



**Airlines for America<sup>®</sup>**

**We Connect the World**

## **Emerging From the Pandemic**

Updated August 3, 2022

*“To suggest that the airlines should have better prepared for this environment seems akin to suggesting Pompeii should have invested more heavily in firefighting technology.” (JPMorgan, Mar. 22, 2020)*

# Key Points

---

- » New ticket sales are rising but demand for corporate and long-haul international air travel continues to trail pre-pandemic levels.
- » Air cargo demand, which surged in 2020, reached an all-time high in 2021 and is poised to do so again in 2022.
- » As with numerous other industries, U.S. airlines are facing inflationary pressures across several cost categories (e.g., labor, fuel, maintenance, rents, landing fees).
- » U.S. airlines are expected to post modest profits in 2022, which would be put to work to retire the massive debt accumulated in the first two years of the pandemic.
- » Debt—and interest expense—will remain elevated through at least 2024.

# A Multiyear, Multistage Recovery Is Underway

---

**Contain  
the Virus**



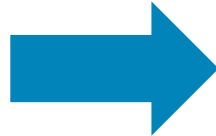
**Stabilize the  
Economy**



**Increase  
Efficiency**

**Aviation-Government Collaboration on Health/Facilitation/Safety/Technology**

**Traffic  
Recovery**



**Revenue  
Recovery**



**Financial  
Recovery**

**Cost-Reduction Initiatives + Business Model Adaptation + Debt Reduction**

**Reduce  
Cash Burn**



**Restore Profitability  
& Rebuild Margins**

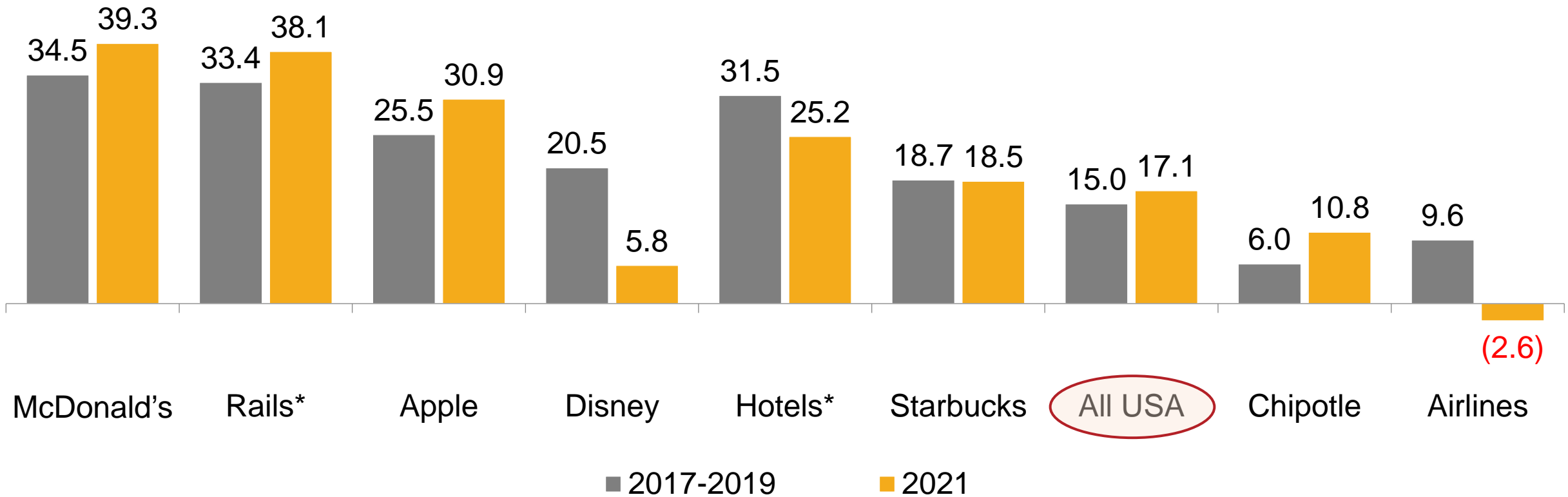


**Repair Balance  
Sheets**

# For Many Non-Travel U.S. Industries, 2021 Profitability Exceeded Pre-Pandemic Profitability

Pre-Tax Profit Margin (% of Operating Revenues)

## Pre-Pandemic Pre-Tax Profit Margin (%)



Sources: Bureau of Economic Analysis, A4A Passenger Airline Cost Index and company SEC filings

\* Hotels = Choice/Hilton/Hyatt/Marriott/Wyndham; Rails = CSX/Norfolk Southern/Union Pacific

# U.S. Passenger Airlines Incurred ~\$6.6 Billion in Pre-Tax Losses in 1Q 2022

Operating Revenues 13% *Below* 1Q 2019, Operating Expenses 6% *Above* 1Q 2019

Financial Results: 1Q 2022	\$ Billions	% vs. 2019	% of Category
Passenger (RPMs down 19%, yield down 0.6%)	30.7	(20)	84.2
Cargo	1.4	82	3.9
Other <sup>1</sup>	4.3	45	11.8
<b>Total operating revenues</b>	<b>36.5</b>	<b>(13)</b>	<b>100.0</b>
Salaries, wages and benefits*	13.1	5	31.6
Aircraft fuel and related taxes	9.6	12	21.2
Maintenance materials and repairs	2.1	0	5.2
Landing fees and airport rentals	2.7	18	6.5
Depreciation and amortization <sup>2</sup>	2.4	5	5.8
Other <sup>3</sup>	11.5	105	27.7
<b>Total operating expenses</b>	<b>41.6</b>	<b>6</b>	<b>100.0</b>
Interest and other non-op expenses, net	1.5	252	n/a
<b>Pre-tax income/(loss)</b>	<b>(6.6)</b>	<b>n/a</b>	<b>n/a</b>

1. Sale of frequent flyer award miles to airline business partners, transportation of pets, in-sourced aircraft and engine repair, flight simulator rentals, inflight sales, etc.

2. Related primarily to ownership of aircraft, ground support equipment, information technology, etc.

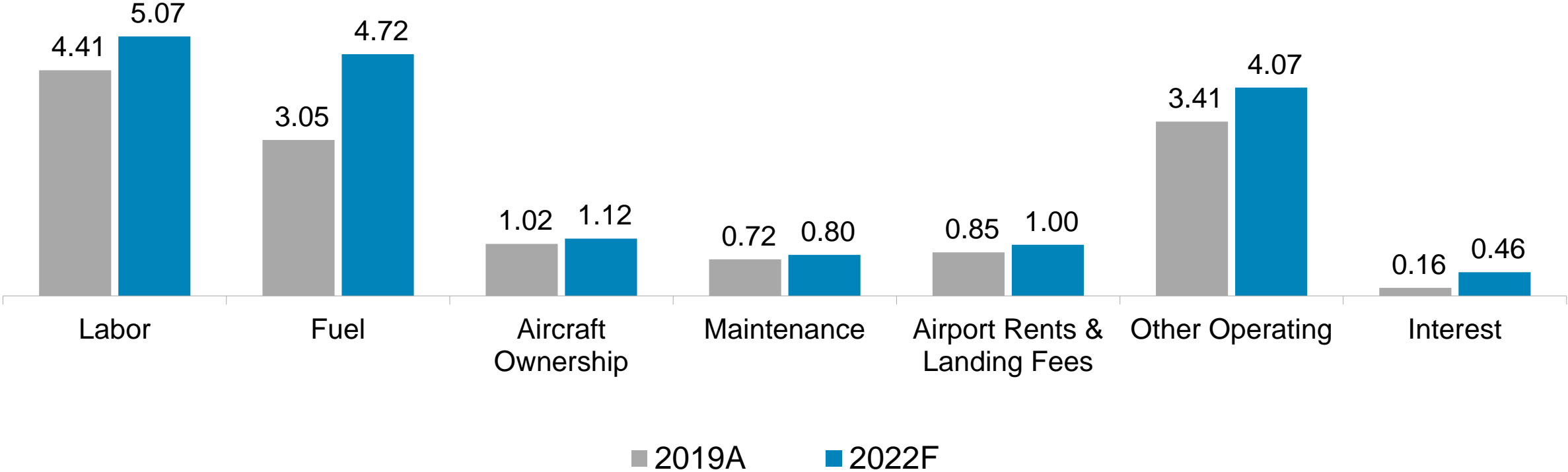
3. Aircraft rents, professional fees, food/beverage, insurance, commissions, GDS fees, communications, advertising, utilities, office supplies, crew hotels, payments to regional carriers, etc.

Source: Alaska, Allegiant, American, Delta, Frontier, Hawaiian, JetBlue, Southwest, Spirit and United

# In 2022, Airlines' Unit Operating Costs Are Expected to Average 25% More Than in 2019

Additionally, Interest Expense per Seat-Mile Is Projected to Rise 193%

### U.S. Passenger Airlines: Cost (in Cents) per Available Seat Mile

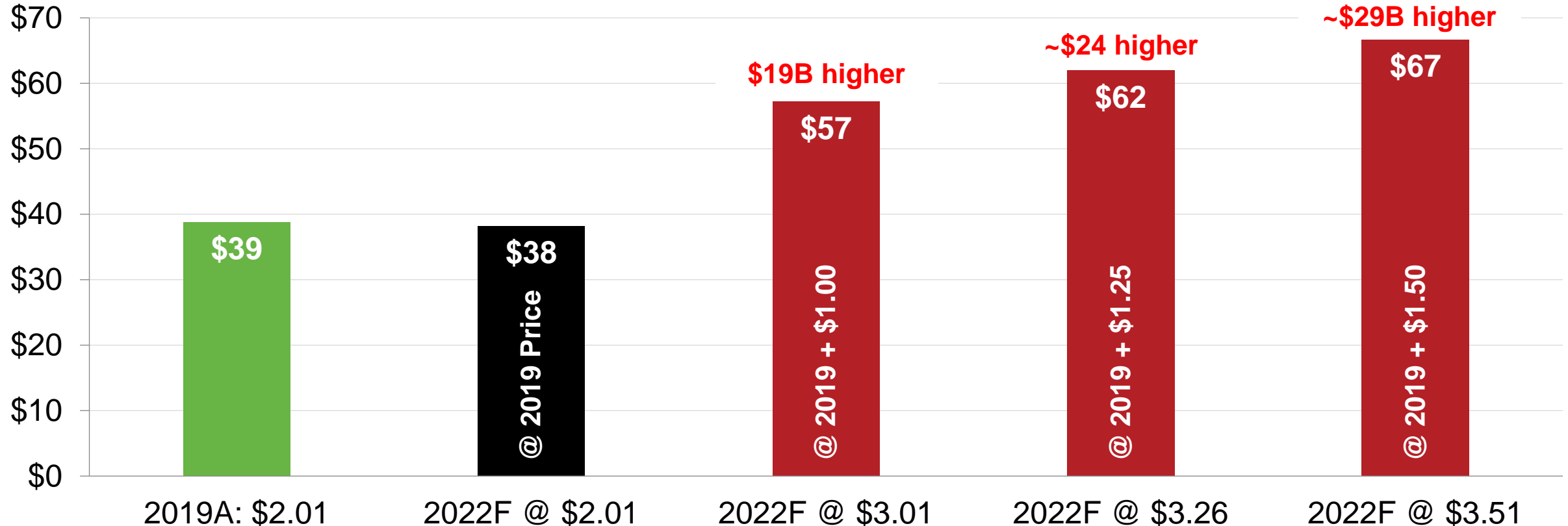


Source: A4A, Wolfe Research and filings of Alaska, Allegiant, American, Delta, Hawaiian, JetBlue, Southwest, Spirit and United

# All Else Equal, Higher Fuel Prices Will Boost U.S. Airlines' 2022 Fuel Expense by \$19-29B

Average Price per Gallon Likely to Exceed 2019 by \$1.00-1.50

## U.S. Passenger and Cargo Airlines' Jet Fuel Expense: 2022 Forecast vs. 2019 Actual



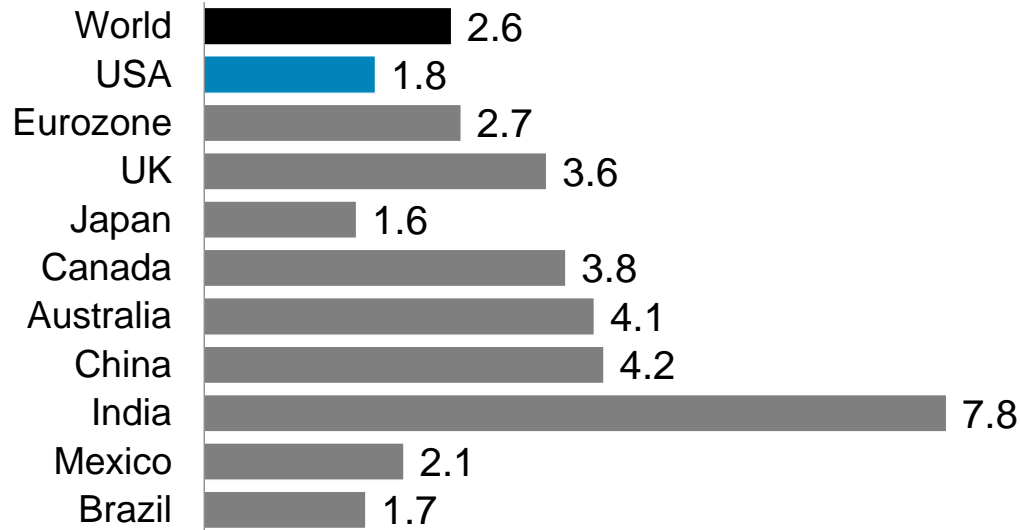
Source: A4A and Bureau of Transportation Statistics (all U.S. carriers, systemwide scheduled and nonscheduled services)

