MIT
International Center for
Air Transportation

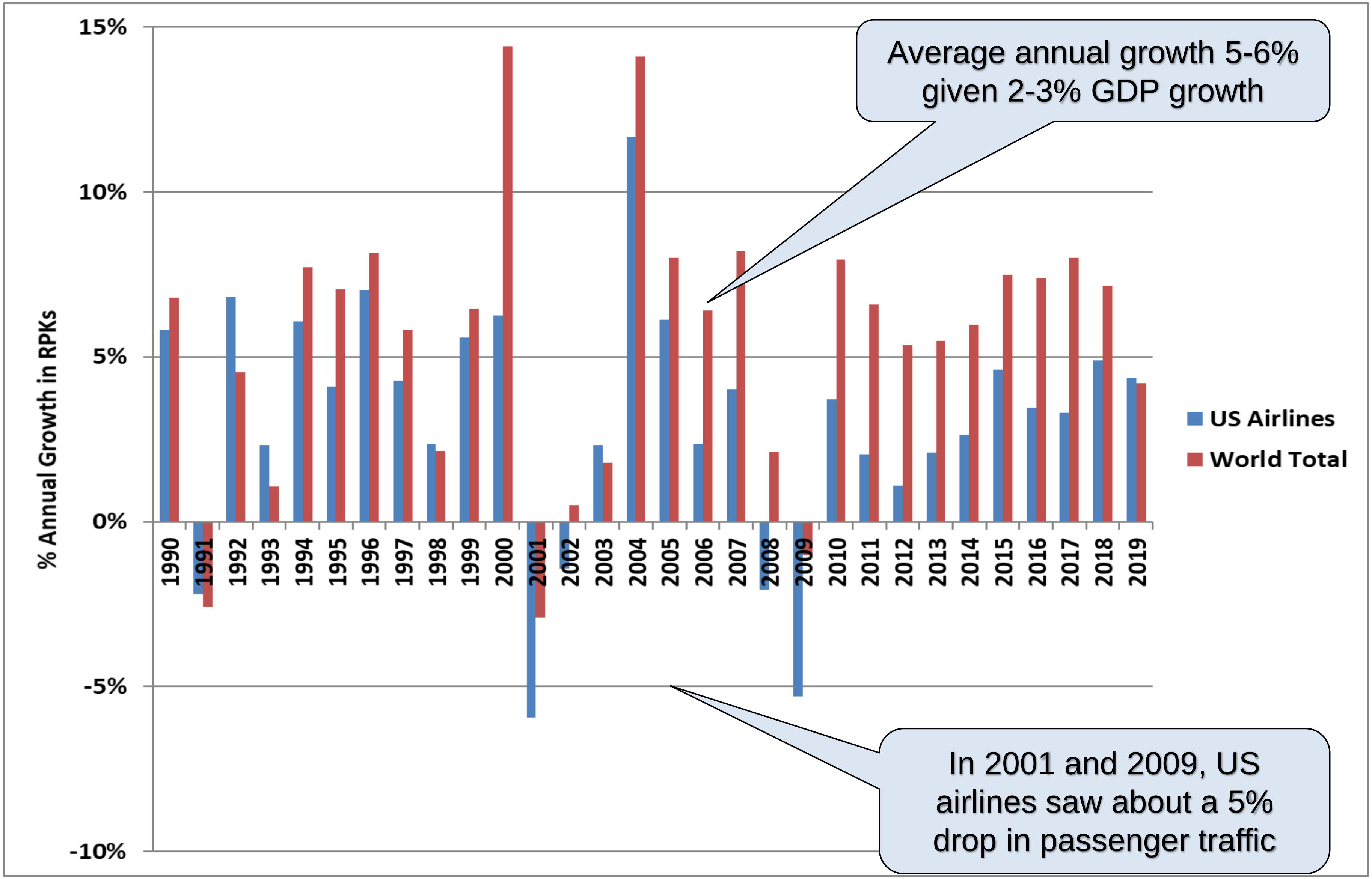
Introduction: Impacts of Pandemic on the Global Airline Industry

