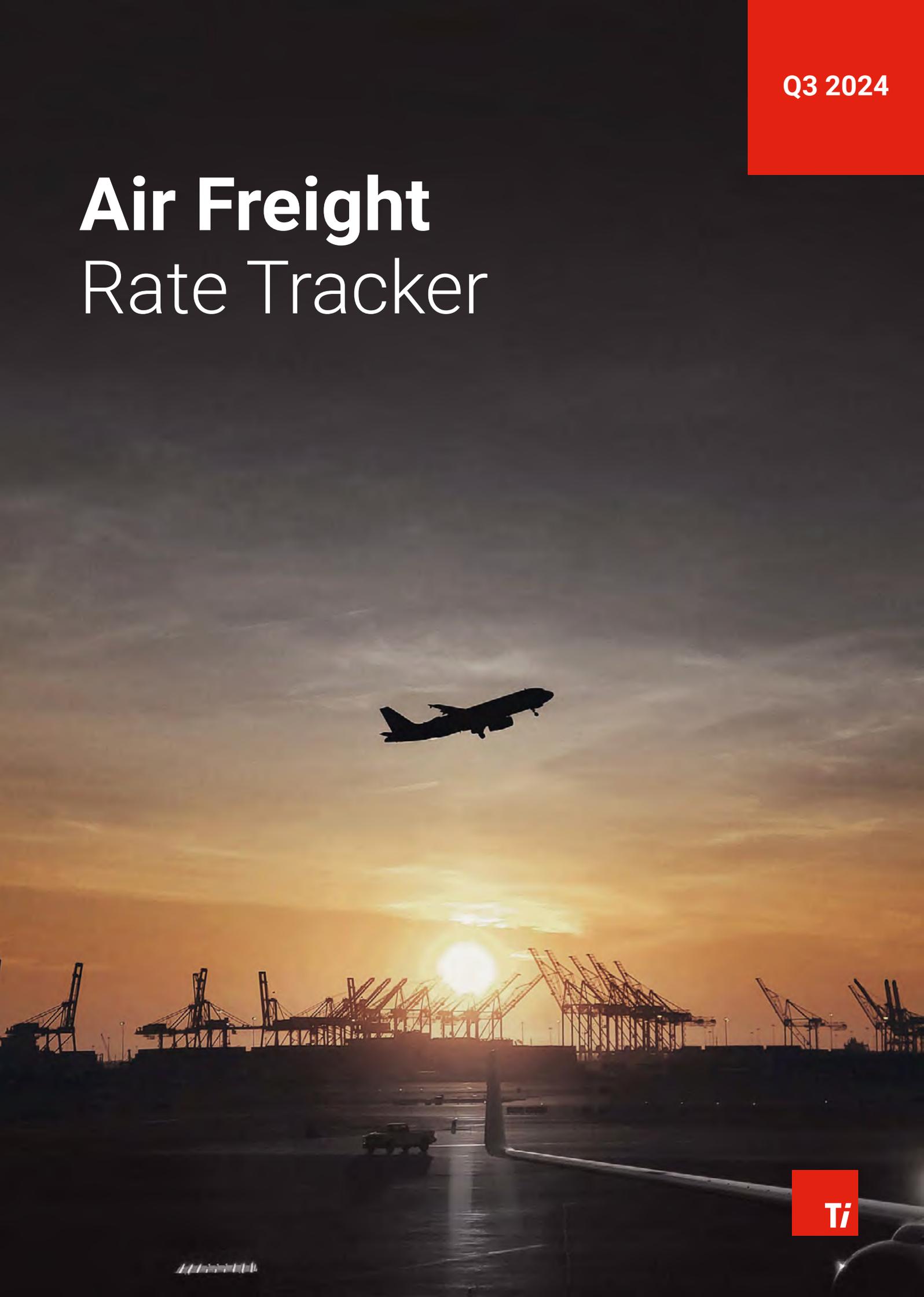


# Air Freight Rate Tracker



## AIR FREIGHT TRACKER

The market for air freight has been somewhat less unusual than that of container sea freight over the past two quarters, but conditions can hardly be described as 'normal'; whatever that is. Wider political issues did have an impact on the sector, but less directly than the impact of the Red Sea Crisis on container shipping. There have also been changes in the structure of the market, with some parts of internet retailing continuing to shrink, others to boom. The supply of capacity has continued roughly on its previous trajectory, although there are signs that the expansion in belly freight may begin to slow. There are also further complications with the exclusion of some airlines from Russian airspace as well as the limited capacity of passenger flights on some routes to China, especially those from the US. The demand picture is not particularly volatile in 'big picture' terms, with the US consumer still fairly robust although demand elsewhere is not that high. Rather it is the detail of the demand profile that is providing changes to the market. However, one key issue is that of the buoyancy of airline activity generally. The boom in tourism especially has returned airline fleets to a high level of utilisation and thus the belly freight supply is approaching a maximum. There are clear signs that demand is exceeding belly freight capacity.

## GLOBAL AIR FREIGHT RATES INDEX

### WHAT DOES THE DATA SAY?

*Month on month in August, global headhaul air freight rates increased by 1.0%, while backhaul rates saw a rise of 2.8%. Compared to the second quarter of this year, headhaul rates dropped by 5.3% in Q3 24, whereas backhaul rates increased more sharply by 13.5%. On a year-on-year basis, headhaul rates fell by 6.8%, but backhaul rates rose by 8.3%.*

