



Tradewinds: Q2 2012

A summary report of key findings

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1. Introduction

How confident is our industry?

Will carriers and forwarders see air cargo volumes grow or decline?

Which specific carriers are best positioned for success?

These are questions which I'm asked all the time. As Managing Director of Air Cargo News I'd like to think I've a pretty well informed view, but I've always felt a bit uncomfortable. After all, any opinion I give is just that; opinion. I prefer to deal in facts, which is why I'm delighted to introduce the inaugural Tradewinds report.

This bi-annual survey of confidence, trends and performance provides a solid picture of health in the air cargo industry. I'd go so far as to say it's the most robust view gathered to date.

It's based on the opinion of 556 carriers and forwarders drawn from Air Cargo News' readership and Unisys' widely used booking portal. It represents a group of knowledgeable individuals based across the globe – Europe, North America, Asia, Africa and the Middle East. Moreover, by partnering with specialist B2B market researchers Circle Research we've been careful to gather an objective view.

The result is this summary report - a must read for anyone operating in the air cargo sector, investing in it or using it as a barometer for wider economic health. Indeed, it will be of interest to anyone keen to:

- Understand levels of commercial confidence in the air cargo industry
- Explore trends in volumes, types and methods of moving air cargo
- Identify which destinations are expanding and contracting
- Identify which carriers and forwarders are held in highest regard

I hope you find it as valuable as I have and will have an opportunity to read the in depth analysis set to follow in Air Cargo News over the coming months.

Nigel Tomkins

Managing Director, Air Cargo News

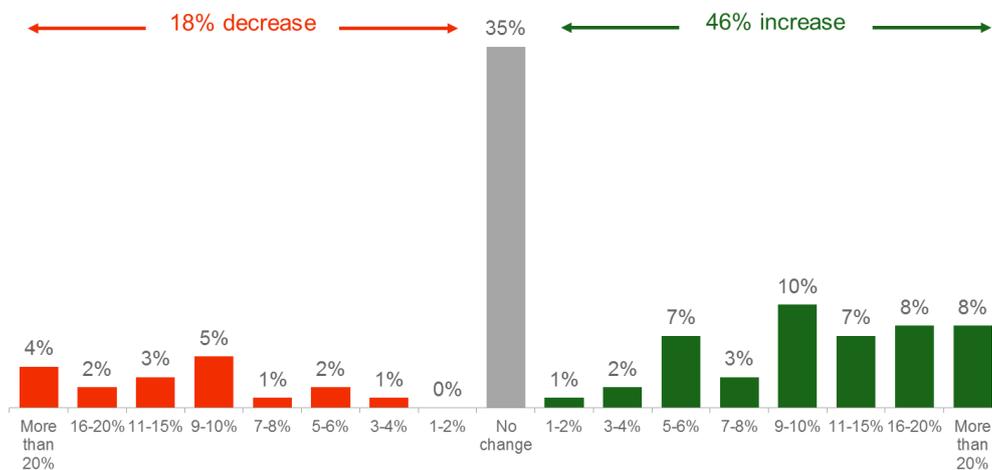
2. Confidence – we’re not out the woods yet

In recent years the air cargo industry has been at the centre of a perfect storm - declining demand, over-capacity in supply and a volatile cost-base. The inevitable consequence has been a squeeze on margins.

Thankfully the past six months have seen the environment stabilise and short term forecasts suggest an improving outlook.

