

## [PART 1]

# Current Status and Future Prospects of the U.S. Aviation Industry 2022

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# Global Recovery Status (1)

(by region, total domestic and international)

	Percent Change April 2022 VS April 2019			Current LF
	Demand (RPK)	Capacity (ASK)	Load Factor (LF)	
North America	-9.7%	-10.8%	-1.0%	85.8%
Latin America	-15.9%	-14.6%	-1.2%	80.9%
Europe	-24.5%	-19.2%	-5.7%	79.5%
Middle East	-34.4%	-26.0%	-9.2%	71.3%
Africa	-44.7%	-40.0%	-5.8%	68.0%
Asia-Pacific	-68.1%	-61.0%	-15.0%	67.0%

(Source) Compiled by author based on IATA Monthly Statistics

# Global Recovery Status (2)

## (by country, domestic routes)

	Percent Change April 2022 VS April 2019			Current LF
	Demand (RPK)	Capacity (ASK)	Load Factor (LF)	
<b>USA</b>	<b>-1.6%</b>	<b>-4.5%</b>	<b>2.6%</b>	<b>88.4%</b>
Brazil	-7.7%	-3.3%	-3.7%	78.1%
Australia	-1.2%	-8.9%	-7.4%	73.3%
India	-4.3%	-5.1%	-7.8%	79.8%
Japan	-31.2%	-14.2%	-13.6%	55.4%
China	-79.5%	-68.8%	-29.3%	55.8%

(Source) Compiled by author based on IATA Monthly Statistics

# Discussion Objectives for Part 1

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1. How far recovery in the U.S. aviation market has reached
2. Roles of U.S. federal government and airlines in the recovery process
3. Challenges and future prospects in the U.S. aviation industry (specifically, discussion of promoting competition)

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1. Changes During the Pandemic and Current Status
2. Government and Corporate Response During the Pandemic
3. Challenges and Future Prospects

\* Graphs and charts used in this presentation were compiled by the author based on data (including preliminary values) as reported to the U.S. Department of Transportation on Form 41 Schedules, unless otherwise specified.

# U.S. Aviation Market Profile (1)

## Network Carriers (NWC)

American, Delta, United

### Regional Carriers

Companies operating small aircraft on short-distance routes. Many of these companies are operating under contract with a network carrier.

\* In this presentation, passenger transport demand data include the performance data of regional carriers calculated into the performance data of network carriers.

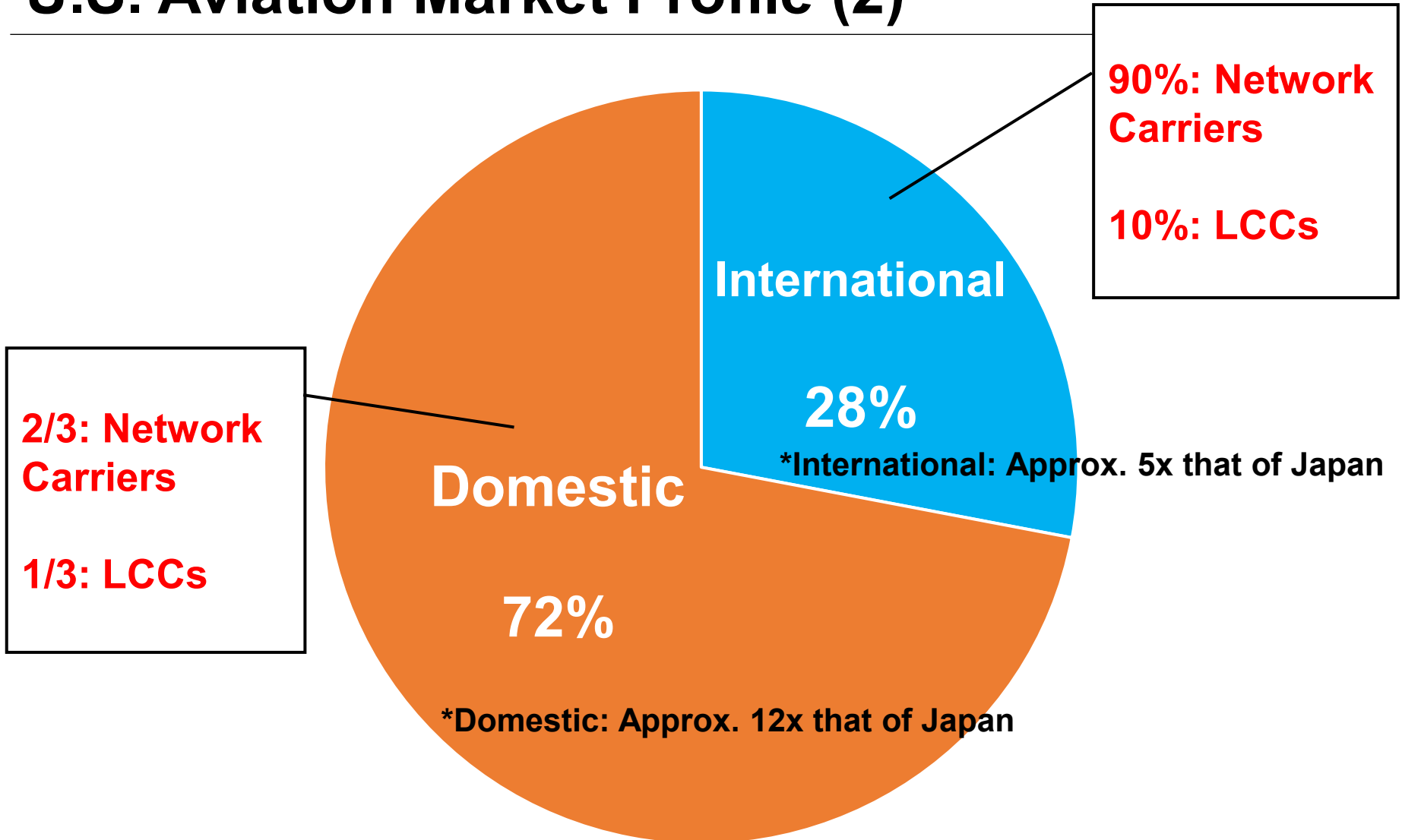
## Low-Cost Carriers (LCC)

Southwest, Frontier, Spirit, Allegiant, JetBlue

\* Some airlines including Hawaiian Airlines and Alaska Airlines are not defined by these categories.

\* Older data includes airlines that existed at that time.

# U.S. Aviation Market Profile (2)



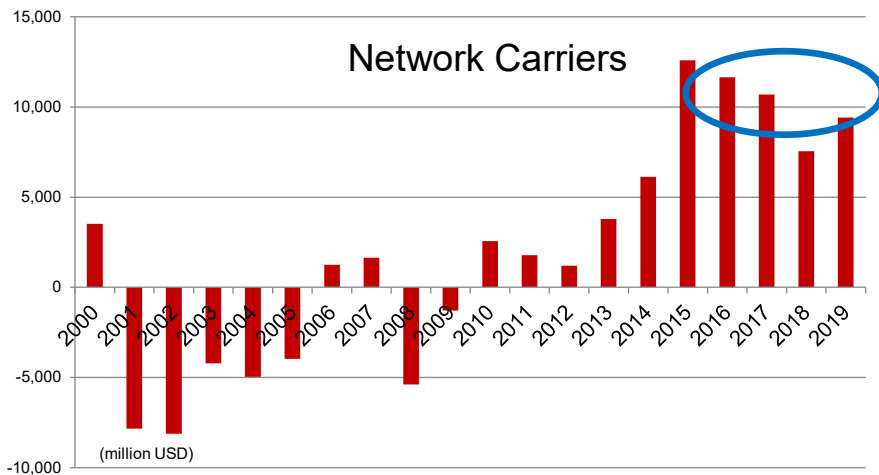
\*Based on 2019 RPM

# Pre-Pandemic Status

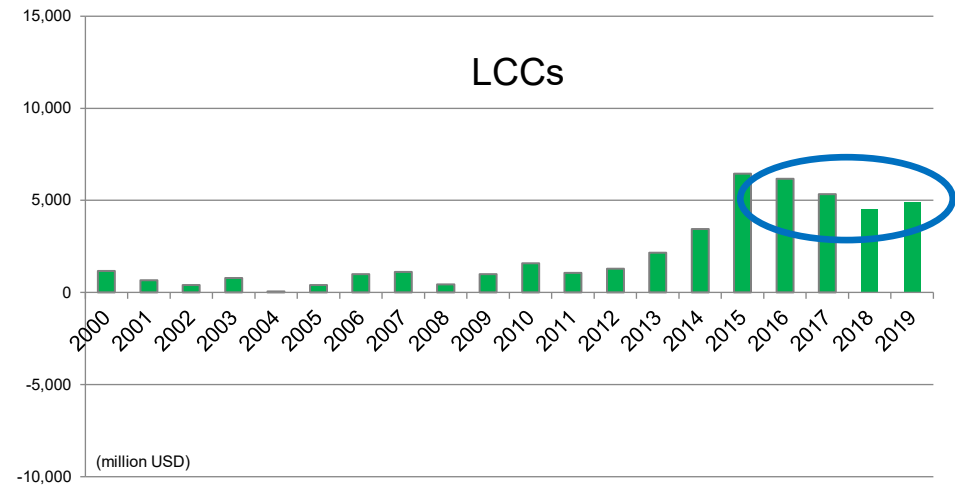
- Due to company mergers following the economic crisis in 2008, the current **market system of three major network carriers** was established in 2015. Afterwards, **demand steadily increased for both domestic and international** as the U.S. economy improved.
- **LCCs** attracted consumers by reducing customer service to offer strategically lower fares, and have **maintained continued growth in market share** since their start.
- Thanks in part to lower fuel costs, **both NWCs and LCCs enjoyed record-breaking financial results in the most recent five-year period.**