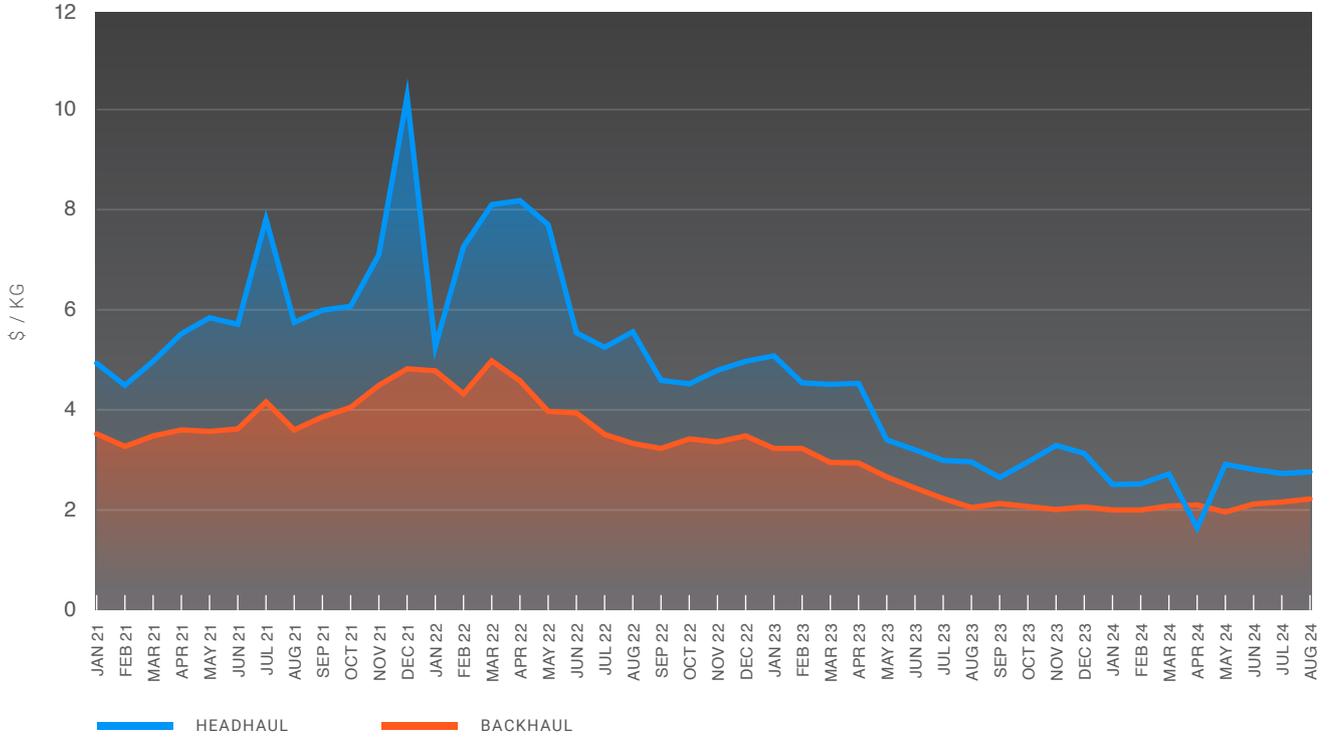
### WIDER MARKET ANALYSIS

One of the odder aspects of the present market is the trajectory of the e-retail market. Although Amazon continues to be the largest internet retailer, its Chinese rivals, Shein and Temu have grown explosively, and they are disproportionate users of airfreight. However, their businesses are highly cost sensitive and therefore they rely heavily on cheaper charter services. This is a rather odd logistics doctrine. Businesses that are cost sensitive tend to prefer sea and road freight to airfreight. However, at present Shein and Temu are stuck with reliance on airfreight for exports to Western markets. Consequently, there is odd situation of a boom in lower-priced freighter market, especially out of China and a shrinkage in more expensive, high-service level air express services from the three large air express providers, DHL, UPS and FedEx. It has to be wondered how sustainable this is. Shein in particular is striving to build infrastructure in North America and Europe, however for the next few quarters certainly, demand from these two companies will be very significant. The other variable over the past couple of quarters is the impact of the Red Sea Crisis. This is harder to assess, however sharp increases in demand from Bangladesh, Vietnam and Cambodia imply that the congestion in sea freight has had an appreciable effect. There has also been congestion in air/sea services out of Dubai. As with the whole Red Sea Crisis issue, the future of this demand is very uncertain. The likelihood is that it will be sustained for at least the next couple of quarters. Of course there is the question, if these sorts of issues subside, what will happen to the sector. Will it be found, like the container shipping sector, to over supplied and lead to a violent fall in freight rates?



GLOBAL AIR FREIGHT RATES

SOURCE: TI AND FREIGHTOS



## GLOBAL DEMAND

### WHAT DOES THE DATA SAY?

*Ti's Global volumes index shows us that the global volumes for the air freight market has increased by 6.7% in Q2 2024 from 94 index points in Q1 2024 to 100.3 index points. Volumes increased or stayed static across all regions. The region with the largest increase was North America, increasing from 93.0 index points last quarter to 102 in Q2 2024, by 9.6%. Followed by Asia, increasing from 91 points last quarter to 99.0 points. Lastly, European volumes stayed static.*

