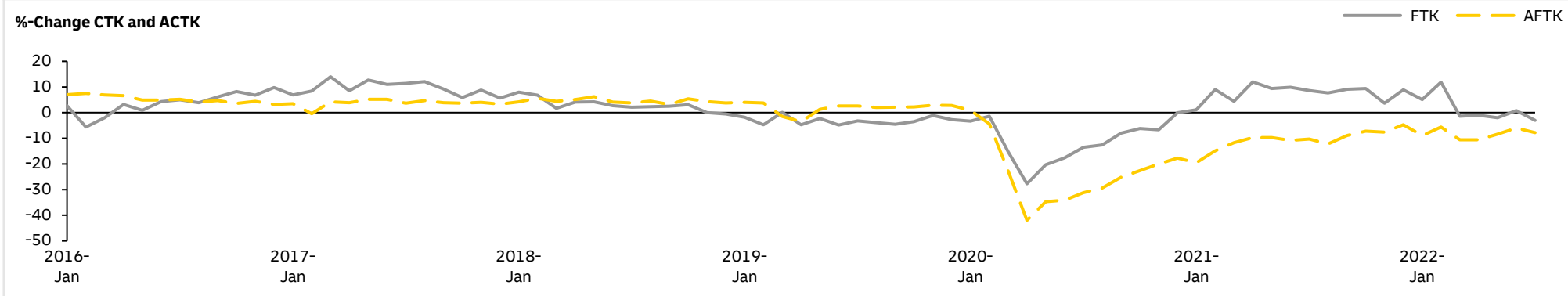


- Global capacity now **-9% vs Sep '19** & **+16% against last year**
- **Belly capacity still +23% higher than Sep '21**
- MoM capacity recovery continues and is ample to support soft demand
- More capacity to get added as travel ease (HK, JP) continues outbound **ASPA**; demand may increase in latter half of Sep and in peak season but capacity likely to support
- **AMER** outbound capacity faces some backlogs but continues to improve
- **Trans-Atlantic capacity now stable** as PAX travel continues to grow; **Gulf** outbound capacity increased
- **Closure of airspaces** due to the crisis continues; still affecting capacity

