

AIR FREIGHT STATE OF THE INDUSTRY

DECEMBER 2023

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Summary

Demand

- Overall air cargo demand +3% higher than Dec'22 on YoY comparison.
- Slight increase in output price inflation in Nov'23, yet it remained one of the lowest levels observed in the past three years.
- PMI index increased to 50.4 in November from October's 50.0, indicating a slight revival in production growth.
- Global demand remains low, leading to a decline in demand-driven price pressures towards their long-term average.

Capacity

- Air cargo capacity surged by +10% in Dec'23 vs Dec'22, boosted by a robust +17% growth in passenger belly cargo.
- Capacity remains sufficient in most regions, with some industry constraints/backlogs due to higher seasonal demand in Q4'23.

Carriers

- Middle East carriers expected to post a 12.3% increase in air cargo demand in 2024, followed by Latin America at 7.7%, Europe at 4.1%, Asia Pacific at 3.6%, North America at 2.1%, and Africa at 1.5%.
- Airlines from all regions reported higher tonnage in October, with Middle Eastern carriers showing the most substantial growth at 10.8% YoY.

Jet Fuel

- EIA Brent crude oil spot price forecast expect to increase from \$78/b in Dec'23 to \$84/b in Q1'24.
- Escalating instability from Israel conflicts and potential tension spread in the Middle East poses risks to oil supply and surplus production capacity.

Rates

- Global average rates trends increased around +8% in Dec'23 vs previous month, though we observe a decline of 18% compared to same period last year.
- Significant increase in spot rates observed from Asia Pacific, primarily led by China, due to strong e-commerce expansion.

Regulation/News

- Majority of flights to Tel Aviv still suspended due to conflict between Israel and Gaza.
- Lufthansa Group carriers will partially resume flights to Israel in Jan'24. American Airlines and Delta Air Lines flights remain on hold.
- ICAO aims to cut aviation CO2 emissions by 5% from current fossil fuel levels by 2030.
- Russia/Ukraine: Sanctions likely to remain active for the foreseeable future.

Market Developments

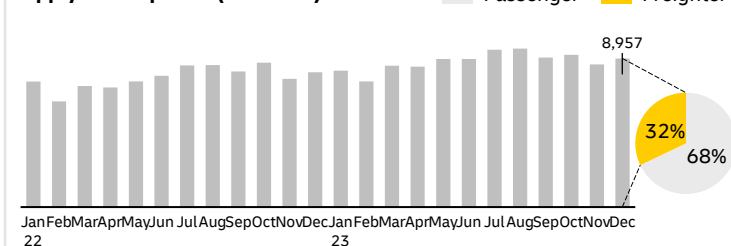
Economic Outlook

GDP Growth by Region

	2023F	2024F	2025F	2026F	2027F	CAGR (2023-2027)
Euro	0.70%	0.75%	1.65%	1.70%	1.65%	1.44%
MEA	1.93%	2.73%	2.91%	3.70%	3.46%	3.20%
AMNO	2.31%	1.33%	1.39%	1.71%	1.68%	1.53%
AMLA	2.35%	1.79%	2.59%	2.88%	3.03%	2.57%
ASPA	4.30%	4.11%	4.12%	4.07%	4.02%	4.08%
World	2.54%	2.26%	2.58%	2.75%	2.72%	2.57%

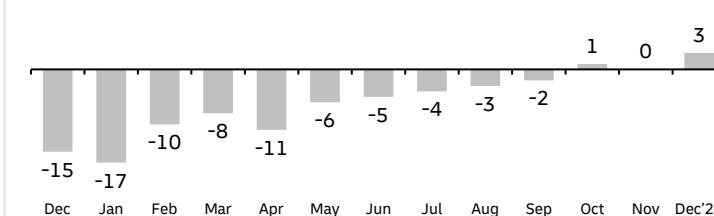
Supply

Supply Development (000 Tons)



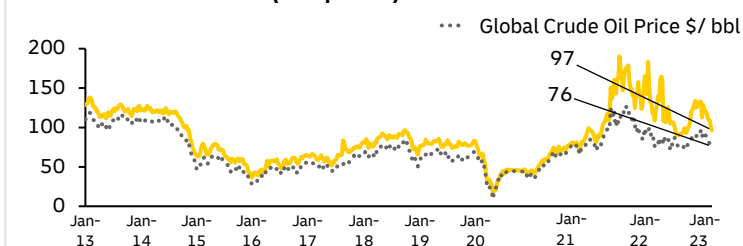
Demand

Demand Development in Tons (% change YoY)