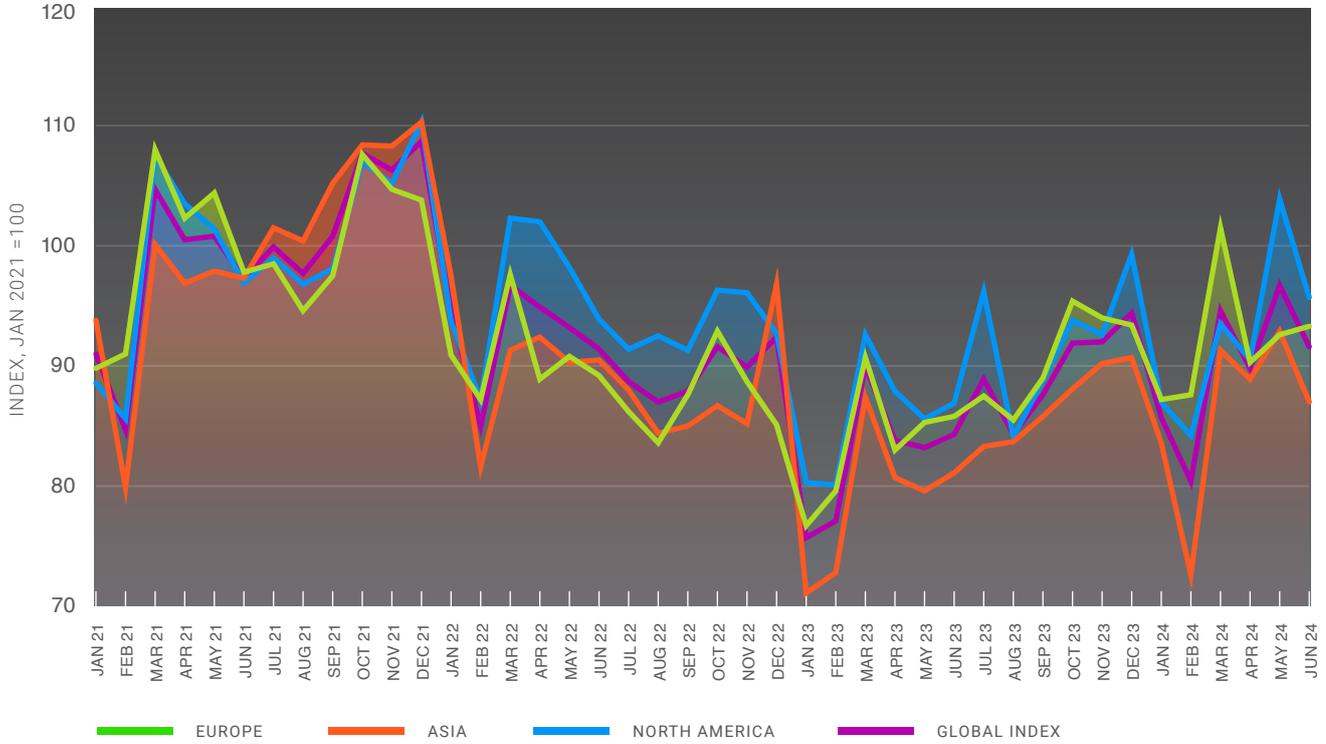
### WIDER MARKET ANALYSIS

The big picture of demand for air freight is quite healthy. Growth in mid-single digit percentages continued through the past quarter and the trajectory looks to be being sustained over the next couple of quarters at least. However, as discussed above the variability in the detail of demand patterns was quite significant. Through the year there have been predictions that the US would enter some form of recession or at least a fall in the level of growth. This has not happened, and by August 2024 had shown no sign of happening. Therefore, the immediate prospect for US driven demand is likely to be a continuation of steady growth. However, there must be a major provision on this position. The nature of China-US volumes has changed, with a shortage of belly freight substituted by chartered freighters. Much of this has been driven by China-based internet-retailers as discussed above. Elsewhere the picture is also complex. The traditional Purchasing Managers Indexes (PMI) often used to judge underlying demand are generally pessimistic. However, the changes in trade-pattern might suggest that these are not reflecting real demand accurately. Production shifts towards Southeast Asia and South Asia are accounting for a much higher proportion of demand, and this is supporting the overall market. Other markets are not in good shape, with a market such as Germany being almost depressed. China is also very complex. The shortage of air services between China and the US is a key feature of the present supply-side but demand out of China is also increasingly volatile. Large exports volumes have been focussed on growing assembly locations such as Southeast Asia, however they have also affected Western markets. It is questionable how sustainable this is, although the impact of trade tariffs is unlikely to kick-in over the next couple of quarters.



WORLD AIRPORT VOLUME INDEX

SOURCE: VARIOUS AIRPORT AUTHORITIES



## GLOBAL SUPPLY

### WHAT DOES THE DATA SAY?

*Global air freight capacity has grown consistently for 18 consecutive months as of June 2024. Out of these 18 months, demand (measured using cargo ton kilometre [CTK]) has exceeded the growth of supply just 5 times. Each of those 5 instances occurred in the first 6 months of 2024. In fact, demand growth has exceeded supply growth by an average 1.7% each month in 2024. The result is a tightening demand and supply environment as the excess supply built up over the previous 2 years is eroded.*