## Changes in Operating Profit

### Network Carriers



### LCCs



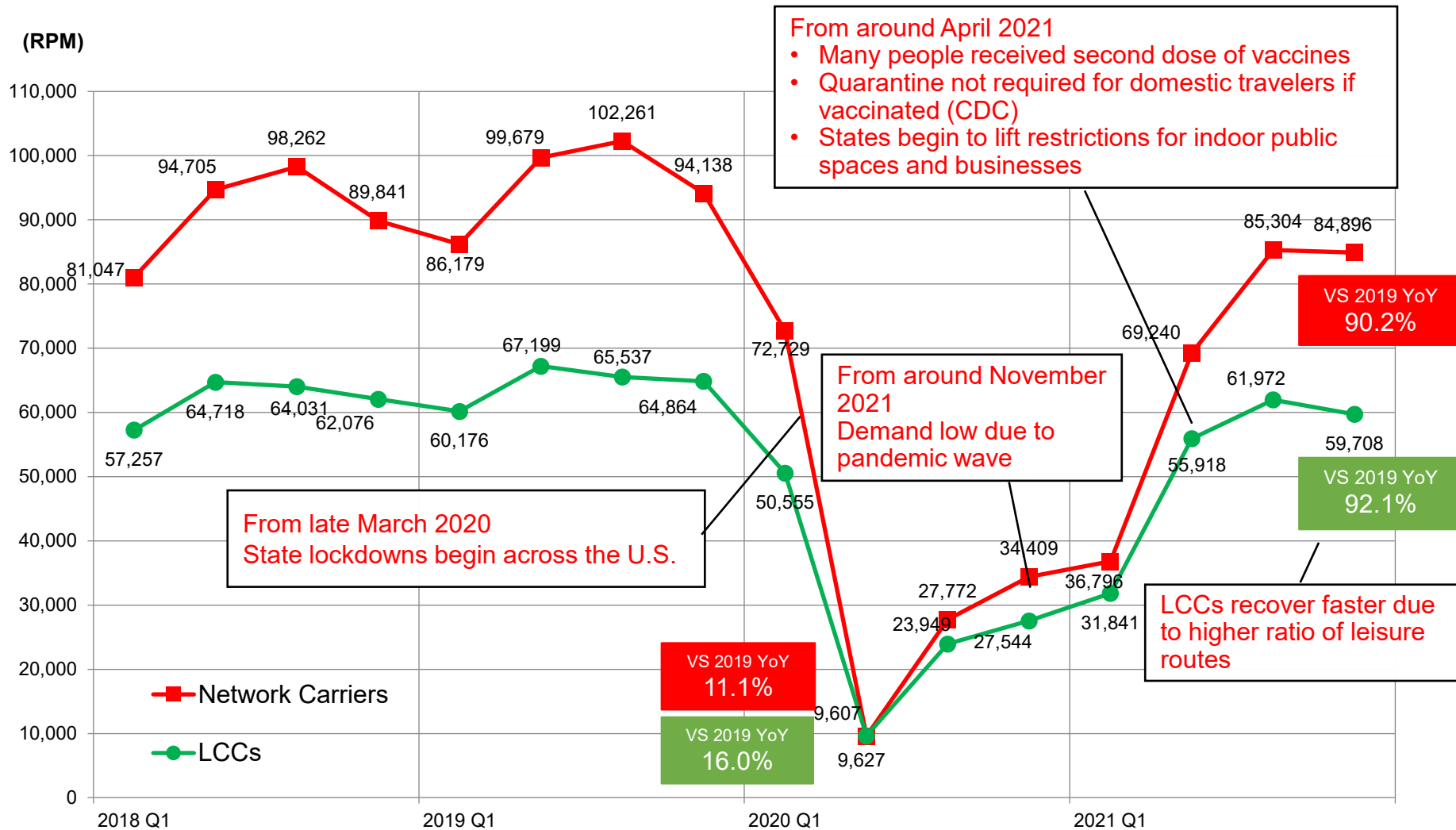


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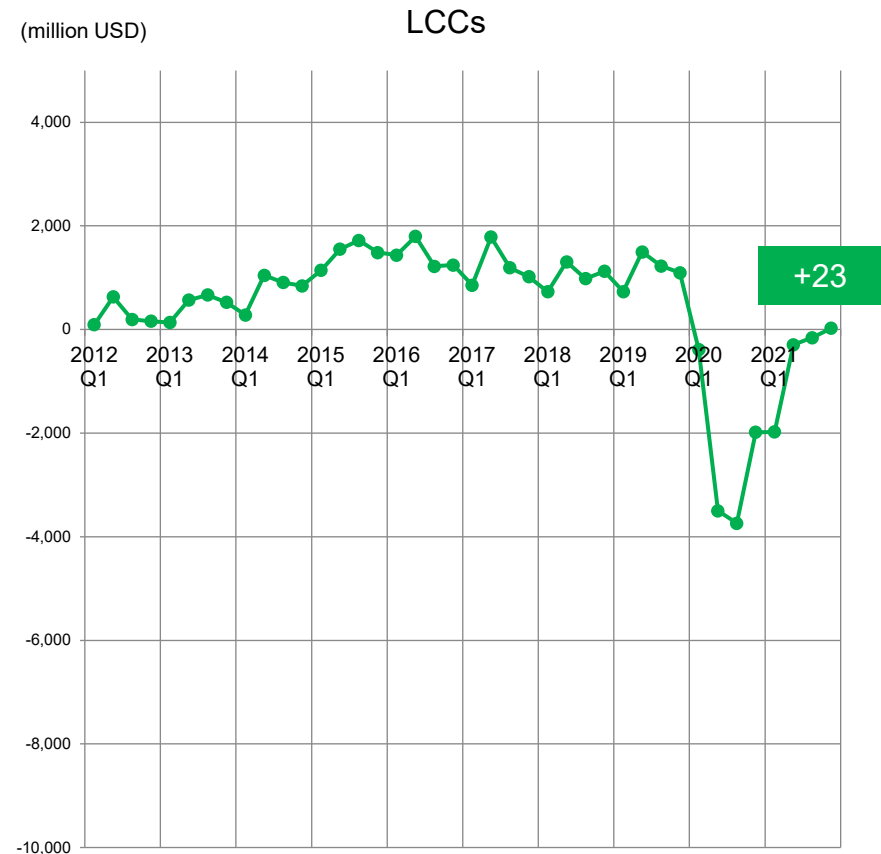
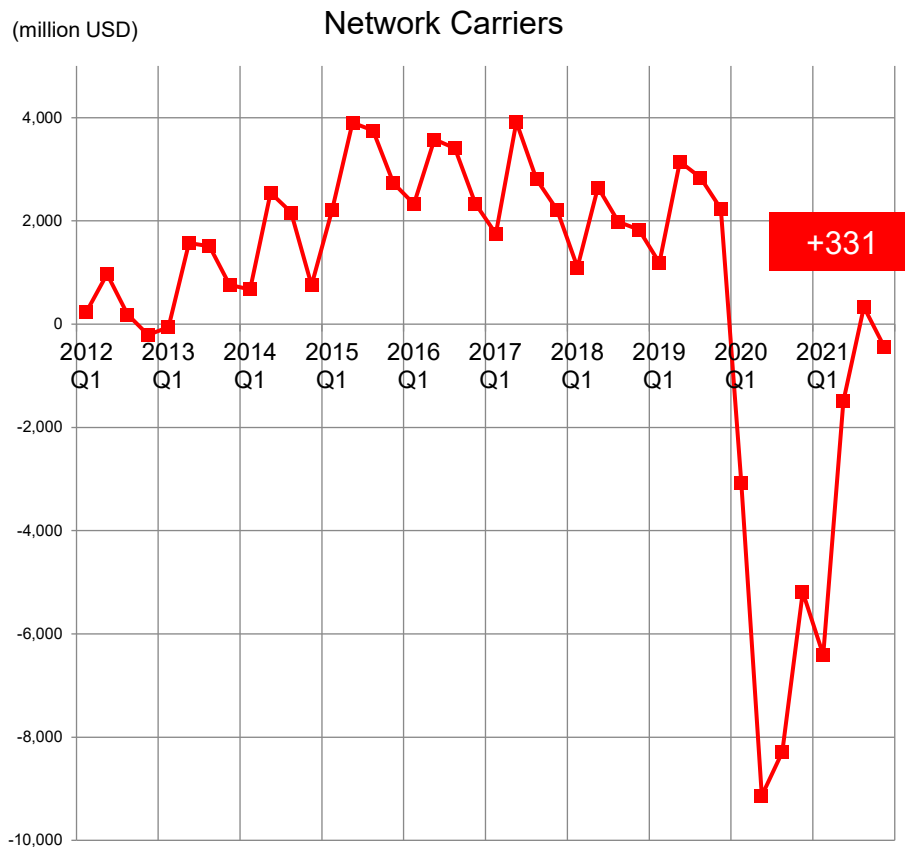
# Impact of the Pandemic and Current Status (1) (changes in demand)



