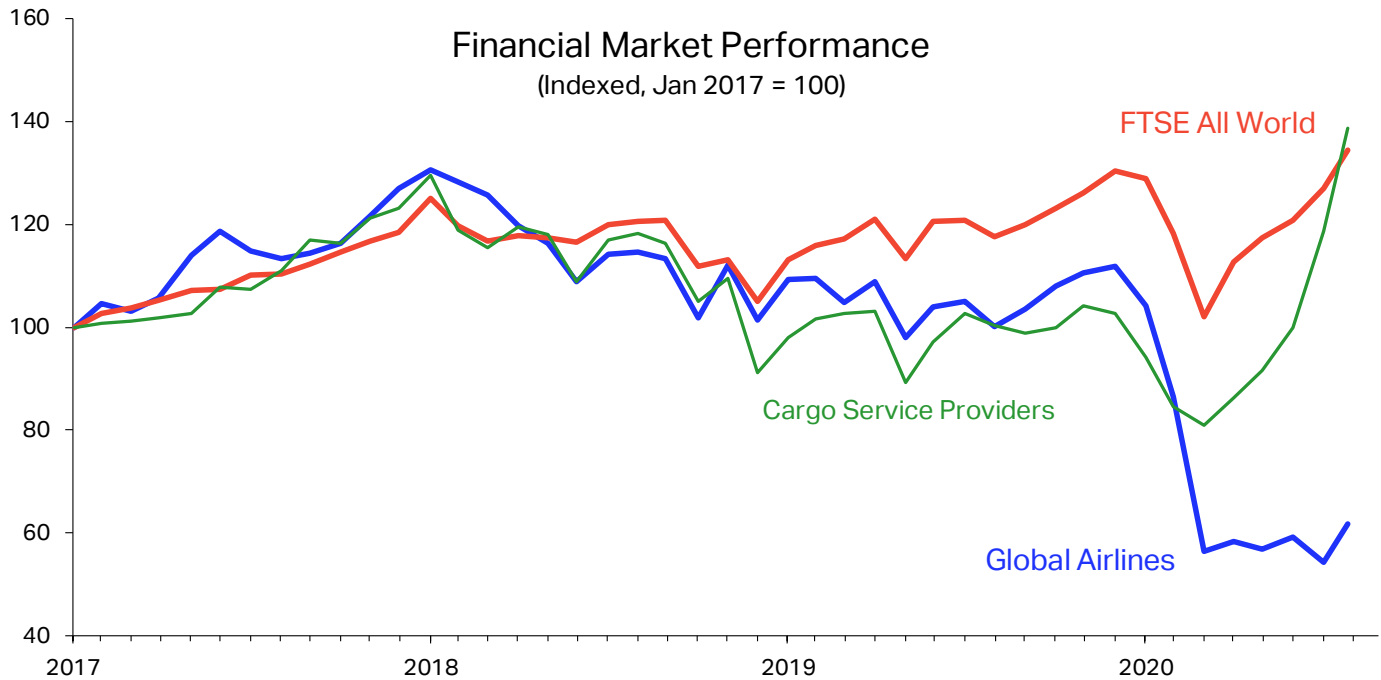




IATA Economics' Chart of the Week

28 August 2020

Airline shares fail to recover with global equity markets



Source: IATA Economics using data from Thomson Reuters Datastream

- Airline share prices, on average, have barely risen from the low they reached in March this year, yet overall equity markets have recently fully recovered pre-COVID-19 levels, as shown in the chart above (also see our latest [Airlines Financial Monitor](#)). Why has there been this tremendous divergence? Equity markets are forward-looking, with prices that reflect market expectations of future corporate financial performance. It seems that while financial markets are bullish about a recovery in the global economy, they are exceptionally gloomy about prospects for the airline industry.
- Airline shares reacted strongly to COVID-19 pandemic since the airline industry has been one of the most exposed industries to global travel restrictions. The airline index initially lost twice more value than the global equity markets (50% vs 22% at the lowest point in March compared to year-end 2019). However, global equity markets quickly rebounded upon reopening of the economies as economic activity bottomed out following the ease of lock-down restrictions that started late April. Positive readings of high frequency data such as retail sales and business confidence further supported the return to normal expectations that is reflected in global equity market performance. Cargo service providers' shares (green line) rebounded as well, indicating the importance of cargo business for airlines in the coming period.
- Although economic recovery was the key driver of the companies' earnings, the optimism following the ease of lock-down restrictions has not been reflected in airline shares. The problem has been that borders for the most part have remained closed to air travel. So, the outlook for airlines remains uncertain as traveler's confidence is weak. The clarity on quarantine measures will be crucial to ensure the traveler's confidence to travel internationally. In the meantime, the cargo business could be supportive (but not big enough to be sufficient) for airlines revenue generation.

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IATA Economics
economics@iata.org