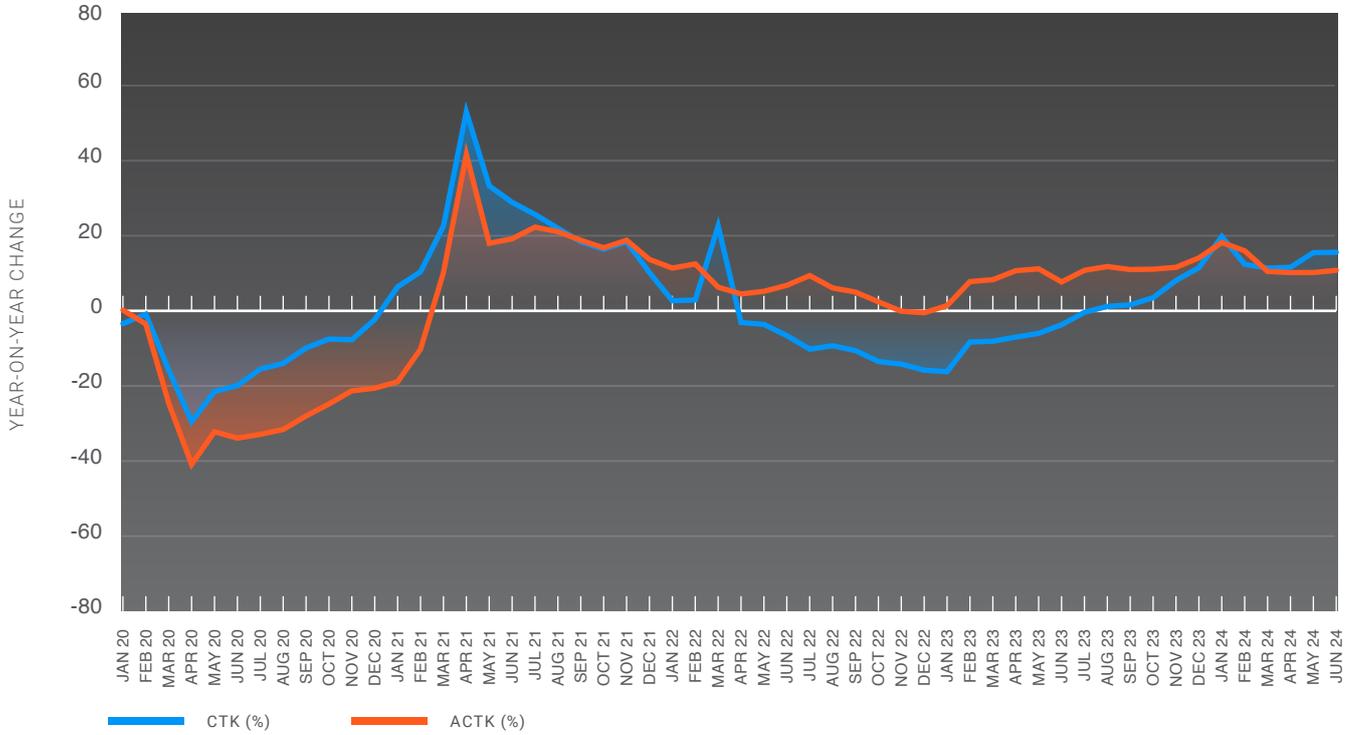
### WIDER MARKET ANALYSIS

The past two quarters have seen the issue of belly freight apparently change. For the past year at least, the cargo market has seen freight rates suppressed by the continual flow of belly freight onto the market as the airlines re-deployed their fleets after the extraordinary circumstances of 2020-2022. The demand for passenger services was very great and thus they re-introduced all their aircraft. This resulted in a steady flow of belly freight onto the market. Over the past two quarters it looks like this increase in belly freight has either slowed markedly or stopped. It appears that demand is now greater than supply in some areas. As mentioned in the rest of the analysis, the detailed changes in the pattern of supply are obscured by the big picture of the market. For example, the large fleets of the Express carriers are seeing mediocre utilisation. In contrast freighter fleets are doing brisk business. This represents a big change from the reality in 2019 where there was a clear oversupply of belly freight and freighters struggled to remain in business. The question is, will the next quarter see anything like a return to the oversupply of the past? The answer is almost certainly no. Although there may be underutilised capacity such as the Express carriers in the market, the overall picture is one of a shortage of aircraft. Airbus and Boeing struggle to build aircraft fast enough to fulfil orders. This may result in overcapacity in the long term, but in the short term there is an unexpected shortage of aircraft which is likely to be sustained for several quarters.