# Per Wells Fargo, the *Global* Economy Will Grow 2.6% in 2022

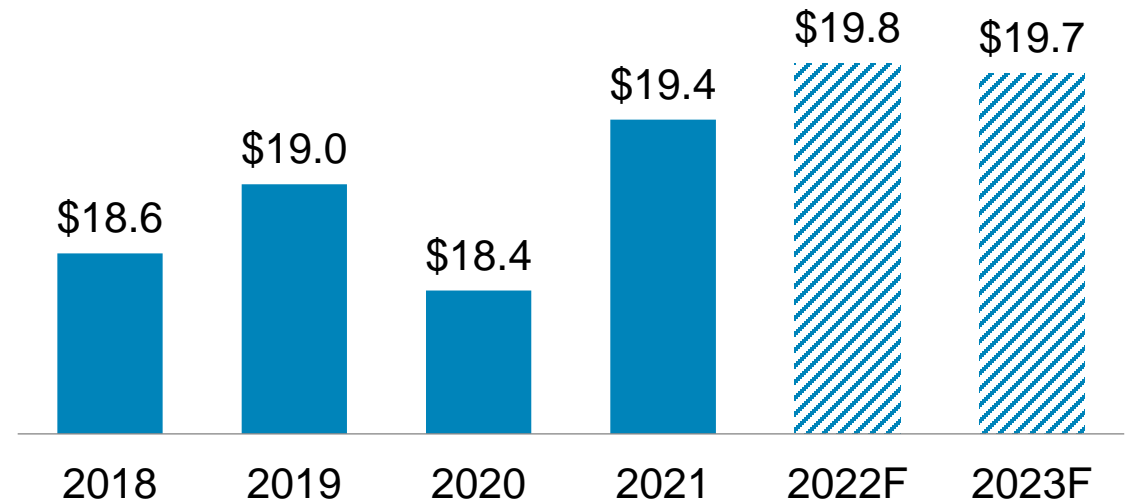
## The U.S. Economy Is Projected to Grow Just 1.8%

“After flying well above cruising altitude last year, the inevitable descent in economic growth is clearly underway... As discussed in the mid-June update to our forecast, we believe it is more likely than not that the U.S. economy will enter into a recession next year. Recent data suggest the slump is likely to occur somewhat earlier, and we now expect a mild downturn to begin in the first quarter of 2023.” (Wells Fargo, July 14, 2022)

### Projected 2022 Real GDP Growth (%)



### U.S. Real GDP (Trillions, \$2012)

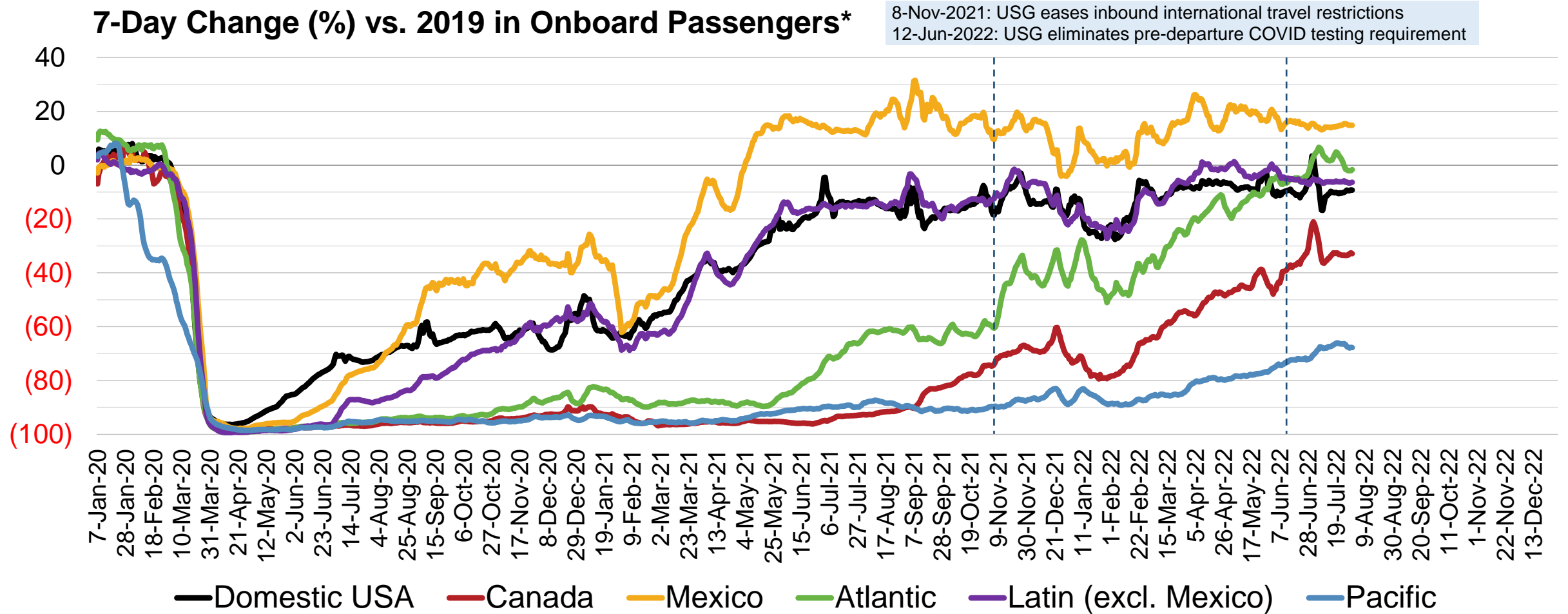


Source: Wells Fargo Securities (July 14, 2022) and U.S. Bureau of Economic Analysis



# July 25-31: A4A Member Airline Passenger Volumes Were 10% Below 2019 Levels

Domestic Air Travel Down 9%, International Air Travel Down 11%

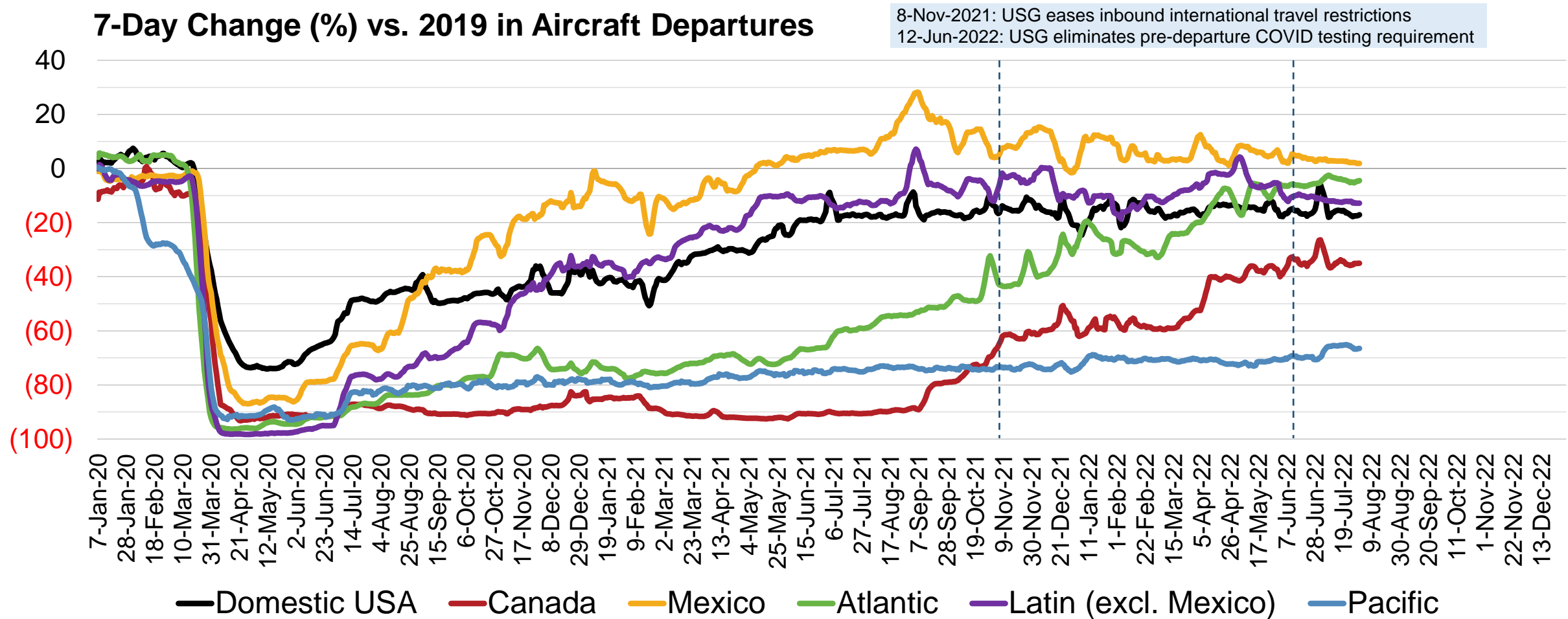


Source: A4A member passenger airlines (Alaska/American/Delta/Hawaiian/JetBlue/Southwest/United) and branded code share partners

\* Onboard ("segment") passengers

# July 25-31: A4A Member Airline Departures Were 17% Below 2019 Levels

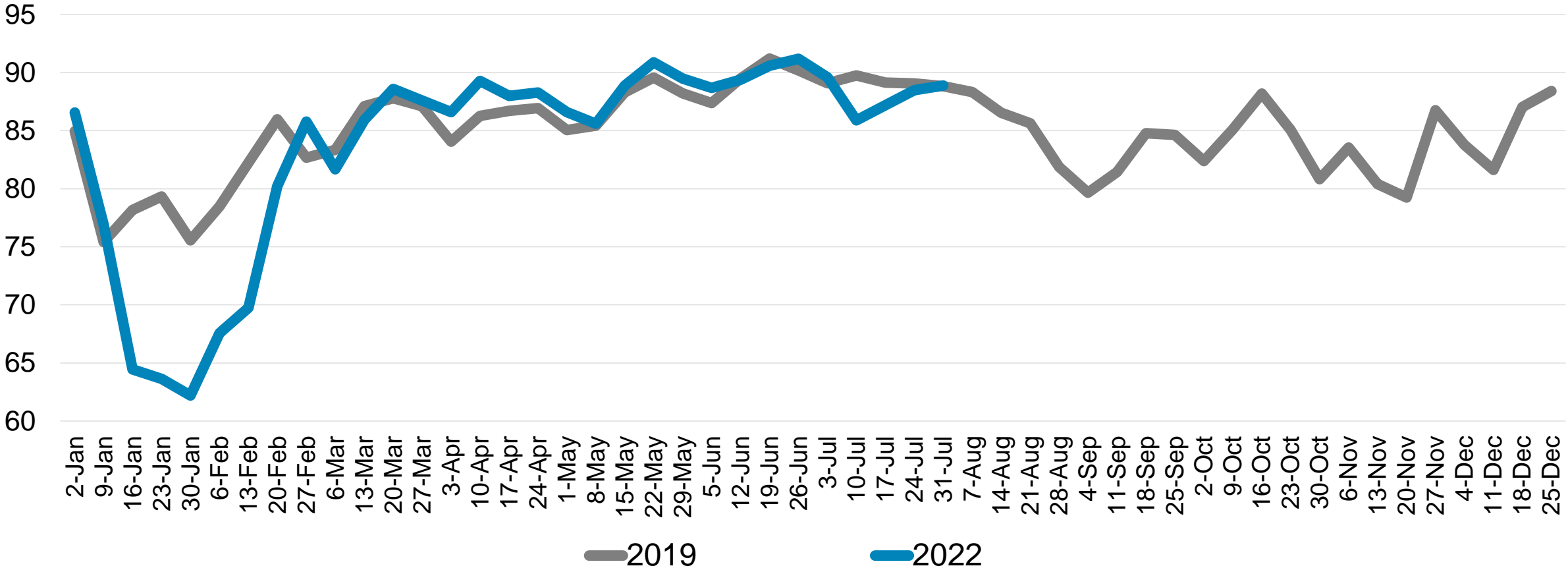
Domestic Flights Operated Down 17%, International Flights Operated Down 16%



Source: A4A member passenger airlines (Alaska/American/Delta/Hawaiian/JetBlue/Southwest/United) and branded code share partners

