WEEKLY MARKET UPDATE

KWE Global Logistics Partner

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LATEST News

Canada's 3 largest airlines make big push in cargo. Air Canada expands freighter network, Cargojet goes deeper with 777s and DHL, and WestJet prepares for all-cargo service. Domestic e-commerce sales in Canada have more than doubled since the COVID pandemic to more than US$4.7 billion, according to Statistics Canada. Air cargo business is growing in Canada, and the three biggest carriers there are investing accordingly. Two of them — Air Canada and WestJet — are passenger airlines that are in the process of establishing all-cargo divisions with aircraft dedicated to carrying freight on the main deck. Cargojet, as the name implies, is a cargo operator that also is significantly expanding its fleet and just announced a large contract renewal with DHL Express that involves extra aircraft. For domestic and international shippers, the growing fleets mean more intra-Canada and cross-border capacity for e-commerce, perishable goods, pharmaceuticals and general products. The following a compendium of recent stories on FreightWaves and American Shipper, supplemented with recent updates on recent developments. Air Canada: The first carrier in North America to return to a combination passenger-and-freighter fleet intends to invest in more all-cargo aircraft as logistics contributes more to long-term profitability. During an Investor's Day presentation on March 30, Jason Berry, vice president of cargo, said the airline is ready to go beyond eight cargo jets. Last Tuesday, Air Canada made its intentions clear: It is acquiring two new, factory-built 767-300 freighters. Cargojet: Cargojet is investing in eight Boeing 777 passenger planes that will be converted to a pure cargo configuration, quadrupling its original order, according to a recent management document presented to shareholders and industry sources. WestJet: Calgary-based WestJet expects to have its first two 737-800 standard jets converted for cargo in revenue service by July 1 or sooner, as FreightWaves recently reported.

AIR Freight

Air cargo demand down on Omicron in Asia and war in Ukraine. Global air cargo demand declined in March thanks to the effects of Covid-19's Omicron variant in Asia and the Russia-Ukraine war. According to the International Air Transport Association's (IATA) March 2022 data global demand, measured in cargo tonne-kilometers (CTKs), fell 5.2 percent compared to March 2021. Capacity was 1.2 percent above March 2021. While this is in positive territory, it is a significant decline from the 11.2 percent year-on-year increase in February. Asia and Europe experienced the largest drops in capacity. War, rising costs and inflation. IATA says the war in Ukraine led to a drop in cargo capacity used to serve Europe as several airlines based in Russia and Ukraine were key cargo players. Sanctions against Russia also led to disruptions in manufacturing. And rising oil prices are having a negative economic impact, including raising costs for shipping. New export orders, a leading indicator of cargo demand, are now shrinking in all markets except the US. The Purchasing Managers' Index (PMI) indicator tracking global new export orders fell to its lowest level since July 2020. Global goods trade has continued to decline in 2022. China's economy is growing more slowly because of Covid-19-related lockdowns, and supply chain disruptions have been amplified by the war in

Ukraine. General consumer price inflation for the G7 countries, which was at 6.3 percent year-on-year in February 2022, is the highest since 1982, and also contributes to the slowdown. "Air cargo markets mirror global economic developments. In March, the trading environment took a turn for the worse. The combination of war in Ukraine and the spread of the Omicron variant in Asia have led to rising energy costs, exacerbated supply chain disruptions, and fed inflationary pressure," said Willie Walsh, IATA's director general.

SEA *Freight*

Port of Montreal sees throughput rise in 2021. The Port of Montreal saw container and dry bulk throughput increase in 2021, against stable revenues. The Montreal Port Authority (MPA) presented the port's 2021 operating results at its annual meeting. "The past year tells us one thing, and that is how necessary it is to be able to adapt, no matter what the circumstances, to disruptions, unforeseen events and factors outside the normal course of operations that can affect the supply chain," said Martin Imbleau, president and CEO of the MPA. "As a public service, we are doing everything we can to ensure the future of the Port of Montreal. We do this for local businesses that import and export products that are indispensable to their operations and vitality and, bottom line, we do this for the ultimate client, namely the consumer, the citizen." Cargo traffic. Freight volumes were impacted by the events of the year in several ways. The container sector, driven by changing consumer habits in response to the Covid-19 pandemic and the surge in orders for consumer products, posted a 7.5 percent increase in TEUs (twenty-foot equivalent units), with 1.7 million containers handled. The dry bulk sector declined 6.2 percent to 7.9 million tonnes due to droughts in Western Canada that affected grain volumes. Conversely, there was strong growth in the volumes of minerals and fertilizers for the agri-food sector. The liquid bulk sector posted a 5.2 percent decrease to 11.7 million tonnes, mainly due to the impact of the pandemic on fuel volumes for personal vehicles and air traffic. In all, 34 million tonnes of cargo were handled at the Port of Montreal, down three percent from last year.

