

AIRFREIGHT STATE OF THE INDUSTRY

DECEMBER 2022

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Content

- **Summary**
- **Market Developments**
- **Demand**
- **Supply**
- **Utilization**
- **Rates**
- **Jet Fuel**
- **Backup material: Global Capacity Development, What to expect?**
- **Stay in Touch**

Summary

Demand

- **Volumes remain low;** worldwide high inflation to continue into 2023-likely to decrease
- PMI Index still indicates low export orders
- Currently high inflation impacts the purchasing power and is likely to affect till mid of 2023
- E-commerce movements added negligible growth to global volumes around end Nov and Dec 2022
- Reduced ocean freight cost is seeing a shift in transport mode from air to sea
- Volumes expected to witness flat growth even in first two quarters of 2023; Lunar new year may witness a short volume spike

Capacity

- Overall capacity **sufficient to support current demand** levels; belly capacity also increased
- Resumption of PAX travel has improved capacity as new schedules are announced by airlines

Carriers

- Cancellations from China based carriers due to strict COVID policies
- Carriers increased flight frequencies across all regions; new freighter schedules also included
- Airspaces closure continues- EU, UK, US among others closed airspaces for Russian airlines and vice-versa; increased transit times

Jet Fuel

- Prices touched **\$118/Bbl** in Dec '22
- Oil inventories forecasted to increase in 2nd half of 2023

Rates

- Aggressive spot market across most tradelanes; the same trend continues since Sep
- Globally rates are below their level against last year despite effects of higher fuel prices

Regulation/News

- Border Force officers working at a range of airports in the UK will launch eight days of industrial action over the Christmas period that could lead to shipment delays
- Deutsche Bahn prepares for the sale of DB Schenker, as it looks to focus on its core rail business
- Russia, Ukraine crisis continues; sanctions likely to be in effect

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

Market Developments

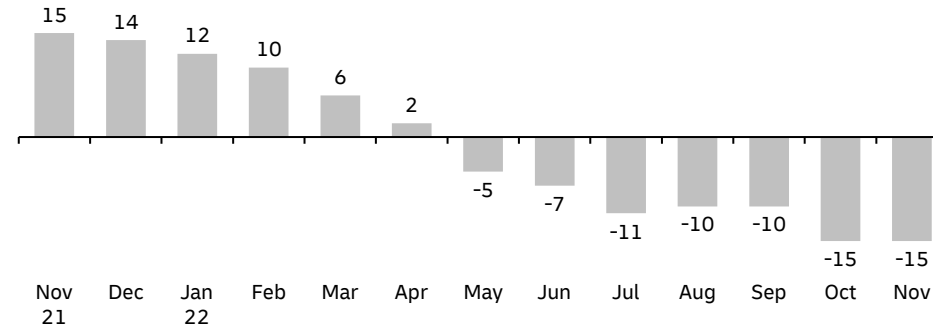
Economic Outlook

GDP Growth by Region

	2022F	2023F	2024F	2025F	2026F	CAGR (2022-2026)
EURO	2.24%	-0.68%	1.72%	2.11%	1.79%	1.23%
MEA	5.01%	3.12%	3.40%	3.31%	2.96%	3.20%
AMNO	1.89%	-0.15%	1.32%	1.84%	1.90%	1.22%
AMLA	3.43%	1.55%	2.55%	2.82%	2.88%	2.45%
ASPA	3.43%	3.81%	4.63%	4.30%	4.29%	4.26%
World	2.82%	1.43%	2.81%	2.95%	2.88%	2.52%

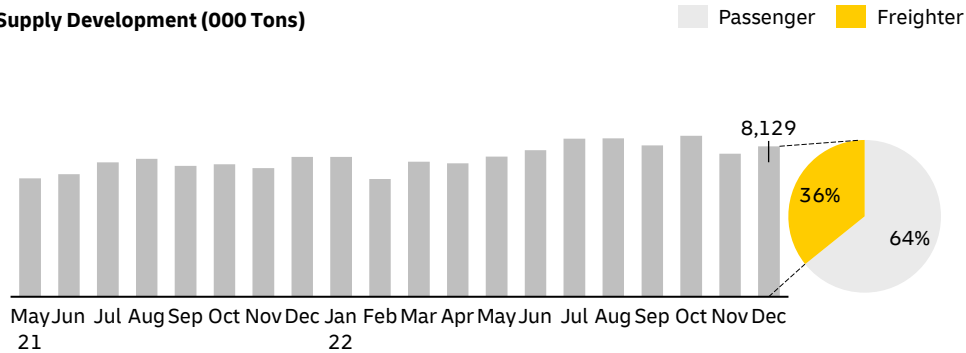
Demand

Demand Development in Tons (% change YoY)



