Aviation Policy News

By Robert W. Poole, Jr.
December 2020

Estimating Air Travel's Recovery Timeline

With COVID-19 vaccinations starting to be distributed, many estimates are floating around about how fast air travel might resume over the next four years. Airlines, airports and air navigation service providers (ANSPs) all have a lot at stake on this question, but many estimates seem more like guesswork than analysis. For this article, I have turned to two reports based on at least some kind of analysis.

Bond-rating agencies have been busy revamping their models of airport finance, on which they base their estimates of those entities' financial soundness. Fitch Ratings released its new assessment on Nov. 30, "Fitch Updates Its U.S. Transportation Sector Coronavirus Assumptions," reviewing traffic trends at airports and toll roads. The latter has recovered much faster than airports and Fitch's baseline case expects toll roads to average 100 percent of their 2019 traffic by the end of 2021.

For both modes, Fitch developed a 'Coronavirus Severe Downside Case' to compare with its 'Coronavirus Rating Case.' The former assumes no effective vaccine in use next year, while the latter was more optimistic—but the report was completed and released prior to any of the recent vaccine test announcements, so I am ignoring their severe downside numbers. Fitch's base case predicts airport traffic reaching 65 percent of 2019 levels for the calendar year (CY) 2021, 80 percent for CY 2022, 90 percent for CY 2023, and 100 percent for 2024. I think those are plausible numbers given that it appears we will have at least three vaccines in distribution during 2021 and possibly several more.

But that is likely a better result for airports than it is for airlines. That's because the most lucrative category of passenger travel—business travel—could be permanently reduced post-pandemic by between 19 and 36 percent. That projection was made by a four-person expert group convened by IdeaWorks and sponsored by Cartrawler. The experts were Ben Baldanza, the former CEO of Spirit Airlines, Charlie Leocha, president of the consumer group Travelers United, Scott McCartney, the “Middle Seat” columnist at *The Wall Street Journal*), and Jay Sorensen president of IdeaWorks.

Their methodology was to divide business travel into seven components, with data on the percentage in each category, and then to brainstorm (using whatever data they could find) on what fraction of that travel would no longer fly post-COVID-19 pandemic, making both high and low estimates for each.

For example, internal company trips (20 percent of business travel) were estimated to be reduced by 40 percent to 60 percent (thanks to Zoom and other technologies). By contrast, travel to conventions and trade shows (20 percent of the total) was estimated to be down by between 10 and 20 percent. And due to the personal involvement inherent in most sales call trips (25 percent of business travel), the estimated losses were between zero and 20 percent. Simple math led them to a low estimate that 19 percent of business travel could disappear and a high estimate that 36 percent of business travel could disappear.

If those numbers are anywhere near correct, legacy carriers are in for serious ongoing revenue losses, compared to pre-pandemic times. Business travel, especially international business travel, is the cash cow for legacy carriers. By contrast, low-cost carriers and ultra-low-cost carriers have much better prospects for recovering and perhaps exceeding their 2019 passenger volumes if or when vaccines are widely distributed and used since traveling for vacations and visiting friends and relatives is unlikely to be replaced by Zoom meetings.

Airports need to prepare themselves for reduced traffic from legacy carriers and increased service from low-cost carriers and ultra-low-cost carriers. This may accelerate the ongoing trend away from exclusive-use gates and toward common-use facilities at airports.