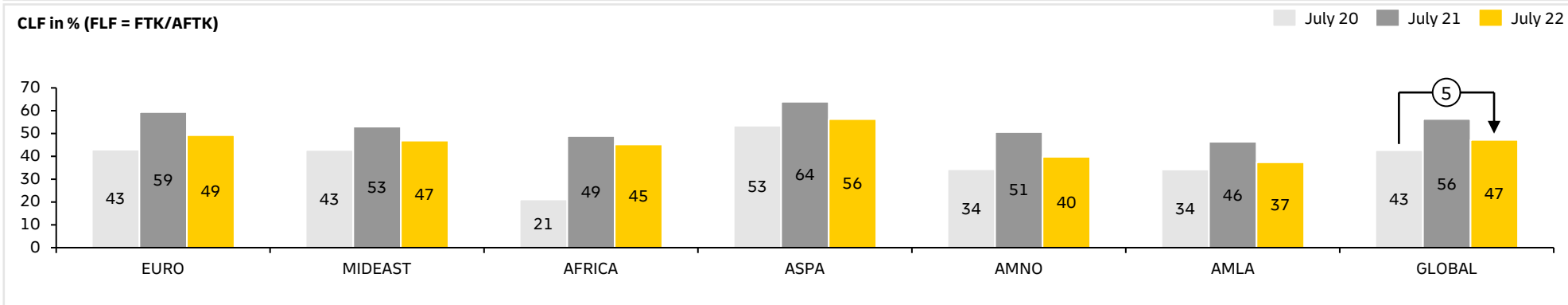
Source: Seabury

# Utilization

## Global Cargo Load Factor Development



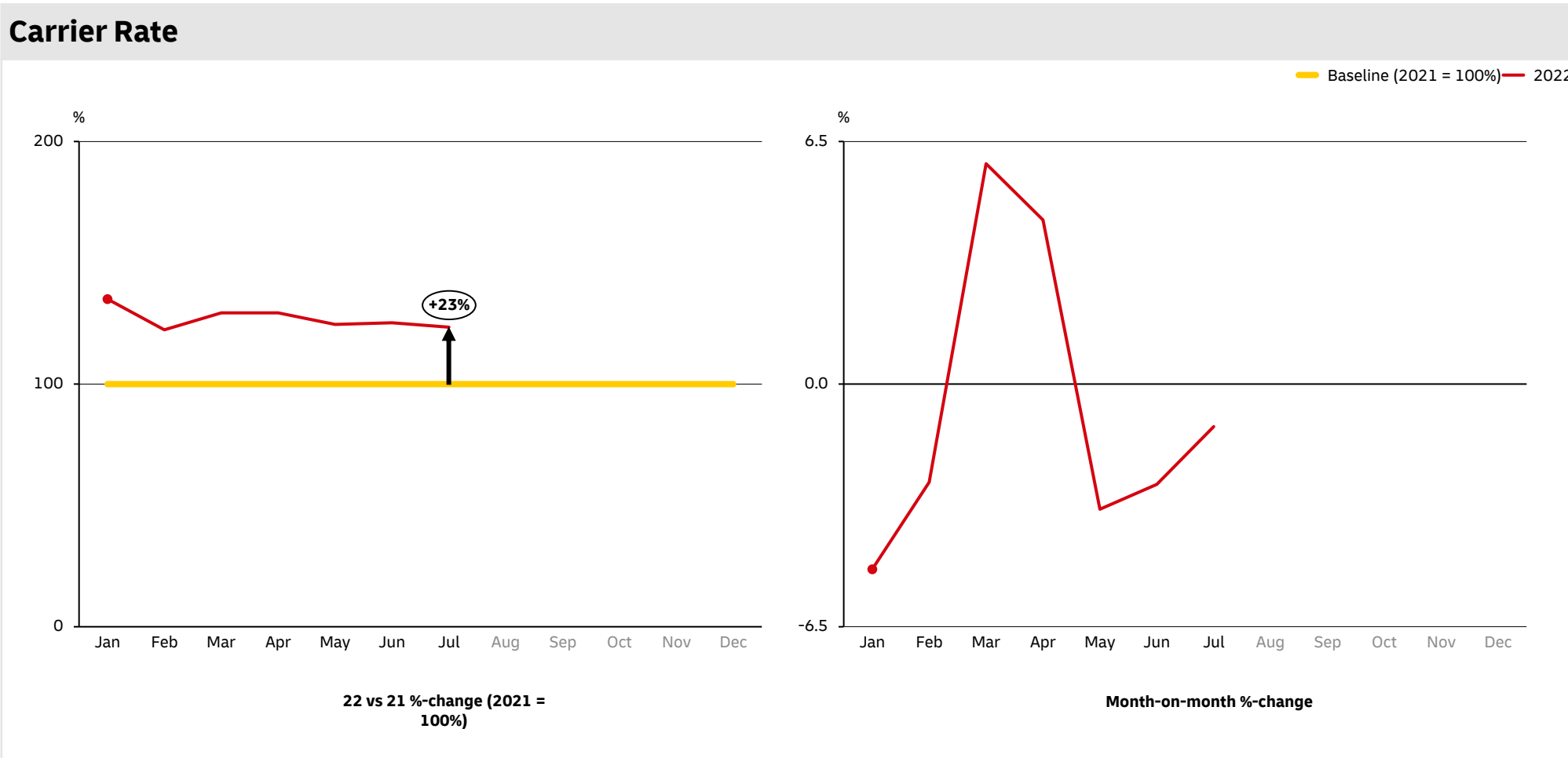
## Regional Cargo Load Factor Development



- Recovery in capacity is stable; cargo demand now lesser than capacity on most tradelanes
- Softening cargo volumes against last year with gradually improving capacity led to reduced load factors in all regions
  - Cargo Load Factor (CLF) is an indicator of how tight is the demand-supply balance
- The industry-wide cargo load factor **decreased by ~5 Pts YoY in Jul '22**
- Downward pressure on load factors and air cargo yields resulted in dip of CLF; less tight in recent times; improving capacity helping that recovery

Source: IATA; 2021 onwards FTK and AFTK are being compared against same month in 2019; Africa FLF data unavailable for Jul 21

