

AIRFREIGHT STATE OF THE INDUSTRY

OCTOBER 2022

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Summary

<p>Demand</p> <ul style="list-style-type: none"> • Volumes remain low; worldwide high inflation to continue into 2023 • Transatlantic volumes remain comparatively stronger amidst global volume drop • Global average inflation rate is expected at ~9% for 2022 • Reduced purchasing power likely to create lesser demand/volumes • Lower sales and high inventory across most sectors; retail and manufacturing most prominent • Trend of air shipments converting into ocean freight • Shippers likely to shift mode of transport as reliability of vessel schedule is improving 	<p>Capacity</p> <ul style="list-style-type: none"> • Overall capacity up by +18% in Oct '22 vs Oct '21 ; month on month improvement continued • PAX capacity continued to improve due to high travel demand; +23% higher than '21 	<p>Rates</p> <ul style="list-style-type: none"> • Rates show signs of softening on most tradelanes. In Aug '22 rates globally were +6% higher vs Aug '21; month-on-month reduction continues • Aggressive spot market expected; fuel surcharges likely to fluctuate with fuel prices
	<p>Carriers</p> <ul style="list-style-type: none"> • CX ramped up PAX flights in October; daily flights into Tokyo in November • Space constraints outbound China to improve after Golden week cancellations • Airspaces closure continues- EU, UK, US among others closed airspaces for Russian airlines and vice-versa; increased transit times 	<p>Regulation/News</p> <ul style="list-style-type: none"> • With the re-opening of Japan border to international tourists and easing of hotel quarantine for arriving passengers in Taiwan and Hong Kong, more passenger travel is expected. Belly capacity likely to be added • Inflation rate for 2022 will be ~6 percentage points higher than the World Bank's average inflation rate over the past decade (2010 to 2019) • Russia, Ukraine crisis continues; sanctions likely to be in effect
	<p>Jet Fuel</p> <ul style="list-style-type: none"> • Prices touched \$148/Bbl in Sep '22 • OPEC+ countries announced production cut 	

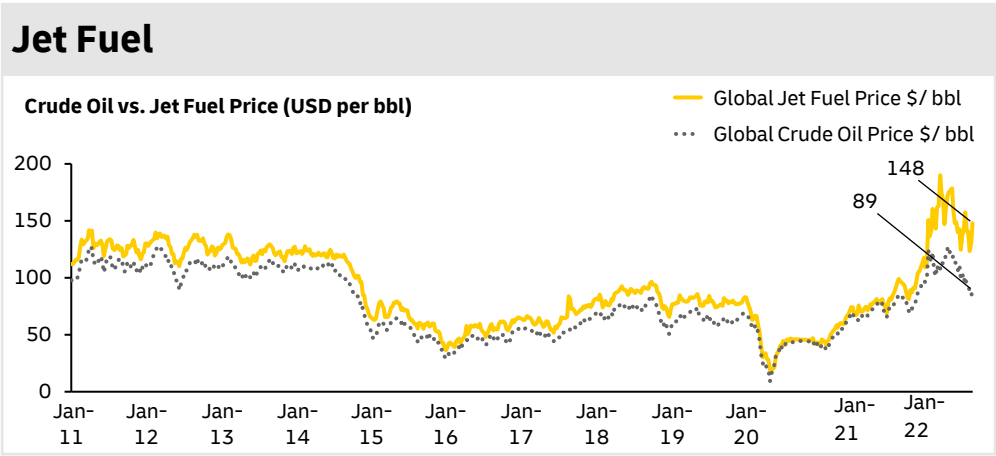
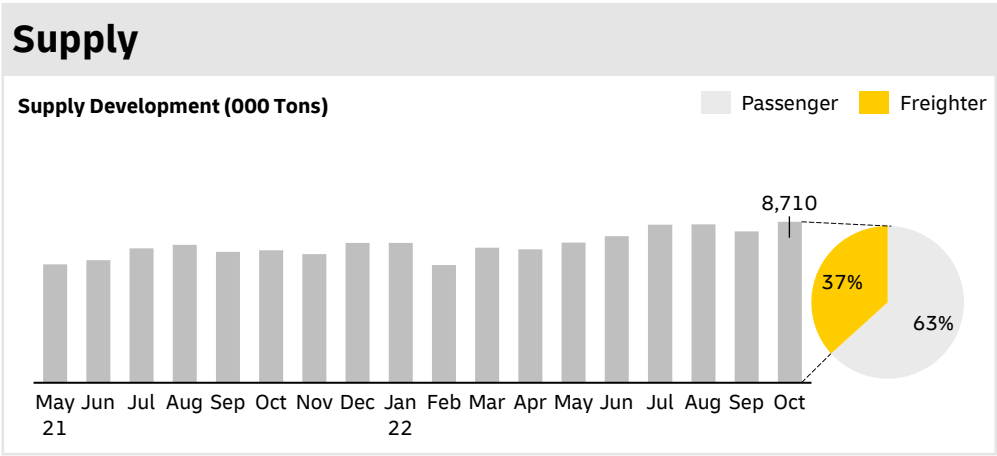
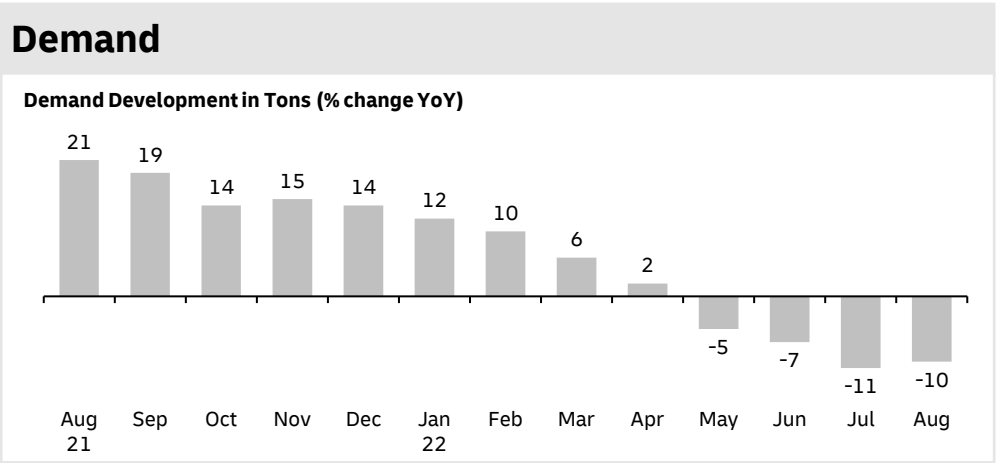
Source: IATA, Seabury, WorldACD Market Data, DGF Desk Research