# A4A Member Domestic U.S. Load Factor Is Now in Line With Pre-Pandemic Levels

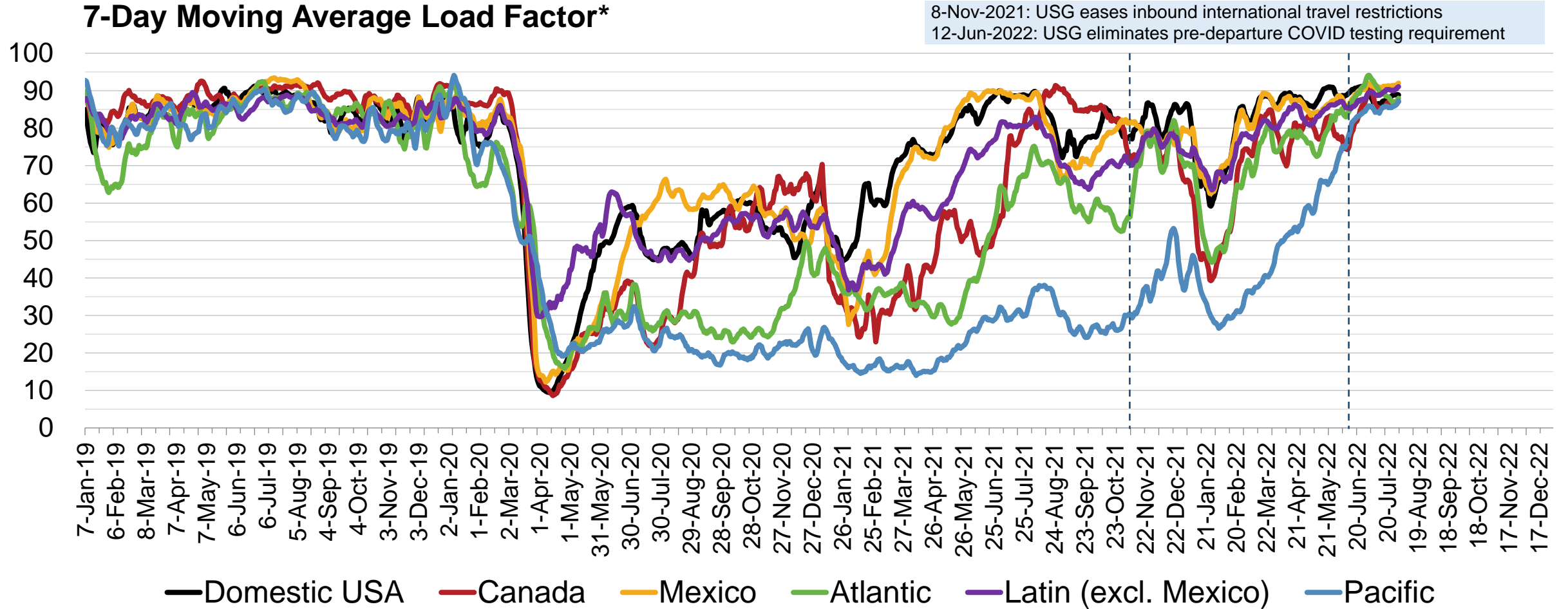
Weekly Average Domestic U.S. Load Factor\* (%)



Source: A4A member passenger airlines (Alaska/American/Delta/Hawaiian/JetBlue/Southwest/United) and branded code share partners

\* Revenue passenger miles divided by available seat miles

# Transpacific Flights Continue to See Sharp Uptick in Load Factors

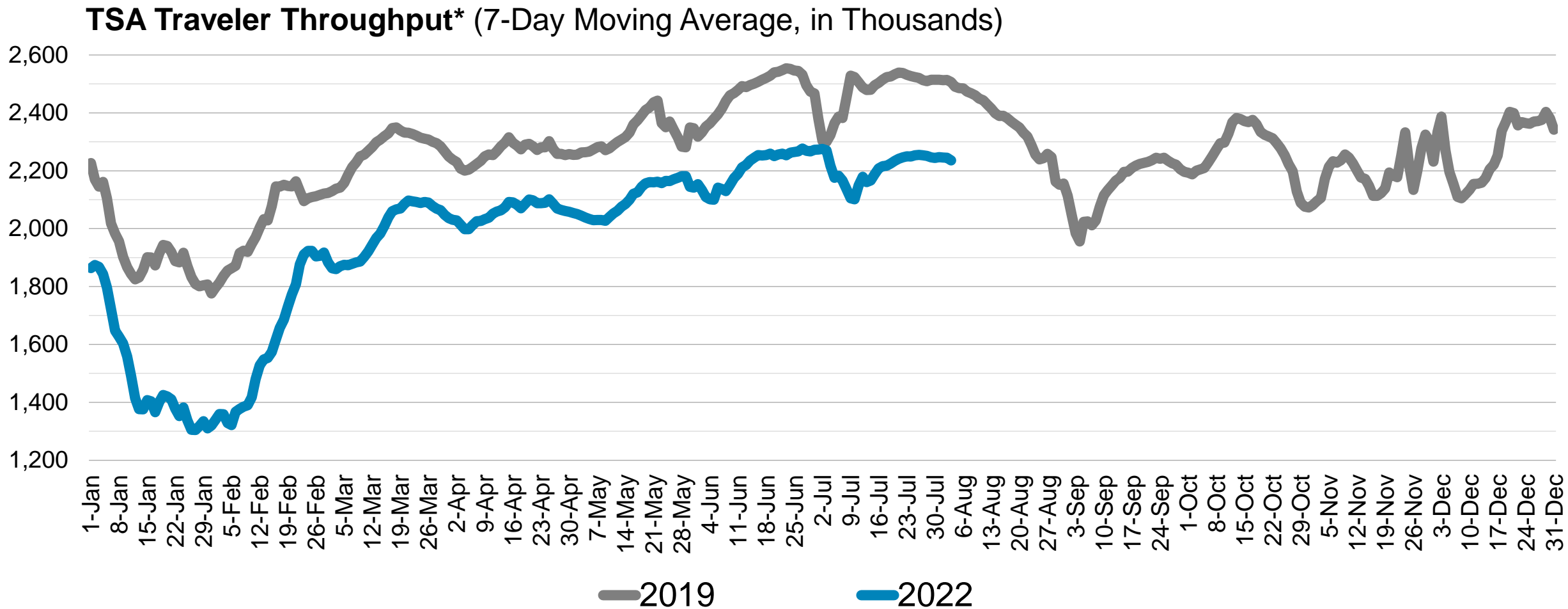


Source: A4A member passenger airlines (Alaska/American/Delta/Hawaiian/JetBlue/Southwest/United) and branded code share partners

\* Traffic (RPMs) divided by capacity (ASMs)

# In the Week Ending August 2, TSA Checkpoint Volumes Fell 11% Below 2019 Levels

In the First Half of 2022, Throughput Was Down 13% From 2019

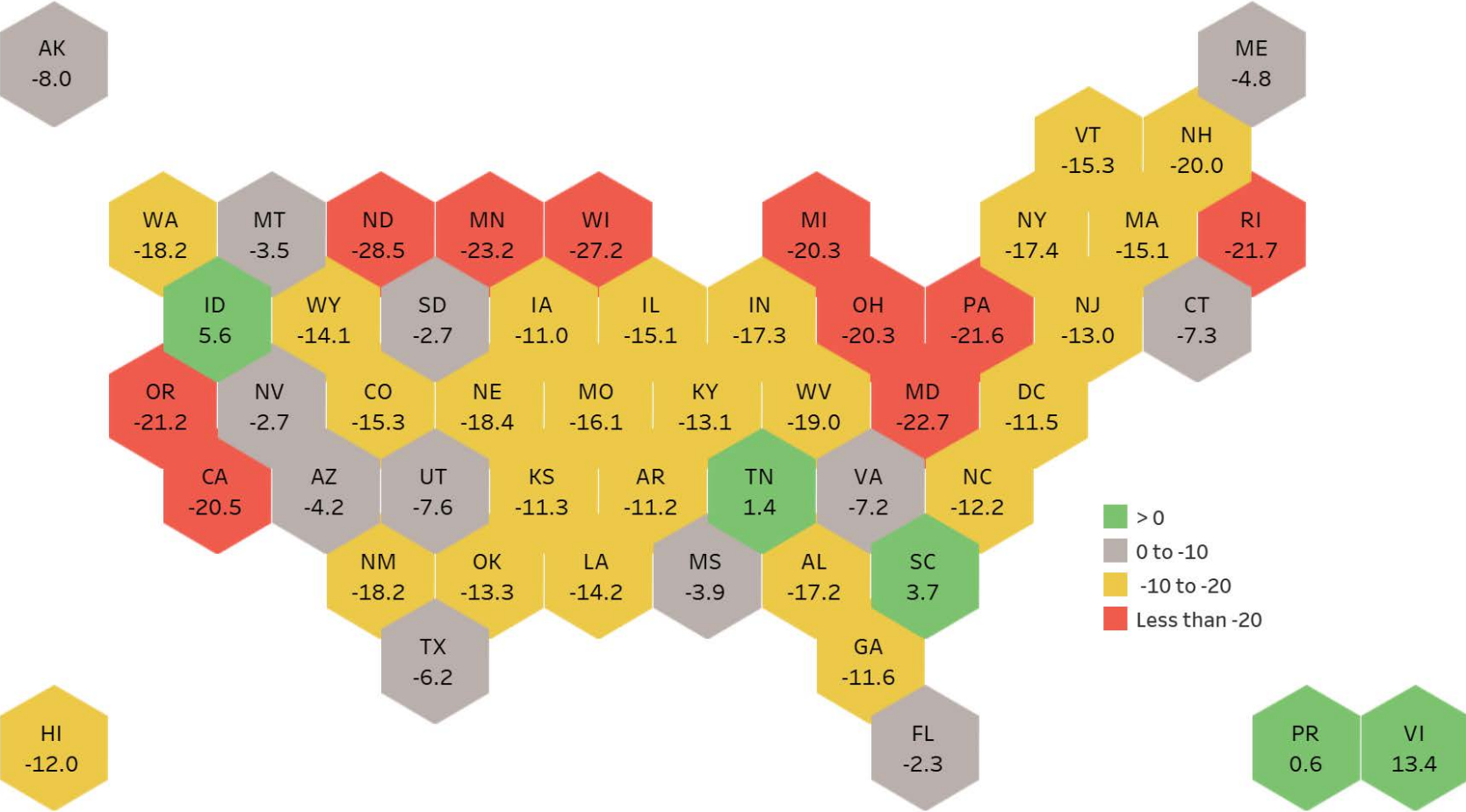


Source: Transportation Security Administration

\* U.S. and foreign carrier customers (excluding Known Crewmember® personnel) traversing TSA checkpoints

# In July, TSA Checkpoint Volumes Exceeded 2019 Levels in Five U.S. States and Territories

## Change (%) in TSA Traveler Throughput — July 2022 vs. July 2019

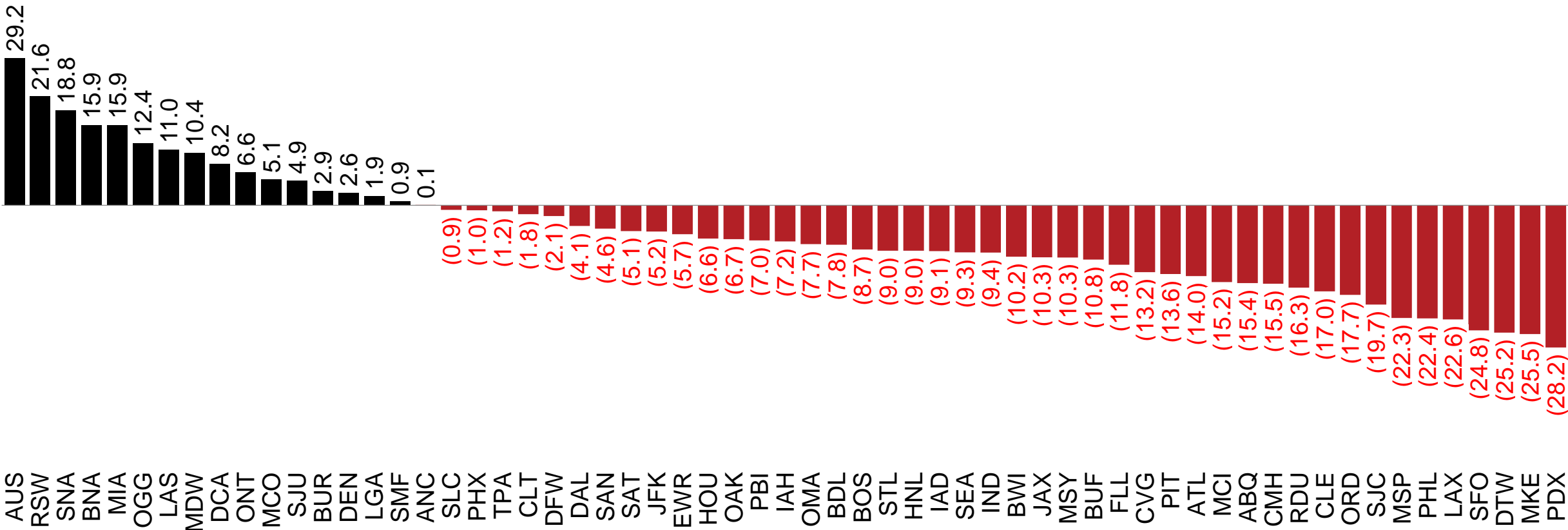


Source: Transportation Security Administration

# Eight Large/Medium U.S. Airports Are Seeing Double-Digit Seat Growth vs. 2019

## Austin Leading the Pack in Growth; Portland (OR) Seeing the Largest Decline

Change (%) in Systemwide Scheduled Seats: 3Q 2022 vs. 3Q 2019

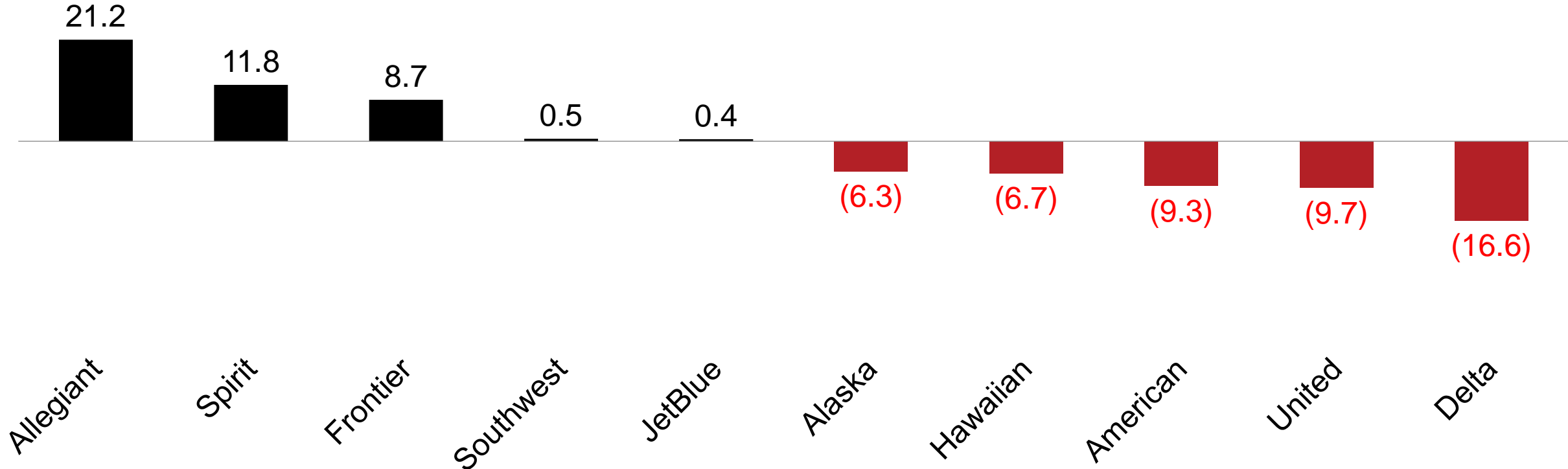


Source: Diio by Cirium published schedules (July 29, 2022) for all U.S. and non-U.S. airlines providing scheduled service to all U.S. and non-U.S. destinations

