

The Aviation Industry's 2020 Full-year Forecast and 2021 Outlook– As Detailed in the IATA Annual Meeting Report–

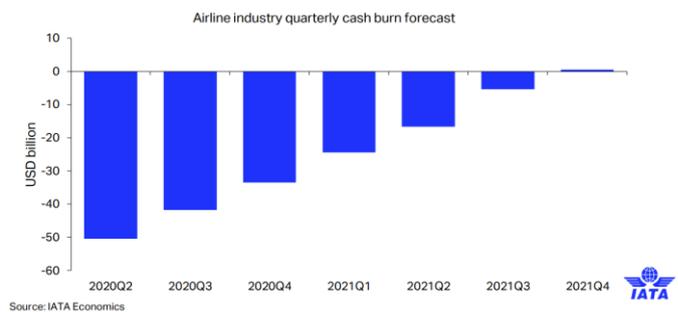
Daisuke Takagi, Japan International Transport and Tourism Institute, USA

1. Introduction

The novel coronavirus (COVID-19), which caused such tumult in 2020, at one point seemed to lose its momentum as cases lowered, but instead became a global "third wave" that strained health care systems and stagnated economic recovery. During a time when the aviation industry was troubled with this particularly difficult struggle, the International Air Transport Association (IATA) held its 76th Annual Meeting from November 23rd to 25th, discussing, among other things, 2020's predicted full-year outcome and an outlook of 2021. In its outlook, IATA expects that the aviation industry's performance will improve but still suffer significant losses in 2021. This paper summarizes the latest trends in the aviation industry as described in IATA's announcement.

According to IATA's predictions, the second half of 2021 will gain improvements. Aggressive cost reductions, coupled with increased demand due to borders reopening as test and vaccine distributions become widespread, are expected to boost industry cash burn in the fourth quarter of 2021, earlier than previously predicted (see Figure 1). Meanwhile, IATA Executive Director and CEO Alexandre de Juniac exclaimed, "This crisis is devastating and unrelenting. Airlines have cut costs by 45.8%, but revenues are down 60.9%. The result is that airlines will lose \$66 for every passenger carried this year for a total net loss of \$118.5 billion. This loss will be reduced sharply by \$80 billion in 2021. But the prospect of losing \$38.7 billion next year is nothing to celebrate. We need to get borders safely re-opened without quarantine so that people will fly again. And with airlines expected to bleed cash at least until the fourth quarter of 2021 there is no time to lose."

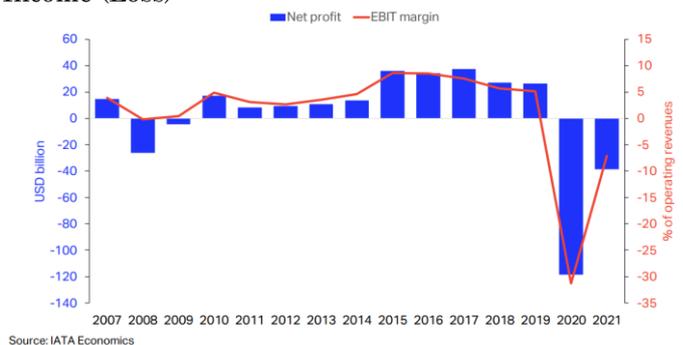
Figure 1 The Aviation Industry Quarterly Cash Burn Forecast



2. The 2020 Full-year Forecast

In 2020, the COVID-19 crisis threatened the survival of the aviation industry. IATA estimates that the aviation industry's net loss in 2020 was \$118.5 billion (see Figure 2), which is a worse outcome than the \$84.3 billion loss forecasted in June. Confronted with a \$500 billion decline in revenue (down from \$838 billion in 2019 to \$328 billion), airlines cut costs by \$365 billion (from \$795 billion in 2019 to \$430 billion in 2020). Scrutinizing this situation, de Juniac asserted that "The history books will record 2020 as the industry's worst financial year, bar none. Airlines cut expenses by an average of a billion dollars a day over 2020 and will still rack-up unprecedented losses. Were it not for the \$173 billion in financial support by governments we would have seen bankruptcies on a massive scale."

Figure 2 Changes in the Aviation Industry's Total Net Income (Loss)



The following are major indicators of businesses catering to tourists that signal a negative downturn.

- Passenger numbers are expected to fall to 1.8 billion (down 60.5% from 4.5 billion in 2019). This is about the same number of people that the industry transported in 2003.

- Revenue made from passengers is expected to decline to \$191 billion, less than one-third of the \$612 billion earned in 2019. This is primarily due to a 66% decrease in passenger demand. The market for international air routes endured a great blow of a 75% drop in demand. Domestic air route markets, chiefly driven by recovery in China and Russia, have an improved performance, and is expected to recover at 49% below 2019 figures by the end of 2020.

- Passenger yield is anticipated to decrease by 8% compared to 2019, with the 82.5% load factor measured in 2019 predicted to also decrease to 65.5%, an equivalent of 1993 levels.

Performance measurements for freight businesses indicate that they are functioning better than those carrying passengers, though they are still seeing a decline from 2019.

- Freight deliveries are expected to reach 54.2 million tons in 2020, but are lower than the 61.3 million tons carried in 2019.

- Freight revenue will increase from \$102.4 billion in 2019 to \$117.7 billion in 2020, in contrast to the downward trend in transportation volume. Although passenger demand saw a steep decline (-24%), stripping away precious belly cargo capacity, overall capacity dropped by 45% while also increasing yields by 30% in 2020.

