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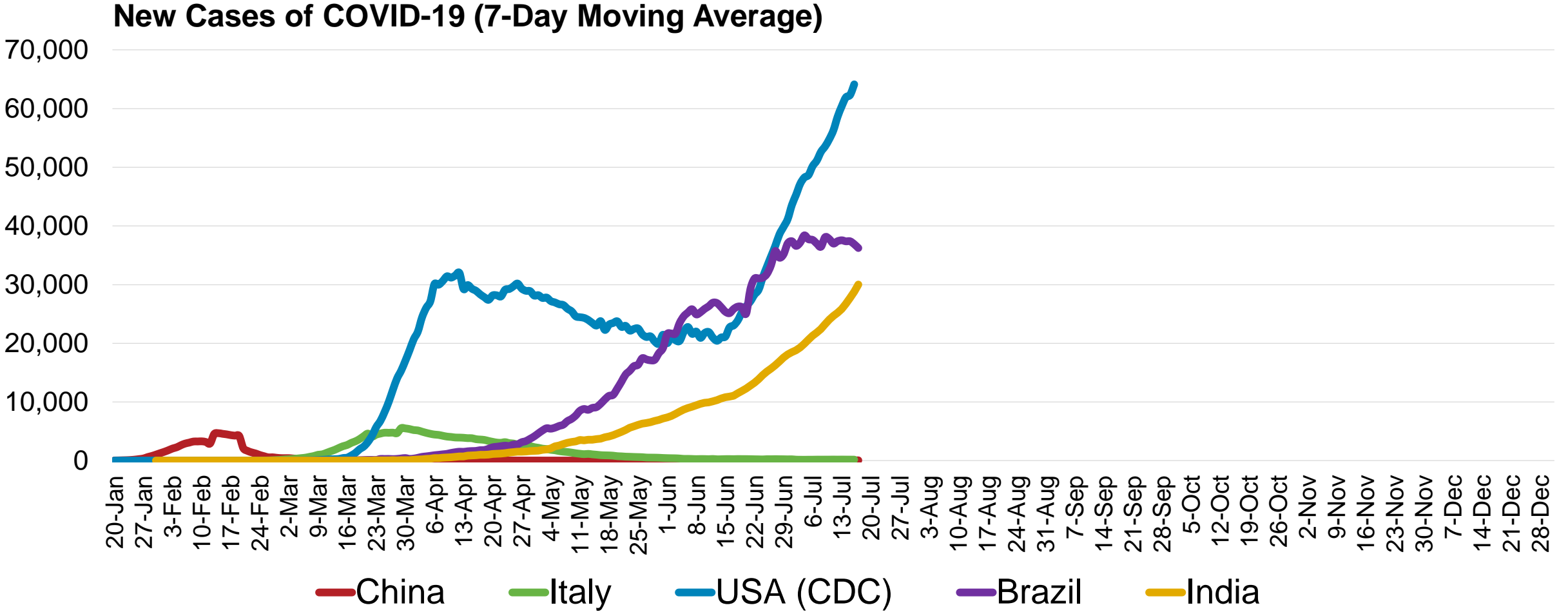
## U.S. Airlines: Rapid Descent, Gradual Climb-Out

John P. Heimlich, Vice President & Chief Economist  
NEXTOR-III Webinar Series: The Pandemic and Aviation  
July 16, 2020

[www.airlines.org/dataset/impact-of-covid19-data-updates/](http://www.airlines.org/dataset/impact-of-covid19-data-updates/)  
[www.airlinestakeaction.com](http://www.airlinestakeaction.com)

# New Cases of COVID Resumed Surging in the United States in mid-June

U.S. Cases Surpassed 60,000 per Day in July



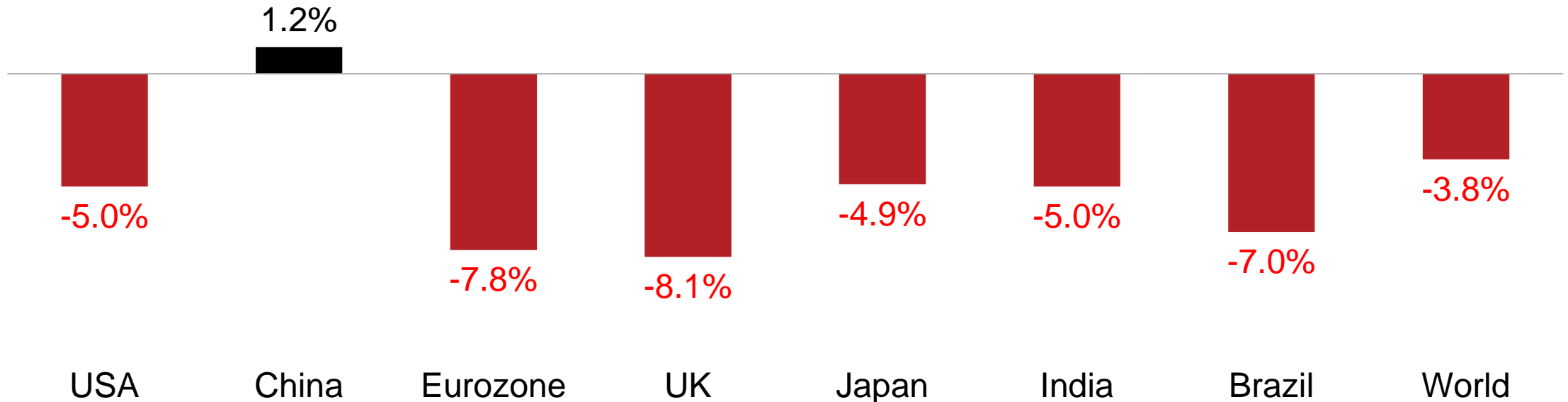
Source: World Health Organization and U.S. Centers for Disease Control and Prevention

# The World Economy Is Projected to Shrink Nearly 4 Percent in 2020

Revenues Will Take Even Longer to Recover

“The consensus among health experts is that the pandemic may now be at or near its peak in some regions, but **COVID-19 will remain a threat until a vaccine or effective drug treatment is made widely available**, which **may not occur until the second half of 2021.**”

S&P Global GDP Growth Forecasts\* for 2020



Source: Standard & Poor's, "The Global Economy Begins A Slow Mend As COVID-19 Eases Unevenly, (July 1, 2020)

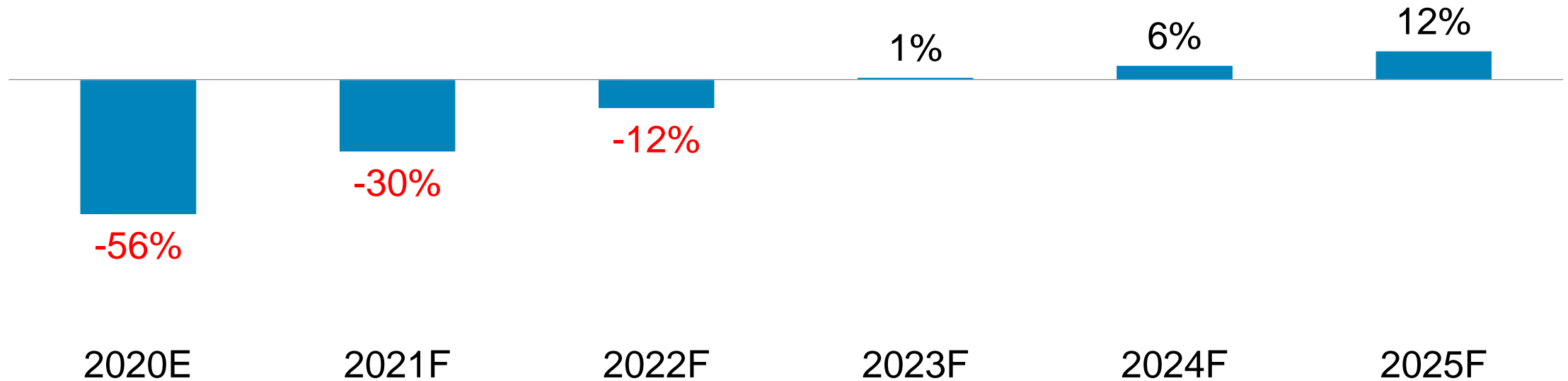
\* S&P Global Economics and Oxford Economics

# We Are Unlikely to See a Return to 2019 Passenger Volumes Before 2023

## Revenues Will Take Even Longer to Recover

“[C]urrent traffic trends are below what we had previously forecast...and **the resurgence of COVID-19 in some areas of the US** adds uncertainty around potential further travel restrictions. We are now incorporating a significantly less steep recovery to 2019 levels of demand, particularly for corporate/international markets. As such, **we materially reduce our forecasts through 2022.**”