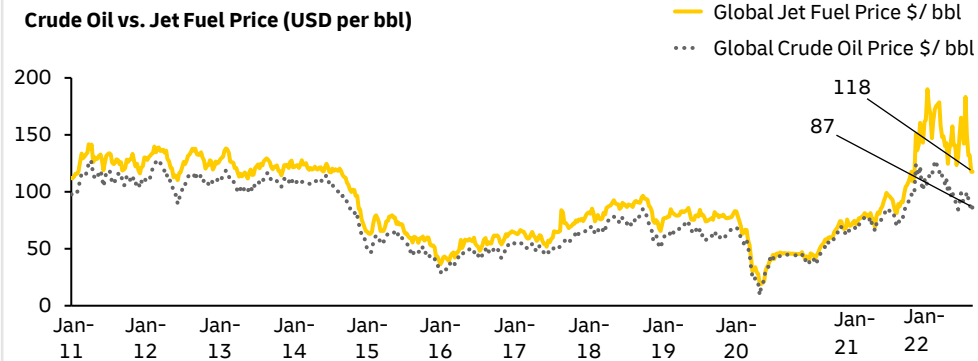
Supply

Supply Development (000 Tons)



Jet Fuel

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



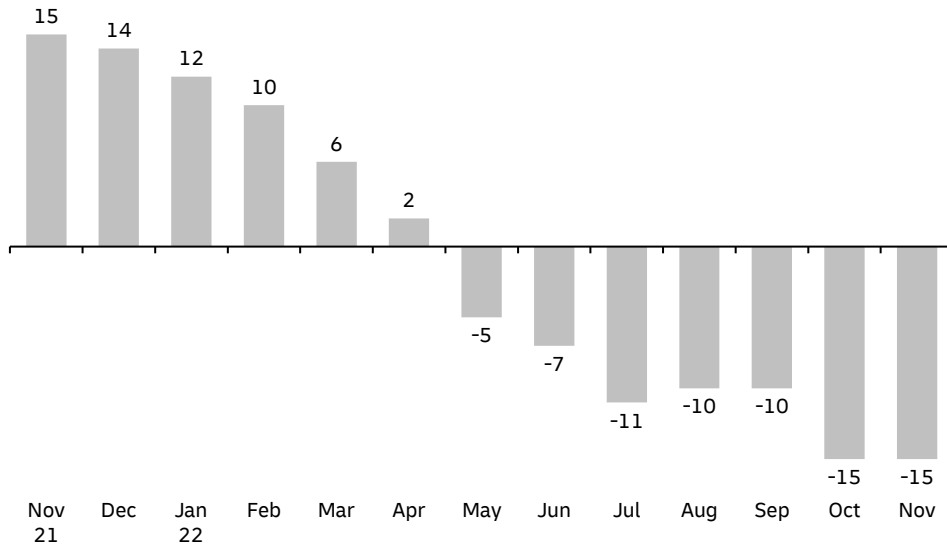
- **Global inflation** is forecasted by IMF to decline to **6.5%** in **2023** and to **4%** by **2024**
- **Demand** continued to remain low on most tradelanes and is likely to follow this trend into '23; any expected volume increase is likely to occur ex-ASPA prior to Lunar New Year
- Overall scheduled **capacity** sufficient to support the currently low volumes
- **Jet fuel** price likely to remain high with current sanctions and expected production cut
- **Jet fuel** reached **\$118** in Dec '22; the crude oil market remains uncertain over the UA/RU crisis

