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Cargo Weight Is Dragging Down Aviation

Weakness in international trade is hurting airlines' freight revenues and poses a problem for Boeing

By Jon Sindreu

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For all the fears of a global economic slowdown, putting people on a plane is still a moneymaking proposition. But putting goods on a plane might not be.

Demand for global airfreight—measured in freight tonne kilometers—dropped 3.3% in the year through August, the International Air Transport Association said last week. Global airfreight volumes have been falling for 10 consecutive months year over year, the longest losing streak since the 2008 financial crisis. China's structural economic slowdown and its tariff spat with the U.S. are the likely culprits.

With few signs of a rebound in the latest manufacturing data, the airfreight industry's weakness is a headwind that airlines and plane makers—particularly Boeing —will likely need to keep battling.

Just like in the container-shipping industry, faltering demand hasn't been enough to stop the expansion in freight capacity, which rose 1.9% this year through August. This speaks to a fundamental problem in the air-cargo business: Airlines fly more jets to meet demand from passengers, but this also automatically expands their freight space, depriving them of pricing power. World-wide general cargo yields were down 7.1% over the same period, according to market-data firm WorldACD.

On Friday, Europe's airfreight leader Lufthansa said that unit cargo sales dropped 3.6% in September. A day earlier, Delta Air Lines said that cargo revenue had fallen 17% in the third quarter.

U.S. carriers have so far been harder hit even than Asian ones, despite the disruption at the Hong Kong International Airport caused by recent protests. In the three months through August, North American airlines' U.S. dollar revenue from air-cargo flows between China and the U.S. fell 26% relative to the same period of 2018, compared with 17% for Chinese airlines, WorldACD said. Airlines in other regions lost only 12%.

The impact is particularly visible at U.S. cargo-only airline Atlas Air. Its shares plummeted in August and are now 60% lower than a year ago, compared with a fall of about 10% for Cathay Pacific Airways —Asia's top cargo carrier.

In time, the current surplus of freight space could also hit the manufacturers that make planes specifically designed for freight.

A key example is Boeing's flagship 777 jet, which has long relied on cargo buyers: They made up 33% of orders in 2018 and 65% so far in 2019. The company has said it is now leaning on freighter deliveries to fill production gaps in 2020, because faulty General Electric engines are pushing out the production schedule of the new model, the 777X.

> The market for commercial wide-body planes in general seems saturated. The 777X is a slow seller, and last week Russian airline Aeroflot canceled an order for 22 787 Dreamliner jets.

Having to cut wide-body production rates in the future would be bad news for both Boeing and its European rival Airbus, which spend a lot of money designing planes and need to build a lot of them to turn a profit. But the Chicago-based manufacturer would be especially affected because it dominates the market for bigger jets, and already has cut production rates on the grounded 737 MAX narrow-body model. Freighter demand from the likes of FedEx and UPS also is keeping its aging 767 in production.

Air cargo isn't usually a make-or-break market for the aviation industry. Right now, though, it is proving to be a very inconvenient ballast.

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