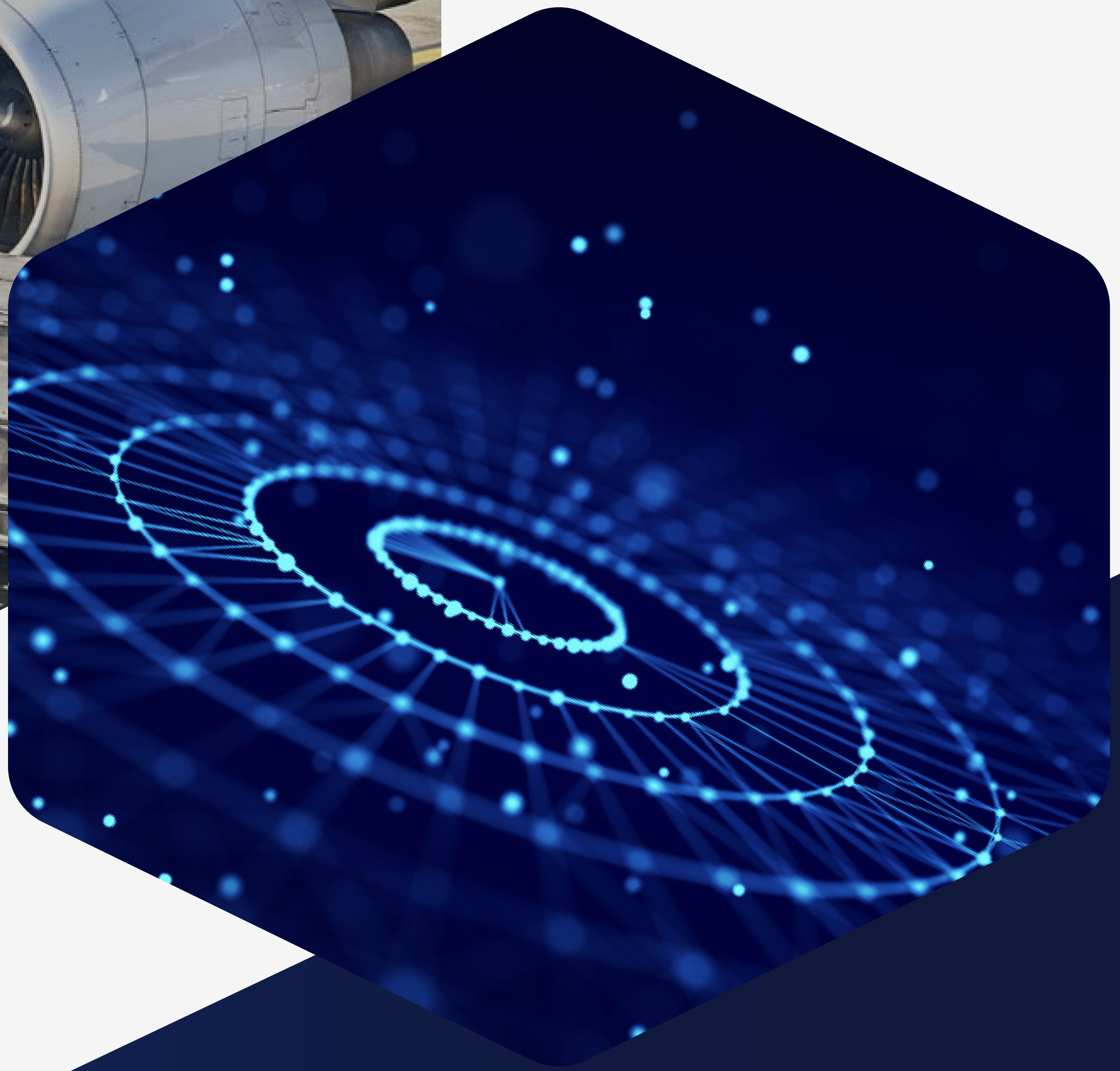
XENETA

2024 OUTLOOK

AIR FREIGHT SHIPPING



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A chance for shippers to catch their breath

Thoughts on the year ahead for Air Freight Shipping Outlook 2024

Niall van de Wouw
Chief Airfreight Officer
Xeneta

Rates have been declining rapidly during 2023, so should we expect more of the same?

“Not really. The rapid rate decline which started earlier this year has calmed down in recent months.

“It seems to be the market has a new rate baseline, from which I expect the classic seasonality patterns to emerge again.

“We will not see a similar return of air freight capacity next year, hence the downward pressure on load-factors and rates will be less than what we saw during Q2/Q3 this year.”

What will be on shippers’ minds as we look towards the coming year?

“Top of mind will be the ambition to agree upon longer-term contracts with their freight forwarders.

“This will allow them to catch their breath after a couple of intense years or revisiting their rates multiple times a year.

“This will also increase the need for a mechanism to adjust (when circumstances dictate) the contract rates, within the contract period.

“We are having numerous conversations with Xeneta customers to develop solutions that are suitable to the dynamics of the air cargo market.”

What could this mean for freight forwarders and airlines?

Freight forwarders will be required to do some soul-searching. Their shippers require more longer-term deals while they are currently procuring close to 50% of their capacity needs on a short-term basis.

“This imposes a risk to both their financial and operational performance once markets suddenly increase.

“I would expect that we will see the share of short-term deals decline throughout the year and get closer to the share we saw pre-Covid (short-term = 35%).

“This would mean airlines will also have to trade less on the short-term market which, at least in theory, would create further stability in the marketplace.”

Where will this year’s surprises come from?

“I would keep a close eye on the developments in the ocean freight market. After years of bumper profits, the ocean carriers are now (back to) operating at low to negative margins.