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

Demand

Global Volume Development

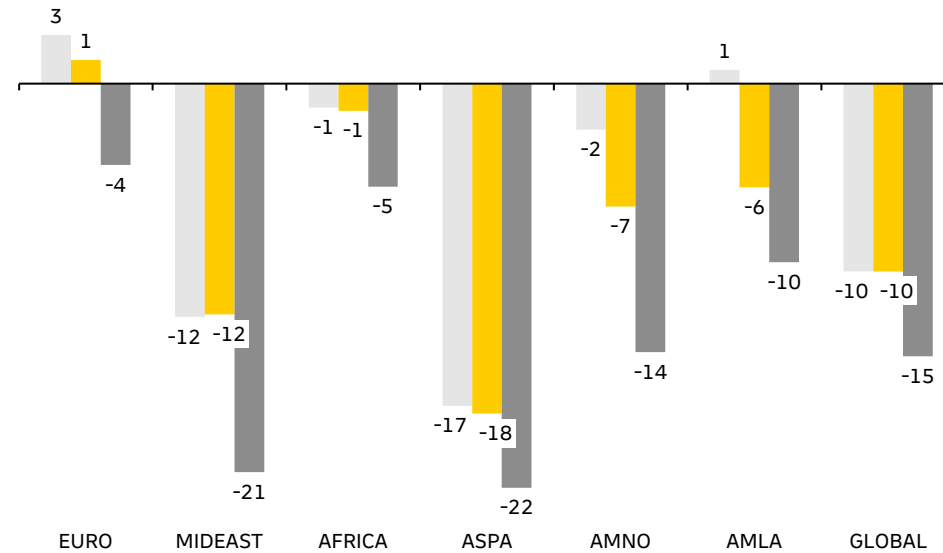
In Tons (% change YoY)



Regional Volume Development

In Tons (% change YoY)

Aug 22 Sep 22 Oct 22

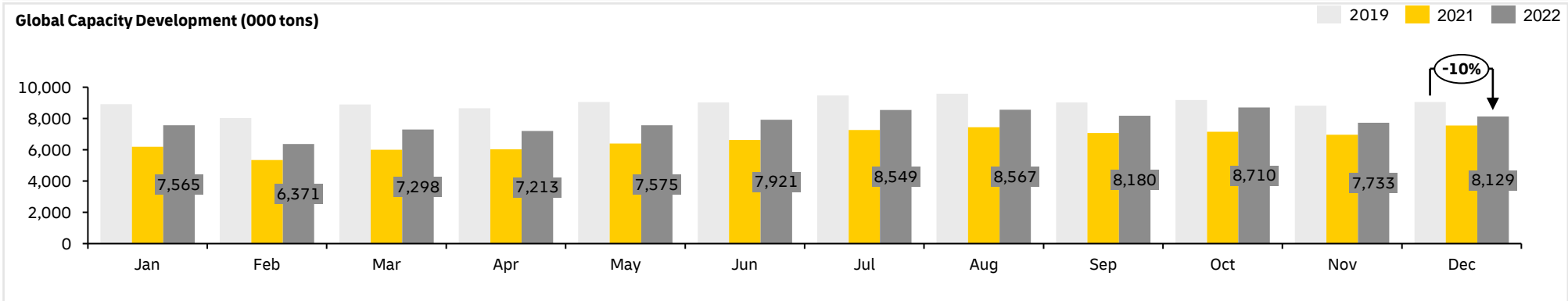


- Demand continued to remain low and followed a similar trend as Sep, Oct '22
- **Export orders remained low as inventories remain full and sales remain low; shippers still focusing more on short term refill**
- **PMI Index remained below 50 across most major economies which indicates lower volumes and is likely to remain the same as high inflation will continue into '23**
- **Any increase in volumes will only happen post recovery of the stronger economies which is likely towards 2H23**
- Among emerging markets China export numbers remained low also affected by continued strict COVID policies
- 2023 is expected to witness the flat growth that we are currently experiencing in '22

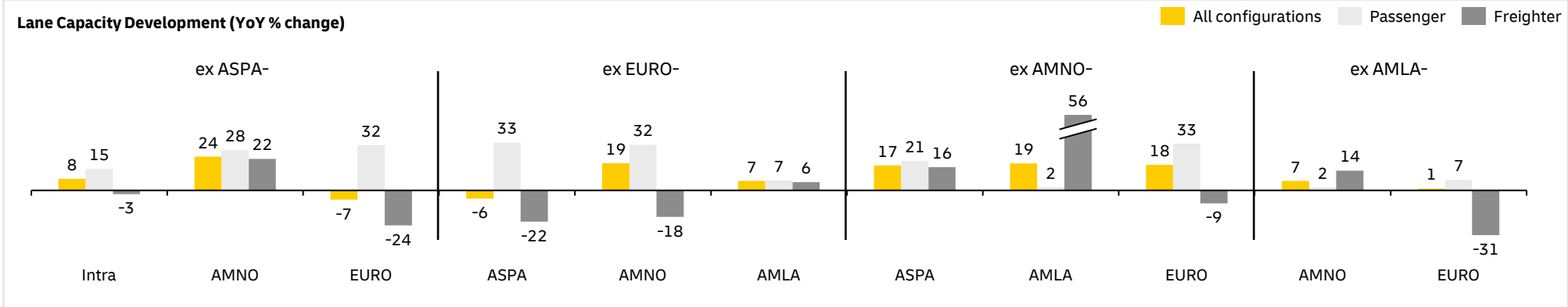
Source: WorldACD Market Data; *I/S- Inventory to Sales ratio; data available till Oct 22 only on global level

