North American Airport and Airline Pressures to Ease, Accelerating Recovery Later This Year

Virus Variants, Travel Restrictions and Vaccine Rollouts Present Uncertainties

Key Takeaways

- Downward revisions to passenger air traffic forecasts in late 2020 remain valid.
- Enplanements are weaker due to a surge in cases at the beginning of the year.
- U.S. federal aid has provided key support.
- Travel is expected to pick up in 2H21 with greater vaccination rates and will be led by leisure travel.
- Revenue stresses will diminish if the recovery timeline moves forward.

Related Research

Fitch Ratings 2021 Outlook: Global Airlines (December 2020)

Fitch Ratings 2021 Outlook: U.S. Transportation Infrastructure (December 2020)

Fitch Ratings: Airport Slot Use Relief Would Preserve Existing Allocation (December 2020)

Analysts

Seth Lehman
+1 212 908-0755
seth.lehman@fitchratings.com

Joseph Rohlena
+1 312 368-3112
joseph.rohlena@fitchratings.com

Jeffrey Lack
+1 312 368-3171
jeffrey.lack@fitchratings.com

Sarah Repucci
+1 212 908-0726
sarah.repucci@fitchratings.com

Fitch Ratings expects air traffic recovery in U.S. and Canadian markets to be slower in 1H21 than previous forecasts, given ongoing low levels of passenger demand observed through the early weeks of 2021. Accelerated growth is expected in 2H21 with greater vaccination rates and the release of pent-up leisure and holiday travel demand.

Airports and airlines are highly sensitive to the pace of recovery from the coronavirus pandemic and new, more contagious variants of the virus may hinder a rapid rebound in the near term.

A prolonged rebound for the air travel industry is part of our forecast, with full recovery not expected until 2024 at the earliest. Canada's traffic impairment is deeper and, therefore, may take more time for a sustained recovery to emerge when compared with U.S. markets.

Longer lasting effects on air travel, particularly related to reduced business travel, will result in a slower upturn relative to the overall economic recovery.

Fitch sees potential for a fairly robust rebound in 2H21, as traveller confidence improves along with vaccination rates. This should particularly be the case for leisure and visiting friends and relatives (VFR) traffic, driven by a great deal of pent-up demand.

Recent surveys conducted by the International Air Transport Association, Oliver Wyman and others indicate a majority of respondents expect to travel as much as, or more than, pre-pandemic levels once the pandemic is over, with most respondents indicating a desire to prioritize travel in the future.

Vaccinations Key to Recovery

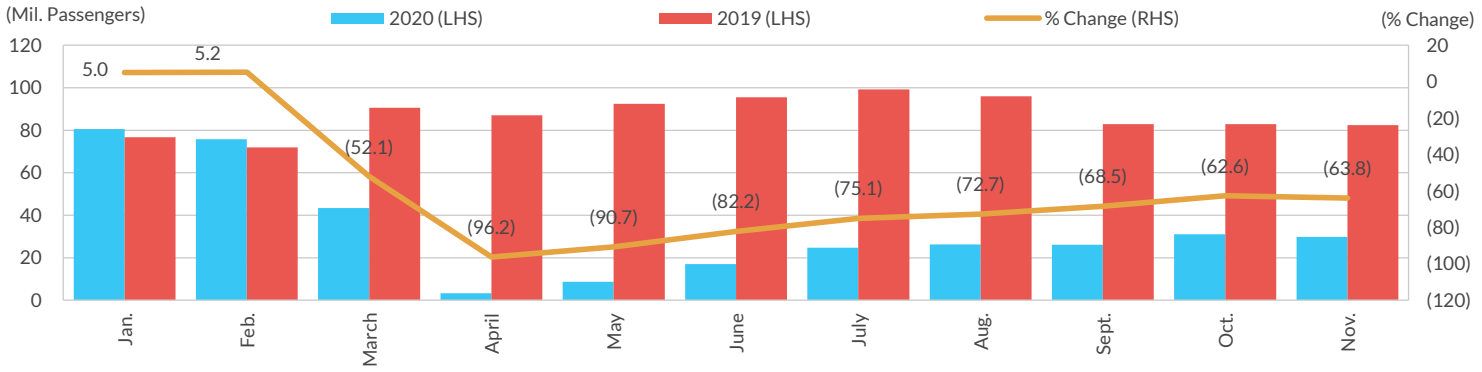
Air carriers and airports remain exposed to pandemic-related volatility until there is widespread inoculation of the population. Vaccination rates are gradually increasing, with a majority of the U.S. population on track to be vaccinated by mid-to-late summer 2021. Canada's cumulative vaccination rate trails the U.S.