GLOBAL AIR FREIGHT CAPACITY

SOURCE: IATA



# FUEL

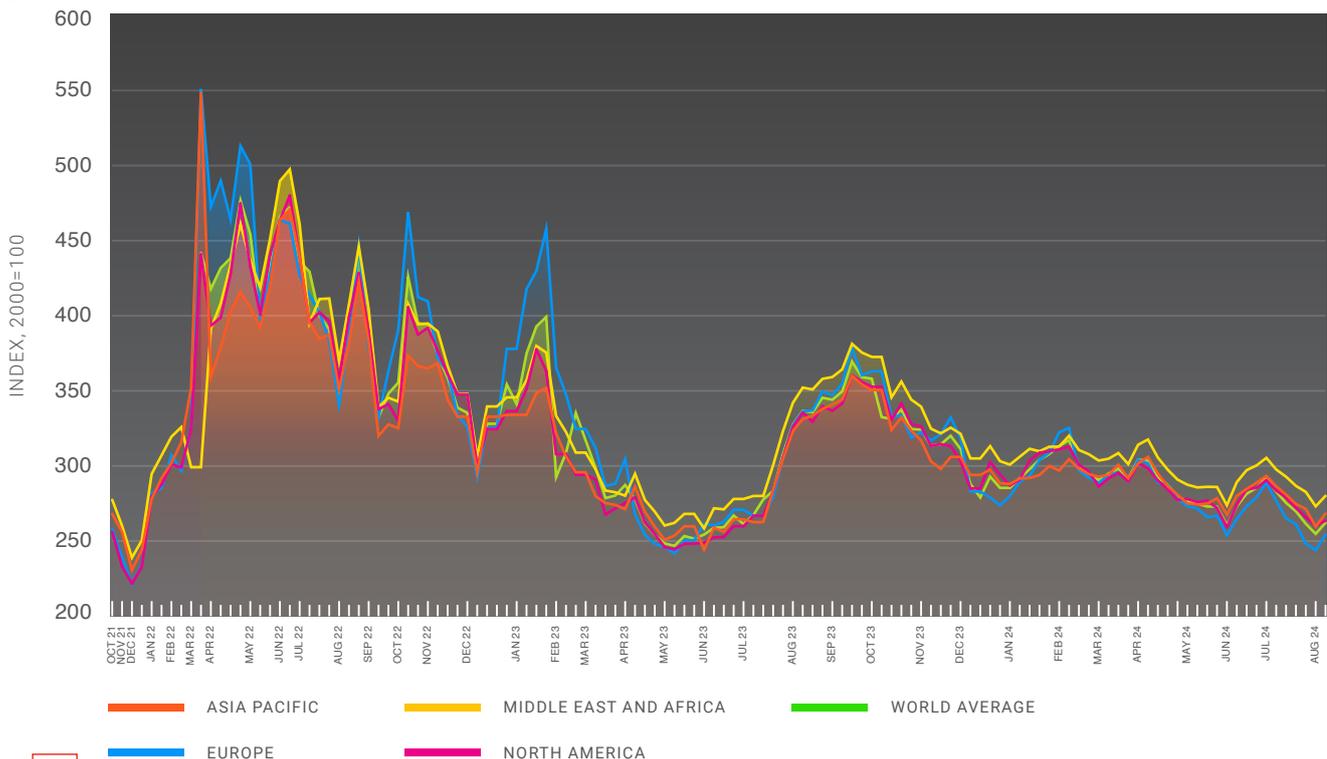
Jet fuel prices have followed a similar trend across all regions, decreasing 16.2% globally on average since hitting their highest prices this year in February. Quarter on quarter, global jet fuel prices dropped 4.5%. Compared to the same quarter last year, the price has dropped 17.0%. Month on month, prices have decreased 7.4%. The region with the sharpest decrease month on month was Latin and Central America, decreasing 6.7% compared to last month. The global average jet fuel price last week rose by 2.9% compared to the week before to \$95.91bbl.

According to Reuters, after a strong start to the summer that boosted global jet fuel demand, analysts are now forecasting a slowdown, driven by weaker consumer spending and softening travel budgets.