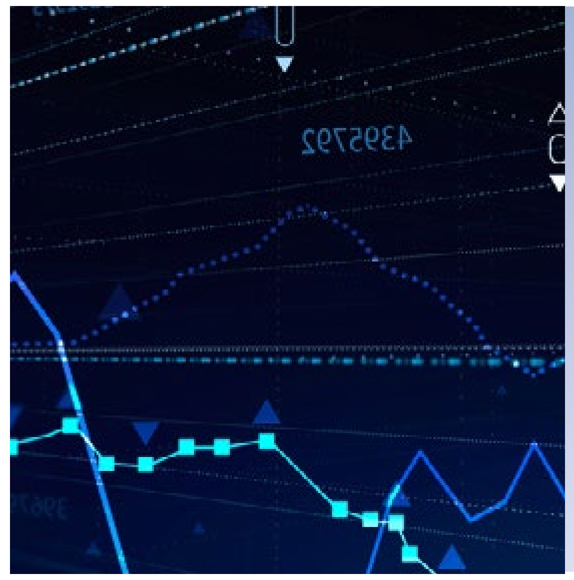
“It remains to be seen what this will do to the reliability of their service offering and hence the need for airfreight.

“If this reliability continues to fall in 2024 from the current historical (sub-peak) levels, than air freight demand on individual lanes could receive an unexpected boost and hence an upward push in rates.”

Let's recap 2023... a year in which air freight cargo rates nosedived.

If we want to have the best chance of understanding what 2024 may bring, we must first look back at 2023 and the current market winds.

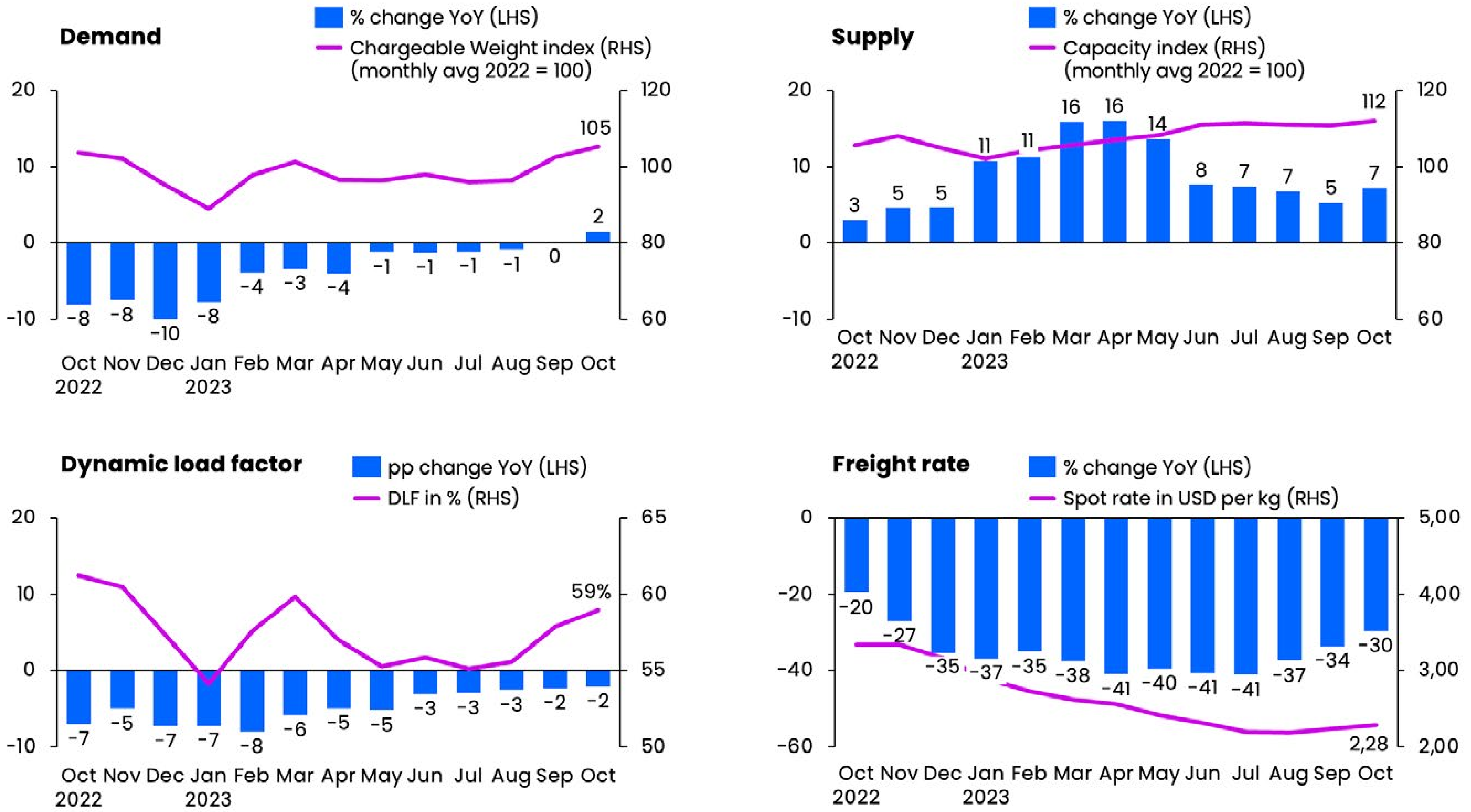
The first nine months of 2023 brought consecutive month-on-month declines in global air cargo demand – continuing a downward trajectory which began in early 2022. With an already subdued peak season in 2023, Xeneta expects the overall global air cargo demand in 2023 to be down by 2% compared to 2022.



Global air cargo spot rates fell an average **39%** YTD compared to a year ago

October seemed to have brought potential green shoots of recovery after global air cargo demand reached its highest level this year and edged up 2% compared to October 2022. There is always further context to consider however, as October 2022 was a period when the global air market was already in a downturn.

Global air cargo volume, capacity, load factor and freight rate developments



Source: Xeneta

While demand continued to decline, 2023 has been a year of recovery for global air cargo supply. With airlines gradually restoring passenger flights following Covid restrictions, October saw global capacity reach its highest level for the year, albeit the rate of growth has slowed since the summer.

Dynamic load factor measures the volume of cargo flown against the available capacity.

With falling demand and increasing capacity, it is not surprising to see dynamic load factor register consecutive declines for the past 12 months when compared to the previous year.

Perhaps a glimmer of ‘classic’ seasonality patterns, the dynamic load factor improved in absolute terms as the air cargo market entered the year-end holiday season.

As the market continues to rebalance supply and demand, the global air cargo spot rate registered a year-on-year decline for the 12th consecutive month.

Again, in absolute terms, the air cargo spot rate finally bottomed out in August and reached a four month high in October as the traditional end-of-year rise in rates loomed.

