

Research Announcement: Moody's – Global airlines industry outlook changed to positive as increasing vaccinations will drive surge in air travel demand

New York, May 11, 2021 --

- » Vaccinations will allow governments to lower border restrictions and entry barriers such as quarantines and coronavirus testing
- » Positive outlook recognizes the significant variation in the rate of coronavirus infections and air travel across geographies

Moody's Investors Service has revised its outlook for the global airlines industry to positive from negative. The positive outlook reflects the rating agency's view that industry fundamentals will materially improve over the next 12-18 months, notwithstanding the current record high daily infection rate in India; travel restrictions in countries with large amounts of traffic to and from India; and ongoing lockdowns in other countries.

"While the continuing pandemic means there is a risk of further disruption to air travel in various countries at various times, we expect increasing vaccinations will lower border restrictions and increase demand for air travel over the next 12 to 18 months," said Jonathan Root, a Moody's Senior Vice President.

"Leisure traffic will lead the charge to the boarding gates, while corporate trips and international long-haul will follow, initially at a slower pace. The restoration of the ability to travel will relieve the tremendous pent up demand to fly to visit friends and relatives and for vacations. With offices in many countries opening by fall 2021, this will facilitate the beginning of the corporate travel recovery," added Root.

The strong recovery in US domestic travel demand that began in March 2021 highlights the benefits of the combination of vaccinations and a large geographic footprint for the return of domestic travel demand. As conditions in other markets improve and barriers to travel come down, Moody's expects the current experience in the US market to be repeated globally, over different time frames.

For this summer, the domestic capacity operated by each of the eight US airlines that Moody's rates will reach at least 80% of the capacity they operated in 2019. Domestic schedules of some US low-cost operators will exceed 100% of 2019 levels. International operations of US airlines will remain significantly curtailed through the summer, with green shoots starting in the fall, after European borders open this summer and infection rates in Latin America decline. A fulsome restart of trans-Pacific travel will require the end of lockdowns in Japan and removal of border restrictions across the region.

Meanwhile, Canadian airlines are still suffering some of the largest declines of carriers across the globe. High infection rates in some European countries and the more limited availability of vaccines, resulting in continued travel restrictions, have so far prevented a surge in demand in Europe similar to that seen in the US since late February. However, increased vaccinations for residents of European countries could lead to border openings as early as July, which would stimulate ticket

sales for European summer beach holidays. In terms of domestic air travel, China, the US and Australia are leading the industry's recovery.

Moody's is now using its expectations for growth in travel demand as its key indicator for the passenger airlines industry outlook. Moody's two pre-pandemic indicators, operating margin and change in operating profit dollars, are less insightful about fundamental business conditions at this stage of the pandemic. The rating agency expects the industry to sustain operating losses and negative operating margins for all of 2021, although to a lesser degree than in 2020.

Moody's would consider changing the outlook to stable if it expects the annual growth rate of air travel demand across major markets, measured by the percentage change in RPKs, to slow below 15%. Moody's would change the outlook to negative if it were to expect travel demand to decline. A lack of efficacy of vaccines against potential future variants of the coronavirus would be the likely driver of falling demand through 2023.

Industry outlooks reflect our view of fundamental business conditions for an industry over the next 12-18 months. Since outlooks represent our forward-looking view on business conditions that factor into our ratings, a negative (positive) outlook suggests that negative (positive) rating actions are more likely on average. However, the industry outlook does not represent a sum of upgrades, downgrades or ratings under review or an average of the rating outlooks of issuers in the industry, but rather our assessment of the main direction of business fundamentals within the overall industry.

Subscribers can access the report, "Airlines - Global: Outlook positive as vaccinations set to drive strong growth in travel demand into 2023," at: http://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1282644

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