COVID-19

Flexibility will be critical to success in first year of restart

Brian Pearce

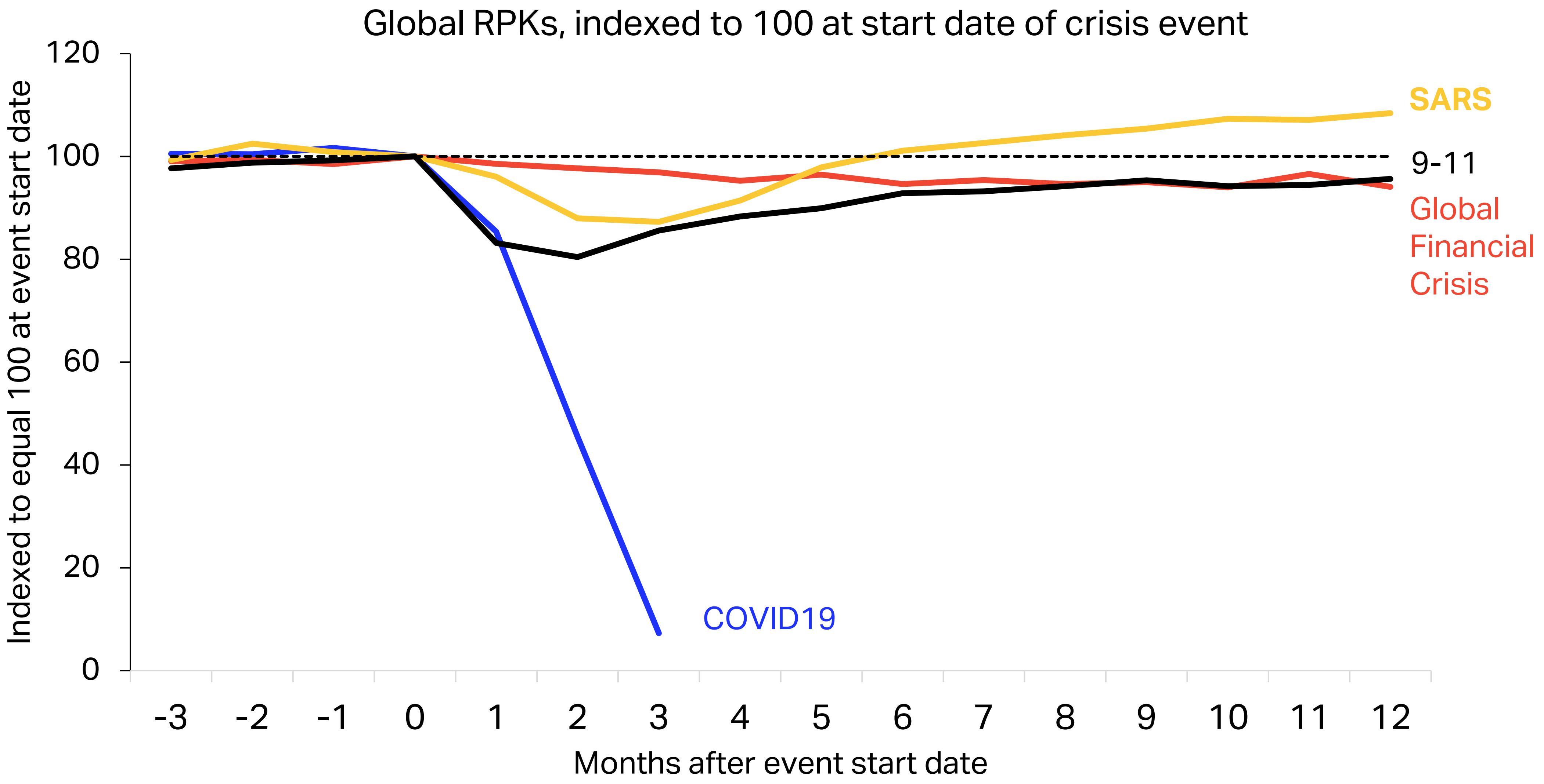
Chief Economist

16th June 2020

IATA

Depth of COVID19 impact far exceeds previous crises

RPKs 20% fall after 9-11 and 12% after SARS vs 95% fall in April 2020

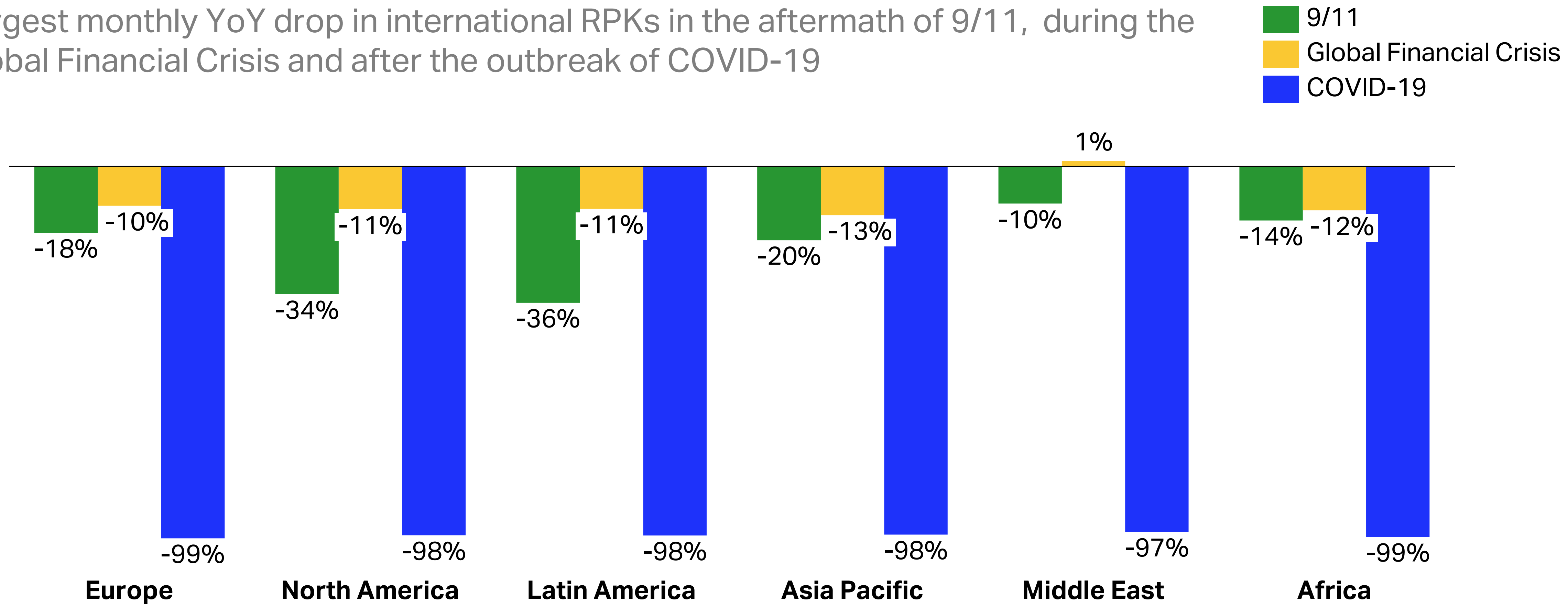