Now we have reviewed 2023, we should compare it to pre-pandemic levels to understand the extent to which the market has recovered (or permanently shifted) following Covid-19.

Xeneta data reveals global air cargo demand has not yet fully recovered to pre-pandemic levels. This can be mainly attributed to declining general cargo volumes rather than specialized cargo, which has remained steady.

The 8% decline in global demand compared to pre-pandemic also points to the fundamental fact that overall air cargo demand is growing slower than real global GDP growth.

On the other hand, air cargo capacity has almost returned to its pre-pandemic level thanks to a full recovery of belly capacity in many markets.

It is vital to remain aware these figures are at a global level and Xeneta data reveals striking variations at a regional level. Some parts of the world are already exceeding pre-pandemic levels while others are still in recovery.

Load factors in October remained lower than the corresponding month in 2019, while the global average spot rate is higher than its pre-pandemic level – deviating from the trends of supply and demand.

Where are we in comparison to the pre-pandemic?

Global air cargo volume, capacity, load factor and freight rate, Oct 2023 vs Oct 2019

DEMAND* -8%

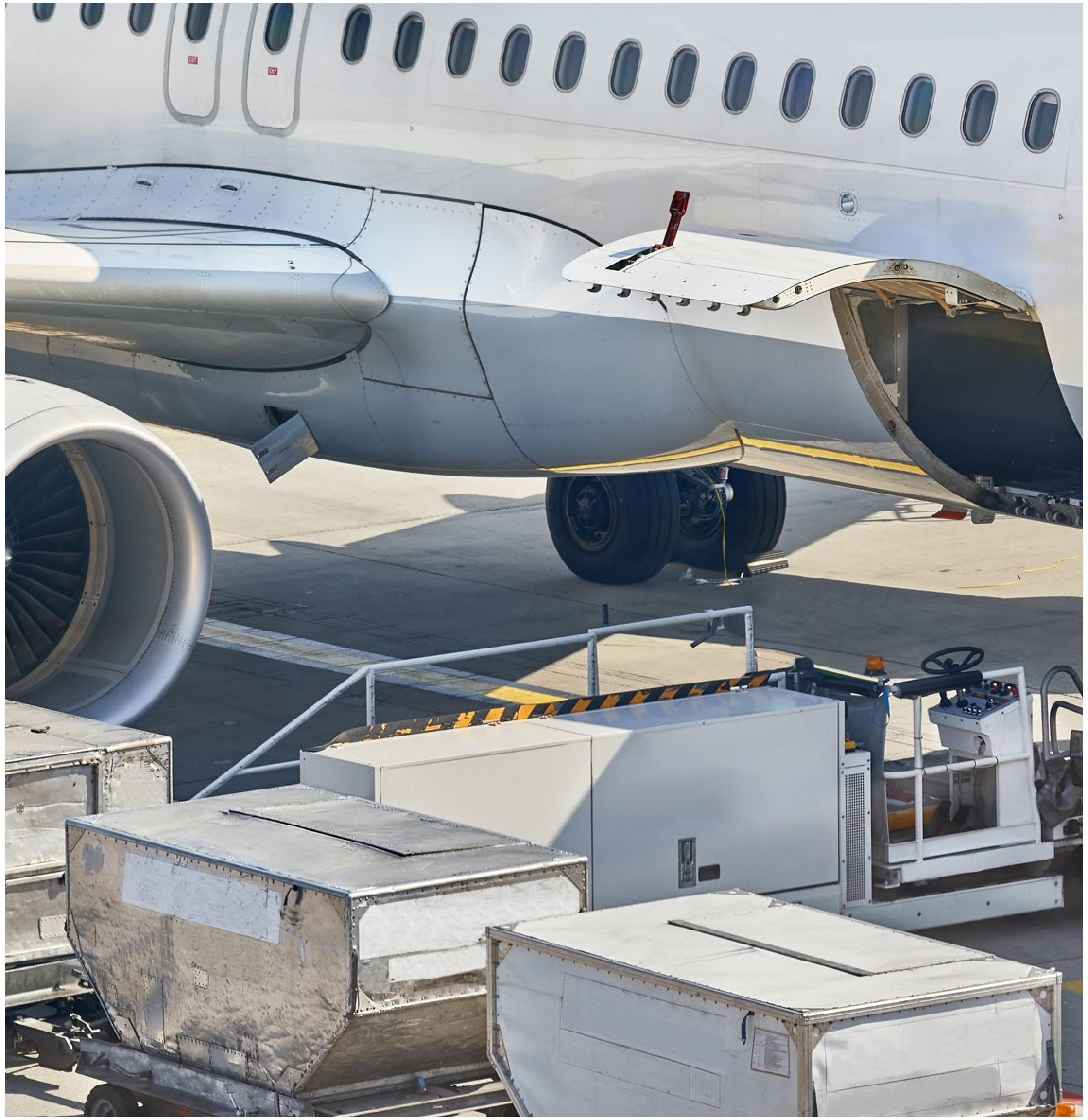
SUPPLY* -0%

LOAD FACTOR -3%pt

SPOT RATE +32%

Note: Demand is measured in chargeable weight. Supply is measured in capacity in cubic meter.

Source: Xeneta



Headlines for the air freight market in 2024

Factors impacting air cargo volumes and rates are vast, complex and prone to change, so this is a market which rails against any notion of long-term certainty or stability.

However, using Xeneta data and intelligence, we can put forward some potential outcomes in 2024.

- Demand to grow by 1-2%
- Supply to grow by 2-4%
- Spot rates to follow the classic seasonality patterns
- A green transition that will slow down air cargo growth
- Longer-term price agreements between shippers and freight forwarders

THEME 1

Consumer Spending

Consumer spending will keep the market subdued

The volume of global merchandise trade is expected to grow 3.3% in 2024, according to the October release from the World Trade Organization (WTO).

This 2024 growth should be viewed in the context of an estimated meagre 0.8% for 2023, which is a significant downward revision from the 1.7% forecast for 2023 made in April of this year.

The combination of persistent high inflation and rising interest rates in advanced economies has continued to bite on consumer spending this year.

Lessons from history tell us inflation tends to rise quickly and fall at a slower pace with a long tail. Therefore, in the first half of 2024, we may still see a continued weakening in consumer spending in Western economies due to increased costs of borrowing and declining real-terms earnings.