Dr. Peter P. Belobaba

NEXTOR Webinar

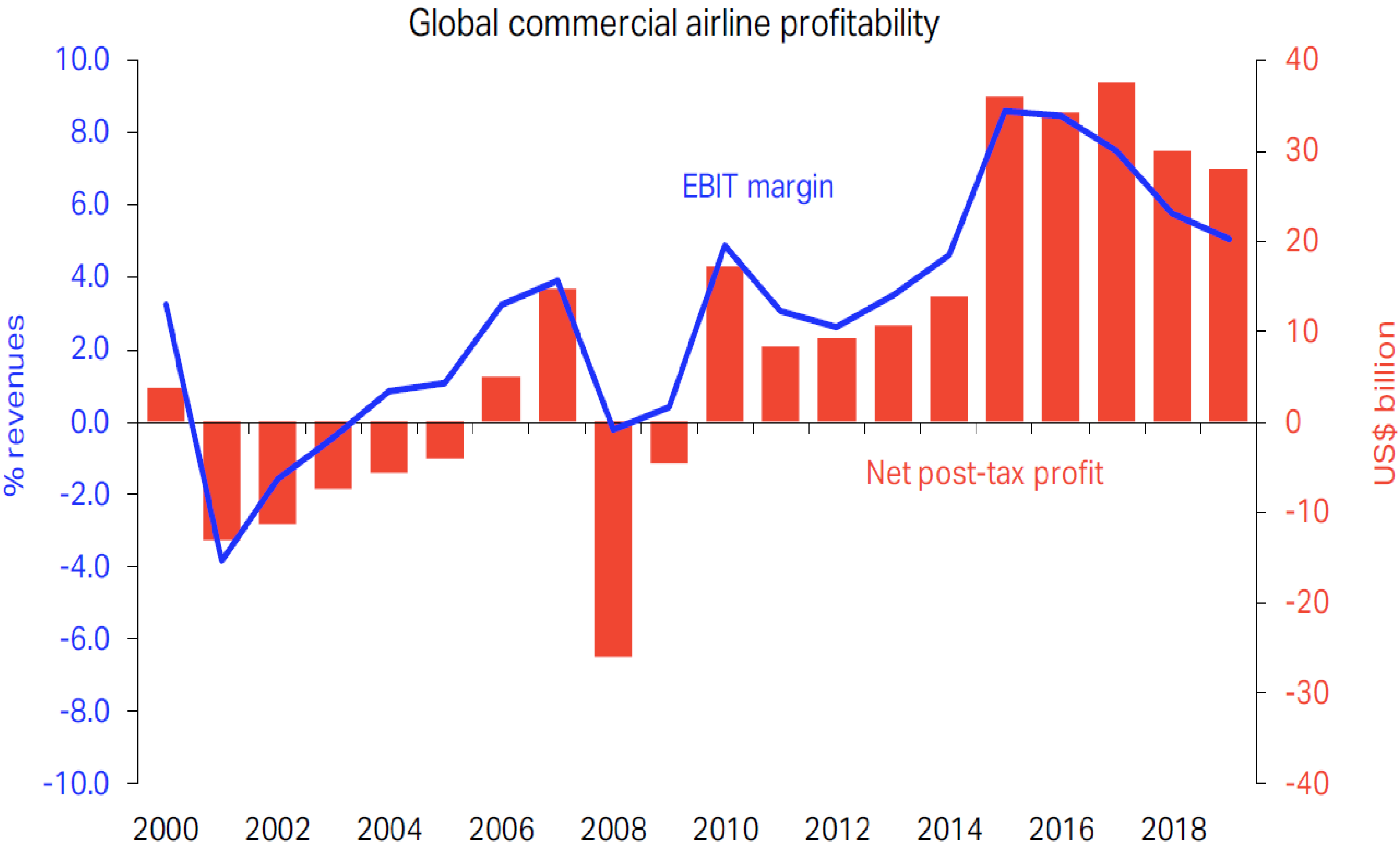
November 24, 2020

Looking Back: Global Passenger Traffic Growth 1989-2019



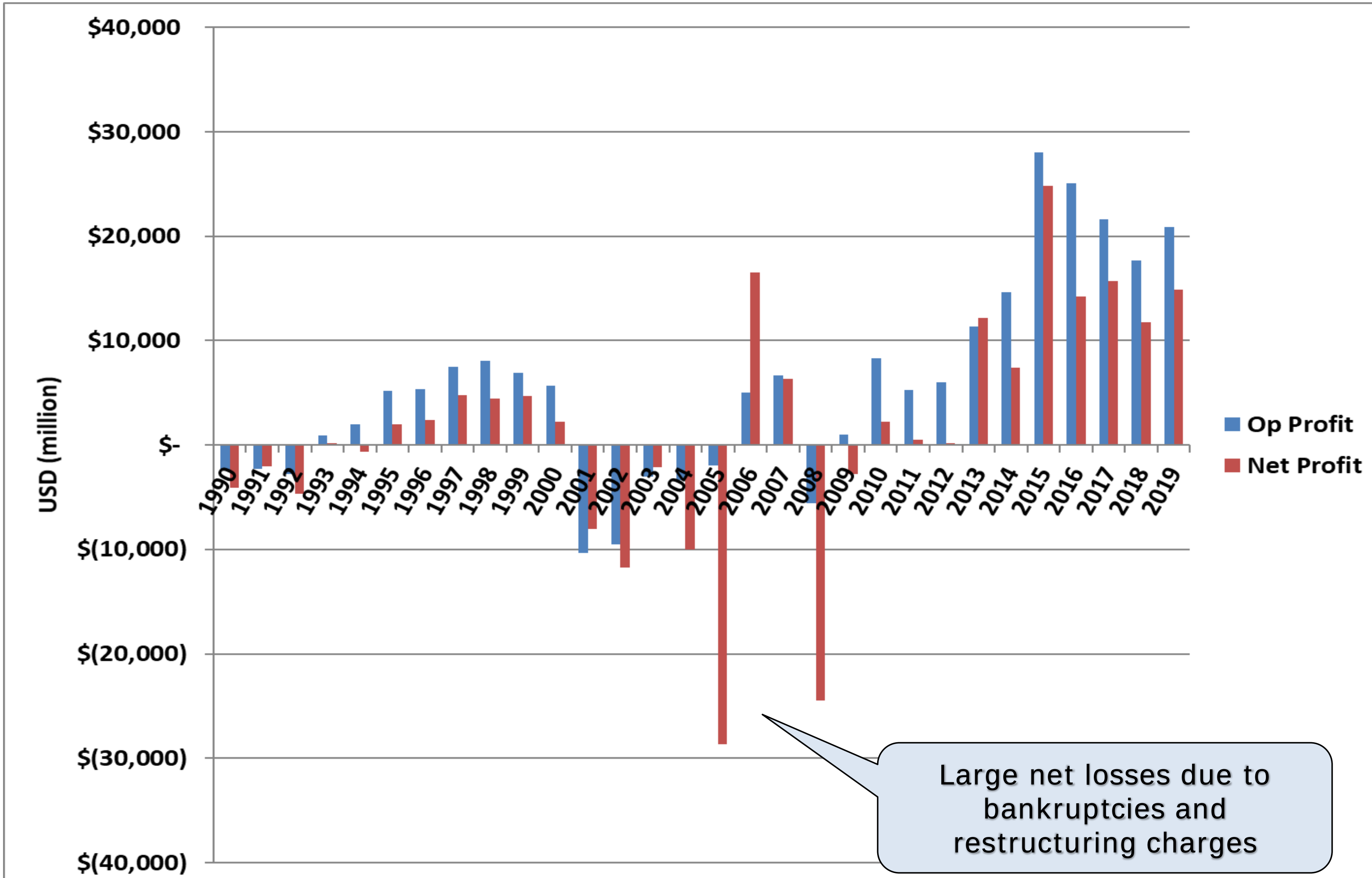
Data sources: ICAO, Airlines for America

For the First Time in History, Global Airlines Posted 10 Consecutive Years of Profitability through 2019