Market Developments

Economic Outlook

GDP Growth by Region

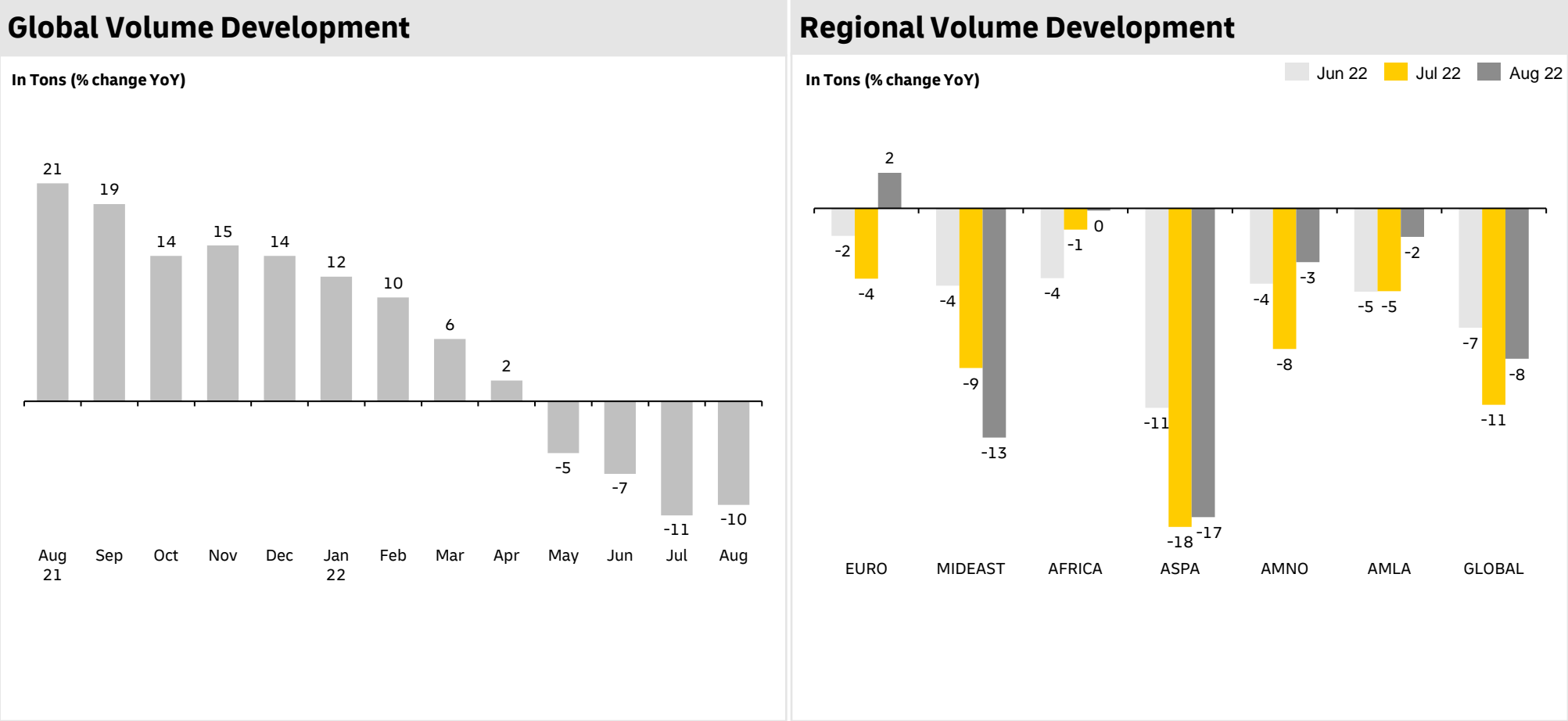
	2022F	2023F	2024F	2025F	2026F	CAGR (2022-2026)
EURO	2.02%	0.73%	2.12%	1.78%	1.69%	1.58%
MEA	4.38%	3.36%	3.60%	3.14%	3.15%	3.31%
AMNO	1.64%	1.06%	1.75%	2.13%	2.02%	1.74%
AMLA	2.56%	1.58%	2.55%	2.73%	2.89%	2.44%
ASPA	3.80%	4.12%	4.36%	4.19%	4.18%	4.21%
World	2.75%	2.29%	2.99%	2.93%	2.90%	2.77%