Fitch believes reaching full herd immunity may not be necessary to at least begin to drive a rebound in travel. Rather, a decline in death rates spurred by vaccine coverage among vulnerable populations may be sufficient to loosen pandemic restrictions and build traveller comfort. This should allow for a pickup in air traffic, aligning with our expectations for a stronger recovery in 2H21.

The emergence of highly transmissible variants of the coronavirus could extend the pandemic and delay a recovery in travel, driving future forecast revisions.

Estimating the likelihood of such an outcome is difficult, given the limited available data about new variants of the virus and the efficacy of vaccines for variants. Travel restrictions were re-imposed in some places and the border remains closed between the U.S. and Canada.

U.S. Airports' Passenger Traffic



Source: Bureau of Transporation Statistics.

Air Traffic Recovery Off to a Slow Start in 1Q21

At the close of 2020, and the early weeks into 2021, traffic levels remained down 60% or more when compared with the prior year. Leading airports are limited to several connecting airline hubs or leisure markets in states with less restrictions to business activities.

Low cost airlines, such as Spirit Airlines, Inc. (BB–/Negative) and Allegiant Air, fared significantly better than network carriers, with traffic down in the 35% to 40% range compared with 60% or more for larger airlines.

Travel volumes are likely to see a more material rebound from current levels in 3Q21, when a majority of the population is vaccinated and a return of business and foreign travel is more certain.

Passenger volumes and airline capacity recovery is having a slower start in 1Q21, with performance trending weaker than the anticipated 20% improvement over 4Q20.

Fitch updated its expectations in late 2020 for passenger traffic in 2021 and beyond. We adjusted downward from our prior spring 2020 forecast to reflect low passenger counts through 1Q21, driven by the surge in coronavirus cases and re-tightening of travel restrictions.

Our rating case forecasts, as developed in fall 2020, anticipated by 1Q21 air traffic in the U.S. would be down by 45% compared with 1Q19. However, U.S. passenger traffic observed through the end of 2020 and into the start of 2021 failed to reach these numbers.

Currently, traffic is tracking increasingly closer, but not fully, toward the severe downside case expectations of 65%, relative to 2019 levels, based on Transportation Security Administration data.

Recovery in the U.S. and Canada will be led by leisure travel. Domestic leisure and origination and destination airports are expected to rebound more quickly than international gateways or those with a high reliance on business travellers.

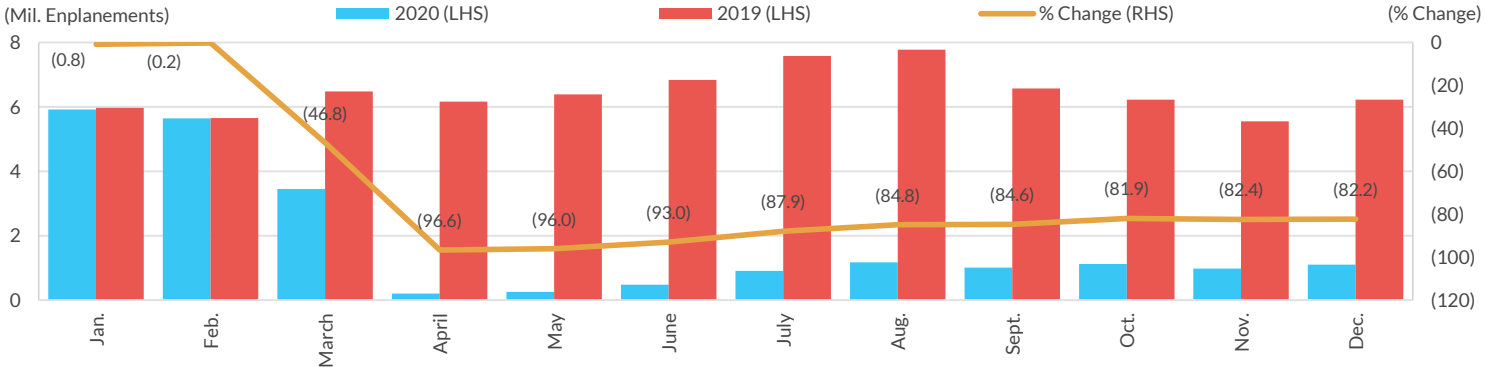
Similarly, domestic focused leisure carriers continue to be better positioned to benefit from the early stages of the recovery, although competition will put pressure on airline yields at least into 2022.

Canadian airport traffic is more impaired by the pandemic, relative to the U.S., remaining down by 80%–90% of pre-pandemic levels and within a limited range of performance across the seven largest airports.

The two leading international gateway airports, Toronto-Pearson and Vancouver, had lower passenger traffic in 2020 in the magnitude of 89% and 87%, respectively. Both airports have a more balanced traffic base of domestic and transborder/international passengers.