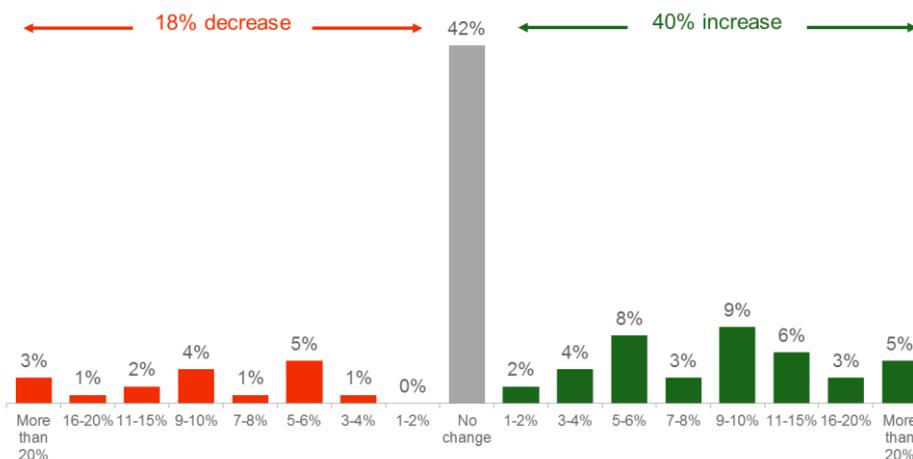
More than three quarters of those surveyed in Tradewinds report that their booking volumes have remained stable (35%) or have increased (46%) over the past six months (see figure 1). Look at booking values and we see a similar pattern (see figure 2).

Figure 1: Volume of bookings – past 6 months



Q: By what percentage have your air cargo bookings increased/decreased in volume?

Figure 2: Value of bookings – past 6 months



Q: By what percentage have your air cargo bookings increased/decreased in value?

Booking forecasts for the next six months look more promising still, but come with one important caveat – there’s a disconnect between anticipated growth in the volume and value of bookings.

Three fifths (62%) expect to see growth in the volume of bookings they place or carry over the next six months. However, only one half (48%) anticipate an increase in the value of this activity. This suggests that although activity is set to increase, margins will remain depressed.



Perhaps unsurprisingly then, when asked to rate the likely commercial performance of the air cargo industry as a whole over the coming six months, most are cautious. 65% give a 'commercial buoyancy' rating of between 1 – 6 out of 10. But don't throw in the towel yet though. When looking ahead to the next three years the tables turn and 59% give a forecast of 7 – 10.

3. Three secrets to success?

So whilst volume growth is encouraging, an asymmetric rise in booking values suggests we're not out of the woods yet. Indeed, many feel that the pressure is likely to claim more casualties yet. Two thirds (67%) anticipate multiple airline closures in the next three years and three fifths (60%) foresee the same fate for multiple forwarders.

So who will be the winners and losers in this environment?

Well, carriers and forwarders with three features seem best placed for success.

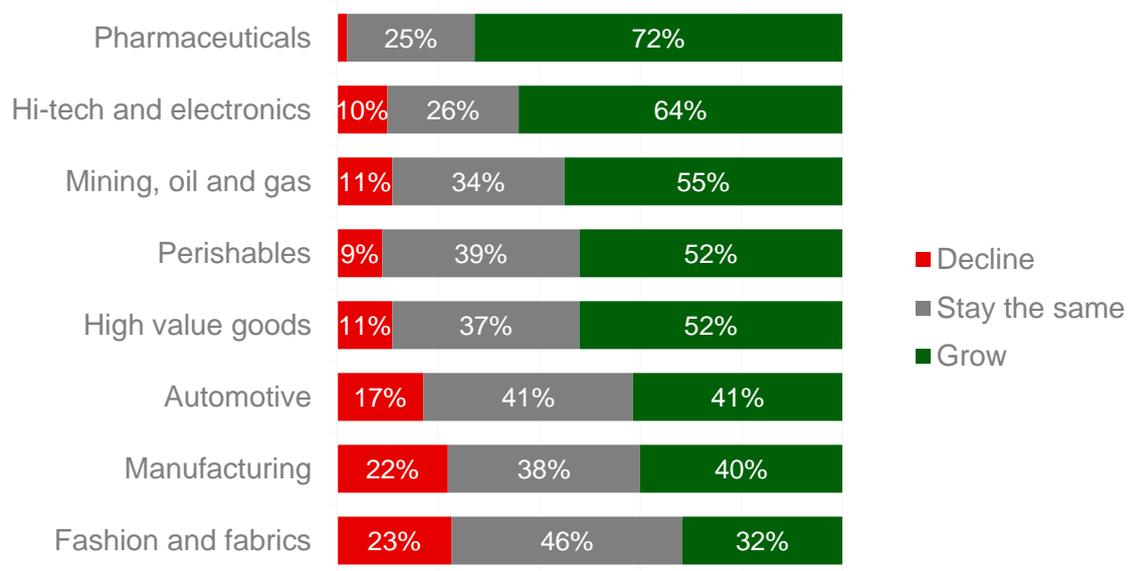
First, those with capabilities and expertise in particular freight types seem well positioned.

