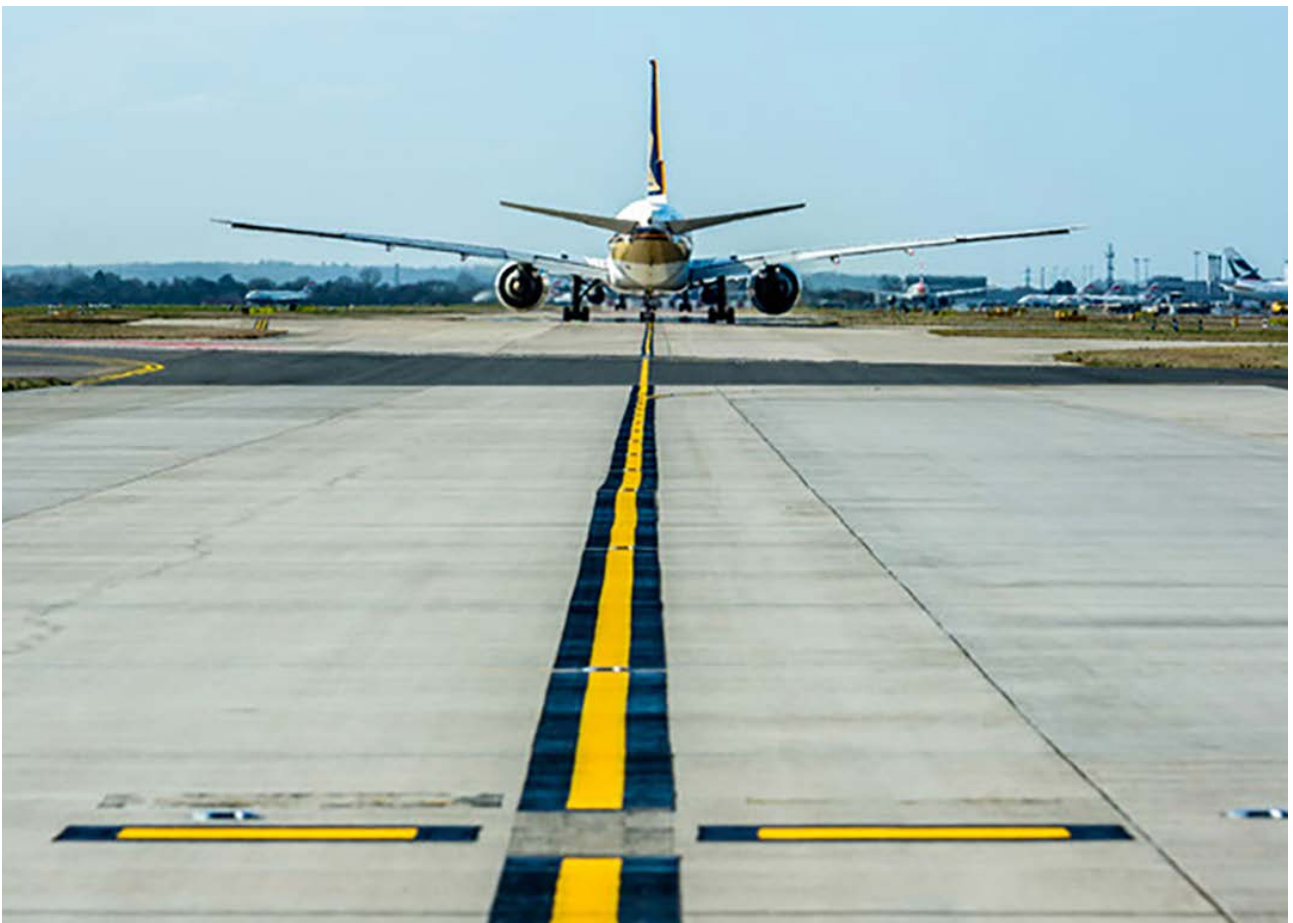


## Air cargo capacity expected to remain constrained

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By Damian Brett



Air cargo capacity is expected to remain constrained for some time, resulting in forwarders increasingly relying on charter operations.

In the latest Baltic Exchange airfreight rate newsletter, Bruce Chan, vice president of global logistics at investment bank Stifel, said that vaccination programmes were expected to lead to a pick-up in passenger travel in the second half of the year.

Unfortunately for shippers, this capacity will mainly be short-haul and domestic flights, which won't help with space shortages on long-haul cargo operations.

"Long-haul travel, which is a much bigger part of global air cargo capacity, should be slower to resume," said Chan.

"Our baseline assumption is that the market will not be back to normal until 2023."

In terms of additional freighter aircraft meeting any capacity shortfall, Chan said that lead times for production and conversion freighter aircraft were long.

Meanwhile, the economic outlook remained uncertain which may put companies off investing in all-cargo aircraft.

"Both factors are headwinds to augmented freighter capacity," he said.

As a result of ongoing bellyhold capacity shortages, freight forwarders are likely to continue to utilise charter operations to meet demand.

"Consistent with our view toward long term capacity constriction, a number of large freight forwarders have articulated that charter will become a more permanent part of their service offerings," he said.

"If and as charter usage becomes more mainstream, there may be some practical competitive implications.

"Namely, a market that prefers large players with density and economies of purchasing scale and scope.

"This trend likely accelerates consolidation that was already occurring around players with technology, sophistication, and global network differentiation."

He added that rates are also likely to remain high.

Chan said that the growth of e-commerce was also affecting air cargo supply chains, with the need for rapid replenishment pushing companies towards freighter operations that utilise secondary gateways as opposed to bellyhold capacity operating to mainhubs.

Peter Stallion, head of air and containers, at paper broker Freight Investor Services, agreed that the capacity outlook had not changed.

"There has actually been relatively little material change in forward capacity, with the market content in considering Covid-19 a truly black swan event that is slowly drawing down in terms of market impact," he said.

"However, forward markets remain notoriously difficult to predict, with a potential demand shock with a logical move of consumer spending away from goods to services, reversing the 2020 trend."