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

- World economy forecasted to grow by ~3% in 2022; '23 growth likely to be affected due to persistent inflation;
- Demand continued to remain low on most tradelanes
- Overall scheduled capacity -5% in Oct '22 vs Oct '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; fuel prices have showed only slight signs of softening
- Jet fuel price reduced but remained high reaching \$148 in Sep '22; oil production likely to be affected

Demand

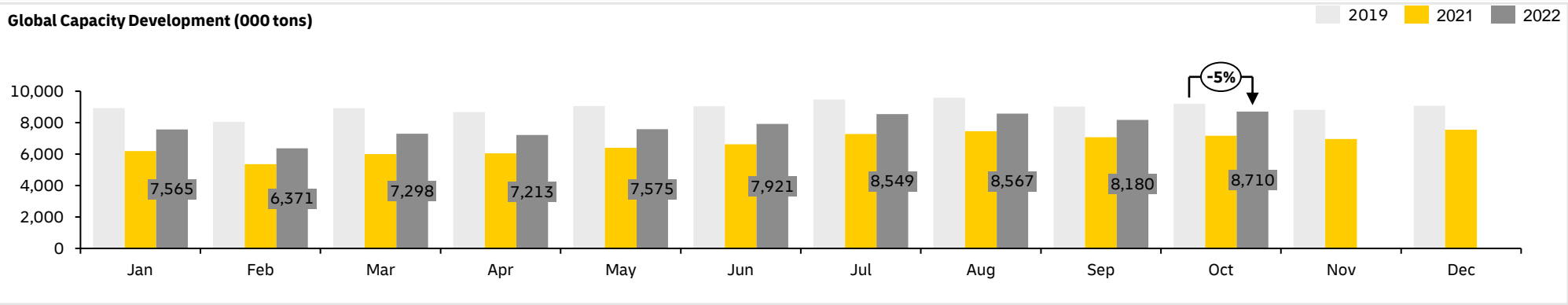


Source: WorldACD Market Data; * I/S- Inventory to Sales ratio; data available till Aug 22 only on global level

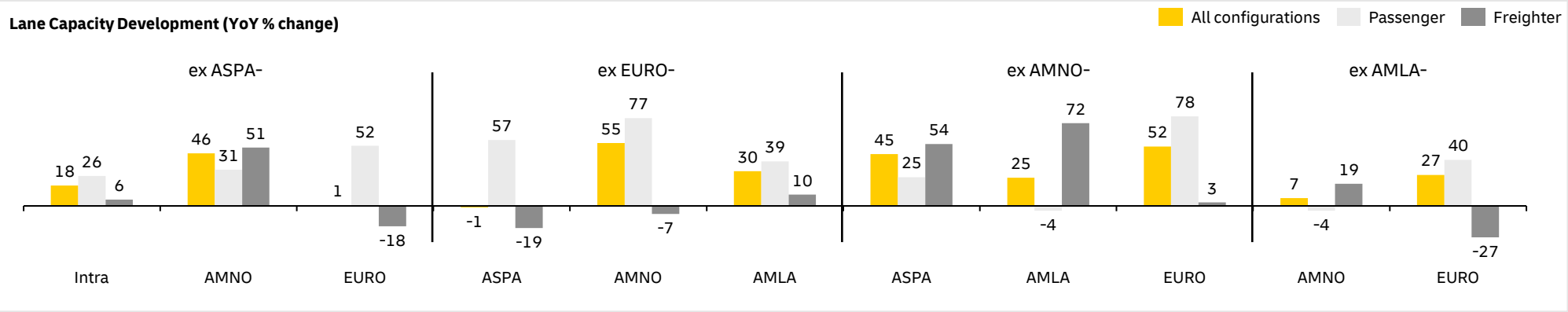
- Demand has softened since Apr this year and remains low; '22 peak season unlikely to witness a volume surge similar to last year
- **Demand drive remained low mainly due to inflation experience by major economies; export orders still low in emerging economies especially across ASPA**
- **Current Inventory/Sales ratio** indicates packed inventories low sales which is line with reduced export orders
- Most of the major tradelanes experienced YoY declines in volume and overall contributed to a flat growth of the global air trade
- Transatlantic trade however is different from the trend; volumes remained slightly higher compared to '21
- Retail and manufacturing **inventories** were record **high** which further slowed down airfreight volumes
- With returning reliability, trade shift to sea freight has also reduced air volumes