# Allegiant, Spirit and Frontier Continue to Lead U.S. Airlines in Capacity Growth

## Corporate Travel-Dependent Carriers Slower to Restore Pandemic-Induced Capacity Cuts

Change (%) in Systemwide Scheduled Available Seat Miles: 3Q 2022 vs. 3Q 2019



Source: Dii by Cirium published schedules (July 29, 2022) for selected marketing airlines (i.e., on a consolidated basis)

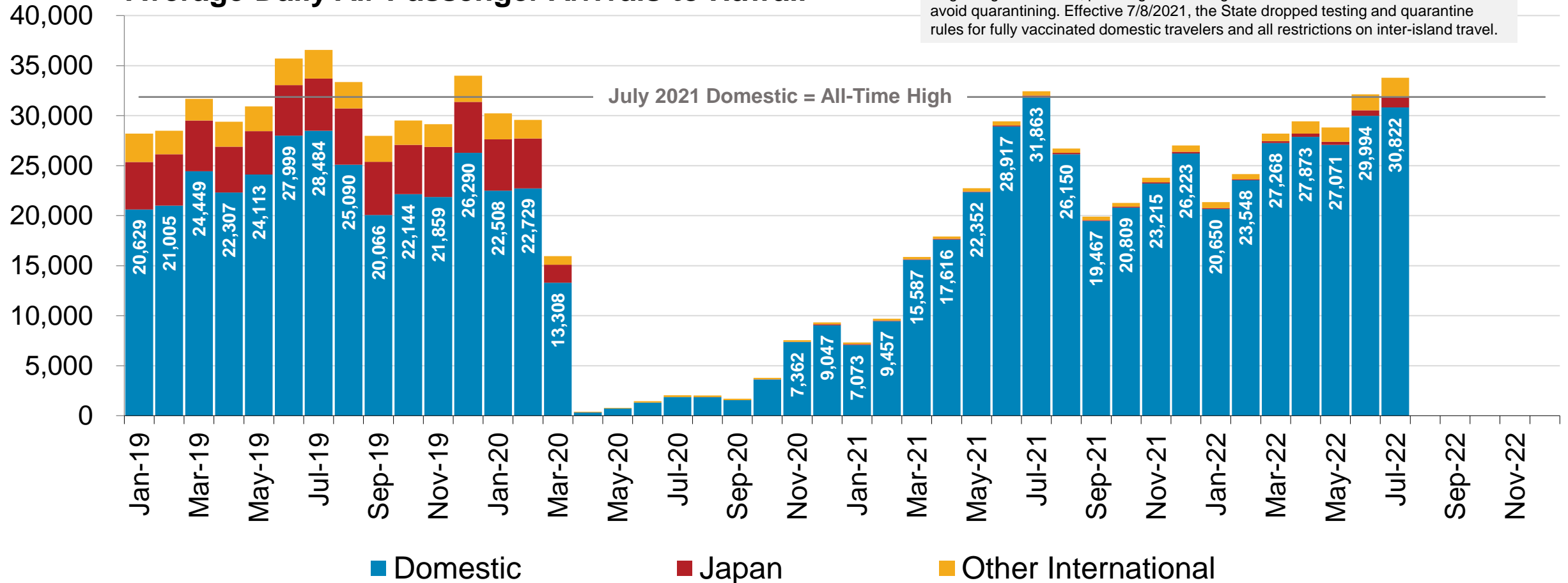


# In July 2021, Domestic Air Travel to Hawaii Reached an All-Time High

## But International Air Arrivals (Especially From Japan) Remain Far Below Pre-Pandemic Levels

### Average Daily Air Passenger Arrivals to Hawaii\*

On 3/26/2020, Hawai'i mandated a 14-day self-quarantine for out-of-state arrivals. Beginning 10/15/2020, passengers with negative test results for COVID-19 could avoid quarantining. Effective 7/8/2021, the State dropped testing and quarantine rules for fully vaccinated domestic travelers and all restrictions on inter-island travel.

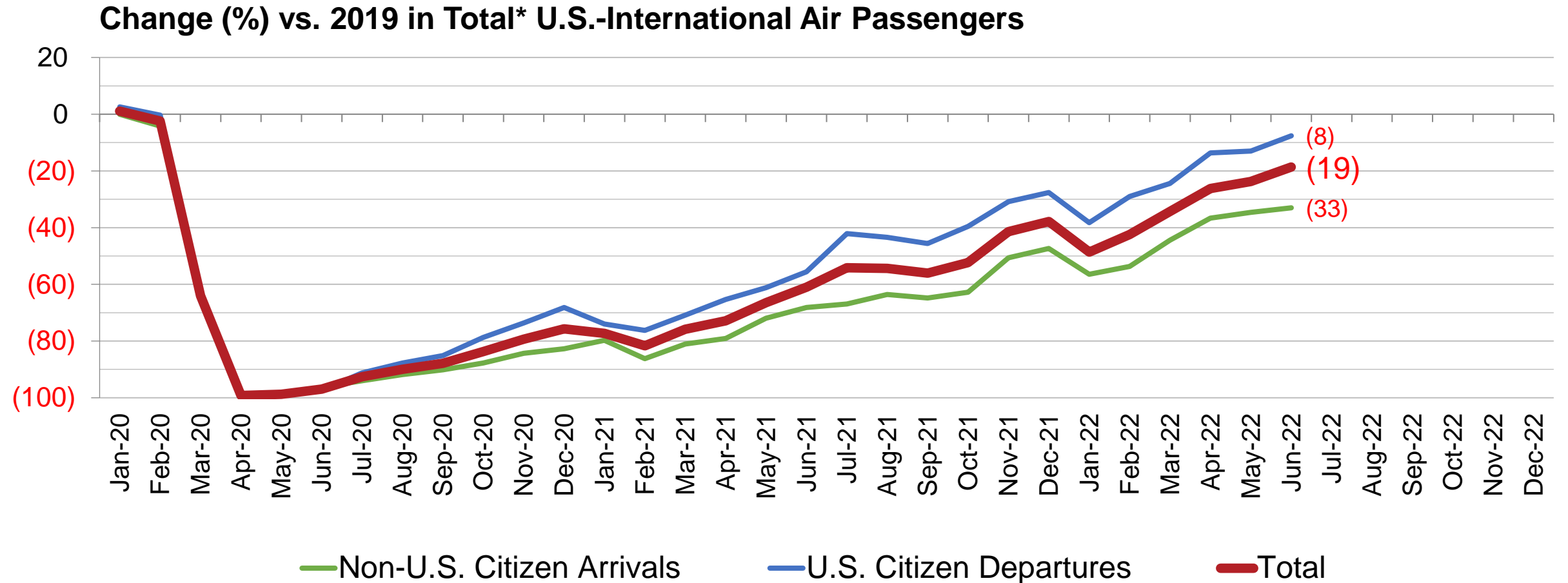


Source: Hawaii Department of Business, Economic Development & Tourism

\* Daily passenger counts include returning residents, intended residents and visitors but exclude interisland and Canada passengers

# In June 2022, U.S.-International Air Travel\* Fell 19% Below 2019 Levels

Non-U.S. Citizen Arrivals Trailed U.S. Citizen Departures by ~25 Percentage Points



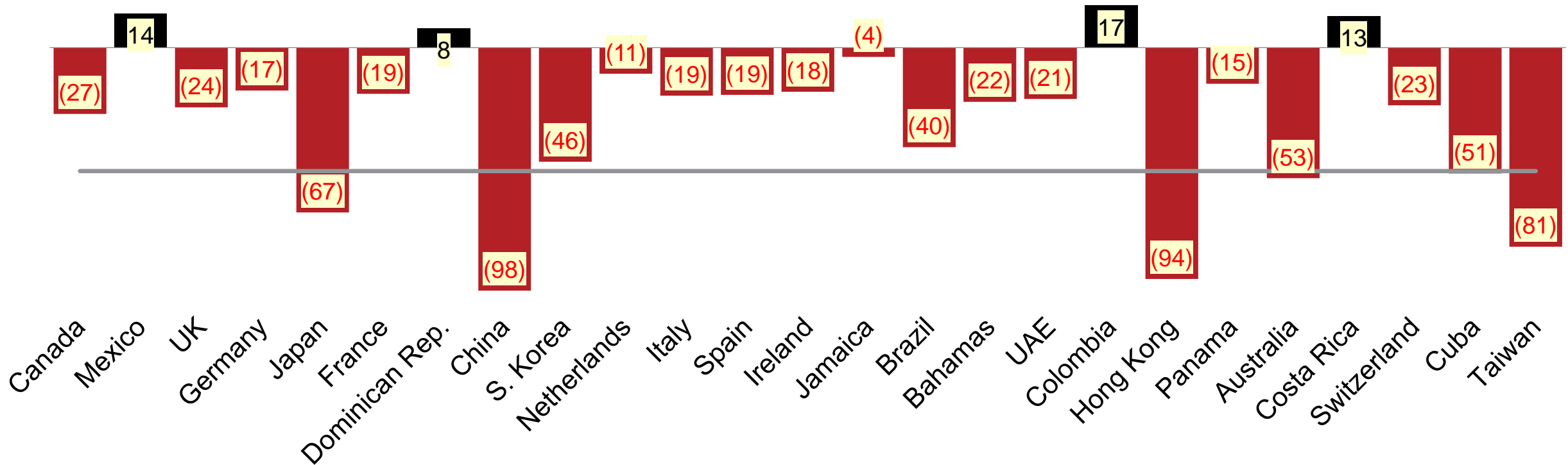
Source: U.S. Department of Commerce National Travel and Tourism Office using DHS I-92 / APIS data

\* Gateway-to-gateway passengers on U.S. and foreign scheduled and charter airlines and general aviation

# In June, U.S.-Asia/Australia Air Travel Trailed Pre-Pandemic Levels by More Than 50%

## U.S.-Mexico/Dominican Republic/Colombia/Costa Rica Saw Volumes Rise

**Top-25 U.S. Country Pairs: Change (%) in Passengers\* in Jun-2022 vs. Jun-2019**  
Sorted left to right by highest volume in 2019

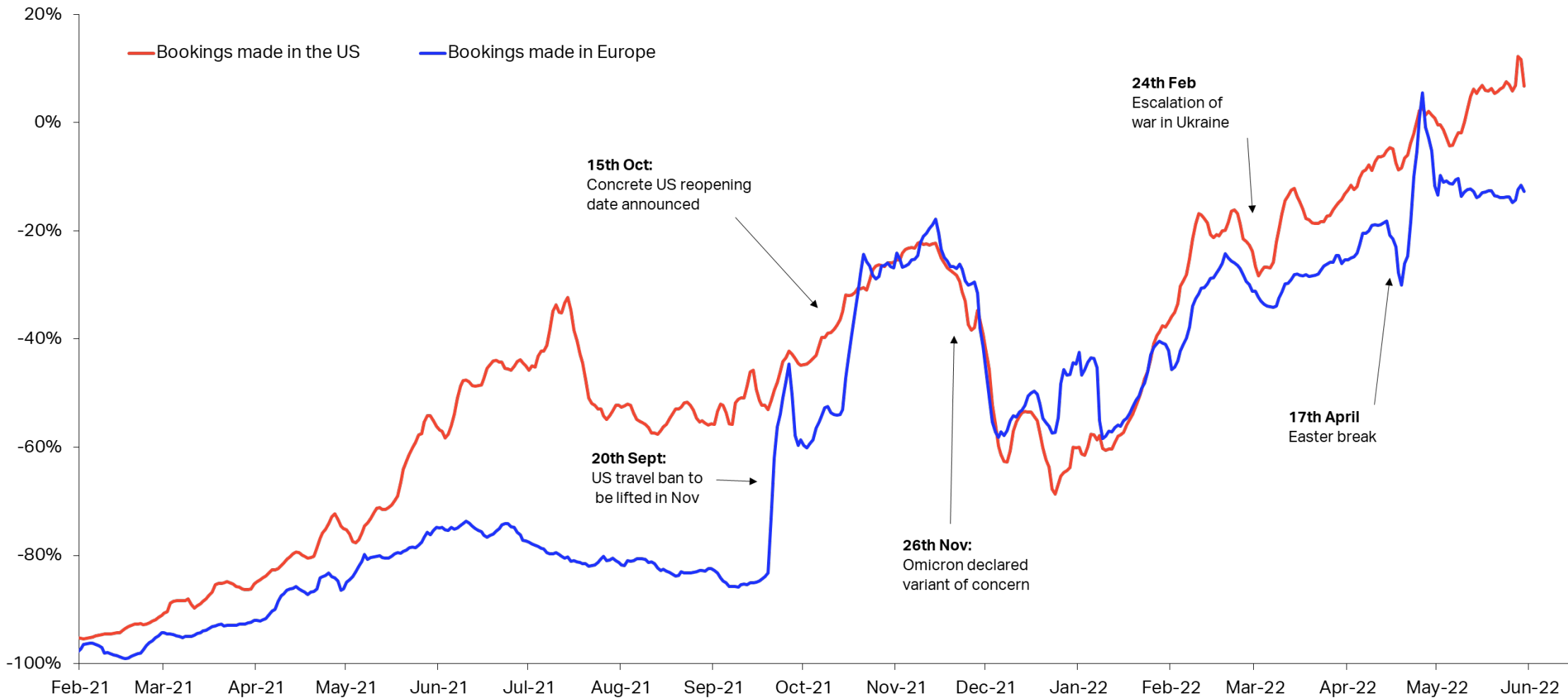


Source: DHS I-92 / APIS data compiled by U.S. Department of Commerce National Travel and Tourism Office