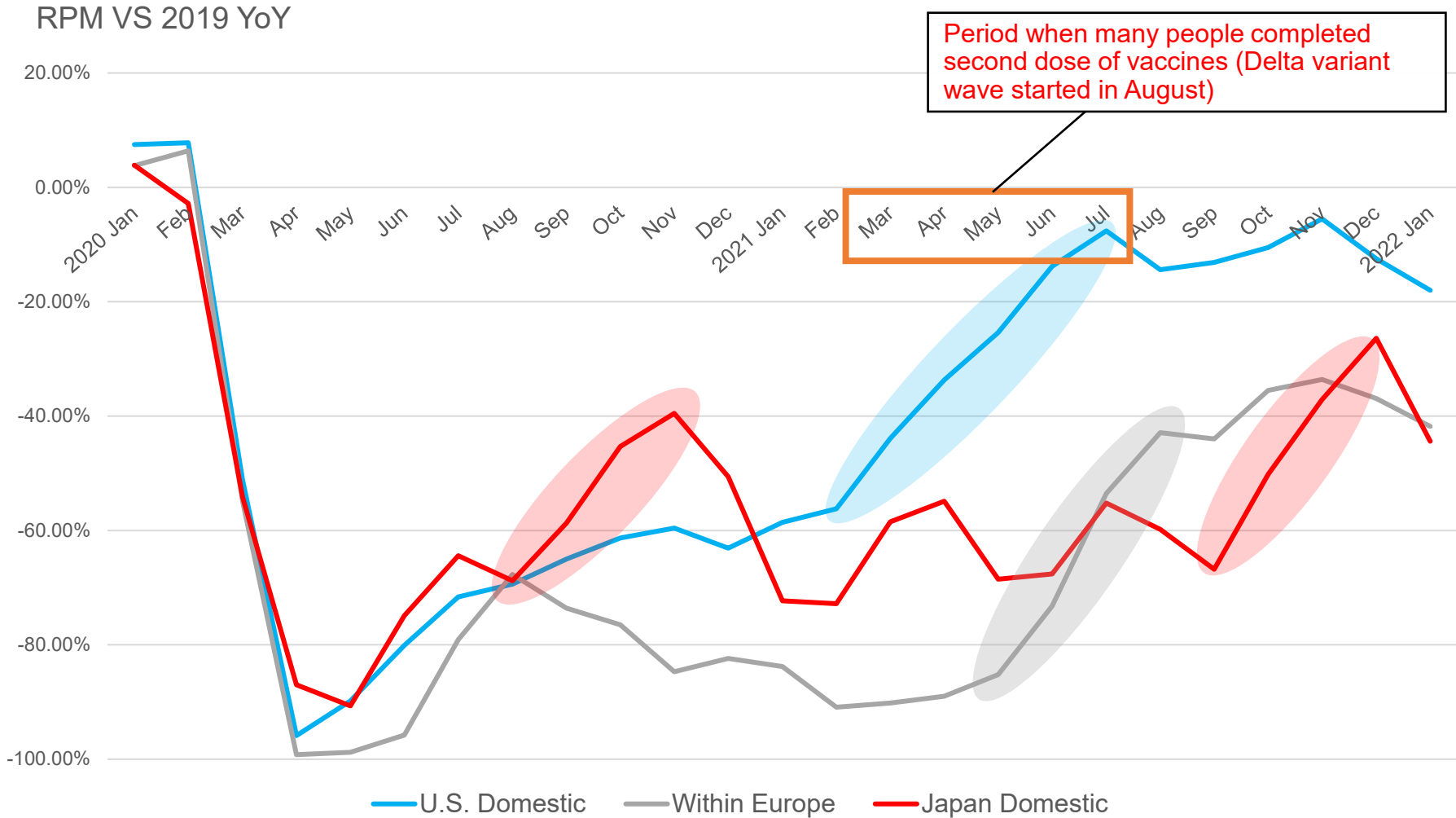
# Impact of the Pandemic and Current Status (2)

## (operating profit)

- Both network carriers and LCCs saw a return to profitable operations in 2021.
- However, indicators such as yield and unit costs were down 5 to 10% compared to 2019, which means that connecting the recovery in demand to a recovery in business performance remains a challenge.