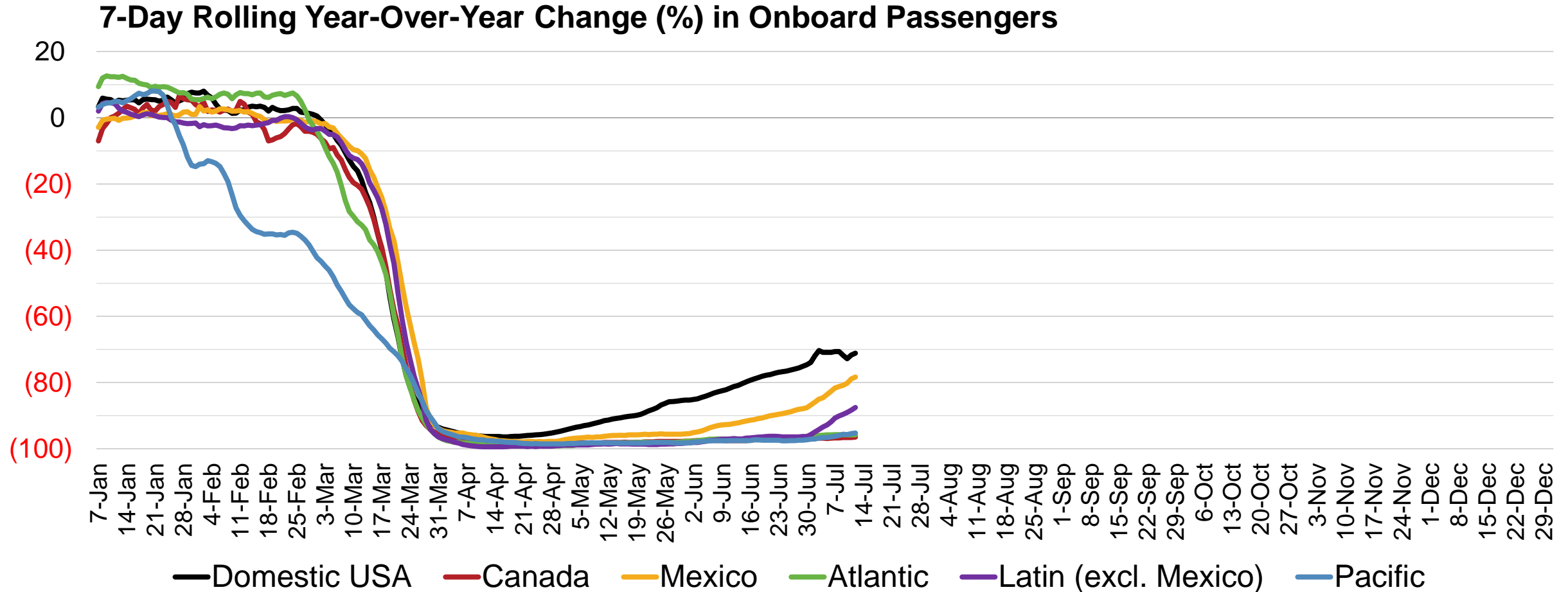
Goldman Sachs: U.S. Airline Industry Passengers vs. 2019 Levels\*



Source: Goldman Sachs, “Expecting slower demand recovery, but positive on long-term industry profitability” (June 28, 2020)

\* Goldman Sachs estimates

# For U.S. Airlines Passenger Volumes\* Remain 74 Percent Below Year-Ago Levels In Week Ending July 12 – Domestic Air Travel Down 71 Percent, International Down 90 Percent

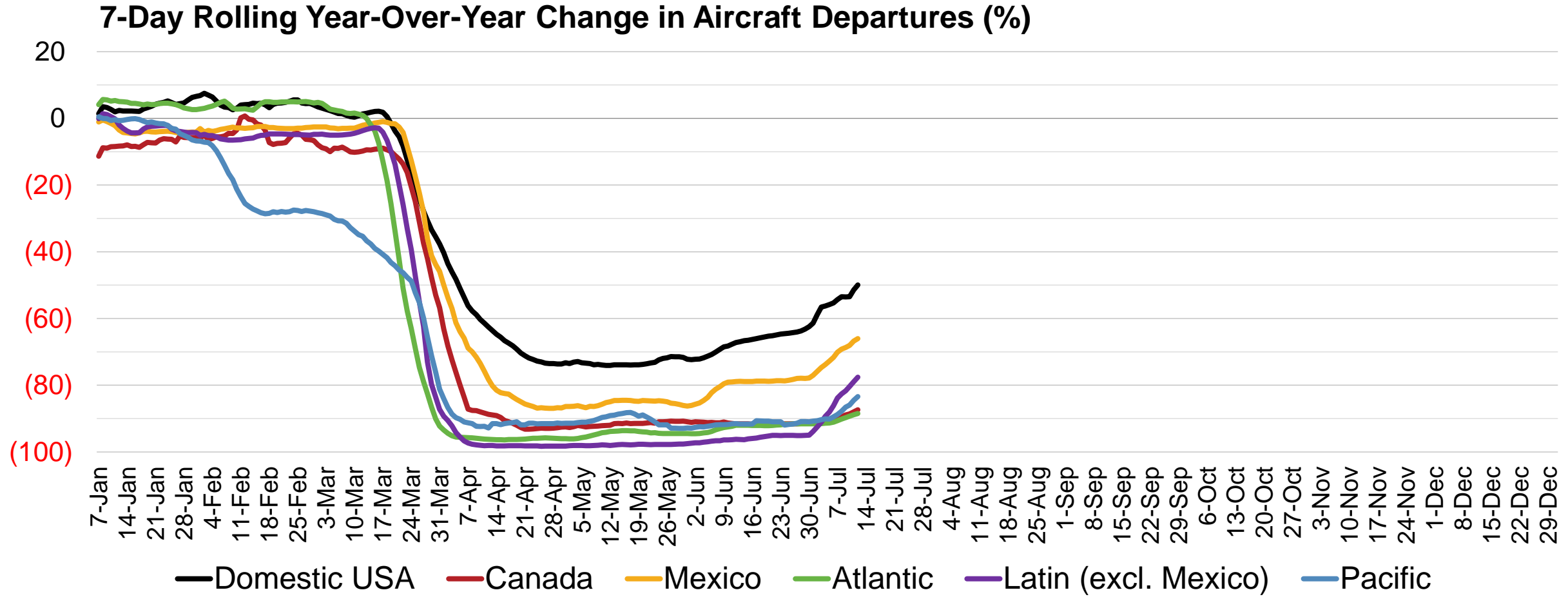


Source: A4A member passenger airlines as reported to A4A on a consolidated company basis (including branded code share partners)

\* Onboard ("segment") passengers

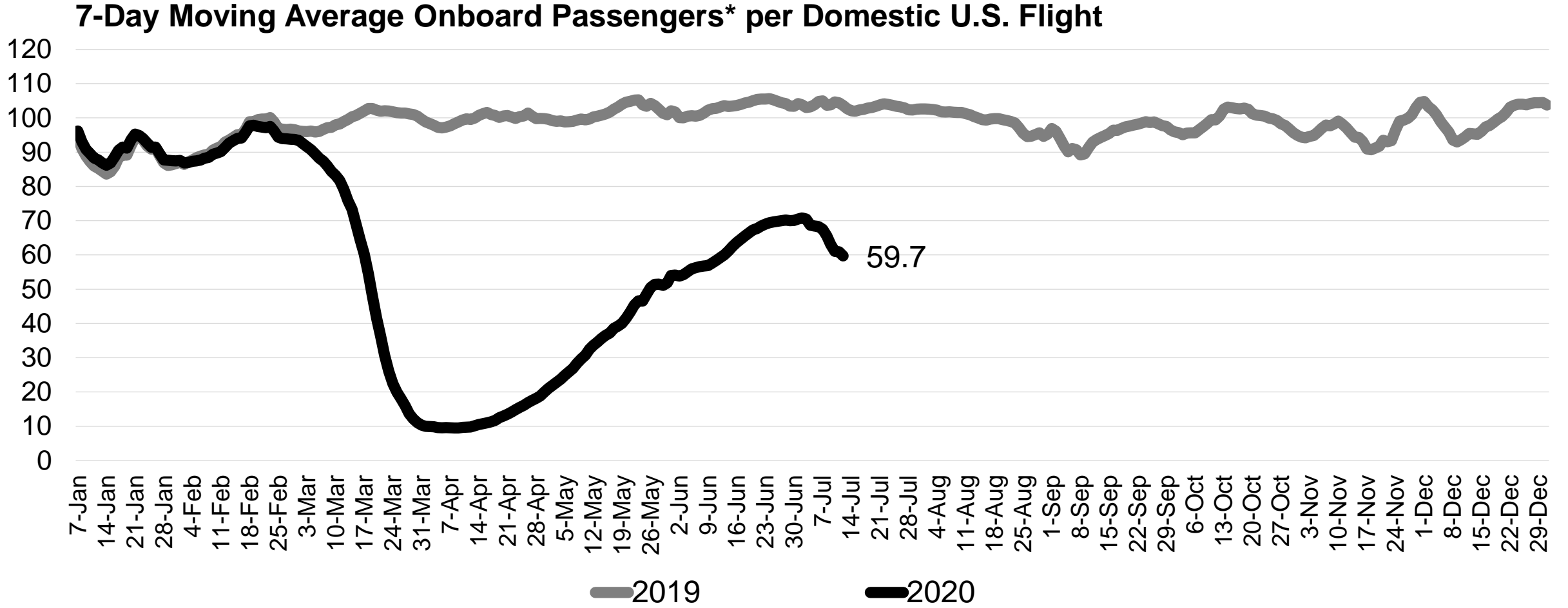
# For U.S. Passenger Airlines, Worldwide Departures Remain 53 Percent Below 2019 Levels