Source: IATA Economics using data from IATA Statistics

Previous crises allowed diversion to stronger regions

No such flexible response in fleet deployment possible this time

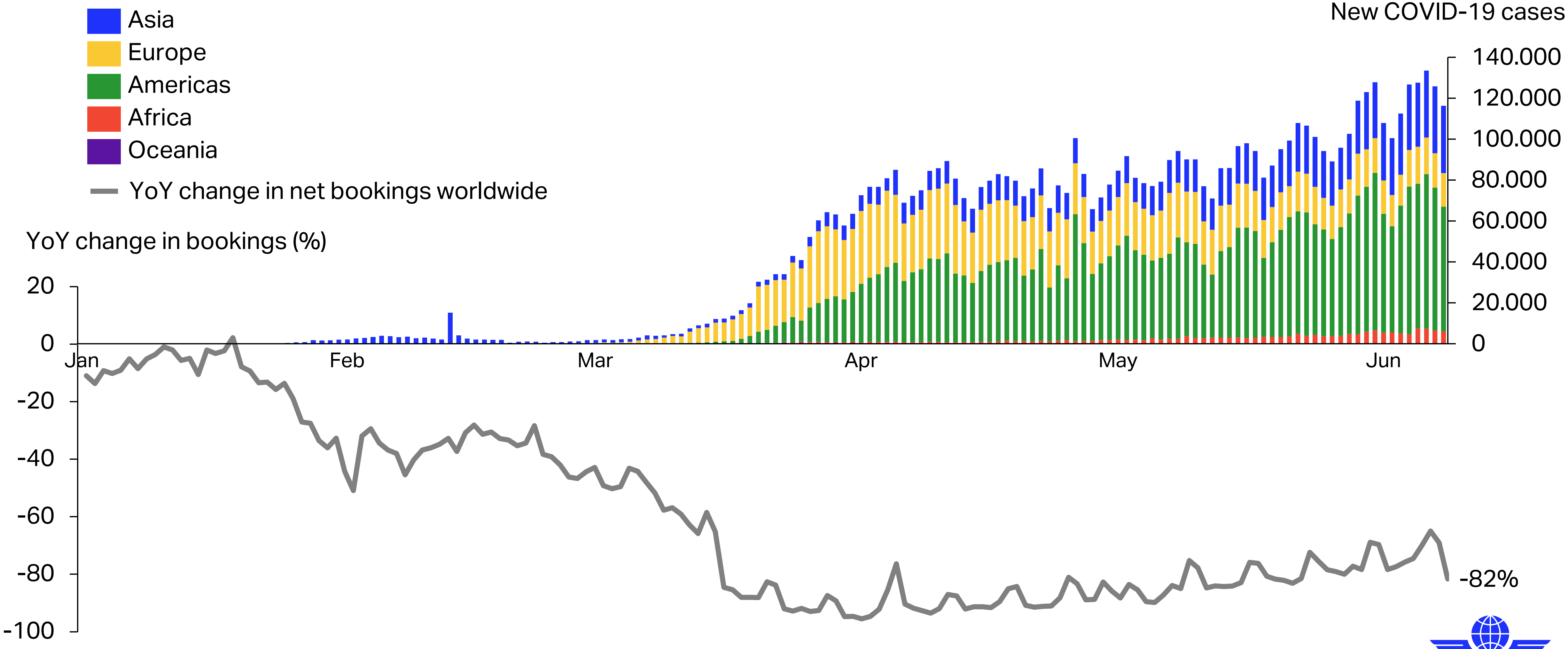
Largest monthly YoY drop in international RPKs in the aftermath of 9/11, during the Global Financial Crisis and after the outbreak of COVID-19