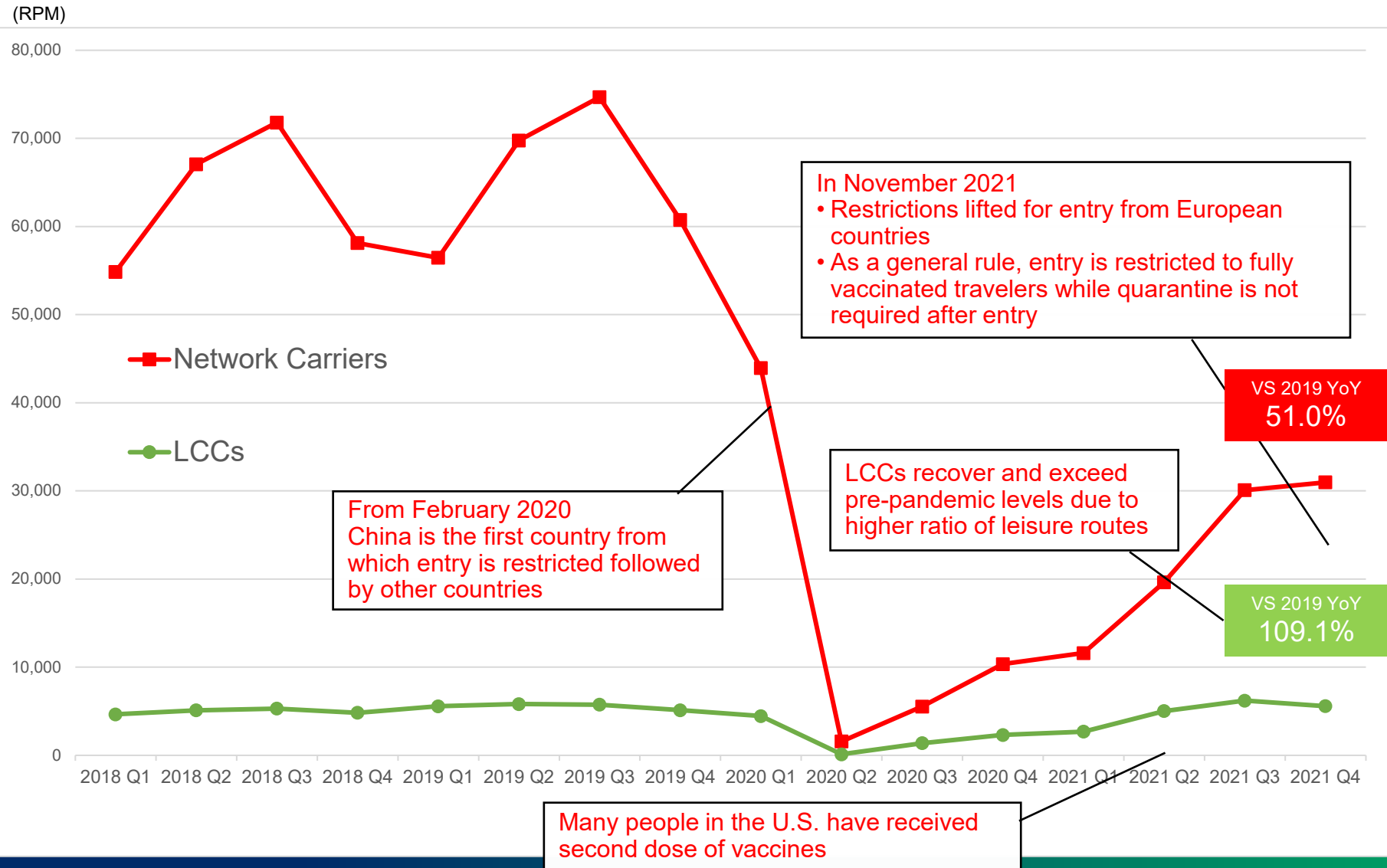


# Comparison With Japan and Europe



(Source) Compiled by author based on IATA Monthly Statistics

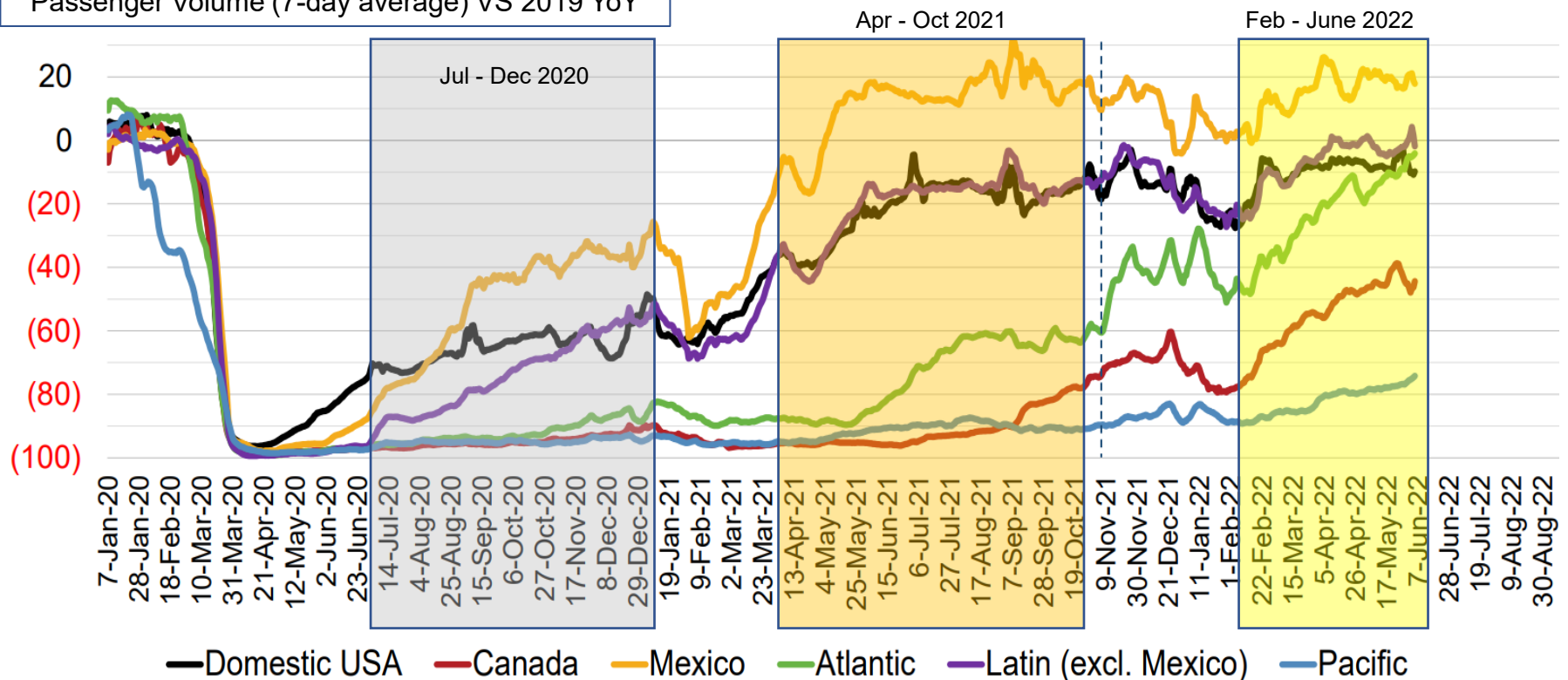
# Impact of the Pandemic and Current Status (3) (changes in demand)



# Changes in Demand by Region

- In the first year of the pandemic, **Mexico** and **Latin America** were the targets of demand for international travel.
- Later, after Spring 2021 when many people in the U.S. were fully vaccinated, recovery was also seen in **Atlantic** routes. By November, entry restrictions were eased and more people were traveling between the U.S. and Europe.
- Recently, after the Omicron variant subsided, strong growth in demand is seen across all markets **except Pacific routes**.

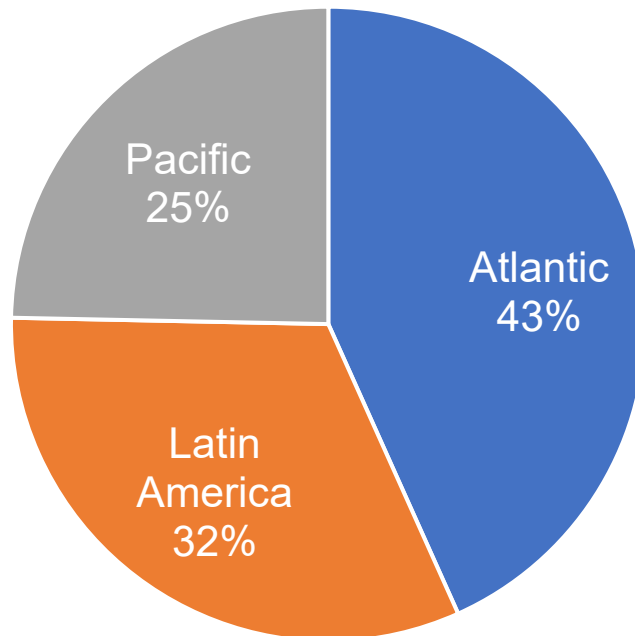
Passenger Volume (7-day average) VS 2019 YoY



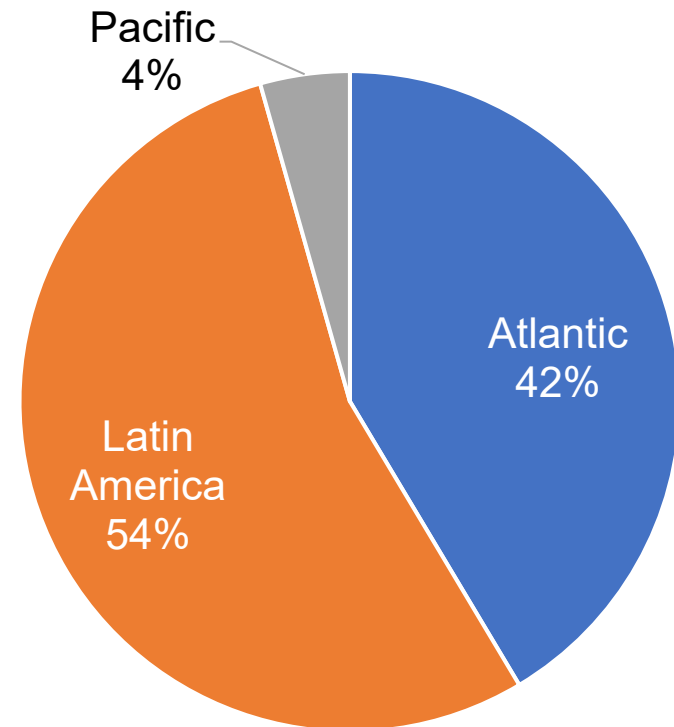
(Source) Compiled by author based on A4A Reports