Both high inflation and deflation are undesirable for economies

Inflation actuals and forecasts
(Measured by consumer price index, annual growth rate in percentage)

Source: Xeneta, OECD

Meanwhile, China has a different problem – deflation. It may be the world's manufacturing powerhouse, but a strained property market and weaker foreign demand has dragged year-on-year growth of the Chinese producer price index into negative territory with 13 consecutive months of decline.

China's consumer price index has been hovering around 0% since May.

And there are few signs pointing towards an economic rebound, with the IMF's updated outlook for China GDP being growth of 4.6% in 2024 from 5.4% growth in 2023.

This cocktail of weaker Western consumer spending and a stagnating manufacturing powerhouse will likely mean slow growth in air cargo demand in the year ahead.

In recent years, air cargo trade has tended to grow more slowly than world trade – and world trade has been growing on par with GDP growth, whereas in the 1990s and 2000s, the ratio of world trade growth to GDP was 2.

Based on the global economic position, Xeneta expects air cargo growth will be 1-2% year-on-year in 2024 in terms of chargeable weight volumes.

ANALYST INSIGHT

Wenwen Zhang
Air Freight Analyst
Xeneta

"The macro economic environment does not look to be in favor of global trade in the first half of 2024, but if we are being optimistic it will pick up in the second half of the year as central banks loosen monetary policy.

"We are already seeing shippers look to longer term rates and this trend will most likely continue into 2024 amid lower consumer spending.

"Shippers should perhaps be careful not to miss the opportunity of locking into longer term contracts at lower rates in the first half of 2024 - especially if consumer spending does increase later in the year and some negotiating strength returns to the service provider.

"Freight forwarders are facing fierce competition due to the impact of lower consumer spending (which means less demand for transport services) so they may also be eager to secure freight volumes through longer contracts."

THEME 2

The comeback of ‘classic seasonality in 2024

Familiar annual patterns could return.

The global supply chain chaos caused by the pandemic created great opportunities for the air cargo industry.

However, as Covid restrictions were gradually lifted in 2022, consumers shifted their spending from goods to services. This resulted in a sharp 9% year-on-year decrease in air cargo demand in Q4 2022 from a record-breaking market high in Q4 2021.

This downward trajectory continued in 2023, with accumulated year-to-date global air cargo demand declining by 2% from the same period in 2022. This trend has decelerated in recent months with October registering the first increase since March 2022.

October global manufacturing PMI was the latest of 14 consecutive months of decline. This again points towards subdued air cargo demand for the remainder of the year – and no traditional peak season.

Following four years of volatility, could 2024 finally herald the comeback of classic air cargo market seasonal demand?

The answer is most likely, ‘yes’.

Much of the extreme market volatility has been corrected since the second half of 2022 and global economic conditions will likely show some improvements from H2 2024.

Because air cargo demand usually increases faster during economic upturns, we may see signals of a return of seasonality as early as Q3 2024.

ANALYST INSIGHT

“The past four years have been like a rollercoaster ride. No matter whether it is supply or demand, there has been high volatility.

“The imbalance in the market is now mostly corrected and starting from next year we will have more chance to expect a classic seasonality.

“This is especially important for Asia to Europe and North America with a return of capacity along with a pick-up in demand during the holiday season in Q4 next year.

“The return of classic seasonality means shippers have more confidence in where the peaks and troughs in rates will fall.

“However, while there may be a recalibration at a global level, shippers should be wary of the air freight market’s sensitivity to factors which cause a sudden shock to the sector.

“Also, different trade lanes behave differently so it is important to understand the data across individual supply chains.”

Wenwen Zhang
Air Freight Analyst
Xeneta

THEME 3

Schedule reliability of the ocean carriers will continue to impact demand for air freight

2024 could be a fresh start for air cargo industry

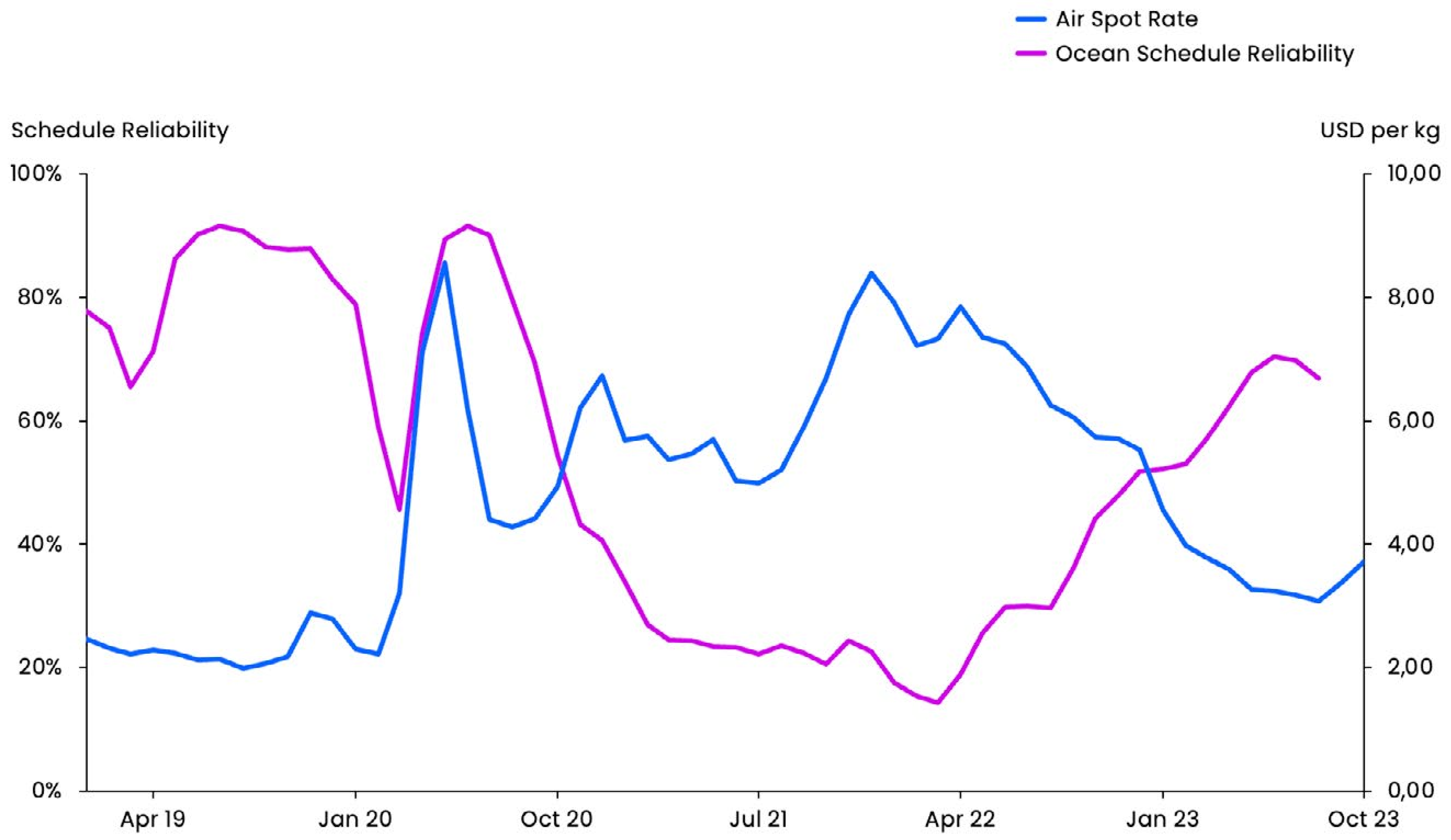
What happens in the ocean freight market usually impacts what happens in the air cargo market – as seen by the carnage caused by Covid-19.