Source: IATA Economics using data from IATA Statistics

1st wave of COVID-19 far from over & bookings are low

Airlines cannot plan schedules for N Winter season with any certainty

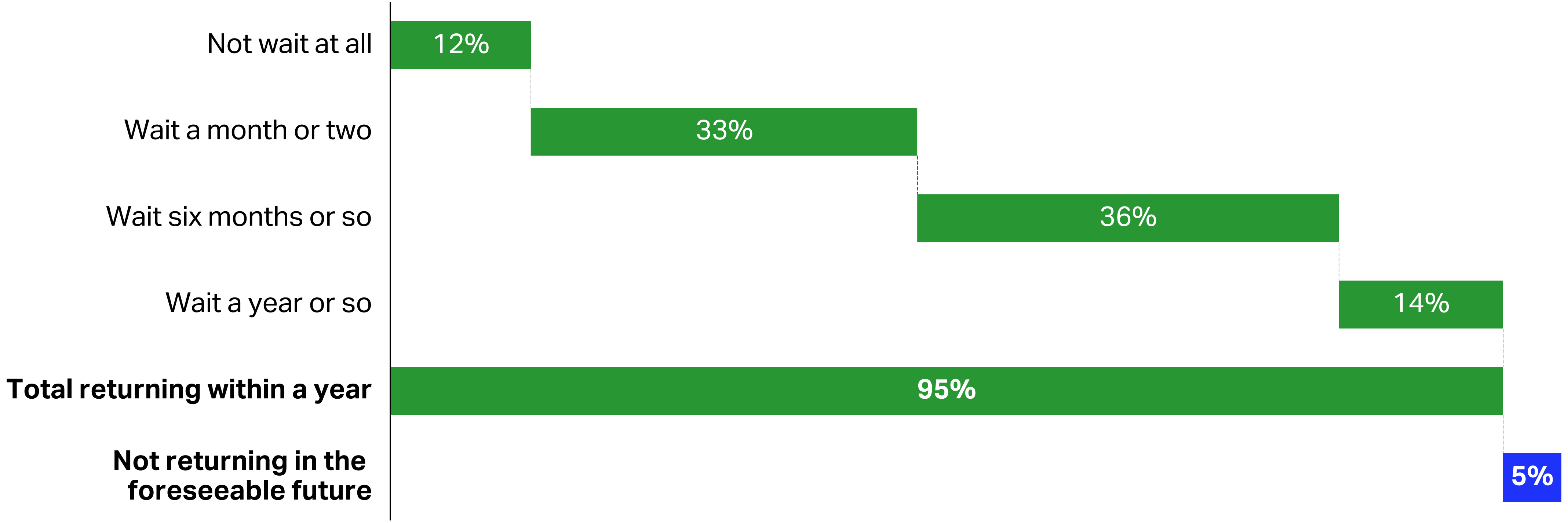


Source: IATA Economics using data from DDS and ECDC

Latest survey shows passengers even more cautious

Now only 45% will fly within 1-2 months. Previous survey shows 60%

Once the pandemic has subsided, how long would you wait, if at all, to return to your usual travel plans?