In Week Ending July 12 – Domestic Flights Down 50 Percent, International Flights Down 80 Percent



Source: A4A member passenger airlines as reported to A4A on a consolidated company basis (including branded code share partners)

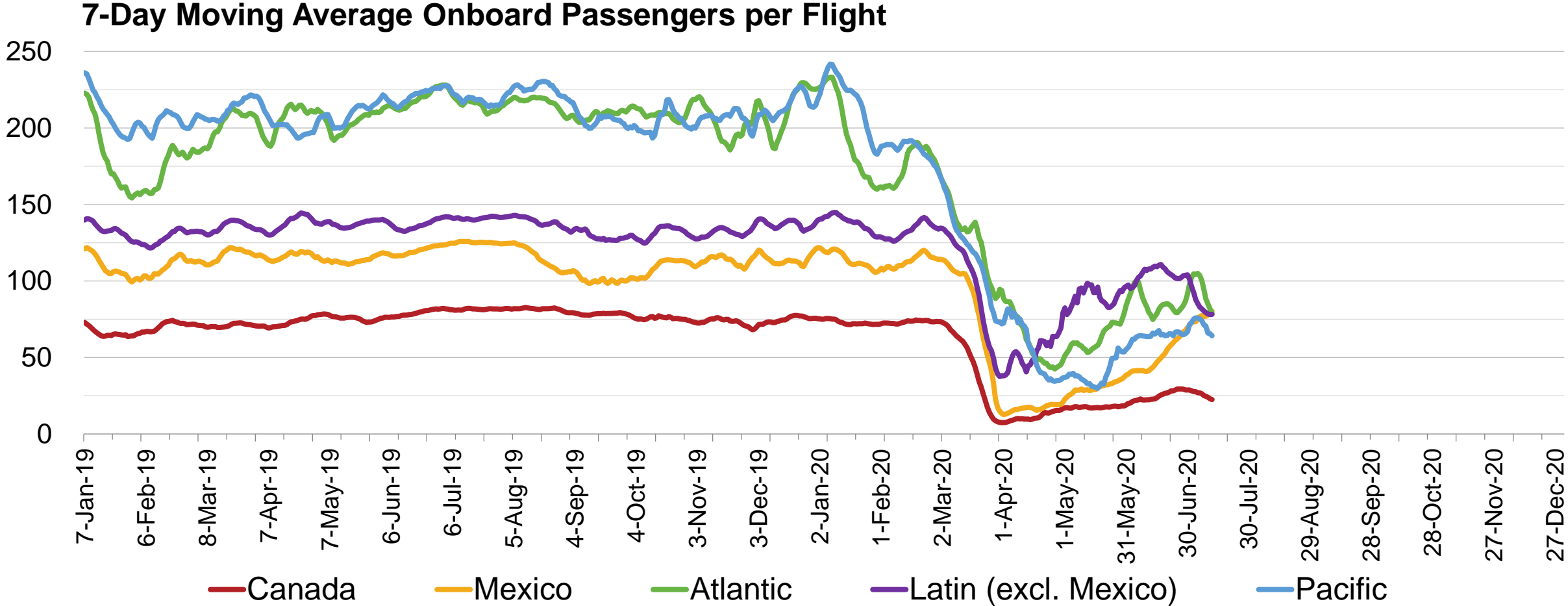
# Despite Schedule Cuts, Domestic Flights Averaging Far Fewer Passengers Than a Year Ago



Source: A4A member passenger airlines as reported to A4A on a consolidated company basis (including branded code share partners)

\* Onboard ("segment") passengers

# In the Week Ending July 12, U.S. Carrier International Flights Averaged 72 Passengers\*



Source: A4A member passenger airlines as reported to A4A on a consolidated company basis (including branded code share partners)

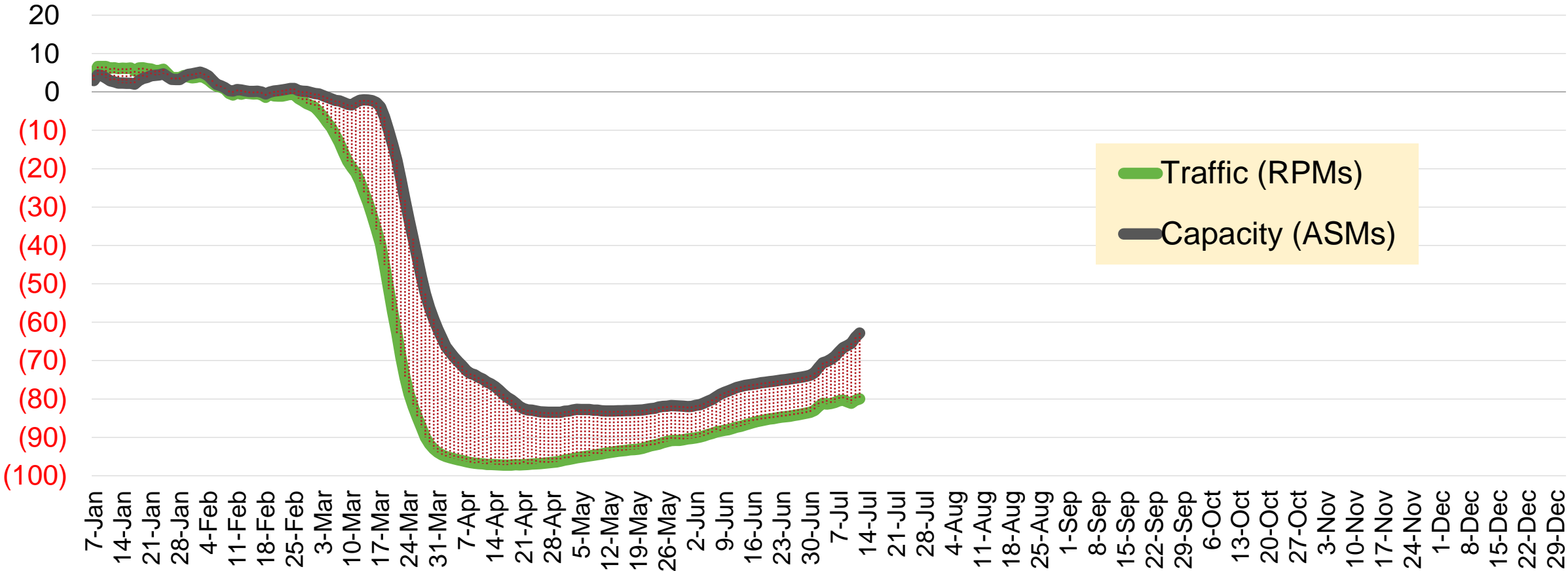
\* Onboard ("segment") passengers



# For U.S. Airlines, Decline in Passenger Traffic Continuing to Exceed Capacity Cuts\*

## Airlines Are Struggling to Keep Pace With the Severe Drop in Demand for Air Travel

7-Day Rolling Year-Over-Year Change (%) in Traffic and Capacity



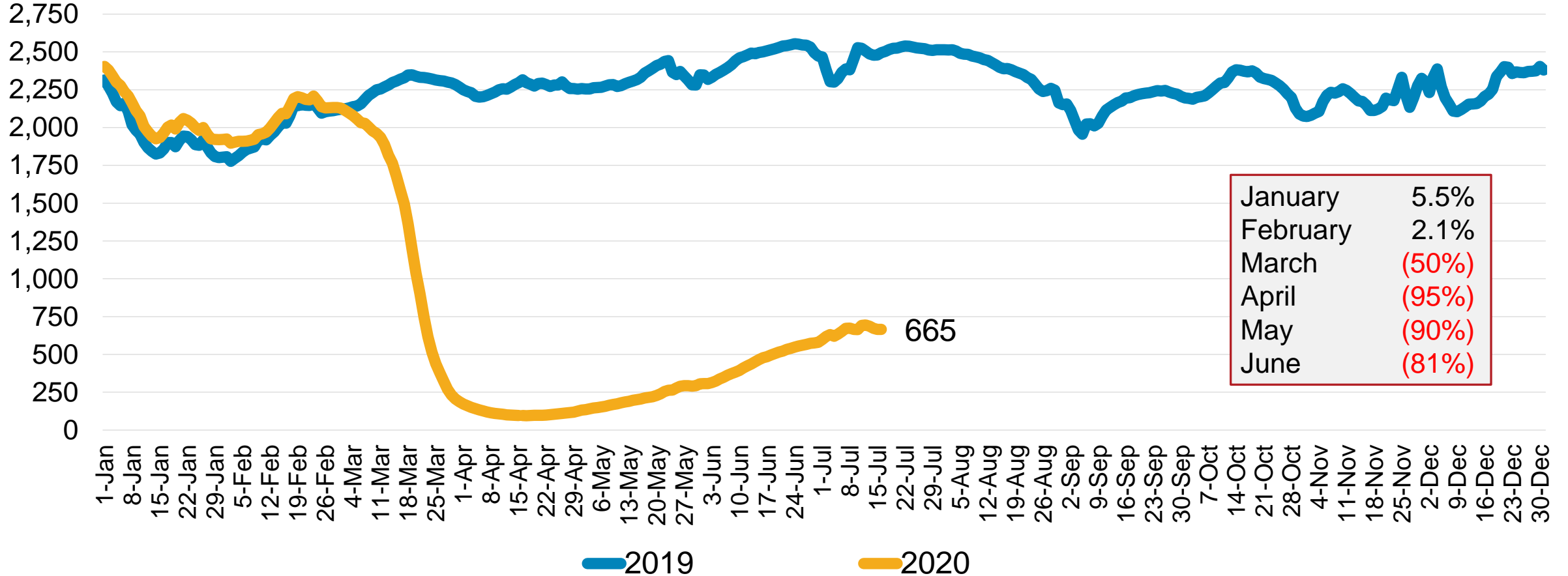
Source: A4A member passenger airlines as reported to A4A on a consolidated company basis (including branded code share partners)