Supply

Global Capacity Development



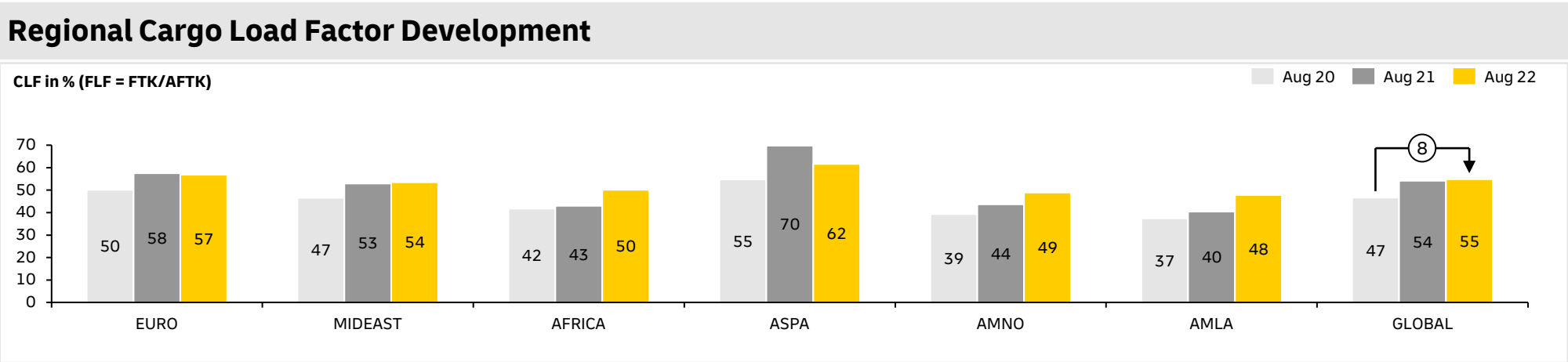
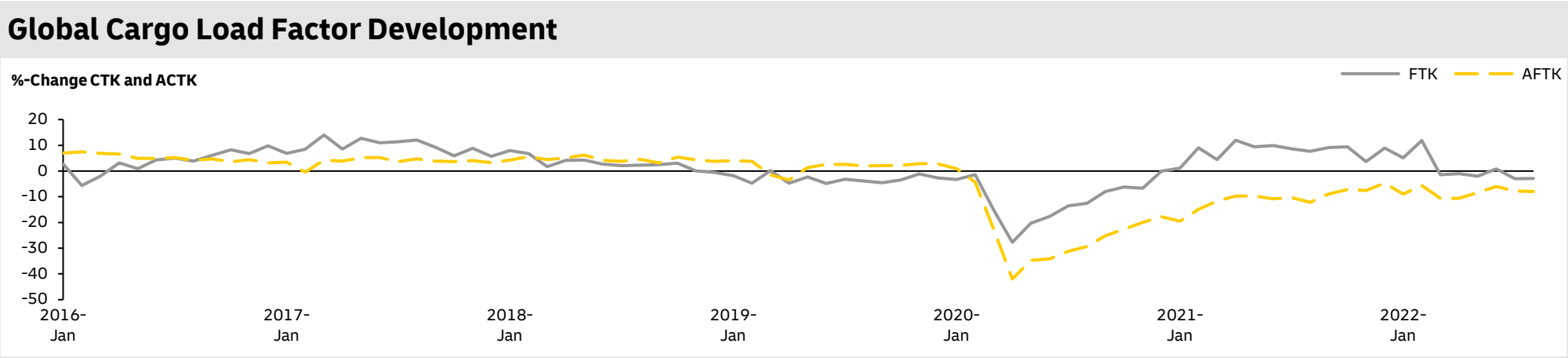
Trade Lane Capacity Development



Source: Seabury

- Global capacity now **-5% vs Oct '19** but **+18% higher against last year**
- **Belly capacity +23% higher than Oct '21**
- MoM capacity recovery continues and is ample to support the currently low volumes
- Capacity added outbound **ASPA** due to travel ease; demand unlikely to surge towards '22 end but the improving capacity is 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
- As sea freight schedule reliability increases and cost reduces, lesser pressure on air capacity is expected