Supply

Global Capacity Development



Trade Lane Capacity Development

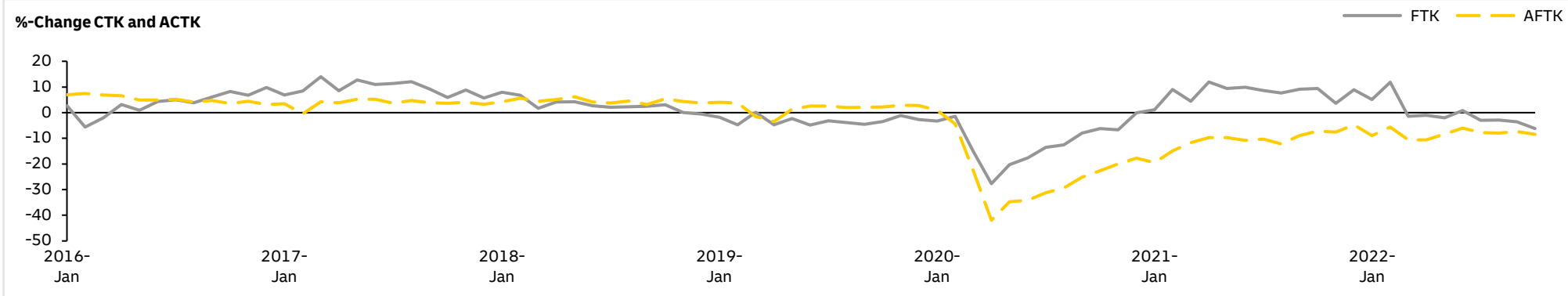


- Global capacity now **-10% vs Dec '19** but **+7% higher against last year**
- **Belly capacity higher than Dec '21**
- Capacity remains available on majority of tradelanes. Tight spaces on some ex-EMEA and ex-China tradelanes
- With currently low volumes the capacity is sufficient to support the demand
- No major capacity constraints expected across the regions; Some capacity constraints expected ex-ASPA towards beginning of Chinese New Year in Q1 2023
- Sea freight schedule reliability and cost reduction continues to witness a shift of some volumes from air freight to ocean