For the past year, shippers and freight forwarders have frequently mentioned mode shift from air back to ocean as the global supply chains recover from the pandemic disruption.

With weaker global economies also comes reduced demand and overcapacity of supply in the ocean freight shipping market. In turn, ocean freight rates have been falling back to pre-pandemic levels along with improved schedule reliability.

Air cargo rate drops as ocean schedule reliability improves

Air spot rate and ocean reliability on Northeast Asia to Europe corridor
(Rate in USD per kg; reliability in percentage)



Source: Xeneta and Sea Intelligence

A more reliable ocean freight shipping network means there is a less urgent need for air transportation.

That is until the ocean freight sector is hit by another, as yet unknown, storm...

Disturbance could still emerge at regional level

Markets are constantly evolving and there will always be nuances at play. For example, the break-up of shipping alliances and discontinuation of the European Commission's (EC) antitrust block exemption will impact ocean containerized shipping from next year.

The air cargo market could take advantage of such events if ocean carriers fail to match capacity with any changes in demand as a result of new regulation on alliances.

The Xeneta Ocean Outlook 2024 cited the shakeup of alliances will most likely disturb the Northeast Asia to Europe trade due to the domination of alliances on this corridor.

Shippers should closely monitor developments on this trade when the antitrust block exemption ends on 25 April 2024.

We should not forget the drought in the Panama Canal which will continue to be felt into 2024 – even a small spillover could be major for air freight given the size of containerized volumes transiting the canal.

ANALYST INSIGHT

Wenwen Zhang
Air Freight Analyst
Xeneta

"During an economic downturn, the air freight cargo industry tends to lose market share to ocean freight shipping. During upturns, air freight picks up sooner because the speed of the service allows businesses to recover inventory levels quickly.

"We should always remember these trends apply at a global level and there are nuances on specific trades. For example, Asia to Europe and US East Coast can be exposed to any sudden chaos in ocean freight shipping.

"It's important shippers remain agile and monitor what is going on - not only their supply chain and market, but also developments and data in the ocean market which can have a huge impact on air freight rates."

Industrial action on the US East and Gulf Coasts could also offer opportunities for air freight.

The disruption we have seen in 2023 caused by industrial disputes on the US West Coast provides a hint of what could be on the horizon when the existing contract between the International Longshoremen's Association and United States Maritime Alliance expires on 30 September next year.

As we have seen over the past few years, air transportation is highly-sensitive to market disruptions involving other modes of transport. Any disturbance in the surface mode - whether it is ocean, rail or trucking - can have significant implications for air freight cargo.

THEME 4

Different winds are blowing due to greener policies

Carbon reduction will come at a cost

No industry is immune from the need to work towards a greener future – and air transport is often a sector that comes under more scrutiny than most.

But in the case of air cargo specifically, the picture is more complex and we should look to the oceans as well as the skies for enlightenment on this issue.

As the Covid crisis fades into the distance, environmental concerns which had perhaps been put on the back burner, have returned to the fore and there is a growing demand within shippers to reduce carbon emissions in their supply chain.

Whether this is a result of a 'social conscience' or the stick of regulatory pressure is open to debate, but Al Gore's 'inconvenient truth' back in 2006 is now a generally accepted need for urgent change.

If shippers are looking to decarbonize their supply chain, surely the simple solution is to reduce reliance on more-polluting air cargo in favor of less-polluting ocean transport?

Possibly, but when ocean already accounts for 97% of global volumes is there very much scope to reduce carbon emissions in this way?

For example, when we consider 80% of global energy is produced from fossil fuels, this represents a significant opportunity for carbon reduction.

In the case of global supply chains, the overwhelming majority of goods are already transported by ocean, so there is simply not the same scope for improvement.

To be clear, this does not mean air freight cargo is an irrelevant sector – it is, and will remain, a crucial part of global supply chains.

What this may mean is future growth in demand for air cargo will be slowed down..

The aviation industry is working towards a more sustainable future, but like all sectors, this is easier said than done.

Authorities around the world are implementing new policies for emissions control, but in a volatile market, achieving a universal approach and commitment across stakeholders will be hard to realize.

For example, the Netherlands Government announced its intention to introduce flight caps and night curfews at Schiphol Airport from 31 March 2024 to reduce noise and air pollution.

This has now been scrapped following pressure, notably from the US, regarding the commercial impact it would have on airlines.

This serves as an example of the way in which market forces will often trump policy, no matter how noble the intention.

Air cargo market is a delicate eco-system and balance must be found.

Market forces always have a way of cutting through and ultimately shippers will opt for other alternatives if air cargo transport becomes less efficient or more expensive as a result of carbon emissions policies.