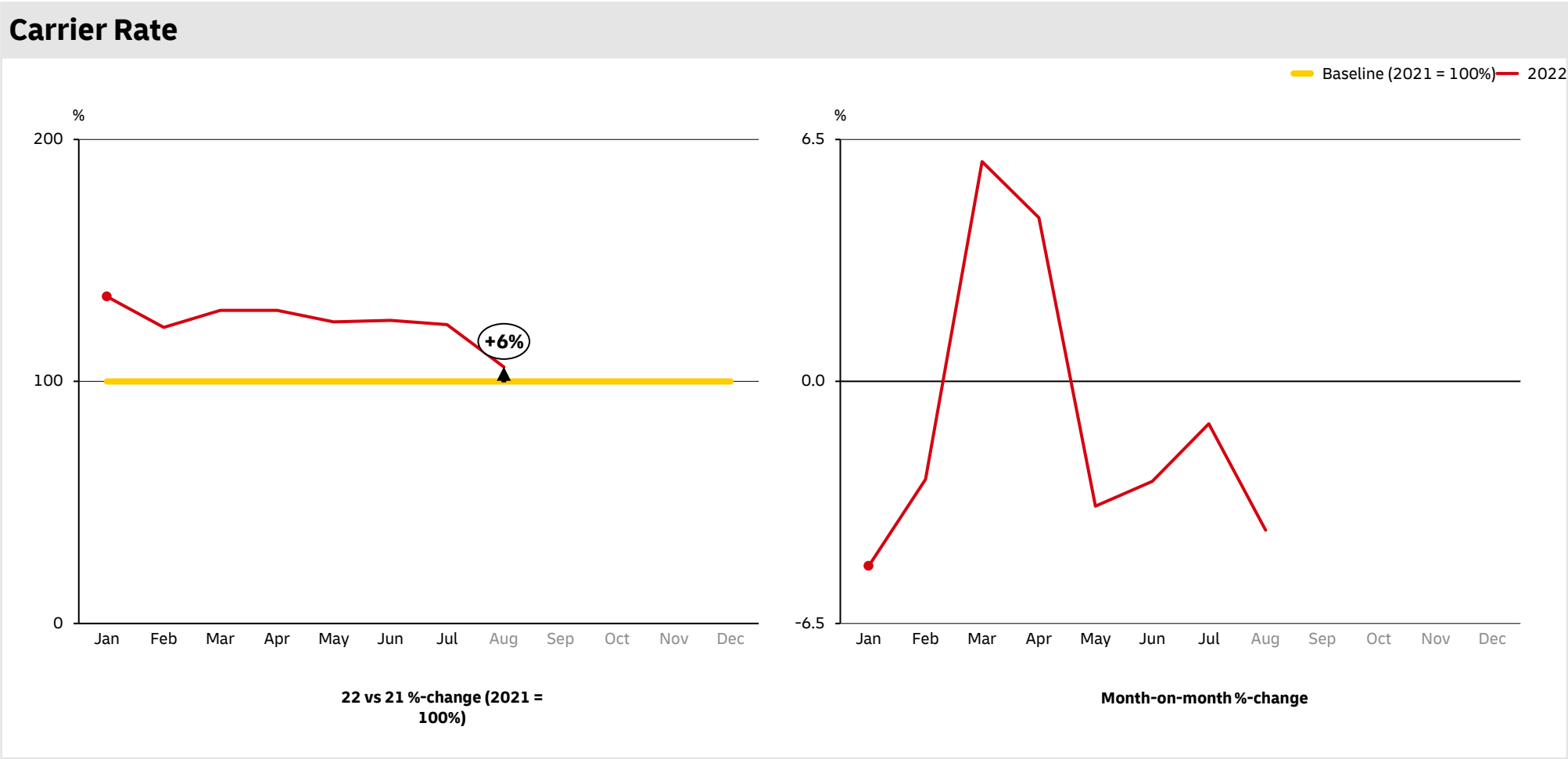
Utilization



- 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 ~8 Pts YoY in Aug '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