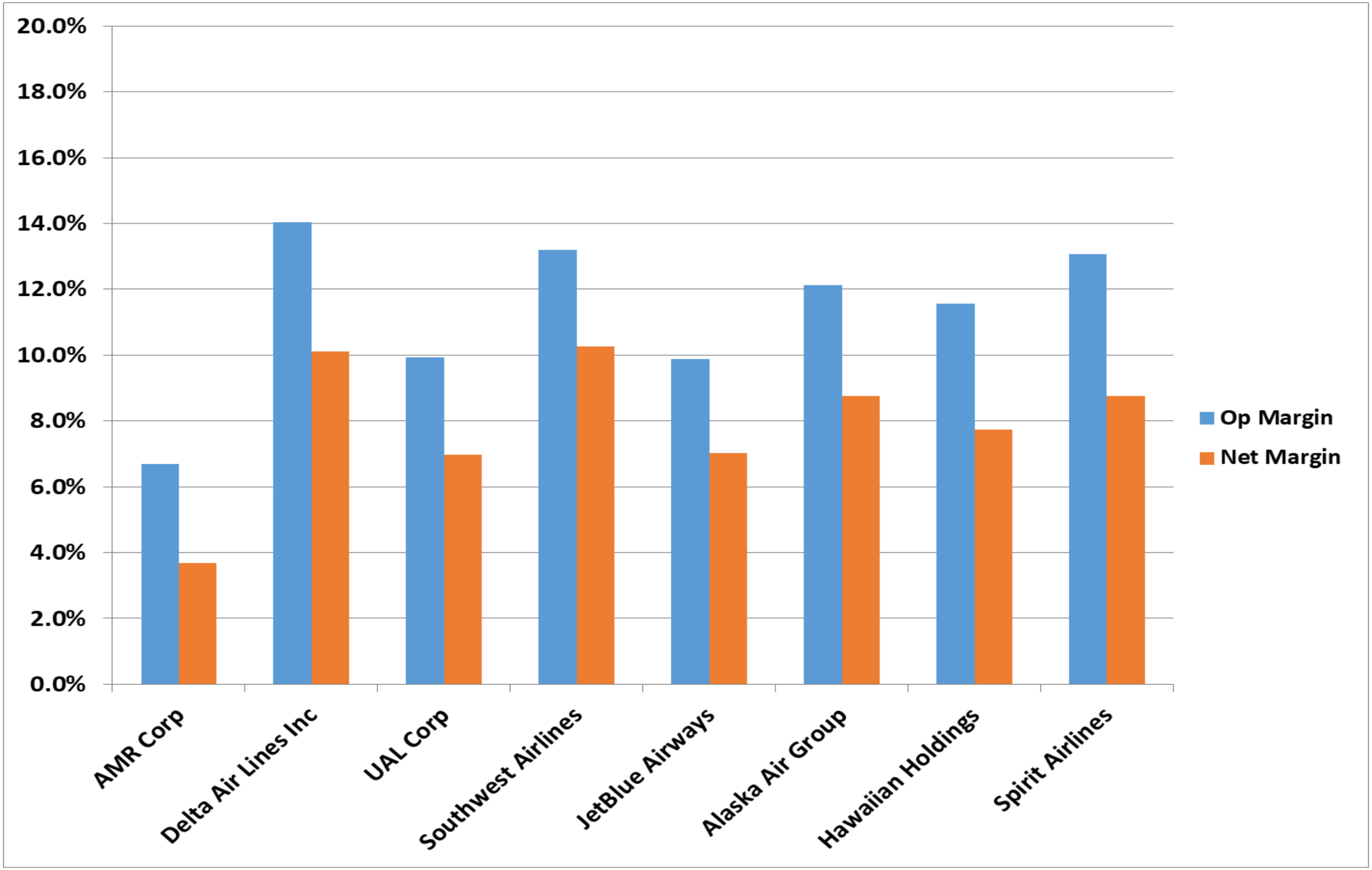
Source: IATA, June 2019

US Airline Industry Profits 1989-2019



Source: US DOT Form 41 Data

Largest US Airline Profit Margins – 2019

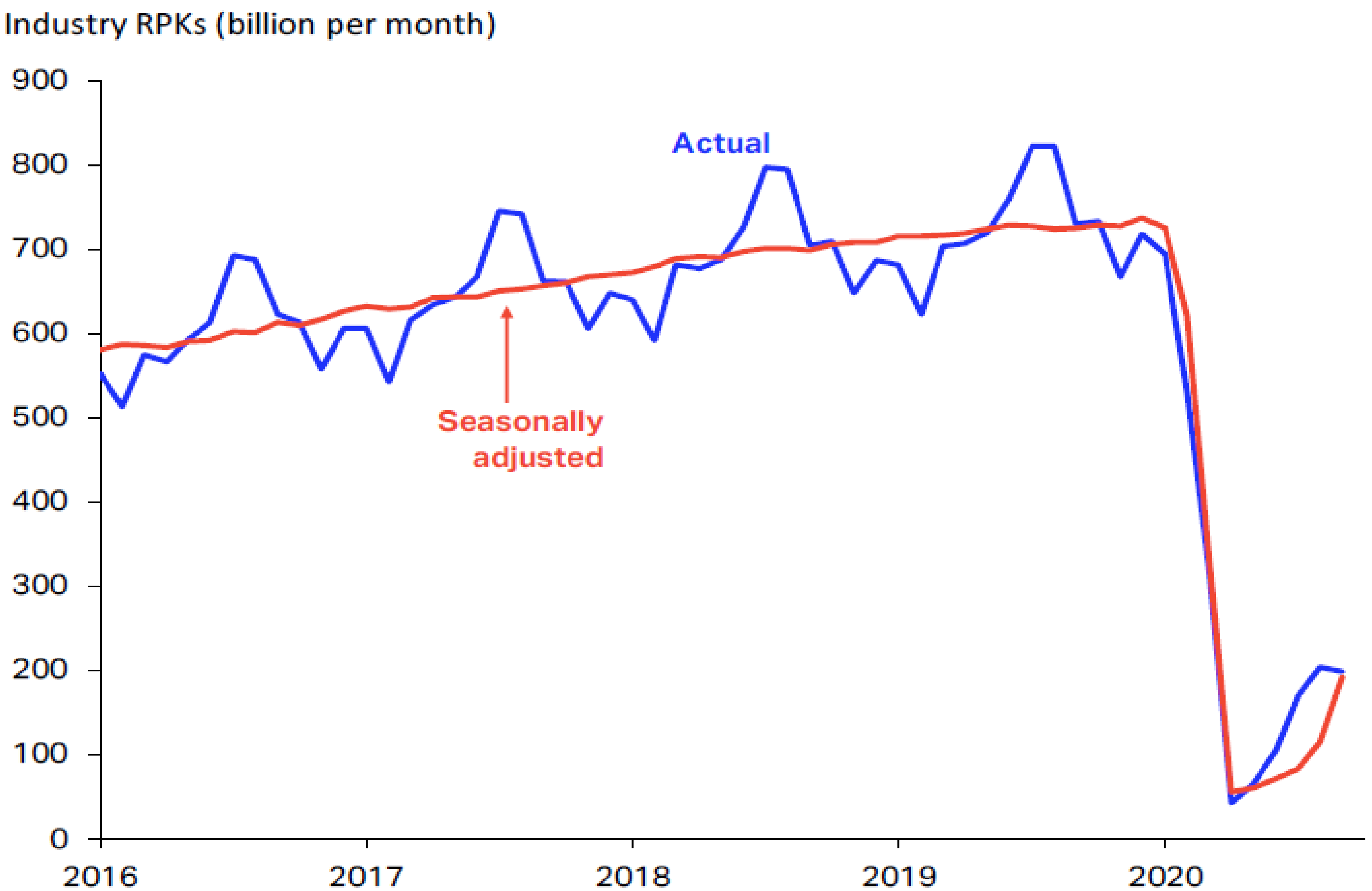


Source: US DOT Form 41 Data

From Record Global Profits to Global Pandemic

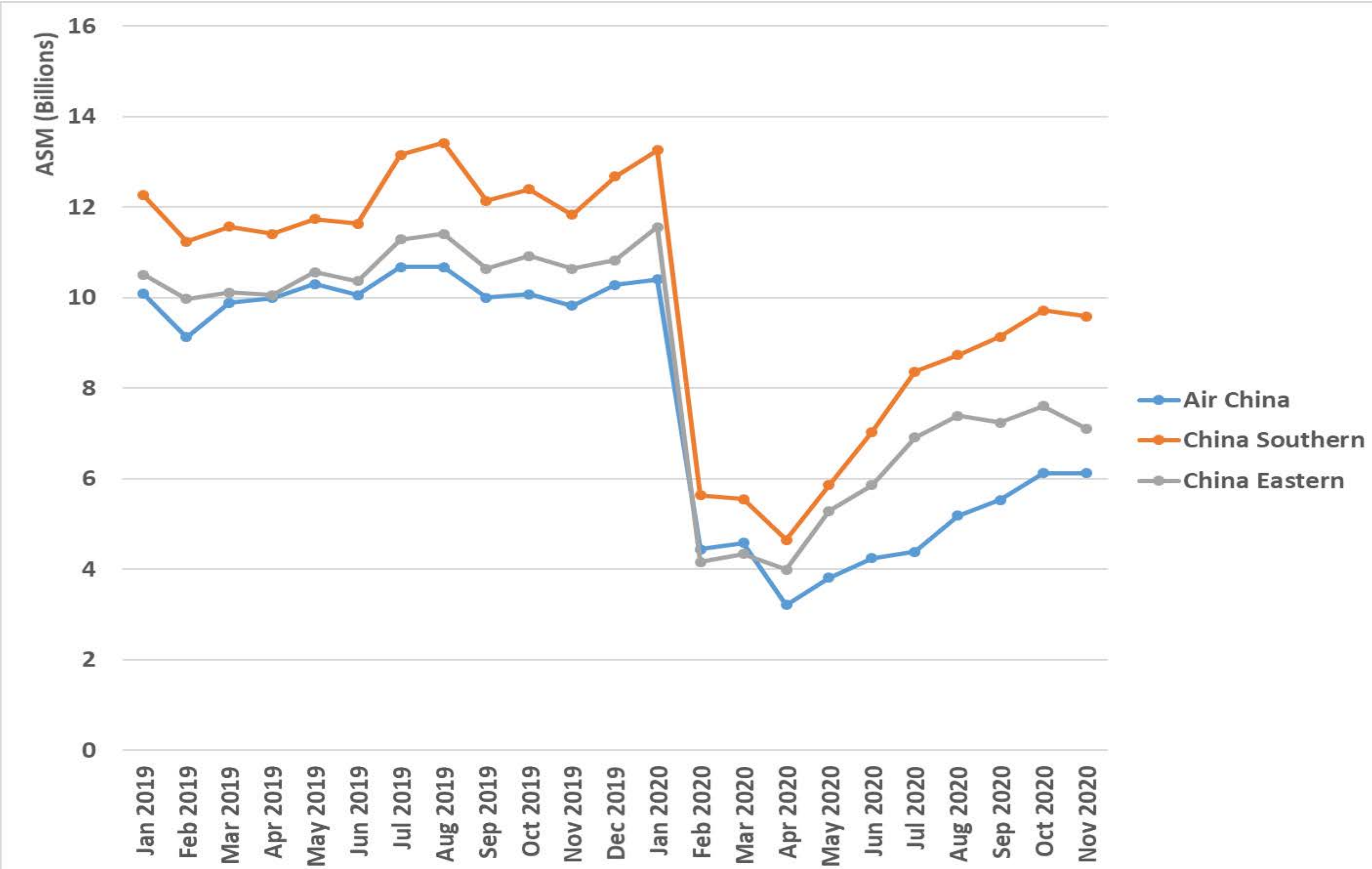
- 2019: Record 10 consecutive years of industry profit
  - North American carriers became the most profitable in the world, with streamlined operations, reduced costs and improved productivity
  - Legacy carriers in Europe still not cost competitive – with US legacies or with emerging carriers from Middle East, China…as well as LCCs
  - Rapid growth of Middle East carriers had already slowed, with many signs of financial troubles
- 2020: COVID-19 pandemic destroys airline performance
  - Economic recession, passenger concerns about flying, border restrictions led to unimaginable 90%+ demand decreases
  - Some early signs of traffic recovery extinguished by higher COVID rates
  - Not at all clear when (or even if) demand and industry will return to “normal” – or what that “normal” will be