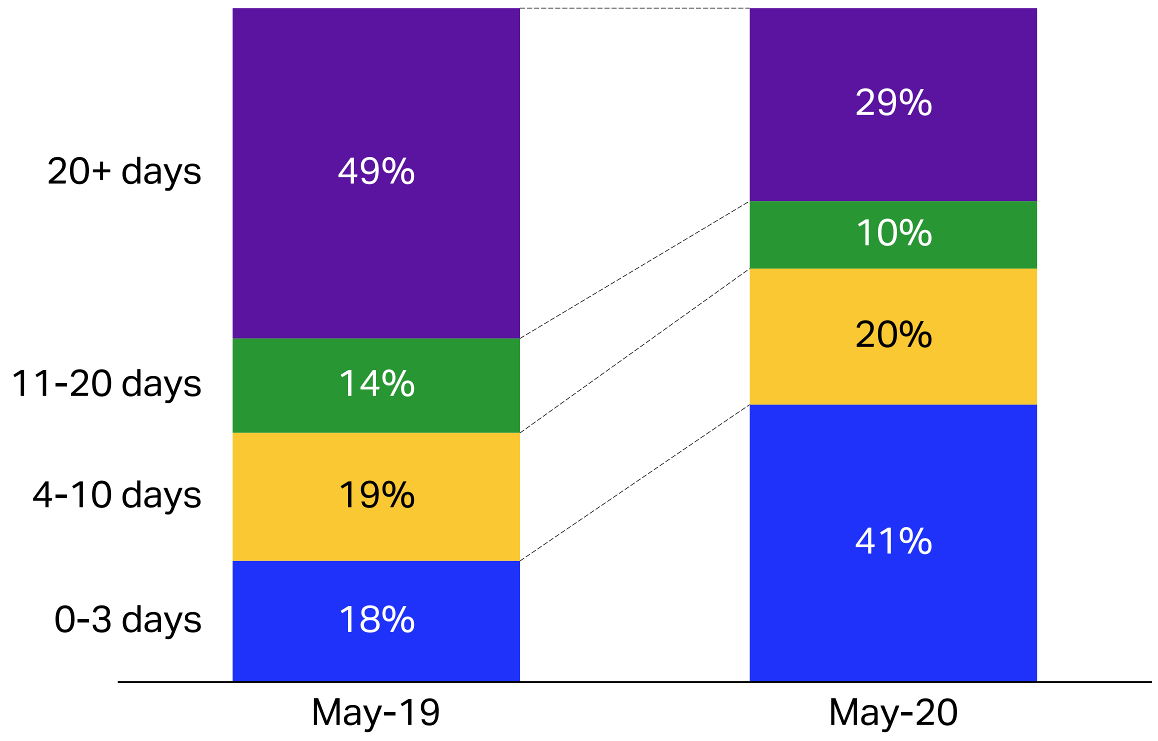


Source: IATA Economics using data from end May–early June passenger survey by Rockland Dutton for IATA

Airlines have even less visibility from forward bookings

Passengers are booking flights much later. 41% only 0-3 days ahead.

Number of days between booking and travel time, bookings worldwide made in May 2019 vs. 2020