The air cargo industry is still a crucial source of transportation around the world for humanitarian services such food aid and medical supplies when ocean transport is not a viable option.

The export of fresh products also supports the economic growth for developing countries.

So, while there is a common recognition that more must be done to reduce carbon emissions, the air freight sector is a delicate eco-system which is relied upon globally.

Balancing all these considerations will be important but equally difficult to achieve.

ANALYST INSIGHT

“Environmental initiatives and regulations will ramp up in future, but it will still be the case that market forces are ultimately the deciding factor on rates.

“Similarly to the previous theme on Schedule Reliability, it is vital that shippers maintain a watchful eye on the ocean market as well as air.

“Any disturbance in ocean could cause shippers to abandon their environmental objectives by returning to the skies to transport their goods.

“Given the volumes involved in ocean freight shipping, the impact of any disruption could be significant.”

THEME 5

Global capacity growth

Global air cargo capacity will continue to recover in 2024

Belly capacity has seen a resurgence in 2023 and by October was on par with the same month in 2019.

However, this recovery has been uneven across corridors. For example, the Transatlantic market was one of the first to be released from pandemic restrictions and has already seen capacity rise 12% above its pre-pandemic level.

Similarly, capacity between North America and Latin America has exceeded its pre-pandemic level through increased trade flows.

In contrast, belly capacity on Asia to Europe and North America corridors is lagging behind due to the later reopening of Northeast Asia countries from Covid restrictions.

For 2024, Xeneta expects Asia, and especially Northeast Asia, to continue to fuel the growth in air cargo capacity. Notably, by the end of next year, the long-awaited intercontinental long-haul flights from Northeast Asia to Europe and North America could be fully recovered.

Additionally, the rollback of covid flight curbs from both the China and US aviation authorities in 2024 could see flights increase from 70 per week in November this year towards the pre-pandemic level of 340 per week.

However, geo-political tensions are not going anywhere any time soon – and may even escalate.

For example, the war between Ukraine and Russia will continue to impact air cargo due to longer flights avoiding restricted airspace.

Conflict and the humanitarian crisis in Israel and Gaza will also cause continuing uncertainty across the region for many months to come.

Challenges lie on the back-haul for freighter airlines.

Heading into 2024, all-cargo operators will find themselves in a more challenging situation than combination airlines which benefit from increasing passenger revenue.

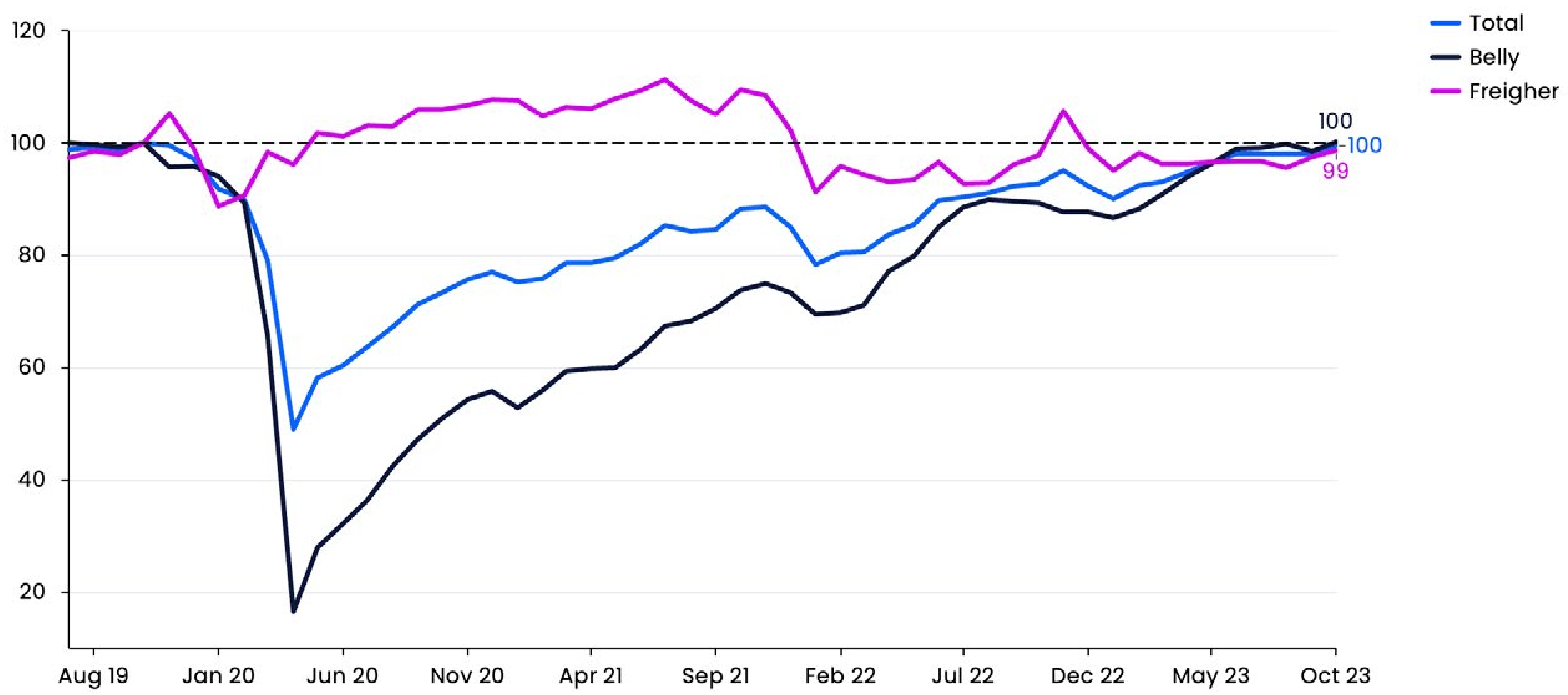
Niall van de Wouw addressed this topic at the Xeneta Summit in Amsterdam by saying: “Over the last 20 years it has proven very difficult to make money from freighter aircraft.

“If rates remain at the current level it is very difficult to have a profitable rotation. You might have one leg that is profitable, but you have got to bring the plane back, so it is the backhaul that is causing all sorts of issues. “Therefore I think we will see less flights to rationalize the network.