Global Airline Passenger Traffic Plummeted by over 90%



Source: IATA (Nov. 4, 2020)

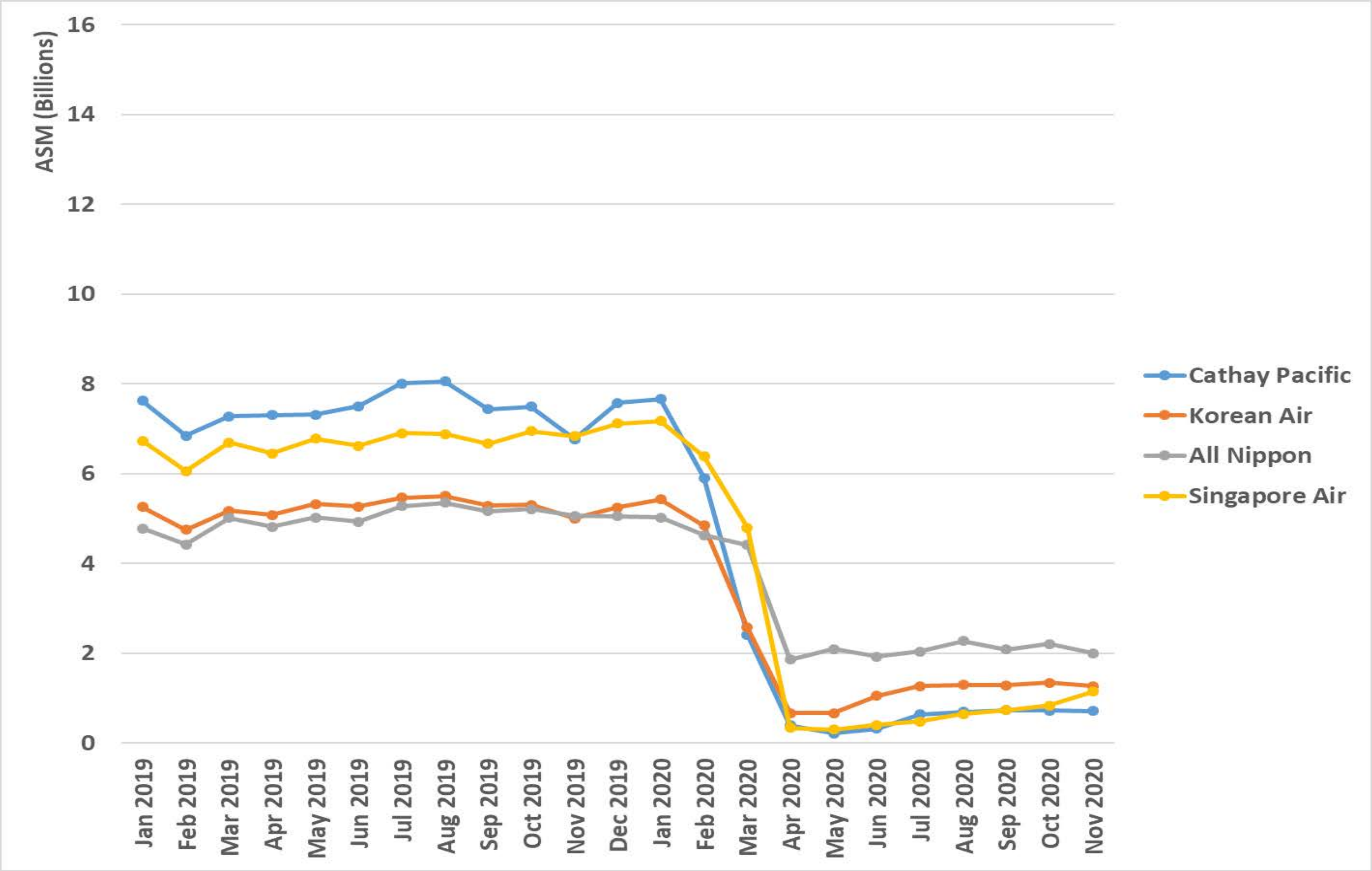
Largest Chinese Airlines Have Rebounded Most Quickly
Driven by Strong Capacity Recovery in Large Domestic Air Travel Market



Source: Cirium Schedule Data (Nov 2020)

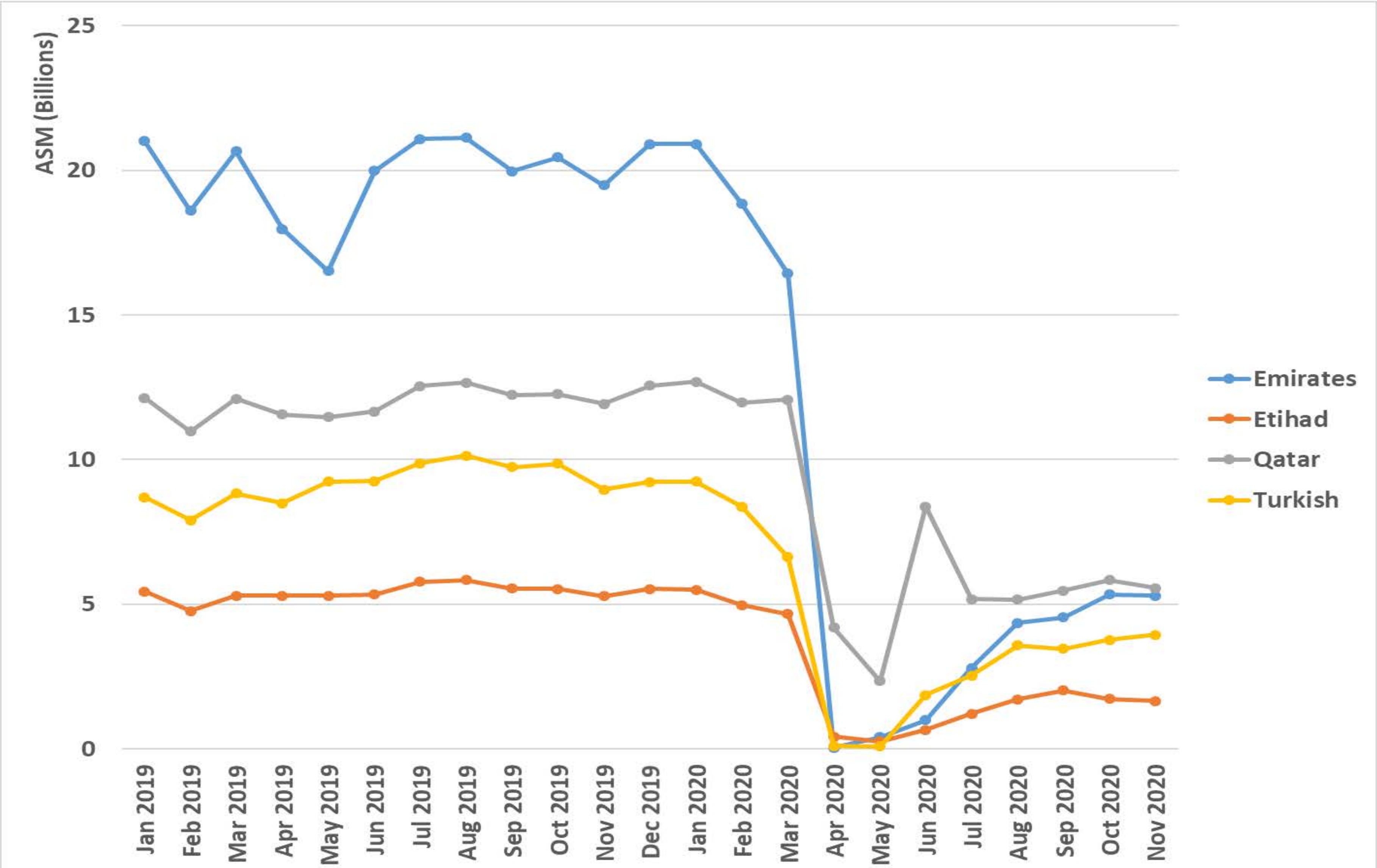
Other Large Asian Carriers Have Seen No Recovery

