Post Covid-19 Forecasts: Global Freight Forwarding Growth 2020-2024

Holly Stewart, Analyst, Ti

Andy Ralls, Quantitative Analyst, Ti

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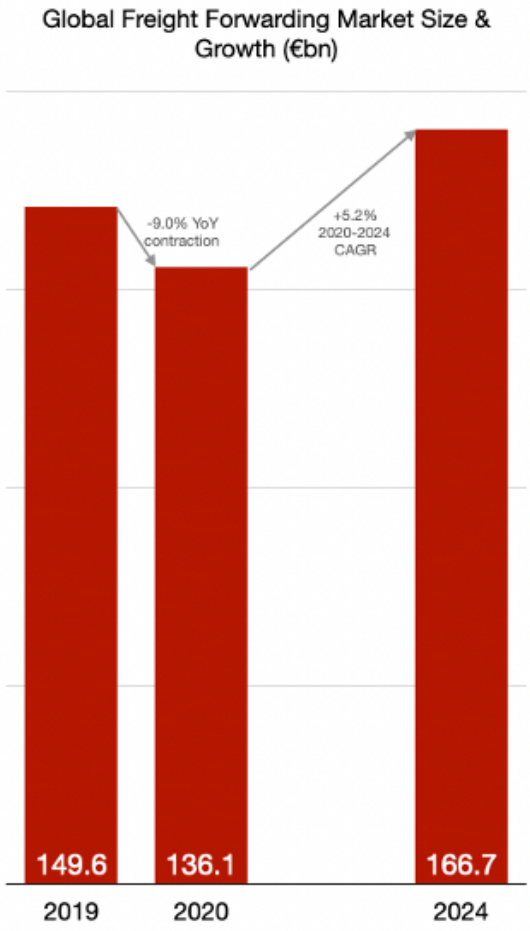
The global freight forwarding market experienced its most challenging year to date amid the Coronavirus pandemic. However, it is expected to rebound with the global 2020-2024 CAGR forecasts growth of 5.2%, demonstrating the lessening of the impact of COVID-19 over the coming years. The rebound will be seen in both the air and sea freight markets. The air freight market has been the most impacted over 2020 but it is expected to see higher growth than the sea freight market between 2020 and 2024, at a CAGR of 5.4%. The sea freight market is forecast to grow at a CAGR of 5.0%.



According to the IMF, global trade levels are projected to reach pre-COVID levels in 2021. At the start of the pandemic, some dire forecasts for trade had been projected for 2020 and the aforementioned situation did not look likely. The WTO for instance projected that trade volumes could fall 13% in an optimistic scenario and 32% in a pessimistic scenario. However, trade growth in 2020 looks set to be more positive than even the optimistic scenario.

What will drive the recovery?

Consumer demand has remained very strong. Unlike the previous global recession in 2009, where consumer confidence and demand plummeted, the shock was very different this time around. Expenditure in services has been hit badly, but lockdown brought about a healthy demand for some consumer goods. Demand for laptops, personal gym equipment and DIY goods, for example, have increased due to stay-at-home and lockdown orders. State support schemes have limited unemployment rises, keeping consumer spending reasonably solid.

Understanding GDP and trade growth dynamics are important to understanding growth in the freight forwarding market. From 2010-2019, trade grew 1.1 times faster than GDP. In previous decades, this multiple had been higher, but the globalisation trend has since slowed. Over

2021-2024, the IMF expects this multiplier to be 1.2, buoyed by a strong recovery in trade in 2021. Trade pacts have an important place in the forwarding market, member's trade volumes and supply chains can be positively impacted, this is to become more vital in the event of Brexit and de-globalisation.

In some areas, such as on Trans-Pacific lanes, trade growth has comfortably surpassed pre-COVID levels. This gives credence to the view that global trade and freight forwarding will recover to pre-pandemic levels in the near future.

The CPTPP is a free-trade agreement between Canada, Mexico, Peru, Chile, New Zealand, Australia, Brunei, Singapore, Malaysia, Vietnam and Japan. It provides for almost complete liberalisation of tariffs among the participants. The potential addition of the UK and US, after Brexit and Biden becomes president of the US, would support the increase of volumes between countries.