“Over time you will see rates increase because, in the end, airlines need some kind of cushion in order to operate and history has shown the market is willing to pay.”

Freighter capacity faces pressure as global cargo capacity continues to recover

Global air cargo total, belly and freighter capacity
(Oct 2019 = index 100)



Source: Xeneta and Sea Intelligence

ANALYST INSIGHT

“The return of belly capacity from Northeast Asia to Europe and North America will give a final push for the industry to move out the covid-19 recovery phase and finally leave the lingering impact of the pandemic in the past.

“Passenger flights will continue to increase, especially out of China, which will release capacity into the market, especially towards the end of 2024.

“However, while it is anticipated that capacity will follow this trend, there are many factors which can bring turbulence to the market, such as geo-political tensions.

“Shippers should not take anything for granted and monitor capacity as well as load factor development throughout the year.”

Wenwen Zhang
Air Freight Analyst
Xeneta

THEME 6

A steadier market may not yet bring comfort to the freight forwarders

Longer contracts are becoming more popular again.

As supply and demand rebalances, shippers and freight forwarders may find increased confidence in committing to longer term air freight contracts.

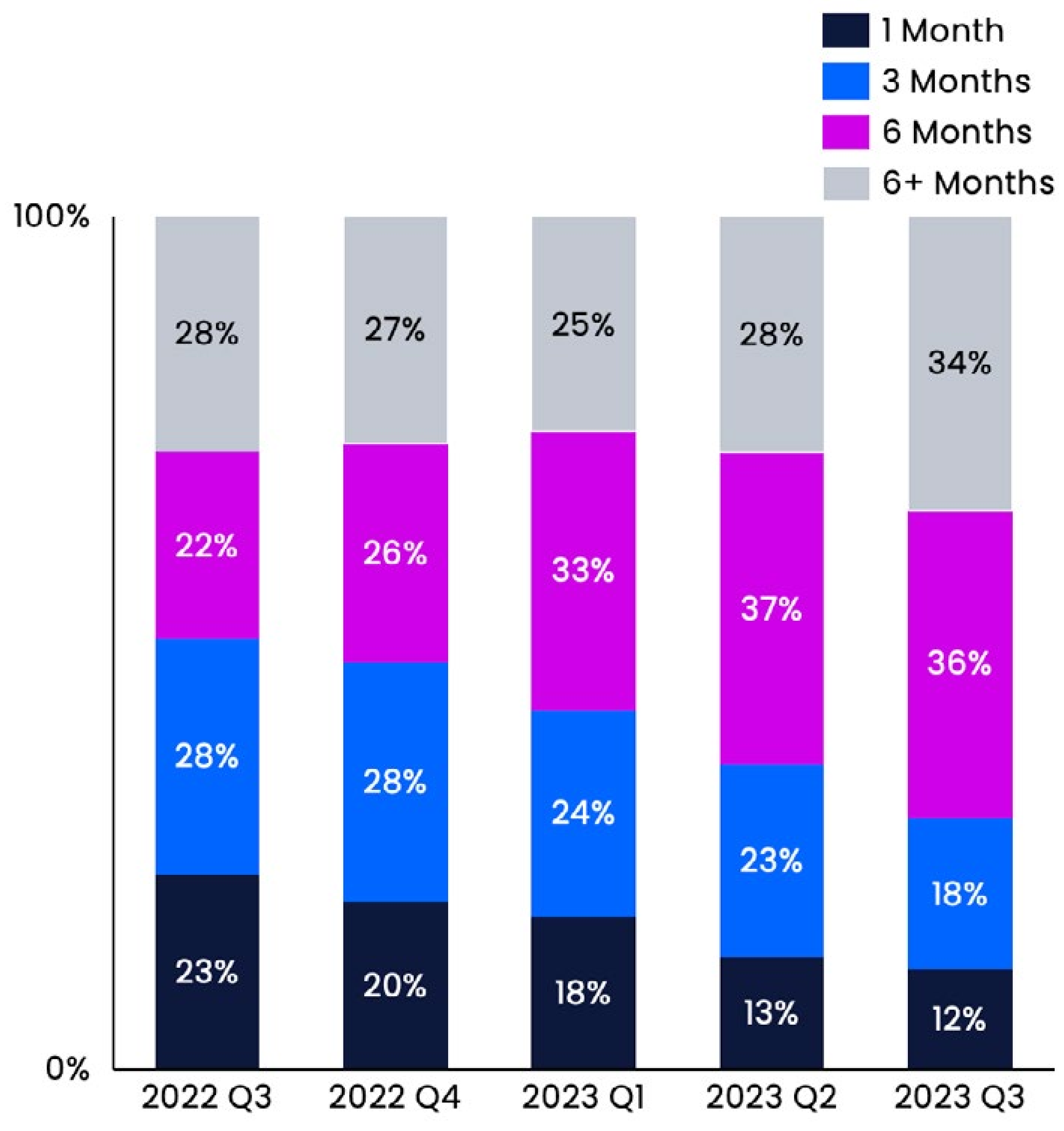
12-month contracts may not be far from the horizon and be prominent in 2024 if market conditions continue on the current path.

Niall van de Wouw, Xeneta Chief Airfreight Officer, feels this is the way the market is likely to head.