Total Capacity Has Remained Flat at About 25% of February Levels



Middle East Carriers Have Seen Minimal Recovery

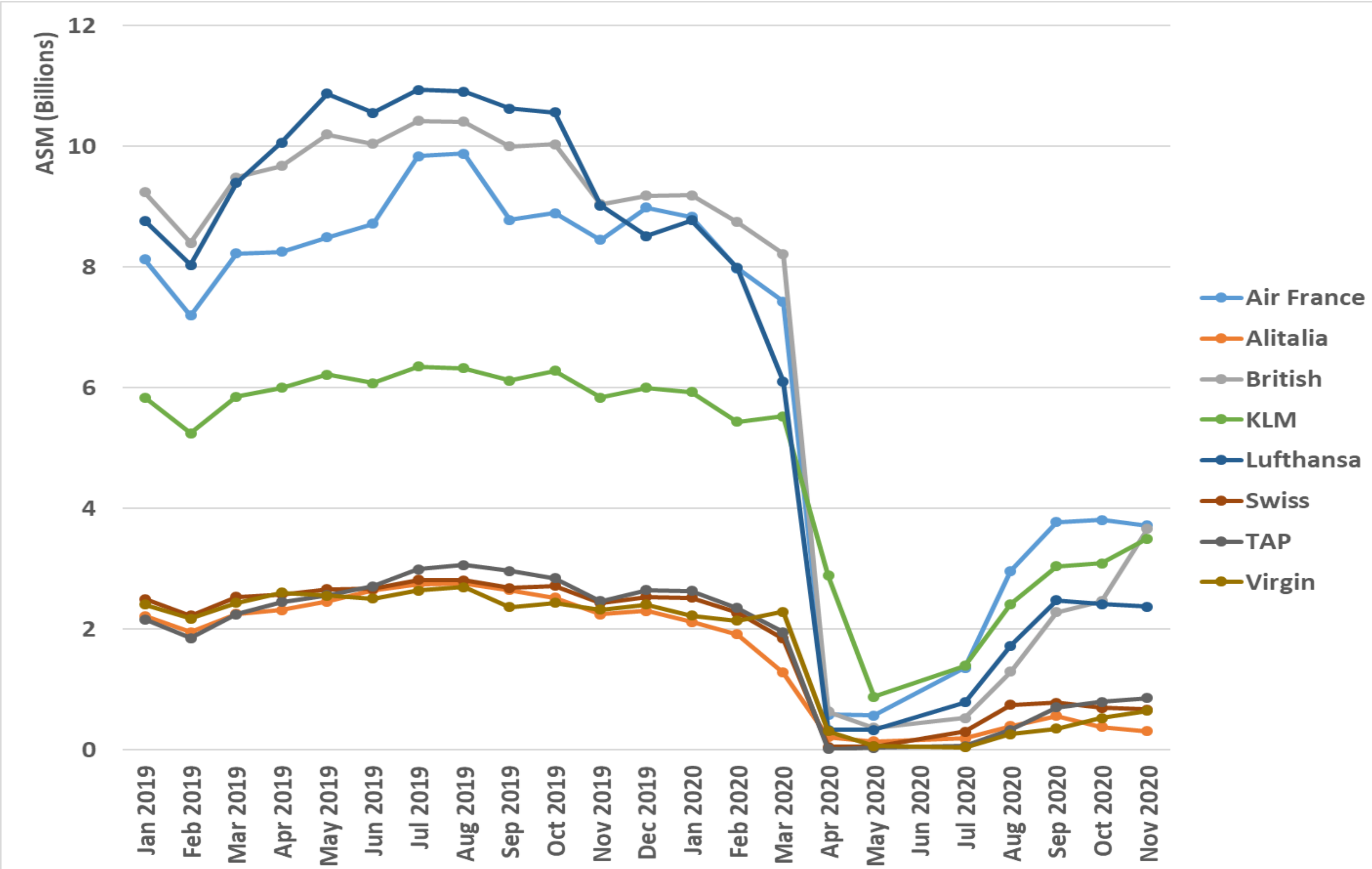
Reliance on 6th Freedom Hub Traffic Effectively Grounded Operations



Source: Cirium Schedule Data (Nov 2020)

European NLCs Capacity Rebound Has Leveled Off

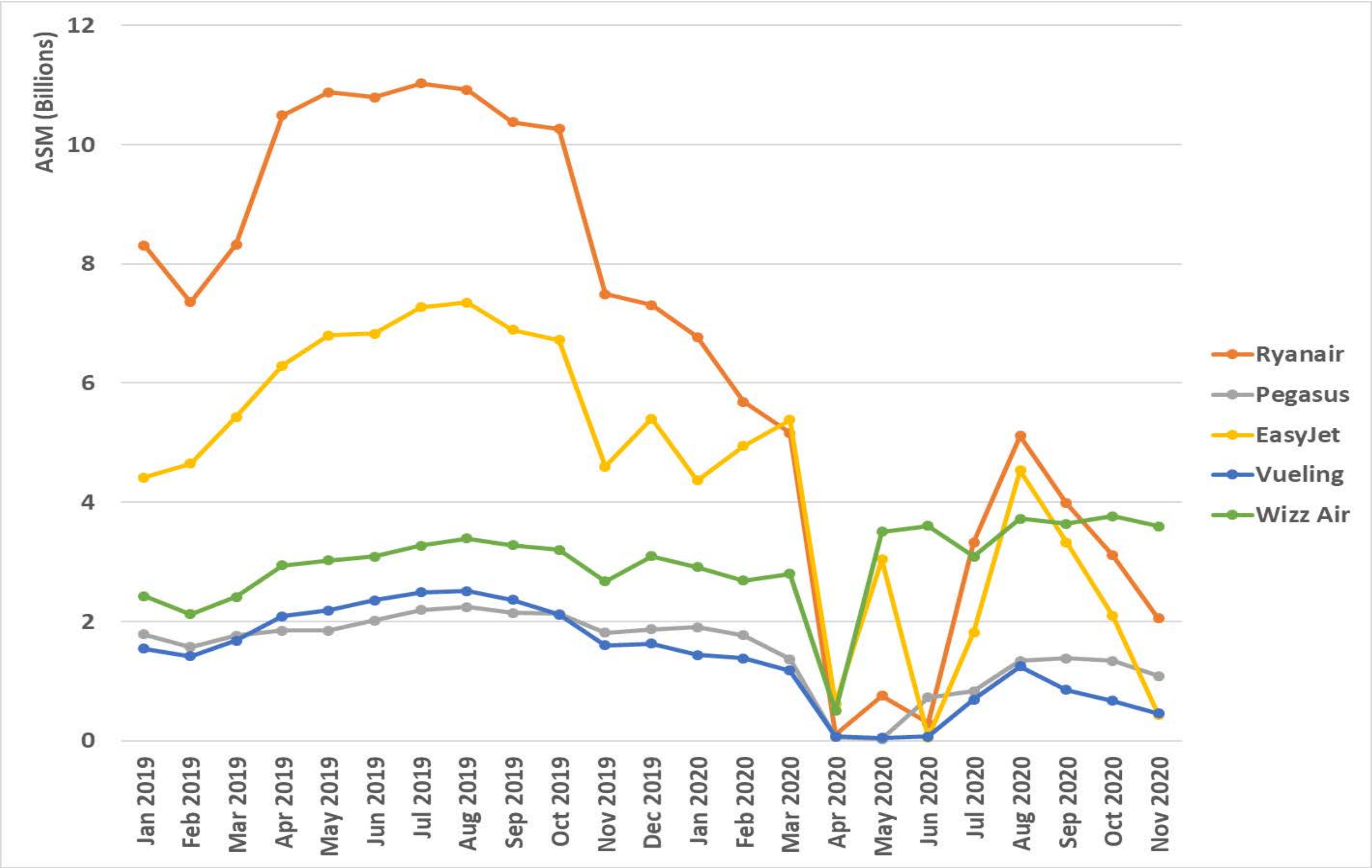
Virus Resurgence in Europe Flattened Capacity Growth Curves



Source: Cirium Schedule Data (Nov 2020)