If the intended benefits of the Regional Comprehensive Economic Partnership (RCEP) are realised supply chains may start to look very different over the coming decades. The deal, under negotiation since 2012, was agreed in November with 15 countries across Asia signing up. The RCEP aims to reduce tariffs on merchandise trade between the member states over the next 20 years. It will also supersede a number of bilateral trade agreements in the region and offer one set of rules for trade and customs procedures. The RCEP is the first regional multilateral trade deal China has signed up to. Upon its agreement, China's Premier Li Keqiang described the RCEP as "a victory of multilateralism and free trade". It extends China's influence in the region and positions Asia's largest economy to gain markedly at the expense of two economies that have chosen to remove themselves from agreements – India and the US.

The US-China Trade War

Though the Biden administration is expected to have a more open trade policy and a better relationship with China than Trump's, it is not likely the trade war will end with his entrance to the White House. Firstly, there are pressing domestic issues and secondly, Biden has previously commented that he would continue to use tariffs against China "when they are needed." The trade war has been affecting the forwarding market since 2018 by disrupting the globally interwoven supply chains and may continue to do so if current government policies and approaches are maintained.

The trade war and pandemic have increased speculation around the reversal of globalisation, which would in turn decrease the multiplier. In a Ti-Bollore survey released in September 2020, 34% of respondents agreed that COVID-19 would lead to the end of globalisation and the re-emergence of national/local supply chains. However, this re-orientation of supply chains would require vast effort and bring about substantial costs. Supply chain diversification appears much more likely, which will benefit different trade lanes and could lead to interesting dynamics in Asia, where some countries will attempt to compete with China for manufacturing capability. Near-shoring is a threat to some air and sea freight forwarders' volumes, given that intra-continental trade almost by definition opens up more opportunities for land-based transport options. However, the economics of this are also sometimes challenging. Whilst some level of supply chain re-structuring appears likely post-covid, trading conditions pandemic are expected to remain conducive to solid air and sea freight forwarding growth over the medium term.

Capacity

Tight capacity has been a characteristic of both the air and sea freight forwarding markets in 2020. This is a trend which could continue in the years ahead, potentially constraining growth in each market. In sea freight, carriers have learned tough lessons from the past decade. After high expenditure on Post-Panamax ships, they have since consolidated and formed successful

alliances, enabling them to cut capacity during the pandemic and keeping rates at high levels. This trend, although likely not to the same extent, could continue in the years ahead, pushing some shippers to consider other modal options, such as rail or sea-air.

Meanwhile, capacity has been reduced involuntarily in the air freight market. The lack of air travel has severely reduced belly hold capacity. According to IATA, in the year to September, available cargo-tonne kilometres were 25.2% lower than the year previous. This lack of capacity has pushed shippers towards other modal options and could yet constrain the ability for air freight volumes to bounce back. Twice over the past decade, the air freight market has been boosted by inventory re-stocking cycles. These are characterised by a rapid acceleration in new export order growth, coming about at times when the global economy and trade are growing quickly. This last happened in 2017, whilst the previous occasion was after the global financial crisis, as demand started to recover. At these points in time, shippers seek to re-stock inventories to meet this sharp rush in demand and air freight is often the best way to achieve this.

However, given the constraints in capacity, air freight is unlikely to see such a sharp boost next year. After the global economy slumped to its lowest ebbs in April and May this year, some re-stocking did take place, but it was sea freight and integrators (through their own international air networks), which saw an uptick in volumes most sharply. Air freight did not accelerate substantially alongside the uptick in new export orders as it had done on previous occasions. Ultimately, if we see further increases in demand going into 2021, air freight may not be able to fulfil all of it in the same way it has done in previous re-stocking cycles. Dachser has reported challenges in finding air capacity in the region for exports of perishables such as ginger and fresh fish. While the forwarder says it is able to secure capacity, the space available on planes out of South America is below what is needed to meet demand.