\* RPM = revenue passenger mile; ASM = available seat mile

# TSA Checkpoint Traveler Throughput\* Down 73 Percent Year Over Year

Daily Average Bottomed Out at 95K in April 11-17

## TSA Traveler Throughput: 7-Day Moving Average (in Thousands)

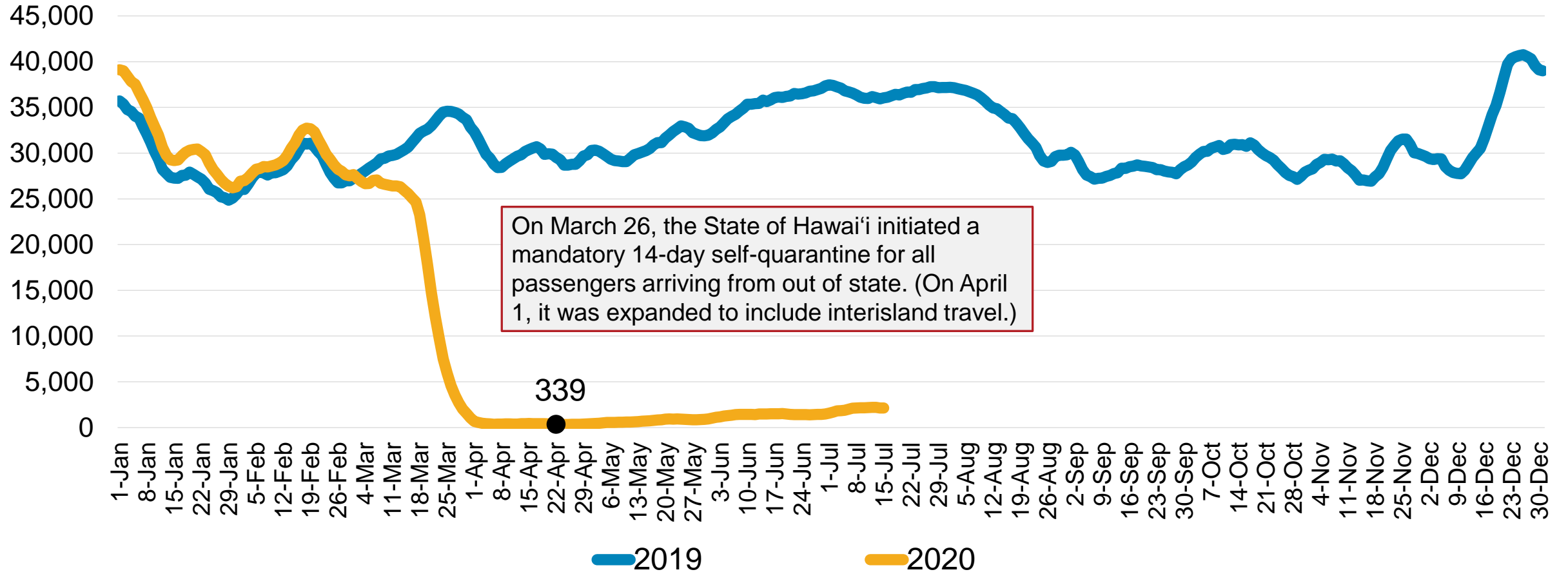


Source: Transportation Security Administration

\* U.S. and foreign carrier customers traversing TSA checkpoints; 2019 is year-ago same weekday

# Travel to the State of Hawaii\* Is Almost Nonexistent – Down 94 Percent Year Over Year

## Air Travel to Hawaii: 7-Day Moving Average\*

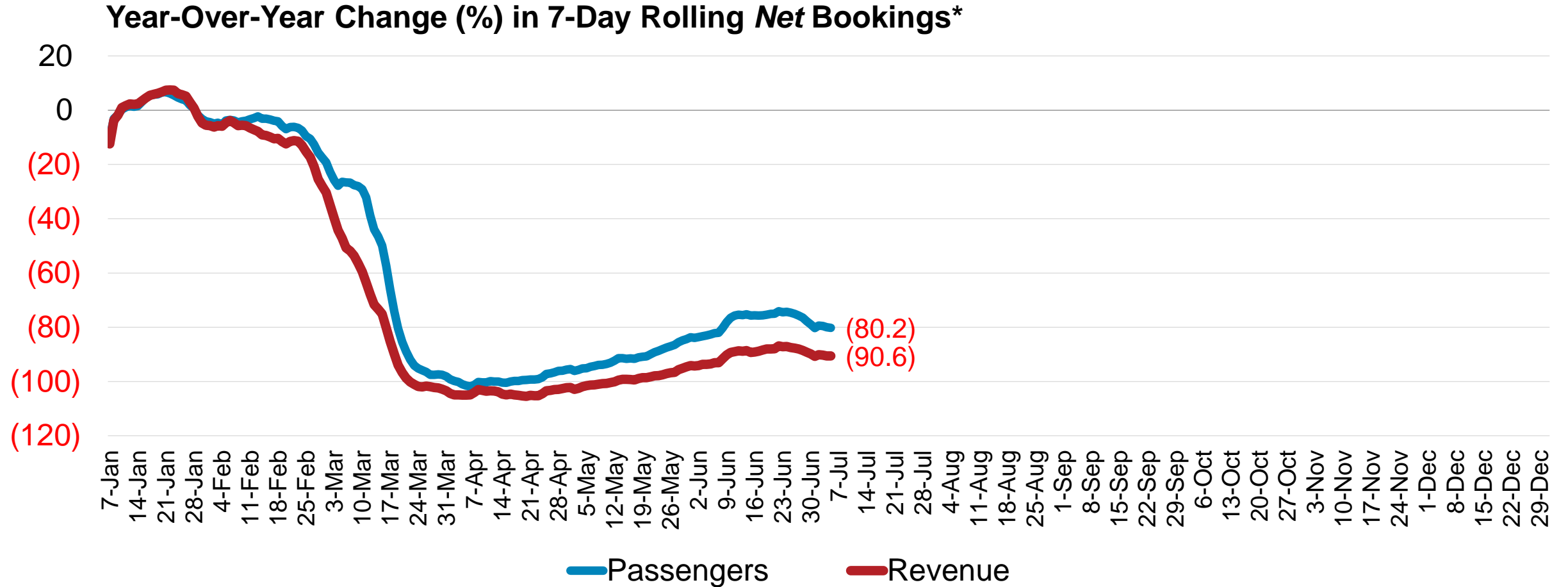


Source: Hawaii Department of Business, Economic Development & Tourism

\* Daily passenger counts include returning residents, intended residents and visitors but exclude interisland and Canada passengers