European LCCs Had Hoped Leisure Market Would Rebound

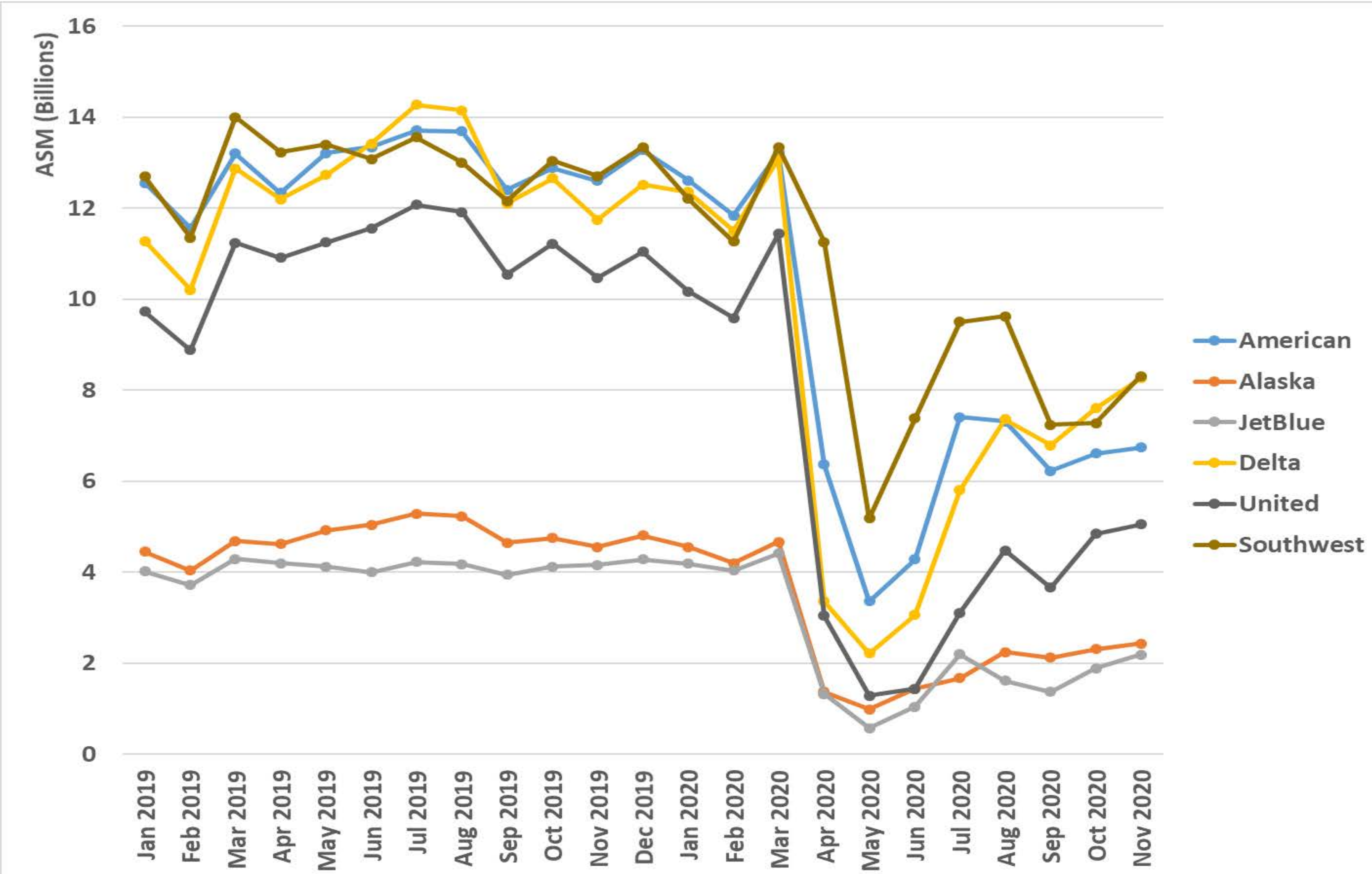
Ryanair and EasyJet Have Now Pulled Back, While Wizz Air Keeps Flying



Source: Cirium Schedule Data (Nov 2020)

US Airlines Domestic Capacity Recovery Has Also Stalled

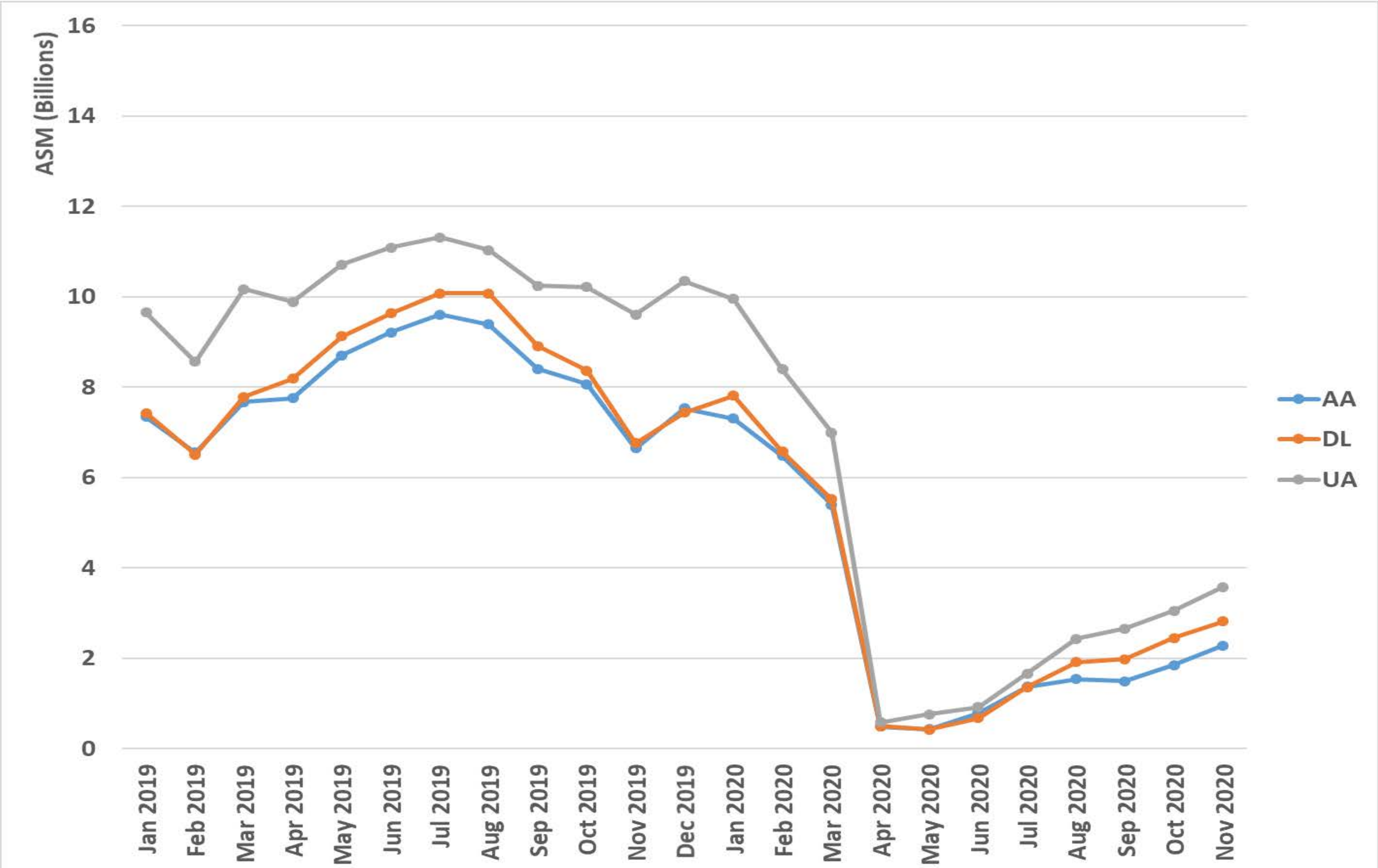
Summer Capacity Surge by WN and AA; UA and DL Growing Slowly



Source: Cirium Schedule Data (Nov 2020)