Jet Fuel

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



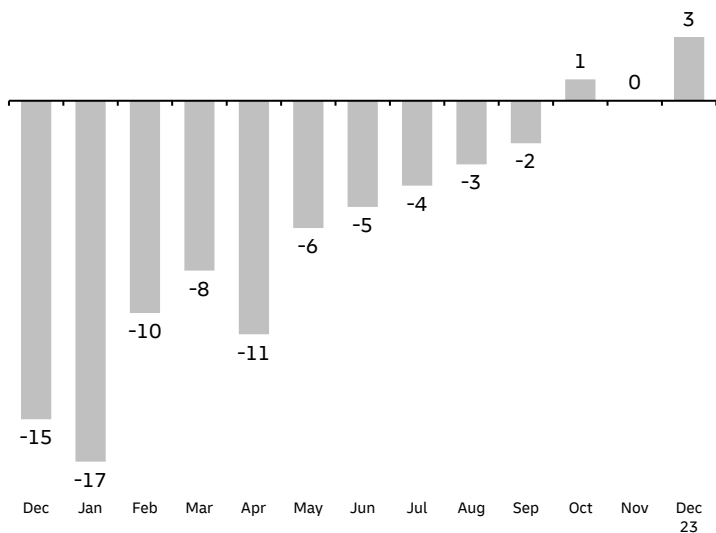
- Global growth projected to be 2.54% in 2023 and weakened to 2.26% in 2024.
- Global economy picked up its pace in November, as consistent new orders helped drive a slight uptick in output, while inflation rates remained little-changed.
- PMI index increased to 50.4 in November from October's 50.0, indicating a slight revival in output growth.
- Activity growth continued to be seen only in the service sector, while manufacturing output remained in contraction for the sixth consecutive month.
- Capacity remain sufficient in most regions, with some constraints due to heightened seasonal demand in Q4'23.
- EIA Brent crude oil spot price forecast expect an average of \$83/b in 2024.

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

Demand

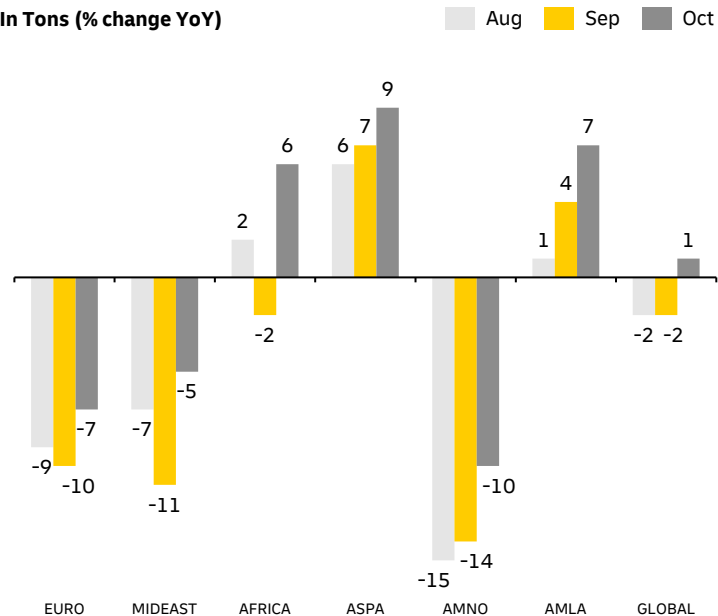
Global Volume Development

In Tons (% change YoY)



Regional Volume Development

In Tons (% change YoY)