# Status of the International Market from a U.S. Perspective

March 2019



March 2022

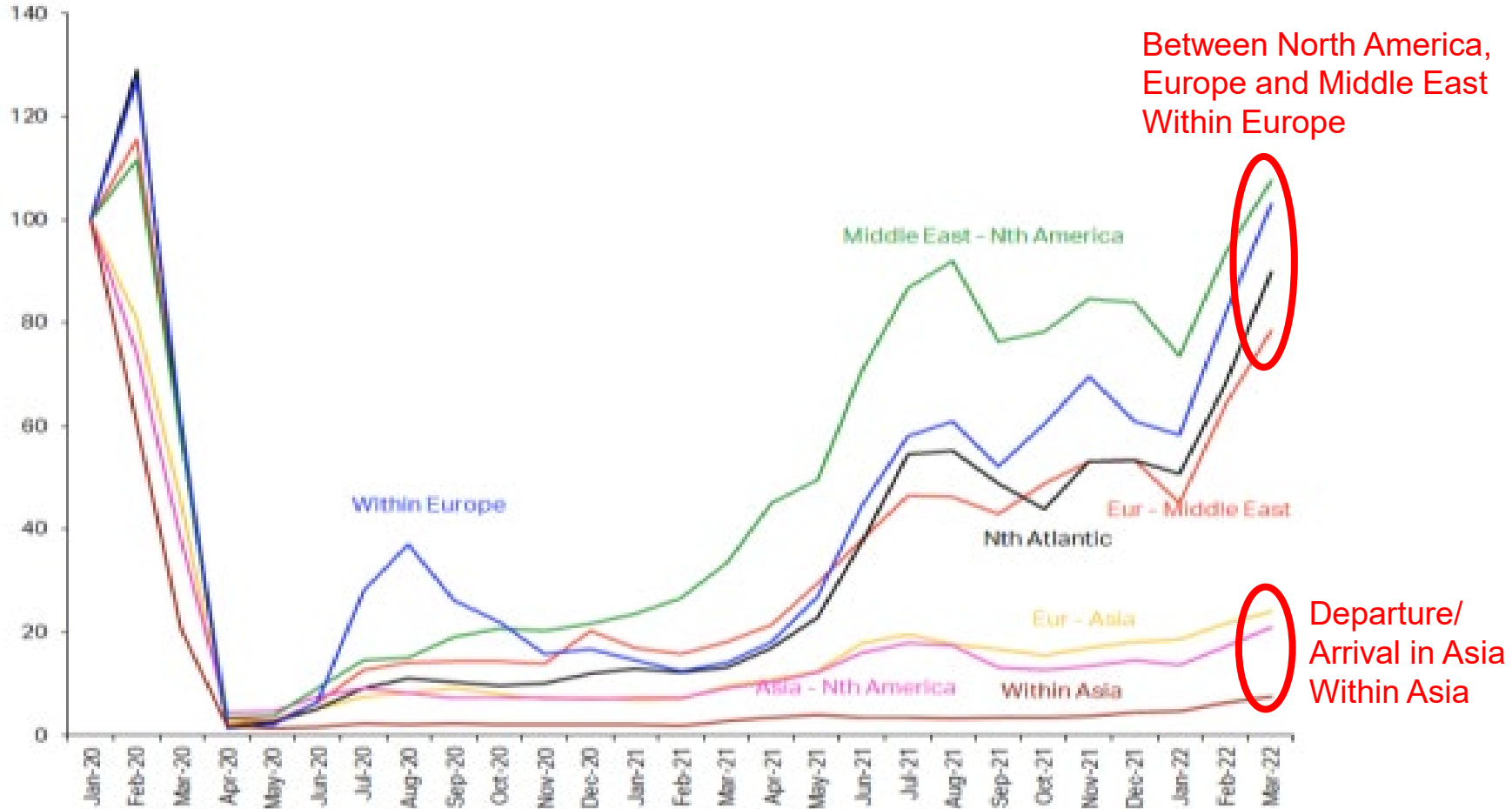


\* Based on RPM

\* Does not include Canada and Mexico

# Status of the International Market from a Global Perspective

(Based on passenger volume)



(Source) IATA Monthly Statistics (March 2022)

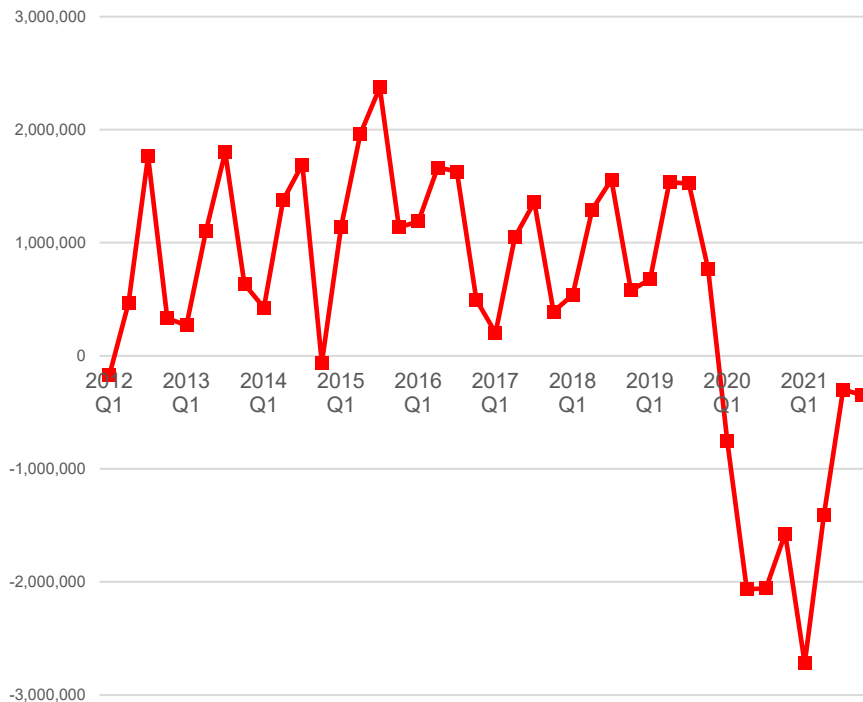


# Impact of the Pandemic and Current Status (4)

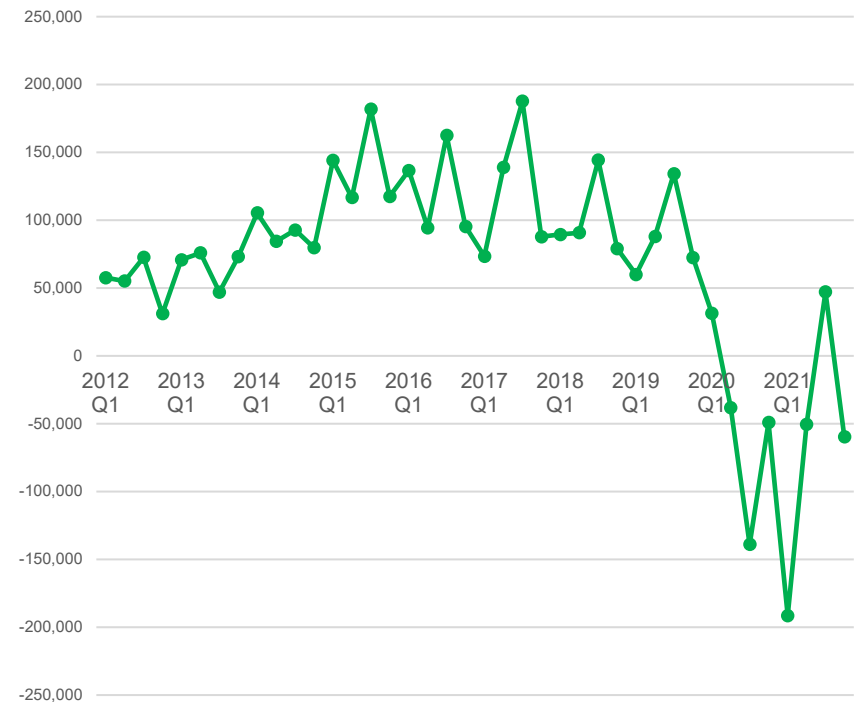
## (operating profit)

- LCCs saw a return to profitable operations in 2021 Q3. Network carriers seem to be in the final phase before recovery.
- Next, boosting income and reducing costs to achieve a recovery in business performance remains a challenge just as for the domestic market.

Network Carriers



LCCs



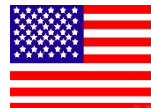
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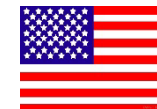
# Legislative Response to COVID-19 by Federal Government

## ❖ March 2020 CARES Act (2.2 trillion USD)



- Response to the unprecedented circumstances of the COVID-19 pandemic was rapidly drafted and approved through bipartisan cooperation.
- Measures included direct subsidy payments to U.S. citizens, additional unemployment benefits, and support for small/medium businesses.

## ❖ December 2020 COVID-19 Relief Bill (0.9 trillion USD)



- Support policies from the CARES Act expired at the end of September. Discussions failed to make progress due to accelerated political bickering ahead of presidential and congressional elections. The bill was finally drafted and approved through bipartisan cooperation in December, after the elections.
- Policies were an extension of the CARES Act.

## ❖ March 2021 American Rescue Plan Act (1.9 trillion USD)



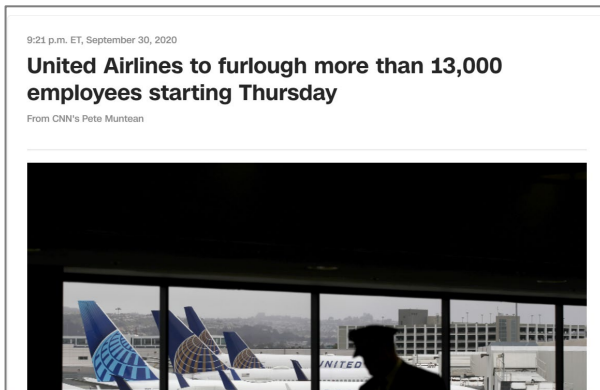
- Huge economic stimulus measures under the newly elected President Biden. Following election results that gave majority in both the Senate and the House of Representatives, Democratic policies were drafted for COVID-19 relief and other topics such as support for minorities. Holding a majority in Congress enabled the Democratic Party to pass partisan measures.
- Support policies for transportation were generally an extension of the CARES Act.

# The Payroll Support Program (PSP) to Airlines

- ❖ Relief measures for airlines established in the three COVID-19 legislation packages described on previous page
- ❖ **Subsidies granted to airlines equivalent to employee salaries (full wages)** prior to COVID-19 pandemic
- ❖ Payments covered **18 months of wages** (April 2020 to September 2021), **reaching 56 billion USD (7 trillion JPY)**

(Note) American Airlines received 1.5 trillion JPY across 18-month period

- ❖ Airlines had to meet conditions including the following to receive these subsidies: No layoffs, continuation of regular flights within scope of reason and realm of possibility, restrictions on dividends, and no bonuses for executives.



← When the PSP expired without extension at the end of September 2020, airline companies announced that tens of thousand of employees would be furloughed

- \* Other support policies for airlines in COVID-19 legislation included loan programs which provided financial aid to cover business losses due to the COVID-19 pandemic, but that will not be discussed here.