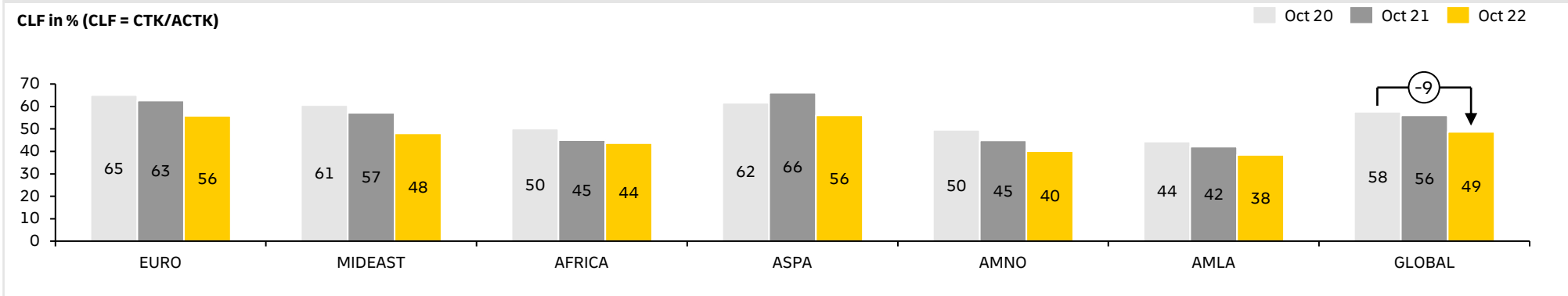
Source: Seabury

Utilization

Global Cargo Load Factor Development



Regional Cargo Load Factor Development

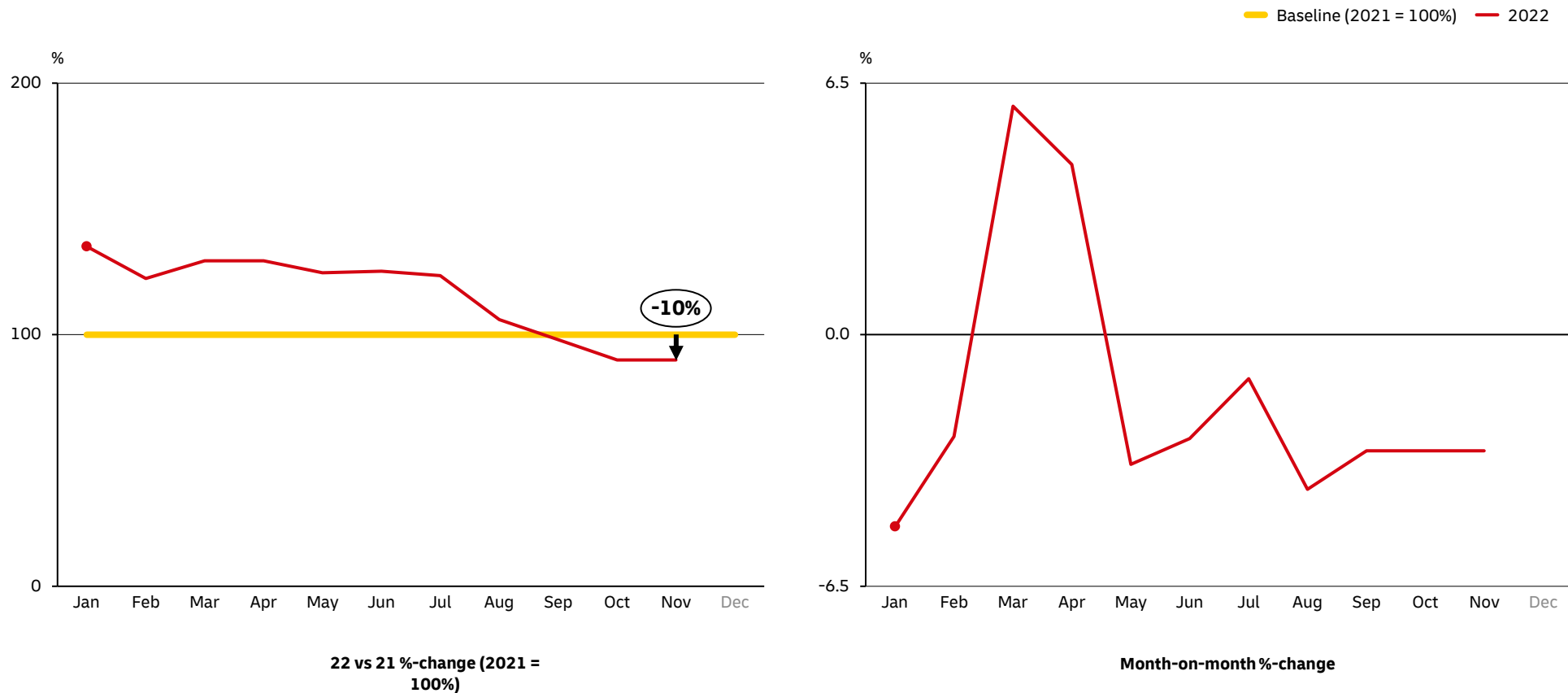


- Recovery in capacity is stable; cargo demand now lesser than capacity on most tradelanes
- Softening cargo volumes against last year with gradually improving capacity led to reduced load factors in all regions
 - Cargo Load Factor (CLF) is an indicator of how tight is the demand-supply balance
- The industry-wide cargo load factor **decreased by ~9 Pts YoY in Oct '22**
- As capacity remains available and stable on most tradelanes, CLF for all the regions are balanced and have decreased also due to low demand