\* Gateway-to-gateway passengers on U.S. and foreign scheduled and charter airlines and general aviation

# IATA: Europe-U.S. Bookings Surged on U.S. Reopening, Rising Again After Initial Ukraine Dip

## Change in Seven-Day Moving Average Bookings for U.S.-Europe Air Travel vs. 2019

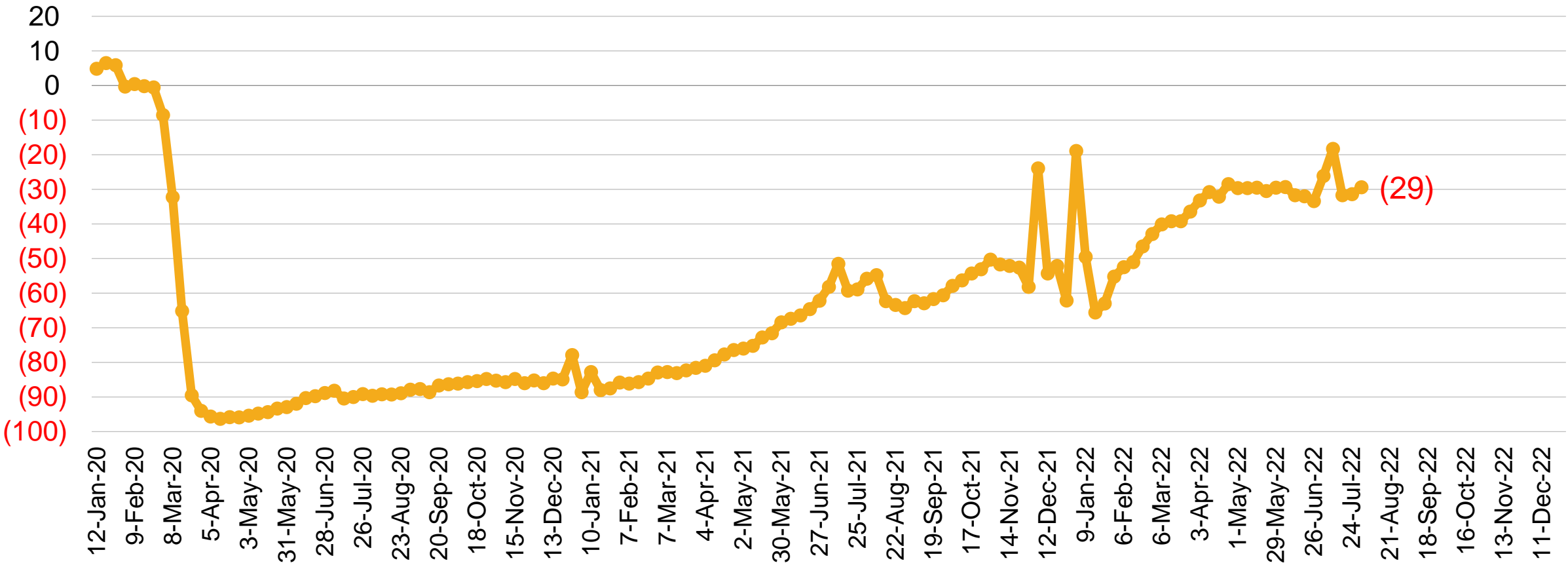


Source: IATA Economics (<https://www.iata.org/en/publications/economics/#>) as of June 17, 2022

# Recovery of “Corporate” Ticket Sales Showing Promise

Levels Remain Approximately Materially Below 2019

Change (%) vs. 2019 in Corporate-Segment Weekly Tickets Sold\* by U.S. Travel Agencies

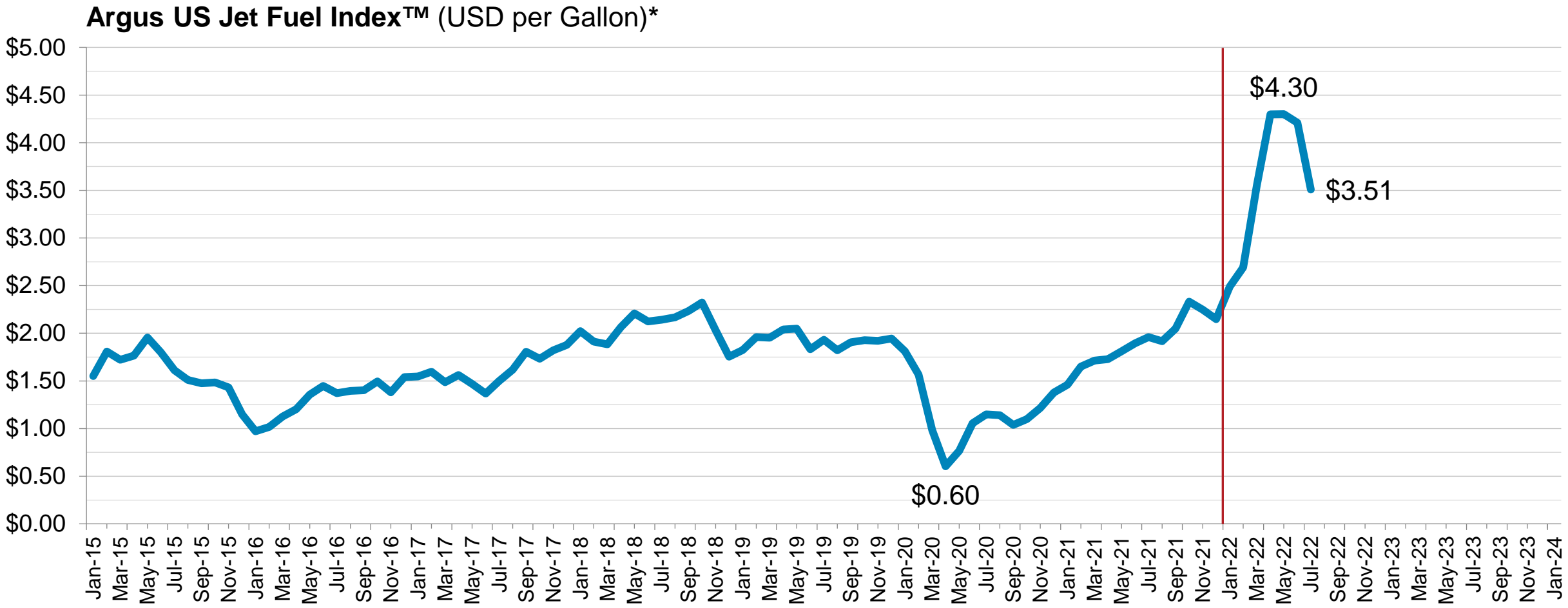


Source: Airlines Reporting Corporation (ARC)

\* Results reflect more than 10,000 agency sales outlets and do not include sales of tickets purchased directly from airlines and are not net of refunds or exchanges.

# Jet Fuel Prices Have Proven a Fierce Cost Headwind Thus Far in 2022

Nationwide Spot Price Averaged \$3.51 in July 2022 – Up 82% From \$1.93 in July 2019

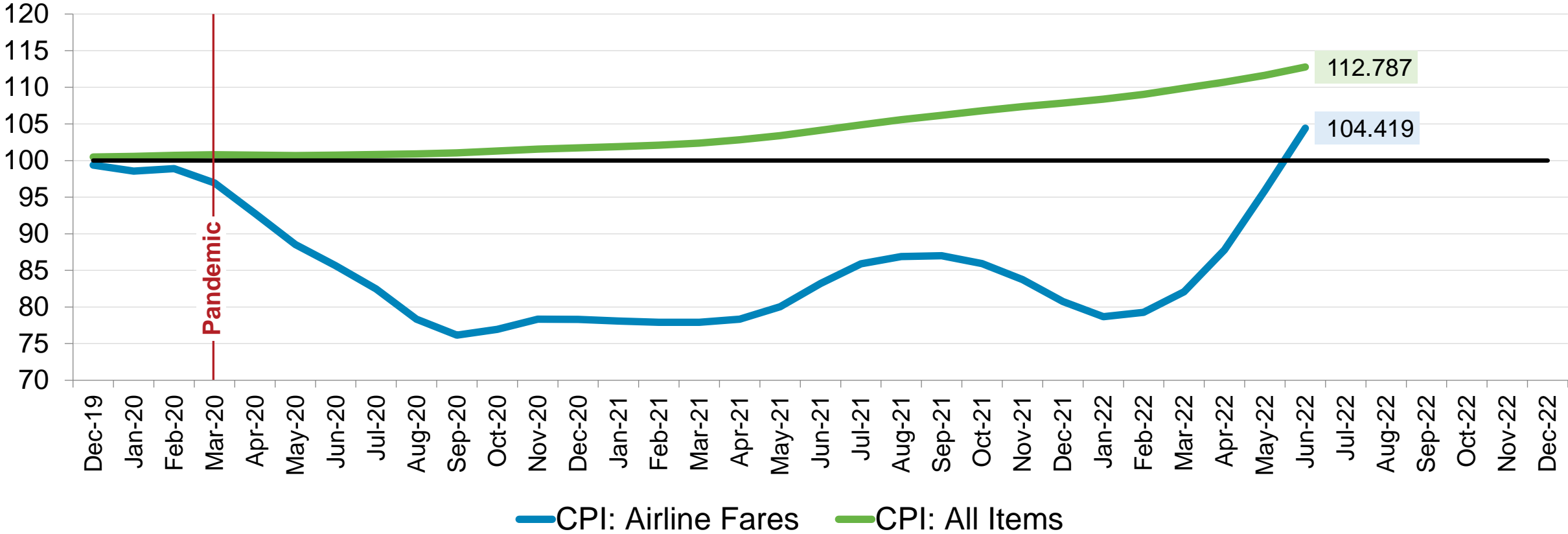


Sources: Argus Media as noted at <https://www.airlines.org/dataset/argus-us-jet-fuel-index/>

\* Argus daily simple-average jet-fuel price for Chicago, Houston, Los Angeles, and New York

**In the Six Months Ending June 2022, CPI for Airline Fares Exceeded CY2019 by 4.4%**  
**Overall U.S. Consumer Prices for That Period Exceeded CY2019 by 12.8%**

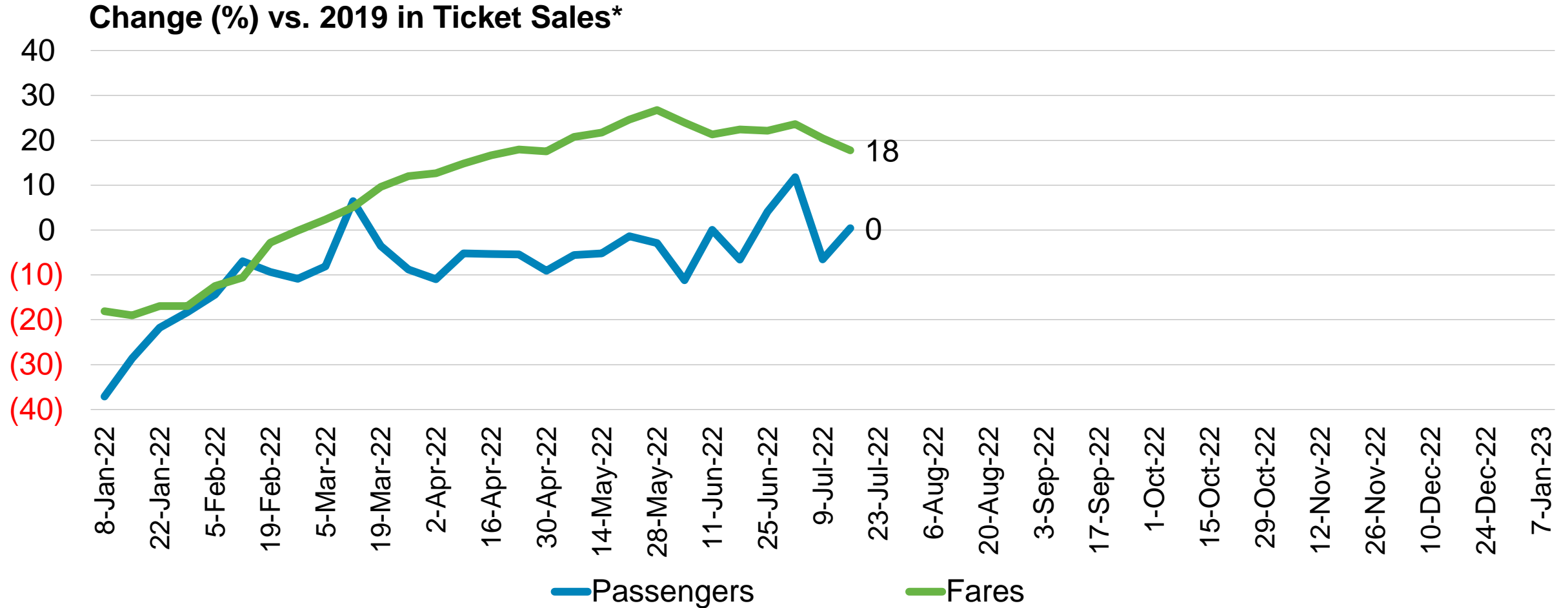
**U.S. Consumer Price Index (CPI) — Airline Fares vs. All Items (Index: 2019 = 100)**  
 Six-Month Moving Average, Not Seasonally Adjusted