# Airline Response to COVID-19

## Initial Period

- ❖ Reduction of production
  - Downsize operational fleet (early retirement, breaking leases, storage)
  - Reduction of workforce \*PSP did not prevent employees from leaving voluntarily
- ❖ Shift to freight forwarding
- ❖ Appeal to government (PSP and other support measures)
- ❖ Demonstrations/statements claiming that “risk of transmission on airplanes is low”

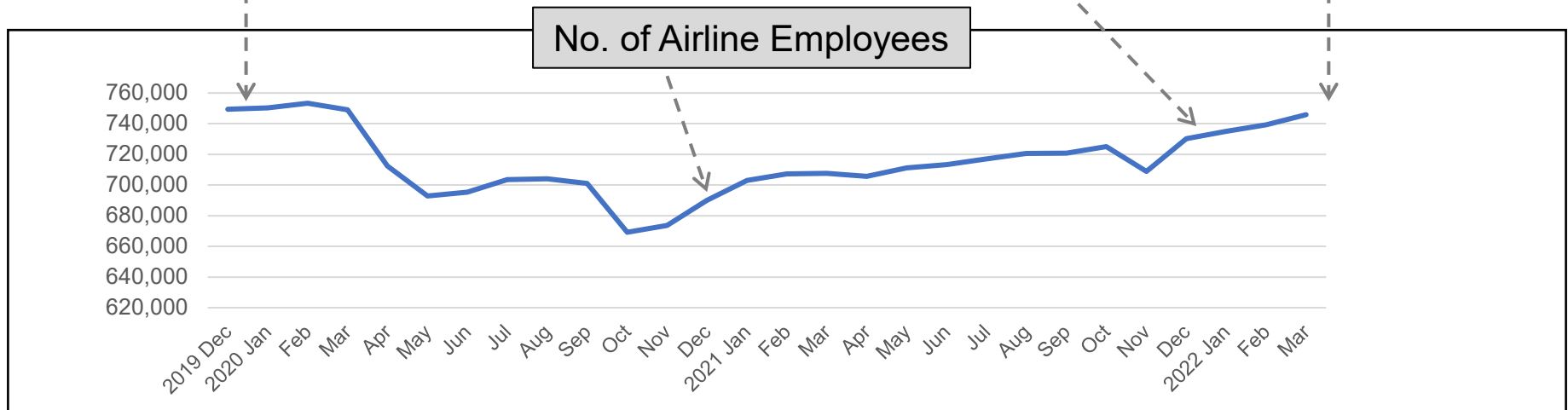
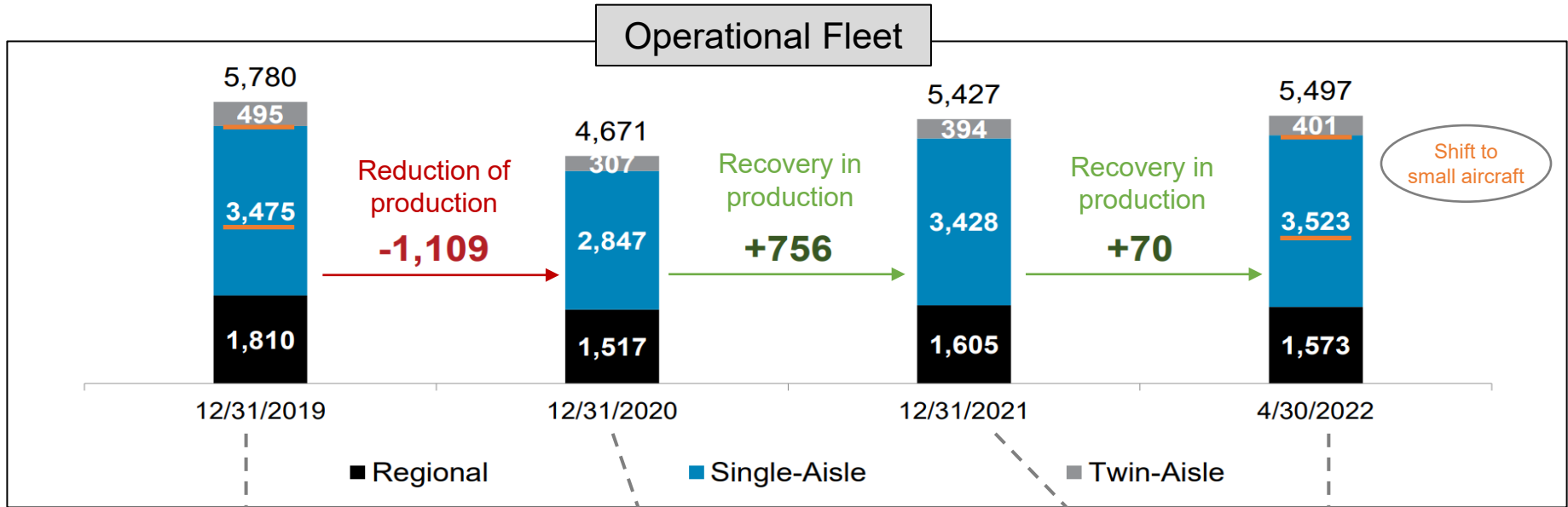
## Low Demand Period (mid 2020 to early 2021)

- ❖ Shift to leisure routes
- ❖ Continuation of free reservation change policies (customer retention and cash outflow prevention)

## Demand Recovery Period (Spring 2021 and later)

- ❖ Recovery in production (shift from large/medium aircraft to small aircraft)
- ❖ Increase in leisure routes
- ❖ Appeal to government (lift restrictions)

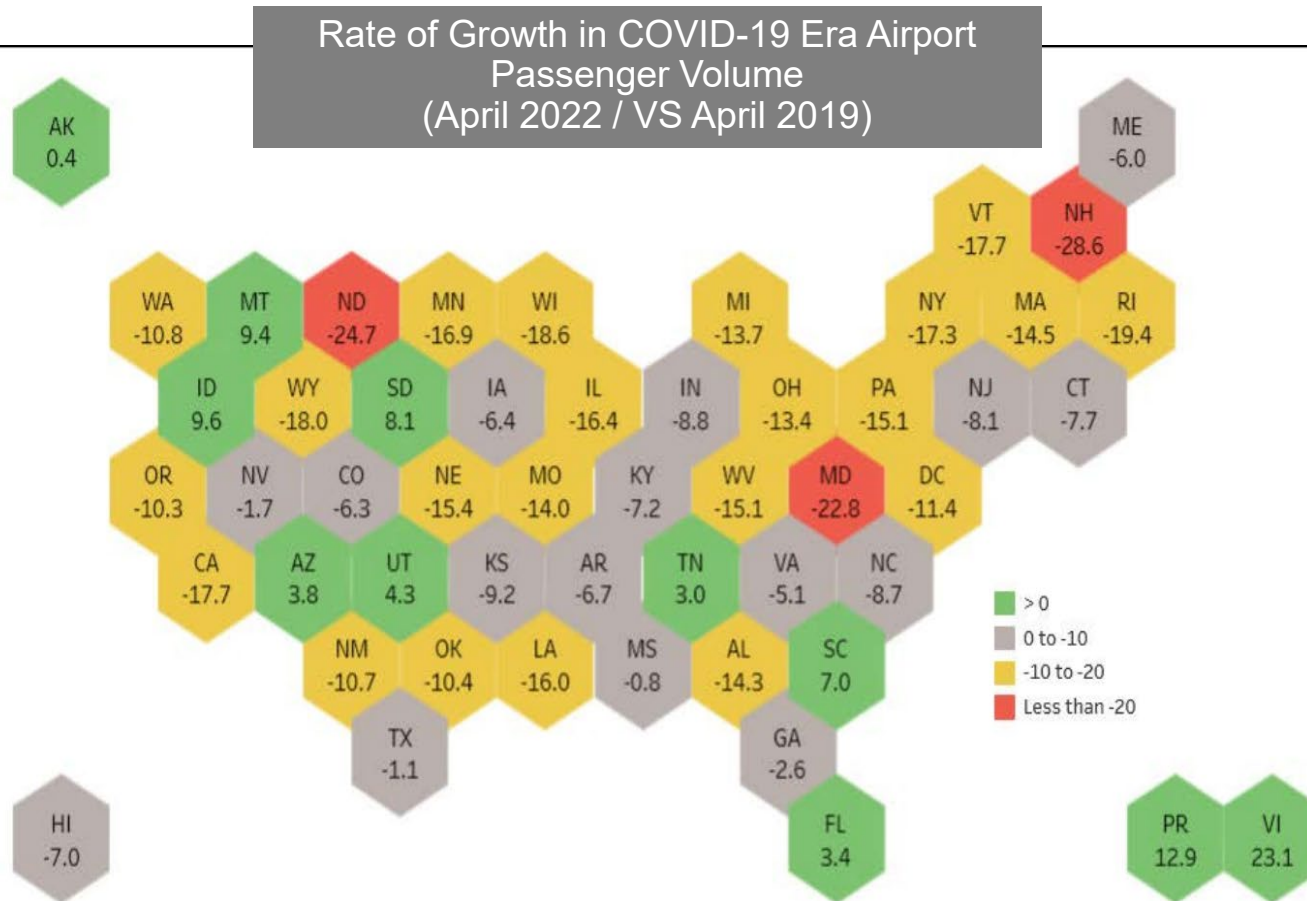
# Reduction of and Recovery in Production



(Source, top graph) A4A Reports (based on data from aviation consultant agency Anuvu)

# Expansion of Leisure Market (1) (Domestic)

- Travel to leisure destination regions including Florida, Arizona, Puerto Rico, and the Virgin Islands has exceeded pre-COVID-19 levels.