While the mature nature of aviation in Canada is similar to the U.S., there is increased risk of a slower and longer recovery. Canada's pandemic travel policies are more centralized and enforced than the U.S., which has fragmented, less monitored restrictions.

Leading Canadian Airports' Enplaned Passengers



Note: The top seven Canadian airports include Vancouver, Edmonton, Calgary, Winnipeg, Toronto, Ottawa and Montreal.
Source: Airport websites.

The Canadian Airports Council estimated Canada's passenger volume would be down 65% in 2021 from 2019 levels, which closely aligns to the severe downside set of assumptions.

Significant Revenue Stresses Persist

While both U.S. and Canadian airports and airlines are still facing significant stresses to operating revenue, driven by unprecedented declines in passenger traffic volumes, Canadian entities are notably more exposed to the pressures of this environment.

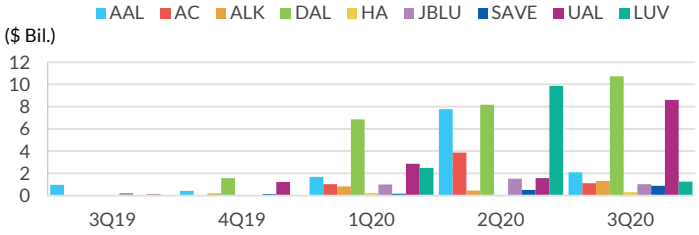
Canadian airports, operating under long-term leases with the federal government, are more structurally sensitive to activity volumes and lack the protection of cost recovery agreements, which are common for U.S. airports.

Air Canada's (BB–/Negative) heavy exposure to transborder and international travel combined with strict travel requirements from the Canadian government caused the carrier to cut 1Q21 capacity by about 85% from 2019 levels, significantly more than U.S. counterparts.

Fitch sees airports in both countries turning to cost containment measures or effectuating debt payment restructurings from refinancings to stabilize cost profiles and maintain cash reserves.

U.S. airports are more active so far in using debt refundings, coupled with successive rounds of federal aid, to achieve cost savings, which can be passed onto signatory carriers. Canadian airports are struggling to find similar solutions.

Quarterly Net Debt Issuance



AAL – American Airlines Group Inc. AC – Air Canada. ALK – Alaska Air Group Inc. DAL – Delta Air Lines, Inc. HA – Hawaiian Airlines. JBLU – JetBlue Airways Corporation. SAVE – Spirit Airlines, Inc. UAL – United Airlines Holdings Inc. LUV – Southwest Airlines Company.
Source: Fitch Ratings, company filings.

Canadian airlines were forced to lean more heavily on cost-cutting measures. Air Canada's full-time employee count was down 46% in 4Q20 compared with the around 20% range for large U.S. carriers.

Capital Raising and Federal Aid Supports Liquidity

Airline liquidity has continually proven more resilient than Fitch's initial expectations. Airlines were able to raise capital through numerous sources including creative debt financings, equity issuances and government support.

We expect the U.S. airlines to burn cash through much of 2021 if not into 2022 but liquidity balances and remaining funding sources should be sufficient to manage through until traffic rebounds.

One of the more important benefits afforded to both U.S. airports and airlines, but not Canadian counterparts, was the timely aid from the federal government during the pandemic.

These funds, while provided with the requirement to retain jobs over defined periods of time, were instrumental in ensuring liquidity and partially mitigating revenue losses.

The March 2020 Coronavirus Aid, Relief and Economic Security (CARES) Act provided around $10 billion to airports and $25 billion to airlines. The December 2020 Coronavirus Response and Relief Supplemental Appropriation Act (CCRSA) allocated nearly $2 billion to airports and $15 billion for airline payrolls.

Both large hub and smaller regional airports received significant financial support from airport relief stimulus from the federal government. The Massachusetts Port Authority, the agency governing Boston-Logan International Airport, was awarded $143.6 million under CARES and a separate $36.9 million under CRRSA.

Airlines Liquidity

Airline	4Q20 Liquidity ($ Mil.)	Average 4Q20 Daily Cash Burn ($ Mil.)	Monthly Cash Burn/2019 Revenues (%)	Months of Available Cash at 4Q20 Burn Rates
HA[a]	2,232	1.9	2.0	39
AAL	17,410	30.0	2.0	19
DAL[a]	19,596	22.0	1.4	30
JBLU	4,855	6.7	2.5	24
SAVE	2,081	1.8	1.4	39
AC	7,501	13.0	2.0	19
UAL	22,283	33.0	2.3	23
LUV	16,034	15.0	2.0	36
ALK	5,153	4.0	1.4	43

[a]Liquidity figures are pro forma for funds to be received under the Payroll Support Program extension. Hawaiian Airlines' liquidity figure is pro forma for 1Q20 debt issuance. Delta Air Lines, Inc.'s cash burn figure represents Fitch's estimate.
HA – Hawaiian Airlines. AAL – American Airlines Group Inc. DAL – Delta Air Lines, Inc. JBLU – JetBlue Airways Corporation. SAVE – Spirit Airlines, Inc. AC – Air Canada. UAL – United Airlines Holdings Inc. LUV – Southwest Airlines Company. ALK – Alaska Air Group Inc.
Source: Fitch Ratings, company filings.