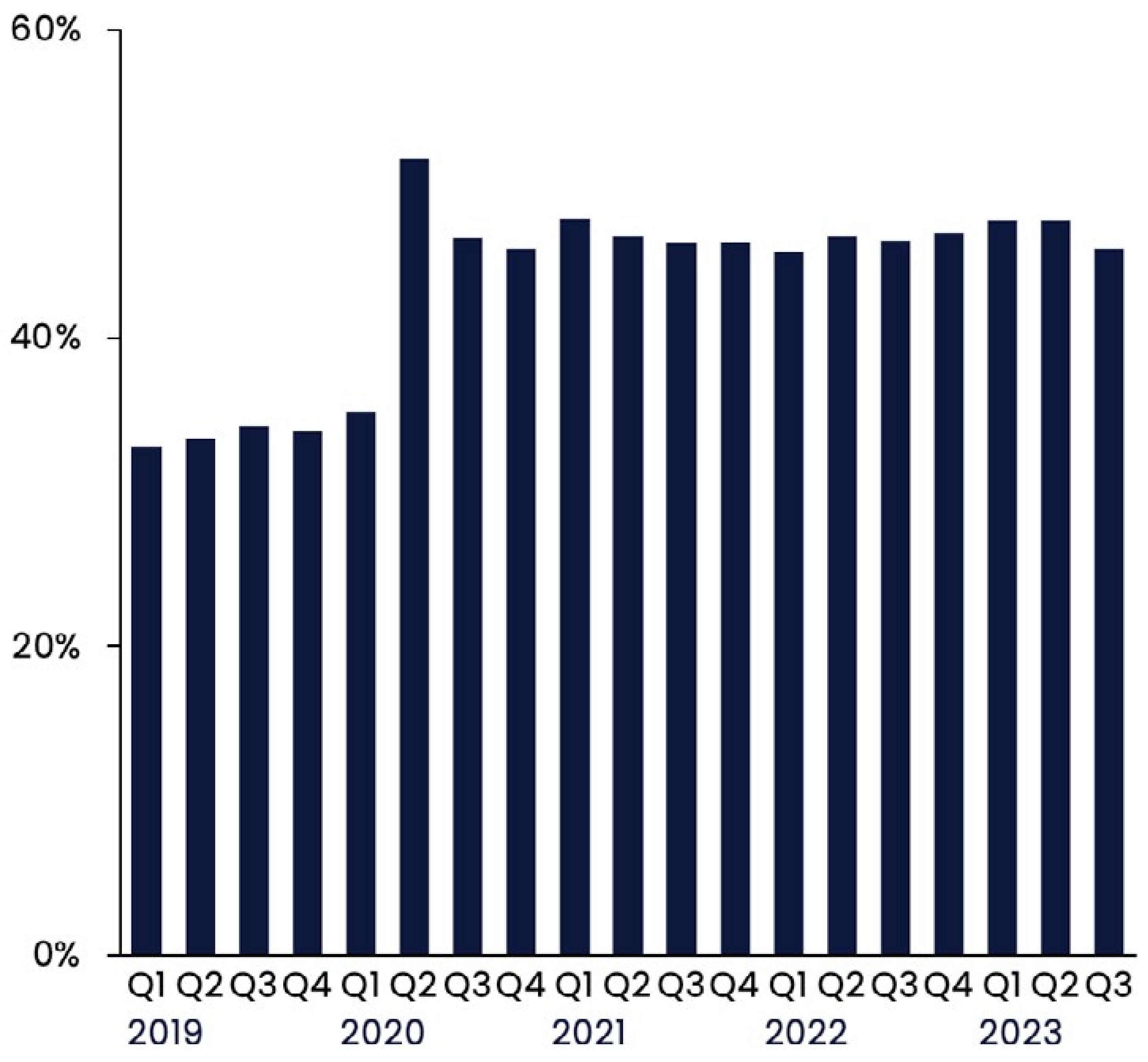
He said: "The general air cargo industry is entering a new phase where parties are expecting the market to find its feet again.

How much longer will forwarders continue to sell long and buy short?

Distribution of contract duration for shipper contracts
(% based on number of all existing and new contracts)



Freight forwarders' volume share in spot market
(Rates in spot market valid for up to 1 month)



Source: Xeneta

"We see more longer-term contracts being signed and this only happens when people feel more comfortable about the foreseeable future.

"It is easier to make a commitment now than when the market is on a sharp downward or upward trajectory, as there is a firmer floor in place."

This same trend is however not yet visible in the dealings between the freight forwarders and the airlines. The share of longer term rate agreements between these two parties is yet to return to pre-pandemic levels.

At the moment, freight forwarders still procure over 45% of volumes in the spot market, while in the pre-pandemic period only one third of the volumes were in the spot market.

Since freight forwarders procure short-term and sell long-term, they could expose themselves to increased risks if the market experiences a sudden volume surge. If sudden spot rate spikes were charged by airlines, forwarders would likely knock on shippers' doors to renegotiate longer-term rates.

Another indicator of a more stable market is the reduced number of logistics service providers that shippers are partnering with when compared to the pandemic years.

At its extreme, some shippers were managing a portfolio of 11 service providers at the same time due to the severe capacity squeeze. This number has nearly halved in Q4 this year.

ANALYST INSIGHT

Wenwen Zhang
Air Freight Analyst
Xeneta

"Freight forwarders will inevitably face increased pressure in the upcoming tender cycles.

"It will be a fierce battlefield to win business from shippers in a soft market and we will likely see intense cost management by freight forwarders.

"Besides, with the nature of the air freight market, which is highly volatile, we will likely see interest in new tendering and financial mechanisms from shippers to save time from frequent rate negotiations. These could be mutually beneficial agreements for all parties, rather than creating a situation where if one party wins the other must lose."

And finally… where will the next market distortion come from?

No one has a crystal ball and, if we have learned anything over the past few years, it is that nothing can, or should, be ruled out. The very nature of the air cargo market means it is highly volatile and vulnerable to external disruption.

Niall van de Wouw summed it up when he said, **"The air cargo market is only to a limited extent in control of its own destiny"**.

Given this tendency for volatility and the memories of the pandemic chaos, all players in the market should be prepared for the unknown.

A geo-political wild card could have far-reaching consequences, not only for the specific region concerned, but for the chain-reaction it can set off across the world's supply chains.

If we need an even more timely reminder to expect the unexpected, we only have to look to the volcanic activity in Iceland – we all remember the impact an incident such as this can have on aviation.

Natural disaster and climate-related events will continue to impact. As this Outlook has already addressed, drought in the Panama Canal is having a prolonged impact on ocean freight shipping, and potentially by extension, the air cargo sector.

The global economy is also a cause for great uncertainty. It would be a brave person to say with absolute certainty how interest rates and inflation will evolve in 2024.

The first half of the year could be a bumpy ride for advanced economies and we cannot completely rule out the potential for a global recession.

All stakeholders in the air cargo industry must stay up to date and remain agile.

The best way to prepare for the unknown is to be armed with the data and intelligence upon which you can make considered and evidence-based decisions.

XENETA

Xeneta's power is in our crowdsourced data.

During 2023 this has grown even stronger as we now call upon more than 400 million data points to provide unrivalled market insight and benchmarking services.

Learn more at www.xeneta.com/demo