Sector recovery

Both modes of freight forwarding should see a strong boost from the industrial and automotive sectors next year, as well as continued positive growth in the healthcare and pharmaceutical sector. J.P. Morgan Global Manufacturing PMI reporting manufacturing PMI at 53.0 in October, a 29-month high. This was followed by IHS Markit Global Sector PMI recording 17 sectors registering higher output in October, highest total since April 2019, with automobiles & auto parts at the top of global sector output growth rankings. According to several sources including Forbes, automotive sales were down between 25-30% for H1 but is predicted to rebound to around 17% for the full year. This demonstrates the bounce-back of industries and the path for growth has been set for 2021. With the roll-out of a number of vaccines looking likely, volumes moved by air are likely to increase. In September, the IATA estimated providing a single dose to 7.8bn people would fill 8,000 747 cargo aircraft. Though other modes such as road and rail may be used regionally, sufficient air freight capacity is essential for a global rollout.

Meanwhile, cross-border e-commerce volumes have accelerated this year spurred by lockdown measures and will provide a strong avenue for growth in years ahead. Retail and fashion are the leading verticals, as they recorded a 44% and 27% Y-o-Y revenue growth respectively for the first eight months of 2020. With these sectors performing well, forwarding volumes look set to recover over the medium term, despite the sector facing a number of headwinds.

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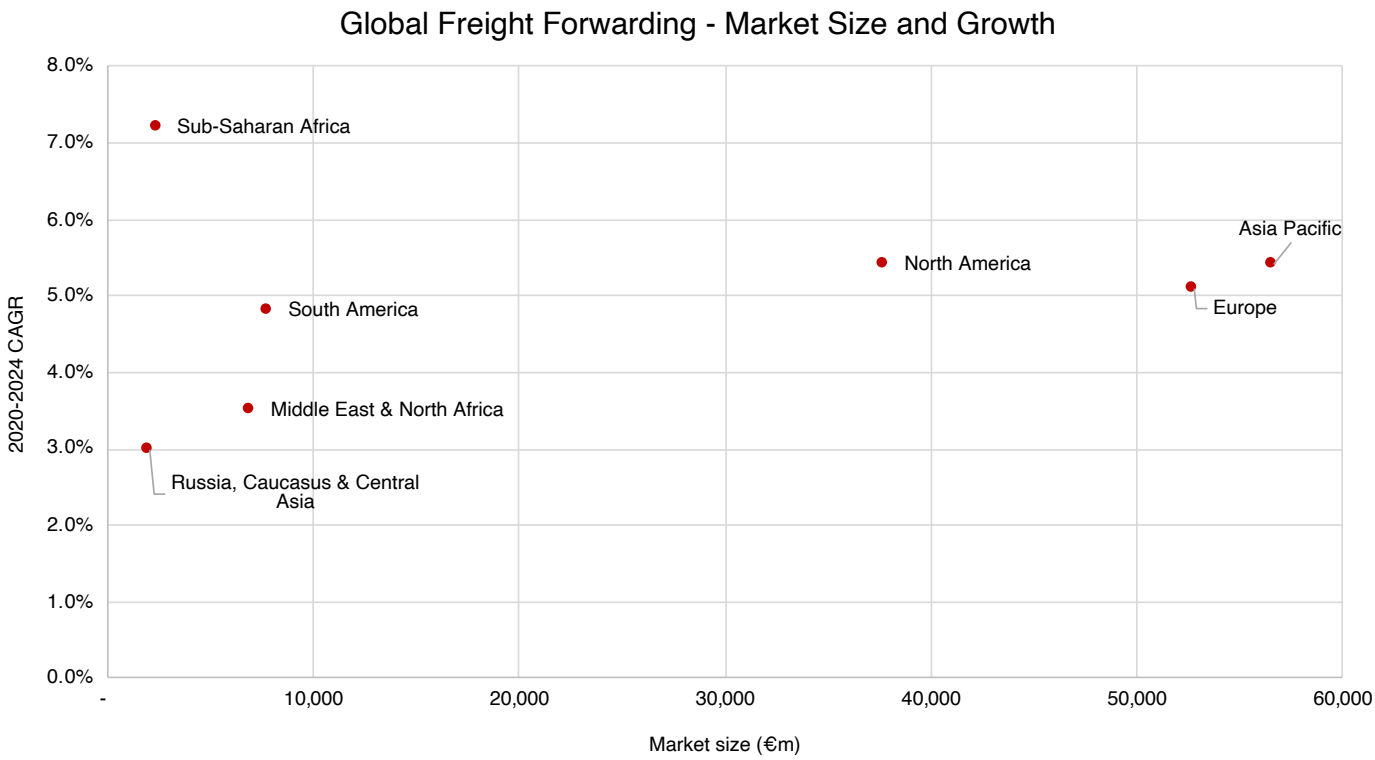