Together, the combined funds represent more than one-third of the estimated operating revenue from the authority's airport division. Similarly, the smaller reliever airport in Ontario, California was allocated a combined $31 million from CARES and CRRSA, equating to about half of their 2021 total operating budget.

As the aviation industry struggles to recover, U.S. airports and airlines look set to receive support from a third round of federal stimulus. The $1.9 trillion aid bill passed by the U.S. Senate includes $8 billion for airports and $14 billion for airlines that extends payroll support through the end of September.

Lack of Government Support Slows Canadian Airport Recovery

The Canadian government's approach to supporting airports was markedly different than the U.S. Rather than allocating direct aid to mitigate passenger and revenue losses, Canada targeted rent relief, calculated as a percentage of revenue, or capital assistance programs that are nominally beneficial to the larger airports across the country.

The November 2020 announcement of Canada's Fall Economic Statement, which outlined an aid package of rent deferrals and waivers for many of Canada's airports, did not appear to address multi-year challenges that lie ahead.

A formidable fiscal challenge for Canadian airports is the increase in debt across the sector over the past decade, the proceeds of which were used to accommodate growth and redevelopment needs.

Airports with higher leverage and associated fixed costs, as borrowings are fully-amortizing debt instruments, are more vulnerable to reduced passenger volumes, as revenue models rely heavily on passenger fees.

Raising fees and charges to airlines, passengers and commercial tenants alone will not be sufficient to address the budgetary imbalance that started in 2020 and is extending into 2021 and beyond. These conditions will raise credit risk profiles if left unresolved.

Ratings Pressure Remains

A combination of higher debt and prolonged weakness in operating profits will drive weak credit metrics for the airline sector for at least the next 18–24 months, despite expected federal aid. Domestic- and leisure-focused carriers are likely to fare better than large network carriers.

Renewed coronavirus outbreaks over the winter months will likely mean airlines will continue to burn cash at higher rates than previously forecast. Fitch does not anticipate near-term liquidity crises among North American carriers. Higher cash burn may limit capacity to repay debt incurred during the crisis and further pressure credit metrics through our forecast period.

Airline ratings remain on Negative Outlook and negative rating actions are more likely as the recovery timeline shifts. This makes it more difficult for airlines to restore metrics to levels supportive of current ratings.

Nearly all U.S. airports maintained pre-pandemic ratings but hold Negative Rating Outlooks or are on Rating Watch Negative as a result of the unprecedented effects of the coronavirus on traffic and revenues.

Most airports still have strong fee-setting flexibility and liquidity; however, headwinds to rebuilding operating revenues remain, particularly from non-aeronautical sources such as concessions, parking and rental cars.

Fitch Wire offers rapid Fitch opinion on the most important events affecting the global credit markets.

Subscribe to our daily email alert, or visit the Fitch Wire homepage.

Fitch Wire Analysts

Justin Patrie, CFA
Head of Fitch Wire
+1 646 582-4964
justin.patrie@fitchratings.com

Mark Brown
Sovereigns, Structured Finance
+44 20 3530-1588
mark.brown@fitchratings.com

Duncan Innes-Ker
Asia-Pacific
+852 2263-9993
duncan.innes-ker@fitchratings.com

Laura Kaster, CFA
Financial Institutions
+1 646 582-4497
laura.kaster@fitchratings.com

Tatiana Kordyukova
Corporates, Infrastructure & Project Finance
+44 20 3530-1954
tatiana.kordyukova@fitchratings.com

Carla Norfleet Taylor, CFA
Corporates
+1 312 368-3195
carla.taylor@fitchratings.com

David Prowse
Financial Institutions
+44 20 3530-1250
david.prowse@fitchratings.com

Sarah Repucci
Infrastructure & Project Finance, Public Finance, Structured Finance
+1 212 908-0726
sarah.repucci@fitchratings.com

Fitch Wire Editors

London
Sarah Abu-Sharkh,
James Keighley, Natalie Morton, ,
Samantha Pankovas, Brian Reid,
Mike Rothschild, Neil Sen

New York
Jennifer Hickey, Louis Standish,
John Forde

Chicago
Brad Lewis, Philip Milano,
Catherine Eves

Asia Pacific
Marissa Chew, Koh Keat Kian,
John Laubscher, Daniel Morrissey,
Joanna Pelc