SECTOR OVERVIEW

1. **Overview of global air transport industry.** The coronavirus disease (COVID-19) crisis has grounded most of the world's commercial aircraft as governments quarantined their populations and closed borders. With little or no revenue coming in, airlines cut staff, retired or stored surplus aircraft, bolstered their liquidity with equity and debt raisings, and called for state aid. By the end of September 2020, more than 30 airlines had failed or gone into administration, and most airline companies had their credit ratings downgraded and their outlook revised because of the unprecedented stress of COVID-19.

2. The strain on the industry's fundamentals is being felt across a broad swath of the global economy, and the return of global passenger traffic is now inextricably linked to health and safety concerns and government coordination. Projections from various industry stakeholders, as detailed in the table, suggest that global passenger demand will not substantially recover to pre-crisis levels until 2023–2024.

Air Passenger Recovery Projections

Agency	Recovery Projection		Source
IATA	2024	Return to pre COVID-19 levels not occurring before 2024.	IATA Economics' Chart of the Week. 30 July 2020
Bain & Company	2024	2019 market will not return until 2024 in anchor scenario.	https://www.bain.com/insights/air-traffic-2020-2023-webinar/
S&P	2024	Gradual recovery to pre-COVID-19 traffic levels by 2024.	S&P Global Ratings. From Bad to Worse: Global Air Traffic to Drop 60%–70% in 2020. 12 August 2020
Moody's	end 2023	Restoration of passenger demand—measured in revenue passenger kilometers—to 2019 levels by the end of 2023.	Moody's Sector Comment. Industry disruption has far-reaching impact. 16 July 2020
IATA's July 2020 survey of airline CFOs and Heads of Cargo	> 2 years	42% of respondents expect that the demand recovery to pre-crisis levels will take longer than 2 years. 39% expect a recovery in 12–24 months, and only 19% expect to see a recovery within 6–12 months.	IATA Airline Business Confidence Index
Fitch	2022	In July, Fitch expected a sizable portion of the global fleet to remain grounded in Q3 2020, airlines to operate at about 45% capacity in Q3 2020 and 50% capacity in Q4 2020, and air traffic to return to 2019 levels by 2022.	Fitch Ratings Completes Aircraft Lessor Peer Review; Maintains Negative Rating Watches and Outlooks. 9 July 2020.
Landrum & Brown	Q4 2023	International traffic to start resuming in Dec 2020 (optimistic scenario)/ Mar–Apr 2021 (base)/ Sep–Oct 2021 (pessimistic), reaching 2019 levels in Q4 2022 (optimistic)/ Q4 2023 (base)/ Q2 2024 (pessimistic).	Post COVID-19 Pacific Short-Term Aviation Strategy – A Scoping Study, Final Report, October 2020

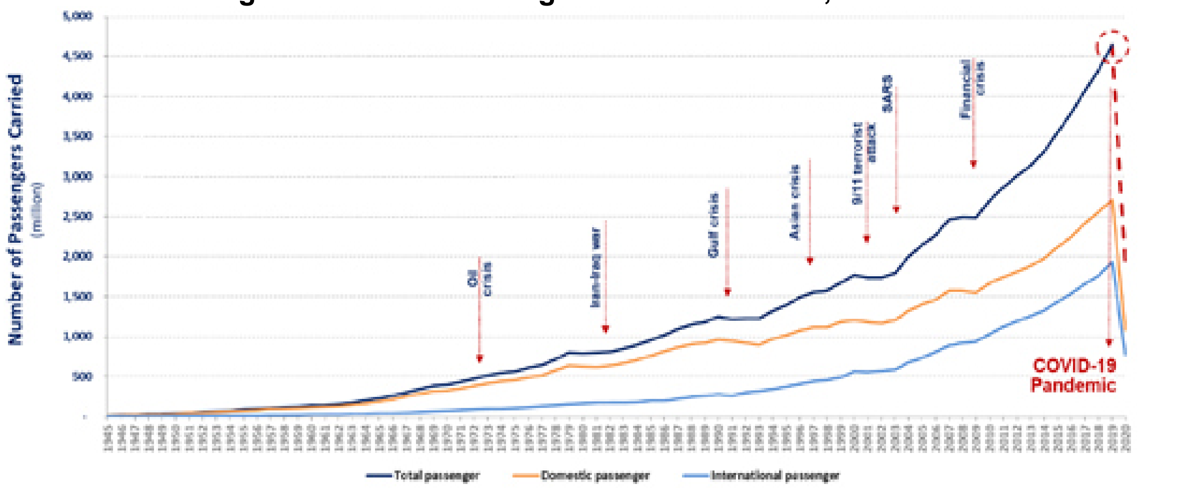
CFO = chief financial officer, COVID-19 = coronavirus disease, IATA = International Air Transport Association, Q = quarter.
Source: Fitch Ratings, International Air Transport Association, Landrum & Brown, Moody's Investors Service, S&P Global Ratings.