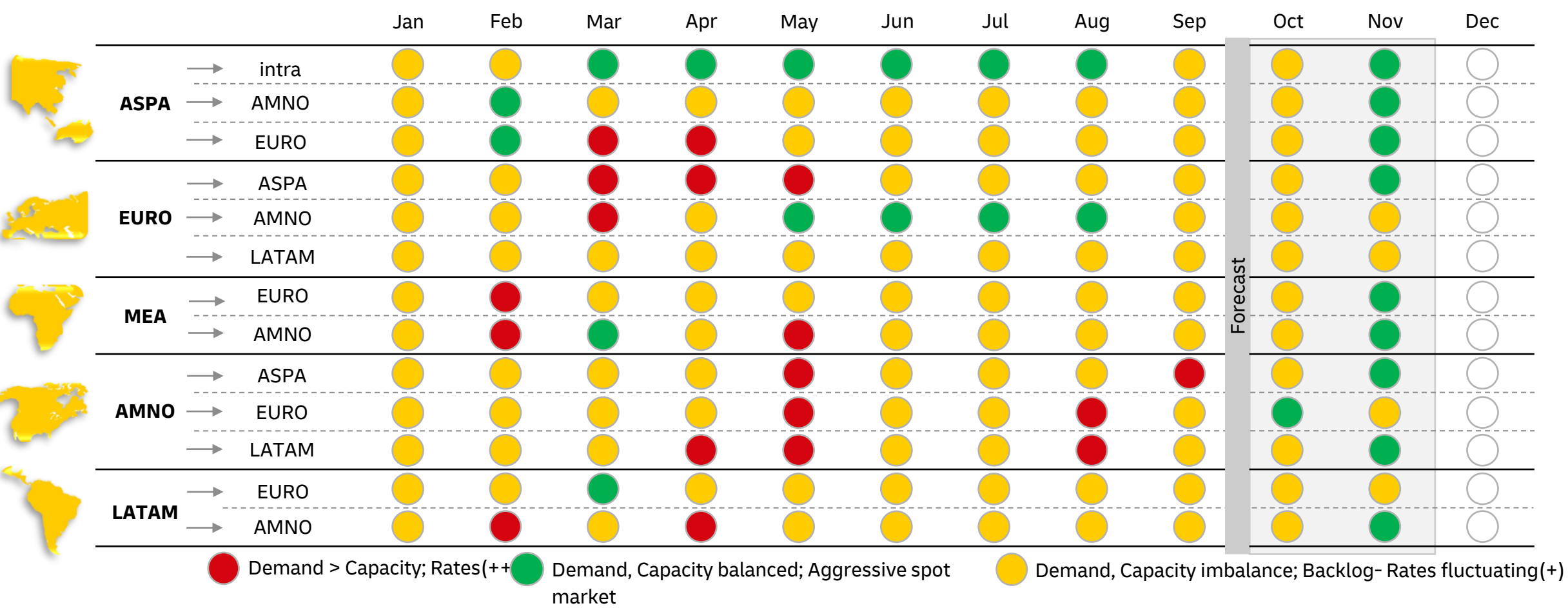
Source: WorldACD Market Data; average freight rate including other charges

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- Rates **continued to be aggressive on most tradelanes as demand remains soft**; both YoY and MoM comparisons indicate the onset of an aggressive spot market
- **With softened demand and sufficient capacity, we are expecting an aggressive spot market on most tradelanes**
- Rates could further ease as capacity continues to recover, but are still well above 2019 levels; Continuing return of capacity has softened yields in recent months
- Rates likely to remain affected mostly due to **jet fuel price hike and service disruptions**
- Fuel surcharges likely to fluctuate amidst oil price fluctuations
- Rates now being compared against last year as demand-capacity imbalance is stabilizing
- Sep '22 rates maintained the Aug trend; with volumes likely to remain low, the market may remain similar till '22 end