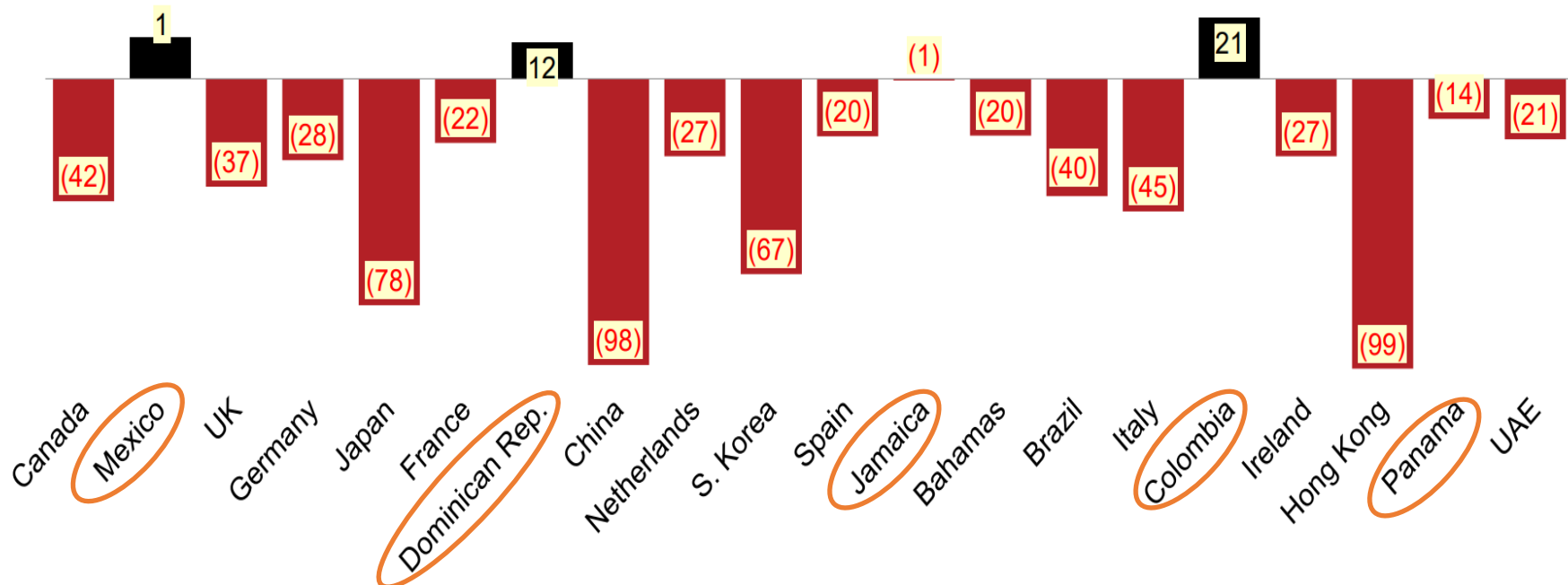


(Source) A4A Reports (based on TSA data)

# Expansion of Leisure Market (2) (International)

- Travel to Latin American countries including Mexico, the Dominican Republic, and Colombia has exceeded pre-COVID-19 levels.
- Meanwhile, travel to Hong Kong, China, Japan, and South Korea is still far below pre-COVID-19 levels.

Rate of Growth in COVID-19 Era Passenger Volume  
(April 2022 / VS April 2019)



\*Top 20 countries by passenger volume for travel to/from the U.S. in 2019, in descending order from the left  
(Source) Compiled by author based on A4A Reports (based on data from U.S. Department of Commerce)



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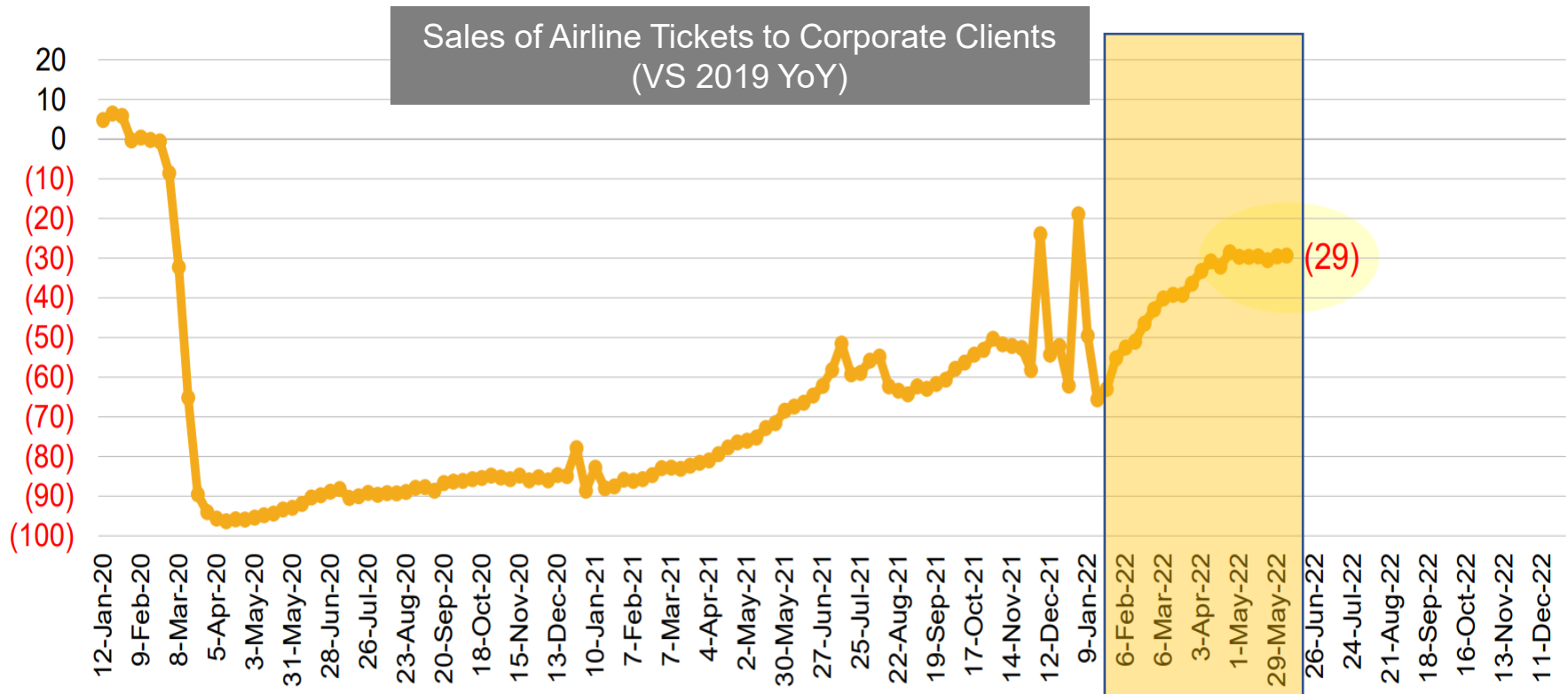
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# Challenges and Future Prospects

- **Recovery in demand continues to improve** in the domestic market. Airlines are expected to translate this to **a recovery in business performance**, and it appears that airlines are already starting to focus on boosting income and reducing costs.
- However, network carriers need to achieve **recovery in demand for business travel** before they can recover to pre-COVID-19 levels. Forecasts range from optimistic to pessimistic, and the crucial point is how hard **the spread of remote work** will impact demand for business travel.
- In the international market, **the reopening of Pacific markets** is the last remaining obstacle. The Asia-Pacific region was known as “the region with the greatest potential,” but now some people say it is “the region with the greatest risk.” It is not clear which view will be correct in the future.
- LCCs are enjoying **special demand for leisure**, but the question is how long this trend will last. Although it is undeniable that LCCs have become quite costly as a temporary survival strategy, it is said that they need to return to their original “low cost” principles immediately.
- Meanwhile, management must respond to rising costs including **the soaring price of fuel, other commodities, and labor**. It is anticipated that for the next few years, companies will be using profits to pay back interest-bearing debt that grew during the COVID-19 pandemic.
- Labor shortages continue across all locations for flight crew, ground crew, security officers, etc., and there are major concerns about **whether airlines can overcome the peak demand period this summer**.
- In addition, the industry is watching as the government starts a project to develop **a system to ensure smooth and safe immigration control procedures** that reflects lessons learned through COVID-19.