In response to this situation, de Juniac stated that “Cargo is performing better than the passenger business. It could not, however, make up for the fall in passenger revenue. But it has become a significantly larger part of airline revenues and cargo revenues are making it possible for airlines to sustain their skeleton international networks.”

In 2019 cargo accounted for 12% of revenues and that is expected to grow to 36% in 2020.”

3. The 2021 Outlook

For 2021, IATA expects that the aviation industry will have a \$38.7 billion net loss (a grimmer forecast than the \$15.8 billion predicted in June) (see Figure 2). While there is no question that this will be a historically significant loss, IATA conjectures that airline financial performances will improve exponentially in 2021. Furthermore, they assume that if some borders open with the widespread distribution of testing and vaccines by mid-2021, overall revenue will likely increase to \$459 billion. This would be an improvement from the \$131 billion gained in 2020, although still 45% below the \$838 billion earned in 2019. Because cost increases are expected to be limited

to \$61 billion, the overall financial performance is expected to improve. However, airlines will lose \$13.78 for every passenger they transport. While IATA expects that the situation will be improved by the end of 2021, the first half of the year will still surely be challenging.

In 2021, passenger numbers will likely rise to 2.8 billion. This is one billion more passengers than those carried in 2020, albeit still a 1.7 billion difference from those transported in 2019. Passenger yields are stagnant, and the load factor is expected to improve to 72.7%, an improvement from the 65.5% in 2020, but much lower than the 82.5% met in 2019.

On the freight side of transport, conditions are expected to remain favorable. Cargo volume is predicted to increase to 61.2 million tons due to increased business reliability and the important role that air freight will play in the distribution of vaccines. That's up from the 54.2 million tons transported in 2020 and roughly comparable to the 61.3 million tons carried in 2019.

While considering that the volume of belly cargo from passengers will not soon return, an increase in the cargo yield, including such items as time and temperature-sensitive vaccines, will increase by a further 5%. IATA forecasts that this will contribute to a strong freight revenue outcome, growing to a record \$139.8 billion.

4. Recovery Challenges

As mentioned previously, while it is predicted that the aviation industry will have greater results in 2021 compared to 2020, IATA expects that the road to recovery will be long and arduous, and despite the domestic market recovering faster than for international flights, passenger numbers will not return to 2019 levels until at least 2024 at the earliest. IATA believes that the important issues below require urgent attention and have expressed the following views.

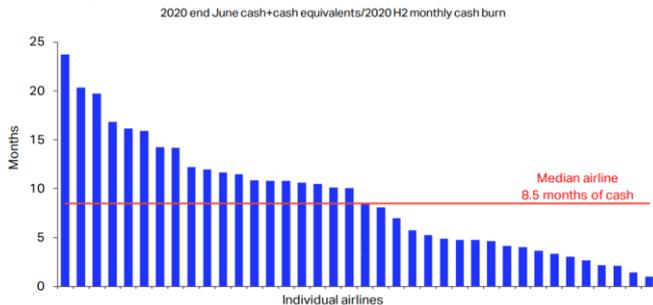
Debt Levels and Economic Support: Airlines are surviving on financial life support from the government. In 2020, even after receiving \$173 billion from various government support sources, airlines still only have enough income to survive a median of 8.5 months (see Figure 3). As the aviation industry arrives at a critical winter period, many companies are threatened with an even shorter lifespan. Even during normal times, this period would have had low demand. Although industry cash consumption has declined since the peak of the crisis, before a net positive is seen in 2021's last quarter, the aviation industry is expected to spend \$6.8 billion a month within the first half of the year.

“The financial damage of this crisis is severe. Government support has kept airlines alive to this point. More is likely needed as the crisis is lasting longer than anyone could have anticipated. And it must come in forms that do not increase the already

high debt load which has ballooned to \$651 billion. Bridging airlines to the recovery is one of the most important investments that governments can make. It will save jobs and kick-start the recovery in the travel and tourism sector which accounts for 10% of global GDP," de Juniac said.

repository/publications/economic-reports/airline-industry-economic-performance-november-2020---presentation/

Figure 3 Airline Cash Holdings (Cash Held as of the End of June 2020, Excluding Monthly Cash Consumption)



Source: IATA Economics using data from the Airline Analyst

Border Closures/Voluntary Quarantine: Travel restrictions and voluntary quarantines are the greatest factors preventing full travel recovery. Systematic COVID-19 testing is the most critical and essential solution to safely reopen borders. While in the long-term, widespread administration of COVID-19 vaccinations may allow for opened borders without the need for testing or restrictions, the timeline for when vaccines become available is uncertain.

de Juniac explained, "We have the ability to safely re-open travel with systematic testing. We cannot wait on the promise of a vaccine. We are preparing for efficient vaccine distribution. But testing is the immediate solution to meaningfully re-open air travel. With 46 million jobs at risk in the travel and tourism sector alone because of plummeting air travel, we must act fast with solutions that are at hand. We have fast, accurate and scalable testing that can safely do the job. The airlines are ready. The livelihoods of millions are in the hands of governments and public health authorities. Governments understood the criticality of a viable air transport sector when they invested billions to keep it afloat. Now they need to protect those investments by giving airlines the means to safely do business."

5. Conclusion

As mentioned above, IATA forecasts that the aviation industry will recover in 2021. However, without optimism, they predict a net loss throughout the year. A severe winter is approaching that will test the aviation industry's survival, and in order to maintain this prospect and further improve it, additional support from the government and distribution of vaccines are needed as soon as possible, as IATA Director General de Juniac has called for.

References

- 1) <https://www.iata.org/en/pressroom/pr/2020-11-24-01/>
- 2) <https://www.iata.org/en/iata->