72% of the Tradewinds panel believe that pharmaceuticals will grow in significance as a cargo commodity over the next three years - the fastest growth rate of *any* commodity type. This suggests that recent investments made by players such as UPS and Lufthansa Cargo in specialist shipping capacity are likely to pay dividends.

Whilst pharma is clearly the hot topic, ambitious carriers shouldn't ignore four other commodity types which show above average potential and often require lower capital investment.

64% feel hi-tech/electronic goods will grow in significance over the next three years, 55% say the same for mining/oil/gas, 52% for perishables and 52% for high-value goods.

Figure 5: Freight types – projected growth and decline



Q: Please indicate for each of these air cargo commodities whether you believe it will decline or grow in commercial significance over the next three years?

Second, those with a multi-modal offer or the ability to seamlessly switch freight onto complementary modes appear to have an advantage.

Alongside air transport, bookers of freight on the Tradewinds panel also use two other modes heavily – road freight (77%) and sea freight (63%). This suggests that demand for carriers or forwarders offering a ‘one stop shop’ will be high.

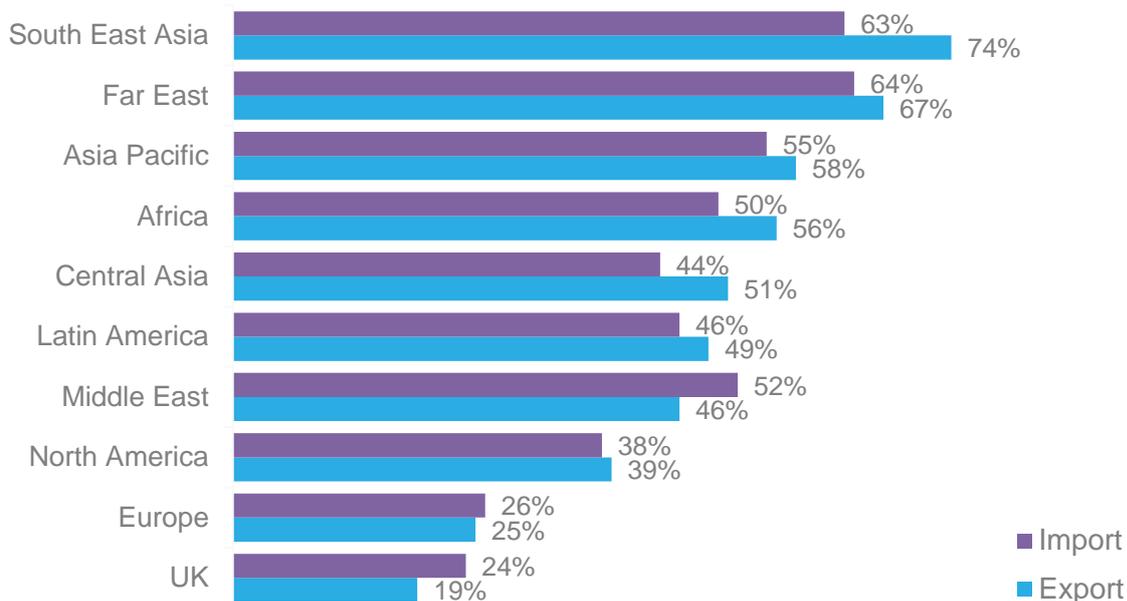
Third, and perhaps most importantly, those with a strong Asian presence.

When asked which regions they expect to grow as air cargo export points over the next three years, three quarters of shippers (74%) say South East Asia and a similar proportion the Far East (67%). Contrast this with the UK or Europe where only around one in five (19% and 25% respectively) feel there is likely to be a growth in exports.

This isn’t news of course. Asia has long been an important producer of goods for the rest of the world. But look at the anticipated growth of each region as an *import* destination and something interesting emerges.