The total freight forwarding market in **Asia Pacific** is forecast to grow at a CAGR of 5.4% over the 2020-2024 period. The economy of the region has not been as badly affected by the pandemic with GDP growth estimated at -2.3%, according to the IMF. This is in relation to Europe and North America, where GDP is expected to fall by 7.2% and 4.9%, respectively. Economic damage was not as bad as a result of manufacturing capacity rebounding quickly after the easing of lockdown measures, by October further broadening economic recovery was led by chemical, automotive and auto parts and metals and mining, the IHS Markit Asia Sector PMI reported.

Ti forecasts the air freight forwarding market will grow at a CAGR of 5.6% over 2020-2024, and the sea market will see a 5.2% growth over the same period. The air freight market has a lower base to grow from, after forecasts show it will contract by -13.0% over 2020. Recovery will also depend in part on passenger air travel volumes increasing.

In comparison to other regions, Asia Pacific's experience of the pandemic was fairly short-lived allowing economies to rebound earlier and given more time over the year to recover. Contrarily, the regions which buy Asian goods namely, Europe and North America, found much of their industries temporarily shut down due to Coronavirus leading to a drop in Asian exports. The uptick during the summer months saw a small amount of re-stocking, aiding export growth in the region with Chinese exports up by $40bn in July 2020 compared to the same month in 2019.

As the largest market in the region, China, expected to be worth €19.4bn in 2020, has a vast influence on the regional market. Its early lockdown coincided with Chinese New Year, usually, a low point in trade due to holidays, meant exports were not as badly impacted. Its fast grasp on the virus in terms of lockdown measures also meant it was one of the first countries to emerge. Its ongoing recovery has helped other countries in the region, namely Taiwan and South Korea, through rebounded demand. Demand from China for high tech products before US restrictions on technology exports were implemented in September pushed up exports from the latter countries supporting their market growth after a trying year.

The World Economic Forum projected Asia Pacific will be responsible for 90% of the 2.4bn new members of the middle class entering the global economy by the end of 2020. In Asia, the growing middle-class and income levels will lead to increased purchasing and imports within the region. The

newly signed RCEP will also boost regional as well as global exports and imports. Other trade deals have been struck in Asia such as CPTPP, these could strengthen intra-Asian supply chains especially those countries benefitting from industries relocating manufacturing from China, such as Vietnam.

Despite a difficult year, the fast-growing nature of the market and quick recovery has put Asia Pacific in a strong position for recovery and growth over the next four years.

Europe has been severely impacted by the pandemic in terms of loss of lives as well as economically. Over 2020 the IMF expects its GDP growth to fall to 7.2%, below that of the financial crisis (-4.8%). The freight forwarding market has suffered and is projected to grow at a CAGR of 5.1% from 2020 to 2024. The recovery from economic damage caused over 2020 as a result of the pandemic is expected to take time, GDP for the region shows growth on the back of the crisis at a CAGR of 2.5% for 2020-2024.

Europe's air freight market is also vulnerable to subdued air passenger travel. The region was hit harder than some, notably Asia, therefore passenger travel is expected to be subdued for some time. The second wave in late 2020 only helped to dent passenger confidence further. The lack of regional and global passenger travel will continue to keep capacity restricted, thus reducing the likelihood of Europe experiencing a re-stocking cycle in 2021, as the economy recovers. This is a factor in pushing the air freight growth rate down.