Jet Fuel prices are already responding to the dip in demand growth in major markets like the U.S. and China. According to Goldman Sachs, global jet fuel consumption through July reached 7.5 million barrels per day (bpd), an increase of 500,000 bpd from the previous year, concerns are mounting that this growth will not sustain through the rest of 2024, with airlines starting to lower expectations. OPEC and the IEA are trimming their oil basket price forecast. Drops in jet fuel consumption can spell downward pressure on air freight rates in the upcoming quarters.

 **JET FUEL PRICE INDEX**

SOURCE: IATA



## SENTIMENT TRACKER

This quarter, the general sentiment for air freight rates on the Asia to North America West Coast route was that rates were going to increase slightly over quarter 4, compared to a moderate increase sentiment in quarter 3.

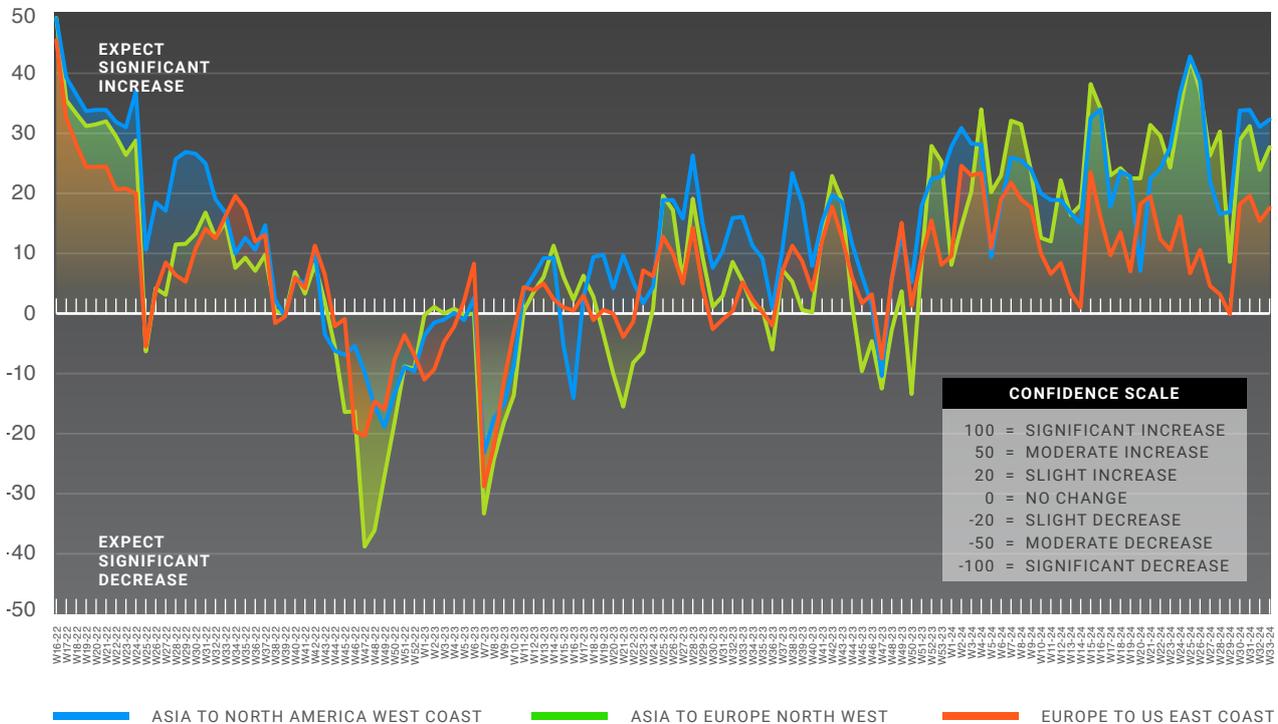
On the Asia to Europe North-West route, and the Europe to US East Coast route, sentiment remains identical, with the majority of respondents expecting a slight increase in air freight rates.

Globally, the sentiment has also remained consistent, with the majority consensus being that rates would increase slightly. This paints a picture of stability in the air freight market, as the market has remained resilient to changes in the political climate, compared to how the Red Sea Crisis influenced container shipping. Additionally, the market structure has shifted, with some segments of online retail contracting while others are experiencing significant growth.