# Demand\* for Future U.S. Air Travel Plateaued in June

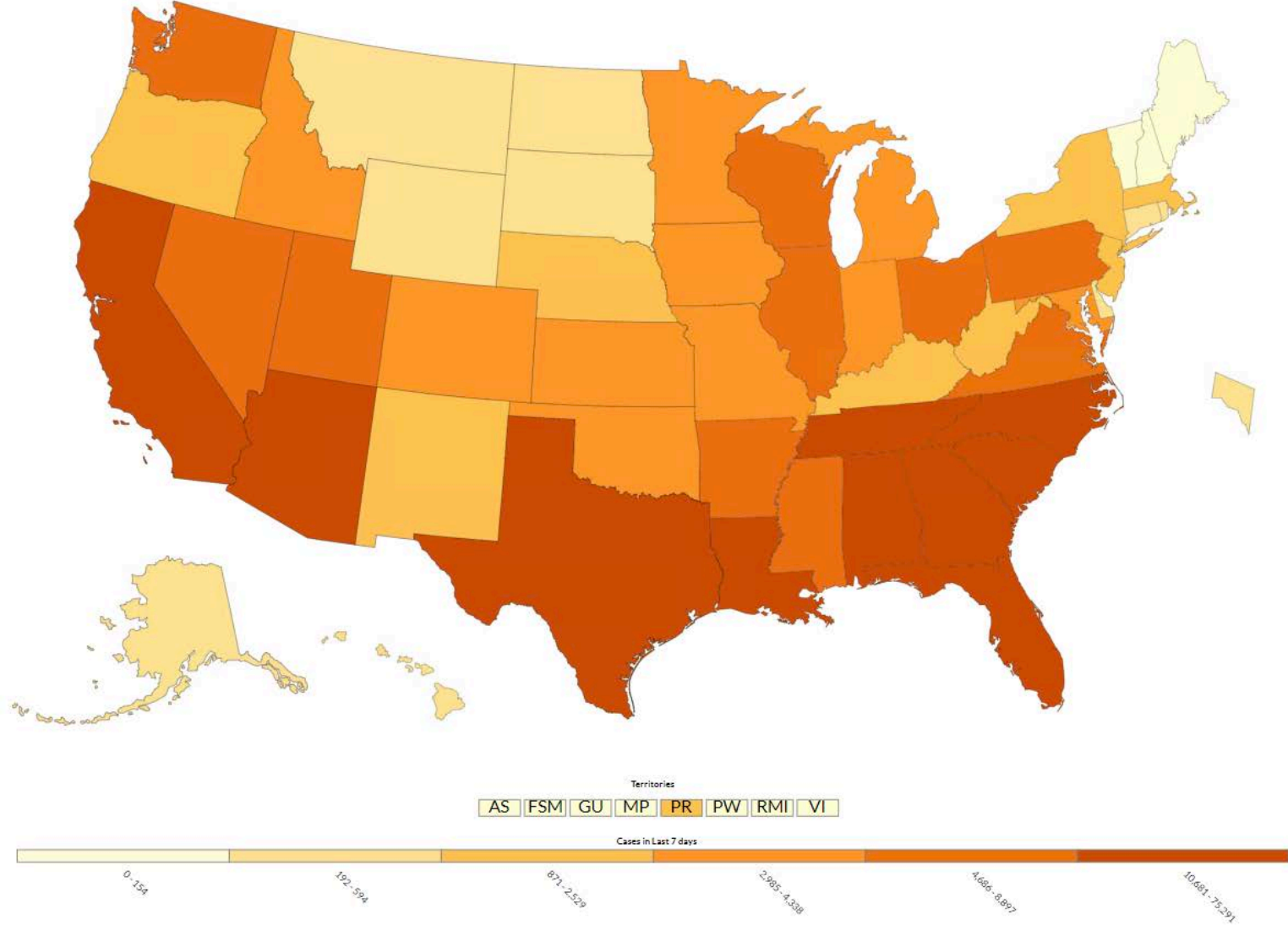
Net Booked\* Passengers Down 80 Percent, Revenue Down 91 Percent



Source: Airlines Reporting Corporation (ARC) for most U.S. and foreign carriers for any flight to/from/within the United States

\* Sales transactions minus refunds, for all future travel up to 330 days out

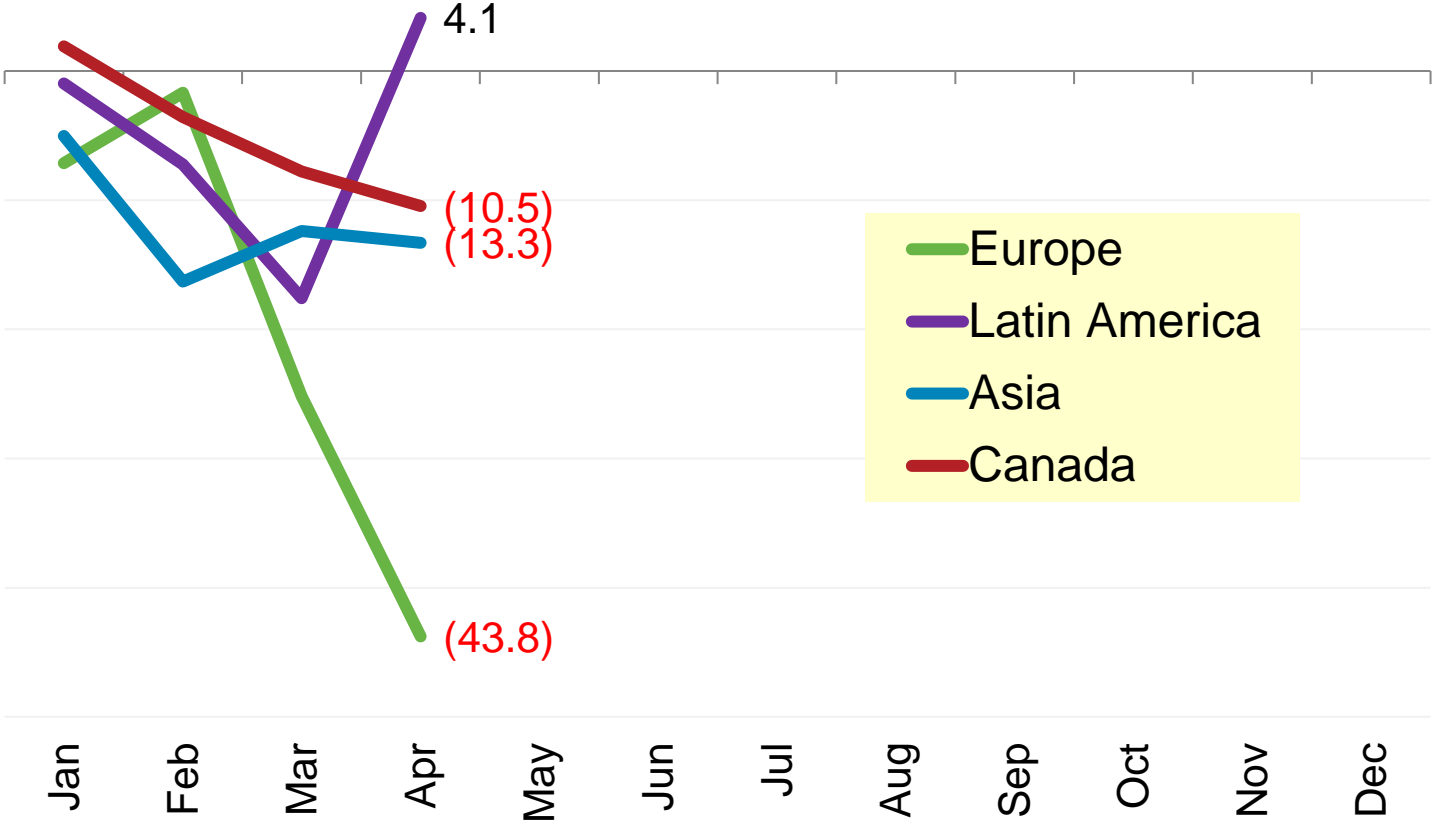
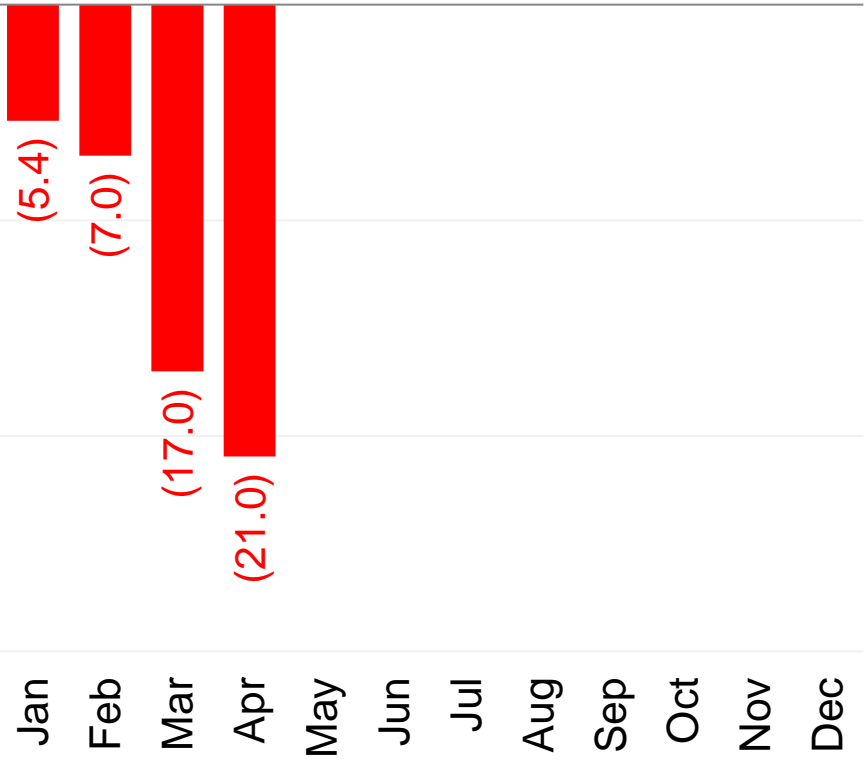
# US COVID-19 Cases Reported to the CDC in the Last 7 Days, by State/Territory



Source: World Health Organization and U.S. Centers for Disease Control and Prevention