# Rates-Global Carrier Rate Development



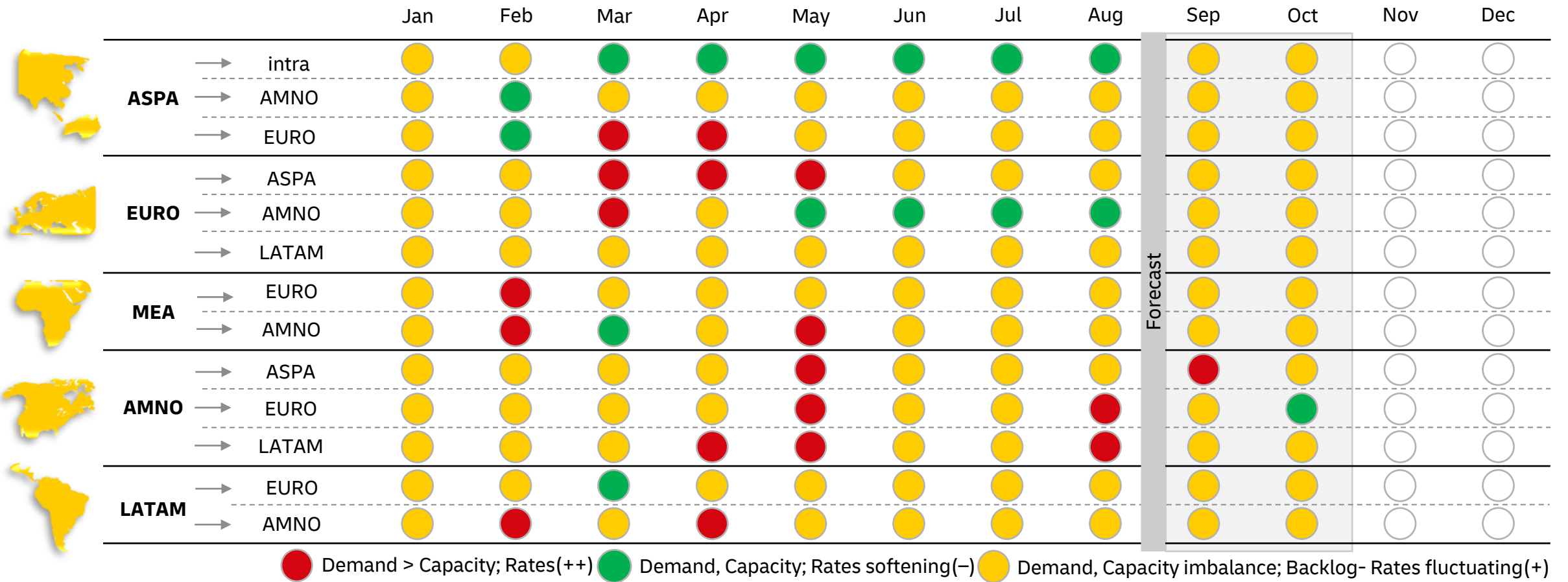
- Rates **+23% higher** in Jul '22 than 2021 baseline but have reduced in a month-on-month comparison
- **With softened demand and recovering capacity, we are likely to see an aggressive spot market on most tradelanes**
- Rates likely to remain affected mostly due to **jet fuel price hike and service disruptions**
- Fuel surcharges likely to fluctuate amidst oil price fluctuations
- Airspace closure, cancelled & re-routed flights may lead to higher transit and increased costs putting upward pressure on the rates
- Rates now being compared against last year as demand-capacity imbalance is stabilizing

