

COVID variant causes Southwest to lower hopes for 3Q profit

August 11 2021, by Michelle Chapman and David Koenig



Southwest Airlines warned that it has seen a hit to travel bookings due to the Delta variant of Covid-19, a shift from its outlook last month.

Southwest Airlines said Wednesday that it no longer expects to turn a profit in the third quarter as a surge in COVID-19 infections fueled by

the highly contagious delta variant darkens the outlook for travel.

The disclosure comes just three weeks after Southwest CEO Gary Kelly said the airline had passed a milestone by earning a profit in June.

The airline said Wednesday that it was profitable again in July, even excluding government pandemic relief, but it believes that the pandemic's shadow makes it less likely that the airline can repeat the feat in the third quarter.

Southwest is the second U.S. airline to lower expectations because of the highly contagious delta variant of COVID-19. Last week, Frontier Airlines, a smaller discount carrier, blamed the virus for causing bookings to weaken more than the usual decline that occurs each year as summer winds down.

Savanthi Syth, an airline analyst for Raymond James, predicted that other airlines will lower their revenue projections but probably not until early September.

In another sign of the impact that the surge in virus cases is having on travel, United Airlines announced last week that it will require workers to be vaccinated against COVID-19. Hawaiian Airlines followed with a similar announcement Monday, and Frontier will require workers who don't get vaccinated to undergo "regular" testing for the virus.

United CEO Scott Kirby took part in an online meeting Wednesday with President Joe Biden, who encouraged Kirby and two other CEOs to talk to industry peers about vaccinating their workers. Kirby told CNN there was no discussion of requiring passengers to be vaccinated.

Southwest, American Airlines and Delta Air Lines have stuck to their strategy of encouraging workers to get the shots but not requiring it.

Southwest said Wednesday in a filing with the Securities and Exchange Commission that last-minute bookings have dropped while cancellations have increased in recent weeks, and it tied both trends to the rise in COVID-19 cases.

The airline expects to see airplane cabins go from 87% full in July, when they were packed with summer vacationers, to between 75% and 80% in September.

Southwest made a \$463 million profit in the first six months of this year thanks to nearly \$2 billion in federal relief to help cover payroll costs. That's on top of \$3.4 billion in taxpayer help last year, part of the \$54 billion in relief that U.S. airlines have received since March 2020. The aid is scheduled to end Sept. 30, but it has been extended twice before.

Despite rising infections, the U.S. continued to set new marks for air travel during the pandemic, with more than 2.2 million people going through airport checkpoints on Aug. 1, according to the Transportation Security Administration.

Since then, however, crowds have thinned slightly. The seven-day moving average of U.S. flyers dropped for a ninth straight day on Tuesday, when TSA screened slightly more than 1.7 million travelers. It was the lightest day since July 4 and a 25% decline from the comparable Tuesday in 2019. International travel is suffering more.

Despite the warning from Southwest, shares of the Dallas-based carrier rose 1% in afternoon trading and other U.S. airlines also gained slightly.

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