

Focus Economics - Mobility

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Aviation: The long road to recovery

Clear & concise

- Global aviation still suffering massively from the Corona pandemic
- Recovery of the industry will gain momentum in the second half of 2021 and take full effect in the coming year; this is due to high pent-up demand and increasing availability of vaccines.
- Consolidation process in Europe gains momentum

Some light on the horizon

► Current market developments

The aviation industry has been particularly hard hit by the Corona pandemic. Widespread travel restrictions and the switch to home office caused air traffic to plummet dramatically from the spring of 2020. In 2020, so-called revenue passenger kilometres (RPKs), a measure of air traffic, fell by no less than 66%. With a drop of 76%, the decline in international air traffic was significantly greater than in the domestic market (-49%). At the same time, market developments varied greatly from region to region, and in some countries, such as China or Russia, domestic air traffic was already able to almost make up for its losses in the course of the year, while in Europe travel demand in the intra-European area is still down by 81%. Worldwide, airlines had to absorb losses totaling US\$ 118bn.

This year, against the backdrop of the weak previous year, we expect global air traffic to recover. The current trend suggests that demand for domestic flights will rise faster than the international counterpart. This means that countries with a large domestic air travel market – such as China, Australia or the USA – will benefit from a faster recovery.

► Air freight: High profitability thanks to low capacities

Positive impulses for the airlines are still expected from cargo traffic, which already had a stabilising effect last year. The background to this is the growing online trade and the high demand for medical supplies worldwide.

How quickly global air traffic recovers will be influenced mainly by current travel restrictions due to the more infectious Corona mutations and by progress in vaccination. Given the restrictions and spread of the new mutations, the International Air Transport Association (IATA) has recently lowered its forecast for passenger traffic in 2021 and now expects numbers to be between 33 and 38% of pre-crisis 2019 levels. High airline losses of between US\$ 75bn and US\$ 95bn are also assumed in 2021. A positive cash inflow for the airlines is not expected until 2022.

► Different development in Europe

A recovery of intra-European air travel is assumed in some countries from the summer onwards. Thanks to the high rate of vaccination, air travel in the UK seems to be possible during the summer holidays. Obviously, there is a lot of pent-up demand, as the opening announcements have led to a very strong increase in British holiday bookings. In other European countries - such as Germany, France and the Netherlands - vaccination is proceeding rather slowly, which is why noticeable pent-up demand from private travelers is not

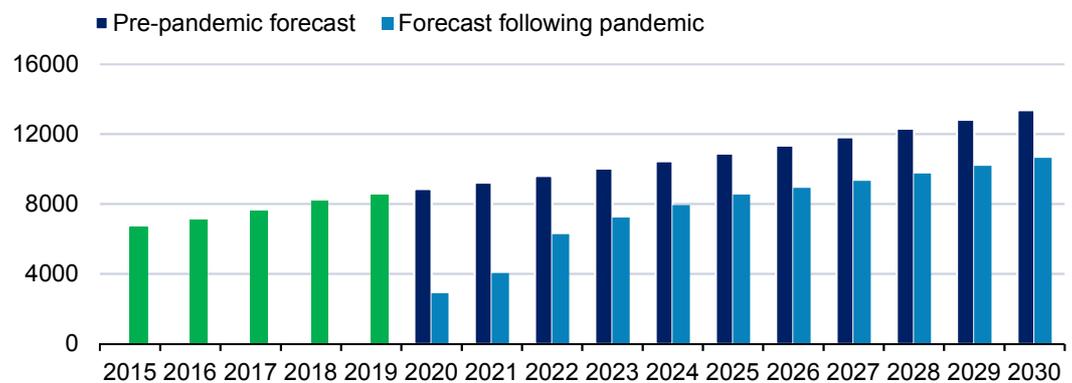
expected there until autumn. In the course of increasing vaccination rates and the introduction of vaccination cards, such as the EU Vaccine Passport, international air travel should then also slowly regain its footing.

The long road to pre-crisis levels

- Reaching the pre-crisis level from 2025 onwards

Most market observers estimate that pre-crisis passenger traffic levels will be reached between 2023 and 2025. We see this point in time as being closer to 2025 as a result of the numerous measures to combat the pandemic and its consequences - at a level that will then fall short of pre-pandemic expectations in the long term. In addition, the pace of recovery will vary from region to region, with the Asia-Pacific region leading the way.

Passenger traffic (RPK), annual change in percent



Source: BayernLB Research

- Upswing gains momentum from H2 2021 onwards

Behind our expectations is the assumption that the recovery in air travel will pick up significantly in the second half of 2021 as vaccinations progress around the world. In Europe, air travel will increase significantly, especially from autumn onwards, when vaccinations in large countries such as Germany or France also encompass the younger segments of the population. Ultimately, we expect passenger traffic to increase by about 40% globally in 2021.

The combination of very high pent-up demand, increasing availability of vaccines and the extensive dismantling of travel restrictions will then take full effect in 2022 and ensure a significant recovery in global passenger traffic (+55%). After that, the upswing will slowly peter out and annual growth will settle at around 4%.

Long-term structural change expected in the aviation industry

- Business travel below pre-crisis level in the long term

The pandemic and its effects will lead to structural changes in the airline industry. Business travel will be particularly affected, which will not return to its previous level due to the possibilities of using telephone and video conferencing, among other things. Network airlines, which have a high proportion of business travelers who also tend to book more expensive tickets, are particularly affected by this trend. In contrast, a rapid recovery is expected in the segment of private and holiday travel, with a rapid increase in domestic air traffic.

- Adaptation of aircraft fleets

The airlines are reacting to these developments by adjusting their aircraft fleets. On the one hand, they are reducing the number of aircraft and tend to focus on smaller planes.

The background is that these are easier to fill and can be used well for the increased demand for point-to-point connections. Moreover, this type of aircraft can be used more flexibly to respond to the challenges posed by the pandemic in the coming years. Although proven aircraft are likely to be used again in many cases once air traffic returns to normal, the end of the super jumbos (Boeing 747 and Airbus A380) was already sealed in long-haul traffic in particular before the Corona pandemic.

► Consolidation processes in Europe

In addition, the consequences of the pandemic should give impetus to the consolidation process among airlines as soon as the crisis is overcome. In particular, the national network carriers of the large European countries, strengthened by the support measures of their financially strong home countries, are likely to actively promote consolidation. But the financially stable low-cost carriers Ryanair, Wizz Air and Easyjet will also participate. We therefore expect the consolidation of European aviation to take place around the leading network airlines Lufthansa, Air France/KLM and IAG (British Airways, Iberia, Vueling, Air Lingus) as well as the three low-cost airlines mentioned above. Small and medium-sized airlines, on the other hand, are more likely to be takeover targets (e.g. takeover of Air Europa by IAG).

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