Forecasts are based on the UK having a similar trading relationship with Europe as it has whilst the UK was part of the EU. In the case of a no-deal Brexit, growth would be worse as charges will be introduced on many imports and exports, which could push up prices. Both the UK and the EU have made moves to secure trade deals for post-Brexit. To secure relationships and maintain trade flows the UK has been signing new trade agreements and mutual recognition agreements. The EU has also made efforts to secure further trade deals. It was hoped the EU-Mercosur trade agreement would be ratified by the end of 2020, but the process requires all 27 countries in the EU as well as the European Parliament to approve it. The signing of the agreement with the Mercosur countries – Argentina, Brazil, Paraguay and Uruguay – would create the world's largest FTA and would boost trade of automobiles and pharmaceuticals and agricultural products throughout the sphere. Currently, it seems unlikely it will be signed due to environmental policy concerns and political tensions. Many countries in the region have seen manufacturing, a main contributor to exports, slow down in the wake of the pandemic. In Germany, the region's largest economy and freight forwarding market, manufacturing recovery is weak against neighbouring countries. The country's pivotal part in the automotive industry has meant volumes of exports decreased, by 34% from January to September 2020 y-o-y, as well as the requirements for importing parts after plant shutdowns halted production.

Ti forecasts the total **North American** freight forwarding market will grow at a CAGR of 5.4% from 2020-2024. 2020 has been a tough year for the market as volumes dropped due to the pandemic's effects on global trade. The air freight market is expected to grow at CAGR of 5.8% from 2020-2024 whilst sea will grow by 5.0% over the same period.

The implementation of the USCMA in July is hoped to provide a stable base for future trade in the region. North America's four most important industries; energy, automotive, agriculture and technology are protected by an institutional framework which offers certainty for investors. Biden appears keen on returning the world to its pre-Trump order, at least in terms of foreign policy and the global order. As part of the restoration of the US' position and stance within international institutions, a return to a functioning relationship with the World Trade Organisation is expected. The stability and potential re-start of trade talks and relationships show opportunity for growth in the

next four years.

US consumer confidence bounced back after a tough first half of the year, and consequently strong consumer demand was seen in Q3 leading to imports of goods and services soaring by 91.1% in seasonally adjusted annualised terms. This boost has proven helpful this year and the expected continued strong economic growth in future will drive further volume increases. The total market is forecast to contract by 6.5% over 2020, this is considerably less than other regions including Europe at -9.9%.

The freight forwarding market in the **Middle East and North Africa** is forecast to grow at a CAGR of 3.5% from 2020-2024, one of the lowest rates of growth for the period as oil prices crash in the wake of the pandemic causing uncertainty. Growth of the sea market in the region is forecast to be at a CAGR of 3.6% whilst the air market is expected to contract by 3.3% over the same period. 2020 has impacted the region because of its reliance on imports. The low oil prices and the trade slump have re-enforced the rationale behind MENA countries' desires to diversify their economies. Efforts to diversify have been ongoing for some years with Vision 2030 in Saudi Arabia and Vision 2035: New Kuwait. The 2020-2024 CAGRs show more promising growth, with the total market forecast to grow by 3.5%, though recovery is only really expected to start affecting the economy positively in 2022. The IMF estimates the region's GDP per capita will increase from $10,740 in 2020 to $12,400 by 2024 with all economies also showing a level of expansion, such as Israel and Bahrain with forecasts of growth between 2020 and 2024 by 14.7% and 12.7%, respectively. As an import-led forwarding market, the forecasted rises indicate that there will be more purchasing power which could lead to increased consumer spending and higher imports, further supporting the CAGR.