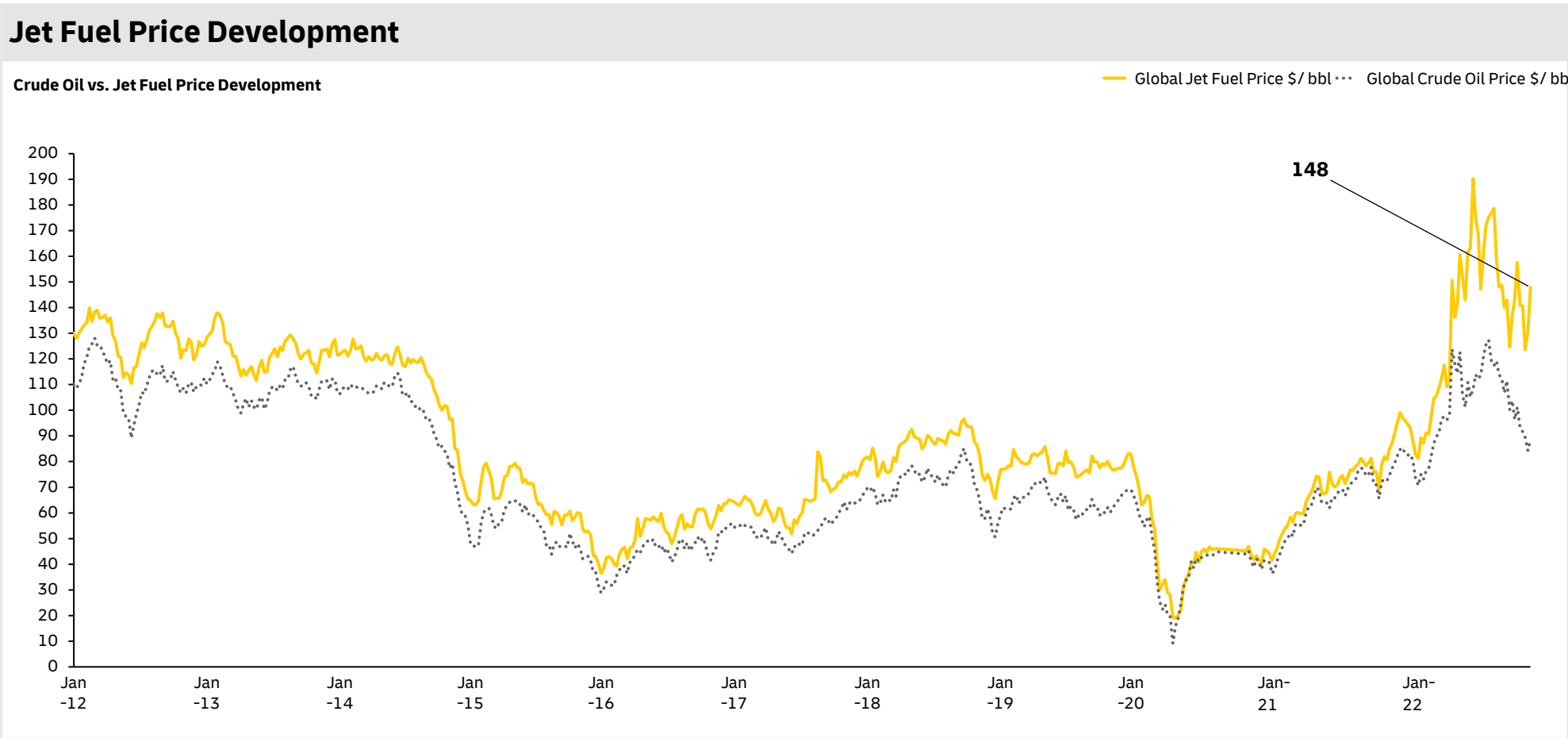
Regional Market Development

Market development on key regional tradelanes



Source: DGF Desk Research; forecast Oct-Nov 22
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Jet Fuel

