

# Pandemic savages airline sector

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Dizzying losses, the looming threat of bankruptcies and tens of thousands of people thrown out of work: the aviation industry has been devastated by COVID-19 and there is still no light at the end of the tunnel. The sector may be unrecognisable when it finally emerges.

## What is the state of air traffic?

Air traffic took a beating due to the COVID-19 pandemic, dropping by two-thirds last year according to the International Air Transport Association (IATA).

The airline trade association's chief economist Brian Pearce called it "the biggest shock the industry of air travel has ever experienced."

At 1.8 billion, the number of passengers fell back to the level of 2003, according to the UN's International Civil Aviation Organization.

Border closures and quarantines had a greater impact on international traffic, which dropped by three-quarters, while domestic flights fell by just under half, according to IATA.

The situation differs sharply from country to country.

The number of passengers on domestic flights in the United States—normally the world's top aviation market—was still down 63 percent in December. In India, the drop was 43 percent, 12 percent in Russia and eight percent in China.

In Europe, the number of flights was down by two-thirds in mid-February, according to Eurocontrol, which coordinates air traffic control in the EU.

## **What kind of recovery?**

A slow one, most likely. IATA is forecasting traffic to double this year, but that will still leave the sector at just half of its pre-crisis level. But even that forecast is dependent upon virus variants not causing extended lockdowns and new border closures.

One thing is certain: traffic will pick up first in large regional or

domestic markets like North America, Europe and China, which could recover to their 2019 levels "from 2022, while the international segment will have to wait until 2025-2026," said Yan Derocles, an analyst at ODDO BHF Securities.

That is because financially weakened airlines will only slowly expand costly long-haul flights beyond the most profitable pre-pandemic routes.

## **What consequences for airlines?**

The dizzying drop in the number of passengers led to a sharp squeeze in revenue for airlines, which IATA put at \$510 billion for 2020.

Meanwhile, airlines could not cut costs as quickly, even if they parked most of their planes on the ground and were able to furlough most employees, leading to losses of \$118 billion.

While that is expected to narrow to \$38 billion in 2021, the airlines that survive will be much weaker financially.

They have already taken their more costly planes out of service. Airlines retired 3,400 planes from service in 2020, and of those 2,400 were ahead of schedule, according to a study by the Oliver Wyman consultancy.

Boeing 747s and Airbus A380s, which are more expensive to operate as they have four engines, were among those to go.

And while many governments have stepped in to aid airlines some 40 have already shut down, according to IATA.

Whether the companies go under or not, many employees are likely to find themselves without a job. In Europe, the jobs of 18,000 out of 65,000 pilots are at risk, according to the European Cockpit Association.

In the United States, tens of thousands of airline jobs may go next month if lawmakers do not extend support for the firms.

## **And what about airports?**

The Airports Council International estimates that airports lost out on nearly \$112 billion in revenue last year. Many have reduced staff as they seek to cut costs, and have dropped expansion plans, such as Paris's Charles de Gaulle airport cancelling construction of a new terminal.

The company that manages Paris's airports posted a 1.2 billion euro (\$1.4 billion) loss last year.

## **What future for the sector?**

Despite huge injections of public money (\$173 billion in various forms of aid in 2020 according to IATA) or tapping loans, airlines may not find it easy hang on until mass vaccinations make it possible for a large-scale return to travel.

ODDO BHF Securities analyst Yan Derocles said some governments will cut support for airlines or concentrate their aid on one or two companies.

"Certain companies will disappear... and that will most likely be mid-size airlines," he said.

Europe alone has more than 460 airlines with fewer than 50 aircraft, he noted.

Firms which rely heavily on intercontinental flights are likely to suffer longer as such travel is forecast to recover last.

Low-cost airlines that were highly profitable before the crisis, such as Ryanair, are expected to come out of the crisis in an even better position compared to their rivals.

## **And aircraft manufacturers?**

With their clients on life support, the crisis was immediately felt by Airbus and Boeing, as airlines sought to put off or reduce orders.

Airbus quickly slashed production by nearly 40 percent and it still ended the year with 268 net new orders.

Boeing, which was already wracked by the two crashes of its new 737 MAX, lost hundreds of orders last year and its commercial aviation division suffered a loss of \$13.8 billion.

Deliveries, which is when manufacturers get paid, also plunged. They were down by around one third at both Airbus and Brazilian manufacturer Embraer.

Boeing's commercial aviation division saw revenues plunge by 50 percent with deliveries of the 737 MAX not resuming until December and the 787 Dreamliner halted in October following the discovery of a manufacturing defect.

If the pace of production of medium-haul planes is expected to resume first—Airbus expects to boost output of the A320 in the second half of this year—production of long-haul planes could slow further as international routes are expected to rebound only slowly, said Archery consultant Bertrand Mouly-Aigrot.

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