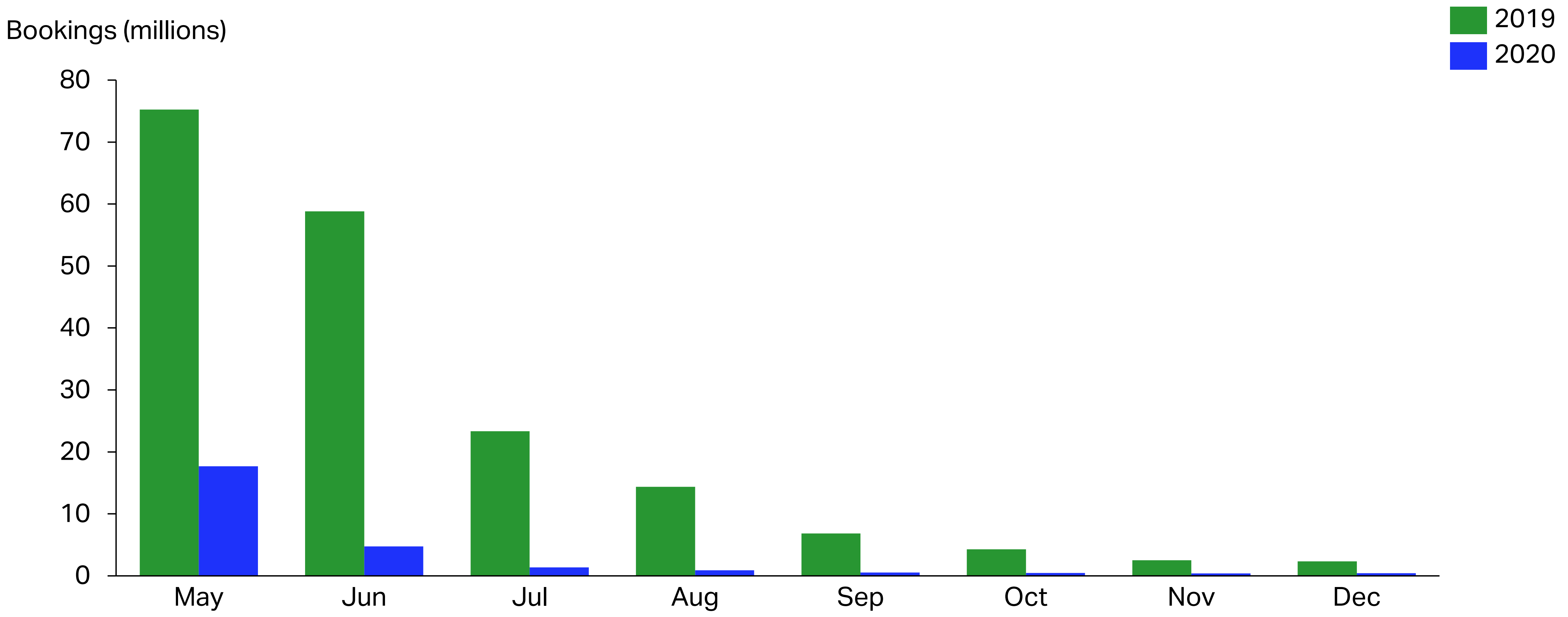


Source: IATA Economics using data from DDS

No sign of rapid return to travel even in summer months

Airlines must plan winter schedules now but zero visibility of demand

Net bookings (sales minus refunds) made in May 2019 vs. 2020, by month of travel

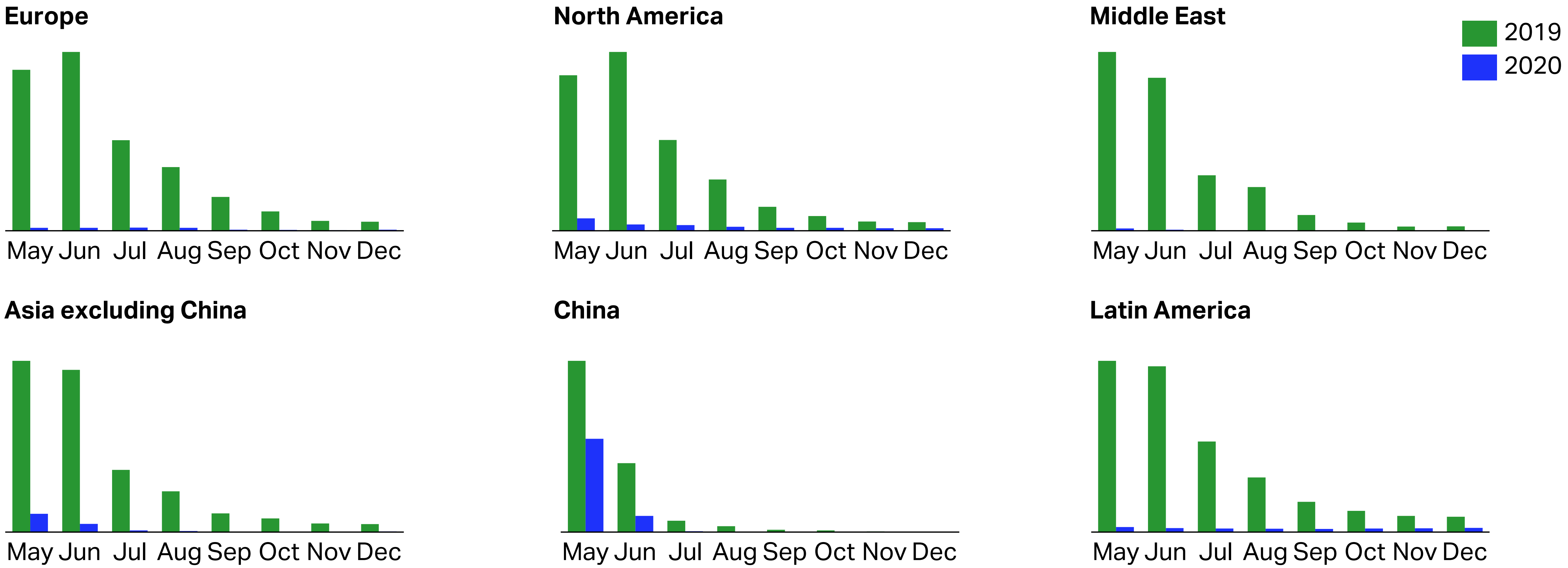


Source: IATA Economics using data from DDS

Lack of demand visibility widespread across regions

Airlines have little evidence on which to schedule restart network

Net bookings (sales net of refunds) in May 2019 vs. May 2020 for travel in subsequent months, by region



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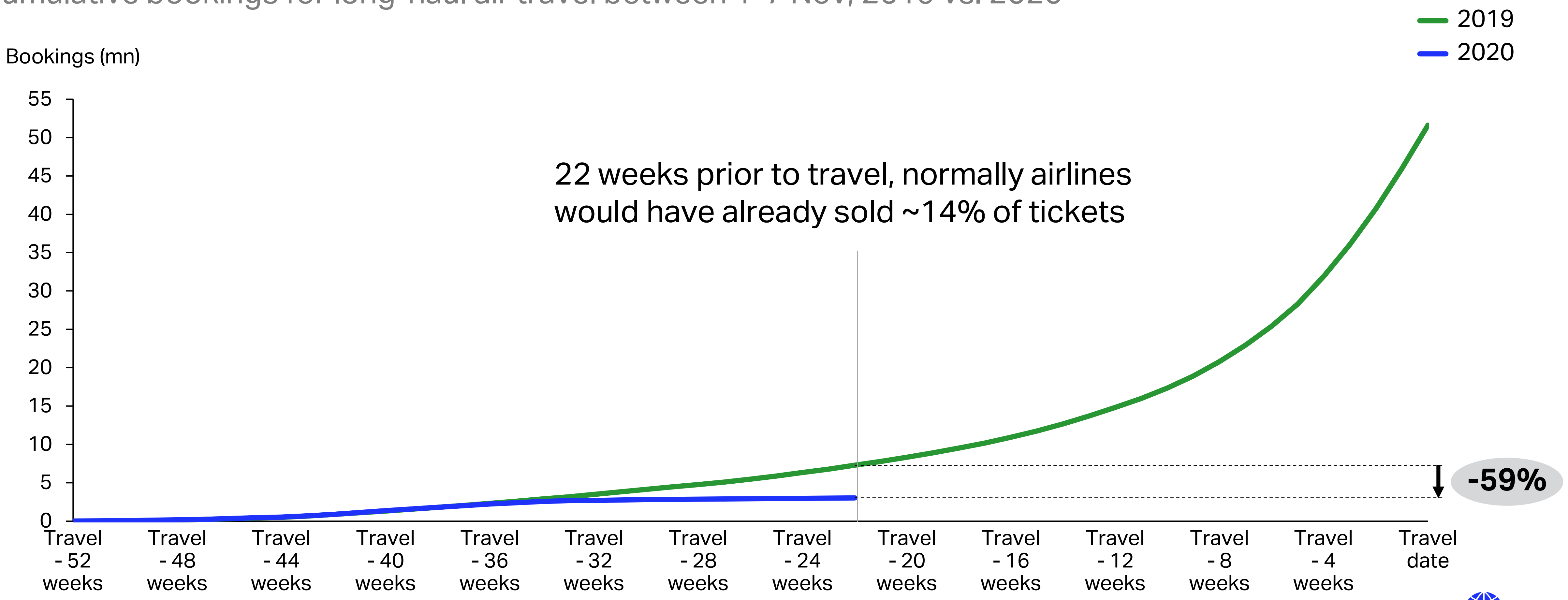
Source: IATA Economics using data from DDS