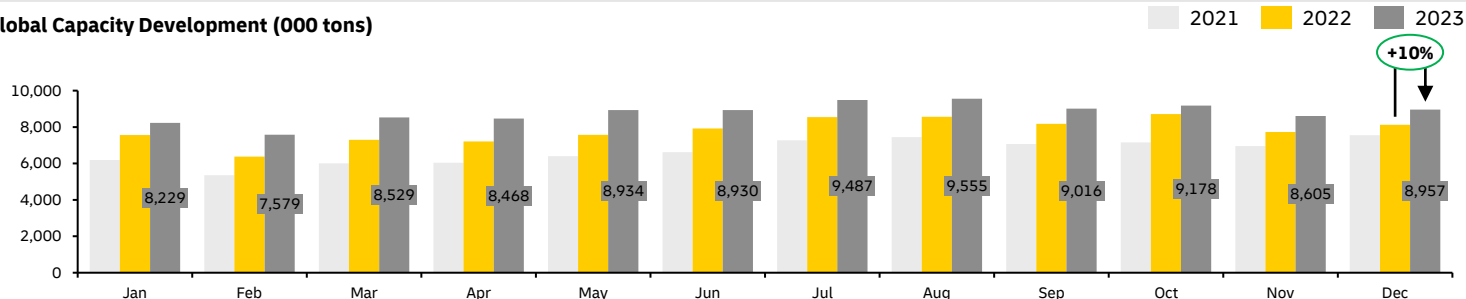
- Worldwide air cargo demand remains above their levels comparing to Dec'22, now standing +3% higher YoY.
- Significant rise in tonnage compared to last year observed across some regions, mostly driven by Asia Pacific.
- Asia sees a surge in tonnage driven by booming e-commerce, new product introductions, and increased retailer use of air shipping.
- Tech & Consumer sectors playing a significant role in driving increased demand, resulting in industry backlogs in CN and HK.
- Substantial decline in tonnage ex-North America and Europe, while less severe than the deficits previously reported, is attributed to reduced consumer demand.

Source: WorldACD Market Data & desk research; *I/S- Inventory to Sales ratio; demand data available till Dec'23 only on global level

Capacity

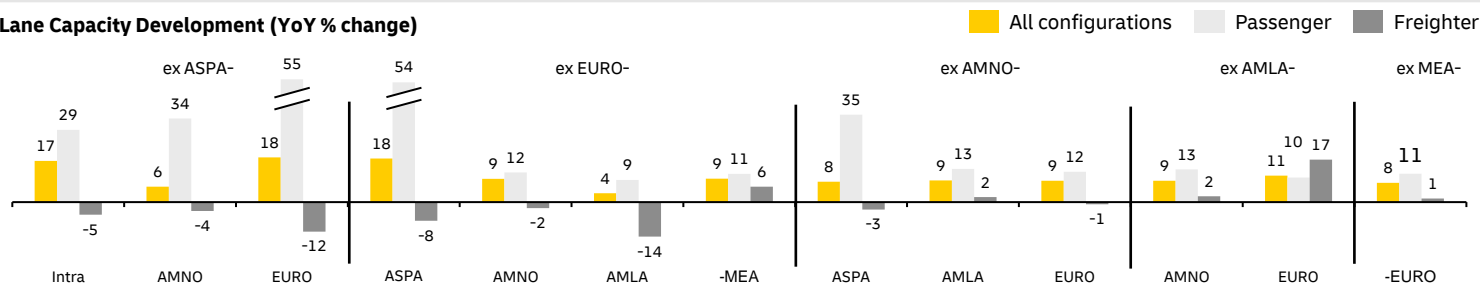
Global Capacity Development

Global Capacity Development (000 tons)



Trade Lane Capacity Development

Lane Capacity Development (YoY % change)