Shippers still favoring contracts, despite short-term spot rate discounts. While long-term container contract rates from Asia continue to advance, ocean carriers have been busy offering significant discounts on spot rates from China this week, as cargo availability temporarily dries up due to Covid lockdown restrictions. However, the momentum in long-term contract sign-ups at significantly higher rates is underpinning the huge first-quarter profits being reported by carriers. According to Xeneta's crowd-sourced ocean freight rate data, April saw a further 11% jump in its index for long-term contract rates, for a year-on-year increase of 110%. The freight rate benchmarking platform's XSI index recorded a 9% increase in Asia-US headhaul contract rates during the month. However, contract rate increases on that lane soared by 17% as shippers scrambled to secure their supply chains ahead of the peak season. Xeneta said contract rates on the Asia-Europe route had increased by 25% since the beginning of the year. CEO Patrik Berglund said: "Yet again we see the carrier community sitting pretty when it comes to long-term contract rate negotiation. "They are, quite frankly, reaping huge rewards from a red-hot market. It's a position of power the carriers have no desire to relinquish."

Intermodal struggles to be alternative mode for US container transport. With the trucking sector losing steam and soaring fuel prices pushing shippers to rein in costs, intermodal traffic should be on the ascent in the US, but the latest numbers show a continuing downward trend. According to the Intermodal Association of North America (IANA), intermodal volumes dropped 6.6% in the first quarter, year on year. International registered the steepest drop, falling 15.5%, while IANA's intermodal trailer count was down 12.8%. The seven intermodal corridors with the highest traffic density, which account for some 60% of all volumes, all showed declines, led by a 15.3% slump in the south central to south-west sector. The Q1 decline follows contractions in the previous two quarters. IANA statistics for Q4 21 show a drop of 9.8% in intermodal volumes, following a 2.9% slip in the third quarter. According to the organization, the issues that drove down volumes in the latter half of 2021 – congested terminals, driver and labour shortages and equipment misalignment – are expected to continue through the first half of this year. In fact, pressure on the system will likely increase. Importers and operators are bracing themselves for a surge in imports from China once the lockdown in Shanghai ends.

SURFACE *Transportation*

One in four truck drivers now 55-64. One in four of Canada's truck drivers are between the ages of 55-64, outpacing the overall share of Canadian workers approaching retirement age. The observation, released by Trucking HR Canada, come on the heels of recent Statistics Canada data that shows one in five people (21.8%) in the overall workforce falls within that demographic group. Statistics Canada is scheduled to release its transportation-related demographic information this fall. "Canada's trucking and logistics sector was already grappling with a workforce that is older than average, especially among drivers," notes Trucking HR Canada's latest Driving Economic Recovery report. To compound matters, a 2019 study projected Canada would be short 55,000 drivers by 2023. Workers between the ages of 15 and 24 were more likely to be laid off or exit the labor force as some firms opted to retain experience at the height of the pandemic, Trucking HR Canada adds, referring to recent research and employer surveys. The pool of these young drivers shrank 38% in January 2021, when compared to the previous year. "There is still more work to be done to recruit and retain young Canadians into our workforce," said chief program officer Craig Faucette in a press release. But training and wage subsidies are helping to improve employment opportunities for younger workers, Trucking HR Canada adds. Women accounted for just 3.7% of Canada's employed truck drivers in the first half of 2020, but 15.9% of the decline in truck driving jobs in the second quarter of 2020, although the numbers recovered to pre-pandemic levels by June 2021.

MARKET *Sources*

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Kintetsu World Express is continuously monitoring the situation and will provide further updates as the information becomes available.

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