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

Carrier Rate



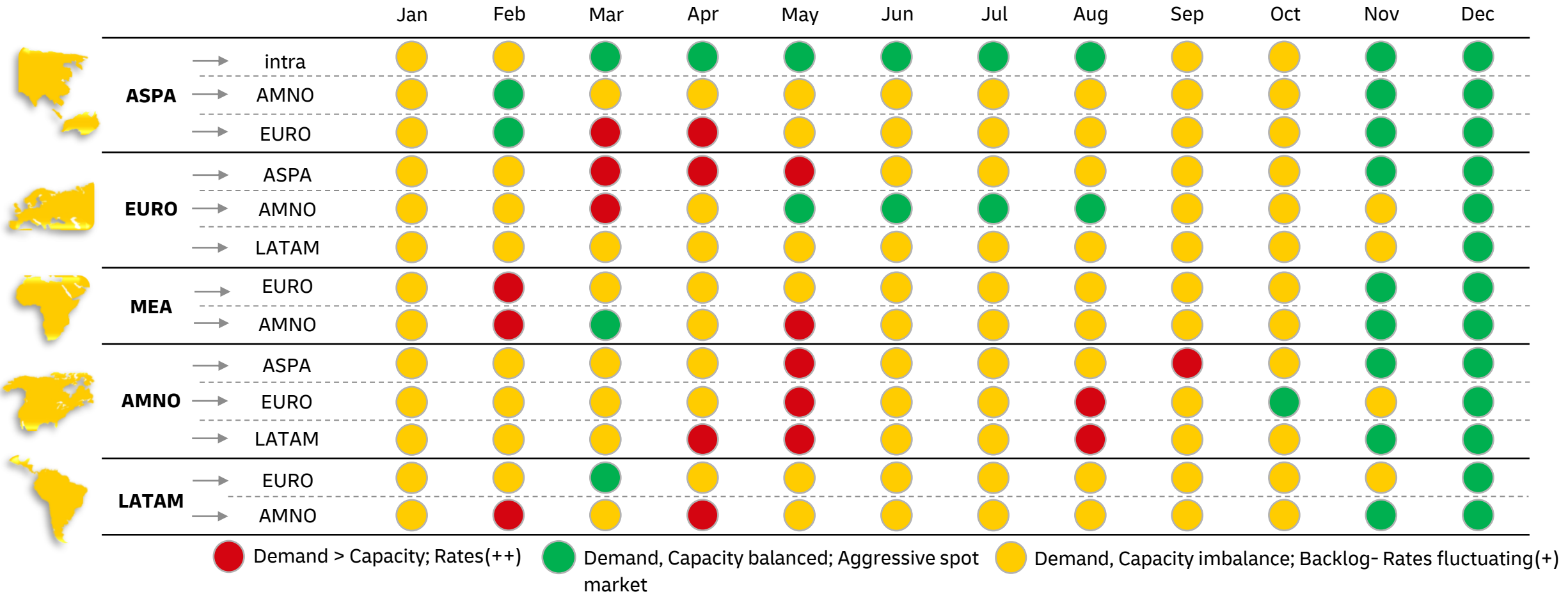
- Market remained aggressive on most tradelanes as demand remained low
- As demand is expected to remain low with sufficient capacity on most tradelanes, rates are expected to remain competitive
- There are cases of backlogs and tight spaces ex-EMEA and ex-China which is likely to affect the rate decrease on certain tradelanes
- As we move into 2023, high jet fuel price likely to affect rates
- Fuel surcharges likely to fluctuate amidst oil price fluctuations
- Nov '22 rates followed the current market trend; with volumes likely to remain low, the trend may remain similar till Chinese New Year

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

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Regional Market Development

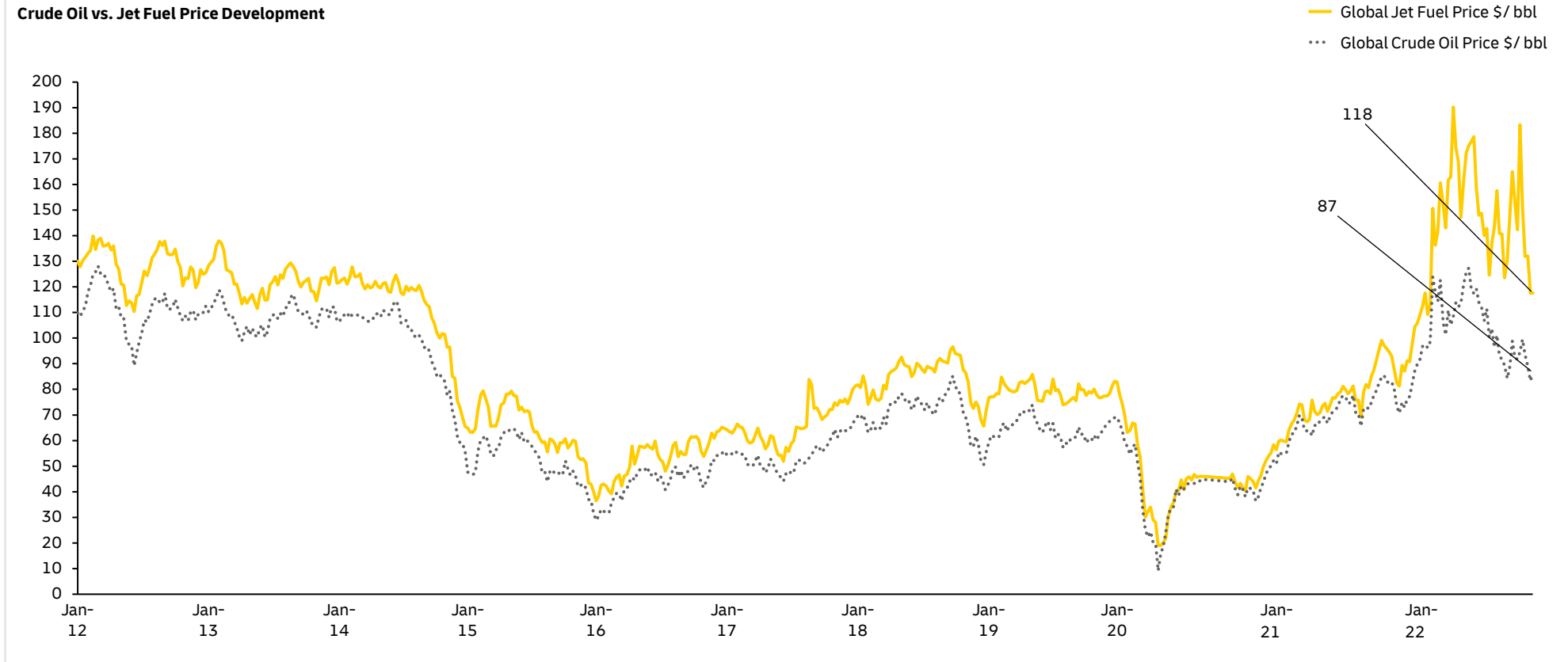
Market development on key regional tradelanes