Largest US Airlines Trying to Rebuild International Networks

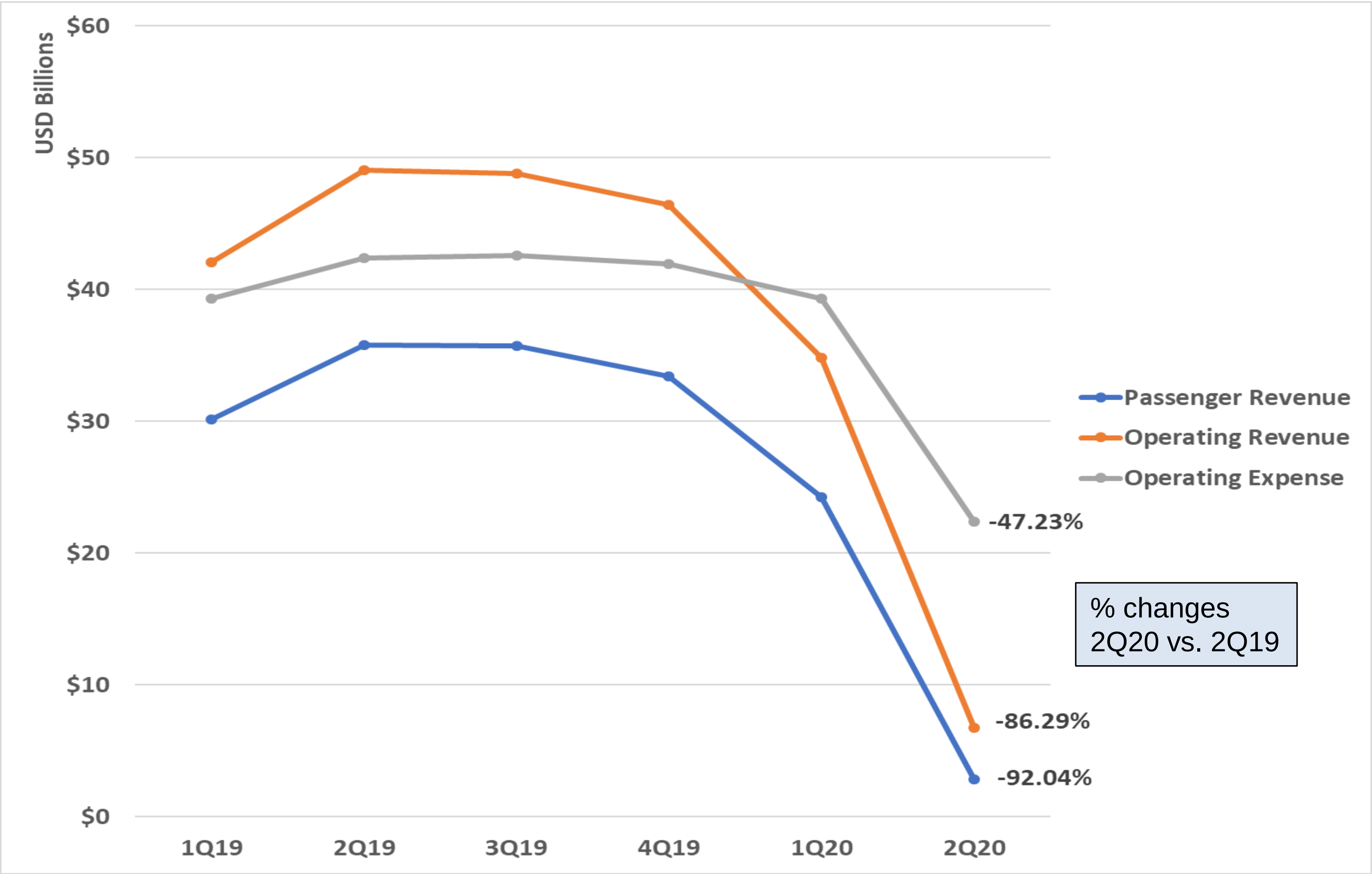
Capacity Growth Unmatched by Demand, Given Border Restrictions



Source: Cirium Schedule Data (Nov 2020)

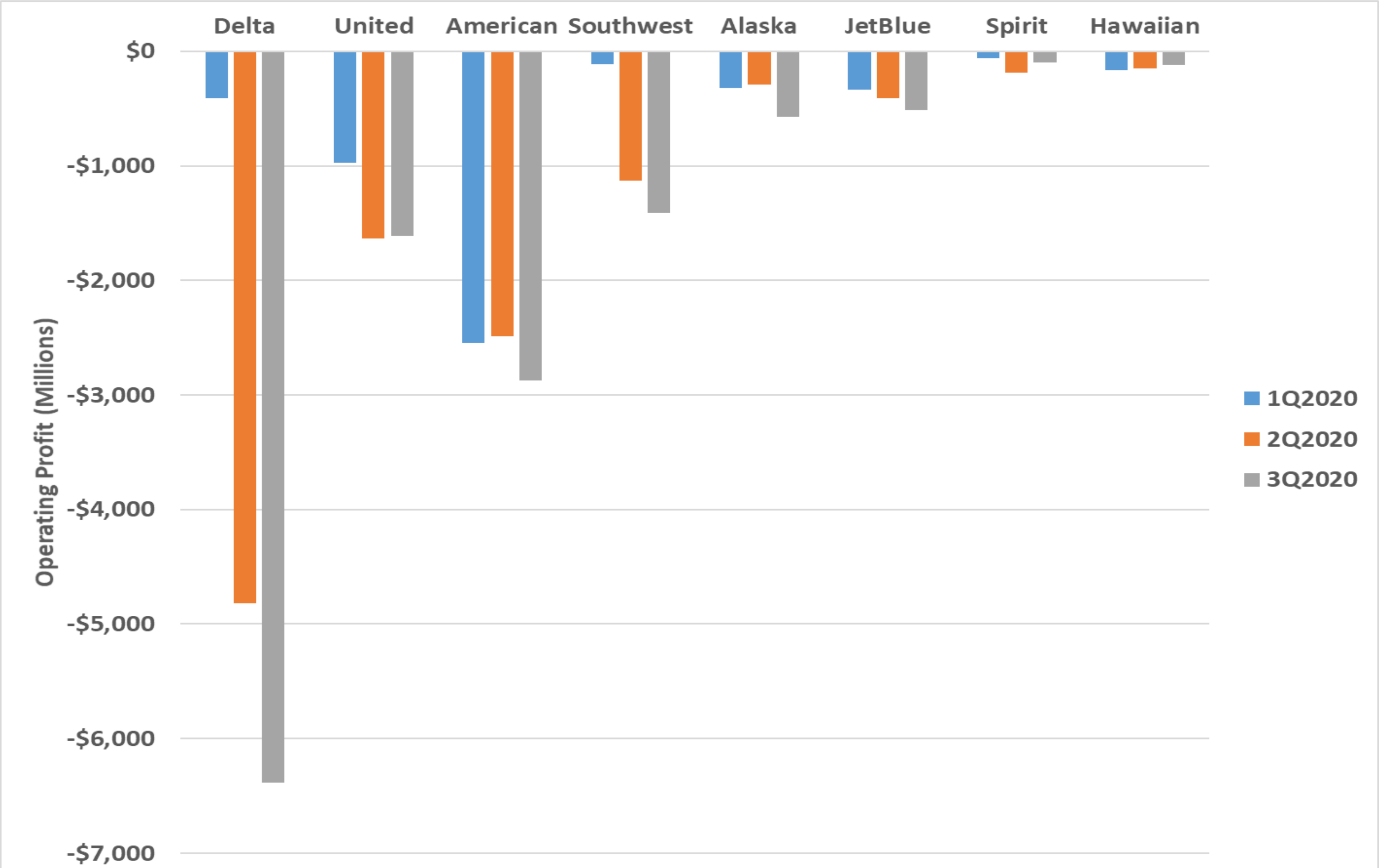
10 Largest US Airlines – Revenues and Operating Expenses