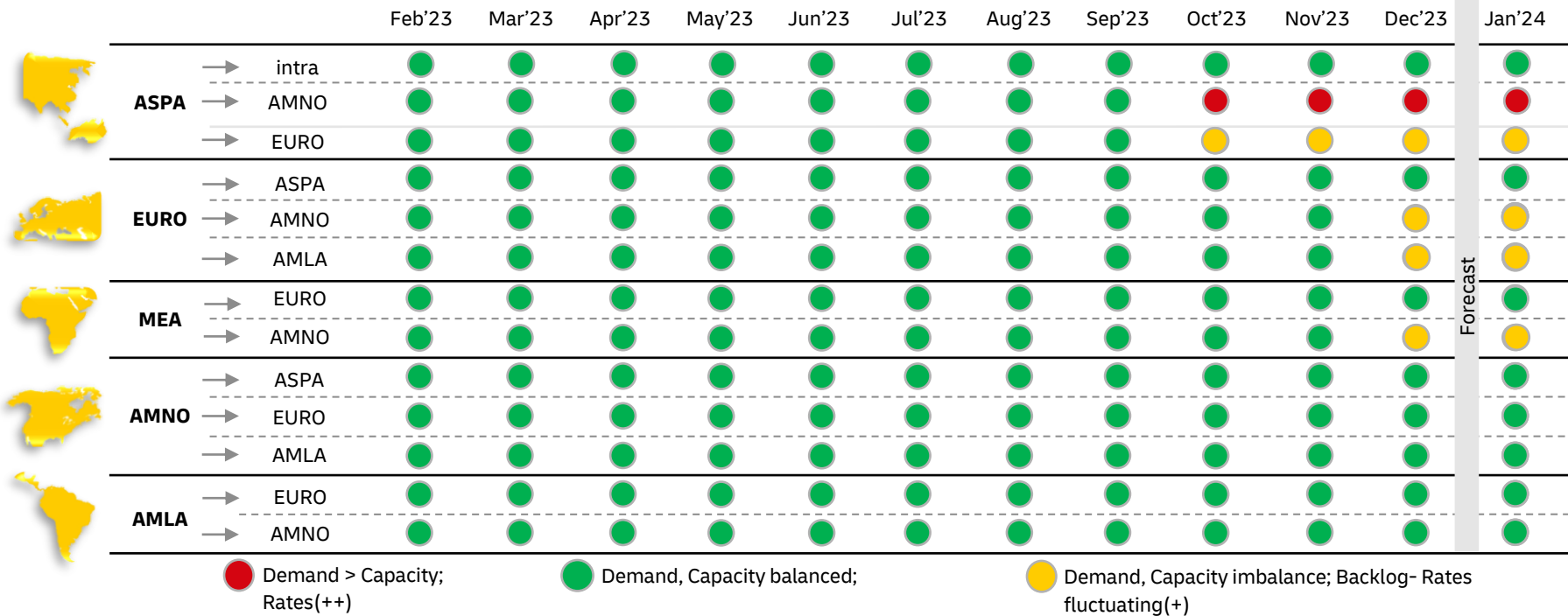
Source: Seabury

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- Global capacity continues an upward trend, now at +10% vs Dec'22, mainly driven by the strong growth of passenger belly cargo.
- Belly capacity rose by 17% YoY, reflection of the noteworthy increase of > 50% YoY observed between Asia Pacific & Europe regions.
- Capacity constraints from EU & MEA to US due reduced flight rotations and seasonal slot limitation, while capacity from Americas remain sufficient.
- Significant industry backlogs in Tel Aviv and major airports across the Asia-Pacific (AP) region, particularly at PVG and HKG.
- Limited capacity ex. AP due to disruptions from severe Alaskan weather, AOG's due to extensive use of aircrafts and limited charter availability amidst high e-commerce demand.