Source: DGF Desk Research; most regions have stable capacity but some tradelanes still have tight capacity with likely rate increment

Jet Fuel

Jet Fuel Price Development



- Jet fuel price touched **\$118/Bbl** in Dec '22
- Global oil inventories forecasted to fall in 1st half of 2023 before rising again towards later half of the year
- As a result, EIA now **forecasted \$92/Bbl price average in 2023**; \$3/Bbl less than previous forecast
- Under current circumstances including low inventories sanctions in effect, **jet fuel price will remain on the higher side**; any forecast likely to change as situation remains dynamic

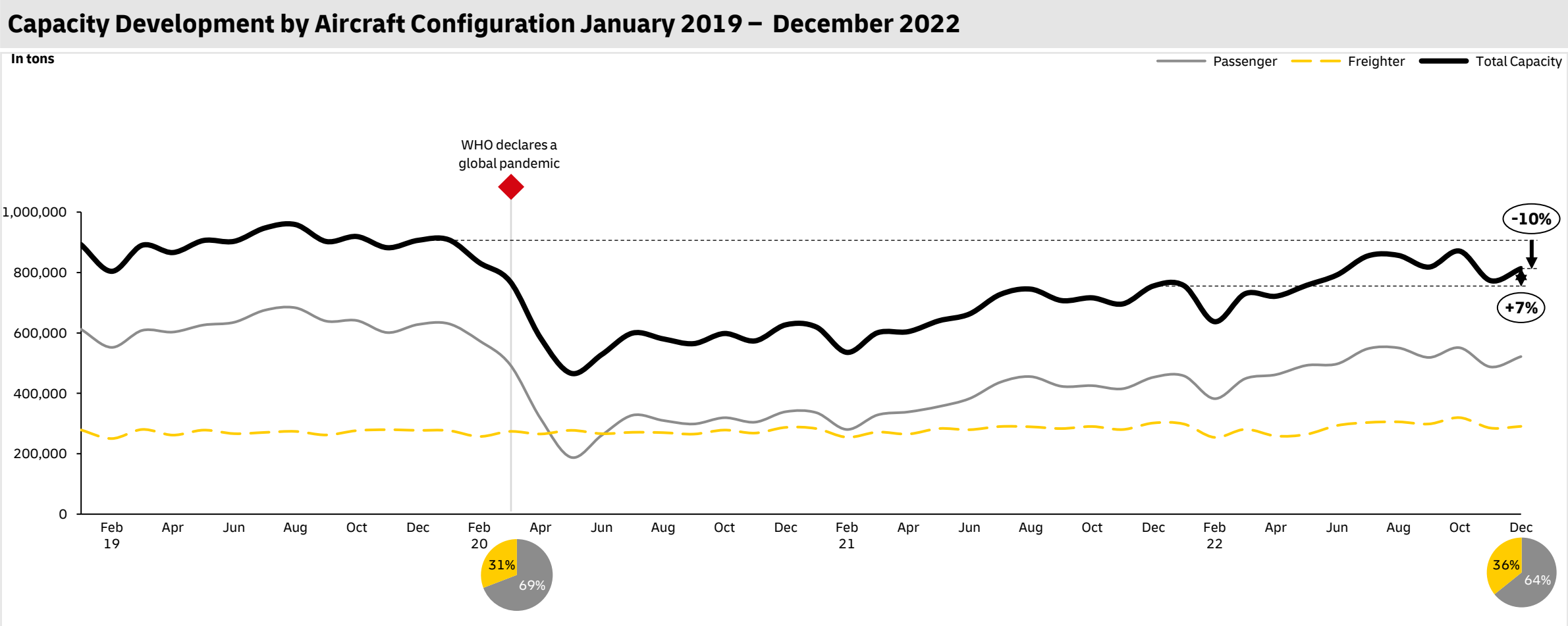
Source: DGF Desk Research; updated till September 2022 available date