Not only are South East Asia and the Far East expected to be the fastest growing export points, they’re also expected to be fastest growing import points. Are we seeing the ‘rise of the east’ enter a new phase where Asian markets and their growing middle class consume as much as they produce?

Figure 6: Air cargo import and export points – projected growth



Q: For each of these world regions do you believe it will decline or grow as an air cargo export and import point over the next three years?

4. And the winners are...

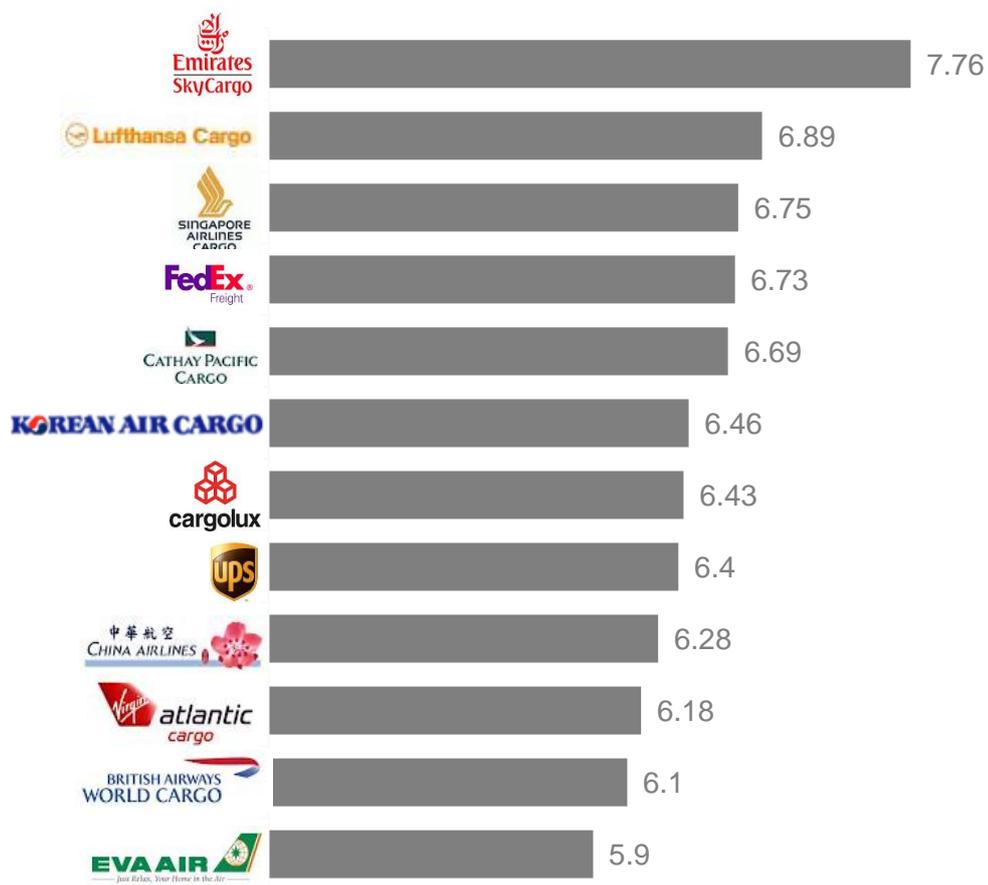
Strategically then, three features of a carrier seem important in dictating their longer term success. But what of the short term – the next six months?

When asked how successful they expect twelve different carriers to be over the coming six months, freight forwarders on the Tradewinds panel chose one clear winner – Emirates SkyCargo.

Emirates SkyCargo scored an average of 7.76 out of 10 (where 1 means not at all likely to be successful and 10 means likely to be extremely successful).

Contrast this with EVA AIR which scored just 5.9.

Figure 7: Carrier league table – projected success next 6 months



Q: Here is a list of some cargo carrying airlines. For each one please give a score to indicate how successful you believe that carrier will be in air cargo over the next 6 months?

What can an airline do to boost their ranking?

