COVID-19
Airline industry outlook

Ezgi Gulbas
Senior Economist
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COVID-19 is the biggest and longest shock to hit aviation

Previous shocks cut 5-20% from RPKs and recovered after 6-18 months

• Airline industry have fully recovered within 6-18 months in the past from demand side shocks (SARS, global economic recessions, terrorist attacks).

• COVID-19 crisis is exceptional in its depth and duration.

Source: IATA Economics using data from IATA Monthly Statistics. Data is adjusted for seasonality.
Financial aid has kept airline industry on life support
Airlines received $243 Bn of financial aid worldwide so far

Financial aid made available to airlines due to COVID-19, by type (USD bn)

- Wage Subsidies: 81
- Loans: 73
- Direct aid (cash injections, equity financing): 38
- Loan guarantees: 26
- Ticket taxes: 13
- Corporate taxes: 12
- Fuel taxes: 1
- Blocked funds: 0
- Total: 243

Source: IATA Economics

- Governments across the world have continued to support airlines in 2021.
- As of the end of September, financial aid provided to airlines since the beginning of the crisis totaled $243bn.
Economic recovery boost air cargo and domestic travel

Int. RPKs -68.8%, domestic RPKs -32.2%, CTKs +7.7% (Aug 21 vs Aug19)

- Global economic growth is strong, i.e. global GDP is expected to grow by 5.8% in 2021.
- This is supportive for air cargo. Cargo demand has been c.8% higher than pre-crisis levels as of August 2021.
- Domestic travel demand rebounded sharply, indicating willingness to travel.
- International travel started to improve in Northern hemisphere summer, but it is still weak.

Source: IATA Economics using data from IATA Monthly Statistics. Data is adjusted for seasonality.
Travel restrictions limit the international travel recovery
There has been a modest easing of travel restrictions

- Travel restrictions are the main reason behind the weakness in international travel recovery.
- In Latin America, Africa and Middle East restrictions are eased compared to a year ago but still above pre-crisis.
- Restrictions are increasing in Europe compared to beginning of summer period and Asia Pacific is the most restrictive region.
Progress in vaccination would allow ease of restrictions
Widespread vaccination has been achieved in major developed markets

Airfinity's vaccination rollout forecast
- **High risk population vaccinated**
- **50% population vaccinated**
- **Healthcare & High risk population vaccinated**
- **75% adult population vaccinated**

Source: IATA Economics using forecasts from Airfinity Science Tracker

- Vaccine rollout has been encouraging in developed countries.
- Hence, travel restrictions is expected to come down eventually.
- But vaccination is proceeding at very different speeds across countries, with only a very slow rollout in many developing economies.
- We expect developed economies to be to remove travel restrictions further between each other.
There is a substantial pent-up demand for travel US-Europe reopening followed by surge in bookings

**Bookings US-Europe, 7-day MA in % change vs 2019**

- Bookings made in the US
- Bookings made in Europe

Source: IATA Economics using data from DDS

- Bookings to travel U.S. from Europe surged following the lift of travel ban for Europeans, indicating significant pent-up demand for travel.

20th September:
Travel ban will be lifted in November
Recovery in international travel will be uneven in 2022. Intra-Europe and Europe-North America travel will outpace Asia.

- Recovery in international travel will be uneven, vaccination and government policy will determine the pace of the recovery.
- Within Europe and Europe-North America travel is expected to be strong as both sides have progressed in vaccine rollout and governments are started to lift restrictions.
- In Asia, governments are risk averse and vaccination is slow in developing Asian markets. Hence, the recovery will be limited.
Domestic travel demand will continue to be strong. Domestic RPKs will be 93%, international 44% of pre-crisis levels in 2022.

- Domestic travel demand will be strong, by the end of 2022 it will rise above pre-crisis levels. International travel is expected to pick up in 2022.
Air cargo strong across the board with high demand
But capacity and supply chain issues limit further gains

Seasonally adjusted segment-based CTKs for main trade lanes, indexed, Jan 2020 = 100

Source: IATA Economics Airline Industry Financial Forecast update, October 2021

- Air cargo is on a robust upward trend but there is divergence between trade lanes in terms of volumes flown.
- North Pacific trade lane is the strongest stemming from the rebound in China and US economies.
Strong trade growth will sustain robust air cargo traffic
Air cargo demand is expected to rise 13% above 2019 levels

- In 2021, air cargo is expected to overperform global trade as companies are renewing their stocks
- In 2022, cargo will remain strong in line with the growth in global goods trade.
Load factors will improve but still below break-even level
Passenger load factors is expected to recover to 75% in 2022

- Load factors is expected to improve as airlines will return capacity at a slower pace than traffic in 2022 compared to 2021.
Revenue recovery will continue in 2022 - to 79% of 2019
Strong cargo revenues will be insufficient to offset loss in pax revenues

- Cargo revenues will remain an important part of airline revenues, representing one-third of the industry’s revenues.
- Cargo yields are also expected to remain elevated due to the gradual return of belly cargo capacity from the wide body passenger fleet. Cargo revenues are forecast to be $169bn in 2022.
- Overall revenues will be 79% of revenues as passenger demand is still below crisis and increase in passenger yields is limited to 2%.
Fuel cost will rise with the higher traffic and fuel prices
Jet fuel price is expected to be $77.8/bbl in 2022 vs $74.5/bbl in 2021

Reducing costs will remain as a challenge since demand is expected to recover.
Jet fuel prices are expected to be 74.5$/bbl and 77.8$/bbl in 2021 and 2022, respectively.
Unit costs will continue to surpass passenger yields
Passenger yields are expected to rise both in 2021 and 2022

- Non-fuel unit costs rose 19% in 2020, as fixed costs had to be spread over a dramatically smaller capacity.
- This will partially reverse in 2021 as capacity grows, as well as because of the cost-cutting efforts of airlines, with a forecast 8% decline. In 2022, non-fuel unit costs expected to rise by 2%.
- Passenger yields will rise in the markets that are recovering fast.
Return to profitability will be delayed another year…
With gradual traffic recovery, 2022 another year of loss

- Industry-wide net losses will diminish substantially in 2022 compared to 2021.
- The industry is forecast to post net losses of $52 billion in 2021 and $12 billion in 2022.
N American airlines improving fast, other regions lag
Operating margins will be negative in most of the regions

- All regions will improve compared to 2021 on the back of domestic travel recovery and opening-up of international markets. Only North American carriers are expected to turn to profitability.
Contacts

economics@iata.org
www.iata.org/economics