Source: WorldACD Market Data; average freight rate including other charges



# Regional Market Development

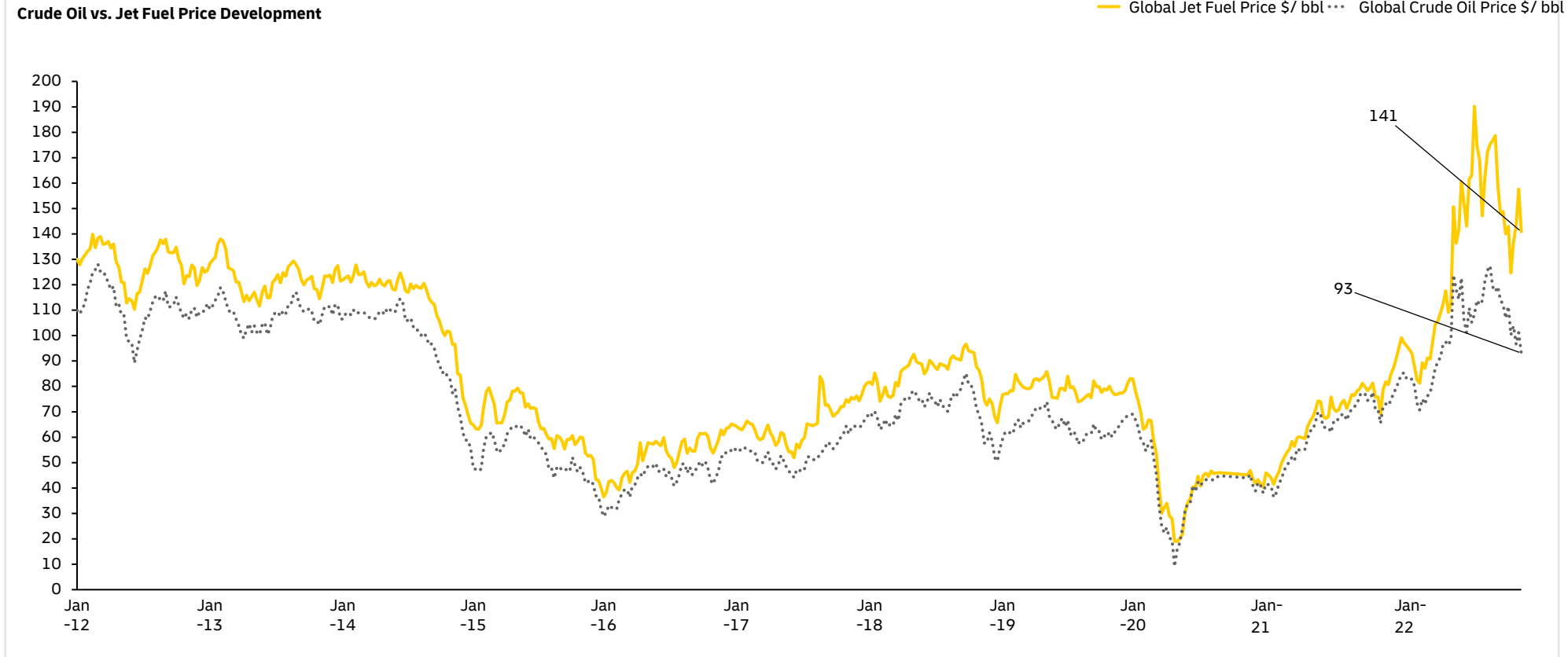
## Market development on key regional tradelanes



Source: DGF Desk Research; forecast Sep-Oct 22

# Jet Fuel

## Jet Fuel Price Development



Source: DGF Desk Research; updated till September 2022 available date

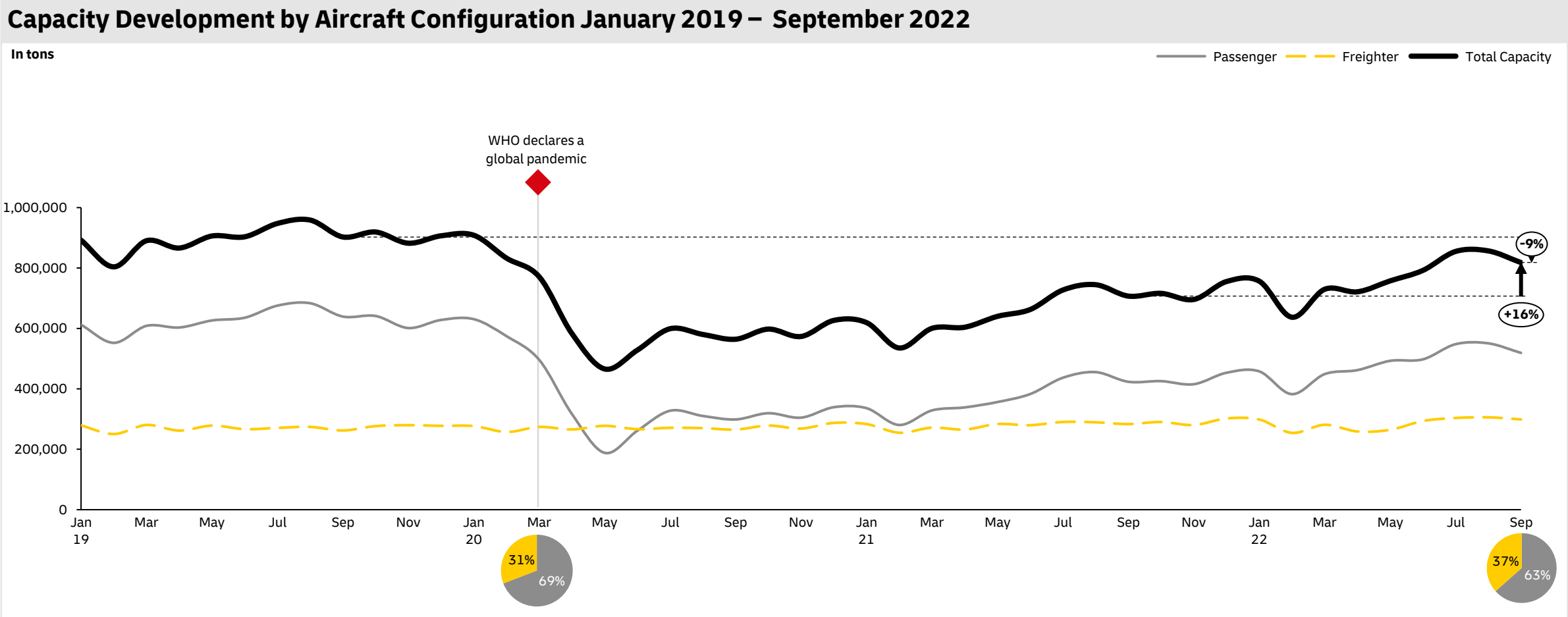
DHL | Airfreight State of the Industry | Bonn | September 2022