Well, the precise answer will of course be unique to each carrier, but forwarders share three broad suggestions:

- Don't cock up, but if you do fix it. 84% feel one of the most important airline characteristics is good service recovery
- Move with the times. 68% are worried by the slow introduction of e-freight
- Sell yourself. 63% feel the air cargo business as a whole is poorly marketed

5. The Tradewinds panel profile

Figure 8. Respondents by region

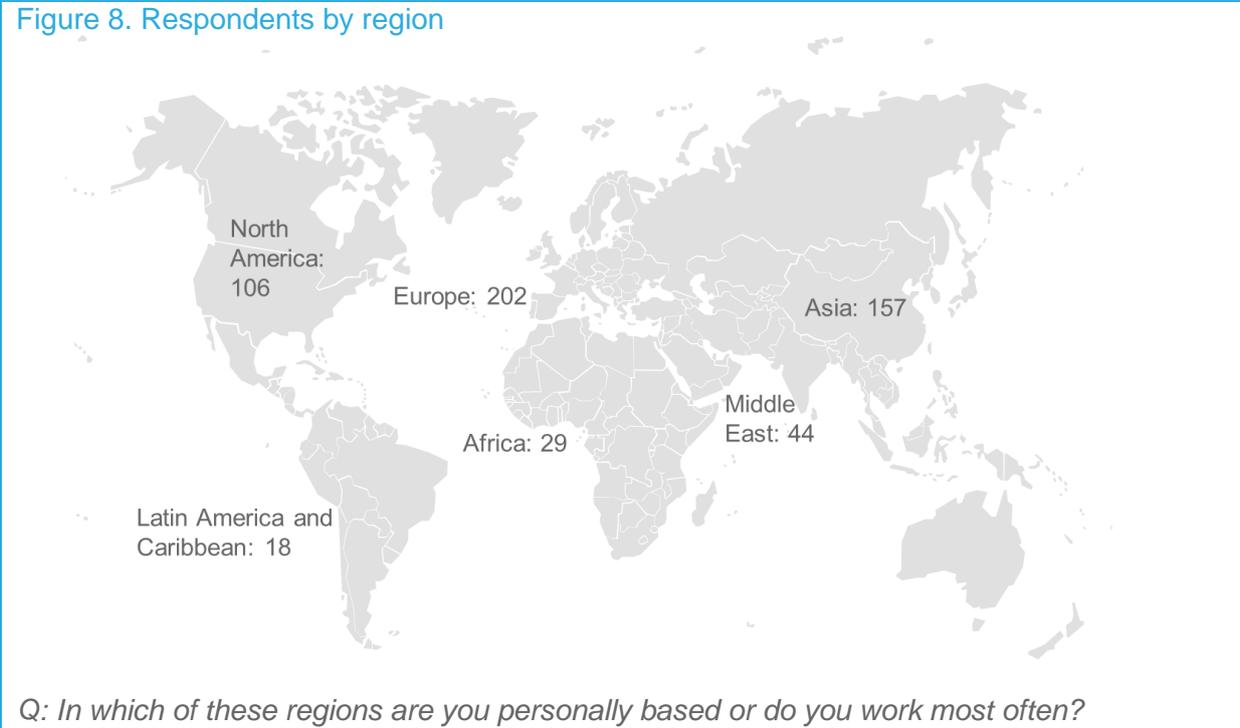


Figure 9. Respondents by type

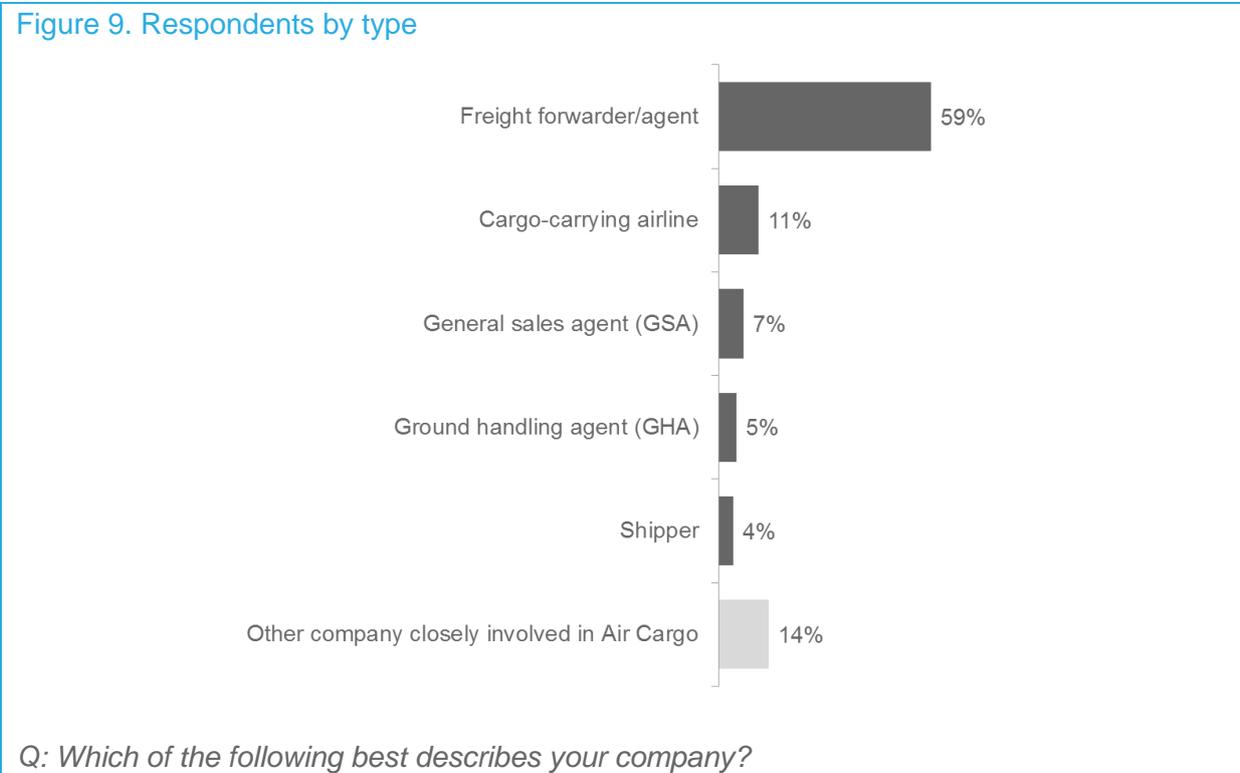
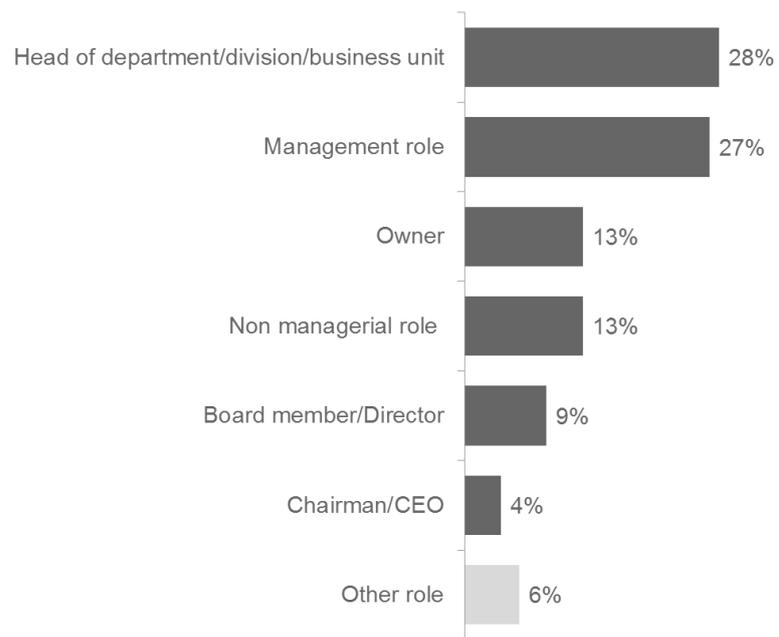


Figure 10. Respondents by position



Q: Which of these categories best describes your position within your company?