Demand for long-haul travel remains close to zero

Normally airlines would have sold 14% of tickets for start of winter season

Cumulative bookings for long-haul air travel between 1-7 Nov, 2019 vs. 2020



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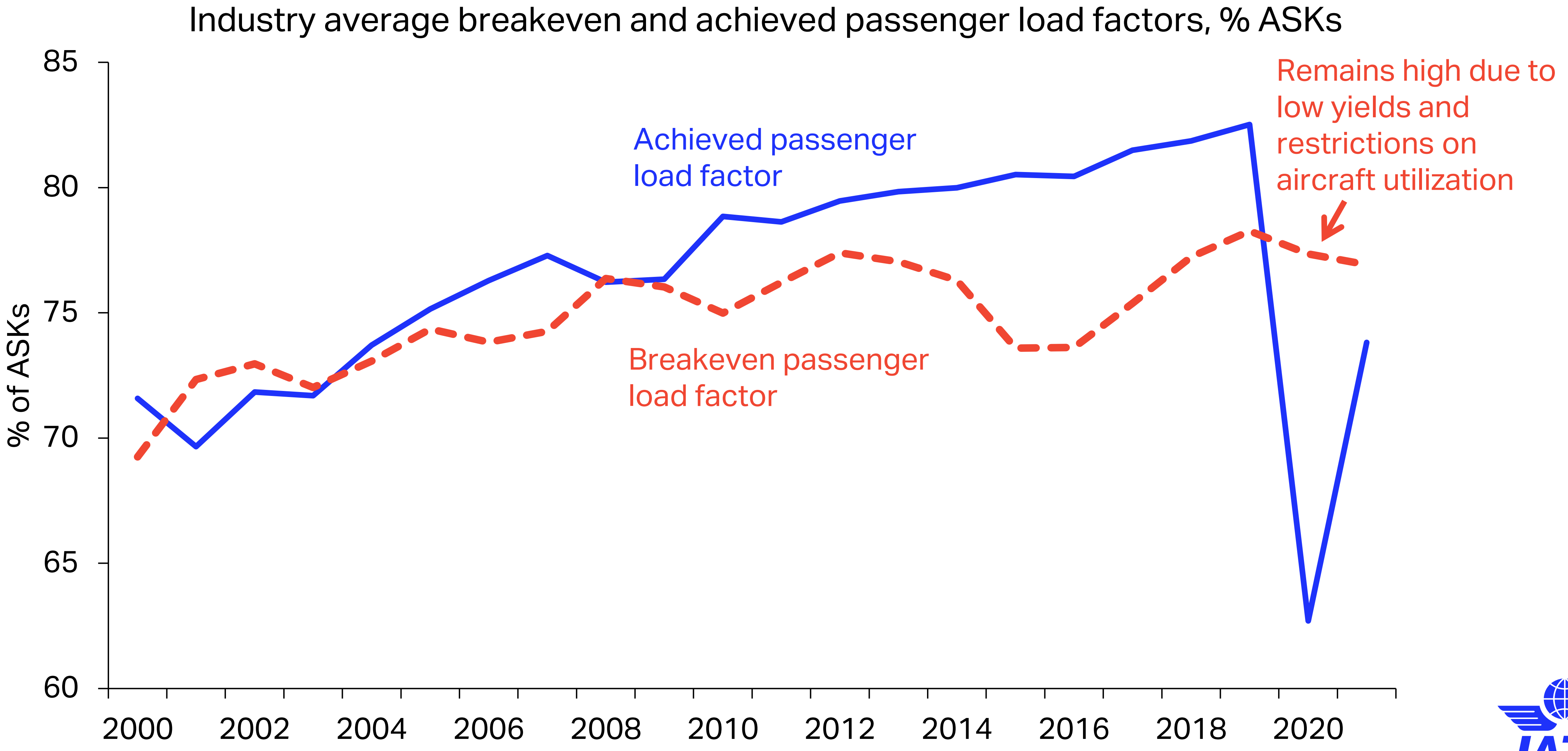
Source: IATA Economics using data from DDS