# Apart From Latin America, U.S. International Air Cargo Saw Deep Declines in April

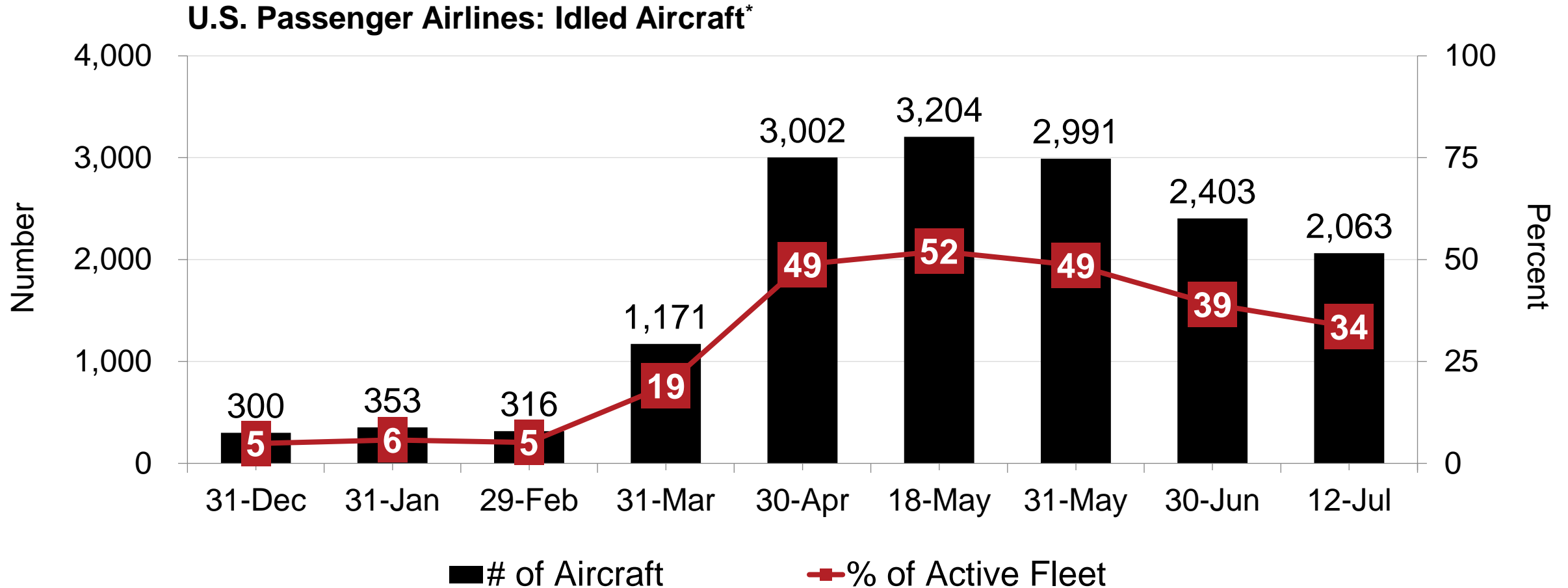
% Change YOY in Air Cargo (Tons Enplaned) Between the United States and World Areas



Source: Bureau of Transportation Statistics, T-100 International Market (U.S. and Foreign Flag Carriers)

# One-Third of the U.S. Passenger Airline Fleet Remains Idle

Peak Occurred in Mid-May



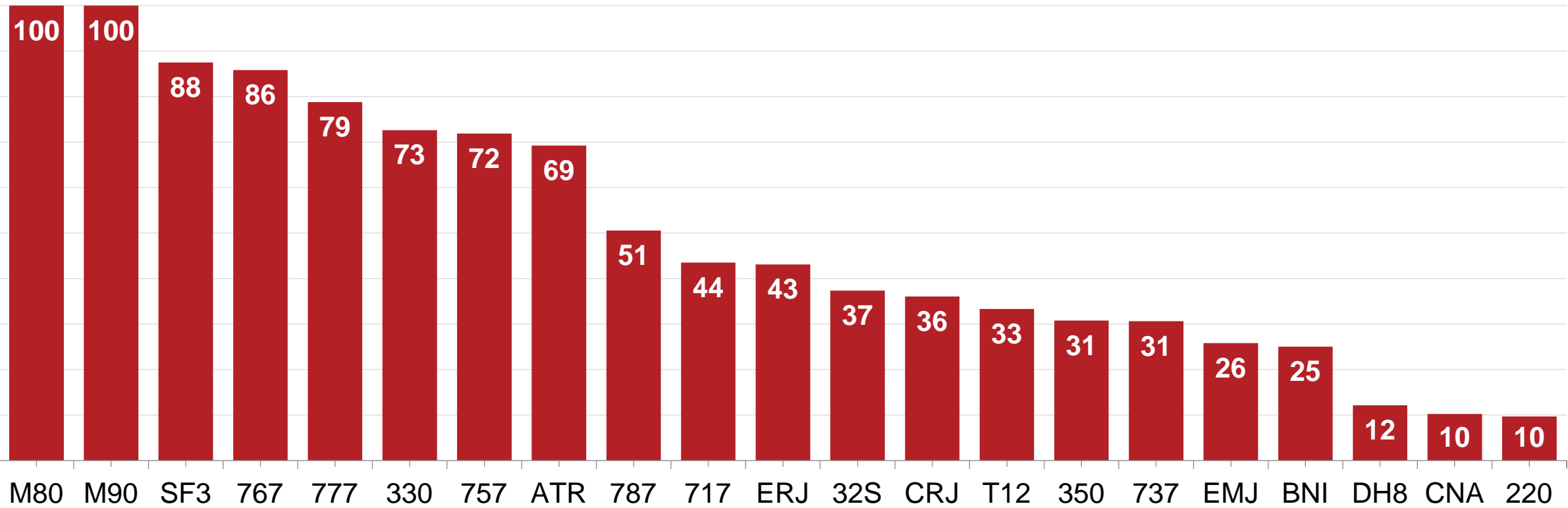
Source: masFlight

\* Idle defined as inactive for the previous seven days

# U.S. Airlines Have Kept the Lion's Share of Older Aircraft and/or Widebodies Grounded

## Smaller Aircraft Proving More Suitable to a Deflated, Domestic-Oriented Air-Travel Marketplace

U.S. Passenger Airlines: % of Fleet Idled by Aircraft Type as of June 30, 2020\*



Source: masFlight

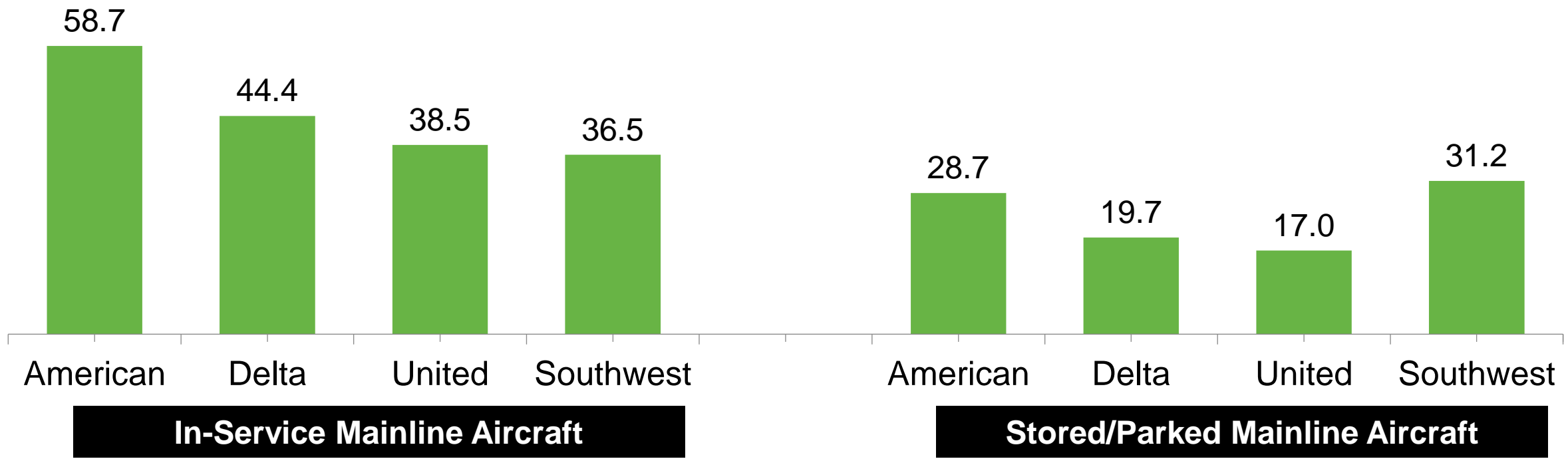
\* Idle defined as inactive for the previous seven days