Source: Bureau of Labor Statistics (CPI series CUSR0000SETG01 and CUUR0000SA0); for information on the BLS methodology for "airline fares," see <https://www.bls.gov/cpi/factsheets/airline-fares.htm>

# In July 10-16, Fares Sold for Domestic and International Trips Averaged 18% More Than in 2019

## Fares Sold for Domestic and International Trips Averaged 20% More Than in 2019



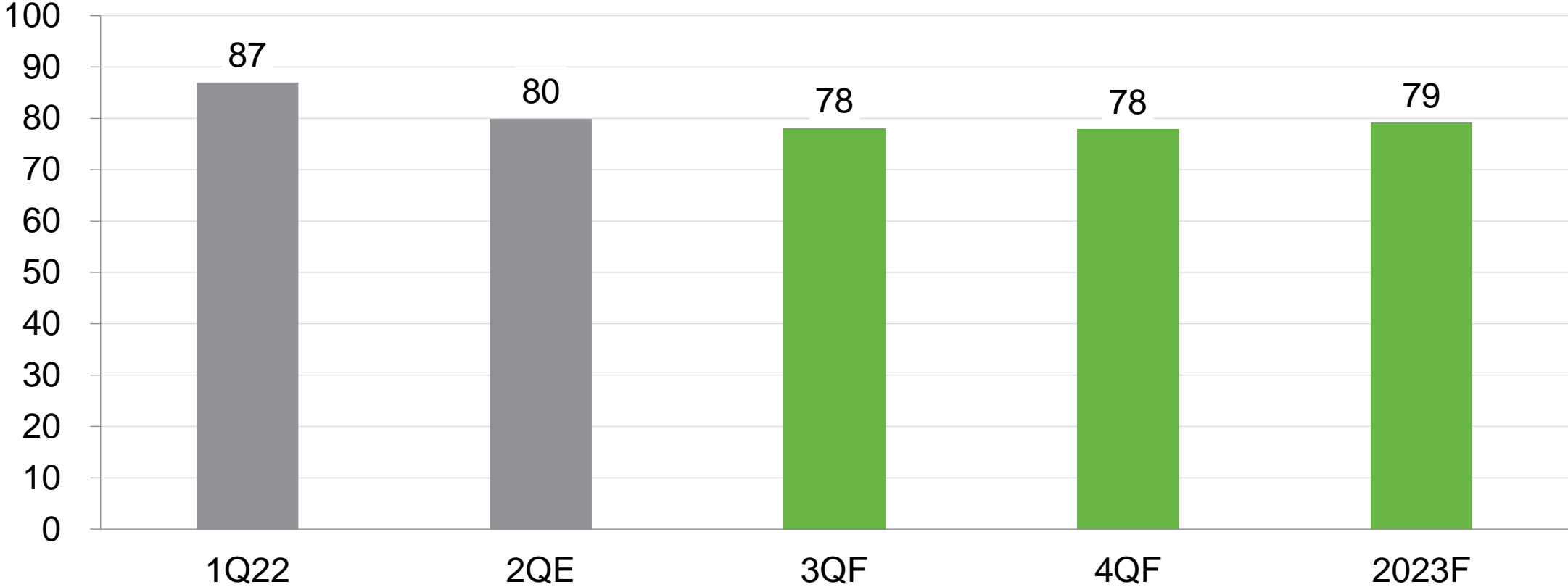
Source: A4A analysis of data from Airlines Reporting Corporation (ARC)

\* Net tickets (gross sales minus refunds) sold in the United States for travel to/from U.S. airports



# The Estimated Breakeven Load Factor Requirement for the Second Half of 2022 Is 78%

## Estimated Breakeven Load Factor (%) Requirement



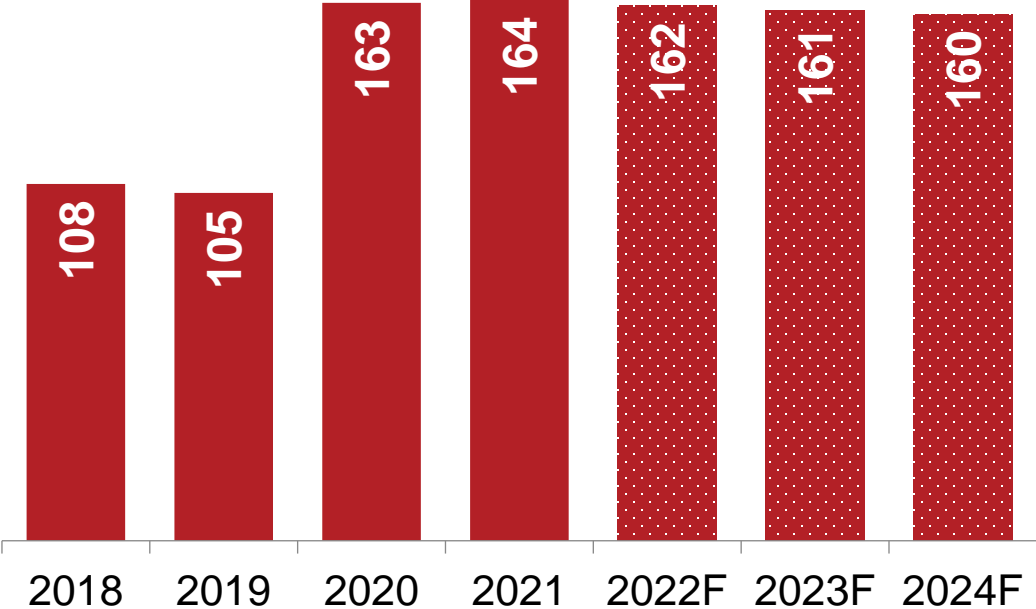
Sources: SEC filings of Alaska/Allegiant/American/Delta/Hawaiian/JetBlue/Southwest/Spirit/United and forecasts from various equity analysts

# Airlines Have Coped in Part by Taking on Enormous Debt, With Heavy Cash Outlays for Interest

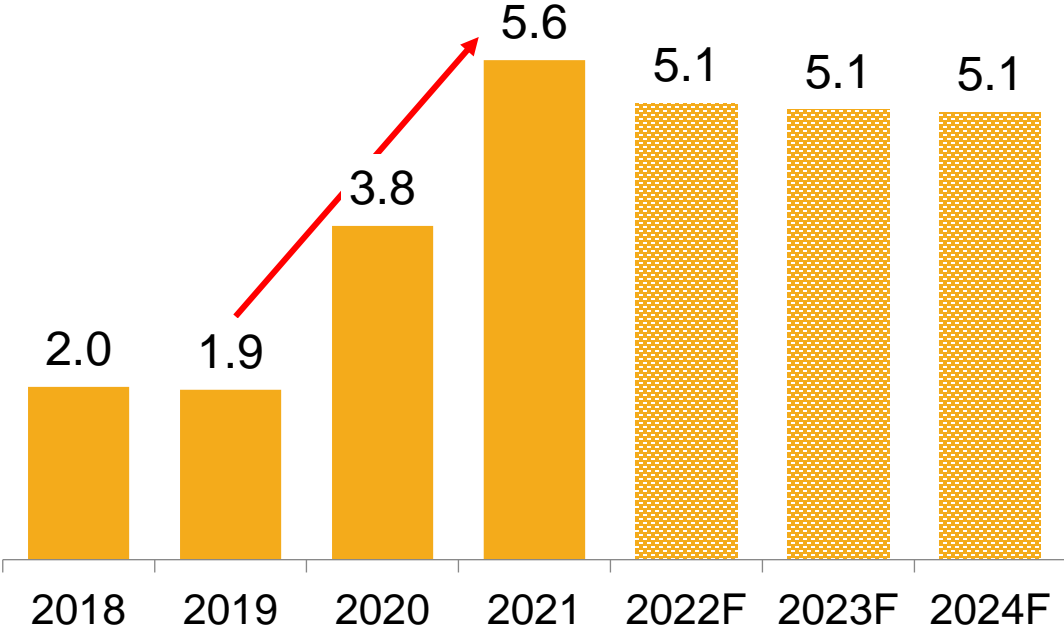
*Net Interest Expense Tripled From 2019 to 2021 and Expected to Total \$15.3 Billion in 2022-2024*

“For 2021 and beyond, we anticipate a major deleveraging cycle as **the industry will have no choice but to address its significant debt load.**” (Deutsche Bank, “Airline Industry Update,” July 1, 2020)

**Year-End Total Debt (\$ Billions)**



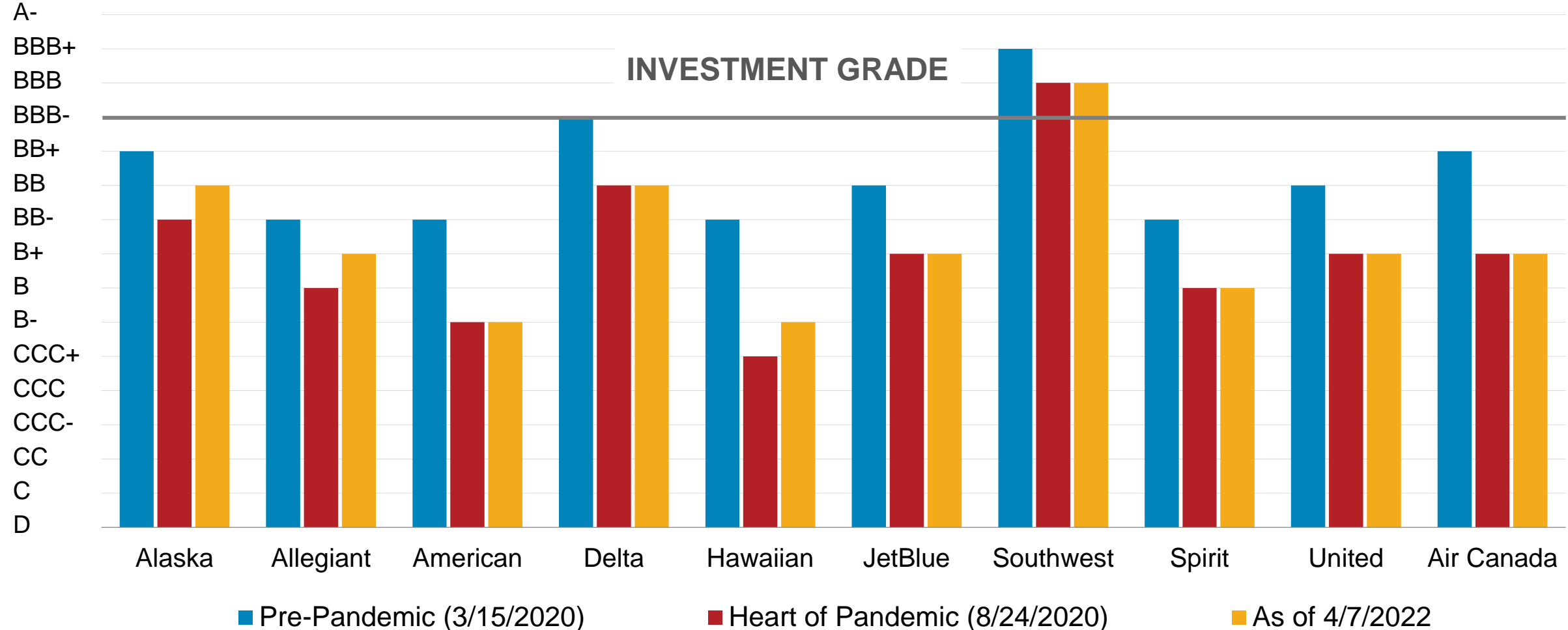
**Interest Expense, Net (\$ Billions)**



Source: A4A, equity analysts and filings of Alaska, Allegiant, American, Delta, Hawaiian, JetBlue, Southwest, Spirit and United