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BACKUP

Global Capacity Development

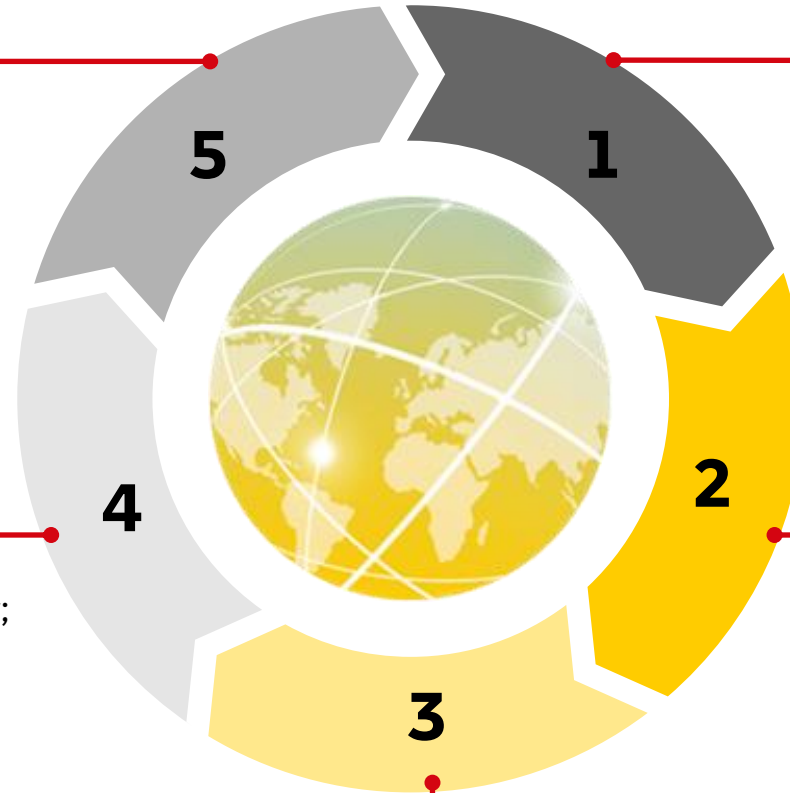


Source: Seabury (Total Capacity includes marginal Combi aircraft contribution); data is updated for same month of release

2023 Q1– What to expect?

SERVICE DISRUPTIONS

- Employee shortage impacting operations
- Airport backlogs amid strikes, flight cancellations
- Unforeseen circumstances can affect further- strict COVID policies



LOW BUT STABLE DEMAND

- Demand is expected to remain low on most tradelanes; Inventories high, low sales
- Volumes might pick-up prior to Lunar New Year but will be followed by low demand
- Demand to increase only as countries start recovering from high inflation

ECONOMIC GROWTH

- Worldwide inflation continued into 2023
- PMI Index for manufacturing will remain low; less export orders
- Low GDP growth

CAPACITY RECOVERY

- Capacity at MoM recovery; will continue to improve subject to market conditions
- Q1 c-checks will reduce some flight frequencies-unlikely to affect market
- PAX growth might remain flat due to inflation

SPOT MARKET

- Aggressive spot market expected
- Demand to remain low; fuel price will be high

Abbreviations

Explanation of Abbreviations

ACTK	-	Available Cargo Ton Kilometers
AMLA	-	Latin America
AMNO	-	North America
ASPA	-	Asia Pacific
CTK	-	Cargo Ton Kilometers
Bbl	-	Barrel
bn	-	Billions
CAGR	-	Compound Annual Growth Rate
CLF	-	Cargo Load Factor
FRT	-	Freighters (in the airline industry)
FSC	-	Fuel surcharge
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