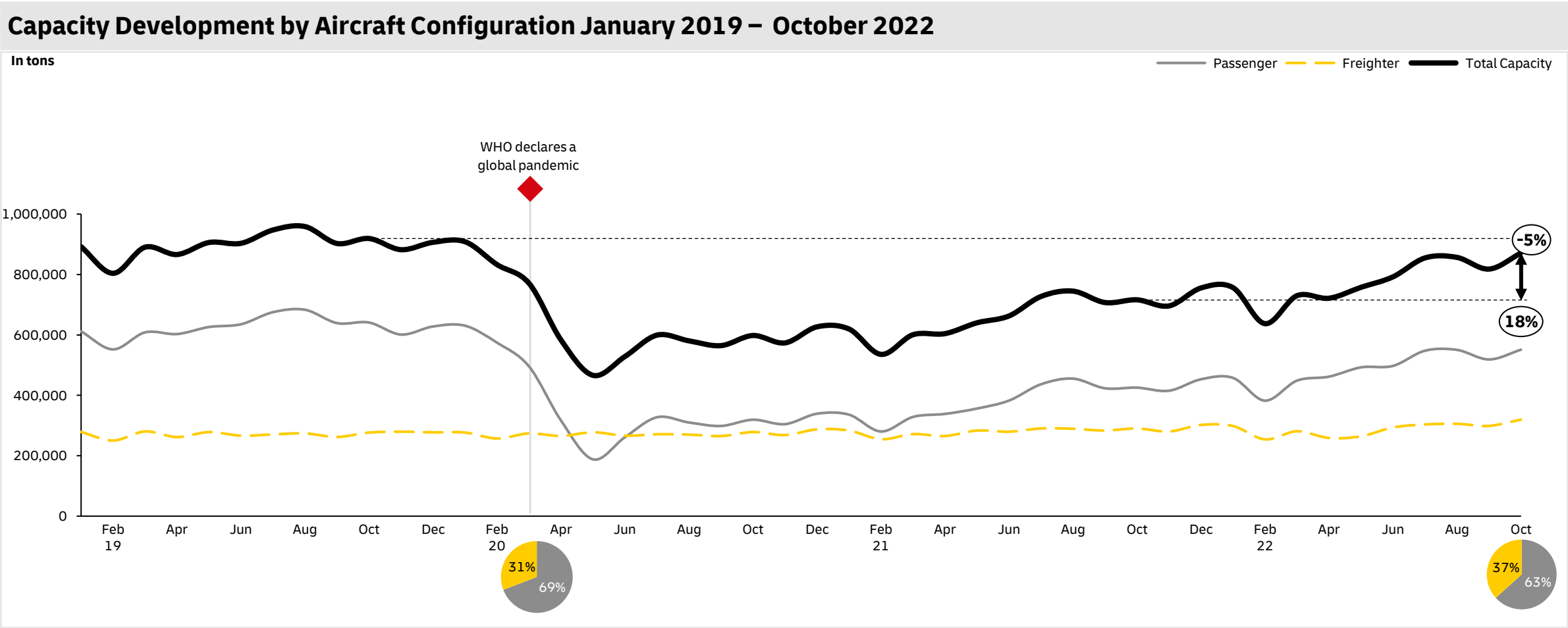


Source: DGF Desk Research; updated till September 2022 available date

- Jet fuel price touched **\$148/Bbl** in Sep '22
- **EIA forecasts Brent crude oil price to averaged <\$100/Bbl in Q4 '22 as well as in 2023**
- OPEC+ countries announced production cut which reduced EIA forecast for crude oil production
- 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**
- As EIA estimates, global consumption of liquid fuels will rise by an average of 2.1 million Bbl/d for all of '22 and by an average of 1.5 million Bbl/d in '23
- **Sanctions continue and uncertainties remain** on the UA/RU situation; any forecast likely to change

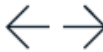

















Global Capacity Development



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

Potential Way Forward

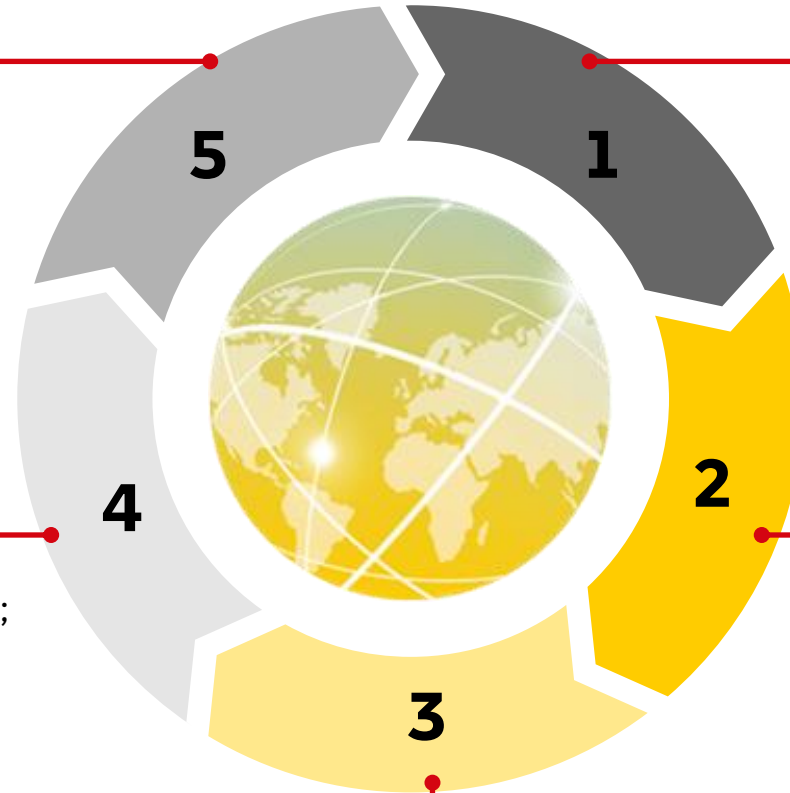
			
	Back to pre-Covid balance	The uncertain world	Strong profits continue
Demand	 Macroeconomic trends (e.g., inflation) slow down overall economic growth.	 Supply chain and geopolitical issues linger causing demand to be ever so uncertain	 Demand remains high given high e-commerce growth and low difference of transportation cost vs sea freight
Supply	 Supply recovers but stabilizes around pre-Covid levels	 Airlines (and new players) do not maintain capacity discipline causing demand & supply to be out of sync	 Supply increases, but does not exceed capacity growth
Yields	 Load factors and yields stabilize around pre-Covid levels, ending periods of high cargo profits	  Yields are volatile but pockets of value exist	 Yields stabilize but remain high compared to pre-Covid
Implication for airlines			
	Optimize productivity and efficiency, retire dinosaurs	Remain agile	Grow and invest earnings

Source: IATA-McKinsey & Company

2022 Q4; 2023 Q1– What to expect?

SERVICE DISRUPTIONS

- COVID outbreaks impacting operations
- Airport backlogs amid staff shortage- EU, AMER
- Unforeseen circumstances can affect further- COVID lockdowns in HK, JP



LOW BUT STABLE DEMAND

- Demand is expected to remain low on most tradelanes; Inventories high, low sales
- Manufacturing PMI index has fallen below 50
- Volume surge unlikely in peak season; demand may increase due to new Tech launches

ECONOMIC GROWTH

- Worldwide inflation
- UA/RU crisis; soaring energy and food prices; oil prices extremely high
- Air demand directly related to GDP growth direction

CAPACITY RECOVERY

- Capacity at MoM recovery; will continue to improve subject to market conditions
- PAX resumption on most tradelanes; addition of belly capacity

SPOT MARKET

- Aggressive spot market expected
- Demand to remain low and capacity likely to be enough to support; fuel price will be high

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