- Jet fuel price touched **\$143/Bbl** in Sep '22
- **EIA forecasts Brent crude oil price to averaged <\$100/Bbl in Q4 '22 as well as in 2023**
- The possibility of supply disruptions & **slower production** growth continues to create the **potential for higher prices**, while the possibility of **slow economic growth creates the potential for lower prices**
- Fuels consumption in Aug '22 was higher than Aug '21 levels
- High natural gas prices globally likely to increase oil consumption in Q4 '22 & Q1 '23
- Electricity providers, particularly in Europe, may switch to oil-based generating fuels
- **Oil inventories likely to increase as per new OPEC+ decisions**
- **Sanctions continue and uncertainties remain** on the UA/RU situation; any forecast likely to change



**BACKUP**

# Global Capacity Development



Source: Seabury (Total Capacity includes marginal Combi aircraft contribution); data is updated for same month of release

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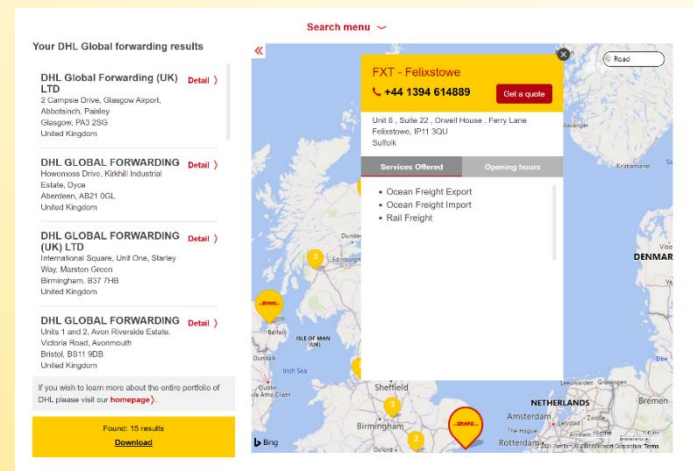
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# Abbreviations

## Explanation of Abbreviations

ACTK	-	Available Freight Ton Kilometers
AMLA	-	Latin America
AMNO	-	North America
ASPA	-	Asia Pacific
CTK	-	Available Ton Kilometers
Bbl	-	Barrel
bn	-	Billions
CAGR	-	Compound Annual Growth Rate
CLF	-	Cargo Load Factor
FRT	-	Freighters (in the airline industry)
FSC	-	Fuel surcharge
FTK	-	Freight Ton Kilometers (also referred to as Cargo Ton Kilometers or CTK)
IATA	-	International Air Transport Association
ICAO	-	International Civil Aviation Organization
LY	-	Last Year
mn	-	Millions
MoM	-	Month-on-Month
PAX	-	Passengers (in the airline industry)
PPE	-	Personal Protective Equipment
Pts	-	Percentage points
RPK	-	Revenue-Passenger-Kilometers
SSC	-	Security surcharge
T	-	Thousands
YoY	-	Year-on-Year
YTD	-	Year-to-Date