Load factors likely to remain well below breakeven

Without schedules flexibility airlines will be unable to fill seats



Source: IATA Economic Performance of the Airline Industry, Mid Year 2020

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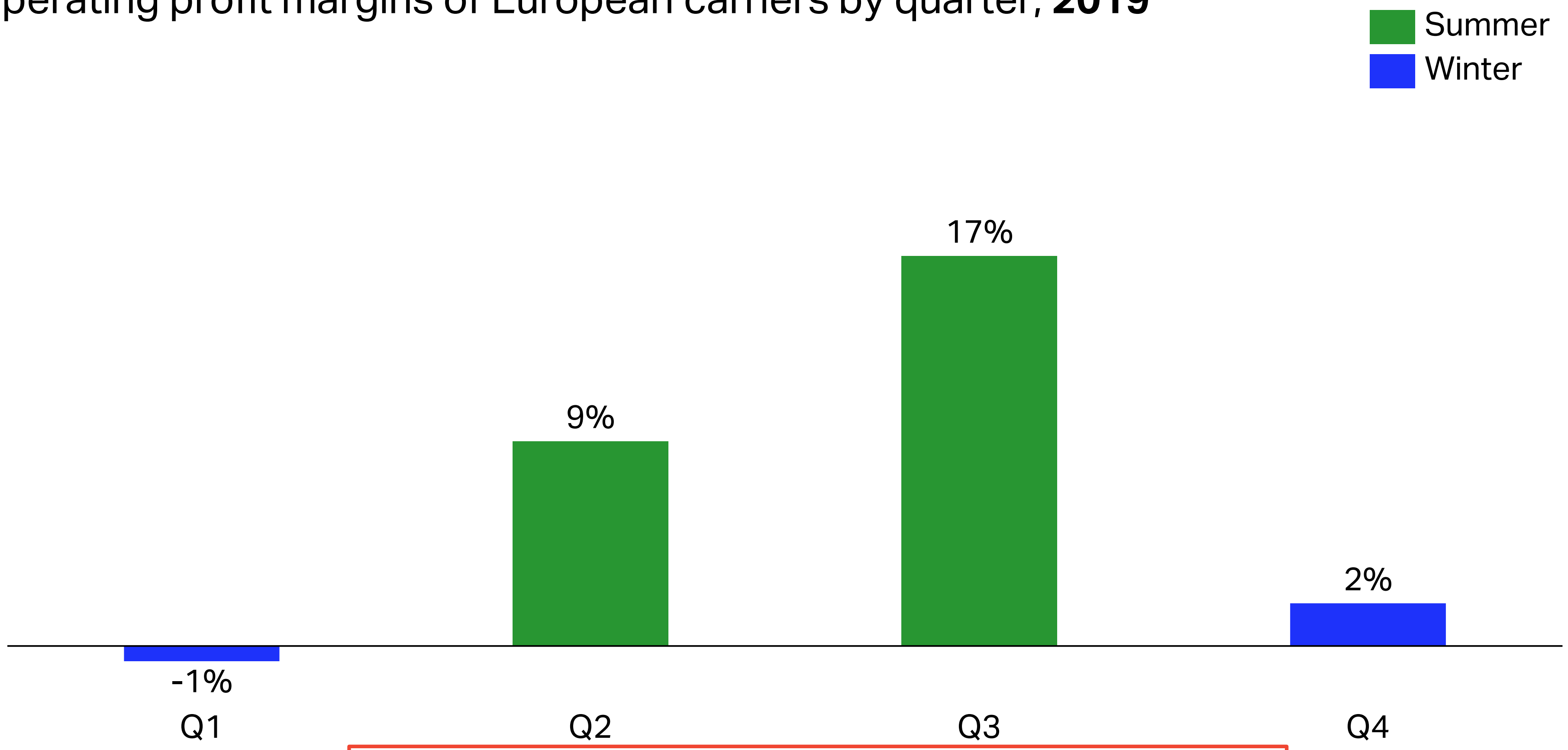
Lack of summer cash flow adds to fragile situation

Airline business seasonal with cash flows always weak in winter season

Estimated operating profit margins of European carriers by quarter, **2019**



$84 billion forecast airlines' net loss in 2020 concentrated in these 2 quarters, when airlines usually make majority of annual profit

Source: IATA Economics using data from the Airline Analyst

The key to survival in the winter season will be flexibility

Extended waiver on 80:20 slots rule needed to give necessary flexibility

31 July

Airlines **need certainty of the waiver of the 80/20 rule** to plan their schedule, crew, aircraft

15 August

- Airlines **must return slots** they do not intend to use
- Coordinators **reallocate** returned slots to other airlines