2Q20 Revenues Dropped by 90% While Expenses Decreased Only 50%



Source: US DOT Form 41 Data

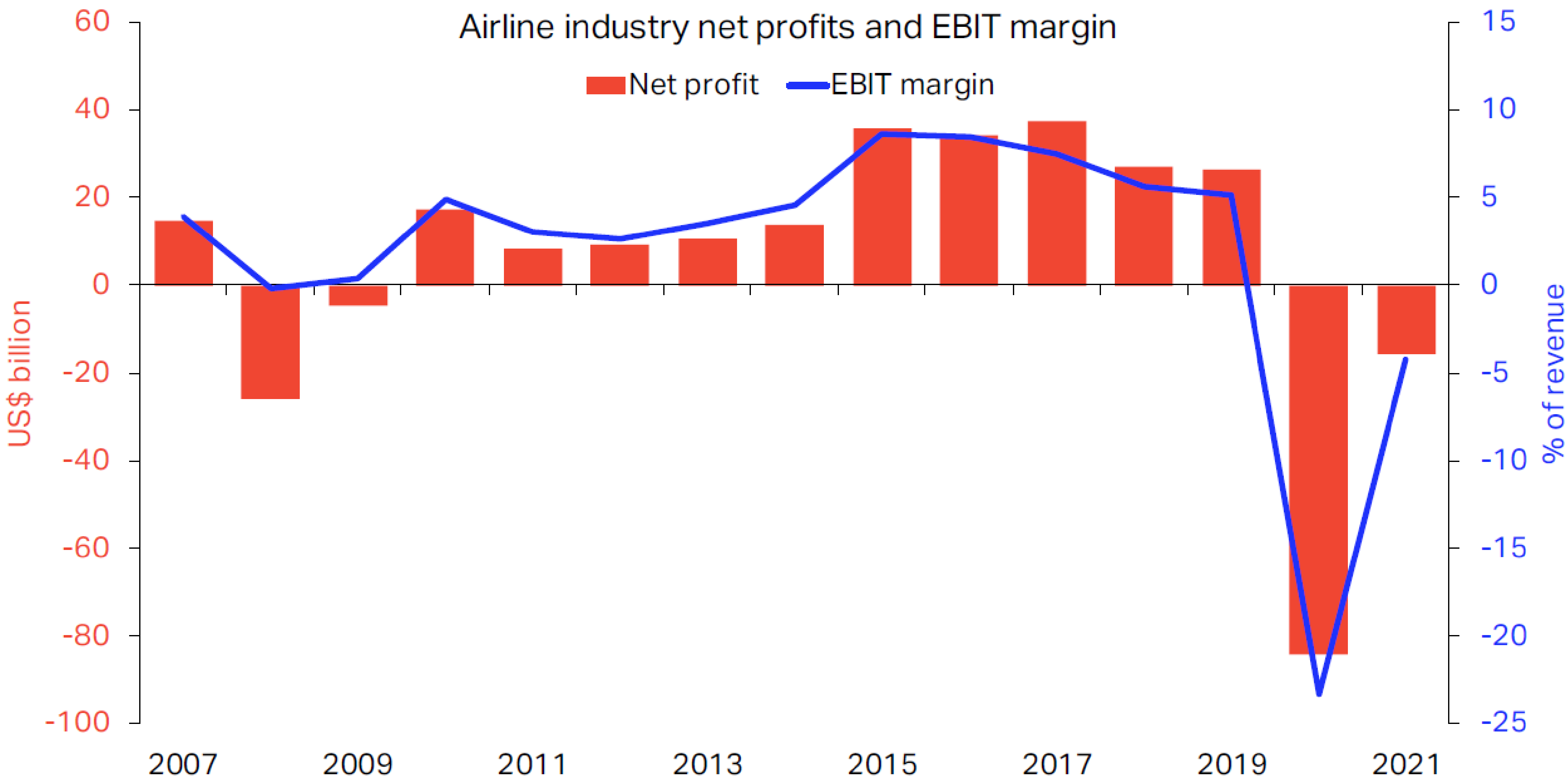
US Airlines Have Posted over $30 Billion in Operating Losses for First 3 Quarters of 2020



Sources: US DOT Form 41 Data; Company Reports

IATA Global Forecast of $84B Net Loss in 2020

”Recovery” to $15B Net Loss in 2021

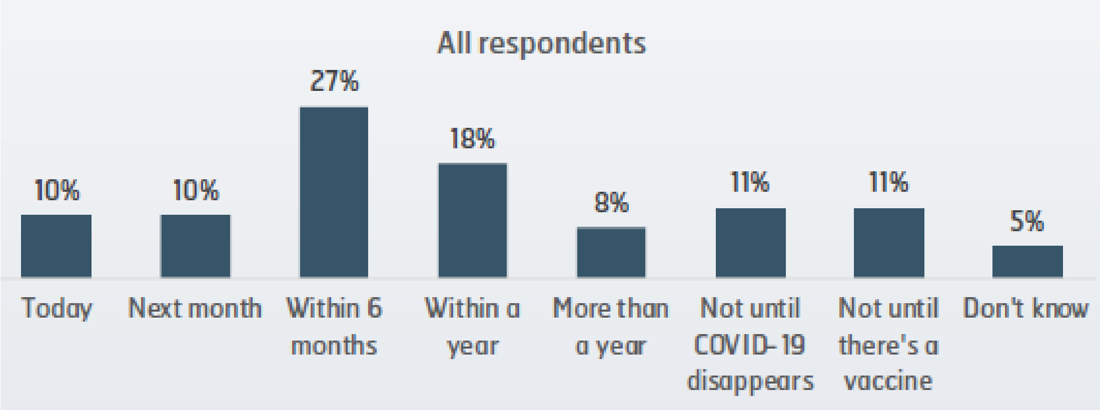


Source: IATA (June 2020)

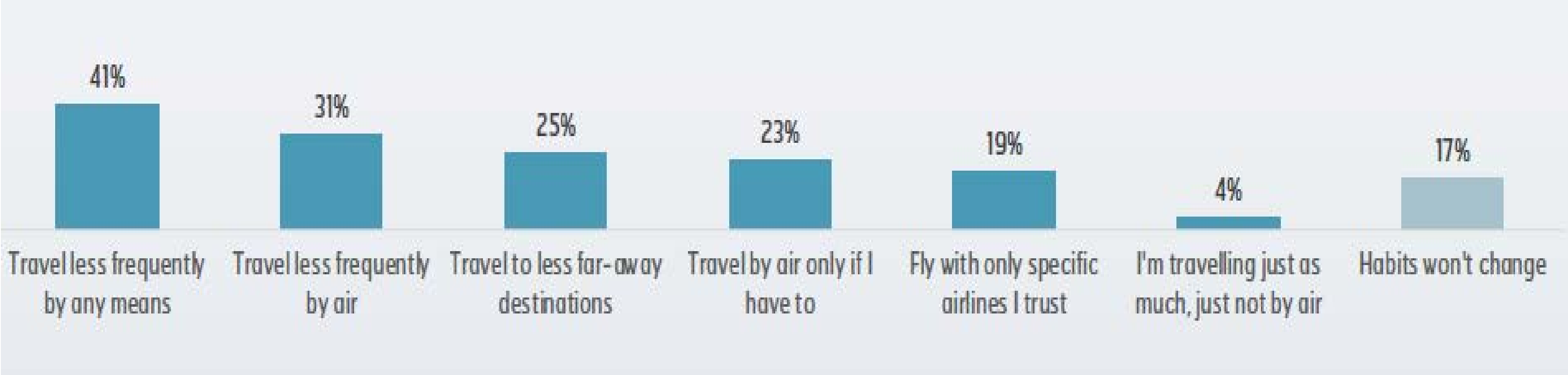
Fundamental Changes in Travel Behavior?

Questions About Timing and Volume of Demand Return

When would you be confident to take your next flight?



How are your travel habits likely to change post-COVID-19?



Source: Inmarsat Aviation (November 2020)

Prospects for Recovery: Uncharted Territory

- Many questions about <u>when</u> and <u>how</u> demand will return
  - When will an effective vaccine be widely available and/or the virus subside enough to make passengers comfortable to fly?
  - Can airlines convince passengers that masks, cleaning protocols and social distancing rules are safe enough in the meantime?
  - What will be the depth and duration of this economic recession, and its impacts on consumer confidence and disposable income?
  - To what extent will business travel return, given recent shift to video meetings?
- Answers to these questions will shape the future airline industry
  - Little doubt it will be much smaller than 2019 peak, but for how long?
  - Almost inevitable that not all airlines will survive – more bankruptcies and mergers?
  - How much can, should and will governments support airlines to prevent liquidations and massive job losses?