Regional Market Development

Market development on key regional tradelanes



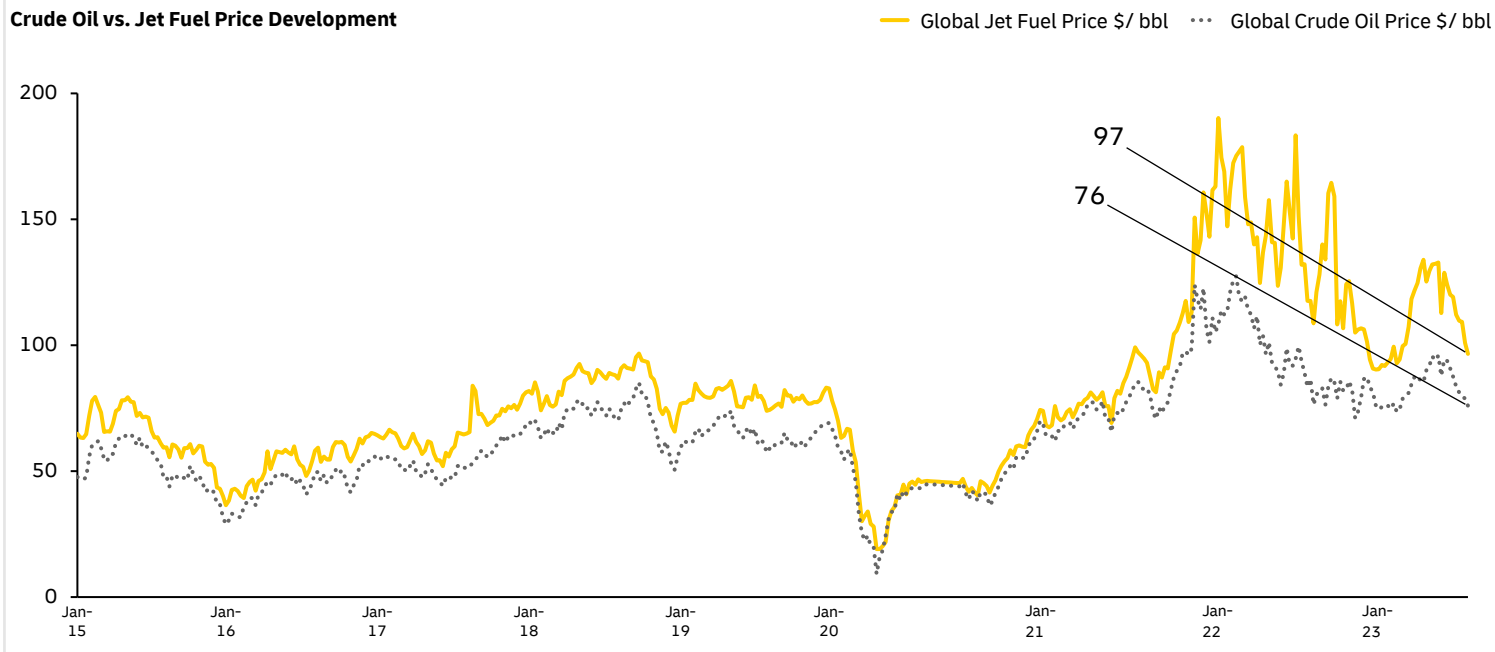
Source: DGF Desk Research

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Jet Fuel

Jet Fuel Price Development

Crude Oil vs. Jet Fuel Price Development



- Brent crude oil spot average price expected to increase from \$78/b in Dec'23 to \$84/b in Q1'24, driven by recently announced OPEC+ production cuts.
- Despite cuts, EIA reduced its 2024 Brent crude oil forecast to \$83/b (down \$10/b from before), reflecting the risk of rising OPEC+ production after Q1'24 cuts, which could impact future oil prices negatively.
- Escalating instability due to conflicts in Israel and the potential spread of tensions across Middle East area poses risks to oil supply, including the available surplus production capacity.

Source: EIA; DGF Desk Research; updated till November 2023 available date

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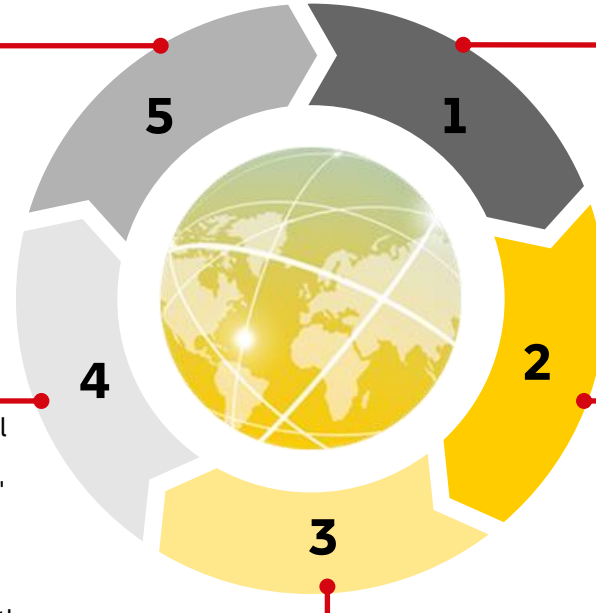
2024 Q1– What to expect?

SERVICE DISRUPTIONS

- Significant industry backlogs from Asia Pacific expected to continue until mid-Feb'24 amid strong e-commerce demand.
- LH and UA are set to partially resume flights to Israel in Jan'24, while DL and AA have extended suspension until further notice.