# Since the Recovery Began, S&P Has Raised Its Ratings on Alaska/Allegiant/Hawaiian

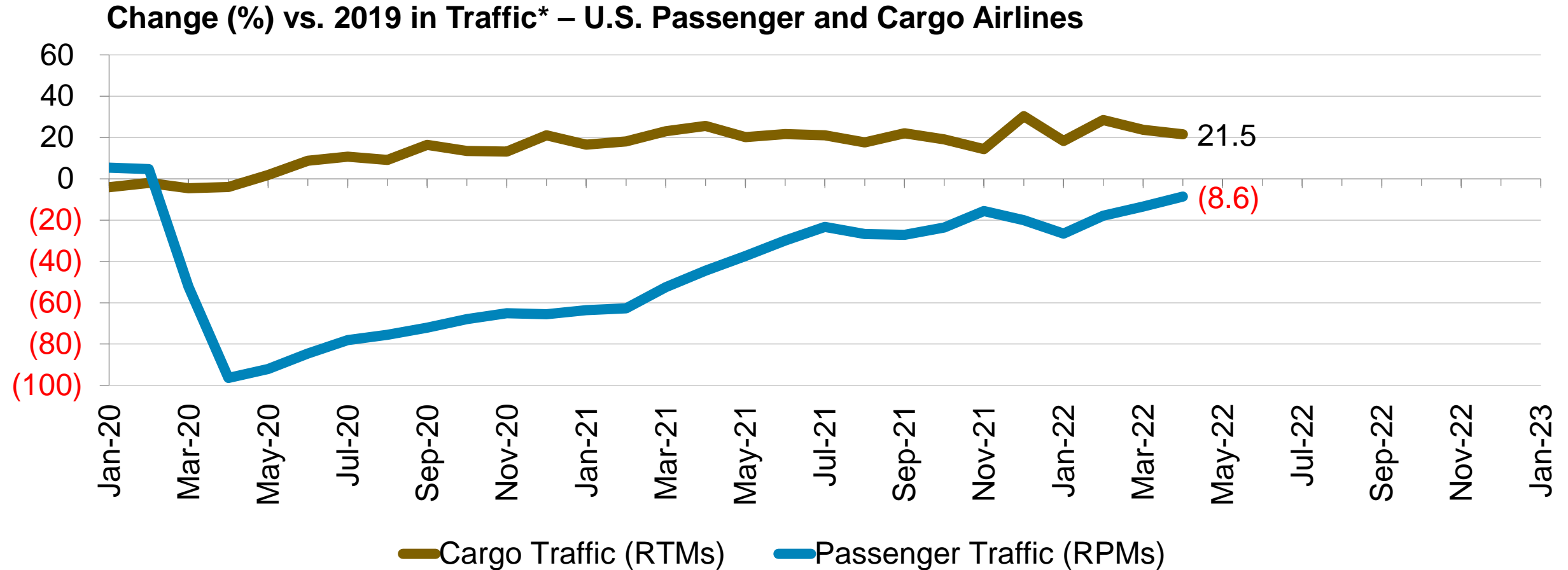
Ratings Actions Reflect Assessment of Financial Condition and Risk



Source: Standard & Poor's issuer ratings for publicly traded U.S. and Canadian carriers in its coverage universe

# For U.S. Airlines, Growth in Air Cargo Continues to Outpace Air Travel by a Large Margin

Jan-Apr 2022 vs. Jan-Apr 2019: Cargo Traffic Rose 23%, Passenger Traffic Down 16%



Sources: Bureau of Transportation Statistics T1 for all U.S. airlines providing scheduled and nonscheduled services

\* RTMs = freight, mail and express revenue ton miles; RPMs = revenue passenger miles

# After a Material Hit From the Pandemic, U.S. Airline Employment Is Bouncing Back

## Voluntary Reductions, Retirements, Job Changes, Employer Shutdowns Had Taken a Toll

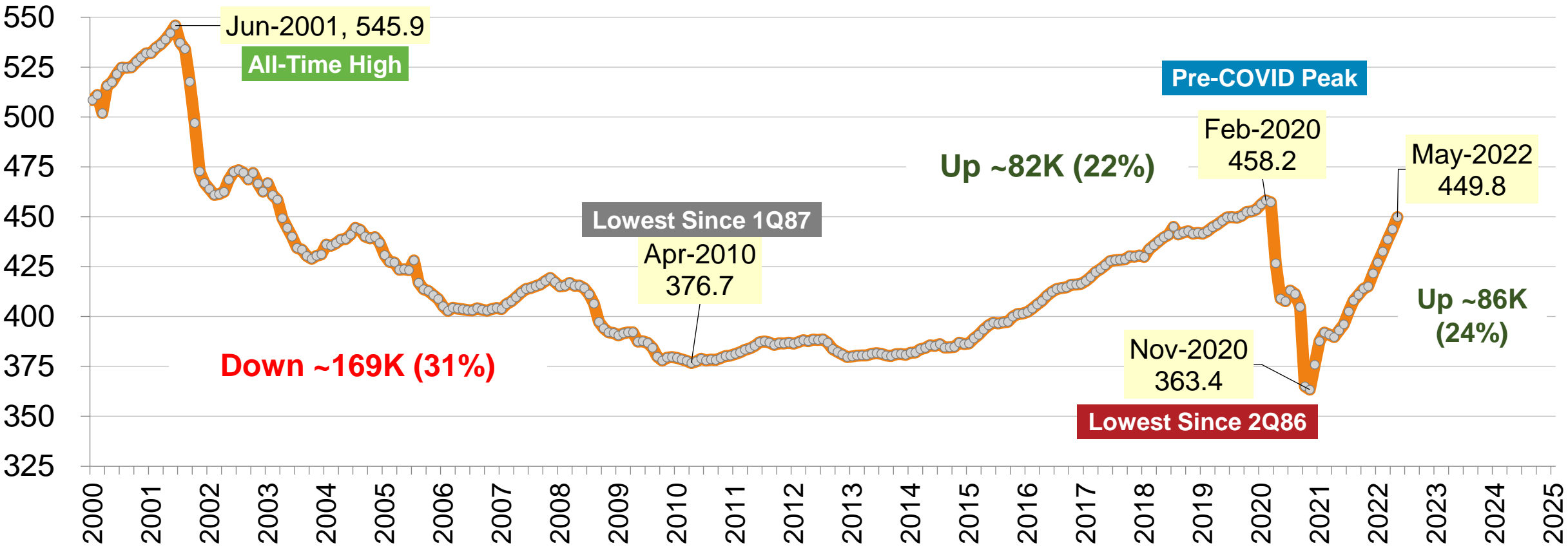
<b>Carrier Universe</b>	<b>Scheduled U.S. Passenger Airlines Only FTEs* (000)</b>	<b>All U.S. Passenger and Cargo Airlines Headcount (000)</b>
All-Time High	Jun-2001: 545.9	May-2001: 760.8
Post-2000 Low Point	Apr-2010: 376.7	Apr-2010: 562.3
Pre-COVID Peak	Feb-2020: 458.2	Feb-2020: 753.4
Pandemic Low Point	Nov-2020: 364.5	Oct-2020: 669.2
Latest Available Data Point	May-2022: 449.8	May-2022: 759.5

Source: Bureau of Transportation Statistics based on payroll near the 15<sup>th</sup> of the month

\* Full-time equivalents (FTE) = full-time workers plus 0.5 \* part-time workers

# As of May, U.S. Passenger Airline Employment (FTEs) Fell Just 1.8% Below Pre-COVID Levels

## U.S. Scheduled Passenger Airline Full-Time Equivalent Employees (000s)

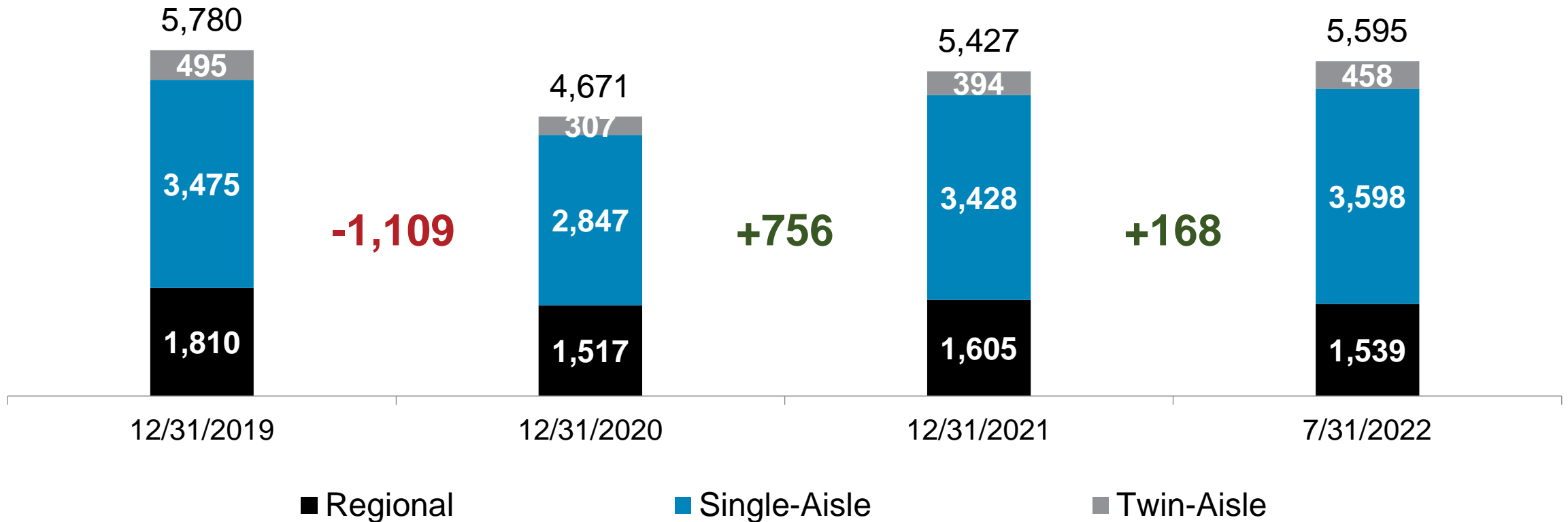


Source: Bureau of Transportation Statistics for scheduled U.S. passenger airlines (i.e., all that report scheduled passenger revenue)

# U.S. Passenger Airlines Grew Active Fleet by 924 Units From End of 2020 to End of July

Net Reduction of 1,109 (19%) From YE19 to YE20 and 185 (3%) From YE19 to End of July

Number of Active Aircraft\*

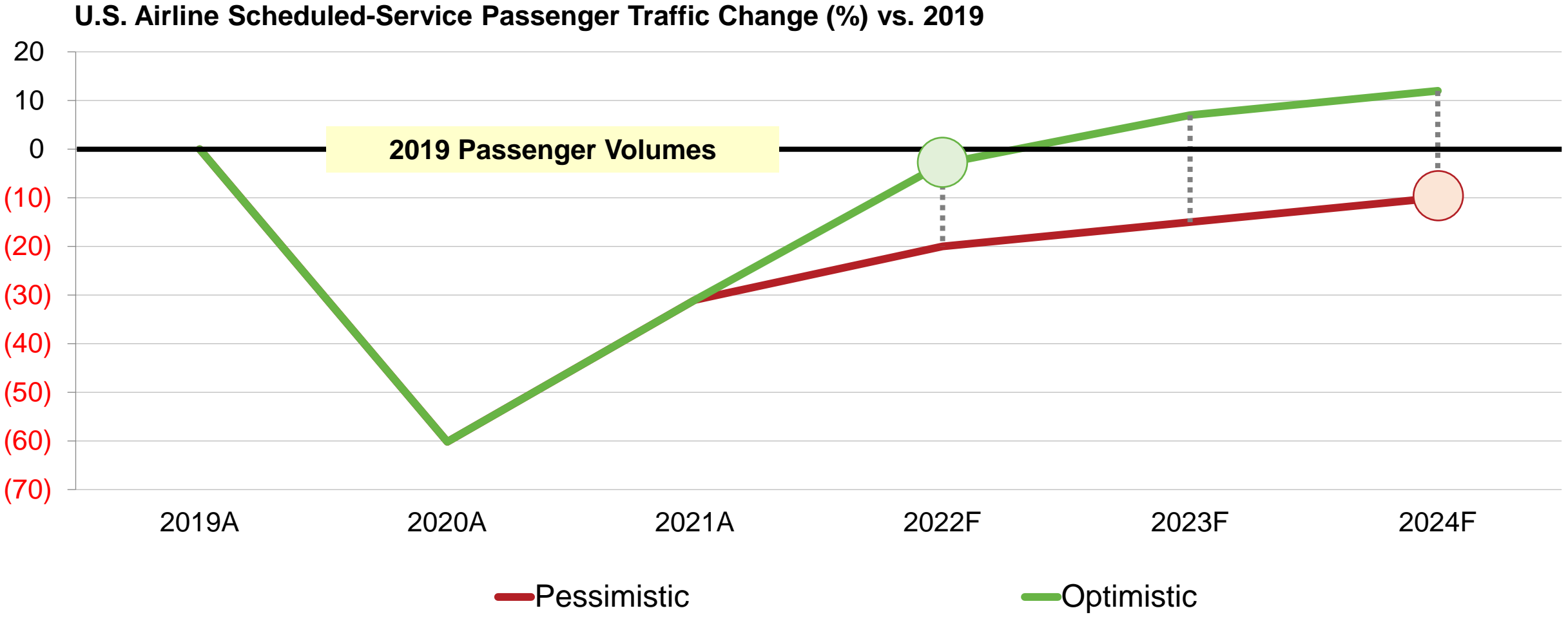


Source: Anuvu (formerly Global Eagle masFlight)

\* Operated by or on behalf of Alaska/Allegiant/American/Delta/Frontier/Hawaiian/JetBlue/Southwest/Spirit/Sun Country/United in any of the previous seven days