### AIR FREIGHT CONFIDENCE INDEX

SOURCE: TI



## Global Air Freight Rate Outlook

	Q3 2024	Q4 2024	Q1 2025	Q2 2025	H2 2025
<b>Supplier disruption</b>					
Operating costs	↗	↗	=	=	=
Trade restructuring	↘	↘	↗	↗	=
Trade finance	↗	↗	↗	↗	=
Production utilisation	=	=	=	↗	↗
<b>Consumer / business demand</b>					
Consumer confidence	=	=	↗	↗	↗
Interest rates*	=	=	=	↗	↗
Inventory levels	↗	=	=	=	↗
<b>Shipping and logistics</b>					
Labour shortages	↗	=	=	=	=
Air transport capacity	↘	↗	=	↘	=
Airport capacity / congestion	↗	↘	=	↗	=
Inland transportation capacity	=	↗	↘	↗	↗
Fuel costs	=	↘	=	=	↗
<b>Airfreight Rates</b>					
	↗	↗	=	↗	=

Key	
=	No Change
↘	Deflationary pressure on rates
↗	Inflationary pressure on rates

### How should I interpret this chart?

- The chart shows how different factors are expected to affect freight rates over upcoming quarters. It then shows expectations for freight rates themselves.
- The arrows for the sections “Supplier disruption”, “Consumer/ business demand” and “Shipping and logistics” indicate how changes in this factor will affect freight rates in each quarter.
- The arrows in the “Air freight rates” section indicate the expected change of freight rates in each period.
- Across all rows the arrows depict change versus the prior quarter.

Freight rate outlooks for the Transpacific, Transatlantic and China / East Asia – Europe trade lanes are available on GSCI.

## GLOBAL OUTLOOK AND CONCLUSION

It would be tempting to describe the outlook for the global air freight market as benign, however that would be the wrong description. Not because of the prospects for overall market growth, which remain quite promising. Rather the volatility in demand at the market sector level is quite marked. This is also true in the geography of the business. These developments are generally driven by changes in products and economies. However, the impact of politics continues to be sustained and this will very much be the case over the next couple of quarters. Therefore, the stability of the headline number is possibly a little mis-leading. The growth experienced by different players in the market is likely to vary substantially. Providers in Germany are likely to experience either slower growth or possibly falling demand. The one area of growth into Germany will be services from China which are likely to see sustained strength in the short-term. North America is likely to see continued domestic growth but areas such as domestic air express services look to be stuck in the doldrums. Idiosyncrasies such as the suppression of services between the US and China are likely to continue, therefore the demand in areas such as charters will remain strong. Variability by region will also be significant. The demand for services into India has grown solidly not least in support of expanded electronics production in the country. Bangladesh on the other hand is struggling to provide increased airfreight capacity in the short-term, due to problems largely caused by the Red Sea crisis but also political instability in the country and constraints at its sea ports. Demand is also likely to be sustained in S.E.Asia as Chinese component suppliers feed material to assembly plants in the region and exports to the US and elsewhere increase.

Surprisingly the market may struggle to provide sufficient demand in the short-term. Prior to 2020 it was clear that the air freight market was oversupplied, especially with belly freight. It appears that this is no longer the case. In part this is due to issues such as bans on over-flights in Russian airspace and limitations on US-China passenger services that mean that capacity is less effectively deployed. However there does also seem to be an issue with production of new aircraft struggling to keep-up with demand. If this is sustained it could support air freight rates over the next several years. Overall, the prospects for airfreight look to be quite reasonable over the next quarter or two. There are a number of drivers of demand which will compensate for weaknesses elsewhere. The volume of supply also looks to be limited by various factors. All of this should support freight rates even as volumes continue to increase. But this should be no grounds for complacency. There are numerous drivers of volatility and some of are very significant. Trade patterns are often eccentric and possibly unsustainable. The probability of volatility within certain market segments seems very high.

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- Training, Conferences and Webinars. Ti has acted as advisors to the World Economic Forum, World Bank, UN and European Commission as well as providing expert analysis to the world's leading manufacturers, retailers, banks, consultancies, shipping lines and logistics providers.

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- Micro-economic analysis of key logistics segments: express, freight forwarding, road freight, contract logistics, warehousing, air cargo, shipping and e-commerce logistics.
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