31 August

- Winter slot allocation **process is finalized**
- Schedules are updated

25 October

Start of the Winter season

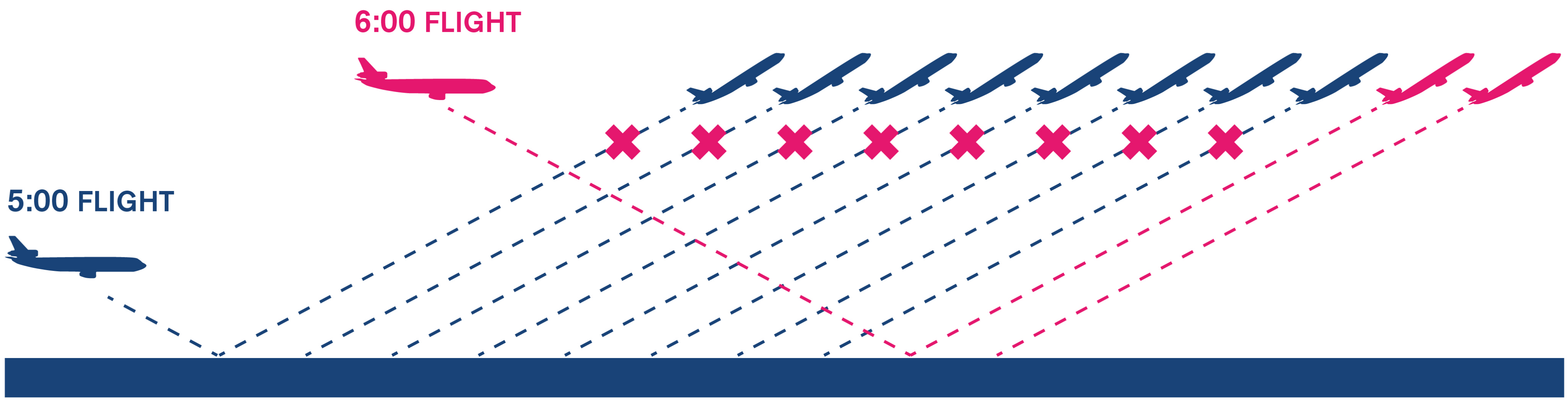
Source: IATA

IATA

If slots lost, long-haul connectivity may not be restored

Flight banks at hub airports require certain slots at each end

AT HUB AIRPORTS, EARLY MORNING ARRIVALS ENABLE PASSENGERS TO CONNECT TO A LARGE NUMBER OF FLIGHTS. IF ARRIVALS HAVE TO BE RE-SCHEDULED TO A LATER TIME AS A RESULT OF A CURFEW, MANY OF THESE CONNEXIONS WILL BECOME IMPOSSIBLE.

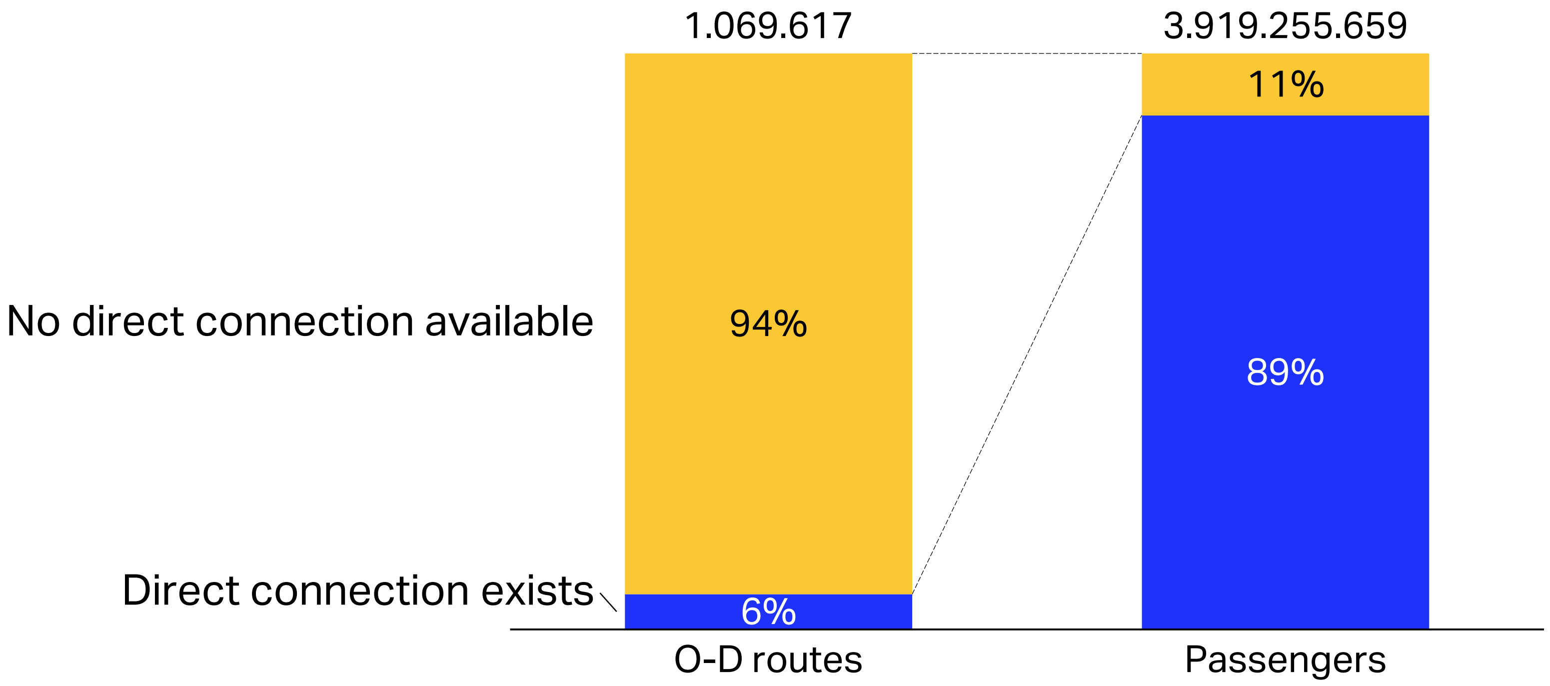


Source: IATA

So there is a risk that city-pair air connectivity will be lost

94% airport-pairs connect indirectly, though most travel on trunk routes

Share of origin-destination airport pairs and passengers where direct connection was available in 2019



Source: IATA Economics using data from DDS and SRS Analyser