The total **Russia, Caucasus and Central Asian** freight forwarding market is forecast to grow at a CAGR of 3.0% from 2020 to 2024. The sea forwarding market will grow at a higher rate of 3.0% but the air market is expected to contract by 3.1% over the five years. 2020 has proven to be a challenging year for the region during the pandemic. Unlike many countries, Russia's economy did not recover during the summer months. Real disposable income has fallen by 4.3% as workers lost incomes due to wage and working hour cuts as a result of the pandemic. In November, the IHS Markit Russia Manufacturing PMI registered 46.3 (down from 46.9 in October) signalled a continued deterioration in the health of the Russian manufacturing sector thus impacting export volumes. The 2020-2024 CAGR shows the air market will grow by 3.1%. However, the slow rate of growth can be attributed to political tensions as they continue to overshadow growth. Due to geopolitical frictions, the Sputnik V vaccine may not be as widely distributed as a vaccine made in the US or UK, for example. The European Commission has warned Hungary on its planned import of the vaccine as it is not yet approved by the European Medicines Agency. Under EU rules vaccines must be tested by the agency before it can be marketed in any state of the 27-nation bloc. The trade sanctions imposed on Russia by the US and the EU, as a result of the illegal annexation of Crimea and the destabilisation of Ukraine in 2014 has harmed its GDP. In 2019, the IMF estimated that sanctions reduced Russia's growth rate by 0.2 percentage points every year in 2014-2018.

South America has been the worst affected economy in 2020 with the IMF estimating real GDP growth of -8.1% over the year. The pandemic has had a negative impact on the freight forwarding market as well with Ti forecasts showing the total market will grow at a CAGR of 4.8% from 2020-2024. The sea freight market looks set for a more prosperous future with a CAGR of 4.6% as demand for commodity goods increases internationally, pushing exports and consumer demand increases in the region supporting imports. The air freight market has had a poor 2020, but its 2020-2024 CAGR of 4.9% is supported by GDP growth of 3.6% in 2021. A lack of investment is going to hamper growth in industry, for example, in Peru, mining investment is expected to fall by 10-30% in 2020 with overseas companies withdrawing FDI offers due to uncertainty. The

decreases in commodity prices, export volumes and investment has led to the worst recession in over 60 years. Economic pressure exacerbates social unrest. The region is prone to socio-political crisis and the pandemic has not only highlighted existing problems but created new ones. Chile, until recently was a stable economy, but even before the pandemic was facing social discontent as a result of corruption, political instability and inequalities in healthcare, income and education. These points have become more evident over the pandemic causing unrest. It is, therefore, a concern from within the region and on a global level that Chile will no longer be a stable economy supporting the region's economic growth. Overall, growth will be seen in the freight forwarding market, but it will be shallow and fragile.

Whilst **Sub-Saharan Africa** did not escape the pandemic, it was not as severely affected as more developed regions. The pandemic has caused weakness and prolonged impacts, mainly for non-oil, resource-intensive and tourism-dependent countries, as output was reduced due to lockdown measures and air travel was suspended. The four-year CAGR from 2020 to 2024 shows even more positive growth. With the air market expected to grow at a CAGR of 7.2%. Economic growth is expected in the region and not only as a rebound from a poor 2020. The IMF forecasts GDP growth will increase from -3.3% in 2020 to 4.4% in 2023.

As the world emerges with the distribution of a vaccine demand is set to increase for commodities and natural resources, pushing up exports. Though passenger air travel will take time to recover it is already showing positive signs. A positive trade outlook comes with the African Continental Free Trade Area (AfCFTA), which will create the largest free trade area in the world measured by the number of countries participating. Once fully implemented it will promote intra-African trade, boosting both exports and imports for the region by reducing tariffs and covering policy areas and regulations. Meanwhile, the Kenyan flower industry is booming and earning the African nation more than $800m annually. The exports rely on air freight and whilst 2020 has proven a challenging year, it looks set to make a comeback with the help of e-commerce. The emergence of direct to consumer sales via e-commerce platforms will allow Kenyan growers to change sales channels and at the same time reduce its reliance on the powerful flower auctions across Europe. The advancement in cold chain logistics has enabled this growth along with new markets such as China and India.

About Ti

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Ti is a leading UK-headquartered logistics and supply chain market research and analysis company providing:

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- Global Supply Chain Intelligence (GSCi) online knowledge platform
- Consulting and Market Research projects
- Training, Conferences and Webinars.

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Expertise includes:
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- Global usage and perception studies of shipper and logistics provider behaviour.
- Micro-economic analysis of key logistics segments: express, freight forwarding, road freight, contract logistics, warehousing, air cargo, shipping and e-commerce logistics.
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