# Among the Big Four, American Had the Largest Share of Young Active/Stored Aircraft\* in July

Aircraft Age Is a Rough Proxy for Ownership Cost

% of Mainline Aircraft Under 10 Years in July 2020

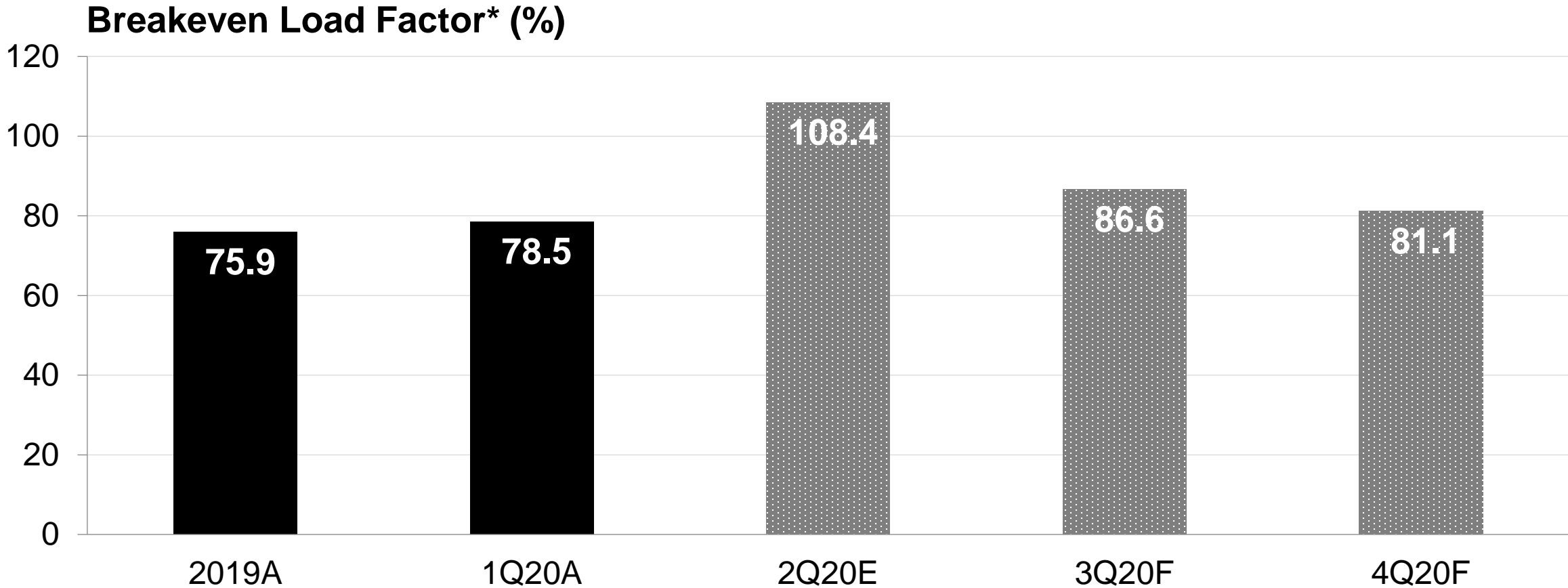


Source: Dii by Cirium fleet database as of July 2020

\* Under 10 years old

# U.S. Airlines Are Facing an Elevated Breakeven Load Factor Throughout 2020

In the Second Quarter of 2020, Even a Load Factor of 100 Percent Would Not Suffice

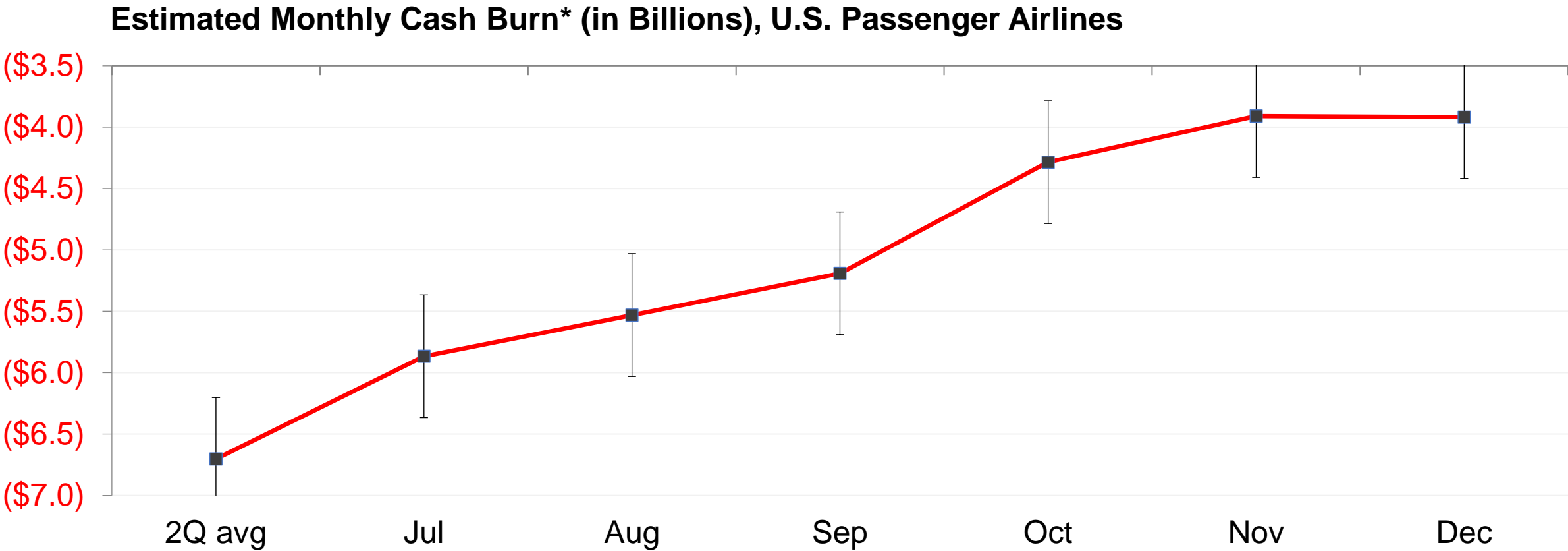


Source: Wolfe Research estimates and filings of Alaska, Allegiant, American, Delta, Hawaiian, JetBlue, Southwest, Spirit and United

\* Calculation excludes CARES Act payroll support program funds

# Collectively, U.S. Airlines Will Burn Cash Through the Remainder of 2020

Lower Burn Rate Depends on Progress in Reducing Costs and Timeline for Return of Travel Demand



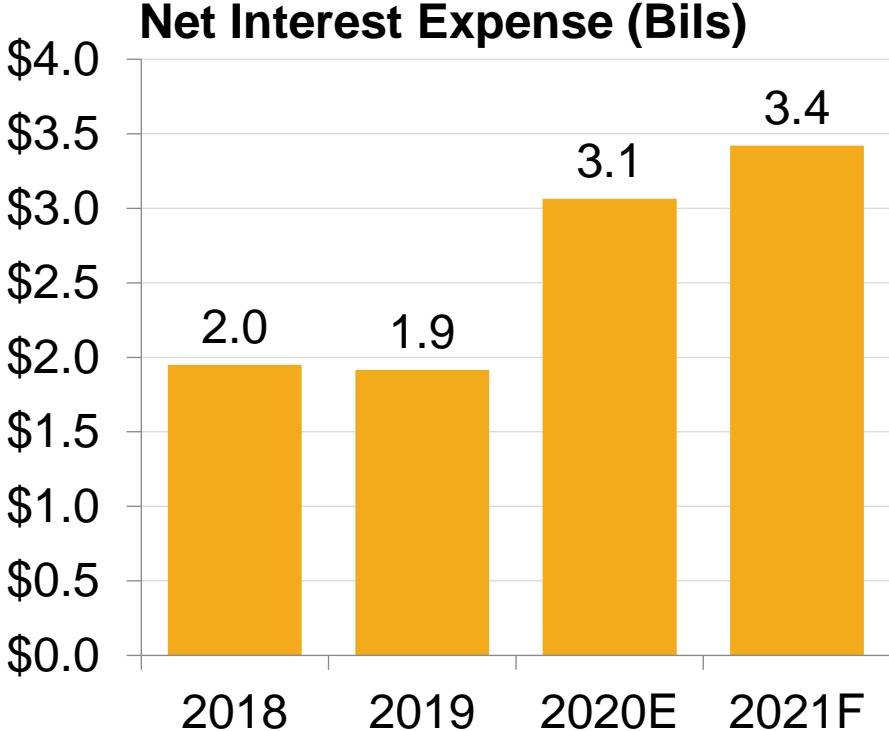
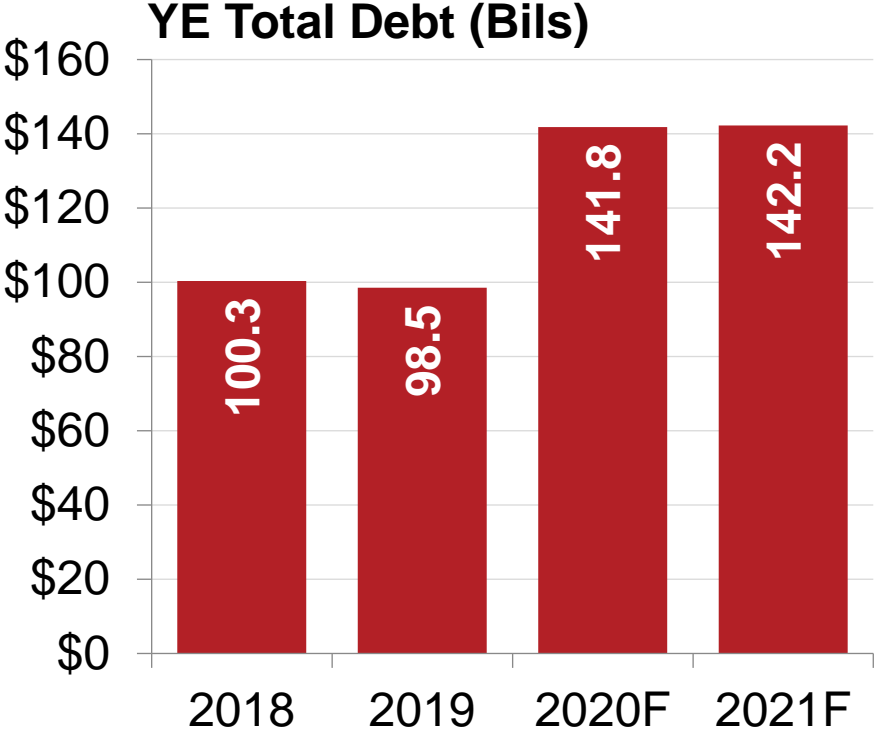
Source: A4A, BofA Global Research and Wolfe Research