3. **Air passenger market.** According to the International Air Transport Association (IATA), the air travel upturn continued in August 2020 but was weaker than initially forecast, and domestic

markets dominated the recovery.[1] International passenger demand in August 2020 collapsed by 75.3% year-on-year, slowly improving on earlier months (79.5% in July, 86.5% June, and more than 90% in May and April). IATA's periodic "20-year Air Passenger Forecast", published in May 2020, predicted a sharp fall in 2020 followed by a strong recovery in 2021–2022, and 20-year average growth through 2039 of 3.2%–5.3% per annum, led by Asia and the Pacific at 5% per annum.[2]

4. As of September 2020, the International Civil Aviation Organization (ICAO) forecasts that the global aviation industry will suffer a loss of $375 billion–$395 billion in operating revenues in 2020, and an overall reduction in seats offered of 49%–51%.[3] Figure 1 shows how significantly the COVID-19 pandemic caused passenger numbers to decline. The historical trend of passenger traffic, however, shows that passenger traffic has consistently recovered to a growth path of 4%–5% per year once a major event such as a recession, political crisis, or pandemic has passed.

Figure 1: World Passenger Traffic Evolution, 1945–2020



Source: International Civil Aviation Organization.

5. **Government support.** Airlines sought support from governments to survive the crisis.[4] According to IATA, airlines worldwide received about $123 billion in government aid as of mid-May 2020, which came in a variety of forms, such as capital injections, provision of loans and guarantees, tax deferrals or reliefs, operating subsidies, and wage subsidies to preserve jobs. However, this was unevenly distributed across regions—airlines in North America received aid equivalent to 25% of 2019 revenues, while Europe received 15% of 2019 revenues. By contrast, the support received by airlines in Latin America, Africa, and the Middle East equaled only about 1% of 2019 revenues, which resulted in more bankruptcies. In Asia and the Pacific, where emerging market support has been minimal, airlines received about 10% of 2019 revenues; Singapore provided the most aid, and Australia and New Zealand also offered support. In October 2020, with the prospect of a prolonged effect of COVID-19 on northern economies, IATA called for a second tranche of financial aid to the struggling airline industry.[5]

[1] IATA. 2020. *Air Passenger Monthly Analysis – August 2020*. Montreal (29 September).
[2] IATA. 2020. Pax Forecast Infographic*,* 2020 Final. Montreal (May 2020).
[3] ICAO. 2020. Effects of COVID-19 on Civil Aviation: Economic Impact Analysis. Montreal (23 September).
[4] IATA. 2020. COVID-19: Government financial aid for airlines. Montreal (26 May).
[5] IATA. 2020. Remarks of Alexandre de Juniac at the IATA Media Briefing. Montreal (13 October).

6. **Aircraft value and leases.** Aircraft leasing companies have received various petitions from airlines for relief from lease payment obligations. According to Moody's, investment-grade leasing companies have adequate liquidity to seize new opportunities once air travel volumes recover.[6] However, Moody's maintains a negative outlook and notes that a more significant credit deterioration could occur if the depth or duration of the downturn undermined the ability of lessors to return to pre-pandemic earnings and capital levels.

7. **Post-crisis emergence.** The emergence of the airline industry will be aggravated by damaged balance sheets and behavioral pattern changes forced by the crisis. As per IATA, the majority of government aid will leave airlines with more debt. Airlines and airports will have to reassess the size and focus of operations, including fleet modeling and network evaluation.

8. **Pacific airlines market.** IATA projects the overall net losses in Asia Pacific airlines to be $29 billion, with net margins of –22.5% in 2020. The Pacific is a small segment of the Asia and Pacific air travel market, with a stronger economic reliance on tourism (which comprises 20% on average of Pacific Island Countries' GDP) and a higher dependency on air transport to link remote countries to the rest of the world. Four international and six to seven national airlines serve the Pacific, assuring transportation to a number of the world's most remote locations. One of the international airlines, Virgin Australia, was acquired out of bankruptcy by private equity investors and is reconfiguring its operational model. Most of the national airlines were loss-making or only marginally profitable even before COVID-19, and will be reliant on directed government assistance to continue air transportation services.

9. **Recovery projection.**

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[6] Moody's Investors Service. 2020. Research Announcement: Moody's – Higher rated aircraft lessors are well positioned for the return of airline travel volumes. New York (5 October).