# Sales of Airline Tickets to Corporate Clients

- Purchases remain **approx. 30% lower** than pre-COVID-19 levels. Recent months show a **flat trend**.
- According to the U.S. Travel Association, demand for business travel in the U.S. is expected to recover to pre-COVID-19 levels by 2024.



\*Data is limited to tickets sold to corporate clients through travel agencies.

(Source) Compiled by author based on A4A Reports (based on data from Airlines Reporting Corporation (ARC))

# Challenges and Future Prospects

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- Discussion of Promoting Competition in the Aviation Industry

# President Biden's Executive Order on Promoting Competition in the American Economy (July 2021)

- In various US industries, **corporate consolidation has been accelerating for decades, and a small number of large companies now controls the market due to a lack of competition.** Not only is this pushing up prices while driving down wages, but workers also have less opportunity for mobility, and businesses have less incentive for investment and innovation. **Income, wealth, and racial inequality continue to grow.**
- Federal government agencies have been requested to consider and enforce specific measures to **reduce monopolies and oligopolies of large companies, and to promote competition,** in order to benefit U.S. consumers, workers, farmers, and small/medium businesses.

→ The Washington Post reported that this order is **“kicking off a major new battle between the administration and corporate titans** that could reshape aspects of the U.S. economy.”



# Executive Order Impact on Air Transportation

## [Airlines]

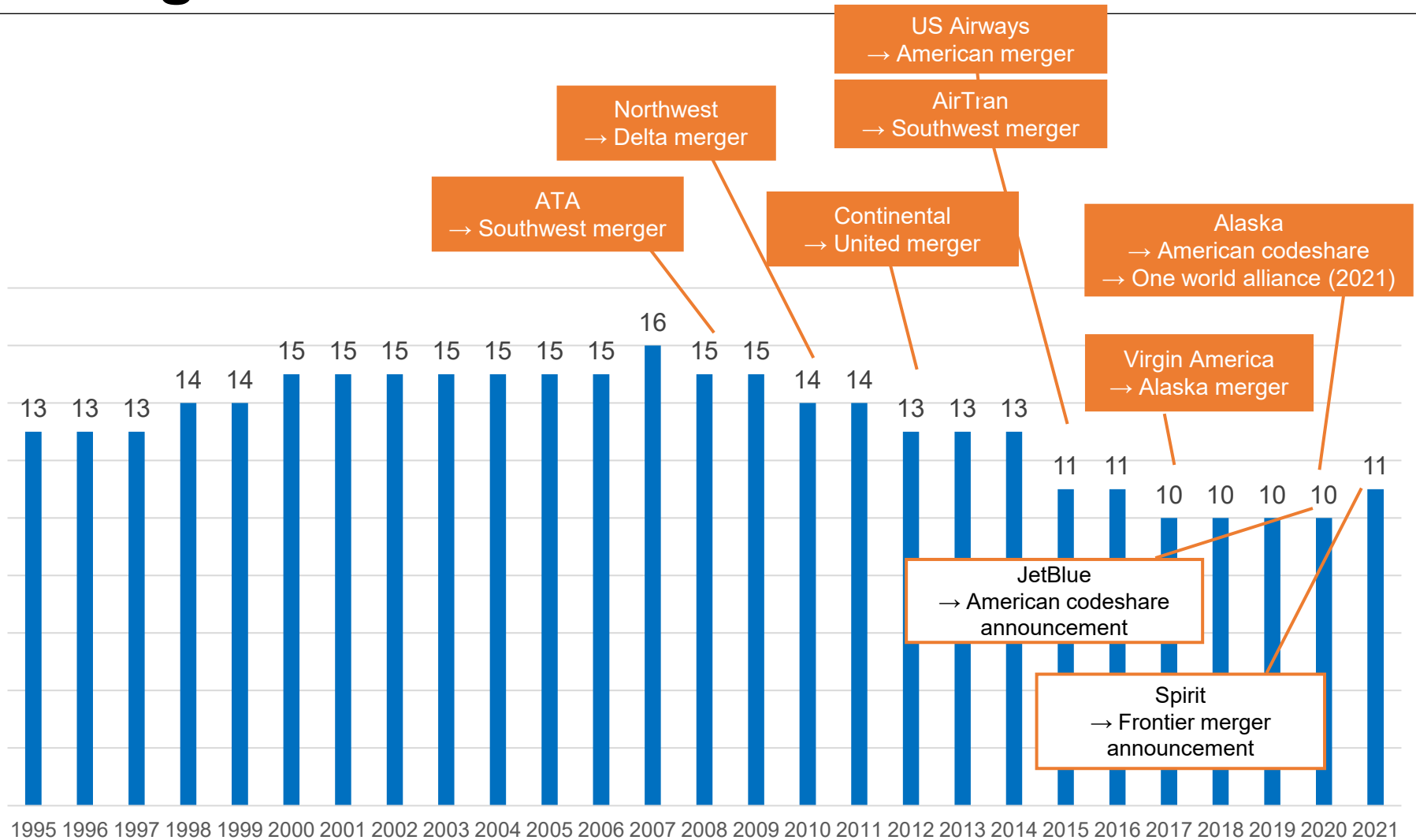
The top four passenger airlines control nearly two-thirds of the domestic market. Reduced competition contributes to increasing fees like baggage and cancellation fees. These fees are often raised in lockstep, demonstrating a lack of meaningful competitive pressure, and are often hidden from consumers at the point of purchase. The top ten airlines collected 35.2 billion USD in ancillary fees in 2018, up from just 1.2 billion USD in 2007.

Inadequate competition also reduces incentives to provide good service. For example, the Department of Transportation (DOT) estimates that airlines were late delivering at least 2.3 million checked bags in 2019.

In the Order, the President:

- Directs the DOT to consider issuing clear rules requiring the refund of fees when baggage is delayed or when service isn't actually provided—like when the plane's WiFi or in-flight entertainment system is broken.
- Directs the DOT to consider issuing rules that require baggage, change, and cancellation fees to be clearly disclosed to the customer.

# Changes in Number of Airlines



\*This chart only shows airlines offering regular scheduled service using aircraft equivalent to B737 and A320 size or larger

# Recent Examples

- ❖ In July 2020, **JetBlue**, which is based in the New York and Boston regions, and **American Airlines**, which is seeking a stronger presence in these regions, announced **codeshare flights** that depart/arrive in these regions, and **mutual use of their mileage programs** under a new partnership called the **Northeast Alliance (NEA)**.
- They assert that the NEA will allow for additional and more frequent domestic and international routes, providing more travel options and a seamless experience to consumers. New routes that depart/arrive in these regions were in fact announced.



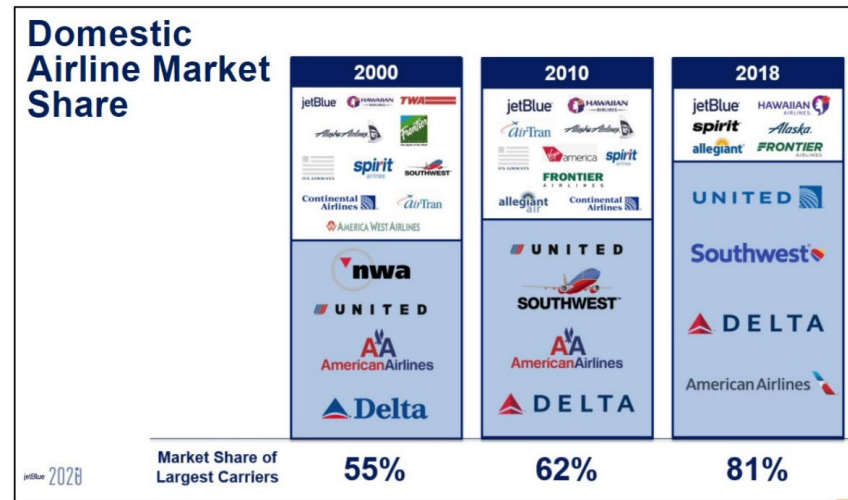
- ❖ In January 2021, (the final week of President Trump's term in office), **the U.S. Department of Transportation approved this alliance under the following conditions:**
  - Both companies must relinquish some slots in New York (JFK) and Washington, DC (DCA)
  - JetBlue must continue operating existing flights to JFK
  - Discussions on fares are banned (regardless of whether routes are NEA or not)
  - Discussions on planning operations for non-NEA routes are banned
  - Submission of regular reports on NEA operations, etc.



# Recent Examples

- ❖ In September 2021 (under President Biden), the Department of Justice filed a lawsuit against this alliance over violation of antitrust laws.
- The ground of the lawsuit is that the NEA prevents competition among both companies, which leads to higher prices and poorer service in all regions. This lawsuit remains undecided.

(Right) This chart was used by the Department of Justice in their lawsuit complaint to illustrate the circumstances of the U.S. aviation market. An oligopoly has developed between a few major carriers.



- ❖ In February 2022, so-called Super LCCs, Frontier Airlines and Spirit Airlines, announced their merger. If Frontier, which is based in the West, acquires Spirit, which is based in the East, the merger will rank them at fifth place under the top four passenger airlines.
- JetBlue also announced that it wishes to acquire Spirit, and the matter remains unsettled.