# The Timing of a Return to 2019 Passenger Volumes Depends in Large Part on Business Travel

Another Open Question Is the Degree to Which Leisure and VFR Traffic Remain Robust in 2022-2023



Source: A4A and various airline equity analysts

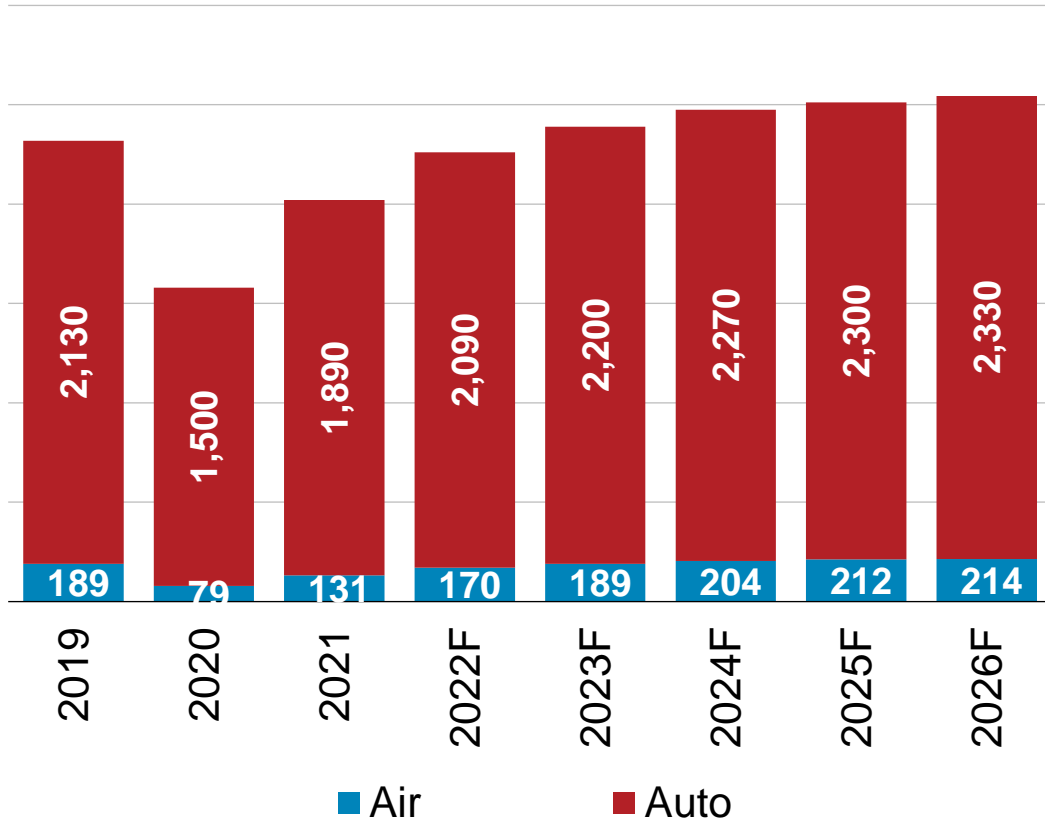
Note: A = actual; F= forecast



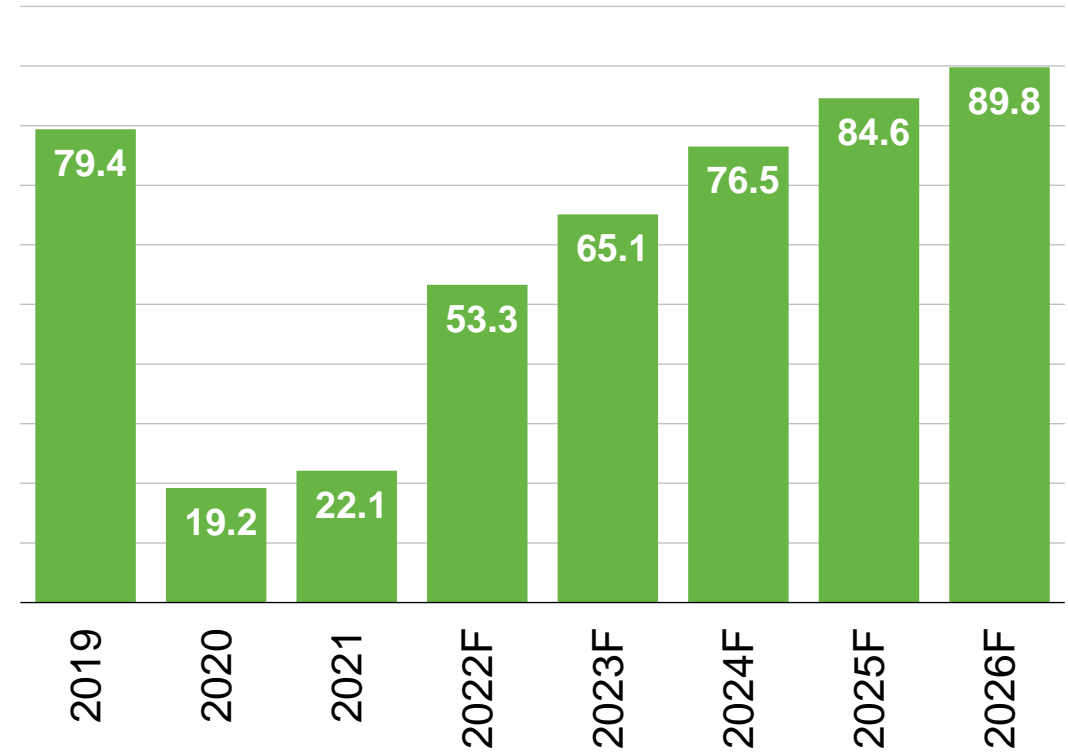
# The U.S. Travel Association Projects Domestic Air Trips to Recover by 2023

## Recovery of International Arrivals Delayed Until 2025

U.S. Domestic Person-Trips\* (Millions)



International Arrivals\* (Millions)

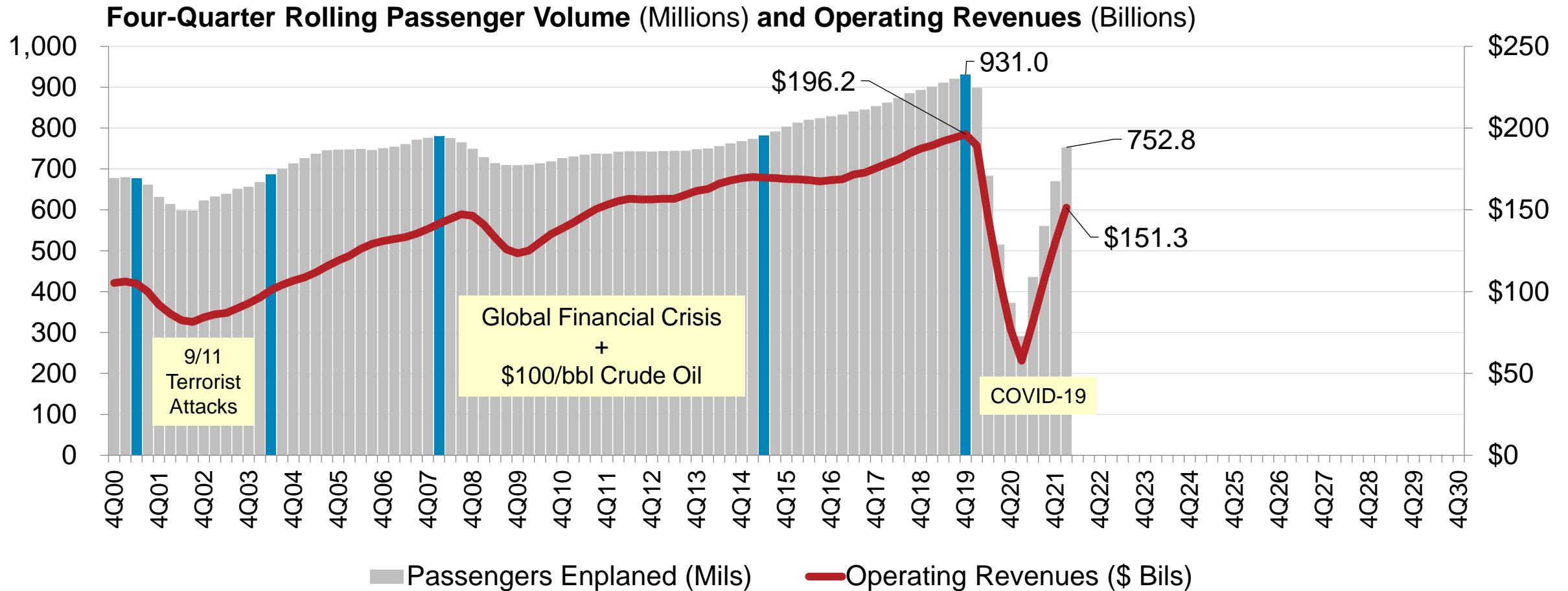


Sources: Tourism Economics and U.S. Travel Association (June 16, 2022)

\* Includes air and non-air travel

# After 9/11 and the Global Financial Crisis, It Took Years for Air-Travel Demand to Recover

## Passenger Volumes Took More Than Seven Years to Recover From the Financial Crisis/Oil Spike



Source: A4A Passenger Airline Cost Index, BTS (Form 41 Schedule T1)

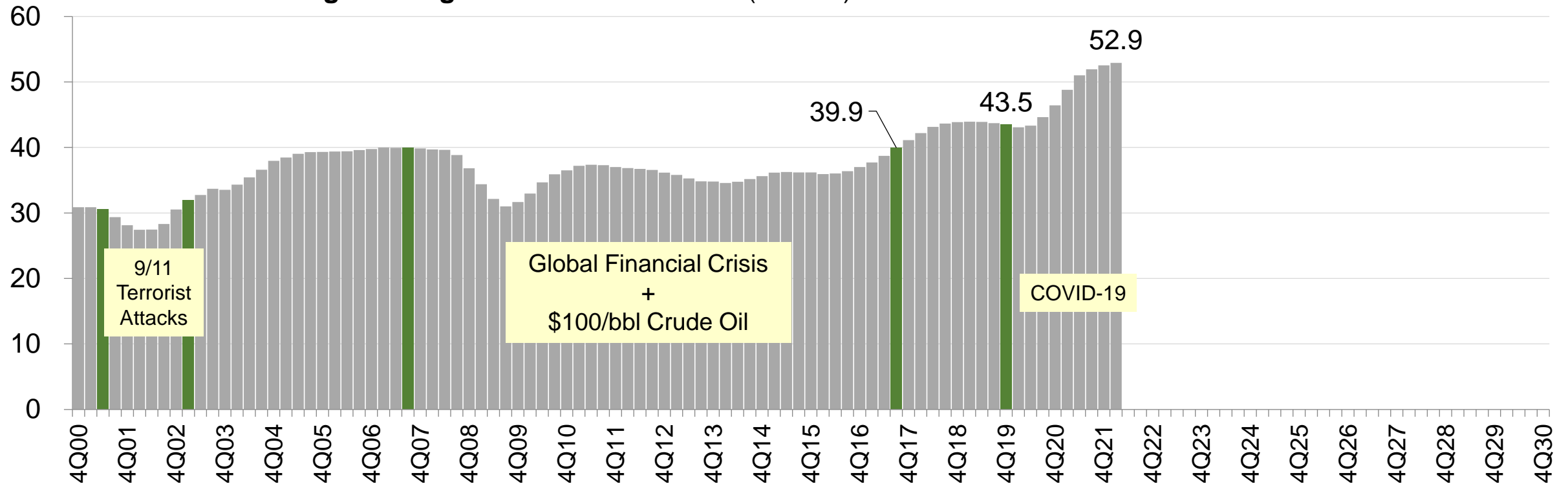
\* Passengers enplaned systemwide on U.S. airlines in scheduled and nonscheduled services

# Air-Cargo Demand Reached an All-Time High in 2021

## Air Cargo Had Taken 10 Years to Recover From the Global Financial Crisis and Subsequent Oil Spike

“A week ago, United Airlines carried 6 tons of black soap in the belly of a passenger plane, a product it has never seen before... Last summer, the carrier flew five dedicated cargo charters of dog food from Frankfurt...to Denver. United... said...that its passenger freighters also operated a charter flight full of mayonnaise and recently received a request to move 800 tons of Bacardi rum.” (FreightWaves, Jan. 19, 2022)

**Four-Quarter Rolling Air Cargo Revenue Ton Miles\* (Billions)**



Source: Bureau of Transportation Statistics (Form 41 Schedule T1)

\* Cargo revenue ton miles (RTMs) flown on U.S. passenger and cargo-only airlines in scheduled and nonscheduled services

## Pandemic-Driven Technology Acceptance, Digital Competence and Enhanced Cleaning Protocols Will Endure, and Airlines and Airports Will Continue to Invest Accordingly

---

“COVID-19 has brought about an acceleration of digital competency across demographic cohorts. We have a lot of different people who fly through the airport. We are constantly thinking about the experience we present to them. And **if people have become more technology savvy, more digitally competent**, that means **we can accelerate and roll out the contactless passenger journey across many platforms**—and there will be an acceptance of and a desire for them.”

“**Airports and airplanes are cleaner than they’ve ever been** and will continue to be that way because it’s important for restoring confidence in air travel. We expect the new hygiene and enhanced-cleaning protocols we’ve implemented to continue. **Passengers can expect that from airports and airlines going forward.**”



Source: McKinsey & Company interview with Massachusetts Port Authority CEO Lisa Wieland (Nov. 20, 2020)



**Airlines for America<sup>®</sup>**

*We Connect the World*