ECONOMIC GROWTH

- PMI Index suggest a further cooling of global inflation to around 3.5% in early 2024.
- Manufacturing output and major economies' export orders linger below the growth threshold.
- Global economic slowdown will occur in the first half of 2024, with activity heating up in the following months.



RATES

- Increased reliance on longer-term contracts.
- Spot rates expected to follow traditional seasonal patterns.

DEMAND

- Stronger volume expected prior to Lunar New Year, as companies seek to reduce inventory before a temporary lull.
- IATA predicts a 4.5% rise in air cargo volumes in 2024, while pressure on rates is likely to bring down revenues for the sector.

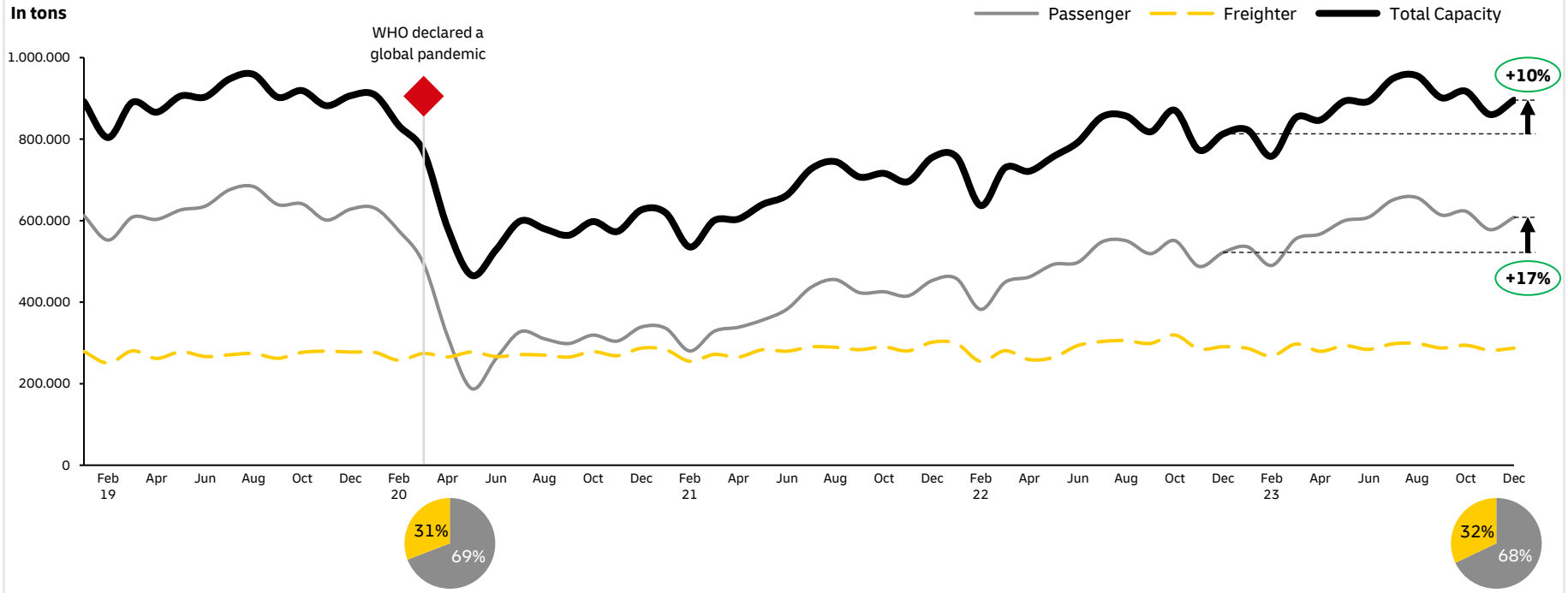
CAPACITY

- Capacity constraints ex-AP likely to stabilize after Lunar New Year.
- Global airfreight capacity will likely continue to outpace market demand.
- Airlines planning significant PAX capacity increases in Q1'24 compared to the same period in 2023.

BACKUP

Global Capacity Development

Capacity Development by Aircraft Configuration January 2019 – December 2023



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

Abbreviations

Explanation of Abbreviations

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

THANK YOU