\* Ticket and cargo sales - cash operating expenses - cash refunds - capital expenditures - interest expense - repayment of debt

# COVID-19 Will Leave U.S. Carriers Highly Leveraged, Reversing Years of Progress for Most

## Total Debt Projected to Increase 44 Percent From End of 2019 to End of 2020

“For 2021 and beyond, we anticipate a major deleveraging cycle as **the industry will have no choice but to address its significant debt load.**” (Deutsche Bank, “Airline Industry Update,” July 1, 2020)



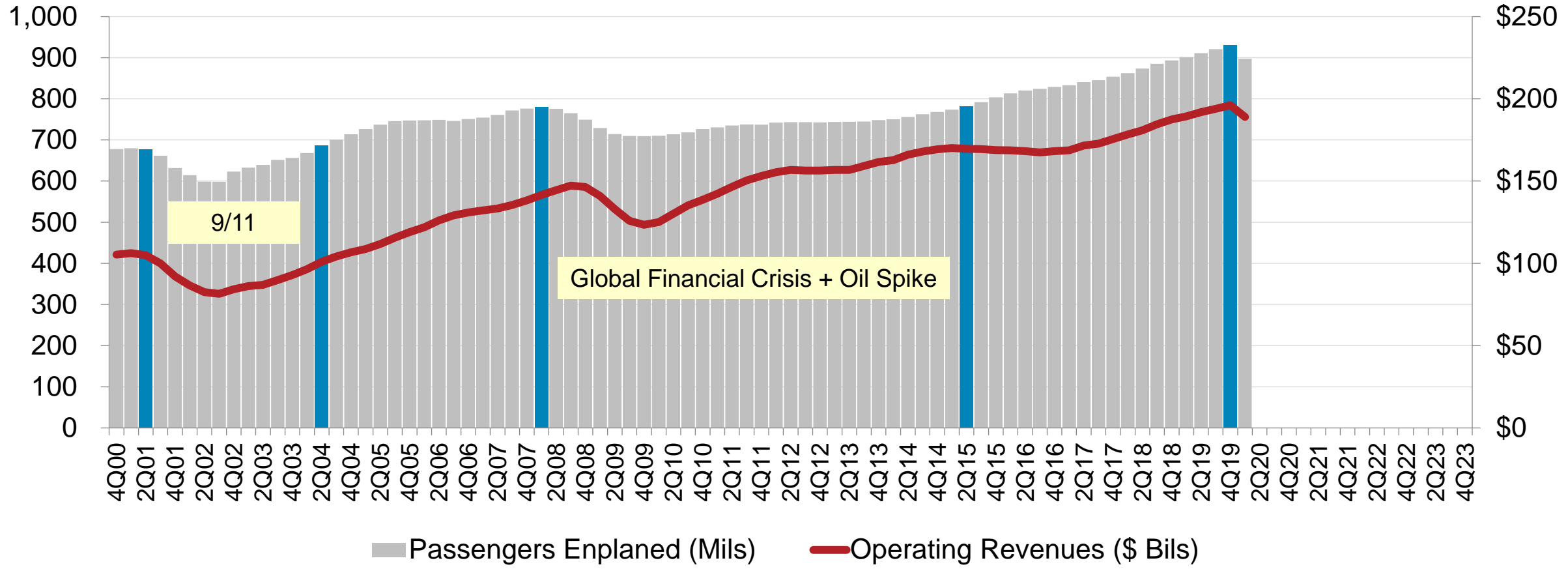
Source: Wolfe Research and filings of Alaska, Allegiant, American, Delta, Hawaiian, JetBlue, Southwest, Spirit and United

\* Net debt divided by EBITDA (earnings before interest, taxes, depreciation and amortization)

# After 9/11 and the Global Financial Crisis, It Took Years for Air-Travel Demand to Recover

Passenger Volumes Took More Than Seven Years to Recover From the Financial Crisis/Oil Spike

Four-Quarter Rolling Passenger Volume (Millions) and Operating Revenues (Billions)



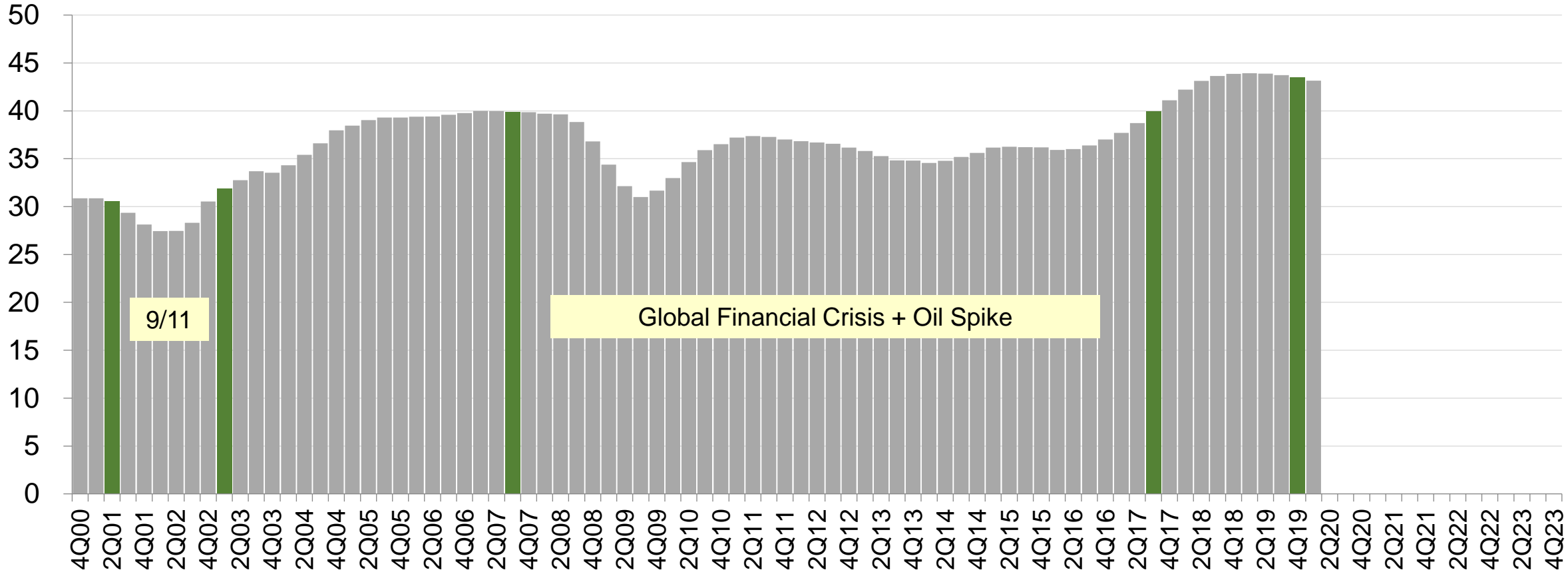
Source: A4A Passenger Airline Cost Index and Bureau of Transportation Statistics (Form 41 Schedule T1)

\* Passengers enplaned systemwide on U.S. airlines in scheduled and nonscheduled services

# After 9/11 and the Global Financial Crisis, It Took Years for Air-Cargo Demand\* to Recover

## Cargo Volumes Took 10 Years to Recover From the Financial Crisis/Oil Spike

Four-Quarter Rolling Air Cargo Revenue Ton Miles (Billions)



Source: Bureau of Transportation Statistics (Form 41 Schedule T1)

\* Cargo revenue ton miles (RTMs) flown on U.S. passenger and cargo-only airlines in scheduled and nonscheduled services

# Key Points

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- » In the first two months of 2020, operating revenues grew more than 5 percent – we were on our way to another record.
- » After burning ~\$10B per month of cash in late March, U.S. airlines are burning over \$5B per month in summer 2020.
- » Air travel took 3 years to recover from 9/11 and 7+ years from the global financial crisis. Air cargo took 10 years post-GFC.
- » When traffic returns, low-yield (VFR, then vacationers) is likely to return faster than high-yield (corporate) and international, with implications for the pace of revenue recovery, the need for cost reduction/containment, and the return to profitability.
  - Businesses first cut back hiring and travel and entertainment; in a recovery, those are the last things they restore. These travelers are essential due to how often they fly and the cabins/fares they purchase, among other reasons.
- » People will be reluctant to travel – or even to book travel – until there is a strong degree of confidence that the health crisis and associated risks are behind us. The COVID-19 global pandemic constitutes a black swan-like public health crisis that will only be solved once an effective vaccine is developed, but vaccines usually take a year or longer to develop.
- » In addition to concerns about the spread of the virus and the associated restrictions on the movements of citizens, businesses and consumers are facing a sharp global economic downturn of unknown duration.
  - The economic and consumer psychology effects of COVID-19 are deep and global.
  - High unemployment and reduced HHNW worth + strained government coffers = curtailed travel budgets for households and organizations.
- » Once demand has recovered, it will take years for airlines to retire the newly accumulated billions of dollars of debt and to address the sizable associated interest expense, limiting their wherewithal to rehire and reinvest.