COVID-19

Flexibility will be critical to success in first year of restart

Brian Pearce
Chief Economist
16th June 2020
Depth of COVID19 impact far exceeds previous crises
RPKs 20% fall after 9-11 and 12% after SARS vs 95% fall in April 2020

Global RPKs, indexed to 100 at start date of crisis event

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?

- Not wait at all: 12%
- Wait a month or two: 33%
- Wait six months or so: 36%
- Wait a year or so: 14%
- Total returning within a year: 95%
- Not returning in the foreseeable future: 5%

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

<table>
<thead>
<tr>
<th>Timeframe</th>
<th>May-19</th>
<th>May-20</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-3 days</td>
<td>18%</td>
<td>41%</td>
</tr>
<tr>
<td>4-10 days</td>
<td>19%</td>
<td>20%</td>
</tr>
<tr>
<td>11-20 days</td>
<td>14%</td>
<td>20%</td>
</tr>
<tr>
<td>20+ days</td>
<td>49%</td>
<td>10%</td>
</tr>
</tbody>
</table>

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

Europe

North America

Middle East

Asia excluding China

China

Latin America

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

22 weeks prior to travel, normally airlines would have already sold ~14% of tickets

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

Industry average breakeven and achieved passenger load factors, % ASKs

- Achieved passenger load factor
- Breakeven passenger load factor

Remains high due to low yields and restrictions on aircraft utilization

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

- **Q1**: -1%
- **Q2**: 9%
- **Q3**: 17%
- **Q4**: 2%

Source: IATA Economics using data from the Airline Analyst

$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
- **31 August**: Coordinators reallocate returned slots to other airlines
- **31 August**: Winter slot allocation process is finalized
- **25 October**: Schedules are updated
- **Start of the Winter season**:
If slots lost, long-haul connectivity may not be restored.

Flight banks at hub airports require certain slots at each end.

*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

- No direct connection available: 94%
- Direct connection exists: 6%

O-D routes: 1.069.617
Passengers: 3.919.255.659

11% is the share where a direct connection was available.

Source: IATA Economics using data from DDS and SRS Analyser.